

The Impact on People When Going Offshore for IT Services

The \$556 billion worldwide IT service market is experiencing one of the biggest changes in its history — a paradigm shift to offshore sourcing. There are implications for one of the industry's most precious assets — the people.

Core Topic

Sourcing: Sourcing Issues, Trends and Events

Key Issue

What are the trends and directions in sourcing?

Strategic Planning Assumptions

By year-end 2006, the convergence of increased investments of governments, IT service providers, product and technology companies, coupled with enterprise buyers' continued pursuit of global delivery options, will result in the most significant human capital shift that has occurred in the history of the IT service industry (0.7 probability).

Through 2004, despite the potential human resource backlash, 80 percent of U.S. executive boards will have discussed global delivery options (nearshore and offshore); of those, 80 percent will pursue an analysis of global delivery options (nearshore and offshore) and 80 percent of those enterprises using global delivery models will act by increasing their level of people resources (nearshore and offshore) by as much as 30 percent (0.8 probability).

Tactical Guidelines

Enterprise decision makers should formulate strategies to address the convergence of increased investments of governments, IT service providers, product and technology companies — and enterprise buyers' continued pursuit of global delivery options — and prepare their staffs and enterprises for the resulting changes. Follow the key tenets of any sourcing strategy. Include a focus on governance models, risk management and relationship-based sourcing, and ensure that the global delivery model options are part of the overall sourcing strategy development process (see "Understanding the 'Human Cost' of Cost Savings" and "Potential Risks in Offshore Sourcing").

We examine several human capital implications regarding the mainstream adoption of global delivery models (on-site, domestic, nearshore and offshore) for application-related services to North American enterprises. The term "HR backlash" relates to job loss because of the displacement of IT resources as the use of global delivery models grows.

A critical topic for discussion and analysis is the trend of looking to nearshore and offshore destinations for sourcing people. Using Gartner's Outsourcing Summit conference (June 2003) as one gauge and the level of inquiries Gartner receives as another, the interest level and attention to this sourcing trend continue to be quite high. The conference, which was held in the United States, attracted nearly 1,000 participants consisting of a large majority of enterprise buyers as well as a variety of IT service organizations that were facing difficult economic conditions and budget restrictions. The level of attendance, coupled with the participation of four CEOs — including prominent ESPs such as Accenture as well as "up and comer" vendors such as Cognizant, Infosys and Wipro — clearly demonstrated the interest and focus on outsourcing of various types: business process outsourcing, application outsourcing and infrastructure outsourcing. Moreover, the use of relatively newer global delivery models for this type of work through options in nearshore and offshore locations was extremely high.

What Does the HR Backlash Mean for North American Clients and the IT Service Providers Selling to Them?

In the analysis of this question, the presenters asked a series of interactive polling questions during the conference in two separate presentations, where the content was related to the topic of global delivery models of IT services from nearshore and offshore locations.

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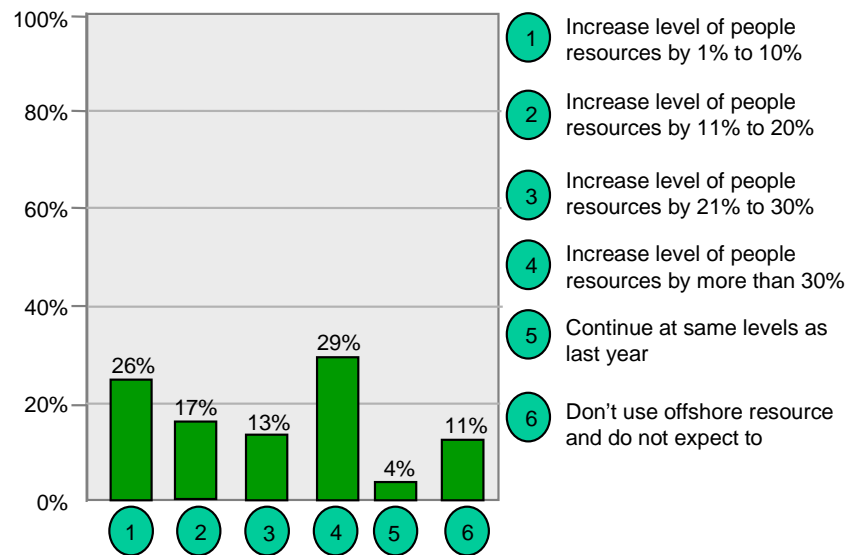
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The results were gathered in an audience polling rather than as a formalized study.

Question 1 (169 people responded): In the coming year, how will your use of resources (in terms of number of people) located offshore change (see Figure 1)?

1. Increase level of people resources by 1 percent to 10 percent
2. Increase level of people resources by 11 percent to 20 percent
3. Increase level of people resources by 21 percent to 30 percent
4. Increase level of people resources by more than 30 percent
5. Continue at same levels as last year
6. Don't use offshore resource and do not expect to

Figure 1
Feedback on Offshore Growth

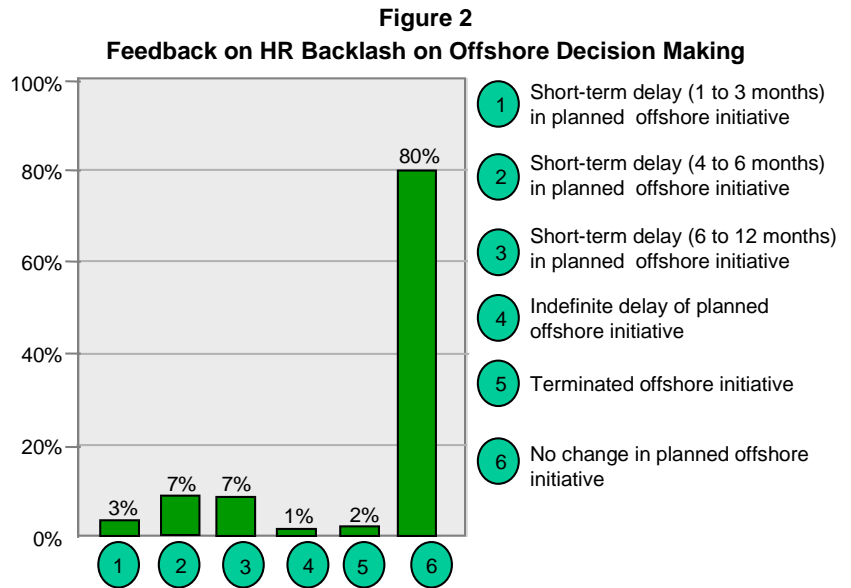


Source: Gartner Research (June 2003)

Question 2 (157 people responded): How has the press related to job loss in United States caused by the growth of offshore services affected your decision making (see Figure 2)?

1. Short-term delay (one to three months) in planned offshore initiative
2. Short-term delay (four to six months) in planned offshore initiative
3. Short-term delay (six to 12 months) in planned offshore initiative

4. Indefinite delay of planned offshore initiative
5. Terminated offshore initiative
6. No change in planned offshore initiative



Source: Gartner Research (June 2003)

Analysis of Trends

Based on our analysis of these results, discussions with enterprise buyers and IT services providers, and the level of consistency in the quantitative and qualitative research from Gartner analysts, the advent of global delivery models for IT services is an irreversible mega-trend that is here to stay. The momentum will continue as jobs move outside of the United States. The only uncertainty is the velocity.

The results of our two polling questions were consistent in both sessions and reveal that more than 80 percent of respondents were planning on increasing the level of people resources offshore, and 80 percent indicated that their decision making would not be affected, despite the intense media coverage over job loss.

One potential explanation for these results is the "cost is king" buying and selling mentality, especially during these tight economic times. This is consistent with Gartner's sourcing predictions (see "Sourcing in 2003: Another Year of 'Cost Is King'") that enterprises buying and using services from external sources in 2003 will continue to be driven by the goal to cut operating costs and improve the bottom line.

In 2002, Gartner published the following Strategic Planning Assumption:

By 2004, more than 80 percent of U.S. executive boards will have discussed offshore sourcing and more than 40 percent of U.S. enterprises will have completed some type of pilot or will be sourcing IT services through a global delivery model, such as nearshore and offshore (0.7 probability).

According a BusinessWorld article published in March 2000, GE adopted an outsourcing rule of thumb called "70:70:70." This approach was that 70 percent of GE's work would be outsourced. Of this amount, 70 percent would be done in offshore development centers. And of this amount, about 70 percent would be done in India. This ultimately would result in about 30 percent of GE's work being sourced in India.

In 2003, Gartner declares its "80/80/80 Discuss, Analyze, Act" prediction for the growth of global delivery models (nearshore and offshore):

Through 2004, despite the potential human resource backlash, 80 percent of U.S. executive boardrooms will have discussed global delivery options (nearshore and offshore); of those, 80 percent will pursue an analysis of global delivery options (nearshore and offshore) and 80 percent of those enterprises using global delivery models will act by increasing their level of people resources (nearshore and offshore) by as much as 30 percent (0.8 probability).

Bottom Line: New business demands and investments by enterprises and governments around the world will converge with new and established vendor models to cause the most significant human capital shift that has occurred in the history of the IT services industry. Global sourcing strategies, and how they will be executed, must be put in place to prepare for this shift in the IT resource supply/demand paradigm.