



News:

Study: Execs believe most jobs should stay onshore

By Ed Parry, News Editor
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The bandwagon is still moving overseas, but the passengers are asking a lot more questions before they grab a seat.

A new study suggests that companies in the United States are being much more circumspect when it comes to outsourcing.

The University of Michigan Business School and Ann Arbor, Mich.-based software company eePulse Inc. polled C-level executives and IT managers from more than 550 companies worldwide about their outsourcing activities and found:

- About 74% of respondents are outsourcing now or plan to outsource in 2004.
- Of that group, nearly all (94%) are sending less than 25% of that work overseas.
- The most popular overseas destination is India; more than one-third of the applicable respondents have sent IT work there. China is the second most popular with 15% of the business, followed by Mexico (6%), Canada (6%), Taiwan (5%) and Malaysia (4%). The Philippines, United Kingdom, Ireland, Russia, Singapore, Spain and Turkey battled it out for the rest.

Delving deeper into the data, lead researcher Dr. Theresa Wilbourne found that respondents believe that business leaders should support their own countries and should send as few jobs overseas as possible.

So is the offshore outsourcing honeymoon over? Welbourne and others believe the overseas phenomenon is maturing and business leaders, who've learned hard lessons from their own offshoring experiences or the experiences of their peers, are starting to be more realistic in their expectations.

"Leaders are learning quite a bit from their outsourcing experiences, and they are ready to share that learning with others," Welbourne said in a statement. "The comments about keeping work in the home country may be a function of outsourcing efforts that are not going as smoothly as anticipated, or it may be in response to the ongoing discussions about job loss."

John Parkinson, chief technology officer with Capgemini Americas, the U.S.-based arm of the Paris-based global outsourcing services and consulting firm, has noticed that the "initial euphoria" of offshore cost savings is wearing off and that business leaders are becoming more conservative in their offshore decision making. "A year ago, there was more enthusiasm for doing this without thinking," Parkinson said, "but now business leaders want to know what they're committing to and what the tradeoff is.

"Everything is more complicated than people thought it was," he said, adding that customers are asking good questions that they didn't ask before. such as questions about data security in countries with different legal systems. They're also starting to understand that cheap labor isn't necessarily cheap – the cost of managing that labor can be, well, costly.

"We're far enough in [to the offshoring trend] now for people to see what needs fixing," Parkinson said. "It's a good thing that offshoring is getting onto business agendas."

Capgemini's customers may be asking more questions because they've heard more stories from companies like Everdream Corp. of Fremont, Calif. The IT support firm brought jobs back to the U.S. from Costa Rica after realizing that differences in business philosophy, knowledge transfer, language and infrastructure made the venture more costly in the long run.

"I would be reluctant to move offshore based on what we've learned about our own firm and what our customers expect of us," said Everdream CEO Gary Griffiths. He said that he's not opposed to offshore outsourcing, but that business leaders need to know exactly what they're getting into.

"I get unsolicited calls from companies pushing Indian outsourcing, and they talk cost. An unwary customer can be seduced by cost," he warned, "but most everything I've seen to India has high up-front fee. Then there is training cost, travel and logistics -- few firms will lay out the full picture for you in beginning."

Griffiths isn't alone in his wariness. Respondents in Dr. Welbourne's study said that any firm considering outsourcing must ask the vendor's references tough questions, check for strong skills, and do background checks. Dr. Arvind Malhotra, professor of information and technology management at the University of North Carolina's Kenan-Flagler Business School, agrees that this is a best practice.

"It's the client's responsibility to check the outsourcing vendor and understand that there is no 'one size fits all' deal," he said. "It takes time and patience and can be costly up front; the benefits come later."

Malhotra said that business leaders are learning hard lessons from a mix of poor practices and poor knowledge transfer. He compared offshoring to a low-hanging fruit that looks awfully tempting and easy to pick. But companies must think before they reach for it, he said, although if they do it right, the rewards can be sweet.

"Smart companies will outsource the mundane and focus on innovation – those are the companies that will succeed," he said.