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Back

For over a decade, India has reigned as the king of offshore outsourcing, renowned for its skilled information technology (IT) labor, low salaries and high productivity. But it may soon face a legion of competition from other developing nations vying for attention from U.S. companies. Such a scenario has raised concern among some experts, who stress that poor management, compounded by a lack of proper risk assessment, could lead to higher costs in the long run.

Bill Hayduk, director of professional services at RTTS, a Manhattan-based organization that provides Fortune 500 and mid-sized companies with quality assurance and outsourcing test automation methods, indicated that success stories do not always arise out of a company's decision to offshore outsource. Possibly due to poor planning and organization, Mr. Hayduk said that various high-profile corporations have recently withdrawn their foreign components.

“There are a lot of issues that have to be addressed and understood before a company decides to offshore outsource,” Mr. Hayduk said. He explained that these issues can include various cultural obstacles, time zone differences, language barriers, complex geopolitical climates, ability or even inability to visit sites, volatile currency rates, stability and security concerns, along with visa restrictions.

Even in India, where large IT service firms such as Tata Consultancy Services (TCS), Wipro Technologies and Satyam Computer Services have developed a strong foundation of trust and comfort with U.S. clients, Mr. Hayduk emphasized that it is not only imperative to sign “airtight” contracts between buyers and providers, but it is also vital for U.S. companies to be able to manage their own internal projects effectively before even considering sending their services abroad.

"There are many firms we have seen that are not good at managing projects and are not diligent when it comes to outsourcing.They end up doing it because they either heard about it or might have been approached by one of the large Indian service providers, or even one of the big American firms that has an Indian branch, saying,‘We can manage it for you.'" He added,“I think if you jump in with both feet and have never done it before, you could be in for a rude awakening.”

As with other experts in the field, Mr. Hayduk recommended that U.S. companies evaluate their own situations and economies of scale before choosing to outsource. Through this measure, businesses can compare productivity costs in the United States with similar expenses abroad to determine whether overall savings and revenues are significant enough.

But at what point should a company consider offshore outsourcing? Said Atri, an economics professor at the State University of New York at Oswego, said outsourcing is economically justifiable only once the “wage differential is large enough to more than make up for lower labor productivity.”

For example, he said, “If the higher wages of American workers are consistent with their relative productivity, there should be no reason for a company to move its operation overseas."

Yet current predictions have indicated that U.S. corporate demand for offshore outsourcing services continues to surge, despite a public backlash at home and ambiguous privacy laws overseas that have placed companies at risk of intellectual property breaches.

In a recent study by the global management consulting firm, DiamondCluster, 64 percent of 182 buyers interviewed expected their use of IT outsourcing to increase over the next 12 months, up from 53 percent in 2002. The report stated, "This growth in demand demonstrates that outsourcing has become broadly accepted as a strategic IT management tool."

Because of the lower labor costs associated with outsourcing, the trend has even spread to specialty service industries — from those that rely upon "back-office" call center providers, to those that provide business process outsourcing (BPO) of customer support, insurance processing, and financial and accounting services.

The Bank of New York, Citigroup, New York Life Insurance and General Electric (GE) are listed among the hundreds of U.S. financial and technological institutions involved in outsourcing projects, according to CNN business journalist Lou Dobbs, who has done television news segments called "Exporting America."

In response to The Bank of New York's decision to "add approximately 250 jobs" to the 500 employees working at its software development office at Pershing — an Indian subsidiary bought last year — Kevin Heine, vice president of corporate communications at the bank, told New York News Network, "We don't consider this to be offshoring as much as a growth in an existing location that we acquired when Pershing became part of The Bank of New York. These are jobs that are not being sent elsewhere but represent growth of an existing office in a country."

He added, "Yes, we have an office in India and the employee count will grow, but I think you would be hard pressed not to find any large, global company like The Bank of New York that does not have facilities elsewhere outside of the U.S."

When contacted by New York News Network, a representative from GE Global Research said the company was unable to answer questions at this time, while Citigroup and New York Life Insurance did not return calls.

The DiamondCluster study also asked participants to further examine which countries they expected to expand operations over the next two years. An overwhelming majority named the United States and India as the locations with the highest potential. Canada, Russia and China were named as "up-and-coming" locations.

Eugene Goland, president and founder of DataArt, a software development firm in Manhattan that delivers high-quality Russian IT talent predominantly from St. Petersburg to U.S. businesses, agreed that India remains the leader but argued that in the last three years, Russia has developed its own niche in the fields of research and development.

He said, "I believe other countries will also have to find their individual niches to be competitive with India. One of the factors which will help is that India's IT labor is becoming more and more expensive. So strategically U.S. companies are starting to look elsewhere."

Based on industry projections, Mr. Goland, whose company also provides project management services, ascertained that in approximately five years, salaries in India could become comparable to those in the United States. However, he believes Indian companies will still have a stronger leverage over the IT industry than the United States because of its advanced technical knowledge and large supply of skilled labor.

This phenomenon, Prof. Atri argued, would most likely occur with other countries popular with offshore outsourcing companies. Using what he described as a "casual comparison of trends in wages," Prof. Atri asserted that wages in China, South Korea and other developing economies have already increased faster than the wages of equally skilled workers in most developed nations. "Between 1990 and 2002, manufacturing wages in the U.S. rose by 43 percent. In Hong Kong it rose by over 80 percent, in Singapore by 92 percent and in Mexico by 51 percent," he said.

Prof. Atri forecasted that in the long run, "free trade and free movements of resources would eventually lead to price and wage equalization across participating [trading] countries." He added, "Although we are still very far from such equality, recent movements in wages and prices have definitely been in that direction," thus providing U.S. companies with more reasons to assess long-term risks.

← Back