1. Introduction

In the third millennium B.C. the Sumerians in southern Mesopotamia (modern-day Iraq), began trade with the Indus Valley civilization in the western part of the Indian subcontinent. The first major global trade link with India was born. Fast-forward to the early 1980s when several European airlines started using the Indian capital Delhi as a base for back office operations—the most prominent early example of outsourcing to India. In the 1990s, sailing on the waves of a growing IT industry, worldwide globalization and economic reform within India, the IT outsourcing industry grew into adolescence [T. Friedman, 2005].

In the past decade all major IT service providers—as well as most midsized and some small players—have invested significantly in offshore delivery capacity, most notably in India. Globalization in general and offshore outsourcing specifically have matured and even though the economic downturn has slowed discretionary spending and investments, the offshore outsourcing business is still growing.
For the decade to come, there are no indications that the offshore outsourcing phenomenon will subside. Even though many have predicted that India would lose its leading role in outsourcing, it has remained the number one offshore location since the beginning of the 1990s [A.T. Kearney, 2009]. Still many companies, especially in the European region, engage in staff augmentation or local delivery instead of offshore (or nearshore) outsourcing. Now that offshore outsourcing has entered its fourth decade of growth, these companies are advised to realign their sourcing strategy and see where and how it can be applied to successfully align with their business goals.

In this white paper, written by an international team of sourcing and governance professionals, we will examine the relevant context for strategic decision-making on offshore outsourcing to India and answer the question whether India will remain to be the primary location for offshoring. We will also assemble the key factors to use and manage offshoring in India.

2 Offshoring to India in the past decade

Globalization has divided the offshore market amongst multiple regions for delivery. Nearshore locations in Eastern Europe (for customers in Continental Europe), Ireland (for the UK) and in South and Latin America (for customers in the US) have seen significant growth in the past decade. Also within Asia, offshore services delivery has moved to a broader group of countries most notably China (which already was a powerhouse in offshore manufacturing), Philippines, Malaysia and Indonesia. Notwithstanding these developments, India remains the number one location for offshore outsourcing, positioned significantly higher than the runners up, specifically in the services industry [A.T. Kearney, 2009].

2.1 How India has reached and retained the top position in offshore outsourcing

Various factors have contributed to India's dominant position. These include the widely available English language skills (which enables easy interaction with the US and UK), the quality of its educational system, availability of workforce, its economic climate and its attractive labor costs. Perhaps more importantly, India has been using its early start to invest heavily in its delivery capacity, infrastructure, quality and experience to retain its lead. Currently India has over 2 million people directly employed in the outsourcing industry and is expected to add another 90,000 highly educated employees in 2010 [Nasscom, 2010]; the result is an average of about 400 new employees every day (still short of one employee per minute).

An indicator of India's unique position can be found in the IT industry where 24 service providers—practically all tier 1 players active in India—have reached CMMi level 5 in their Indian development centers. Compare that figure to Europe and you will find practically no significant development centers have reached a level higher than 3. This difference in maturity between India and the West is often found even within multinational companies. Another point to add from the service provider perspective is that India has more than 47 organizations certified as ISO20000—a standard for IT Service Management. In fact most of the tier 1 and tier 2 service providers are already certified in this Service Management standard.
Nevertheless, India does face significant challenges in the years to come: Its financial attractiveness is challenged by cheaper regions and its stability remains subject to international developments that are only partly under its own control, most notably its relation with neighboring country Pakistan. Also its public infrastructure (e.g., roads, electricity and hotels) is struggling to keep up with the pace of its economic and population growth; traffic in major cities can be a true challenge and access beyond the major or midsized locations is far from adequate. Finally as both IT outsourcing (ITO) and business process outsourcing (BPO) are usually knowledge-intensive tasks, the demand for skilled personnel can be a limiting factor and companies find themselves competing hard for the best-in-class people.

2.2 Alternatives to India

Over the last few years other Asian countries have attracted the world's attention when it comes to offshore services; these countries include China, Philippines, Sri Lanka and Malaysia. With India's salary level increasing these countries have entered into a tough competition with India. During the last five years most of the local as well as the global service providers in India have diversified their delivery capacity. To offer an even better price to all their customers they nearshore or offshore a part of their work to these “new” countries. South America and Africa are upcoming potential markets for outsourcing as well.

In the end, as other regions will be growing their quality and quantity of delivery and will increase competition, India's experience, foothold in the offshore outsourcing market and ability to improve its IT processes may prove to be its most important asset in the fight for retaining the top position.

2.3 The demand for offshoring capabilities in India did rise globally

Globally, regions have responded differently to offshore outsourcing opportunities in India, but in all cases the demand did rise.

United States

The United States has been an early adopter of outsourcing in general and of offshore outsourcing in particular. India has been the country of choice for the last decade for the US-based organizations (even though the time-zone difference between the US and India is much larger than for instance between Europe and India). It all started with small amounts of back office work being offshored to India, followed by medical transcription, BPOs, KPOs, application development and maintenance and remote infrastructure support. In a drive to cut costs, the on-site presence that is retained in an offshore delivery model, has decreased greatly; sometimes below 10%. This applies specifically for eligible domains such as (remote) IT support where most work is performed remotely from India.

Until about five years ago, US-based business comprised the majority of the offshore business for the tier 1 and tier 2 service providers in India. This also meant that most of the service providers were dependent on the US market, with the US accounting for more 85% of the revenues. However over the past five years, these service providers have grown their European markets, reducing their dependence on the US, and the US contribution in revenues dropped to around 55–60%.
United Kingdom
The UK has proven to be a fast follower in offshoring and is still by far the largest market for offshore outsourcing in Europe. Captive offshoring (offshoring within the boundaries of the company itself) has been an important leverage in the UK. Many UK companies started their own offices in India and then offshored work to them. One of the reasons for using captives was to reduce perceived security risks, since no data crosses the legal boundaries of the organization itself, even though work is geographically performed in India.

Continental Europe
Continental Europe is widely seen as the market with still the largest growth potential for offshore outsourcing. The main factor contributing to its slow start is Europe's diversity. Even though the European Union has greatly unified its economic climate, most notably with the introduction of a single currency, Europe is still vastly different in language, local laws and culture. Especially for non-domestic service providers, Europe's collection of relatively small different countries can be a tough nut to crack. This may explain why a lot of offshore outsourcing in Europe is performed through service providers that have a large local presence. Research performed by Quint Wellington Redwood has shown the hurdles for Indian providers without a historic presence in Europe to enter this market [Quint, 2006]. At present, most large European companies have an offshoring strategy, but still have a long way to go to harvest its full potential.

Most European and multinational service providers have now surpassed critical mass of their offshore delivery centers and a large number of Indian service providers are reaching critical mass in local delivery centers within Europe. Even midsized and smaller players in Europe rely on offshore delivery. Market dynamics for offshore outsourcing in Europe are, therefore, expected to change significantly in the coming years. Either way, for the decade ahead, Europe will likely see a continued growth in use of offshore outsourcing.

3 Key success factors for offshoring
Quint Wellington Redwood has developed the Sourcing Phase Model© a structured approach that provides tools necessary to support decision-making, successfully execute the sourcing initiative and provide mechanisms for managing outsourced services.
While discussion of the whole model is the subject of other publications, we consider it important to stress a number of key success factors with special relevance to offshore outsourcing.

3.1 Define a clear strategy
There are many drivers for sourcing as well as there are different forms of realizing the benefit. It is, therefore, essential for a company to develop, keep current and communicate a clear sourcing strategy, so that throughout the whole sourcing track the decisions can always be tested against the strategy as a framework.

A sourcing strategy gives answers to the questions: why, what, who and how.¹

- Why do we want to outsource and offshore? What objectives do we want to reach with sourcing?
- What areas are in the scope of sourcing? What types of sourcing are applicable?
- What party would be the best provider of required services in each area? What form of sourcing is most appropriate for each area?
- How do we reach the desired situation and what methods will be used?

There are many drivers for outsourcing and there are multiple solutions such as on-site, off-site, nearshore, offshore, captive centers or joint ventures, using single- or multi-vendor agreements. The decision to offshore is just one of the available options. It is, therefore, essential for a company to develop, keep current and communicate a clear sourcing strategy.

Typical drivers for outsourcing are cost reduction, improvement of time to market and quality, focus on core business, increase of flexibility to scale up or down in response to demand, to follow the market trends or access the necessary skills. Under certain conditions offshoring may further reduce the cost, expand the flexibility and provide quick access to the large pool of highly skilled resources that is hardly available through local service providers. In addition to this, offshoring offers a number of unique additional opportunities, such as:

- Facilitation of access to the new markets at the offshore location
- Stimulation of the client organization to adopt more rigid processes, which are the norm of operation for offshore service providers
- Facilitation of standardization of the services in the international company; first consolidating them in a single offshore location and then transforming them to the target state (in comparison to a similar standardization initiative across multiple units in the different countries).

¹More about the general aspects of the sourcing strategy is written in the QWR white paper, Sourcing Strategy
For development of the sourcing strategy it is important to carry out an offshore feasibility study, to determine the services that are suitable for offshore outsourcing. In principle, services such as IT infrastructure operations, application development, maintenance and various routine business processes in finance, accounting or HR could be suited for offshore sourcing. However, specific aspects, such as legal constraints to managing customer data abroad, may significantly impact the feasibility of offshoring. It is also essential to consider the level of on-site customer interaction that is required. In certain cases the dynamics of customer interaction do not allow for planning of the design and implementation activities in advance, for such domains offshoring is probably not the right option.

3.2 Select a service provider with a matching delivery model

The differences between offshore solutions and providers, must be taken into account when preparing for vendor selection. A number of examples are given below.

Due to the differences in the delivery model and organization, Indian service providers often propose different solutions compared to their European or Multinational counterparts. This difference makes competition healthy and brings new ideas for the new way of working in the offshore arena. Unless there are objective reasons, it is advised to involve Indian players in the selection, even if there is resistance in the company with regard to a perceived “lack of readiness for offshore.”

In a number of markets, especially in continental Europe, labor laws are stringent and offshore service providers have not yet developed the same competence in managing the transfer of the local workforce and assets as their European colleagues. This requires special attention from the client that invites an offshore service provider for a tender, as well as clarification of the HR and asset transfer requirements.

Some offshore service providers would have their services managed primarily by the management located offshore, while others would have their decision-making done close to the client location. Both options have their benefits and drawbacks. As an example of the first case, there is a limited face-to-face interaction between the decision-makers of the client and the service provider, although offshore-based management is better positioned to address high resource scalability requirements and assure quality.

3.3 Manage the transformation of your workforce

For most companies the decision whether or not to reduce the existent local workforce and to use offshore workforce poses a dilemma. The reason for this decision is simple: Indian service providers can often deliver at least the same quality (education, discipline and strict use of methods) in a shorter time frame (more capacity and flexible working window) and for less money (lower wages). But what to do with your local workforce? To manage this dilemma we see three steps:

1. Awareness of the need. Most important is the awareness of this strategic option and the setback if it is not used. What will happen to your company (and your employees) if you don’t use the competitive advantage of offshoring (and your competitor does)? The awareness that
you can manage this dilemma is also important: communicating the need for change and the options for the local workforce will help to overcome the resistance.

2. **Clear scoping: “Keep local what you need local.”** In a full offshored scenario you will only need people with knowledge of functionality and technical architecture in the ICT governance department who can bundle the ICT demand and manage the service provider (i.e., people who can play a role in contract management or service management). For functional specification (of applications and infrastructure) and functional maintenance and management (of the applications) local people will also be needed and we suggest that those people work as close to the business as possible. One also needs local people for the hands-on activities (workstations, servers, network, etc.) that you could employ on an all-inclusive basis or, less likely, hire yourself. Finally you have to decide if it is important to have a native speaking service desk (more expensive, but could be located in your own premises) or an English-speaking service desk in India (less expensive).

3. **Transformation of the workforce.** Once the decision to offshore is made, a transformation of the existing workforce (employees and contractors) to the new offshored solution must be planned. For a smooth implementation we recommend that you determine how much local workforce you need, what employees can be useful (after education) in new roles, which social regulations are applicable and when you want to implement the new sourcing concept. Also take into account that thanks to the lower cost offshore, it will be possible to increase the degree of automation, which, in turn, will lead to a higher demand for onshore employees with business knowledge. For the superfluous employees it is best to work with a local company that is able to reemploy them. If this is not possible, other transformation strategies could be used:
   i. Replace the existing contractors with offshore contracts. (In most companies in continental Europe, contractors account for 30–70% of the workforce.)
   ii. Let recruitment or replacement agencies, or local service companies take responsibility for replacing redundant internal personnel.
   iii. Make collective or individual agreements to stimulate mobility (including education) of your present employees.

3.4 **Organize the offshore transition**

The purpose of the transition is to transfer the services to the new service provider. After the hand-over the new provider can deliver the right services in a timely manner, in accordance with specifications and against the agreed upon cost. But how does one transfer services (and knowledge) to India?

A high-level transition in an offshoring situation is not different from any other transition in outsourcing. However, it must be managed with more care, since:

- A transfer of (all) workforce does not take place explicit knowledge transfer to the new (offshore) workforce is inevitable and becomes even more of a key success factor than with non-offshore deals.
- Functional knowledge is key even if functional analysis is not part of the scope of services. Since the team is operating remotely, lack of customer business knowledge is the root cause of the majority of defects.
A new way of working is essential where more time is spent on communication and alignment with the offshore counterpart (even when onsite coordinators are designated by the service provider).

At the start of the cooperation misunderstandings could occur frequently, which may have a demotivating impact on the client's operational management team. The cultural and language gap must be closed.

As a best practice for transition to offshoring we envision an approach where:

- Measures are taken upfront to identify the right profiles for the interfacing role on the customer side and expectations are set to ensure the motivation of the customer team throughout the transition.
- The members of the "offshore team" work on-site during the first phase; this helps the team get to know each other better and to understand and overcome the cultural gap.
- The functional and technical specification and maintenance are thoroughly documented; most of the time this process improves also the quality of the supported systems.

### 3.5 Implement offshore governance

Implementation of governance is important for managing all outsourcing relations. In offshore sourcing engagements a client must be conscious of the following factors:

- The offshore service provider's team organization is likely to be more inclined to hierarchy; staff motivation may depend on career progression more than would be the case in the client's own organization.
- The level of satisfaction of the service provider's personnel and its commitment to continue to work for the client will depend highly on the level of personal relationship that is developed with the client team.
- Informal interaction at the client location plays a crucial role in the ability of the client's personnel to collaborate efficiently; much more intensive communication and continuous checking of the understanding of requirements and context must compensate lack of such interaction with the offshore service provider.
- The organizational maturity (according to CMM) is most of the times higher then the client. To have full advantage the client has also to mature and professionalize.

It is essential to build up extensive functional and business context knowledge on the service provider side to assure that services are delivered at the required level of quality. The period of knowledge transfer does not always suffice to meet this requirement and demands a dedicated focus of both parties.

Governance of the sourcing relationship is a specific expertise and is covered in the white paper, *Governance of IT Services and Projects*, by QWR.
Different offshore providers and solutions
Different service providers offer different offshore solutions with their own specific pros and cons. For the European market we identify a main group of solutions and service providers.

Multinational service providers
Providers with global presence, including significant presence in India and other offshore locations, can deliver all sourcing models but may as European service providers be inclined to deploy their local workforce (mostly acquired through outsourcing). The strength of multinational service providers is that due to their global presence they can choose the optimal combination between onsite, onshore, nearshore and offshore for 24/7 service.

European service providers
European tier 1 service providers have global presence and have an on-site presence in western countries for their local and historically grown workforce. In the past years, these companies have developed a significant presence in India (and other offshore and nearshore locations). To overcome the language barrier with their clients, most of these players have a front office using the local language and a back office in India for remote delivery. Even though these service providers can deliver using various models, they may be inclined to use their local workforce first to ensure they do not lose money on them. Thanks to their local presence, asset and personnel transfer to European service providers is most viable compared to other service providers. Note that often the local workforce also must learn to work with offshore locations and cultures.

Local Western service providers
Even midsized and small Western service providers of between 50 and 1,000 FTE have entered the offshore arena. Although analysts had predicted in the past that offshoring was only viable for large engagements, we find that this prediction has been proven wrong by many midsized and even small players that successfully provide a part of the services from India and look to expand to other Asian countries as well. Compared to larger providers, these players have less scalability and are mostly focused on customer intimacy and/or specific solutions.

Indian service providers
Indian service providers are companies that have originated from India but do business and may have expanded globally. With a primary focus on leveraging their services capabilities from offshore, these companies typically do not focus on deals that involve transfer of assets or personnel. Although examples of large transfers exist and may make business sense in some cases, most of the time the best deals for these organizations are focused on services transfer or so called “asset light” deals. There is a great difference in size between Indian service providers, and because of this there are distinctions among tier 1, tier 2 and tier 3 providers.
• Tier 1 Indian providers are the largest and top-level providers such as TCS, Infosys and Wipro. A tier 1 company usually has global presence and has the capability to also deliver on-site (e.g., at the client location) the larger regions in the west. These companies may also be able to manage the client's local workforce when needed. The execution power of tier 1 providers is comparable to that of multinationals.

**Captive Offshoring**

Another solution is captive offshoring. In this case a company starts its own subsidiary in India to provide offshoring service to the mother company. It may offer a chance for companies to broaden not only their delivery capacity but also their global presence while retaining maximum control and ownership. But for midsized and small companies, setting up their own captive center at an offshore location may incur higher costs than they would have had by contracting a service provider.

### 4 Offshoring to India in the decade to come

With a decade of extensive offshore outsourcing to India behind us, an ever growing stream of transfers going to the east and even small players entering the offshore arena, offshoring to India is here to stay and will benefit further from the growth of the outsourcing market throughout the world.

The shift in offshoring away from India has been predicted many times and is indeed taking place, but a decline in India has yet to happen. The Indian outsourcing industry still experiences growth year after year, whether through multinational, European or Indian service providers. While other locations in Asia and South America are growing at an impressive pace and all players (including Indian) are opening offices in those regions, the growth in India itself does not stop. India is likely to remain the top location for offshore services.

From a customer perspective, Europe will be the region to show the greatest growth in offshoring to India. Organizations that consider this ever more viable option are advised to take note of the wealth of experience and best practices from the past years, to be successful in the decade ahead.
5 About the authors

Alex van den Bergh
Alex van den Bergh is practice leader at Quint Wellington Redwood. With a background in cutting-edge reverse engineering, migration and software consulting followed by years of experience in application strategy and sourcing, he supports leading organizations facing sourcing challenges. Within his field of work he has assisted multiple companies, helping them manage their offshore engagements, whether through multinational, European or Indian players. Besides these activities, he is a regular speaker at forums, an associate in scientific research and is the author of several publications in his profession.

Email: a.van.den.bergh@quintgroup.com

Ronald Israels
Ronald Israels is principal consultant at Quint Wellington Redwood. He has considerable experience in the fields of IT governance, sourcing and supply chain management. For the past 13 years Ronald has been involved in a large number of ICT organizations (profit and not-for-profit) in the role of program manager, department manager and advisor.

At present Ronald is also Chairman of the Netherlands India Foundation for Innovation. Ronald was co-founder of this foundation, which stimulates innovation in the Netherlands and India, through, for example, offshoring ICT and other relevant processes to India. The foundation conducts research and is organizing seminars and conferences to share and disseminate experience.

Email: r.israels@quintgroup.com

Sunil Mehta
Sunil Mehta has more than 20 years of services experience working with various service providers in India and abroad. He was instrumental in setting up the Quint India office in 2005 and is currently the Country Manager for the consultancy and education business for Quint India. In his previous assignments he has worked with some of the key service providers such as HP, Microland and NIIT.

Sunil is on the Board of the itSMF India chapter and is also the membership chair for the forum. An active participant at the forum, he is currently engaged in working with the mid- and small-size players to provide them with a level playing field in offshore outsourcing.

Email: s.mehta@quintgroup.com

Andriy Sheychenko
Andriy Sheychenko was born in 1977 in the Soviet Union. He graduated in the field of medical physics, and has an interest in and has published research on mathematical models used for analysis of patterns in neural tissues. Andriy has been in the software industry for 12 years, working in the area of scientific research and later moving to financial and electronic commerce domains. Since 2000, he has focused on outsourcing and offshore service delivery when he joined iGATE Global Solutions, the information technology and business process outsourcing service provider. Andriy has assessed, planned and managed global sourcing programs covering delivery in multiple countries, while pursuing professional interests in the cultural and social aspects of collaboration. Since 2007 he has been a senior consultant in the international sourcing practice of Quint Wellington Redwood.

Email: a.sheychenko@quintgroup.com
Quint Wellington Redwood is a leading global independent consulting firm dedicated to resolving IT-related organizational challenges. Operating in more than 49 countries and across four continents, Quint provides strategy, sourcing and service management to leading organizations from all industries, creating and implementing best practices worldwide.

Quint was founded to help organizations get more from IT, not by adding more or new technology, but by simply managing IT better. The firm’s portfolio of services includes education, consulting and measurement, integrated across the domains of business and IT. Quint’s “Dare to Challenge” mission challenges itself and its clients to implement changes that deliver true results, outperform the competition and create a measurable return on investment. Quint’s vision is to reinvent not only its clients’ organizations, but also the consulting industry itself.

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