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Indian IT outsourcing industry: Future threats and challenges – A reassessment



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ABSTRACT

A recent paper has argued that the future of the Indian IT outsourcing industry is uncertain. This uncertainty emanates from paucity of quality manpower, inability of the industry to move up the value-chain, underdeveloped state of the domestic market and unpreparedness of the industry for disruptive technologies. These factors may erode the competitive advantage of the industry and inhibit the growth momentum. This paper is an attempt to reassess the findings considering a longer time horizon, encapsulating a broader set of information and supporting evidences from literature. Our findings suggest that the exponential growth the industry has exhibited over the years has not shown any significant reversals in recent times. Further, reassessment of the concerns outlined earlier makes it a bit difficult to believe that the industry is likely to face any serious threats and challenges in the foreseeable future. Instead, our findings suggest that the future of the Indian IT outsourcing industry is not that uncertain, and in all probability the industry would retain its competitive standing in the global market and make promising strides ahead.

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1. Introduction

In a recent paper concerning the Indian IT outsourcing industry, [Sharma \(2014\)](#) highlighted certain threats and challenges the industry is likely to face in the foreseeable future. Identifying such threats and challenges by industry experts have often proved useful to the concerned industries, enabling them to undertake proper and timely actions. However, to our understanding, the inferences drawn in the paper appears to be over reactive that warrants proper scrutiny before making any meaningful conjectures about the future of the industry. This paper is an endeavour in that direction.

We have several reservations regarding the views expressed by [Sharma \(2014\)](#) that necessitated a reassessment of the entire issue altogether with a view to provide a pragmatic outlook for the industry. It would be instructive to mention our reservations at the outset before investigating the specific threats and challenges identified by [Sharma \(2014\)](#). First, it is not prudent to use specific examples and generalise it for the entire industry. The case in point is the delayed hiring of HCL that

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the author mentions at the outset. Like other industries, the IT industry also undergoes certain ebbs and flows. This, along with the impact of the slowdown in the global economic activity following the subprime crisis and the exponential growth of engineering graduates may have resulted into such temporary mismatches. However, there are ample evidences to believe that the IT industry has the capacity to cope up with such challenges. Second, citing declining year-on-year growth rates for two standalone years (FY2007 and FY2014P) does not necessarily imply that the growth rates overall has been declining. A more meaningful reflection of the growth rates would be obtained if we consider a longer time horizon and compute the trend, instead of year-on-year growth rates. In our analysis, we find that an exponential trend fits the data better and there is no reason to believe that the growth rates are declining and thereby the competitive advantages are eroding. Third, we observe that Sharma (2014) has made the entire issue a bit obscure by confusing overall development of the economy with the development of the IT industry in particular. The case we are referring to is the utilisation of the ‘demographic dividend’, an issue which is contingent on the development of the entire economy, not the IT sector alone. In a nutshell, selective identification of certain issues in isolation and generalising it for the entire industry has resulted in a lot of subjectivity in drawing inferences.

Given this backdrop, we address the specific concerns identified by Sharma (2014) that in his opinion renders an uncertain future for the Indian IT industry. These include (i) paucity of quality manpower; (ii) inability of the industry to move up the value-chain; (iii) underdeveloped state of the domestic market; and (iv) unpreparedness of the industry for disruptive technologies.

Following Sharma (2014), we structure our paper on similar lines with a view to highlight our areas of difference and thereby justify our claim. Section 2 outlines the journey that the industry has traversed till date. In Section 3, we address the four concerns outlined by Sharma (2014) with a view to ascertain whether or not the growth momentum will sustain. Section 4 summarises and concludes.

2. The journey till now

We are in agreement with Sharma (2014) that in order to predict the future, it becomes imperative to look at the past. However, unlike Sharma (2014), we consider a longer time horizon and map the progression of the industry with greater specificity in investigating how the industry responded to the challenges that surfaced and how it leveraged on the opportunities that cropped up in order to predict the future more accurately. This is critical for an industry that is ever evolving.

The journey of the Indian IT sector may be best described as a roller-coaster ride. From its humble beginnings in 1955 with the installation of the first computer at ISI Calcutta, the industry has steadily moved up the value-chain to emerge as the most favoured outsourcing destination with a market share of 55% in the global outsourcing pie in FY2013. In a visibly uncertain environment as evident from the modest growth of the global sourcing market at US\$ 11–12 billion in 2013, the sector alone accounted for 90% of this incremental growth. The industry’s contribution to GDP increased from 1.2% in FY1998 to an estimated 8.1% in FY2014 (Fig. 1). The industry also happens to be the largest employer in the private sector providing direct employment opportunities to 3.1 million people and indirect employment opportunities to an additional 10 million (NASSCOM, 2014).

This unprecedented success of a technology-intensive industry like IT from a developing economy like India is indeed intriguing, considering India’s mediocre record of success in most other industries. Till the mid-1960s, the industry

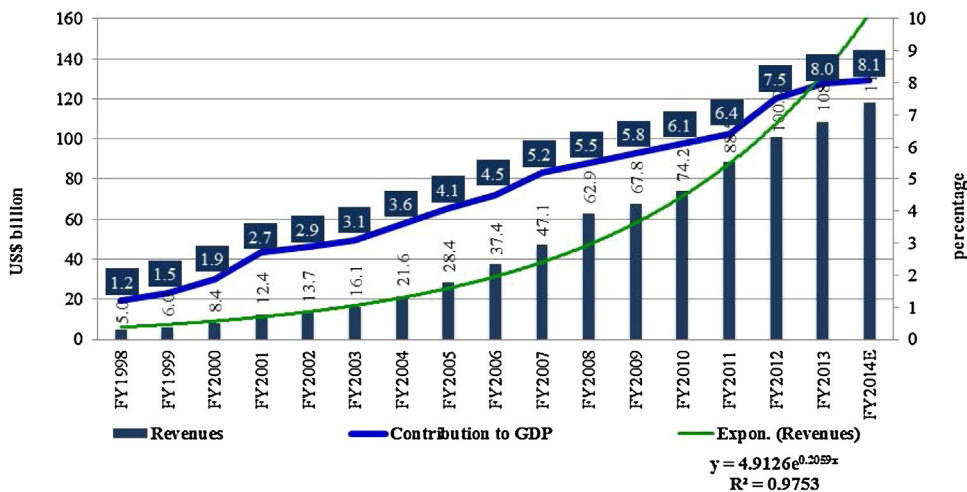


Fig. 1. Performance of the Indian IT sector.

Source: Compiled from NASSCOM (2004, 2009–2014).

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