ABSTRACT

Over the last two decades globalization, deregulation along with technological advances of telecommunication and information technology has resulted in a structural shift in the Indian economy due to the tremendous escalation in the share of the service sector in the GDP. This is mainly attributable to the spectacular progress of the IT sector. Business Process Outsourcing (BPO) has emerged as India's new shining sector. The boom in the BPO activities has prompted policy planners to view this sector as one of the potential avenues to absorb the growing mass of skilled labour.

Offshore outsourcing, which has become an increasingly attractive proposition to companies, is not only cost effective but also qualitatively improved one. The Indian IT sector is broadly categorized into IT services and software, information technology enabled services-business process outsourcing (ITES-BPO) and hardware segments. The revenue of the ITES – BPO industry has reached USD 88.1 billion in FY11 and its contribution to GDP is estimated to have risen from 1.2 per cent in FY98 to 6.4 per cent FY11. Its share in exports has also increased from less than 4 per cent to almost 26 per cent during the same period. The employment in this sector has increased from 0.8 million in 2004 to 2.5 million in 2011.

But recently debates and discussions have centered on the issue of long-run sustainability of the outsourcing industry in India as these companies are facing continuous challenges in terms of international competition, salary inflation, health hazards, scarcity of talent, attrition of employees, security concerns, global slowdown, and many other technology related issues. Growing demand for outsourcing in India may also induce firms to employ less competent personnel for short-term profits and this may result in a decline in quality of services offered and may also lead to problems in maintaining secrecy of data-records. In the long run this may prove to be fatal, as reputation and reliability of Indian firms may be badly affected. The present study focuses on both the benefits and concerns in IT offshore outsourcing and discusses the sustainability of the comparative advantage that India has as the leading offshoring destination in the world.