

Offshore juggernaut rolling over critics

Outsourcing has swept through the corporate sector, now government is in its sights, Ian Grayson reports

IT has been variously described as a godsend for big business, an inevitable consequence of globalisation, and the ruination of the local technology sector.

Offshoring, the practise of moving some or all of a company's technology infrastructure to another country, is on the rise.

Attracted by the promise of lower costs and access to a pool of highly skilled staff, large companies and government departments are embracing the trend in growing numbers.

Much of the activity is being generated by giant Indian outsourcing companies.

Names such as Satyam, Tata, Wipro and Infosys, virtually unknown in this country until a few years ago, are now serious forces in the local technology sector.

Keen to capture a slice of the growing demand for offshoring, these companies are investing heavily in Australia, expanding sales forces and establishing local teams of IT professionals to scope out projects.

According to IT researcher Gartner, India will continue to dominate the offshoring market, already capturing between 80 and 95 per cent of international contracts.

The company estimates that global spending on offshoring will exceed \$US50 billion (\$65 billion) by 2007.

Gartner senior vice-president Bob Hayward says the trend towards offshoring, for anything from call centres to software application development, is here to stay.

"It comes down to the law of large numbers in India," he says.

"There are hundreds of thousands of IT graduates feeding into the industry, and they are very smart individuals. We should be under no illusions. These people are a force to be reckoned with."

In Australia, companies adopting offshoring tend to be reluctant to talk about their experiences. A wave of media analysis of the trend, and its likely consequences for the domestic IT sector, has caused many to shy away from publicity.

Three of Australia's four largest banks, ANZ, National Australia Bank and Westpac, have embraced offshoring to some extent.

ANZ established a developer centre in Bangalore, India, to help it overcome skills shortages at home. The offshore team is doing systems integration work following the bank's acquisition of the National Bank of New Zealand in 2003.

Meanwhile, NAB and Westpac have signed contracts with Tata Consultancy Services to do software development.

The move was prompted by a lack of suitably skilled staff in Australia and the promise of lower costs, they say.

Other companies dipping a toe in the offshoring pond include Hewlett-Packard Australia, which has moved its call centre support services to India, and Optus, which is taking a similar track.

Insurance giant AXA announced late last year it would use Indian company Wipro to handle software maintenance, with about 20 staff positions moving offshore as a result.

However, AXA was quick to assure *The Australian IT* that not all the work it required could be done offshore and that Wipro would be providing around 20 local jobs as part of the deal.

Unions are concerned at the update rate of offshoring contracts by Australian companies despite such assurances.

Infosys Australia managing director Gary Ebeyan says the initial driver for companies to investigate offshoring was cost reduction but that is changing.



Alternatives: Gary Ebeyan

"A lot of customers are looking for alternatives to traditional suppliers such as the US multinationals," he says.

"The only ones they can find with the scale, efficiency, culture and value systems that they need are offshoring companies.

"These are hungry, young and they provide great service. It is this new breed that Australian companies are seeking, and all roads lead to India."

Ebeyan says Australian companies do not have any problems with the philosophy of offshoring, despite the negative connotations that it has attracted.

"We are seeing demand across the board, apart only from government," he says.

"This is understandable, although government does understand the principles and agrees that it is a better value proposition. It will just take more time."

Despite often critical development and integration work being done half a world away, Ebeyan says clients find they retain complete control and have a clear oversight of the status of projects.

"The key here is transparency," he says.

"We have worked hard to ensure our reporting systems are first-class. There is no loss of control."

Virender Aggarwal, Asia-Pacific director and senior vice-president of outsourcing company Satyam, says demand from Australian companies is growing.

Areas of most interest include application maintenance and development and help desk operations.

"A mind shift has taken place in Australia," he says.

"Offshoring is now a much more acceptable phenomenon."

Satyam's client list includes more than 20 Australian organisations, Aggarwal says.

Most offshoring providers have their sights set on Australia's public sector as a potentially lucrative source of new contracts.

However, earlier this year, a parliamentary research paper outlined potential problems likely to slow public-sector take-up.

The paper outlines a number of privacy, freedom of information and security issues that could be cause for concern under any government offshoring contract.

"For offshoring agencies, the benefits of a cheap offshore contractor must be weighed against the cost, in money and time, of visiting an offshore provider," the paper says.

Government agencies need to be aware of intellectual property issues, as such rights usually depend on the geographic location in which they are created.

Weighing the benefits

Pros

- **Lower staff costs:** Wage levels in India are a fraction of those demanded domestically
- **Access to talent:** Hundreds of thousands of IT graduates are immediately available for new projects.
- **Flexibility:** Teams can be created and disbanded quickly to support changing commercial conditions.

Cons

- **Industry backlash:** Offshoring has attracted union criticism for its effect on the local IT sector.
- **Cultural differences:** Accents and lack of local knowledge make call centre projects challenging.
- **Privacy concerns:** Some companies and government departments could face problems shipping data offshore.