

**Global Access**  
PROBLEM? SOLUTION.

# The 7 Myths of Offshore IT Outsourcing





# The 7 Myths of Offshore IT Outsourcing

Outsourcing is neither new nor revolutionary, yet has received significant media attention of late. The amount of focus on this issue has led to the typical analysis leading to some truths and many mistruths. During a time where the US job market is slow to recover, many critics of offshore outsourcing have emerged to take the torch of the cause. Beyond the rhetoric, the business executive and IT manager need clarity on an issue critical enough to impact US businesses in the most important area—the bottom line.

In this whitepaper we examine the most common misconceptions of offshore IT outsourcing, and attempt to present data that will shed light on a contentious issue.

## **MYTH #1: OFFSHORE OUTSOURCING IS COSTING US JOBS**

The two times in society when the feet

of free trade are held to the fire are during an election year and during a recession. While 2004 is heralded as a year of economic recovery, the ongoing “jobless growth” is leading to much discomfort among the unemployed and employed alike. Add the fact of an election year, and we see a perfect storm of controversy. According to a study by Forrester Research, an estimated 3.3 million more white-collar American jobs will shift to low-cost countries, especially India.<sup>1</sup>

Yet a recent study by the McKinsey Global Institute, an economics think tank, calculated that for every dollar spent on a business process that is outsourced to India, the U.S. economy gains at least \$1.12. The largest chunk—58 cents—goes back to the original employer. But there are many other benefits. For instance, 30% of Indian offshoring is performed by U.S. companies, so money returns home as earnings. Additional benefits accrue

1. Chanda, Nayan. “Movement of Jobs to Low-Wage Countries is Unstoppable.” YaleGlobal Online. 2 February 2004.

*“What most fail  
to realize is that free  
trade is not a zero  
sum game”*

from freeing U.S. workers to do other tasks.<sup>2</sup>

The U.S. has lost two million jobs due to global trade over the past 20 years, says Farrell, but in just ten years has added 35 million new jobs.<sup>3</sup>

What most fail to realize is that free trade is not a zero sum game. It was US technology—the boom in telephony and fiber optics—that directly contributed to the viability of offshore IT outsourcing. US innovation has been, and should remain in the near future, the largest competitive advantage we have over developing nations taking on outsourced work. In a world of free market economies, it would be disastrous to US firms if the government decided to ratchet up protectionist policies; other multinational corporations would then realize the additional benefits of cost and productivity through outsourcing that the US would be locked out on.

Furthermore, many jobs that are not materializing during the economic recovery are lost not through outsourcing, but rather through improved efficiencies and business automation. It is dangerous and irresponsible to place the blame of the

weak job market on offshore outsourcing.

## **MYTH #2: THERE'S A STIGMA OF OFFSHORE OUTSOURCING**

With the furor over outsourcing, many companies are loath to admit, much less advertise, their outsourcing of job functions to countries such as India. Yet if it is to be a secret, outsourcing is the worst kept secret in town.

In Bangalore India, some 110,000 people are employed writing software, designing chips, running computer systems, reading MRIs, processing mortgages, preparing tax forms, and doing other essential work for U.S., European, Japanese, and even Chinese companies. Intel, Cisco, Oracle, Philips, and GE are among the multinationals with significant R&D facilities there. AOL, Accenture, and Ernst & Young have big operations in town too. Meanwhile, GE Capital

employs more than 15,000 people in Delhi and other Indian cities who answer calls from credit card customers, do accounting work, manage computer networks, and the like.<sup>4</sup>

In fact, it would be challenging to find a single Fortune 500 company that is not outsourcing any part of their daily business operations to offshore outsourcing firms. Again, it is important to note that most outsourced jobs are supporting operations that are not part of the core competency of the US firm. Jobs such as phone technical support, human resource administration and software coding may seem alarming on the surface due to their “white collared” nature, yet the ability to lower costs while improving efficiencies allows the US parent company to focus on how to grow their business.

Lee Kuan Yew, Senior Minister of Singapore puts it bluntly: “If you deprive

4. Fox, Justin. "Where Your Job is Going." Fortune Online.

yourself of outsourcing and your competitors do not, you're putting yourself out of business.”<sup>5</sup> Free trade will not disappear, and firms who do not take hold of the opportunity will find themselves behind their competitors in short order.

From a public relations perspective, companies can help deflect criticism of offshore outsourcing by focusing on any US employee growth numbers as well as other statistics such as increased return of value to shareholders. Human resource departments can take this opportunity to place renewed focus on the well-being of their employees, as well as address honestly and openly the issue of outsourcing.

### **MYTH #3: THE COST BENEFITS OF OUTSOURCING ARE OVERSTATED**

The statement that “outsourcing leads to cost savings” can be better phrased as “outsourcing CAN lead to cost savings”. With workers in offshore locations such as India and the Philippines commanding only 10-30% of the salary of US workers (with average IT employee costs ranging from \$5,800 to \$6,500)<sup>6</sup>, there is no doubt savings can be achieved purely from a headcount perspective. However, the greater benefit of outsourcing is the migration from a fixed-cost IT environment to a variable pricing model that allows firms to gain better control over operating costs. There will be a reduced need for software and hardware infrastructure, reduced costs of maintaining and upgrading hardware and software, and training software developers on the latest technology.

**MYTH #4: IT'S A BUYER'S MARKET  
FOR IT WORKERS RIGHT NOW  
ANYWAY**

The bursting of the stock market bubble in 2000 led to the worst job market since the early 90's, with the technology industry hit particularly hard. The days of high base salaries, lofty bonuses, skyrocketing stock

*“If you  
deprive yourself  
of outsourcing and  
your competitors do  
not, you're putting  
yourself out of  
business”*

options and employee perks see like a distant dream. For aggressive firms this has provided a time of being able to cherry-pick talented personnel with great qualifications. On the flip side, no other time in recent memory has placed the combination of pressures of unstable employment and high levels of workload on employees.

Many firms will then jump to the conclusion that the buyers market for resources will continue indefinitely. However, as the forces of population aging and economic expansion continue, firms will find the market slowly but surely swinging the pendulum of power back to the workforce. In addition, most firms underestimate the true cost of hiring an internal employee compared to outsourcing, let alone offshore outsourcing. Let's look at an example.

Taking an employee who would command a base salary of \$50,000,

*“most firms underestimate the true cost of hiring an internal employee compared to outsourcing, let alone offshore outsourcing”*

the following additional costs would be incurred:

Benefits - \$18,000 (medical, dental, 401K)

Administrative costs - \$8,500

Orientation/training - \$1,400

Therefore, the total actual cost of the employee would be close to \$78,000 a year, a 56% increase on the initial

estimate.

For details on the true cost of hiring, go to [www.globalaccessllc.com](http://www.globalaccessllc.com) to download your free worksheet.

### **MYTH #5: THERE ARE HUGE CULTURAL BARRIERS**

One of the main concerns of firms looking to outsourcing is the potential for cultural differences to hinder or defeat projects. While cultural differences do exist, with careful research and due diligence you can learn to mitigate the risk as best you can.

The first area to look at would be a comparison of potential offshore countries. Each brings their own pros and cons, with differing levels of technical sophistication, political stability and cultural characteristics. It is no coincidence that 260 of Fortune

1000 companies have selected India as their nation of choice for outsourcing. Indians tend to have excellent English language skills and a highly trained technical workforce due to the first-class education system.

The second course of action would be to ensure that the outsourcing firm you select has in place Stateside project managers who can engage both you and the offshore resources. A good project manager will enable communication, and help define and track goals and objectives. Both clients and suppliers should initially map out the mode, interval and type of communication that will occur through the life of the project. When the few outsourcing relationships that end in failure are dissected, poor communication is usually the main cause.

Finally, related to both points one and two, once a country has been selected and a project manager has been introduced, begin to address the differences in culture upfront. For example, some cultures frown on open disagreement, whereas other cultures welcome an exchange of dialogue and debate. If a project's deadline is aggressive and one culture does not want to state that for fear of "losing face", the end result is likely to be frustration and low product quality.

Taking these three simple steps can reduce cultural barriers as an area of concern.

### **MYTH #6: WHAT ABOUT THE OTHER RISKS OF OUTSOURCING?**

#### Expense of initial migration

The best method of mitigating the concern of high up-front expenses is through a transparent, closely aligned

partnership. The two parties can work together to construct a business case that satisfies both sides whereby initial expenses can be minimized in exchange for a multi-year commitment that enables the outsourcer to make the necessary investments on behalf of its client.

#### Fear of losing control

Loss of control is best tackled in a similar manner with internal departments. Strict policies and procedures can be implemented to ensure satisfactory compliance. Another way of looking at it is the separation of duties through an outsourcing partner allows for increased, rather than diminished, control. The most effective way to overcome this fear is through developing a relationship based on trust and transparency.

#### Intellectual Property issues

In cases where Intellectual Property is a concern, specific clauses can be

written into the contract to ensure protection. An example may include proper and prompt disposal of sensitive information. Similar to the point above, clearly defined audit procedures that adhere to compliance can be set up prior to the outsourced relationship commencing. Other legal resources include non-disclosure and non-compete agreements, patents and copyrights.

#### Project slippage/"scope creep"

Outsourcing partners can greatly reduce the chances of missing project milestones by avoiding the urge to commit to overly aggressive timelines set by the client. Rather, sufficient time must be built in to allow for design and QA. And the more clearly defined the end-user requirements, the greater the accuracy in predicting delivery dates.

**MYTH #7: ROI OF OUTSOURCING IS NOT PROVEN.**

Opponents of outsourcing tend to point out the hidden costs of such agreements, while neglecting to note the hidden costs of hiring internally as mentioned in Myth #4. Even taking into consideration “hidden” costs of outsourcing, the ROI argument is

*“Beyond reducing headcount and employee overhead, additional benefits such as faster time to market and improved quality of finished product can achieve an ROI of over 400%”*

extremely compelling as a reason to outsource. Beyond reducing headcount and employee overhead, additional benefits such as faster time to market and improved quality of finished product can achieve an ROI of over 400%. For your free worksheet on calculating outsourcing ROI, go to [www.globalaccessllc.com](http://www.globalaccessllc.com).

Outsourcing is fast becoming a necessity rather than a luxury in our world economy. Today, the question is not if you will outsource, but when and how. Finding a partner with strong experience, a Stateside presence and a dedication to communication can help build a relationship that will benefit your business today, tomorrow, and well into the future.

## **ABOUT GLOBAL ACCESS**

Since 1996, Global Access has focused on delivering outsourced IT projects within time and budgets by utilizing state-of-the-art technology in a cost-effective manner. Our extensive network of global IT resources allows us to stay current on emerging technologies in an effort to empower our clients. Global Access is committed to maintaining the “personal touch” in our relations with our clients. Our management and technical teams’ extensive industry experience allow you to focus on what is most important---your business. With corporate headquarters and program management in California and research and development in Bangalore India, we provide a global presence to source the best talent worldwide.

## **ABOUT THE WRITER, SATNAM GAMBHIR**

Satnam Gambhir is the principal partner for Global Access. He is responsible for determining the strategic direction of the company. Satnam has over eighteen years experience in managing, designing and developing software applications. Prior to forming Global Access, Satnam was Vice President of the Information Systems group for Analytic Investment Management. There he developed, implemented, and managed software used by four mutual funds. Previously, he designed and developed Computer Aided Design software for Advanced Micro Devices in Sunnyvale, CA. Satnam holds a Bachelor of Science degree in Electrical Engineering from the University of Bombay, India, and a Master of Science degree in Electrical and Computer Engineering from the University of Cincinnati, Ohio and an MBA with an emphasis in Finance and MIS from the University of California at Berkeley.

**Global Access LLC**

**15661 Redhill Ave, Suite 150**

**Tustin, CA 92780**

**Web: [www.globalaccessllc.com](http://www.globalaccessllc.com)**

**Email: [info@globalaccessllc.com](mailto:info@globalaccessllc.com)**

**Phone: (714) 247-0060**





**Global Access**

PROBLEM? SOLUTION.