

# WHERE NEXT A



## Satnam Brar founder of specialist IT recruitment consultancy, Maximus looks at the future of IT outsourcing

**T**here was a time when the idea of outsourcing offshore seemed to be the 'next big thing' in good commercial practice. And why not, since the idea appeared to be brilliant in its simplicity? All you needed to do was to take a function like IT, which you have decided is not a core part of your business, find a country where that function could be handled by high quality staff at a lower cost than at home, contract out its management to a local provider and then just sit back and watch costs fall and profits rise.

Right across the IT arena western organisations involved in development work quickly spotted that India was producing

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

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more English-speaking IT graduates than any other country in the world from internationally recognised schools, like 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 to the other side of the world. After all, who was going to continue to pay high rates to IT 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 counterparts 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 and may prove even less so in the wake of the Satyam scandal currently shaking the Indian IT sector. What enthusiasts for this 'next big thing'

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

The money that flowed into the Indian subcontinent during the first wave of offshore outsourcing helped to create new IT service 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 offshore model with a reverse invasion that has seen the opening of offices in key locations across the West. For instance, Zensar has now been established in the UK for 15 years, servicing major companies such as Marks & Spencer 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 on packages which, whilst highly attractive compared to those on offer in the subcontinent, 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 IT experience in India when he was recruited by a software house to work on projects in the UK. 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 and 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

# AFTER SATYAM?

anywhere in the industry. Consequently, I've had no difficulties in being accepted as a contractor in the UK," he adds.

This leakage of high calibre Indian IT specialists into the UK market is obviously good news for those organisations seeking new talent, given the continuing shortage of staffing in some areas of the sector despite the economic downturn. But how long they are likely to continue plugging the staffing gap is becoming increasingly uncertain as India pushes to become a global IT superpower.

According to India's software industry body, Nasscom, even in a slowing global economy, the country could 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. As a result Indian employers are looking to the professional Diaspora as a partial solution. Almost 10 per cent 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."

As Anil explains it's not just the money that's enticing people to return. "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 anymore." And as the UK and US hit recession it's all too likely that this trend may accelerate.

Where we go next with offshoring and what results it will generate in the future is unclear, at least for now. The sheer size of the alleged fraud at Satyam – fudging the accounts to inflate around US\$80m worth of assets to US\$1bn and siphoning off the earnings of over 10,000 non-existent employees – is bound to make many potential outsourcers think twice about using Indian companies, at least for a while. The result may be a return of work to the West or to the new pretenders in China, Vietnam and South Africa. Whatever the case, in a global downturn it's an extra headache that India could well do without. ●

**Satnam Brar is the founder and managing director of specialist IT recruitment consultancy, Maximus. [satnam@maximus-it.com](mailto:satnam@maximus-it.com)**

