

Outsourcing and its Role in the Global Staffing Crisis

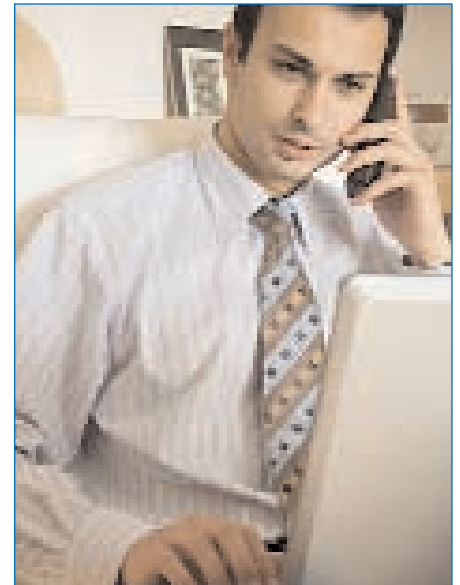
By Satnam Brar, Maximus

Once upon a time, the concept of offshore outsourcing was set to be the 'next big thing' in smart commercial practice. And perhaps not surprisingly, since the idea appeared to be brilliant in its simplicity. Just take a function like IT, which you have been persuaded (or have even persuaded yourself) is not a core part of your business, find a country where said function can be handled by high quality staff at a lower cost than at home, contract out its management to a local provider and then sit back and watch costs fall and profits rise.

In the ERP arena, organisations involved in development work quickly spotted that India was producing more English-speaking IT graduates than any other country in the world from internationally recognised schools, such as the Indian Institute of Technology in Mumbai, and began tapping into this seemingly endless (and highly cost effective) pool of talent. Meanwhile, back in Europe, home-grown specialists slipped into increasing gloom as commentators predicted that their long-term careers would soon be disappearing

counts is control and visibility, which can be difficult to maintain successfully over such long distances. Our clients know that we are local and know that we are physically close to Oracle here in Dublin, so we're not just trying to manage problems remotely if they arise."

And perhaps even more importantly, the enthusiasts also failed to see that a country as ambitious as India would be unlikely to be happy for long with the status of supplier of cheap labour.



servicing major companies such as Marks and Spencer, National Grid and Cisco, while TCS now has operations in 50 countries and employs over 5000 consultants in the UK and Ireland alone. Many of the Indian companies have managed to keep their costs to a minimum by bringing Indian IT professionals to the developed economies, originally on work permits and now under initiatives such as the UK's Highly Skilled Migrant Programme, on packages which, whilst highly attractive compared to those on offer in the sub-continent, are still much lower than those commanded by local specialists. "It's certainly had an impact on the market in Europe," says John Loughery. "Cost is always a factor."

However, whilst Indian companies operating overseas might have gained some initial advantage with their low cost base model, its downside has been the marked difficulty in retaining staff once they reach the West, particularly to the potentially lucrative contracts market. Satyen Mehta from Mumbai had already gained extensive ERP experience with Oracle in India when he was recruited by a software house to work on projects in the UK.

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to the other side of the world. After all, who was going to continue to pay high rates to ERP professionals in the developed economies of the West, when their work could be delivered just as effectively at a relative fraction of the cost by individuals based in Mumbai, Bangalore or Hyderabad?

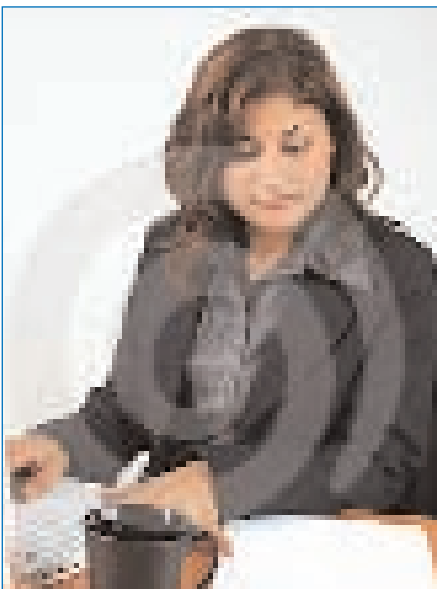
Of course nothing is ever as predictable as it seems. While offshore outsourcing still remains a popular option for many Western companies, it is nowhere near as common as it was a few years back. What enthusiasts for this 'next big thing' had failed to take into account was the fact that buyers would not necessarily view the dispatch of their investment to a location several thousand miles away with the same level of enthusiasm as a provider. As John Loughery of the Irish-based Oracle consultancy, System Dynamics, puts it, "Offshore outsourcing simply hasn't turned out to be the Holy Grail that some people thought it would be." It might be good from the cost point of view but, in my view, what really

The money that flowed into the Indian sub-continent during the first wave of offshore outsourcing helped to create a raft of IT companies such as Zensar Technologies, Infosys Technologies and Tata Consultancy Services (TCS), which have shown themselves keen to move away from the low-charge end of the market into more sophisticated, and consequently, better paying work. The logical conclusion of this trend has been a reversal of the classic offshoring model with a reverse invasion that has seen the opening of offices in key locations across the West. Zensar, for example, has now been established in the UK for fourteen years,

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Originally working as a full-time employee, he has now become a self-employed contractor marketing his services through his own limited company. "I was really motivated by the idea of working for myself – something that is so much more difficult to do in India where people in the IT industry are almost exclusively in permanent employment. Obviously it has its financial attractions, but it also allows me to get a good level of work/life balance. I work hard when I need to and always deliver on a project, but to some extent, I can also determine my own hours and can usually keep weekends free for my family." Anil Passi, also of Indian origin and now working in the UK, has followed a similar path in his career. "One of the key reasons I took a job in the UK in the first place was the money on offer and contracting can raise your earning capacity even further," he says. "Although the UK is culturally different when you first arrive here, I've found that skills are very transferable – working practices and expectations in India are just as rigorous as they are here. Let's face it, in our business all the serious players take their lead from the US, so there's no question of low standards anywhere in the industry. Consequently, I've had no difficulties in being accepted as an ERP contractor in the UK."

This leakage of high calibre Indian ERP specialists into the UK market is obviously good news for our hard-pressed sector, given the acute shortage of staff and



particularly of 'hybrid' consultants who combine good technical ability with in-depth business skills. But how long they are likely to continue plugging the staffing gap is increasingly uncertain as India gears up to become a global IT superpower with forecasted revenues of \$60 billion in 2010. According to India's software industry body, Nasscom, the country will have a shortfall of more than half a million skilled workers across the IT sector by the end of the decade, with the middle-management level the hardest hit. And, as skills-shortages start to bite and our old friend the 'war for talent' finds a new battleground, Indian employers are looking to the professional diaspora as a partial solution. Almost 10% of employees at Intel in India, for example, are now former expatriates returning from working overseas. "I know quite a few people who have gone home after working in the US or UK for several years," says Anil Passi. "The pay might only be around half of what they were earning abroad, but, given the dramatic difference in cost of living, they're actually much better off overall. And it's not just money that is enticing people back. The quality of work in India is rising all the time as the country shifts its emphasis to higher end services. Any suggestion that you need to go overseas to get good quality experience just doesn't hold water any more."

Where we go next with offshoring and what results it will generate is, at least for the present, unclear. While countries such as China, Vietnam and South Africa are becoming serious players in the outsourcing arena, it does look as if they are only likely to benefit, at least in the short-term, from the more process-based and lower paying work. If this continues to be the case, it is unlikely that the Indian model will be duplicated to any meaningful extent in these countries. Consequently it is also unlikely that we will see Chinese, Vietnamese or South African providers following the likes of TCS and opening offices in the West anytime soon or, unfortunately, many Chinese, Vietnamese or South African ERP specialists helping to cure the UK market of its ongoing shortage of experienced personnel.

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About the Author



Satnam Brar is the founder and managing director of specialist Oracle recruitment consultancy and Oracle partner, Maximus. The firm works with individuals

and organisations on permanent and contract assignments, both across UK and in key markets around the globe such key markets as the Middle East and continental Europe.

He can be contacted at satnam@maximus-it.com