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What Does IT Outsourcing Mean?



In the 1990s, the global phenomenon that was the internet began to change the world in many ways. One of the biggest changes was in the way that people worked. Many companies in the advanced countries like the USA and Europe began to assign jobs electronically to 'telecommuters' who did the job on their PC at home and sent back the end result the same way. This worked for the mutual benefit of both the companies and employees. But as the labor costs and other costs, such as social security, taxes and Medicare, ate into the profit margins of the US companies, they began to look elsewhere to reduce the costs. And their eyes fell on developing countries India and China which were just opening up and had a large pool of skilled IT workers that they didn't know what to do with. This was the beginning of **IT outsourcing** that soon turned into a multi-billion dollar business.

Outsourcing must not be confused with off shoring as these two words stand for entirely different things. Outsourcing means contracting out a business function or process to a company or worker based in another country. For example, when a software company in the US gives a software company in India a contract to build a component of a computer program, it is known as IT outsourcing. In this case the component that has been contracted out becomes the complete responsibility of the foreign contractor. Usually companies contract out only non-core components of their business to foreign contractors so that they can concentrate on the core components. Besides ensuring the quality of the final product, this ensures that the company's secret remains safe with the company. Off shoring, on the other hand, means relocating a function or a process to another country. For example, when a US based company shifts a part of its manufacturing process to China by opening a plant there, it is called off shoring.

Many US and European companies outsource everything from data entry to call centers to software components and web contents because it helps them cut cost on high employee salaries in their own country. In the US, companies are also required to dole out social security, medical care, taxes and safety protection for domestic employees. With foreign-based contractors, they are totally free of these obligations. Also, educating and training in the US costs a fortune, while the same costs only a fraction of what they would cost in the US. And, of course, foreign contractors can always be dropped if they fail to provide quality work or are in breach of contract. The same cannot be said about domestic employees.

[IT outsourcing](#) is not only beneficial to domestic companies, it is also beneficial to foreign countries because it provides employment to the large number of university graduates who would otherwise be unemployed, and because it brings in the much needed dollar. This is what riles the opponents of outsourcing in the US who accuse companies that outsource IT jobs of taking the job away from domestic worker because of their greed. But what must be understood is that by making products and services more affordable, these companies are actually making life easier for domestic consumers.

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