

## Outsourcing – The Modern Trend of Accounts Management

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### Abstract

*One of the biggest trends in accounting is outsourcing finance and accounting services. Outsourcing of accounting services most importantly enables businesses focus on their primary business rather than building an accounting department. Outsourcing accounting services can help businesses cut down costs, and also reduce risk of fraud and provide access to the services of dedicated professionals in the field. This paper analyses in detail the need and importance of outsourcing of accounting services and how it is helpful for the companies. Outsourcing in Indian context is also explained in detail.*

### Meaning of Outsourcing

Outsourcing is the business practice of hiring a party outside a company to perform services and create goods that traditionally were performed in-house by the company's own employees and staff. Usually done as a cost-cutting measure, it can affect jobs ranging from customer support to manufacturing to the back office.

Outsourcing was first recognized as a business strategy in 1989 and became an integral part of business economics throughout the 1990s. The practice of outsourcing is subject to considerable controversy in many countries. Those opposed argue it has caused the loss of domestic jobs, particularly in the manufacturing sector. Supporters say it creates an incentive for businesses and companies to allocate resources where they are most effective, and that outsourcing helps maintain the nature of free market economies on a global scale.

Outsourcing has become increasingly popular over the last decade as companies grow and their needs start to get so specific, that supply for particular positions, is not easily found in the national market. Moreover, with the rise of the start-up ecosystem, outsourcing has provided a way for founders and entrepreneurs to find international top tech talent at a considerable discount to create their companies or enhance their existing team.

## **What is Outsourcing?**

Outsourcing, also known as Business Process Outsourcing (BPO), is the process of hiring another individual or company, either internationally or domestically, to manage various business activities for you. For some time now, it has become a standard business practice that enables small business, start-ups, and entrepreneurs to receive services and required skills that can help them to grow their businesses, without any significant investments and further self-development.

Therefore, as your business grows to the point where you need to have a bookkeeper, who can manage different tasks for your business, but you do not have resources to hire an additional full-time employee or extra equipment and space in the office, outsourcing could be the right choice for you.

What is more, you can do so by advertising your employment needs or outsourcing qualified bookkeeping and accounting companies online, while virtually communicating your personal needs and requirements.

## **How Outsourcing Started - A Brief Recap**

Outsourcing has certainly revolutionized how businesses operate today. When outsourcing first started out, it was restricted to low-risk functions such as processing and data entry. Later, contact / customer service operations were outsourced on a large scale.

This brought outsourcing cost benefits to the forefront, and organizations started taking notice. Global companies who wanted to leverage the cost benefits of outsourcing started outsourcing high-end functions like IT services, healthcare BPO and research services to reliable companies. Today outsourcing is no longer a buzzword only for the low cost labor. It has become a key business strategy for both small and large business enterprises who believe in devoting 100% to their key business operations and outsourcing the rest to specialized vendors.

In the recent past, outsourcing has brought in a lot of businesses opportunities for countries like India, China, The Philippines and Mexico to name a few. India is perhaps the biggest beneficiary of the outsourcing boom, and over the years, has created a niche for itself in IT and ITES outsourcing. A large majority of IT companies prefer to choose India, when it comes to outsourcing due to the presence multi-talented pool of affordable resources, timeliness, and reliability.

## **Why do companies outsource?**

In its simplest form, companies outsource because it reduces their overhead to produce a product, thus increasing their profit margins. *It's a purely a business decision.*

We live in a world where the same amount of work done in one country or city is not equally paid as if it were done elsewhere. It can be argued that the discrepancies in pay levels come from state and federal taxes, the country's economic standpoint (measured in GDP per capita) and wage-setting institutions. Regardless, the basis of the decision is an economic one.

According to Brandon Gaille, 46% of companies have cited their top reason for outsourcing was to reduce operating costs with 12% desiring to access world class capabilities.

Here is a thorough breakdown of the reasons as to why people outsource:

1. Reduce or control costs—44%
2. Gain access to IT resources unavailable internally—34%
3. Free up internal resources—31%
4. Improve business or customer focus—28%
5. Accelerate company reorganization/transformation—22%
6. Accelerate project—15%
7. Gain access to management expertise unavailable internally—15%
8. Reduce time to market—9%

### **How does outsourcing work?**

To answer this question thoroughly we would have to dive deep into each of the different market segments where outsourcing is possible, our forte is in technology thus we will be answering this question from a technological standpoint.

Software developers and IT professionals are more often than not hired through a recruiting agency, or an agency as it makes it easier and faster for companies to find the person with the qualities and experience they are looking for. They deal with all the sourcing and the companies cherry-picks those they like.

Once these professionals are found they can be placed in a particular office space, which usually requires extra work for the company or HR executive—or left to work remotely by their own means.

Companies that outsource technology quickly learn that these remote developers and tech professionals are results-oriented and rely heavily on milestones and deliverables.

In conclusion, outsourcing can be a very helpful strategy for a company's profit margins and for productivity purposes, it comes with both its benefits and drawbacks, which we'll explore in our next piece!

### **Outsourcing of accounting services**

The trend today for many employers is to outsource any function of the business that is not directly related to the generation of income. But what exactly is outsourcing? Simply put,

outsourcing is the long-term contracting of a company's business processes to an outside service provider, helping to increase shareholder value by reducing the costs of non-core functions.

Of course, outsourcing is not a new concept. For years companies have outsourced their legal, advertising, printing and computer services so they benefit from professional expertise without substantially increasing overhead.

Outsourcing your accounting services is applicable for your current situation if:

- You are spending too much time managing your books while neglecting other aspects of your business
- You are cutting corners because you don't really understand how to do bookkeeping properly
- You want professional-grade accounting, but it's either too costly or you don't need full-time accounting services
- You need "at a glance" financial reports to stay informed about your business
- You aren't afraid to ask questions about financial data you don't understand
- You want the flexibility to examine your accounts whenever and wherever you'd like, combined with the peace of mind that your books are being maintained by dedicated professionals

### **Outsourced Accounting Is Cost-Effective**

Employing an in-house bookkeeper is expensive. That cost comprises not just salary, but additional direct costs including employer payroll taxes, workers' compensation, medical insurance, retirement plans and other benefits. Additionally, there are employee vacation and sick days to consider. And don't forget the time and expense involved to place classified ads, as well as interview, screen, test and train an employee. Our virtual, outsourced accounting service fees are extremely competitive by comparison. With accounting outsourcing, you also get flexibility in adjusting the level of service to meet the seasonal needs of your business.

### **Outsourcing Reduces Your Year-End Work and Fees**

Since AccountingDepartment.com maintains your general ledger and subsidiary schedules as part of the ongoing recording of accounting information and preparation of documents, your year-end work is significantly reduced. That translates into lower accounting fees and faster turnaround time in preparing tax returns and financial statements. AccountingDepartment.com can work with your tax professional throughout the year to ensure that your books are tax ready. Alternately, we are able to provide tax preparation services for existing clients as needed. If you are in need of compiled, reviewed or audited financial statements, AccountingDepartment.com will work with the professionals preparing these statements to minimize your accounting and auditing fees. (As your accounting department, AccountingDepartment.com is not independent and so cannot conduct an audit of your financial statements.)

### **Outsourcing Is an Investment**

Your business is unique and has its own set of outsourced accounting needs. That's why AccountingDepartment.com calculates a monthly fee for you after reviewing company's

existing accounting files, followed by a conference call to review the results of this review. During the call, AccountingDepartment.com explores the challenges and issues related to accounting functions to determine the scope of the work.

### **Complimentary Proposal**

To take a test run of our outsourced accounting services, we offer you a free, no-obligation proposal. We are happy to walk you through our virtual accounting services and explain the savings, peace-of-mind and greater financial control you can achieve by outsourcing your accounting department functions to AccountingDepartment.com.

Many small businesses, start-ups, and entrepreneurs find it difficult to hire someone with the right skills to prepare their company's financial statements, manage bank account operations, analyze financial data, and prepare the outgoing invoices. Nowadays, it is even more challenging to find the qualified and eligible person at the affordable rate.

Even though it is commonly believed that accounting and bookkeeping must be done inside of the business, it is important to ask yourself, whether you have the necessary skills and experience to do this job. Due to this fact, it might be worth considering to outsource someone with the right knowledge and qualifications, who can do the same job in a more cost effective way.

For the same reason, many executive directors have noticed various positive aspects of outsourcing bookkeeping and accounting services without causing any adverse effects on their business, employees, and, most importantly, their customers.

However, we believe that the advantages of outsourcing should be weighed against many positives and not purely against the savings of the company. Therefore, we want to share the top 5 benefits, which our clients in Denmark, Norway, Sweden, and Switzerland, have already experienced after their decision to outsource bookkeeping and accounting.

### **Five benefits of Outsourcing of Bookkeeping and Accounting**

1. **Cost saving.** Most businesses consider outsourcing to be additional, and therefore the unnecessary cost for their business. However, when it comes in reality, the savings that outsourcing usually provides can be quite considerable as most companies can offer their services at the lower cost rates (typically due to lower labor costs at their location). Besides, by outsourcing you save money on paying the salaries and benefits for the full-time or part-time employee, as you only pay for what you need. So there are no lost in productivity costs that come along with hiring full-time employees.

2. **Extra time.** As your business grows, you will find yourself spending more time managing your money and less time expanding the business. Therefore, the outsourcing administrative tasks like bookkeeping and accounting helps you to focus your time, energy and resources on creating the business strategies, bringing more revenue, as well as, networking and building the relationships with your customers. However, if you have spare funds to afford the in-house accountant, use its knowledge and skills to generate sales and optimize your business expenses.

3. **Expert service.** Outsourced bookkeeping and accounting service providers continuously have to improve their skills and qualifications to stay competitive in the market, so you can

be sure that you are handing over your accounting to a reliable and knowledgeable person. It means outsourcing may offer you the possibility to hire a professional with a higher level of expertise at the affordable price.

**4. Flexible employment benefits.** When you outsource your bookkeeper or accountant, you have the advantage of using his/her services only as you need them. This factor can be particularly valuable for small businesses, start-ups, and entrepreneurs as they may not have enough bookkeeping work to take care of on a daily basis. Besides, if outsourced bookkeeper or accountant does not perform to your expectations and requirements, you can easily terminate the contract with no further difficulties.

**5. Consulting.** Whether you are looking to expand your business or simply cut down the spending, it is useful to have a reliable and experienced expert alongside, who can provide you with various financial plans and options to reach your goals. Besides, the outsourcing provides you a great way to have full-time professional aside your team and use the service on Pay As You Go basis.

### **Five things to look for when Outsourcing**

Once you made a decision to outsource, the next step should be to choose an outsourcing company that will be a great fit with your goals and objectives, but most importantly, would be able to match your needs and requirements. We believe, when outsourcing bookkeeping and accounting services, the quality of performance and efficiency must be the top priority. However, few more important factors must be considered as well.

**1. What service you are in need.** Is to prepare the end of the month reports, balance sheets, payroll services, reporting to authorities or taking care of your account payables and receivables? You maybe need someone to prepare your bank reconciliations and analysis or just enter the data into the accounting software? Whatever it would be, you need to be clear on what you do personally, what your in- house staff is responsible for and what you want someone else to do.

**2. Competitive cost range.** Every accounting and bookkeeping company have their payment schemes – some of them charge by the hour, others on a monthly basis. Therefore, you can choose the payment term that suits your needs and budget the most, but do not make your decision only based on the cost effectiveness.

**3. Expertise.** Make sure, that the company you want to hire is experienced, professional and has the right qualifications. Remember you can always ask for some recommendations from their previous or existing clients, look at their reputation in the market, financial stability, but most importantly, their ability to deliver high quality and consistent results.

**4. Data security.** In our opinion, data security plays an important part when outsourcing accounting services online. The highly respectable firm handles their clients' data with most required privacy and ensures that each transaction is secure. It is important, because you will be not only communicating cash flow information to them but also confidential data.

**5. Flexible service level agreement.** The company you want to work with must be flexible enough to use the latest accounting software, such as the advanced spreadsheets, e-economic, Dinero, Billy's Billing, SAP, Navision, QuickBooks, and Xero, that will be compatible with



your type of work. Also, it must show their flexibility and desire to match your future needs and requirements. Besides, we suggest to check the term and conditions before you sign the contract, so you will be aware of how to terminate the agreement if you are not satisfied with their work.

### **Advantages of outsourcing of accounting services**

Organizations, these days, not only look for cost-effective solutions to systematically run non-core activities like accounting and payroll services, but also expect to add value in order to achieve better control and understanding of cash flow and thereby make informed decisions. In spite of being considered as non-core, accounting services form an integral part of an organization's operational capabilities and systematic functioning. Therefore, outsourced accounting and payroll processing services definitely help streamline core business operations of an organization.

### **Advantages of outsourcing of accounting and payroll services can be enumerated as:**

**1. Achieving high level of accuracy:**

Outsourcing accounting services and payroll outsourcing can be quite beneficial when it comes to generating accurate results that can be as high as 99.95%. This, in turn, ensures better management of back office functions. Dedicated staff in BPOs handle accounting and payroll services smoothly and efficiently.

**2. Cost effective services:**

A major advantage associated with outsourced accounting services is the cost-effectiveness of the services. A huge amount can be saved up on operational costs and channelized towards the funding of core business processes.

**3. Fraud Check:**

Outsourcing payroll processing services to professional payroll outsourcing companies can in fact help control any possible fraud by staff within the organization. The service providers are accountable for every transaction processing as well as quality and accuracy control.

**4. Direct deposit through efficient payroll processing:**

On-time payroll processing enables quick and efficient staff payment through direct deposits. This keeps the staff satisfied and productive leading to business augmentation.

**5. Avoiding penalties during tax processing:**

Inappropriate payroll management could lead to inaccurate tax filing resulting in tax penalties. Outsourcing payroll processing services to professionals can save companies these hassles and ensure accurate payroll processing.

**6. Reaping benefits with up-to-date technology:**

The market is changing continuously due to technological advancement. Companies can avail such progressive technology through systematic outsourced accounting services.

**7. Saving up on processing time:**

Accounting and payroll processing is time consuming and companies tend to lose focus on core competencies while trying to manage such a process. Therefore, outsourcing frees up time for further value-added revenue-generating tasks.

**8. Gaining from the assistance of experts:**

Outsourced financial services providers hire experienced professionals to perform accounting services and payroll processing services. These consultants can provide

apt tips and timely advice pertaining to payroll services as companies expand and processes become more and more sophisticated.

**9. Avoiding reconciliation worries related to financial institutions :**

Bank reconciliations can be quite tedious and an ongoing process consuming a lot of effort and time in terms of keeping track of all the payments through the bank during the rolling out of pay checks. This can be avoided by delegating payroll services to experienced payroll outsourcing companies.

**10. Staying informed with up-to-date accounting status:**

All possible accounting and payroll related information can be obtained regularly from professional service providers handling outsourced accounting services. Advanced software can help companies look at personalized reports that can save a lot of time while making important financial decisions.

### **Outsourcing accounting services – Indian Perspective**

For small or medium businesses maintaining up-to-date bookkeeping is probably the most important part of the daily routine. The establishment of an accounting division, hiring and training bookkeeping personnel and buying bookkeeping software is costly. Such companies, whose core competency is not bookkeeping, can benefit by outsourcing to India.

Outsourcing bookkeeping services to India will eliminate the need to have an accounting division while at the same time your organization can get access to professional bookkeeping services at just 40%-50% of the cost.

#### **Why outsource bookkeeping services to India?**

By choosing India as your bookkeeping outsourcing partner, you can get access to several benefits such as -

- Save up to 50% on bookkeeping expenses
- Boost your bottom line with less staff
- Focus more on your business
- Get access to complete financial management from bookkeeping to tax returns
- Hire a dedicated online bookkeeper with complete loyalty
- Round-the-clock access to accounts
- No need to hire/train accountants
- Real-time online bookkeeping
- Complete confidentiality and data security with the latest encryption technologies, remote servers and physical security systems

#### **What are the bookkeeping services that can be outsourced to India?**

You can outsource the following bookkeeping services to India -

- Invoice generation services
- Tracking accounts receivables services
- Generating accounts receivable reports
- Tracking accounts payable services



- Trial balances and P&L accounts services
- General ledger maintenance services
- Payroll processing services
- Compilation of tax returns services

Apart from this, you can outsource any bookkeeping services to India, as Indian outsourcing providers have expertise in all the segments of bookkeeping.

### **Statistical data relating to outsourcing in India**

India is the world's biggest outsourcing destination in terms of financial attractiveness and business environment, according to a study published today by a London-based global management consulting firm.

A T Kearney's 2016 Global Services Location Index (GSLI) rated India as number one of the total 55 countries analysed.

China, Malaysia, Brazil, Indonesia, Thailand, The Philippines, Mexico, Chile and Poland respectively made up the top 10 list.

Offshoring to India remains a highly attractive proposition for many companies, said the study which also takes a deeper dive into optimal cities for off-shoring within the ranked countries.

"While India and the Philippines are still top of mind when it comes to off-shoring, the hunt for new talent is now taking companies beyond these countries' capitals and major cities to tier-3 locations such as Surat, Nagpur, and Lucknow in India and Bacolod and Iloilo City in the Philippines," said Nikolai Dobberstien, partner with A T Kearney's Communications, Media and Technology practice.

One advantage of tier-3 cities is the relative affordability of real estate as facilities in Nagpur and Ahmedabad are 25 per cent to 30 per cent cheaper than Kolkata and Delhi, the report said.

Another advantage is the relative availability of labour, its lower cost and lower attrition rates.

Many of these cities have highly developed educational infrastructure, ensuring fresh crops of qualified graduates for the foreseeable future, GSLI said.

"Even though the top six or seven countries are landing in the same order this year as 2014, looking forward, this could all change radically because the very nature of what's being outsourced is changing," said Arjun Sethi, global leader of A T Kearney's strategic IT practice.

"For the first time, we have a trend — automation — that could displace the leadership of the likes of India and China in outsourcing. Technology's relentless progress continues to transform in unanticipated and fundamentally different ways not only where work is moving to, but how and by whom — or by what — it is being done," Sethi said.

He said the new business model associated with this automation threatens established concepts of offshoring, while expanding the market.

India's undisputed industry leadership is facing a challenge from China which has become attractive with its recent devaluation of Renminbi and gains in educational skills and cultural adaptability.

"The implications on accessibility of services and employment in these countries are massive. On the client or receiver end, Business Process as a Service (BPaaS) dramatically lowers the entry barriers to business data management, opening the floodgates to smaller and newer companies," said Sethi, principal author of the study.

The GSLI, launched in 2004, helps companies make key location decisions for offshoring and industry development projects with objective guidance.

### Benefits to India and Indians

Outsourcing has altered the foundations of global business practices. Until recently, outsourcing was implemented solely to reduce operational costs. Now, however, with the increase in competition and emergence of new players on the scene, forerunning organizations rely on outsourcing as a strategic move, to get an edge on their competitors whilst simultaneously extending their global reach.

By contracting out non-essential processes to a third-party with proven expertise in the field, focus can be redirected to a company's core activities so as not to interfere with growth in size and operations. Peripheral services such as data entry, employee database, customer support, content creation, and design work can electively and efficiently be managed externally with no extrarisk to the business. In doing so, companies are able to turn fixed costs into variable ones whilst simultaneously reducing the burden of managing, maintaining, and extending benefit to a large workforce.

The Grant Thornton International Business Report (2014) results show that outsourcing is a popular option for businesses, with 40% of business leaders globally and 43% of larger businesses either currently outsourcing or planning to outsource business processes.

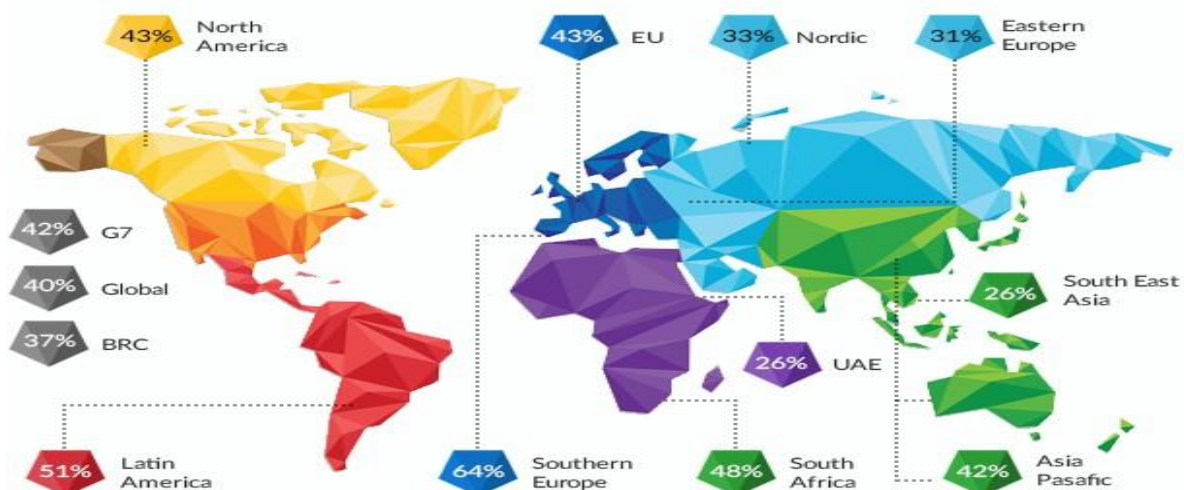
Some regional markets are also more likely to outsource and offshore than others, showing an image of service transaction that is consistent with global trends:

64% of businesses in southern Europe are likely to outsource, Spain (70%) leading the chart.

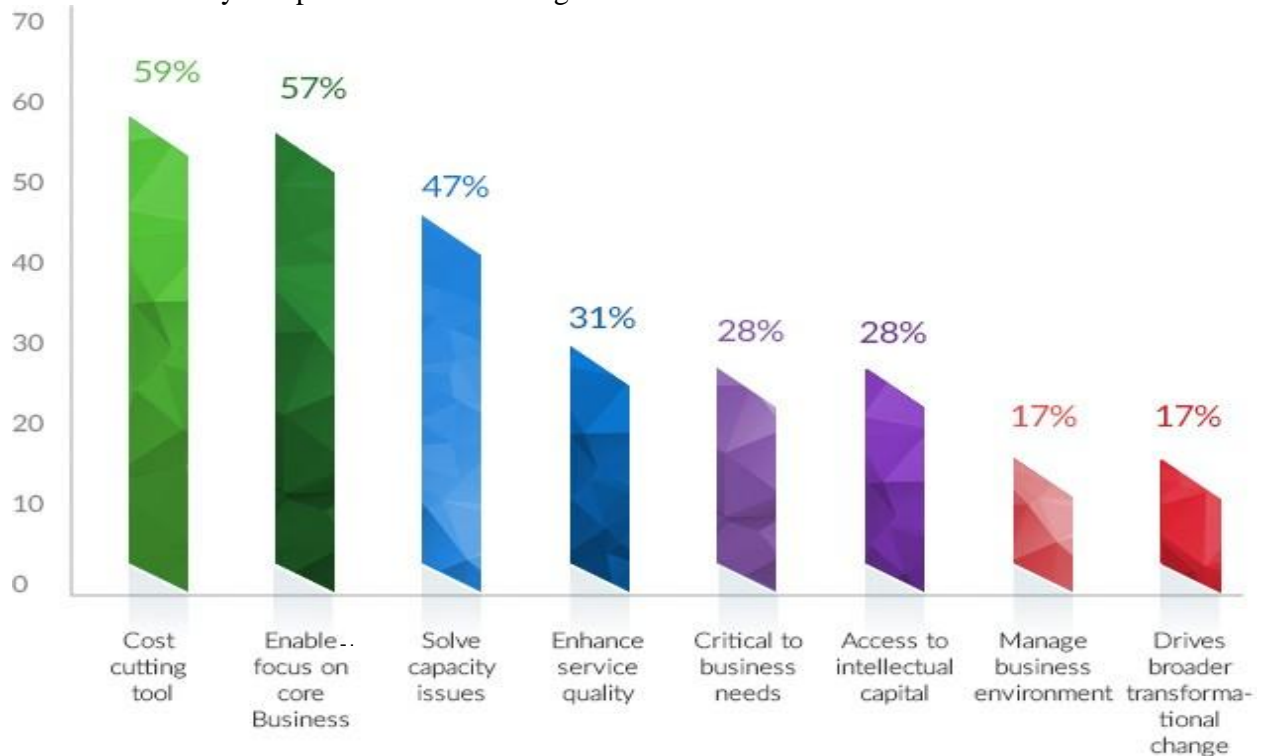
51% of business in Latin America—especially in Argentina (64%) and Brazil (53%)

certain areas in Africa are also highly likely to outsource (Botswana 68%; South Africa 48%).

by contrast, just 26% of businesses in Southeast Asia are keen on outsourcing with businesses in the Philippines (4%) and Vietnam (12%) amongst the least likely to be looking at this option globally.



Motivations - why companies are outsourcing



The two main reasons why companies outsource are to cut costs while being able to focus on core business. The primary goal of outsourcing is to massively reduce the costs associated with employing additional in-house teams, and in doing so, gain value for the host organization. In order for outsourcing to be economically viable, savings from the lower wage rate must exceed the increased cost of management and any associated risks.

Companies often overlook the additional benefit of generating higher customer retention rates through outsourcing services. The combination of innovative practices, intelligent and talented subject matter experts, and speedy execution leads to remarkable increases in customer retention.

Additionally, outsourced services provide a certain amount of flexibility. Signing on for the services of an outsourcing company with extensive lists of vendors in their arsenal enables companies to scale up or down based on customer demand whenever the need arises. This is a valuable asset during the peak and valley periods of the year.

### Top Outsourcing Destinations within India

India is the leader in outsourcing worldwide, with 6 out of the top 10 outsourcing destinations, according to Theon's 2015 Top 100 Outsourcing Destinations (the organization has been tracking outsourcing destinations for over a decade).

Rank 2014	Rank 2015	Movement	Region	Country	City
1	1	-	Asia Pacific	India	Bangalore
2	2	-	Asia Pacific	Philippines	Manila (NCR)
3	3	-	Asia Pacific	India	Mumbai
4	4	-	Asia Pacific	India	Delhi
5	5	-	Asia Pacific	India	Chennai
6	6	-	Asia Pacific	India	Hyderabad
7	7	-	Asia Pacific	India	Pune
8	8	-	Asia Pacific	Philippines	Cebu city
9	9	-	Europe	Poland	Krakow
11	10	-1	Asia Pacific	China	Shanghai

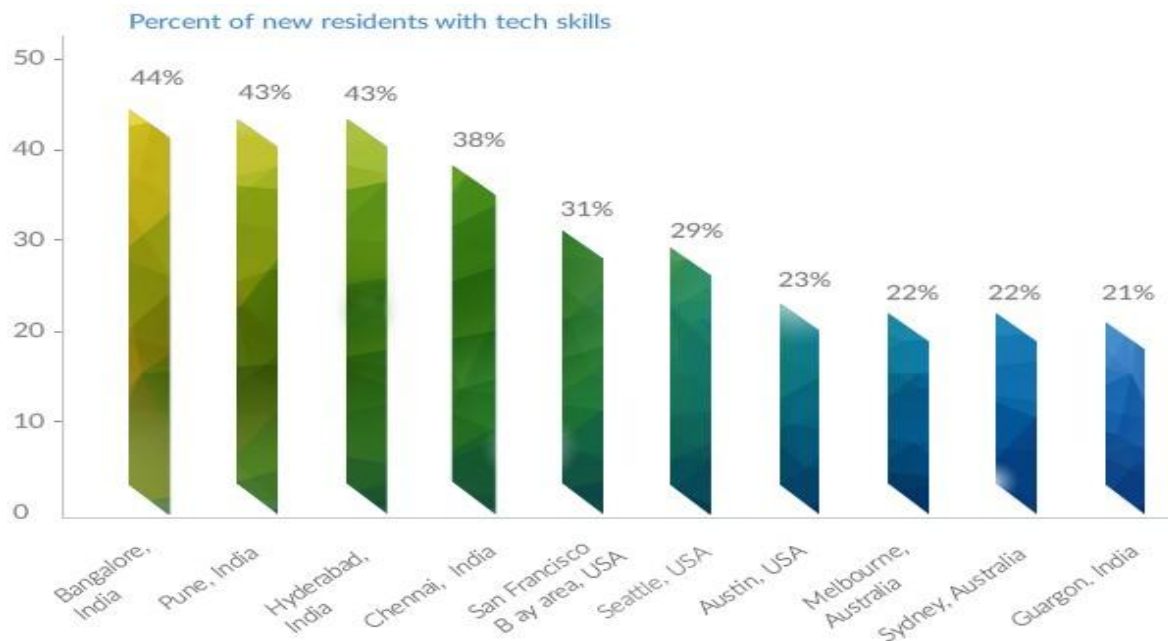
### Talent Pool in India and Workforce Statistics

By picking up large jobs from other countries, organizations in India are able to provide a compendium of services in not only the IT field but several others as well.

According to PwC, the talent pool in India is highly qualified to respond to the needs of the IT/ITeS industry: 100 million English speaking people – the second largest in the world after USA over 3 million IT employees with the outsourcing industry and indirect employment to 10 million people every year more than 200,000 engineering graduates are joining the IT industry.

IT/ITeS industry in India supports businesses across verticals such as banking and finance, manufacturing, healthcare, retail, government and utilities, having a very diverse skill base in the industry, including graduates from engineering and non-engineering background, finance specialists, doctors, lawyers, etc.

However, the same study notes that in recent years companies have been finding it little more difficult to get the right talent. With the development boom in the country, job demand in other sectors as banking, engineering, and manufacturing has increased.



### Outsourcing Trends for the Future

- Outsourcing relationships are now more standardized, and process and people driven rather than price driven. This change is believed to level the playing field for outsourcing service providers in the future
- Cost pressures will pave the way for custom outsourcing contracts that are flexible in their SLAs (Service Level Agreements) and scope of delivery
- Small businesses, start-ups and SOHOs will witness a higher adoption of outsourcing in order to reduce the operational inefficiencies and increase their time to market
- Rising raw material, transportation and oil costs will make it important for companies to look at outsourcing in order to keep their operating costs low
- More high-end critical business functions will be outsourced in the next decade, while outsourcing of low-end services will stabilize
- Latin America and Europe might provide stiff competition to India as the favored outsourcing destination
- As businesses move towards cloud outsourcing; support and development will increase
- Manufacturing and Pharmaceutical businesses will move to cheaper destinations, such as India to take the advantage of low labor and operating costs. Additionally, research and development outsourcing in these industries will also tap into the vast outsourcing potential of India

Will outsourcing survive in years to come? The answer is a definite yes. Outsourcing will continue to survive in the future, as it provides companies the access to specialized skills and save on time and effort, which can be channelled into the other core business ventures.



## **The future of Outsourcing in India**

Today, with outsourcing being the top business trend, the biggest question on everyone's mind is: what will the future of the outsourcing industry look like in the next 10 or 20 years? Though India has managed to position itself as a major outsourcing hub, questions about its future in outsourcing continue to surface in industry circles. The dynamics of global business are changing, and outsourcing is no different.

## **Current and Future Trends that will affect the Outsourcing Market**

With the outsourcing industry emerging from the aftermath of the global recession, there are a number of trends that give us a glimpse of the future -

- Analysts are predicting that the industry will continue to fight short-term cost pressures, and that there will be pressure on service providers for more flexible pricing contracts.
- Buyers will seek more standardized solutions from their outsourcing engagements, so they will have to differentiate themselves through performance rather than pricing. Hence pricing structures will be stabilized to some extent.
- Many small alliances, focused on increased operational efficiencies, better quality control and reduced back office costs, are being set up. This trend is going to continue.
- Shared and common services were always considered a threat to outsourcing, but the trend is changing. Sharing critical business and IT services has been proven to cut costs, reduce errors and improve productivity.
- Industry experts predict that Latin America and Europe will be the new outsourcing destinations in the near future.
- Brazil and Russia will make their presence felt in the global outsourcing market and China will continue to move ahead.
- The rising price of oil will put pressure on companies to take advantage of technology and outsource work to remain profitable.
- According to industry experts, consumption-based technologies that are delivered through the cloud will grow, as they are cost effective.
- Some analysts predict that European carmakers will start outsourcing their business. This would result in cars being developed by other companies while being sold under their brand names.
- Big pharmaceutical companies will launch new drugs in the market at a fraction of the current cost by partnering with India, China, and Russia in molecular research and clinical testing.

## **India's role in the outsourcing industry**

India continues to be the major destination for outsourcing because it has been able to evolve with changing needs. NASSCOM, (National Association of Software & Service Companies) the apex body of India's premier IT software and service (IT & BPO) companies, reported that India's share in the global outsourcing market rose from 51% in 2009 to 55% in 2010. India still stands out for its customer service and efficiency, so its future is bright. Today, customers are not only looking at cost-effective solutions for their outsourced business but also for skilled staff, enhanced productivity, service quality and business process excellence. India, with its large population and multiple-skilled people, would continue to be preferred for both back-end and front-end outsourcing.



### **Opportunities for the Indian Outsourcing Industry**

The growth of Indian outsourcing industry has been phenomenal. As markets worldwide are becoming knowledge-intensive, India has evolved to become the most preferred destination for knowledge services. Knowledge Process Outsourcing may soon be the biggest revenue grosser in India. India has a large pool of skilled manpower— Chartered Accountants, MBAs, Doctors, Lawyers, Research Analysts, etc., which strengthens its position in the knowledge service industry.

#### **Opportunities for India in terms of outsourcing are -**

- In services that require advanced English, like KPO, Content and Medicine, India will continue to excel. NASSCOM predicts that India will emerge as a global hub for knowledge services in the near future.
- India has a large pool of English-speaking lawyers with expertise in foreign legal systems who can offer legal support and patent services. A few Indian companies are already affiliated with American legal firms and they have captured a small part of the American market.
- India is now the leader in the FAO market with many Fortune 500 companies already having their outsourced operations in India with firms like IBM, ACS, TCS etc.
- India has a big market in pharmaceuticals, in terms of clinical research and manufacturing. Availability of talent for high-quality trials and data management gives it an edge over competitors. Ranbaxy, a major Indian pharmaceutical firm, has tied up with GlaxoSmithKline to manufacture certain compounds together.
- Another vertical that presents great potential for India is Infrastructure Management Services. A wide range of management services for IT infrastructure, application operations, IT security and maintenance can be provided.
- According to a study done by Booz and Company, India will become a dominant player in the Engineering R&D market which is expected to expand to \$1.4 trillion by 2020. India's domestic market is expected to contribute 10-15% of the global ER&D services market.

### **Challenges for the Indian Outsourcing Industry**

The industry is undergoing an evolution, and will continue to be driven by changes in demand. A survey done by Pricewaterhouse Coopers and Duke University's Offshoring Research Network found that the outsourcing industry is transforming as new providers are emerging while existing providers are expanding into new markets. India has made remarkable achievements and has built a strong reputation in the outsourcing industry.

#### **India will face some new emerging challenges, such as -**

- The industry is growing rapidly and requires corresponding growth in infrastructure as well, an area where India is lacking—this needs to be addressed.
- Due to the rise in labour costs in Indian metro cities, companies are moving towards smaller Tier II cities.
- Though India continues to be the world leader in the outsourcing business, it will face tougher challenges in the near future, from South-east Asian countries like Indonesia, Malaysia, the Philippines, Singapore, Vietnam and Thailand, which are improving their positioning as alternative offshore locations.

- India's competitiveness is being challenged by countries like Indonesia, which offer cheaper labour in IT and business process skills, while India is experiencing increased labour costs and high attrition, which are of concern, and need to be addressed.
- Political crises in markets like the US and UK might result in outsourcing restrictions being put in place.

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