

A question of outsourcing

The PITCOM meeting of 22 March addressed one of the major trends affecting the UK technology sector

Companies outsourcing parts of their business overseas has become a hot topic that has attracted the Government's attention. The issue was addressed by Peter Skyte, national secretary of the Information Technology Professional Association (AMICUS), Prabhoo Sinha, senior vice president of Satyam Quality Consultancy Group and Fiona Czemiawska of the Management Consultancy Association (MCA).



Peter Skyte

Peter Skyte – Security for members

Britain's major companies are on the verge of outsourcing hundreds of thousands of jobs, and understandably it is causing some heated debate. They are already ceasing to update technology in the UK as they look to move to India.

"We regard ourselves as internationalist and not protectionist," Skyte said. "Our approach is to try and obtain security for our members, not arguing that there should be no change whatsoever."

AMICUS has five major policy points that it encourages employers to follow:

- Full prior consultation before decisions about outsourcing are taken.
- No compulsory redundancy as a result of outsourcing.
- Protection of career value and terms and conditions of employment of the British workforce.
- A share of savings from outsourcing to be reinvested in skills development of the home workforce.
- Ethical trading, including: respect for ILO (international labour organisation) standards and OECD guidelines; freedom of association and the right to collective bargaining everywhere; safe and healthy working conditions; and payment of living wages

AMICUS does not consider it satisfactory for the Government to "sit on the sidelines and wash its hands" or to say this is part of globalisation. It's no accident that India happens to be the source of the majority of outsourcing from the English speaking world, he said.

AMICUS wants the Government to do the following:

- Promote investment in high tech workforce development.
- Redirect funding to provide more ICT training in secondary and post secondary formal and non-formal (including vocational) education programmes.
- Ensure fiscal and other financial support for ICT training and retraining and recognition of e-skills certifications.
- Maintain strong intellectual property protection when necessary and appropriate.
- Provide fiscal and other incentives to promote long term research and development, to create new jobs and to further stimulate the rapid development of next generation and innovative technologies and e-skills for the global marketplace.



Prabhoo Sinha

- Promote access to risk capital for small and medium sized enterprises.

"We believe that consumers should question whether they want to buy products from companies who are prepared to send their personal details thousands of miles away to be processed," he said.

"Globalisation must work for society and not society work for globalisation. We need to continue to invest in high tech workforce, in IT and e-skills, otherwise we'll simply become a nation of hedge fund managers and hairdressers."

Prabhoo Sinha – Competitive drive

Sinha said the main reason for outsourcing is that it allows a company to focus on what it does best, thereby retaining its competitive advantage. A company outsources the elements of its business that other organisations do better than itself, providing cost and quality advantages in the process.

He described the advantages of outsourcing for an organisation as follows:

- It is free to focus on its core business with lower overheads, allowing redeployment of capital.
- It receives services at much lower prices.
- It can operate on a 24x7 basis.
- New customers can be reached and new relationships and business opportunities forged.
- It is stronger and more competitive with reduced liabilities and increased support.

Despite these advantages, organisations from developed countries have expressed their own concerns. These include the need to maintain the privacy and security of information flowing between two geographical locations, and the danger of losing control over one's own customer service. There are also challenges in managing people across shores, filling the necessary requirements for communication, and ensuring that rapid outsourcing guarantees the employment of local people.

He explained how many of the world's accredited software centres are located in India. It carries out assessments on the quality of its manpower, and is ranked third globally behind the US and Canada. Also, the competence and qualification level of the average senior manager has resulted in quality consciousness.

"The essence of a successful outsourcing strategy is right sourcing – an optimum mix of onsite, offsite as well as offshore sourcing," Sinha said. "The ideal mix would take into consideration all risks, optimise profitability as well as ensure a comfortable level of control of one's business activities. This model has proved successful with all large corporations in IT – and forms the foundation of all business in the IT sphere today."



Fiona Czemiawska – Growth and risk

Czemiawska looked at the issue of outsourcing from the perspective of demand and supply.

She said demand has increased in the past couple of years as many clients now want to outsource rather than manage big IT projects.

"The key determining factor is the level of growth experienced by clients," she said. "One of the factors that will greatly determine the level of revenue of UK firms is the extent to which the client thinks it's a risky transaction."

The riskier the transaction the more consultancy a client requires. Consultancy firms earn greater revenues during these times.

"If the market matures and people no longer see it as a high risk activity then it's quite likely that UK consultants will earn less money than the offshoring companies. Clients will be confident enough to do it on their own without the help of consultants. They will be able to use companies like Satyam to get that work done."

On the supply side the question of offshoring is more complicated than asking where you place your staff.

"A company must decide what balance of high cost to low cost resources and onshore to offshore resources it has," Czemiawska said.

Offshoring is adding to the pressure to reduce consultancy fee rates.

"The determining factor will be how much the clients are willing to sacrifice the face-to-face contact they are used to, because they want to reduce the amount they pay," said Czemiawska. "And if they continue to apply that pressure then consultancy firms are going to find themselves under more pressure to place their resources offshore."

She said that it is impossible to say exactly what will happen over the next few years. The only option is to plan for a number of potential scenarios.

The first involves high demand for offshoring because the perceived risk is high, but the level of interaction required (the amount of money they are willing to pay) is low and people actually want to go offshore. This would create a situation of aggressive competition where probably only the largest consultancies would survive.

A lack of trust in low cost economies means offshoring is regarded as a big risk in the second scenario. Organisations continue to use consultancy firms for onshore business, whilst those still willing to take a risk in offshoring will require advice before doing so.

The third scenario is where companies turn away from offshoring and back to more familiar onshore operations. The demand for traditional management consulting grows.

The final scenario is where people want to reduce their margins, so the demand for offshoring is very high and people go to offshoring suppliers direct. This is the worst possible scenario for onshore UK based companies.

Questions and comments

How can the general public's perception of offshore policies and outsourcing be changed to reflect a more beneficial situation for the UK in a technology and business sense, where profits can be reinvested in other ways?

Sinha: One is through a knowledgeable group like this that has to play a critical role in developing a common understanding and then educating society. The most important thing is that the companies doing this job have to ensure that it doesn't cause negative ripples. There must be a strategic plan to handle this.

Do you believe that, with respect to outsourcing, our glass is half full or half empty?

Czemiawska: I think both of them in some ways. By looking at the demand and driving additional revenue and creating new jobs, then the glass is definitely half full. There is plenty of opportunity out there.

If I'm looking at what it means for IT services and consulting firms behind the scenes, then it's maybe not half empty but it's moving more towards the empty rather than the full side. It challenges their way of working and could have a big impact. But overall I would say it is half full.

Sinha: A company has to survive. If the company does not take measures of a strategic nature to make itself competitive in this global environment, the company will lose business anyway. How do you support your employees if the company is not making profit? Do you have a choice? The real issue is how do I instead of should I?

I happened to come across an article in The Observer entitled 'Jobs go east, service goes west'. It seems to me that if offshoring is the answer then maybe we are asking the wrong question. What matters to any organisation is understanding its customers and how it delivers service to them. I would suggest that those who suggest outsourcing are in the long run doing a disservice to that organisation.

Czemiawska: There are two parts to what you said there: meeting customer needs and what core knowledge does a business need to retain if it goes down the offshore and outsourcing route. In terms of the customer experience I think you are absolutely right to think the strategy comes down to doing something the customer wants and knowing how to make money from it.

In terms of the in-house capability it's about keeping some knowledge internally. They can't just get rid of the problem and wash their hands of it. If they are going to outsource their IT they've got to retain some IT knowledge internally, even if some of the work is done by other people.

So I think your point about retaining some capability internally is absolutely right too. But the difference is in having a core number of people who have got that knowledge, versus an IT department of 400–500 people. It's really a continuum that you would decide on.

Sinha: Outsourcing is not absolving the responsibility. You are delegating it for someone to do it, but the overall responsibility remains with the company for the customer's satisfaction.



Fiona Czemiawska