

Making Sense Out of Outsourcing

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You'd be hard pressed nowadays to read an IT magazine, online news service, or technology white paper without encountering the term "outsourcing", along with a range of opinions about its impact on workers, companies, even national economies. But how does an organization decide whether to send an IT project or activity to an outside developer? When does outsourcing make sense? What are its drawbacks? To get a handle on some of these questions, we asked Margery Blondin, Director of ZyQuest's Development and Project Office, to share her outsourcing expertise.

Innovation: How do you define outsourcing, Margery?

Margery: Outsourcing is taking something that a company needs done and instead of doing it with their resources and within their building, they

basically can bundle it up so that it can be given to somebody outside their organization and an end product delivered back.

For example, in the Development Center, we work with various customers to bring their development projects in-house to ZyQuest and utilize our resources to



solve their business problems and deliver the end product. We're doing things like building a web application for a small company that wants to leverage the Internet to update information that the company needs. For a

very large company, we're doing outsource software development, basically working with them because their internal resources are not skilled enough yet in that particular technology. We're taking that project out from the organization. We will work with them to integrate their people into that project, but the brunt of the development will be ours to do off site.

Innovation: What are the advantages of outsourcing?

Margery: If you're a customer, outsourcing basically expands your capability within the organization, because an outsourcer like ZyQuest is working on a project for you. You don't have to manage the project closely. If you go the staff augmentation route instead of outsourcing, that extra staff is on site and has to be under your direction. You're managing those resources that are working on that particular project.

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What we do in outsourcing is take that whole project – the management and all the resources – off site. So my responsibility, for example, is to be the client's project manager and oversee the resources and the delivery of that



Margery Blondin

product. So it really expands the client's capabilities without taking additional time from their people. We still need a liaison from the client site to make sure we understand their business, but from an overall perspective,

outsourcing has less of a demand on them.

Innovation: Any disadvantages for the client?

Margery: I would tend to say that because they are not controlling it, they might feel like they don't know what's going on. But at ZyQuest, we've instituted a status reporting process so we keep them abreast of exactly where we are from a progress perspective. We manage to a plan, so they do know all along what's happening. And we raise issues to them. So it's just a matter of how comfortable they are with having someone else manage a project versus having it under their

direct control.

Innovation: Is it hard for a company to bring some aspect of their business back in-house once they've outsourced it?

Margery: We work with the client to bring their project back in-house. Say we're building a system for them. Part of the process is to implement it in their environment and then train their people. We do the support until their people are trained to take over that support.

Innovation: What are the biggest challenges for you as an outsourcing service provider?

Margery: I think one of the challenges is making sure that I can get the right resources for each particular job. For us, it's balancing the end of one assignment with the start of another, especially if I need a different skill set.

The other challenge is that because we're working with so many different types of companies in different industries, we have to leverage the breadth of our industry knowledge across the organization, because we're not just focused on one type of business – manufacturing or sales or service organization or

insurance. We cover a whole gamut. So I need business experts on those projects, not just IT professionals.

Innovation: If you were going to give a company a list of criteria they could use to decide if outsourcing made sense for their business, what would you include on that list?

Margery: When you're taking about outsourcing a specific project, I would say that some of the key criteria are: what is the timeframe they need the project in; what is their budget for the project; do they have the necessary skill sets, both technical and business; and what are the risk factors for that particular project, in terms of being successful. Then, looking at all those factors in conjunction, you can ask whether it makes sense to go outside.

For example, say my timeframe is set. I have a corporate dictate that I need this project done in three months, and I don't have the people. Or the other priorities of my internal staff are such that I don't want to or can't take them off what they are currently doing. I need it done right away and I don't have the people, so outsourcing makes sense for me.

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You also need to consider how integrated a project is with the rest of the company's systems. You need to ask whether it can be taken out enough that the interfaces can be developed between the outsourcer and the client so both can be productive and move forward on their respective parts of the application.

Innovention: What if a company's trying to decide whether to permanently outsource some aspect of their IT?

Margery: The criteria are similar. What are the priorities of the organization as a whole? How does what they're looking to outsource fit within that? Generally you may outsource something that is new on the market that a company like ZyQuest keeps abreast of and has the ability to do. Or it might be some old legacy stuff and because of the focus of your internal people, you want to take that legacy stuff and get it out of the way.

You're going to look at how those applications relate to your competitive advantage. And you have to be very careful about outsourcing things that are critical to your competitive advantage. At least make sure you have a strong

partnership. In that case, contracts need to be very clear as to who owns all the intellectual property. You can be more flexible about things that aren't important for your competitive advantage. They're run-of-the-mill type stuff that every company has to do, and it's easier to outsource that, because you don't have to worry as much about your intellectual property.

You have to look at your time frame for some things that might be disappearing altogether. Say you're looking at a legacy system that you'll be replacing completely in the next three to five years. It's great to be able to outsource that, because you're not focusing part of your company on keeping old applications going. You have everybody in your company focused on your new direction.

Similarly, if it's something new that within the next couple of years you're going to train your people and integrate them into the new system, it's fine to outsource it and get a base started in the new technology. That's precisely what we're doing for one company. They don't have the internal skill set on a new technology, so we're

getting them started. We provide examples to be used and a methodology for how you do it and the deliverables that you create. And they have all of that as a base. We'll work with them on projects that combine ZyQuest and their people to get them up to speed. Eventually, they'll no



ZyQuest Development Team

longer be dependent on ZyQuest at all.

But whether you're talking about a project or a long-term arrangement, you're always going to be looking at: What is your budget? What is your time frame? What do you expect to gain out of it?

Innovention: When a company calls you, can you go into their business and give them a cost analysis of the project to help them make the outsourcing decision?

Margery: Yes, we most definitely want to do what makes sense for the client's organization. We

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*“As an outsourcer,
it’s our job to
build value and
make sure that
the clients meet
their ROI.”*

Margery Blondin

want to look at all their factors and basically come up with a business statement or ROI (return on investment) calculation. For example, this summer we worked with the branch of a larger organization. Their corporate office was pushing them to offshore their project. To make a long story short, they got the approval for us to do it, and the end result of that was, “Hey, working with ZyQuest was more cost-effective than going offshore.” So we’re

definitely trying to bring that value to the company because we need to work with them to build their ROI.

Innovation: One Final question, Margery. Do you think outsourcing is good for the American economy and IT workers?

Margery: Right now, it’s a very confusing environment. You can read one article that’s a doomsday prediction for IT workers. And the next is

that we’re on the verge of another IT boom and IT workers are going to be in vast demand. I think what we can provide from an outsourcing perspective helps the IT industry in general. And again, because we work with companies on their ROIs, we want to make sure they meet that goal. Part of our job as an outsourcer is to bring value and help clients control their costs. And that’s bound to be good for everyone in the long run. ✍

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ZyQuest, Inc., the time difference is really a disadvantage. Blondin observed, “I have worked with an offshore organization in India, and having an 11 hour time difference was very difficult. The problem is that you have to communicate back and forth. And so I had to have somebody in the middle of the night working with people offshore to make sure that they were on the right path and not doing things incorrectly.”

Cheap Labor

According to high tech expert Alan Pelz-Sharpe, “The current enthusiasm to

outsource IT functions to offshore locations is driven almost entirely by the desire to cut bottom line costs. Other experts agree that companies offshore IT work to save money. In India, for example, the starting salary for a software engineer is about \$5,000.

But many analysts warn that the promise of substantial IT savings probably isn’t all it’s cracked up to be. The labor may be cheap, but the hidden costs of offshoring can result in development costs equal to or even greater than the cost of keeping IT in the U.S.

Those hidden costs include the vendor selection process, the cost of transition, and the expense of firing domestic employees, many of whom must be paid severance pay or retention bonuses to keep them around while they train their replacements. Managing an offshore project also adds to the cost.

U.S. companies have also found serious cultural problems when replacing American with foreign IT workers. Many foreign programmers are reluctant to ask questions for fear of appearing incompetent. And they rarely disagree

government watch

tightening visa regulations

Protecting American IT jobs while at the same time protecting American business and stimulating economic growth is a delicate balancing act. Congress's attempt to find that balance is evidenced in a spate of legislation on visas for foreign workers.

One of the most recent of those bills is **S. 1452**, introduced by Senator **Chris Dodd** (D-CT). The purpose of the bill, according to a press release from Dodd's office, is to "tighten loopholes that allow foreign workers to secure employment when well qualified American workers are available to do the same job."

L-1 Visa Problems

The loopholes Dodd's bill hopes to close involve the L-1 visa, which allows multinational corporations to transfer employees from a foreign office to a U.S. branch, parent, or subsidiary of that company. The visa's intent is to allow multi-nationals – whether U.S. or foreign – to move their personnel around, as needed, on a

temporary basis. The visa is valid for seven years for management and supervisory personnel and five years for technical staff.

The problem with the L-1 visa, according to many worker advocacy groups, including the Federation for American Immigration Reform, is that it allows foreign workers to be subcontracted to U.S. companies at costs far below the prevailing U.S. wage for the type of work being performed. For example, an IT company headquartered in India can use the L-1 visa to transfer programmers to its subsidiary in the U.S., where they are then subcontracted to an American company, such as Intel, but paid Indian wages. Often, the result of this process is the loss of jobs for U.S. programmers and the loss of contracts for U.S. companies that must pay American wages to American workers. Dodd's bill, and its companion legislation in the House (H.R. 2849), would prevent that practice and ensure that L-1 visa workers transferred to the

U.S. are paid the prevailing American wage for the occupation.

H-1B Visas

The L-1 visa is only part of the problem, according to some worker advocates. The other major bone of contention is the H-1B visa. The "H" visa for temporary workers has existed in U.S. immigration law since 1952. The current H-1B visa law for professional workers dates from 1990.

The original purpose of the H-1B visa program was to provide American companies with professional workers not available in the states. In 1990, Congress established a 65,000 cap on H-1B visas. But in 2000, the high tech industry, citing a shortage of U.S. technical workers, lobbied Congress successfully to get the visa cap increased to 195,000 annually for FY 2001, 2003, 2004. That cap reverted to the original 65,000 when FY 2004 began in October 2003. Certain kinds of non-profit and educational institutions are exempt from the cap.



Sen. Chris Dodd

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“American workers are first rate. They shouldn’t be treated as second class citizens when it comes to jobs here at home.”

Sen. Chris Dodd

While the cap for H-1B visas appears low compared to the total number of IT workers in the U.S., studies show that this number may be misleading. The visa can be renewed beyond its initial three years, and such extensions are not counted toward annual visa caps. As a result, in 2002, there were an estimated 710,000 H-1B visa holders in the U.S.

Some experts claim that the shortage of IT workers, which spurred the changes in immigration law, was artificial, and that the influx of H-1B workers floods the labor market and drives down wages. There is also a consensus that H-1B workers are paid lower wages than their American counterparts, further driving down wages for all IT workers. The *Wall Street Journal* reported that the demand for H-1B workers actually rose during the 2001 economic turndown when companies were conducting mass layoffs of American workers.

While the Computer Workers of America union has called for an immediate repeal of the H-1B visa program, and the Institute of Electrical and Electronics Engineers has petitioned Congress to convene town meetings to allow engineers to voice their inability to find work,

others warn that anti-immigration laws could backfire. Immigration lawyer V.R. Mitchell Wexler has been quoted as saying that the proposed L-1 and H-1B visa restrictions are misguided. Multi-national corporations who move foreign workers to the U.S. help our economy and create jobs, according to Wexler. “If we make it too tough,” he said, “they could go to Canada or Mexico and use them as launching pads for their North American operations.”

Harris Miller, president of the Information Technology Association of America, in testimony before the House Small Business Committee, warned that if the U.S. adopts policies that discourage companies from hiring IT workers in other countries, those countries may decide to stop buying U.S. IT products. “The U.S. IT industry enjoys a \$7.9 billion trade surplus with other nations, but that could change,” Miller said.

In a recent Senate Judiciary Committee hearing, Committee Chairman Orrin Hatch expressed his concern that restrictions on foreign high tech workers could be detrimental to the American economy. In his opening statement, Hatch

remarked, “We need to ask whether the current anti-immigration sentiment is in the long-term interest of the American economy and American workers. If our nation is to stay competitive, can we do so without having access to the most talented individuals from abroad? If we fall behind other industrialized countries, what would that do to our own economic development, and what are the consequences to American workers and their families if we do in fact fall behind? The Bureau of Labor Statistics projects a 42 percent job growth in the field of science and engineering, and an 82 percent growth in computer related jobs between 2000 and 2010. Can we afford not to have the best talent in the world if we are to continue our role as a leader in innovation and productivity?”

It could be, as some experts have suggested, that the American IT industry must face some of the same challenges in the coming years that the automotive industry and consumer electronics faced in the 1960s and 1970s. How the IT industry responds could well affect America's ability to remain in the forefront of information technology. ☞

industry watch offshoring

While Congress debates the problem of visas for foreign workers, many American IT professionals face the loss of their jobs to workers overseas. And American companies grapple with the loss of business to offshore competitors.

A recent report from Forrester Research predicts that 472,000 technology jobs will move from the United States to offshore companies by the year 2015. That's up from 27,000 in the year 2000. Gartner Co., a research and analysis firm specializing in high tech trends, estimates that 10 percent of American IT jobs will move offshore by the end of 2004.

What's fueling the trend to shift technology jobs to countries such as China, India, Russia, and Sri Lanka? The answer depends upon whom you ask. The most frequently cited reasons are the lack of technical skills in the United States, the ability to conduct business around the clock, and cheap labor.

Technical Dearth

Lobbyists urging Congress to raise the cap for H-1B visas cite the lack of domestic IT professionals.

A dearth in U.S. technical talent has also been cited as a major reason for offshoring by companies explaining their decision to send IT work overseas. Relativity Technologies of North Carolina is a case in point. CEO Vivek Wadhwa insists that overseas workers have the combination of math and computer science skills unavailable in the U.S.

Feeding this perception is a report from the National Science Board warning that America could lose its leadership in science and innovation and recommending that the federal government provide more funding for science and math training. The NSB task force that prepared the report noted that the percentage of American students training for science and engineering jobs has flattened or even dropped.

But are American high tech workers really in such short supply? Many experts answer "no." According to a *Wall Street Journal* article, the demand for foreign workers actually rose during the 2001 economic turnaround when companies were conducting mass layoffs of American workers. It seems that

American programmers are available, but are being passed over for foreign workers. According to Ronil Hira, chairman of the R&D Policy Committee for the Institute of Electrical and Electronics Engineers, the number of unemployed electrical engineers in the United States stands at an all-time high. And despite months of encouraging economic growth in the U.S., unemployment in technology still tops 8 percent, according to the Washington Alliance of Technology Workers.

24/7 Development

Offshoring companies often pitch their services by promising round-the-clock software development. Sean Chou, CTO of Fieldglass, a software technology company with 15 developers in India said, "We can do nonstop development, and we don't collide with each other's schedules."

But how much of an advantage is the time difference? According to Margery Blondin, Director of the Development and Project Office for





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with a customer, even when a project doesn't make sense to them. These and other cultural problems can interfere with productivity.

Perhaps the most costly offshore expense is that required to fix problems with software developed overseas. Last year alone, Empowered Software Solutions, a company that specializes in developing .NET applications, earned a half million dollars fixing buggy software written in India. According to some estimates, programs developed offshore are 35 - 40%

buggier than software developed in the United States. And fixing even small bugs after software is written can cost up to ten times more than the cost of fixing problems during the design stage of a project.

The future of offshoring

Despite its drawbacks, offshoring is probably here to stay, say most experts. That may not be anything to lose sleep over, says former Labor Secretary Robert B. Reich. According to Reich, the number of offshored technology jobs accounts for only a tiny portion of

America's IT workforce. And even if that number increases, Reich believes the overall percent of offshored jobs is likely to remain relatively small, mostly because of security and intellectual property concerns. Quality control issues are also likely to keep the really complex engineering and design work from being offshored.

In the final analysis, the health of IT in the United States may have more to do with the nature of IT than with any purely business decisions. IT, Reich and others have

observed, is about innovation, about discovering and solving problems. Thus, there will never be a limit to IT jobs, because there will never be a limit to human ingenuity. IT is not governed by a Malthusian universe of limited resources. Just as humans create wealth, IT professionals create high tech innovations and, therefore, more IT jobs. The United States has always been the leader in that innovation, and there is no reason to suppose that we will lose our edge in the future. ✍