

Outsourcing Backlash: Globalization in the Knowledge Economy

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Globalization of the knowledge economy has surprised many enterprises. The speed and impact of offshore outsourcing, and the poor global economy, are driving change in the workforce.

ANALYSIS

Equal-Opportunity Globalization

Historically, companies in the United States, Europe and Japan have led globalization, because those countries pushed products and services into developing countries. As the business of offshore sourcing grows, globalization is beginning to become widely accepted elsewhere. With "nearshore" and offshore sourcing, the global equation has changed. Enterprises in developing countries and emerging markets are now reaching into developed economies, offering a talented workforce at a fraction of the price. Developed *and* developing economies are exploiting each other's markets, economies and labor forces. It is natural to expect that those disadvantaged by globalization — irrespective of market — will protest and make known their issues. Likewise, local politicians and political parties may try to protect jobs and obtain votes through legislation such as the bills currently being debated in four U.S. states aimed at blocking the outsourcing of government work to offshore enterprises.

Moreover, unlike previous instances of globalization — in textiles, products and manufacturing — the latest round is occurring almost instantaneously over a vast and sophisticated communication network. This has enabled business, projects, tasks and jobs to be transferred to virtual workforces across the globe quickly and transparently — a trend that is occurring so rapidly as to disorient entire professions, societies and organizations.

Changing Nature of Technical Work

Another factor making outsourcing attractive is the changing nature of technical work. By 2006, service-oriented architecture (SOA) will be at least partially adopted in more than 60 percent of new, large and systematically oriented application development projects (0.7 probability). The proliferation of Web services and SOA is causing software to be developed in smaller units that are easier to map to business processes. These smaller units are also ideal for an offshore environment. Larger projects are harder to manage and even more difficult in an offshore model. Smaller projects that use service-oriented development of applications (SODA) are easier to manage, are lower risk and will deliver better value over a shorter time frame as business begins to make the move to the real-time enterprise.

With this move to SODA, technologists and business people are talking, working with and understanding processes better. Communication between all parties is in terms of processes and subprocesses, more accurately mapping business needs. Through 2006, service-oriented development will change the way software is built, packaged and sold by more than 80 percent of independent software vendors (0.7 probability). Quite simply, it is becoming easier to outsource than ever before.

Collective Activism Levels the Playing Field

As businesses collaborate, and as top-down control of work and employees weakens, regional labor markets will normalize. Workers in one area of the globe will hear about practices in other parts of the world, raising awareness and intensifying their demands for equity. Labor forces in relatively disadvantaged economies will lobby to bring workforce programs into alignment with those of their global peers. Meanwhile, the values of workers and consumers in wealthier regions will promulgate globally, creating pressure across markets to adopt safe and competitive labor practices. In the long term — 10 years or more — the continuous pressure for equitable practices will normalize work/life programs and start to narrow the gap among regional labor rates. The gap in rates between the Western economies and Southeast Asia will remain big, but the gaps between emerging-market countries in Southeast Asia or other global regions will narrow. As global competition intensifies, emerging-market businesses will compete aggressively for top

talent and seek to wring even more effort out of every person, yielding a degree of parity in compensation and improvements in workplace conditions, but a decline in the work/life balance.

Without a significant upturn in IT investment in Europe and North America, the movement of work overseas will lead to job cuts and layoffs in IT, starting first with IT vendors and IT service providers, and moving steadily into user companies. For example, without an infusion of innovation that stems the outflow of IT work offshore, positions in the United States will quickly and steadily get filled by enterprises in emerging markets. Geographic and international centers of competency will emerge, shift and evolve. Consider this evolution: The United States' competency in Internet commercialization has been superseded by Southeast Asia's process-heavy competence in programming and development. The latter competency will be superseded by other regions' competencies in, for example, biotechnology, integrated consumer-business services or life sciences.

Workforce Backlash

For now, enterprises that are lured by low-cost labor markets will make decisions that satisfy immediate budget requirements, but many know little about domestic outsourcing, and even less about offshore outsourcing. They will likely face problems. As for their employees, the backlash will be real. Faced with enterprisewide displacement, soon-to-be-former employees will enter states of intellectual paralysis and productivity loss. Stress and uncertainty will increase. According to a 22 July 2003 article in the New York Times, IBM is now acknowledging the apparent necessity of moving service work to low-cost regions, and it is anticipating anger from displaced employees, as well as potential unionization for worker protection. Nevertheless, the displacement of jobs will not deter businesses from moving work to other markets: At Gartner's Outsourcing Summit in Los Angeles in June 2003, 80 percent of respondents conceded that the potential backlash would have no effect on their decisions to move forward with offshore outsourcing.

Through 2006, labor unrest will be a significant "wild card" in the offshore outsourcing landscape, with fewer than 10 percent of executives adequately anticipating its disruptive impact on operations (0.8 probability). Vendor-employed software developers may turn to unionization or guilds that can bargain for them as a collective. At the same time, the fairly clinical way in which people are being excised from company payrolls may spark the first class-action suit about unlawful termination.

Compensation Pressure

Although there is frequent talk of "sweatshops" in many developing countries, the reality is often far different. In terms of economies of scale, domestic spending power and quality of life, many people in developing nations are compensated exceptionally well. As enterprises globalize, employers worldwide will be forced to offer more-competitive salaries and packages to their employees, especially those who are based abroad. Employees will be compensated based on skills, roles and merits. Already we have seen enterprises in one emerging market use comparatively high salaries to lure top talent from other emerging markets. Employers that fail to compensate accordingly will find their top employees moving elsewhere — the opportunities are bountiful, especially for companies in developing nations that are "playing catch-up" to India. Indian companies especially need to refine their hiring models to become fully engaged local citizens in local markets, rather than all-Indian companies that employ predominantly Indian staffs. The hiring of locals in each market will not only lessen employee backlash, but it will also offer many benefits that only locals can provide, such as a deep understanding of local markets and mindsets.

Features

"Counter-Revolutionary Strategies for the Offshore Revolution" — For now, service providers should absorb and help shape the offshore revolution, and long term, they should move to annul it. **By Rolf Jester**

"Reuters Insources Software Development Offshore" — Through refined processes and continuous training, Reuters has moved a large part of its software development from the United States and Europe to a more-efficient and cost-effective center in Thailand. **By Dion Wiggins**

"Deciphering the Backlash Against Indian Service Providers" — Offshore providers should not overreact to the negative press and sentiments around the growing global backlash, which is an inevitable sign of a maturing paradigm or trend. **By Partha Iyengar**

"U.S. Offshore Outsourcing: Structural Changes, Big Impact" — As IT work moves overseas, the dislocation of IT jobs is real. **By Diane Morello**

"Offshore Outsourcing Can Benefit Europe in the Long Term" — Jobs being lost to overseas suppliers is not a new phenomenon for Europe, but the challenge is for governments and unions to see the long-term benefits when their voters and members are confronted with the prospect of unemployment. **By Ian Marriott**

"Offshore Insourcing vs. Offshore Outsourcing" — Enterprises may benefit from offshore delivery without turning to outsourcing. **By Rebecca Scholl and Sujay Chohan**

"The Impact on People When Going Offshore for IT Services" — The worldwide IT services market is experiencing one of the biggest changes in its history — the paradigm shift to offshore outsourcing. **By Frances Karamouzis**

This research is part of a set of related research pieces. See "Globalization of Knowledge Work Hurts, Distracts and Helps" for an overview.

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