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Indian Outsourcing: More Reliance But More Gripes

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An increasing number of U.S. companies are turning to Indian outsourcers, according to our recent survey, compared with results from a year earlier. But their level of dissatisfaction has increased as well. We also talk with Indian outsourcing company execs as they deal with fallout from the Satyam financial fiasco.



Use Of Indian IT Outsourcing Services Is Up, But So Are Concerns

By J. Nicholas Hoover

MORE COMPANIES MAY BE USING INDIAN OUTSOURCERS, but they aren't as happy as they used to be with their relationships and are actually looking to decrease their spending on India-based IT services in 2009, according to the results of an *InformationWeek* Analytics survey of 628 business technology professionals, 55% of whom have contracted work with Indian-based IT services companies.

The still-unfolding scandal at Indian IT services company Satyam weighs heavily on the results of this year's survey, as 63% of companies have new concerns about—or would simply choose not to work with—India-based IT services companies in light of the admission earlier this month by Satyam founder Ramalinga Raju that he'd invented \$1.02 billion in nonexistent cash reserves and had been making up profits for years.

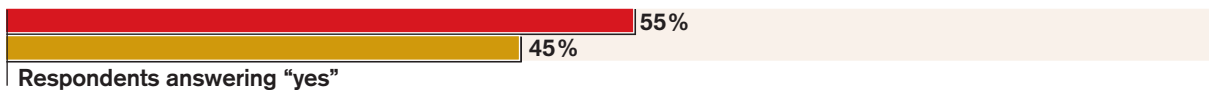
More companies plan to decrease their use of Indian IT outsourcing services in 2009 than increase it, a reversal from our survey last year. And there's this: 58% of respondents believe less in Indian outsourcers' value proposition than they did two years ago.

DECLINING ENGAGEMENTS

The survey found that 39% plan to decrease their involvement with India this year. On the flip side, 30% say they'll do more work with Indian outsourcers. That's a reversal of last year's results, when only 26% of respondents said they'd be decreasing their work with Indian IT outsourcers, and 43% expected to increase that work volume.

Have You Used India-Based IT Services In The Past Two Years?

■ 2009 ■ 2008



Respondents answering "yes"

Base: 628 in 2009 and 957 in 2008

Data: *InformationWeek Analytics* Offshore Outsourcing Survey of business technology professionals



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The biggest problems that customers have had with Indian outsourcers are consistent with last year's survey: communications, underqualified staff, and turnover of key personnel. Another top shortcoming? Fifty-eight percent of respondents say their Indian service providers fell short of expectations in delivering projects quickly.

Communications problems are cited by 75% of survey respondents. There's a 10-hour time difference between New York and Mumbai, and cultural and dialect differences cause communication breakdowns as well. An IT manager working for Ford, who declined to be identified, says he gets e-mails, instant messages, and calls at all hours of the night from Satyam, one of Ford's major outsourcing partners, informing him of network device outages. "It doesn't matter if it's 2 a.m. on a Sunday, Christmas, or whatever, they're trained to be script-driven and they react right away because the scripts say to go back and find out what the problem is and get back to us," he says. "You'd think that after a few years of working with them, they would understand not to call at 2 a.m."

Stuart Appley, senior VP and CIO at Shorenstein Properties, a real estate investment and man-

Benefits Of Indian IT Services

	2009	2008
Lower total cost	72%	72%
Access to technical skills we don't have	31%	37%
A long-term partnership	23%	30%
Ability to adapt projects as business needs change	21%	22%
Ability to tie project costs to our business goals	16%	20%
Speed of project delivery	15%	21%
Quality of software/systems	13%	13%
Access to consultants with industry insights/trends	9%	8%
Innovative ideas from service providers	5%	10%
24/7 or off-shift support*	1%	2%
Other	10%	7%
No benefits*	5%	4%

*Tabulated from "Other" responses

Note: Multiple responses allowed

Base: 346 companies in 2009 and 430 companies in 2008 contracting with India-based IT services companies in the past two years

Data: **InformationWeek Analytics** Offshore Outsourcing Survey of business technology professionals



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agement company, says that in his experience, Indian outsourcers require very specific instructions beyond what might be given to someone working in-house. “They’re better at following a script. You need to make sure requirements are fully fleshed out and it’s explained to them in the right way,” he says. “If you have a good project manager on your side, they can help manage that communication and answer questions.”

Turnover of key personnel is another big problem, cited by 51% of respondents. Surjeet Singh, CFO of Indian outsourcing company Patni, says that as the IT industry in India begins to mature and growth rates slow, excesses like annual employee raises of 10% to 15% are going away. A more stable job market should mean less attrition, with rates normalizing within the next couple of years, he says. However, for now, the problem remains. Says the Ford IT manager, “The skill level varies greatly, because turnover of people means people are on different levels of a competency curve.”

Customers don’t see innovation from Indian IT firms. Just 5% of survey respondents say innovative ideas are among the most significant benefits they get from Indian IT outsourcers, and 42% say that lack of innovation is among the biggest problems.

Challenges In Using Indian IT Services

	2009	2008
Communication problems	75%	69%
Underqualified people put on our projects	52%	49%
Turnover of key service provider personnel	51%	44%
Significant re-work needed on software/systems delivered	49%	42%
Poor quality software/systems	43%	37%
Lack of innovation from service provider	42%	36%
Projects take too long	37%	30%
Total costs higher than expected	33%	27%
Projects aren't on time	32%	31%
Lack of entry-level roles for our employees	19%	17%
Other	8%	6%

Note: Multiple responses allowed

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“They want to be creative, but there’s a significant difference in their developers’ experience and our experience,” says Gus Coniglio, VP of software development and operations at Sales Management Plus. His company makes sales and marketing software for distribution companies, and has outsourced some development work to India, along with a number of other corporate IT functions such as data center and network management to on-shore firms. “A lot of business concepts, they just don’t get,” he says. “And they’re used to having lots of people on a project at once, so it gets to the point where a developer doesn’t know how to test code, because a tester does that, so you have to retrain them.”

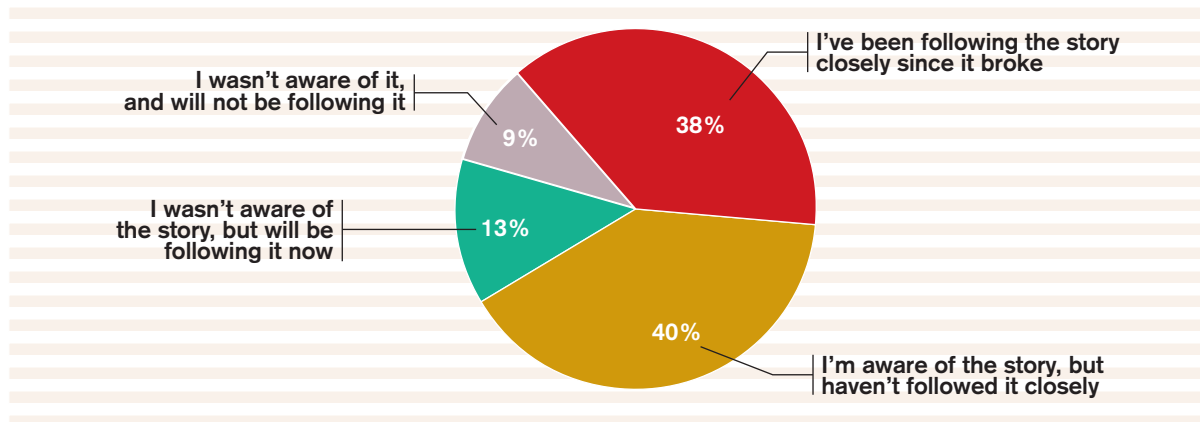
Poor communication and lack of innovation may go hand in hand. “If you’re sending over something that’s fairly rote, that’s pretty straightforward and you don’t need a lot of brainpower to do it,” says Tom Pettibone, a former Fortune 500 CIO and managing partner of outsourcing advisers Transition Partners. “But if you send over something with a lot of intellectual capital where there’s creativity or some heavy dose of intellectual talent required, that’s where inter-communication begins to break down.”

SAVINGS ARE KEY

The great counterbalance to those concerns may be cost. Cost savings are the most frequently mentioned advantage of outsourcing to India, cited by 72% of respondents. “Cost is definitely a big factor,” Shorenstein’s Appley says. “You can get someone for a quarter or a fifth of the rate

Are You Following the Satyam Story?

On January 7th, Satyam admitted to inflating its profits over several years. Have you been following the Satyam story?



Base: 346 companies contracting with India-based IT services companies in the past two years
Data: **InformationWeek Analytics** 2009 Offshore Outsourcing Survey of 628 business technology professionals



Analytics Alerts

of a person you can get on your own. Real estate has never spent a lot of money on tech anyway, so they've always been trying to do more with less."

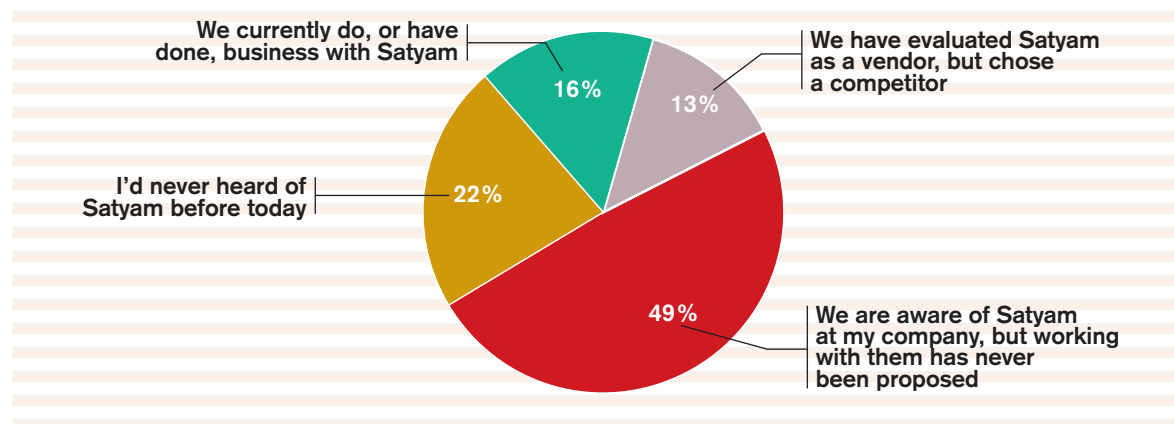
Only 18% say total project costs beat expectations compared with estimates. Though cost remains the major advantage, holding steady compared with last year when 72% cited it as an advantage, more (24%) said cost containment exceeded expectations a year ago. The change in cost expectations may be because companies are realizing that with outsourcing's lower costs sometimes come increased internal costs in places such as project management in order to deal with any problems in India.

Other benefits include access to technical skills (cited by 31% of respondents) and the fact that outsourcing relationships are often helpful long-term partnerships (23%). "There are a whole bunch of smaller companies that have very good expertise in certain areas," says Appley, pointing to a small company Shoreline works with, Photon Infotec, which has strong expertise in SOA.

THE SATYAM EFFECT

Satyam's problems have raised new fears about the Indian outsourcing community in general. Forty-six percent of respondents say they have new concerns about India-based IT companies, but would still consider working with them, while another 17% say they wouldn't work with

Satyam Familiarity



Base: 346 companies contracting with India-based IT services companies in the past two years
Data: **InformationWeek Analytics** 2009 Offshore Outsourcing Survey of 628 business technology professionals



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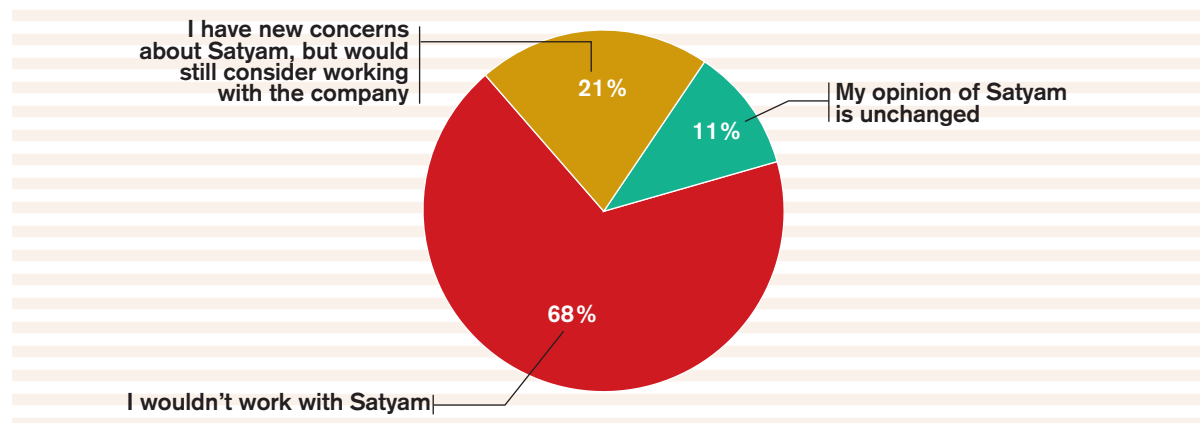
an Indian outsourcer at all. Though the Ford IT manager says he's becoming more comfortable with Indian outsourcing in general, he adds that Satyam's problems underscore concerns he already had about financial controls in India.

The numbers also show the steep hill Satyam will need to climb to regain the trust of prospective customers. Most respondents, 78%, are aware of the Satyam scandal. Based on their understanding of Satyam's financial wrongdoing, 68% say they wouldn't work with Satyam. "Total shock was the first reaction, to think that a company with that size and a potential for that much success would have to resort to something of that nature," says an architect with rural telecom carrier Windstream Communications who declined to be identified. His company earlier scaled back a relationship with Wipro after concerns arose that Wipro wasn't being truthful about project costs and deadlines.

Among those who haven't contracted with an Indian IT services company, the most common reasons for holding off are perceptions that outsourcing relationships are too hard to manage, a lack of confidence in Indian IT services companies as good business partners, and inadequate quality.

See more data from our *Offshore Outsourcing Survey*, p. 10

Will You Work With Satyam?



Base: 346 companies contracting with India-based IT services companies in the past two years
Data: **InformationWeek Analytics** 2009 Offshore Outsourcing Survey of 628 business technology professionals



Indian Tech Industry Speaks As One

By J. Nicholas Hoover

SATYAM CONTINUES TO REEL from founder Ramalinga Raju's revelation this month that he had falsified profits for years and fabricated about \$1 billion in cash. As the company limps forward with a new board of directors, India's IT industry is standing by in loose accord to ensure that Satyam's problems don't cast a pall over an industry already slowing amid a global recession.

It remains unclear whether Satyam will emerge intact. Speaking on an *InformationWeek* Webcast on Jan. 22, newly appointed Satyam board member Kiran Karnik insisted that if Satyam can get past its "truly cataclysmic" cash flow shortfall in the next few weeks, its cash will start piling up—this time for real. Karnik said customers, including about 185 Fortune 500 accounts, haven't found fault with Satyam's service levels, though State Farm Insurance confirmed Jan. 22 that it had terminated its contract with the Indian provider.

Unlike U.S. financial and auto execs, Satyam's new directors have resisted asking for a government bailout. Karnik said such a move of desperation would send the wrong signal to the market. Satyam last week continued seeking emergency funds from institutional investors, while India's corporate affairs minister suggested "many" companies are interested in acquiring the outsourcer. Karnik would say only that Satyam is "exploring all opportunities."

Meantime, new fraud



Infosys' Kris
Gopalakrishnan



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revelations continue to emerge. An Indian prosecutor last week said Raju had forged bank documents and inflated head count to divert funds. Multiple law firms filed class-action suits against Satyam on behalf of investors, and the Indian government widened its probe to other companies linked to Satyam's founder.

Most Satyam customers and employees are staying put, Karnik said, but that will change in a hurry if things head south. "Customers are keeping options in mind and are probably talking to other companies," Karnik said. India's Nasscom (National Association of Software and Services Companies) continues to urge Satyam's competitors not to poach its customers, though interviews with U.S. CIOs confirm it's being ignored.

Representatives of India's IT community remain adamant that Satyam's situation is unique, and they spoke in solidarity on the *InformationWeek* Webcast. Imagine the CEOs of Dell, Hewlett-Packard, and IBM getting on a Webcast—as leaders from Infosys, Microland, Nasscom, and Satyam did last week—to toe the industry line if one of their companies was crippled because of accounting fraud.

Asked whether India needs stronger corporate governance regulations, Nasscom president Som Mittal said India's IT providers already are subject to close oversight—PricewaterhouseCoopers had signed off on Satyam's books. Still, Nasscom has set up a task force to advise member companies on governance best practices.

Infosys co-founder and CEO Kris Gopalakrishnan said customers are asking to see results of external audits on the company's governance practices. But beyond that, Infosys' business remains unscathed, he said, and so should India's reputation. "From the dimensions of scale, maturity, the longevity of these services, the experience of working with multinational companies, support from the government—every one of these aspects remains the same," Gopalakrishnan said.

Surjeet Singh, CFO of Indian IT outsourcer Patni, says the business reality of "doing more with less" will, in the end, make outsourcing even stickier than it is today, but he suggests common problems among Indian companies, such as attrition, may go away as growth slows. The real problems are Satyam's, and the rest of the industry is busy making sure those problems don't affect them.

Editorial Webcast

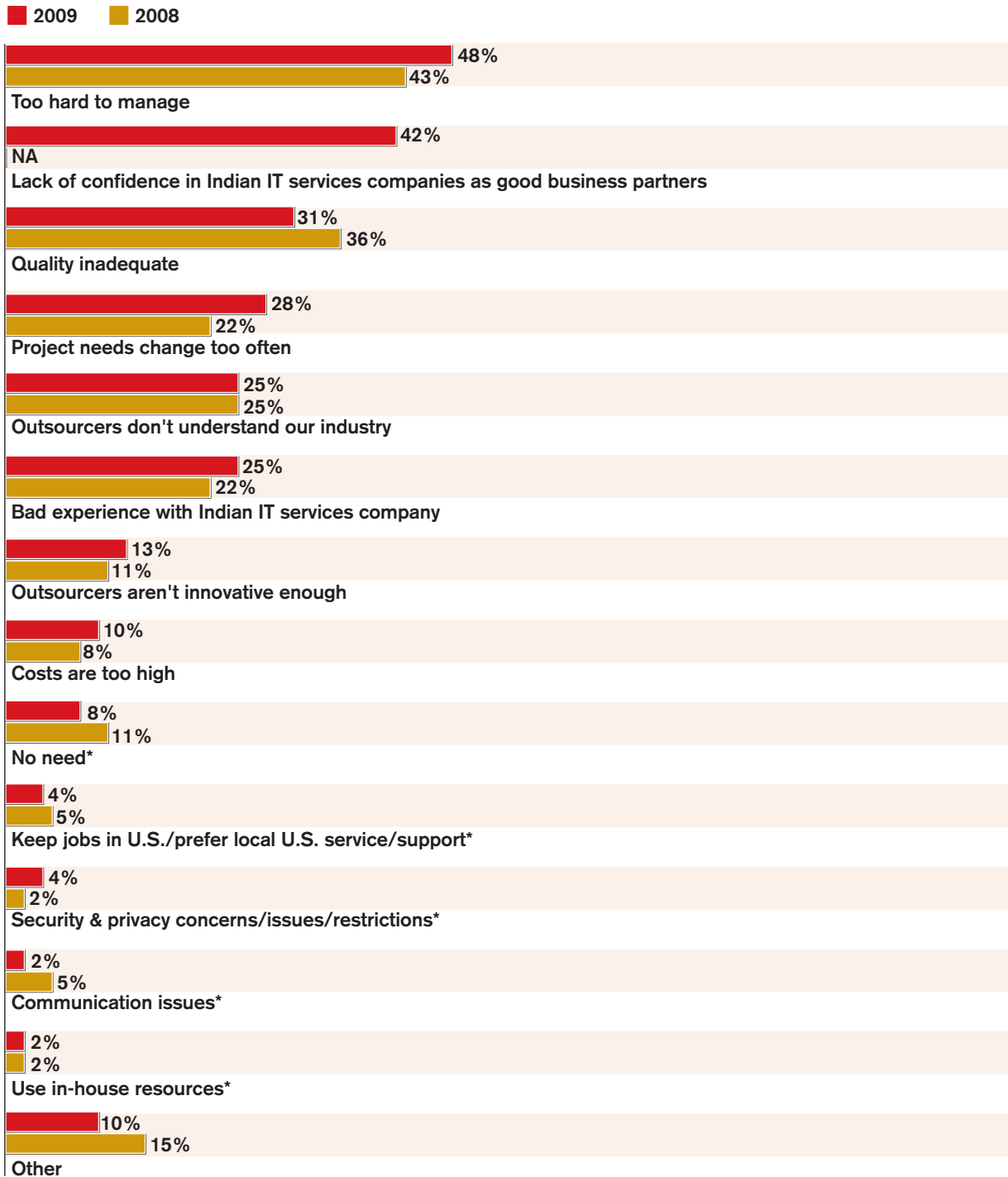
Register to hear the full Webcast
"Offshore In India: What's Next?" at

informationweek.com/webcast/offshore



Appendix

Impediments To Using Indian IT Services



*Tabulated from "Other" responses

Note: Multiple responses allowed

Base: 282 companies in 2009 and 513 in 2008 who have not contracted with an India-based IT services company in the past two years

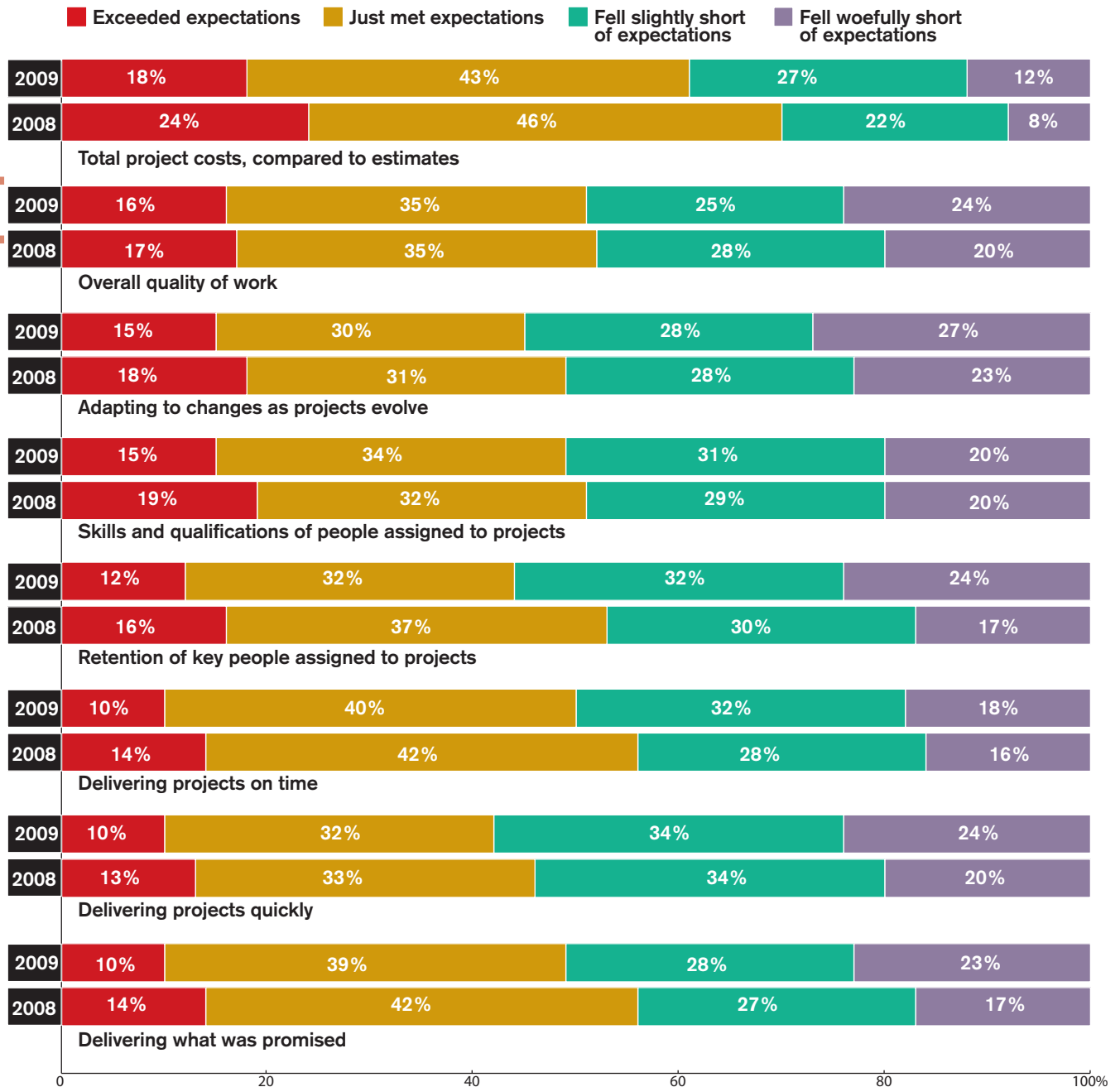
Data: **InformationWeek Analytics** Offshore Outsourcing Survey of business technology professionals



Appendix

Satisfaction With Indian IT Services

Based on all IT projects your company has outsourced to an India-based IT services company/companies in the last two years, rate your satisfaction level on the following criteria.



Base: 346 companies in 2009 and 430 companies in 2008 contracting with India-based IT services companies in the past two years

Data: **InformationWeek Analytics** Offshore Outsourcing Survey of business technology professionals

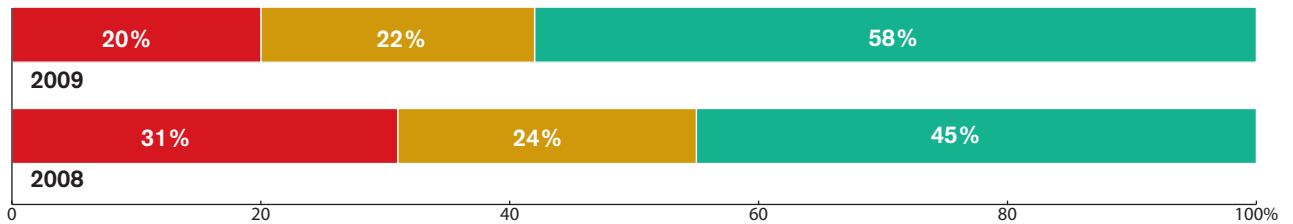


Appendix

Belief In Indian Services

Compared with two years ago, are you more or less of a believer that working with Indian IT outsourcers delivers value for your company and its shareholders?

■ More of a believer
 ■ Neither more nor less of a believer
 ■ Less of a believer

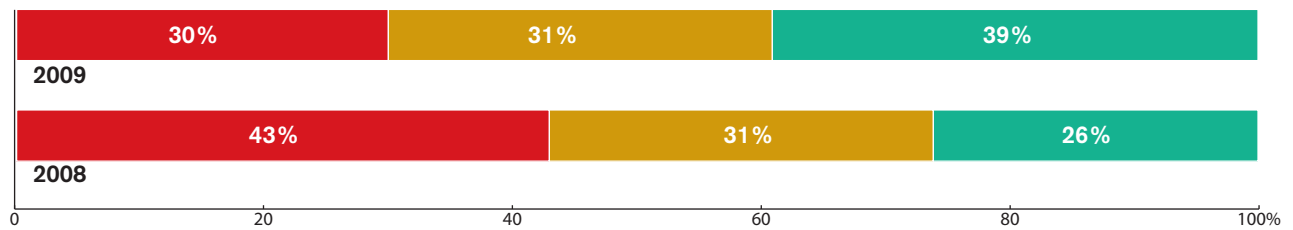


Base: 346 companies in 2009 and 430 companies in 2008 contracting with India-based IT services companies in the past two years
Data: **InformationWeek Analytics** Offshore Outsourcing Survey of business technology professionals

Use of Indian IT Services

Over the next two years, will your company's use of Indian IT outsourcing providers increase, decrease, or remain the same?

■ Increase
 ■ Remain the same
 ■ Decrease



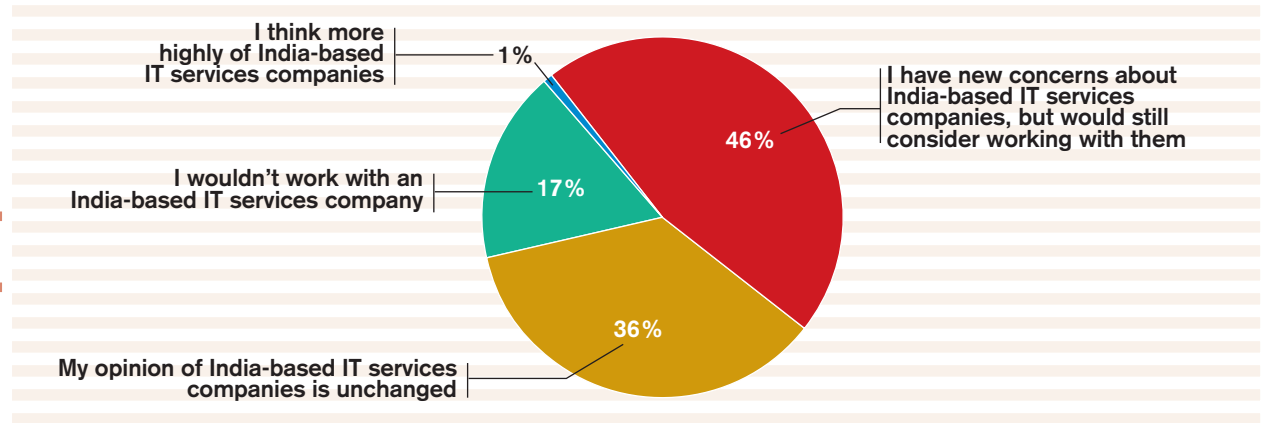
Base: 346 companies in 2009 and 430 companies in 2008 contracting with India-based IT services companies in the past two years
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Appendix

View of India's IT Services

Based on your understanding of Satyam's admitted financial wrongdoing, how do you view India-based IT services companies in general?



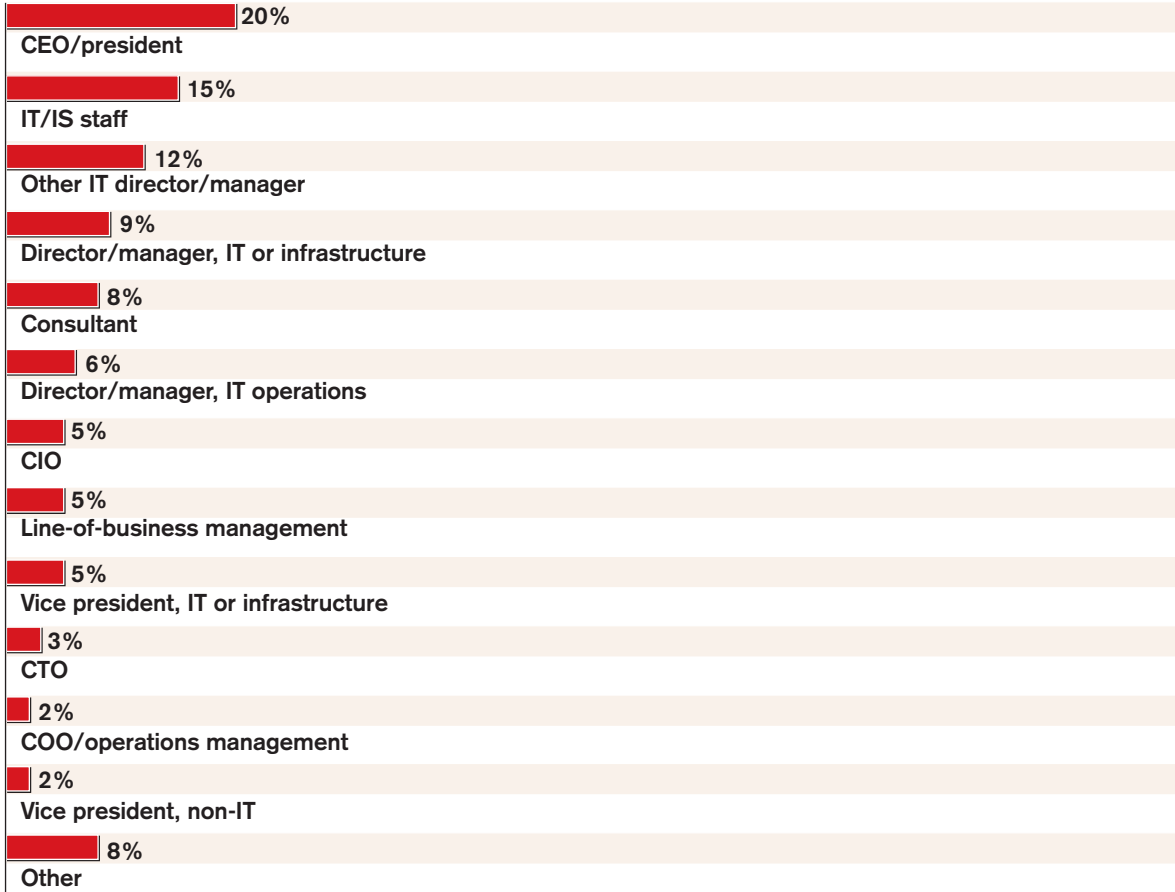
Base: 346 companies contracting with India-based IT services companies in the past two years
Data: **InformationWeek Analytics** 2009 Offshore Outsourcing Survey of 628 business technology professionals



Appendix

Job Title

Which of the following best describes your job title?



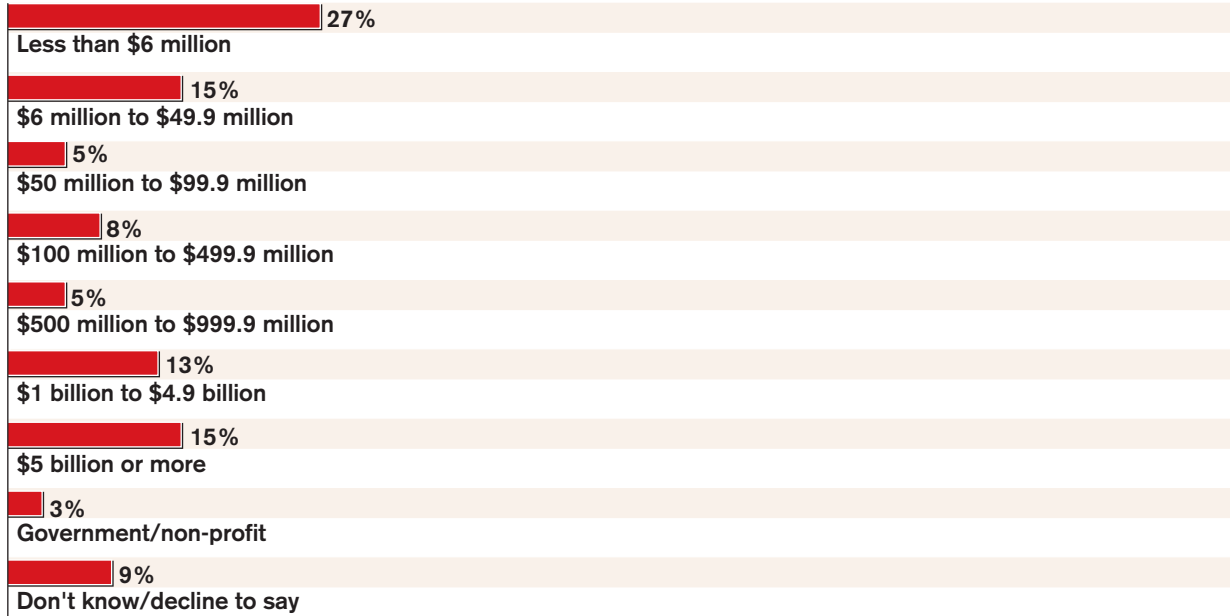
Data: **InformationWeek Analytics** 2009 Offshore Outsourcing Survey of 628 business technology professionals



Appendix

Annual Revenue

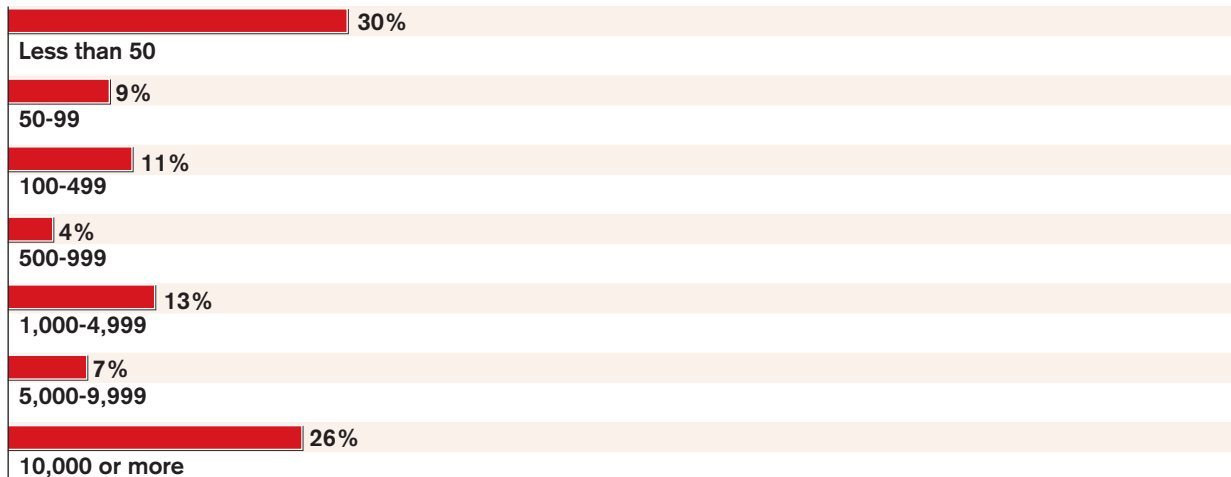
Which of the following dollar ranges includes the annual revenue of your entire organization?



Data: *InformationWeek Analytics* 2009 Offshore Outsourcing Survey of 628 business technology professionals

Company Size

Approximately how many employees are in your organization?



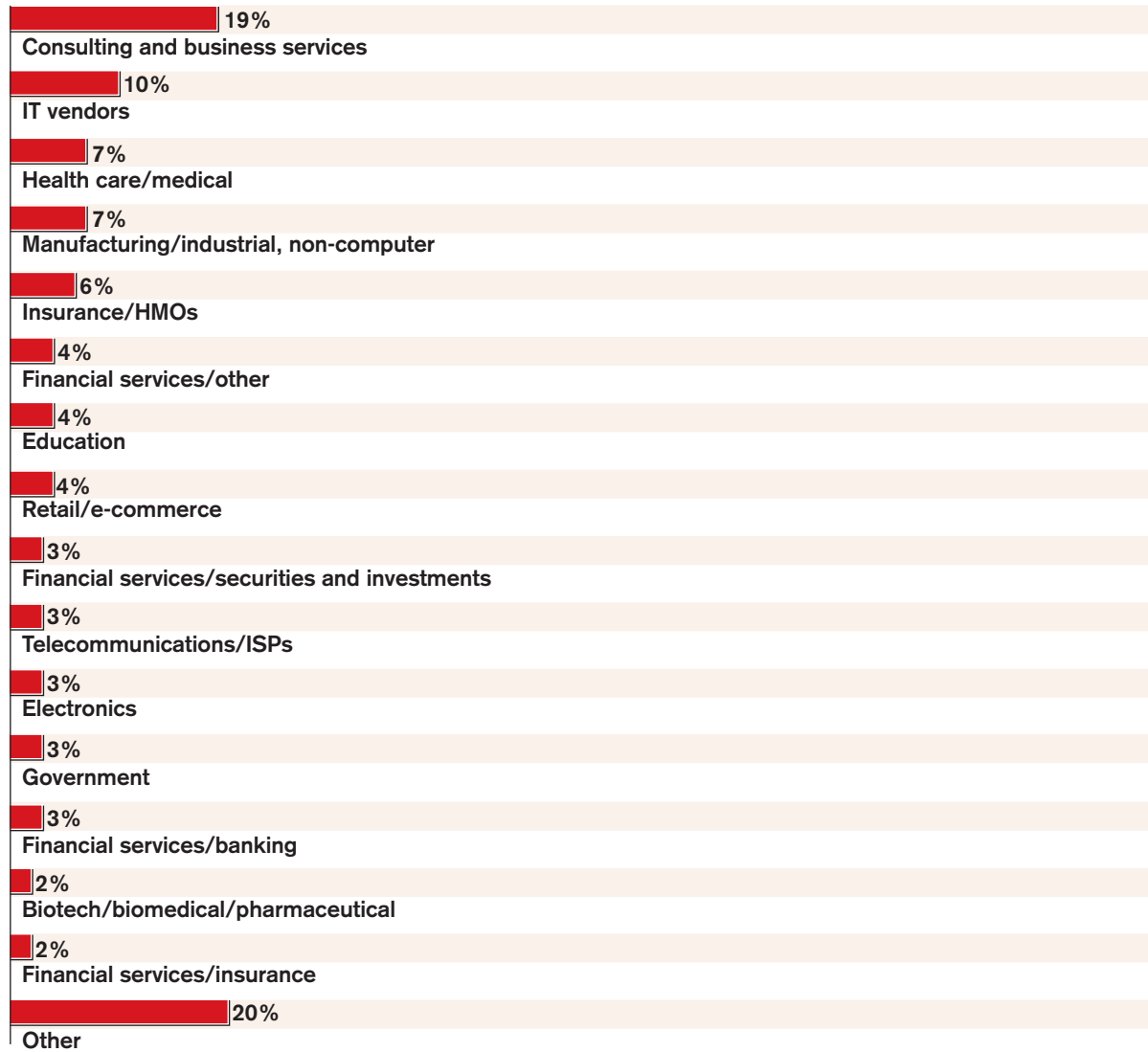
Data: *InformationWeek Analytics* 2009 Offshore Outsourcing Survey of 628 business technology professionals



Appendix

Primary Industry

What is your organization's primary industry?



Data: **InformationWeek Analytics** 2009 Offshore Outsourcing Survey of 628 business technology professionals