A Guide to Global Sourcing
Offshore outsourcing and other global delivery models
Elizabeth Anne Sparrow

A Guide to Global Sourcing examines the opportunities and obstacles associated with offshore outsourcing and other global delivery models in the IT arena. There has been a lot of theoretical discussion about outsourcing in the press; speculation about the number of UK-based jobs that will be lost and hearsay customer complaints about communicating with call centre workers overseas. What have been missing, until now, are factual details of how companies have gone about offshoring, and what the results have been.

- A Guide to Global Sourcing provides practical advice for IT professionals and senior managers on supervising projects successfully.
- Genuine case studies bring theoretical business models to life.
- IT-offshoring is viewed in context by considering the wider responses of governments, professional organizations, trade associations and unions.
- Contents include: identification of projects suitable for offshoring; selection of offshore partners; the pros and cons; and ongoing monitoring and evaluation.

Written from a UK standpoint, Elizabeth Sparrow's country-by-country analysis of offshore services available provides a unique resource. She identifies the particular strengths within each country, plus general facts and figures and sources of further information – invaluable for any manager researching outsourcing opportunities.

ABOUT THE AUTHOR
Elizabeth Sparrow is an author and consultant specializing in outsourcing relationships and change management programmes. Prior to her freelance career, she was a senior IT leader in the public sector and worked with many different outsourcing service providers. Previous jobs have included IT director at the Home Office, and positions with the Crown Prosecution Service and the British Library.

De-mystifying the academic theory, Elizabeth Sparrow provides genuine case studies from a variety of industries to explain a range of business models, and comments on them from the hands-on world of IT management.
A Guide to Global Sourcing

Offshore Outsourcing and
Other Global Delivery Models
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Author

Elizabeth Sparrow is an author and consultant, specializing in outsourcing relationships and change management programmes. Prior to her freelance career, Elizabeth was a senior IT leader in the public sector and worked with many different outsourcing service providers. As IT Director at the Home Office she led a major infrastructure upgrade project and launched an innovative private finance initiative. While at the Crown Prosecution Service, Elizabeth coordinated a substantial change programme involving not only the Crown Prosecution Service, but also the police and courts. Elizabeth’s first book Successful IT Outsourcing was published in 2003.
Foreword

Elizabeth Sparrow and I have worked together in the Home Office, both running different major outsourcing programmes that were leading edge at their time. So I can vouch for her expertise in the subject area, her thoroughness at tackling the problems faced and for the success of the programmes she led.

Elizabeth has constructed an unusually helpful guide to offshore outsourcing here, not just suggesting the processes that you should go through, but very cleverly linking to many authentic case studies demonstrating how actual organizations have tackled the problems in real life. Also she forewarns the reader of potential problems and explains how you can take steps to mitigate them.

Offshore outsourcing IT systems can bring immense benefits if managed correctly, and one of the most important aspects of this management is planning. With this book, Elizabeth gives you not just the road map for the way ahead, but unlike most maps, she tells you where the roadworks might be and how to get around them!

Martyn Hart
Chair of the European Outsourcing Association
Amsterdam
June 2004
www.e-oa.net
Acknowledgements

Many people have helped enlighten me in this new world of global sourcing. My special thanks for their contributions to this book go to Martyn Hart, Mark Kobayashi-Hillary, Alan Hopwood, Rosie Symons, Roger Baker, Rachel Burnett, Nick Kalisperas and Richard Sykes at Intellect, Ian Durrant at the Professional Contractors’ Group, Matthew Dixon, Ian Conway at i-Vantage, Sunil Masra at Mastek and Prabhuu Sinha at Satyam Computer Services.

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And finally my thanks go to my husband Alan Gurney who has as ever helped in all sorts of ways.
Abbreviations

ABES Brazilian Association of Software Companies
AMITI Mexican Association of the Information Technology Industry
ANIS National Association of the Software Industry and Services (Romania)
APKIT Information and Computer Technologies Industry Association (Russia)
ARIES Romanian Association for the Electronic and Software Industry
ASSESPRO Association of the Brazilian Companies of Software and IT Services
ATIC Romanian Association for Information Technology and Communications
BAIT Bulgarian Association of Information Technologies
BJP Bharatiya Janata Party (India)
CBI Confederation of British Industry
CC Common Criteria security accreditation scheme
CISSP Certified Information System Security Professional
CMM Capability Maturity Model
CMMI Capability Maturity Model Integration
CSIA China Software Industry Association
CWU Communication Workers’ Union
DMAIC Define, Measure and Analyse, Improve and Control
DPMO Defects per Million Opportunities
DSSS Development of Six Sigma Software
DTI Department of Trade and Industry (UK)
EEA European Economic Area
EIU Economist Intelligence Unit
EU European Union
FTE Full Time Equivalent
GDP Gross Domestic Product
HKITF Hong Kong Information Technology Federation
HSA Hungarian Software Alliance
IASH Israeli Association of Software Houses
IBG India Business Group
ICT Information and Communication Technologies
IMF International Monetary Fund
ISA Irish Software Association
ISO International Standards Organization
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ISP</td>
<td>Internet Service Provider</td>
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<tr>
<td>ITAP</td>
<td>Information Technology Association of the Philippines</td>
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<td>IVSZ</td>
<td>Hungarian Association of Information Technology Companies</td>
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<tr>
<td>ITAA</td>
<td>Information Technology Association of America</td>
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<tr>
<td>ITAC</td>
<td>Information Technology Association of Canada</td>
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<tr>
<td>ITIL</td>
<td>Information Technology Infrastructure Library</td>
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<td>ITSEC</td>
<td>IT Security Evaluation Criteria</td>
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<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
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<tr>
<td>MII</td>
<td>Ministry of Information Industry (China)</td>
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<td>NAFTA</td>
<td>North America Free Trade Act</td>
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<tr>
<td>NASSCOM</td>
<td>National Association of Software and Services Companies (India)</td>
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<tr>
<td>NATO</td>
<td>North Atlantic Treaty Organization</td>
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<tr>
<td>NOA</td>
<td>National Outsourcing Association (UK)</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>OJEC</td>
<td>Official Journal of the European Community</td>
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<td>PCG</td>
<td>Professional Contractors’ Group</td>
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<td>P-CMM</td>
<td>People Capability Maturity Model</td>
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<tr>
<td>PIIT</td>
<td>Polish Chamber of Information Technology and Telecommunications</td>
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<tr>
<td>PIKOM</td>
<td>Association of the Computer and Multimedia Industry, Malaysia</td>
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<tr>
<td>RFI</td>
<td>Request for Information</td>
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<td>RFP</td>
<td>Request for Proposals</td>
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<tr>
<td>RUSSOFT</td>
<td>National Software Development Association of Russia</td>
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<tr>
<td>SA-CMM</td>
<td>Software Acquisition Capability Maturity Model</td>
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<tr>
<td>SE-CMM</td>
<td>System Engineering Capability Maturity Model</td>
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<tr>
<td>SEI</td>
<td>Carnegie Mellon University’s Software Engineering Institute</td>
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<td>SiTF</td>
<td>Singapore infocomm Technology Federation</td>
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<tr>
<td>SSE-CMM</td>
<td>System Security Engineering Capability Maturity Model</td>
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<td>STPI</td>
<td>Software Technology Parks of India</td>
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<td>Sucesu-SP</td>
<td>Society for IT and Telecommunications Users – Sao Paulo</td>
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<td>SW-CMM</td>
<td>Capability Maturity Model for Software</td>
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<td>T-CMM</td>
<td>Trusted Capability Maturity Model</td>
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<td>TCS</td>
<td>Tata Consultancy Services</td>
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<td>TfL</td>
<td>Transport for London</td>
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<td>TRIPS</td>
<td>Trade-Related aspects of Intellectual Property rightS</td>
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<td>TSP</td>
<td>Team Software Process</td>
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<td>TUPE</td>
<td>Transfer of Undertakings (Protection of Employment) Regulations</td>
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<tr>
<td>UPA</td>
<td>United Progressive Alliance (India)</td>
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<tr>
<td>VINASA</td>
<td>Vietnam Software Association</td>
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<tr>
<td>WIPO</td>
<td>World Intellectual Property Organization</td>
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<tr>
<td>WITSA</td>
<td>World Information Technology and Services Alliance</td>
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In this rapidly developing field, terminology is still evolving. The following definitions have been adopted within this book:

**Outsourcing** The transfer of responsibility for any IT service, including planning, management and operations, to an external service provider.

**Offshore outsourcing** The transfer of responsibility for any IT service, but especially application development, to an external service provider based in another country. Offshore outsourcing can be divided into:

- **Near-shore outsourcing** The use of services provided by a nearby country.
- **Far-shore outsourcing** The use of services provided by countries further away.

There are no hard and fast rules defining which countries would be considered as ‘near’ and which would be treated as ‘far’.

**Inshore or home-shore outsourcing** The transfer of responsibility for IT services to an external service provider employing local staff and based in the same country as the client.

**Onshore outsourcing** IT services are provided by staff from an outsourcing company who may employ local staff, or may provide overseas employees who work in the client organization’s own country under work permit or visa arrangements. These staff may work on the client’s site or at a remote office, but still within the same country as the client.

**Offshoring** An abbreviation for offshore sourcing.

**Backsourcing** The process of re-establishing an IT function to take responsibility for services that have previously been outsourced.

**Business process outsourcing** The transfer of responsibility for the planning, management and operation of an entire business process (including any supporting IT systems) to an external service provider.

**Insourcing** The formal adoption of the internal IT department as service provider, governed by a service level agreement against which performance is monitored.
Useful Websites

These sites offer general information about offshore outsourcing, advice and guidance, papers, information about forthcoming events, offshore supplier information and news articles.

**Computerworld Knowledge Center** The Offshore Buyer’s guide includes general advice and guidance as well as articles about the IT services industry in a number of countries: www.computerworld.com/managementtopics/outsourcing.

**Evalueserve** Business intelligence and market research firm with headquarters in New Delhi: www.evalueserve.com

**Morgan Chambers** Independent consultancy company Morgan Chambers specializes in all aspects of IT outsourcing and business process outsourcing: www.morgan-chambers.com.

**National Outsourcing Association** Europe’s first association for effective business and process outsourcing, the National Oursourcing Association has recently launched the journal *Outsourcing*: www.noa.co.uk.

**neoIT** Consultancy firm neoIT provides a useful offshore knowledge centre: www.neoit.com/gen/knowledgecenter/knowledgecenter.html.

**Offshore Development** A directory to offshore companies worldwide: www.offshore-development.co.uk.

**OffshoreITOutsourcing** A resource for prospective buyers and sellers, providing access to a global network of pre-qualified vendors plus general information and advice: offshoreitoutsourcing.com.


**OutsourcingCenter** An outsourcing portal provided by the publishing and research division of consulting firm Everest Group. The site offers two monthly online publications, the *Outsourcing Journal* and *BPO Outsourcing Journal*: www.outsourcing-center.com.

**Outsourcing Institute** This US-based organization describes itself as the first and only global professional association dedicated solely to outsourcing: www.outsourcing.com.
Shared Services and Business Process Outsourcing Association A leading, independent, global body whose members include service providers and practitioners around the world: www.akris.com.

Sourcing Interests Group This group helps members to learn from each other’s experiences in outsourcing, alliances, procurement, ecommerce and shared services: www.sourcinginterests.org.
Preface

Controversy surrounds the rapidly growing offshoring market. The use of global IT services offers the potential for compelling cost savings, but also brings increased risk of problems in communications, quality management and control. Media reports have highlighted some of the difficulties and the possible negative impact on UK jobs. However, companies operate in an increasingly competitive world and cannot afford to ignore a sourcing strategy that might deliver major benefits.

In this environment, few organizations are confident enough to talk openly about their offshore work. Maryfran Johnson, editor in chief of Computerworld, has written about the growing self-censorship around offshore sourcing and the stifling effect it is having on honest information exchange. ‘At a time when more companies are gaining experience – both good and bad – with offshore firms and outsourcing contracts, fewer companies are going to be willing to share those experiences’ (www.computerworld.com). In the UK, there are many conferences and seminars about offshore outsourcing, but these are invariably dominated by consultants and representatives from the offshore industry who understandably stress the advantages and benefits of offshoring.

I have written this book to give you an impartial and balanced analysis of the offshoring trend – advantages and benefits, risks and countermeasures – and guidelines for managing offshore projects. Although India is the major player in this global market, the offshore industry is growing in many other countries. Most books on offshoring concentrate on India, but I felt that it was important to look at a wide range of locations, each of which has its own strengths and weaknesses. In all, I describe 18 countries and give sources of further information for each destination.

Is offshoring right for your organization? How should you tackle an offshore project? Although there is no simple answer to these questions, my book aims to give you valuable advice, leading you to the information you need to make an objective assessment of global sourcing and manage offshore projects successfully.

Elizabeth Sparrow
Welcome to the world of global sourcing. Standardized business applications, inexpensive bandwidth and web-based collaborative tools have opened up opportunities for less wealthy countries around the world to develop IT service industries and compete in the global market. Just as computer hardware manufacturing moved overseas in the 1970s and 1980s, the IT services industry is now migrating to countries such as India, China, the Philippines and South Africa. A wide range of business models is emerging as companies seek to exploit the benefits of offshore sourcing. UK companies may set up their own offshore IT centres or may choose to outsource to suppliers based overseas, or to European or American outsourcers who themselves have offshore subsidiaries.

Gartner has described the move towards offshore sourcing as an ‘irreversible mega trend’ (www.gartner.com). Companies are increasingly moving work overseas to cut costs and free up resources to focus on new business opportunities and innovation. Companies who fail to take advantage of the emerging global IT services industry may well lose out to those who do. Among European countries, the UK leads the way in adopting offshore sourcing. While this means that the UK’s own IT sector will be the first to feel the impact on jobs, the country also has the opportunity to take the lead as it learns to adapt and benefit from the new global IT services market.

Although the range of technical skills available through offshore service providers is increasing, IT professionals in the UK will still be needed to work on new technologies, IT architecture, business process analysis, strategic planning and programme management. A set of new roles concerned with the management of outsourcing contracts will need to be developed further: relationship management, contract administration, service level monitoring and problem resolution.

The use of offshore services offers the potential for significant cost savings, but also brings increased risk of problems in communications, quality management and control. This management guide examines the advantages and disadvantages of offshore sourcing and provides advice on managing offshore contracts. It also looks at the offshore industry that has developed around the world, identifying the particular strengths within each country. Although written from a UK standpoint, this guide is intended to help everyone working in the world of global sourcing. For a quick introduction to offshore outsourcing and answers to some common misconceptions, see Offshore Outsourcing Question Time.
OFFSHORE OUTSOURCING QUESTION TIME

Doesn’t low price mean low quality?
Not necessarily. The price paid for offshore IT services depends, among other things, on local wage rates, local infrastructure costs, local business taxes and currency exchange rates. Offshore IT professionals are relatively well paid in their own countries and some of the brightest and best-educated graduates are attracted to this work. Led by India, the offshore industry has emphasized the importance of sound quality management processes and many offshore suppliers have achieved compliance with internationally recognized quality standards.

How many IT jobs in the UK have been lost through offshoring?
We don’t have precise figures for this and we probably never will. It’s not possible to distinguish accurately between job reductions driven by increased efficiency or lower investment in IT and those lost because some work has been moved offshore. Some would argue that using offshore resources helps companies improve their competitiveness and in the long run this will lead to an increase in jobs.

Isn’t it all just hype? At every outsourcing conference these days there seem to be offshore companies promoting their services. We never hear from customers about real world experiences, good and bad.
Undoubtedly overseas suppliers do sometimes over-emphasize their achievements. But newspapers tend to exaggerate problems with alarmist headlines. Unfortunately this discourages many companies from talking about their experiences, good and bad, and few are prepared to give presentations about their offshore projects. This is not helping us develop best practice and learn lessons from others’ experiences.

My company prefers to keep all IT functions in-house, so why should we consider offshore outsourcing?
The trend towards using offshore resources is often misleadingly referred to as offshore outsourcing. In fact moving work offshore does not necessarily mean that it is outsourced (in other words transferred to an external service provider). Tesco is a good example. The supermarket has a policy of keeping IT functions in-house, but this has not stopped Tesco setting up its own IT support centre in India. I chose the title of this book carefully to reflect the fact that using offshore resources doesn’t always mean outsourcing.

Aren’t near-shore and offshore outsourcing two different things?
You will find different people using these terms in different ways. I define near-shore as a type of offshore outsourcing (see the Glossary).
‘Near-shore’ means different things to different people. I would probably describe Hungary as nearshore but not Russia. Would you? Multinational companies often have difficulty defining for themselves what is offshore and what is not. But they too are part of the trend that is seeing IT service work move away from richer economies towards developing countries.

Can offshore programmers do object-oriented programming?

In the 1990s offshoring was commonly used for low-level coding and system maintenance, not because overseas IT professionals were incapable of more complex work but because this represented the lowest risk in a new and largely untried method of sourcing IT services. The larger offshore service providers, especially those in India, now supply a wide range of services and skills. Although some offshore services are provided by developing countries who may not be able to afford to provide further education for all their citizens, IT professionals often receive training that matches the best in the world.

I know someone who started a company that offered offshore services but it folded because there just wasn’t the business there. How can offshore outsourcing have a significant impact when there is very little work that is suitable for transferring overseas?

The current offshore industry is very fragmented. There are a few large suppliers and many small companies. We are now seeing a period of consolidation with mergers and acquisitions commonplace and some company failures. Overall, however, the offshore market is growing strongly. While it is true that some IT service work will probably remain in the UK, it would equally be wrong to dismiss offshore outsourcing as a passing fad.

Surely outsourcing has had its day and work is now being moved back in-house? And total IT outsourcing deals have largely been discredited.

Yes, some companies have moved work back in-house. But the figures for outsourcing speak for themselves. Gartner has reported that the outsourcing segment is outperforming the western European IT services market overall, growing by 3.1 per cent in 2004 and expected to increase 8 per cent annually by 2007. Speaking at the Spring 2004 symposium in Barcelona, Roger Cox, Gartner’s managing vice president said, ‘Last year saw a phenomenon in Europe. Out of 15 one billion US dollar mega-deals signed in 2003, 10 were awarded by Europe-based enterprises. Until 2003, Europe-based organizations had only signed a total of 14 mega-deals since 1989.’ In Western Europe, the UK is the largest and most mature market, representing 35 per cent of the total European outsourcing market in 2004. Germany/Switzerland/Austria account for 22.8
per cent and France 12.8 per cent. Italy and the Nordic regions represent 7.7 per cent and 7.2 per cent respectively, while Spain and Portugal have 4.6 per cent of the total market (www.gartner.com).

Isn’t offshore outsourcing bad for the UK economy?

It depends on your point of view. McKinsey and others have argued that using cheaper offshore resources boosts the national economy by helping companies to become more competitive and win more business. Global trade brings significant benefits to the UK. Exports of goods and services to India alone are already worth around £2.5 billion a year. Protectionist measures harm national economies by isolating industries and not encouraging them to become more efficient. Brazil’s IT sector is still suffering from trade restrictions imposed until the mid-1990s that left the industry ill-prepared to compete with service providers in other parts of the world.

On the other hand, some argue that cost reductions achieved by companies through offshoring do not benefit the wider economy. They point to a potential loss of skills in the UK workforce and higher unemployment leading to a reduction in income tax paid to the Treasury. The savings made through offshoring are always at risk from exchange rate fluctuations, and political instability in some countries poses additional security risks.

Personally I support the former view and have written this book to help us get the best from the trend towards buying offshore IT services.

THE ORIGINS AND GROWTH OF THE OFFSHORE MARKET

To survive and prosper, commercial organizations are constantly seeking out ways to improve their competitiveness and efficiency. Industry commonly looks to cut costs by moving routine jobs to lower cost countries during periods of economic recession. Early offshore sourcing projects in the IT services industry began in the USA in the early 1990s when legacy system maintenance costs were reduced by setting up operations in Canada, Ireland and India.

Software development costs have risen significantly within organizations as systems have been introduced into every facet of business life and growing internet use has driven a new set of IT requirements. New software engineering techniques have evolved to cope with this mass of application development work – structured analysis and design, computer-aided tools, object-oriented programming and software components. While the volume of software development work continues to rise, these new techniques have opened up the possibility of parcelling up segments of application development work to be carried out offsite, possibly in another country.
Technological developments have made offshore working an increasingly viable option. Millions of miles of fibre cable have been laid around the world and the cost of global broadband connections has dramatically reduced. Both data and conventional telephony networks have increased rapidly in both quantity (bandwidth) and reliability. Internet-based email, newer collaborative working technologies and conventional telephony have combined to make it almost as easy to work with partners on the opposite side of the world as on a different floor of the same building.

The huge volume of work involved in modifying systems to ensure Year 2000 compliance boosted the offshore industry. There were severe skills shortages in the USA and Europe, particularly in technologies supporting older legacy systems (Cobol was a key example), and organizations found that Indian software companies were able to provide the necessary skills and were keen to undertake this sometimes tedious work at very competitive prices. Results were mixed and some organizations experienced telecommunications problems and had difficulties with immature processes and methodologies. Cultural differences between organizations in different countries also damaged understanding and coordination. Learning from these experiences, the major offshore players have improved service quality, developed processes to streamline offshore working and taken steps to mitigate risks.

Established outsourcing service providers are under pressure to reduce costs as profit levels have fallen across the industry. Software and services companies are setting up operations around the world, reducing costs where they can and spreading the risks of problems inherent in any one location by opening offices in many different countries. IDC has identified offshore outsourcing as the dominant trend in the IT services industry in the USA, Europe and Japan with over 40 per cent of application management contracts now having some offshore component. In the UK, IDC estimates that 60 to 80 per cent of the contract negotiations between large companies and suppliers now involve some element of offshore working.

In Europe, the enlargement of the European Union (EU) in 2004 to include countries such as the Czech Republic, Hungary and Poland has opened up new possibilities for the emerging offshore industry in Eastern Europe. The common EU approach to business and employment issues such as data protection reduces some of the risks associated with offshore outsourcing.

We are witnessing a shift from national to global IT services companies. Offshore suppliers are themselves outsourcing to cheaper locations and developing into major global organizations. Ovum Holway predicts that by 2010 one of today’s leading offshore companies will make it into the global IT Top Ten.
The globalization of the IT services industry opens up new opportunities for IT professionals around the world. Increasingly we will find that major IT programmes will be carried out by project teams based in different countries and users will place more emphasis on performance and service levels than on the location of IT support staff. There has been much speculation about the impact of this globalization on job numbers. Ovum Holway has predicted that between 20,000 and 25,000 jobs may be lost in the UK IT industry over the next few years as a direct result of work moving offshore. Gartner has forecast that up to 25 per cent of traditional IT jobs will move offshore by 2010. While there is no doubt that new IT jobs will be created in emerging markets around the world, the impact on IT jobs in America and Europe is hard to predict accurately. Offshore sourcing can help organizations improve their competitiveness and free up resources for research and development. If the global economic recovery continues and strengthens, new demands, together with the introduction of new technologies, will lead to the creation of new IT jobs.

BUSINESS MODELS

As the global IT services industry develops, a rich mix of business models is evolving. There are many different ways to introduce offshore working into an overall sourcing strategy and, as illustrated in Table 1.1, this does not necessarily involve outsourcing. Some organizations prefer to set up their own IT centres in offshore locations (commonly referred to as ‘captive’ facilities) or to set up joint ventures with offshore companies.

Table 1.1 Global delivery models

<table>
<thead>
<tr>
<th>Service responsibility</th>
<th>Delivery model</th>
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<tr>
<td>Retained in-house</td>
<td>Global IT departments</td>
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<td></td>
<td>Acquisitions</td>
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<td></td>
<td>Global organic growth</td>
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<td>Shared</td>
<td>Shared services</td>
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<td></td>
<td>Joint ventures</td>
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<td></td>
<td>Alliances</td>
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<tr>
<td>Transferred to external service provider</td>
<td>Established multinational outsourcing companies</td>
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<td></td>
<td>Established offshore service providers</td>
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<td></td>
<td>Outsourcing companies specializing in offshore working</td>
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<td></td>
<td>Emerging offshore companies</td>
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Established multinational outsourcing companies

Some firms, such as IBM Global Services, CSC and EDS, are already well established in America and Europe and offer a wide range of IT services, supported by large teams with an extensive skills base. These suppliers are incorporating offshore resources into their commercial services. They have the scale to operate in several different countries to mitigate the risk of political or social instability at any one location. These companies have tried and tested outsourcing processes in place and have extensive experience in the market. This offers a relatively low-risk entry into offshore sourcing, but is not the cheapest option.

EDS BEST SHORE

Texas-based EDS is a leading global services company with annual earnings in excess of £11 billion. The company established its first offshore facility in 1990. The Best Shore initiative was launched in 2002 and integrates EDS’s worldwide network of delivery capabilities to provide seamless onshore/near-shore/offshore application development and management services at competitive prices. EDS places work on the ‘best shore’ where it has developed capabilities which match the technology/industry expertise required by the client. This reduces the risk associated with specific locations. Best Shore builds on EDS’s economies of scale, global infrastructure and the technical skills of more than 135,000 employees. With a worldwide network of 300 delivery facilities, EDS can offer full 24/7 ‘follow the sun’ capabilities. ‘EDS Best Shore offers our global clients exactly what they have asked for – consistently superior service around the world at competitive prices,’ said Paulett Eberhart, president of EDS’s Solutions Consulting line of business, when launching the service. ‘Whether clients need applications development or delivery, or IT outsourcing or business process outsourcing, EDS can provide a consistent, seamless environment regardless of global location.’

By 2005, EDS expects to have over 20 facilities in 17 countries devoted to the Best Shore programme. Over 20,000 people will be working on the services. Current Best Shore facilities are based in Argentina, Australia, Brazil, Canada, the Czech Republic, Egypt, India, Ireland, Malaysia, Mexico, New Zealand and South Africa.

EDS itself has exploited the potential of global sourcing. The Chennai Solution Centre in India has teamed with US-based resources to support applications and databases for the majority of the company’s internal human resources, billing, administrative and treasury systems. Following a rapid, eight-month implementation, EDS has achieved ongoing annual cost savings of about 36 per cent.

Established offshore service providers

Experienced offshore companies such as Tata Consultancy Services (TCS), Wipro and Infosys in India have well-developed outsourcing processes and can offer quality services at competitive prices. The major companies in this category employ international sales and support teams, which helps to overcome some of the problems caused by cultural differences between countries. The executives in these companies, however, do not necessarily have a good understanding of their client’s business sector and commercial environment. More effort may be needed by both client and service provider to develop a mutual understanding of service requirements and an effective ongoing outsourcing relationship.

The leading offshore suppliers are expanding fast, widening the scope of services offered, opening offices in other countries and growing to become multinational service providers on a scale to match the major American and European companies.

THAMES WATER

*Computer Weekly* reported that the UK’s largest water company (and number three in the world), Thames Water, cut its IT maintenance bill by more than £1 million or 20 per cent by outsourcing to Wipro in 2002. Wipro was adopted as lead partner in acceptance testing and is responsible for managing Thames Water’s support and maintenance suppliers. When it comes to development projects, Wipro works along-side other suppliers.

The deal with Wipro has also produced improvements in quality and innovation. ‘I always try to put price last. It would be very easy to throw everything at India because it is cheap. And it is not because it is cheap – it is cost effective,’ said Alasdair Macarthur, IS partner development manager at Thames Water. ‘Savings of 20 per cent are a good start. But let’s make it 25 per cent or 30 per cent. Let’s use the full gamut of Wipro’s quality accreditation to drive up quality.’

In 2003 Thames Water signed a business process outsourcing deal with Xansa, which will see more than 700,000 metered billing exceptions and customer correspondence handled by Xansa’s offices in India on behalf of Thames Water every year. The Swindon-based customer service systems will be accessed remotely from India. The service level agreement specifies that Xansa has to process correspondence within four days, 90 per cent of metered billing exceptions by day one and 100 per cent by day three.

www.computerweekly.com

Outsourcing companies specializing in offshore working

Companies such as Cognizant and EPAM have their headquarters and top management team in America or Europe, but the majority of their staff are recruited and based overseas. This means that clients liaise within their
own country with a company that has a good understanding of local issues and the business environment. These service providers are able to offer cheaper services than the established multinational companies but not the depth and range of services.

**COLGATE**

Colgate-Palmolive, a £5 billion company, markets products around the world under brands such as Colgate, Palmolive, Ajax, Fab and Mennen. To help sales representatives manage a large portfolio of customers, products and promotional material, Colgate wanted an application that provided on-demand, real-time information to every sales person in distributed office environments in 30 countries. They needed a sales-support system capable of disseminating data to multiple users and running a variety of databases on multiple hardware platforms.

EPAM Systems, a company with its headquarters in Princeton, New Jersey and Budapest, Hungary and development centres in Russia and Belarus, developed a proprietary mobile application, known as LISA2, for Colgate-Palmolive. LISA2 not only provides the real-time information required, but also reduces costs by replacing the global paper mailing of tens of thousands of product updates and reports each month. With a laptop computer, a sales person can liaise with internal contacts, manage customer calls, manage and track sales targets, enter and monitor orders and process orders online. More than £2 billion in sales pass through the system each year, making LISA2 one of the most critical business systems at Colgate. ‘Having a flexible system in place globally has allowed us to be more responsive to new business demands,’ said Stefan Ziehrer, head of the Colgate Sales Support Competence Centre, Germany. ‘We can confidently say that we are running our sales organization as productively as possible.’

Emerging offshore companies

As knowledge of the developing global IT services market spreads around the world, new companies are forming in many different countries. These organizations offer the cheapest prices, being keen to win business deals, but they have little experience. It may be difficult to establish their financial viability, exactly what they are capable of delivering and how reliable their services will be. This is clearly a higher-risk option and generally should be used only for small-scale, non-critical work.

Global IT departments

Large multinational companies have had local offices in different countries for many years. The same technological advances that have led to the growth in offshore outsourcing are also leading to a redistribution of application development and support work to those local IT departments.
able to recruit and retain qualified IT professionals most economically. Whereas in the past systems used in the UK would usually be developed in the UK, some of this work can now be done in another country.

SHELL
Multinational oil firm Shell has launched a major initiative known as ‘IT Vision’ in which the company aims to achieve world-class price performance by 2008. Shell plans to rationalize its application portfolios and global infrastructure, streamline its decision-making and improve procurement processes. The global IT workforce, which currently stands at 9,300, will be reduced by 20 to 30 per cent. Shell plans to move work away from higher cost areas such as the UK, the Netherlands and the USA and take advantage of the cost savings to be gained from locating work in India and Malaysia. The company will expand its own IT centre in Cyberjaya, Malaysia and will also outsource some work to IBM and major Indian service providers including Wipro.

www.computing.co.uk, ANDREW HIGGINS, Communications Manager IT, Shell

Shared services
Within each industry sector there are certain business functions that are common to every organization and do not offer possibilities for competitive advantage. Some organizations, while continuing to compete for business, recognize the advantage of collaborating to reduce the cost of common business functions. By aggregating the requirement, economies of scale can be achieved. Shared service centres are set up to provide these common functions and these organizations may outsource business processes and IT support to offshore workers.

Joint ventures
Rather than transfer IT services to an offshore supplier, some companies prefer to set up a separate joint venture organization with an external service provider to gain access to offshore resources without losing control over the new IT operation. A commercial agreement specifies the objectives and targets for the new organization.

NEUSOFT AND PHILIPS
In June 2004 Neusoft Group of China and Royal Philips Electronics of the Netherlands officially launched a manufacturing and research and development joint venture for medical systems. The joint venture is known as Philips and Neusoft Medical Systems and will focus on developing and manufacturing medical imaging systems for the Chinese and international markets. Its headquarters are in Shenyang, north-east
China and the company will be developing and manufacturing computed tomography and x-ray equipment, ultrasound and magnetic resonance imaging equipment, as well as picture archiving and communications systems products that are used to store radiology images. ‘By joining forces with Neusoft’, said Martin Schuurmans, executive vice president of Philips Medical Systems, ‘Philips will leapfrog into the high-growth medical equipment market in China and sharpen the competitive edge by tapping into local know-how of application for that market.’

www.neusoft.com

The joint venture has its own management team and draws on the resources of both parties, who share the costs and risks. One of the potential dangers inherent in this business model is that there may be no redress if targets are not met.

Alliances

An alternative approach is to set up a strategic alliance with an offshore service provider. A commercial agreement is formally drawn up, covering a range of activities in which the onshore and offshore organizations will cooperate. This may include shared software development, joint research teams, cross-marketing campaigns and integrated projects. Both organizations continue to operate as separate legal entities, however, and there is no separate, independent management team as set up within a joint venture.

NATIONAL HEALTH SERVICE

In a landmark achievement for India’s TCS, the NHS appointed the Fujitsu alliance, of which TCS is a member, as a local service provider. The £896 million contract spread over nine years will help the NHS in its drive to improve healthcare for patients in southern England. TCS will provide clinical application implementation and data migration. Commenting on the win, Mr Ramadorai, chief executive officer of TCS said, ‘We are delighted that our alliance has bagged the prestigious project from the National Health Service. We look forward to working closely with our alliance partners and providing our expertise in data management and application implementation to meet the goals of the project.’

www.tata.com

Acquisitions

Some organizations, particularly the large American and European service providers, gain access to offshore resources by acquiring overseas companies. This is a quick way to incorporate the expertise and capabilities of offshore firms, but may require a lot of effort to integrate
the cultures of two different companies and to develop and implement common processes that deliver quality IT services.

Global organic growth

Some of the major American and European IT service companies have expanded overseas through organic growth, setting up proprietary offshore facilities. This process takes longer than acquiring local overseas outsourcing firms, but can produce higher quality, more reliable service standards.

GLOBAL INSERVE FROM I-VANTAGE

i-Vantage provides end-to-end offshore solutions for IT, call centres and back office functions. The company’s corporate headquarters are in Cambridge, Massachusetts and it has offices in Chicago, London, Ontario, Hyderabad and Kolkata (formerly Calcutta). i-Vantage’s core services help organizations build their own offshore facilities in the form of joint ventures or fully owned subsidiaries.

The Global InServe model provides a different approach to traditional offshore outsourcing. It offers the same processes that many major firms have used to create their own wholly owned subsidiaries offshore, staffed with their own employees and focused on driving down costs for outsourced operations so those companies can focus spending on growth and often new local jobs. i-Vantage helps its clients define the scope and requirements of their new offshore subsidiaries – called Global Delivery Centres – and create and file the necessary paperwork. i-Vantage also screens and interviews local candidates to its clients’ job specifications. It modifies office space as required and provides an onsite coordinator.

‘This is now possible in India because the talent pool is more mature, vertically literate, and finds working directly for clients much more attractive,’ Ian Conway, director of business development and operations at i-Vantage told me. ‘In fact, often the client wants to create a captive operation alongside its existing outsourcing contracts to maintain flexibility and create some competitive pressure.’

www.i-vantage.com, IAN CONWAY

WORK PERMITS

Countries around the world adopt different policies towards the employment of foreign nationals. As part of the offshore sourcing process, clients may want to send some of their staff to the offshore destination to develop good personal working relationships and share business knowledge. Equally, the offshore company may wish to send some of its staff to their client’s country to learn more about local culture and to develop expertise in their client’s business systems. Arrangements for controlling the
admission of foreigners to work in any country are therefore of interest and possible concern for the offshore services industry.

In the UK, any organization wanting to employ someone from beyond the European Economic Area (EEA) needs first to have advertised the job adequately in the UK. Any foreign national must be the best applicant for the job and receive the equivalent salary to a UK employee in the same post. There are exemptions to the advertising rule for skills that are in short supply. These are listed on the Home Office-approved skills shortage list. For these jobs work permits can be issued quickly and there is no obligation to advertise for UK recruits. In 2003, following submissions from the BCS demonstrating that there were no skills shortages (in fact a large number of UK professionals were unemployed) and pressure from the Professional Contractors’ Group concerned about the number of contractors out of work, IT occupations were removed from the skills shortage list.

With intra-company transfers different rules apply. A foreign company with a UK subsidiary can bring in staff to work at that subsidiary without advertising. These employees must be paid at the same rate as their UK counterparts. The rules governing intra-company transfers do not apply to recruitment agencies.

These limitations do not apply to EU nationals who are free to work in any European country. EU expansion in 2004 may bring IT professionals from some of the new member states to Germany, France and the UK.

RESPONSES TO THE OFFSHORE OUTSOURCING TREND

The globalization of the IT services industry can be a deeply disruptive and challenging development for IT professionals. Companies that choose to send work overseas can seem callous and unappreciative of the contribution made by in-house staff. As economic, political and technological forces shape the global distribution of IT jobs some people feel that they have little control over their future IT careers. It is hardly surprising, then, that responses to offshoring are often emotional and governments are under pressure to curtail the increase in offshore outsourcing.

In the UK we expect, as citizens in a free, capitalist democracy, to be able to buy goods and services from the best source, whether that be a German car, a Japanese camera or a holiday cottage in France. We also value the opportunity to work in any EU country or perhaps to work in the USA for a time. Indeed IT professionals have enjoyed international careers for many years (the first president of the BCS, Sir Maurice Wilkes, joined the central engineering staff of the Digital Equipment Corporation in Maynard, Massachusetts in 1980 and worked in the USA until 1986). Companies also have the freedom to buy products and services from around the world so that they can remain competitive in the global market, protecting their stakeholders’ interests.
One of the myths about offshore sourcing is that there is nothing more to the trend than a desire by some unscrupulous companies to pay low costs for services provided by workers earning low wages and producing shoddy work. This is far from accurate. Offshore IT professionals are relatively well paid compared to others in their own countries, highly educated and well motivated. IT jobs are prized and there is a strong commitment to developing the IT services industry.

The current increase in offshore sourcing has come at a difficult time, when IT jobs are not readily available in the UK and unemployment among IT professionals has risen. It is worth remembering, however, that just a few years ago demand for IT staff far outstripped supply. The need for IT professionals combining technical skills with business knowledge continues to increase and these jobs are less likely to move offshore. New areas such as bioinformatics and nanotechnology will grow in the future, drawing on the innovative skills of UK IT professionals.

A report from New Delhi-based research company Evaluseserve has predicted that continued economic growth in the UK will create new jobs, but slow population growth and the effect of an aging population will lead to a shortfall in the labour supply. Evaluseserve estimates that the gap between demand and supply in the UK will reach 714,000 jobs by 2010. Industries that will face the maximum shortfall are likely to be healthcare, IT and education. Global sourcing can help address this issue (see www.evaluseserve.com).

A McKinsey Global Institute study challenged the perception that offshoring has a negative impact on the USA job market and the American economy. Technological change, economic recession and business restructuring often result in the loss of large numbers of jobs. The history of the US job market suggests that new jobs will be created to replace (and even exceed) those lost through outsourcing. The study also looked at the impact of the aging population. McKinsey estimated that America will need 5 per cent more workers by 2015 simply to maintain the current ratio of workers to the total population and the living standards enjoyed by today’s citizens. Offshoring is one way to meet this need (see McKinsey Global Institute, 2003).

Trade union responses to offshore outsourcing

There are about 1 million IT professionals in the UK, but only 5 to 10 per cent belong to a trade union. Most trade union members work in the finance and public services sectors. Unions representing IT professionals in the UK include:

- the white collar science and engineering union Amicus;
- the Communication Workers’ Union (CWU);
- Unifi, whose members work in the financial services sector.
The unions have argued against the inevitability of sending work overseas and the need to offer retraining and support to those who lose their jobs through offshore outsourcing. They have been concerned about the impact on society at large (especially the large numbers of jobs lost at call centres).

**Amicus**
With over 1 million members drawn from both the private and public sectors, Amicus is the largest manufacturing union in the UK. In its offshoring campaign statement Amicus recognizes that technological progress has made change unavoidable:

> It is our job to best protect the interests of our members to make sure that we manage that change, within the context of a global economy, where nobody loses out. We are working with our sister trade unions in the UK and at the same time strengthening our contact with India trade unions.

Amicus is leading a campaign that is looking to the future and looking to a modern world of work. When we use that phrase now we don’t mean just the place in which we work but instead refer to our entire planet. Just as they say that the sun never sets on a paperless office, we need also to ensure that we deliver a modern progressive world of work where union members find solutions working in harmony with employers and government alike, right around the globe.

Visit [www.amicustheunion.org](http://www.amicustheunion.org) for further information.

**CWU**
CWU is the largest union for the communications industry in the UK, with 300,000 members who work in the Post Office, BT and other telephone companies, cable TV, Accenture, the Alliance and Leicester and Girobank. Its pink elephant campaign opposes BT’s plans to transfer work to India.

According to the CWU research department:

> The seismic shift of labour from Europe and America has massive consequences for UK workers in the telecommunications and call centre industries. As many as 200,000 jobs could be at risk over the next 10 years.

> The CWU have made it clear that we have no argument with India or Indian workers. Our issue is with BT. BT is a UK company that derives its profits from UK customers and is therefore obliged to support the UK economy by employing UK workers.

Visit [www.cwu.org](http://www.cwu.org) for further information.

**Unifi**
Unifi has 158,000 members in over 400 organizations and is Europe’s largest specialist finance sector trade union. It has been negotiating with employers in order to avoid compulsory redundancies resulting from
offshore outsourcing. In January 2004, Unifi reached a benchmark agreement with Barclays, creating a framework to handle the bank’s strategic options for outsourcing jobs abroad. The union accepted that Barclays needed to reorganize the business, while the bank recognized the union’s need to protect the redeployment and job security of its members. Unifi represents over two-thirds of Barclays’ 9,000 UK-based IT staff.

Ed Sweeney, Unifi’s General Secretary said:

All across the service sector we are seeing possible and actual job migration to areas where labour is significantly cheaper. Many companies are just jumping on the bandwagon; others have made rational strategic decisions. Trade unions must ensure that they can deal with any situation in order to protect their members’ interests. A positive agreement such as the one we have entered into with Barclays is the only constructive way forward and will set a measure against which other companies looking to outsource from the finance sector will have to be tested.

The key elements of the agreement include the following:

- A voluntary redundancy register will be set up where jobs are being lost through offshore outsourcing or restructuring. Anyone working within a defined geographic area, whatever their business unit, can register their interest in voluntary redundancy.

- Job matching will enable those who have volunteered for redundancy to swap jobs at the same grade with those who have lost their jobs but do not want to be made redundant.

- Staff will be redeployed into vacant posts or roles filled by agency staff or contractors even if they do not possess all the skills required but there is a realistic chance of acquiring the skills through additional training. A one- to three-month trial period will be allowed for this training.

- Money will be made available for external career retraining where no redeployment option can be found.

- External, independent support will be provided for those who are developing new careers, whether inside Barclays or in other organizations.

Visit www.unifi.org.uk for further information.

Professional and trade association responses

British Computer Society

The British Computer Society (BCS) aims to be the UK’s leading professional and learned society in the field of computers and information systems with members in over 100 countries around the world. It is working to make the IT profession the key profession of the 21st century by:

- setting the standards for IT;
developing cutting-edge products and services;
- encouraging IT professionals to continuously develop their skills and competences;
- informing and influencing individuals, organizations and government on key issues;
- initiating debate on strategic IT issues;
- providing international support.

The BCS has issued a position statement on offshore outsourcing that recognizes the significant benefits that can be derived:

**UK companies will want to exploit the advantages offered by offshore outsourcing services to maintain their competitiveness in the global marketplace. The British Computer Society promotes the exploitation of IT to deliver maximum business benefit and recognizes that attempts to regulate the market will ultimately harm British interests.**

As well as leading to job losses in the UK, the BCS envisages that the offshore trend will influence wages:

**We anticipate an impact on UK IT salary levels, which rocketed to unsustainable levels in the late 1990s. In the past even junior, inexperienced IT staff could command very high wage rates but we are unlikely to see a return to this situation. Salary levels in developing countries such as India may well rise as their IT service industries develop, but for many years to come there will be countries able to offer quality services at low costs.**

The British Computer Society will be monitoring the impact of the growth in offshore outsourcing and reviewing a number of areas including:

- A renewed focus on quality management processes in UK-based IT organizations.
- Identifying and developing the skills needed by UK IT staff so that they can add value that cannot be matched by offshore workers.
- Promoting the competitive strengths of UK IT professionals, especially in leading edge, innovative technologies.
- Encouraging organizations and government to retrain and redeploy any IT professionals who find themselves without work as a result of offshore outsourcing.

Chief executive David Clarke has said:

**I don’t believe there is any way we can regulate the market by legislation. I believe that market forces will prevail in the UK, but we can and must compete. As with all successful marketing campaigns, we must find our unique selling points and make sure decisions are made on these criteria – not the competition’s strengths.**

Visit www.bcs.org for further information.
**Professional Contractors’ Group**

The Professional Contractors’ Group (PCG) was formed in 1999 to represent independent contractors and consultants in lobbying against the UK government’s IR35 (tax) proposals. It has evolved into a professional body concerned with all issues affecting independent freelancers. Just over a half of its members are IT professionals.

The PCG has been much concerned about the work permit scheme that allows firms to bring non-EU workers into the UK, if they cannot recruit suitably qualified UK-based IT professionals. According to the PCG, abuse of intra-company transfers leaves a loophole in the system. It claims that many firms are now abusing the intra-company transfer system by bringing in large numbers of overseas workers and exploiting them by paying less than the going rate. PCG says that it has evidence that IT workers are coming into the UK without genuine company specific skills, in fact they are often trained in the UK after arriving, and are replacing UK IT professionals rather than filling vacancies:

PCG believes that with so many experienced staff out of work, retraining of resident staff would in most cases be a viable alternative to bringing in overseas personnel. But while the work permits route provides a source of cheap labour, there will be little incentive for UK employers to provide the necessary investment in training. This will have serious long-term consequences for the IT industry, as it is de-skilled and foreign competitors’ staff are trained in new technologies, which in turn assists the process of taking entire IT projects outside the UK.

Visit www.pcg.org.uk for further information.

**National Outsourcing Association**

The UK-based National Outsourcing Association (NOA) is Europe’s first association for effective business and process outsourcing and parent of the European Outsourcing Association. Its members are companies who have outsourced (or are about to outsource) significant business processes or infrastructure, as well as the suppliers and legal/consultancy/service companies that support the industry. NOA operates as a trade association, an independent not-for-profit body whose objective is to leverage effective business and process outsourcing by promoting best practice and innovation; lobbying national governments, regulators and the EU; disseminating information and communicating the benefits of business outsourcing.

NOA believes that scare stories in the press have exaggerated the negative impact of offshore outsourcing:

Whipping up a moral panic among the British public could be detrimental for business, confidence in the economy and public spirit. Offshoring is a fact – many companies are going to do it, whether there is public
confidence behind the moves or not, but the effects of it will not be as
dramatic as are being predicted.

A survey of NOA members suggests that growth in offshore outsourcing
will be conservative, with the market growing steadily by 25 to 35 per cent
a year. NOA sees global benefits flowing from the offshore industry.

Business being shared on an international basis will have a positive effect
on the growth of the global economy. IT will provide jobs in developing
countries like India and China and give them the opportunity to compete
on the world stage.

Visit www.noa.co.uk for further information.

**Intellect**

Intellect (formed from the merger of the Computing Services and Software
Association and the Federation of the Electronics Industry) represents the
UK’s IT, telecommunications and electronics sectors. It aims to accelerate
industry growth and prosperity, work with the government on behalf of the
industry and raise media awareness of the significance of IT. The Intellect
Offshore Group provides networking opportunities, education and market
information to companies offering offshore software services to the UK
market. It aims to promote offshore sourcing within the UK business
community.

The trend towards offshore IT working is a relatively recent phenom-
emon and many companies have little experience on which they can draw.
With the rapid market growth there are many companies touting for
business, but the quality and reliability of services offered varies
considerably. The Offshore Group has devised an Offshore Code of
Practice to which all its members are committed. Clients can look to
Intellect to help resolve any issues or concerns raised by the performance
of any company that has signed up to the Code of Practice (see Appendix).

One of Intellect’s current campaigns, ‘Enabling the UK Knowledge
Driven Economy’, has identified the development of the global market as a
key factor influencing the UK industry:

To create a knowledge driven economy the UK must be able to compete
within the developing global market place of the networked world.
However, the UK’s value proposition is not always competitive when
measured against other countries – we are unable to compete on price with
low cost production centres such as China, and we are losing our
competitive advantage in high value add to countries such as India, USA
and Australia.

Offshore outsourcing presents both threats and opportunities for UK-
based companies, ‘There is no preventing the trend – the only option is to
raise the bar on the UK proposition.’ In relation to the emerging markets in
India, China and elsewhere, ‘Unless the infrastructure, skills and applications are in place to facilitate a competitive remote offering from the UK the threat exists that companies will redirect investment from the UK to these markets.’

Nick Kalisperas, director of the public sector team, told me:

We are working to identify the value proposition offered by UK companies in the global market place. What we need now is joined up action from different government departments.


Confederation of British Industry

The Confederation of British Industry (CBI) represents companies from all sectors of UK business. It is the leading organization representing UK firms, with its direct corporate members employing over four million and trade association membership representing over six million workers. The CBI has urged the government to adopt policies aimed at boosting skills, innovation and international trade. In his 2004 New Year message, Director-General Digby Jones said:

We can no longer simply benchmark Britain against other major industrialized economies. We will increasingly find countries such as India and China competing for investment, not just because they offer cheaper labour but because they also have highly skilled people.

The impact of global competition will become more apparent as it spreads out beyond manufacturing: ‘We can also expect more offshoring as firms rightly look for more effective ways of doing things.’

There are concerns about employment levels. Although the CBI predicts a growth in the job market in 2004, many of the new jobs will be in the public sector, while employment in manufacturing continues to fall.

The CBI has urged the government to develop an enterprise culture, building on Britain’s macro-economic stability, use of the global business language, expertise as a trading nation and trust earned in global markets.

Digby Jones said:

Change and uncertainty are key challenges of globalization. We must rise to meet them with a bigger push towards more enterprise and greater competitiveness. Resisting the inevitable with more protectionism, more regulation and a siege mentality is a mug’s game.

Visit www.cbi.org.uk for further information.

Government Responses

The Department of Trade and Industry (DTI) issued a consultation paper in 2003 in which it noted that quantifying the economic impact of offshore
outsourcing on the UK or trying to predict the impact on jobs is very difficult. International trade in services has been increasing in recent years but, interestingly, the UK is a net beneficiary. The UK’s service exports are £15 billion greater than its imports, and the UK is the world’s second largest exporter of services. Overall, the paper argues, international competition creates jobs in the UK.

Secretary of State for Trade and Industry, Patricia Hewitt, wrote:

We must focus all our effort on keeping the UK economy strong and stable, generating more jobs and better jobs by raising skill levels, supporting enterprise and raising innovation and productivity in business.

As developing countries become richer, they will also buy more from us and invest more in our economy. UK exports of goods and services to India alone are already worth around £2.5 billion a year, securing thousands of UK jobs. But global trade – while making the UK as a whole richer – can have painful effects on the people and businesses who face new international competition. Our task as a government is to protect our people without lapsing into protectionism.

The government believes that the global trade in services will bring significant benefits to the UK. However, it acknowledges that there may be short-term adjustment costs and will stand ready to help those affected.’

www.dti.gov.uk

Speaking to author Mark Kobayashi-Hillary at the National Association of Software and Services Companies (NASSCOM) conference in 2004, minister for energy, ecommerce and postal services Stephen Timms said:

We see the development of these partnerships with India as an important asset for UK firms and the UK economy. However, there are many concerns about outsourcing. There are people who feel there are threats on the horizon, so the DTI has been bringing people together from industry and the trade unions to investigate this. There is a consensus from our research that clearly indicates protectionism is not the right way forward for the UK.

www.computing.co.uk.

Offshore outsourcing in Europe may be given a boost by the expansion in EU membership. Under the European Commission procurement rules, all public sector contracts must be offered in open competition to any EU company. Adverts are placed in the Official Journal of the European Community (OJEC) for all contracts with a value that exceeds a set threshold. Outsourcing suppliers in Eastern Europe are probably not yet sufficiently well organized to win a major German, French or British public authority contract. But this may change in future years as countries such as Hungary, the Czech Republic and Poland invest in and develop IT services industries.
LONDON CONGESTION CHARGING SCHEME

Capita Group is the UK’s leading provider of integrated professional support service solutions. In less than 18 months, Capita designed and implemented the technology behind Transport for London’s (TfL) Congestion Charging Scheme. The scheme was introduced to achieve one objective: to deter unnecessary car use within central London and thereby reduce congestion. The project involved over 450 man-years of development activity, leading to the introduction of the scheme in February 2003 on time and on budget. Capita now administers the image-gathering, sales channels and database interactions on behalf of TfL. Capita Group won the prestigious Social Contribution Award for its development of the London Congestion Charging Scheme at the BCS 2003 Information Technology awards.

Mumbai-based Mastek was contracted by Capita to support the development of bespoke applications and the integration of key business applications, including an ecommerce website, call centre software and the image management system, as well as the integration of key external service providers.

www.capita.co.uk, www.mastek.com, SUNIL MASRA, Mastek partnerships and alliances

The rapid growth in offshore outsourcing has sparked controversy and debate in 2004, the US presidential election year. At the time of writing (April 2004) it is not possible to predict with certainty how a future USA government will respond to the offshoring trend. Some congressmen, including presidential candidate Senator John Kerry (Democrat, Massachusetts), have proposed legislation to require companies to publicly disclose when they intend to move jobs offshore; or to restrict public sector contracts being undertaken offshore; or to prevent government assistance being given to companies favouring offshore workers over US employees. But even those at the centre of the arguments, like Senator Christopher Dodd (Democrat, Connecticut) have recognized that the trend towards offshore outsourcing cannot be stopped altogether, it may just be slowed down. Most of the proposed legislation concerns federal and state contracts and public sector work represents a very small proportion of the global IT services market.

At a joint news conference in Delhi with India’s external affairs minister, Yashwant Sinha, Colin Powell, US Secretary of State said:

Outsourcing invariably does result in the loss of jobs, and we have to do a better job in the United States, a good job in the United States, of creating opportunity in the United States to provide more jobs, so that those who have lost jobs will have opportunities in the future. It is the reality of 21st-century international economics that these kinds of dislocations will take place.

www.computerworld.com
In some US states, plans to use offshore resources in government contracts have run into problems. The Indiana Department of Workforce Development cancelled a £8.4 million contract with TCS as part of an initiative to give companies and workers in Indiana a better chance to win state contracts. Public pressure forced New Jersey to bring back a helpline for welfare recipients that had been outsourced to India. Washington State Health Care Authority awarded a contract for developing an insurance benefits administration system to a company whose bid was £1.6 million cheaper than any other bid received and depended on using offshore workers. The winning bid was the only one received that fell within the budget limit set by the legislature. But the project did not progress to plan and ran over budget, prompting the proposed legislation to prevent government contracts being carried out by offshore workers.

Speaking at Boston College’s Finance Conference 2004, Federal Reserve chairman Alan Greenspan argued that efforts to stem the tide of overseas outsourcing could damage the US economy instead of helping to protect American workers:

We can erect walls to foreign trade and even discourage job-displacing innovation. The pace of competition would surely slow, and tensions might appear to ease – but only for a short while. Our standard of living would soon begin to stagnate and perhaps even decline as a consequence. Time and again through our history, we have discovered that attempting merely to preserve the comfortable features of the present – rather than reaching for new levels of prosperity – is a sure path to stagnation.

Trade organizations are urging the government not to pass legislation that places restrictions on the use of offshore outsourcing. The Information Technology Association of America (ITAA) is concerned about difficulties this would cause US companies trying to sell IT services abroad. According to Harris Miller, president of the ITAA, ‘It hurts our efforts to convince governments around the world to open their competition.’ www.computerworld.com. A controversial report issued by the ITAA in 2004 claimed that although more IT jobs would be created offshore than in the USA in coming years, overall the US economy would benefit from the savings that outsourcing yields. The report suggested that 516,000 extra jobs would be created by the software and IT services sector between 2004 and 2009, of which 272,000 would go offshore. Although IT jobs had been lost as a result of offshoring, the productivity gains achieved lead to a net gain of 317,000 new jobs in other sectors by 2008. (www.itaa.org). Others have argued that the USA could be losing some of its best paying jobs and gaining lower paying ones.

The Computer Systems Policy Project, whose members include chief executives from Intel, Dell and Hewlett Packard, issued a report in 2004
emphasizing the need to maintain free international trade. Measures to constrain trade and collaboration often backfire. The report said:

Countries that resort to protectionism end up hampering innovation and crippling their industries, which leads to lower economic growth and, ultimately, higher unemployment.

www.news.com
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A Guide to Global Sourcing examines the opportunities and obstacles associated with offshore outsourcing and other global delivery models in the IT arena.

There has been a lot of theoretical discussion about outsourcing in the press; speculation about the number of UK-based jobs that will be lost and hearsay customer complaints about communicating with call centre workers overseas. What have been missing, until now, are factual details of how companies have gone about offshoring, and what the results have been.

- A Guide to Global Sourcing provides practical advice for IT professionals and senior managers on supervising projects successfully.
- Genuine case studies bring theoretical business models to life.
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- Contents include: identification of projects suitable for offshoring; selection of offshore partners; the pros and cons; and ongoing monitoring and evaluation.

Written from a UK standpoint, Elizabeth Sparrow’s country-by-country analysis of offshore services available provides a unique resource. She identifies the particular strengths within each country, plus general facts and figures and sources of further information – invaluable for any manager researching outsourcing opportunities.

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Elizabeth Sparrow is an author and consultant specializing in outsourcing relationships and change management programmes. Prior to her freelance career, she was a senior IT leader in the public sector and worked with many different outsourcing service providers. Previous jobs have included IT director at the Home Office, and positions with the Crown Prosecution Service and the British Library.

De-mystifying the academic theory, Elizabeth Sparrow provides genuine case studies from a variety of industries to explain a range of business models, and comments on them from the hands-on world of IT management.