

REQUEST FOR TENDER- ICT OUTSOURCING STUDY

The Australian Computer Society wishes to commission a study which documents the nature and extent of offshore ICT outsourcing and the use of offshore ICT staff in Australia current and projected; which documents the implications for Australian ICT workers and the Australian ICT industry; and which proposes a balanced policy response. The brief for the study is below.

Queries on the brief should be addressed to richard_hogg@acslink.net.au

ACS RESEARCH PROJECT BRIEF

Project title: ACS study of offshore ICT outsourcing and use of offshore ICT workers (foreign nationals) in Australia

Introduction

The Australian Computer Society (ACS) wishes to commission a study which documents the nature and extent of offshore IT outsourcing (or “offshoring”) and the use of offshore ICT staff in Australia, both current and projected; the implications for Australian ICT workers and the Australian ICT industry; and proposes a balanced policy response and strategy for managing these implications.

This brief sets out:

- background on the ACS’s concerns about the offshoring development and the use of offshore ICT workers in Australia
- scope of the study and suggested methodology
- project budget range, deliverables and delivery date
- tender selection criteria

Background

The ACS has been concerned for some time about the short and longer-term impacts of *offshore outsourcing* on ICT jobs and industry development in Australia. These concerns have grown in 2003 with reports that the trend to ICT offshoring has been accelerating markedly among Australian-based companies and in Western countries generally.

In June 2003, the ACS identified research on offshore outsourcing as the top research priority in discussions with the Commonwealth Minister for Communications, Information Technology and the Arts. This position was part of the ACS response to the April 2003 *Framework for the Future* (or F3) Report to the Minister.¹

The F3 Report to the Minister identified offshoring of ICT work as one of the “potential threats and uncertainties” facing the Australian industry, balancing the opportunities facing the industry. Significantly, this was the only “potential threat and uncertainty” mentioned in the F3 Report.

The F3 report, summarising a McKinsey & Company report commissioned for F3, said:

“These opportunities are balanced by a number of potential threats and uncertainties. For example, countries such as India and China are pushing aggressively to capture ICT business, and combinations of relatively low wages and an increasing base of skilled people will mean a shift to commodity functions such as basic software code cutting to these nations. Higher value added activities are also being targeted by these countries. In common with other industrialized nations, Australia will be affected by these developments particularly in areas like software and services.”²

The F3 report did not quantify the offshore outsourcing threat to Australia, but did recommend a major effort in ICT research generally. However, at this stage, the Commonwealth government has not initiated any research into offshore outsourcing.

The ACS believes it is vitally important – and now increasingly urgent – to have an accurate and sound information base on the current and projected impacts of offshore ICT outsourcing. This is an essential first step to forming a balanced approach to managing the downside implications of this trend.

¹ *Enabling Our Future: A Framework for the information and communications technology industry*, The report of the Framework for the Future Steering Committee to the Minister for Communications, Information Technology and the Arts, April 2003.

² *Enabling Our Future: A Framework for the information and communications technology industry*, The report of the Framework for the Future Steering Committee to the Minister for Communications, Information Technology and the Arts, April 2003, p48.

The trend to ICT offshoring could mean that a return to growth in ICT spending by Australian-based firms may not translate into ICT employment growth in Australia, or lower growth than expected. Depending on scale, it may mean net Australian ICT job losses that parallel the globalisation of jobs from Australian manufacturing. This is clearly a major concern for the ACS, given that:

- the employment market for computer professionals in Australia has been slack for several years now, employment growth is low, and wages growth has been below average for the first time in ACS/APESMA survey experience.
- unemployment among computer professionals and new ICT graduates is very high relative to past experience, under-employment (even though harder to quantify) is also high as is concern about job and career security.
- there has been a very large decline in first preference enrolments in university level computing courses in 2003 that threatens the viability of our ICT education base in some areas; and removing uncertainty about the implications of ICT offshoring is clearly one important factor in stabilizing student demand for ICT courses.

In the US where ICT offshoring seems to be moving most rapidly, there is a range of views on its current and potential impact on US jobs and the ICT industry.

On the one hand, reports by research houses such as Forrester Research Inc (November 2002) tend to project that the US impact will be relatively large. For example, Forrester have estimated that over the next 15 years, some 3.3 million American service industry jobs and US\$136 billion in wages will move to countries like India, Russia, China and the Philippines, with nearly 1 million of these jobs ICT-related.

Forrester has estimated that the number of US computer jobs (including professionals) moving offshore will grow from around 27,000 in 2000 to a cumulative total of 472,000 by 2015; and that higher-end ICT workers as well as lower level workers are at risk.

- if the Forrester scenario for the US also broadly applied to Australia, that could mean a loss of nearly 40,000 computer jobs from Australia by 2015

At the other end of the spectrum, others hold the view that (for example) only a relatively small proportion of software development work is likely to go offshore, for technical and/or business reasons.

The ACS therefore wants the best possible data on the current nature and extent of ICT offshoring, and a critical assessment of the range of projected scenarios for ICT offshoring globally, and particularly those for Australia. This assessment should include the *type of ICT work and occupations* already being offshored (eg, technical support and customer service, software programming, development, etc), and likely to be.

The ACS is also concerned to establish:

- the extent to which ICT work being moved offshore is entry-level ICT work that would be done by new IT graduates; the implications for Australian ICT graduates entering the ICT graduate job market in the next 5 or so years from the removal of this layer of work; and the longer-term implications for both ICT industry development and ICT education and training providers.
- whether any factors apply in Australia that are different to those in other countries and which might mean the trend to ICT offshoring by Australian-based companies and public sector organisations is faster or slower than projected in other Western countries. For example, the relative size of the *domestic* ICT outsourcing sector or the government sector may be such factors, along with Australia's close integration into the Asian economies via APEC and other mechanisms.

The study should cover the various forms that offshoring can take, including:

1. Offshoring to an overseas-based provider with no Australian presence
2. Offshoring to an overseas provider via its Australian-based office
3. Offshoring to an overseas provider via an independent broker
4. Offshoring to a wholly (or partially) owned subsidiary of an Australian company or organization located overseas

Offshore ICT personnel (non-residents)

The ACS is also concerned about two situations involving the use of offshore ICT personnel in Australia (ie., persons who are not Australian residents):

- i the use of offshore ICT staff brought in facilitate “offshoring”, either via intra company transfers to work in the Australian-based office of the offshore provider/outsourcer (or broker), or to be placed on-site with a third party business which is considering the offshoring option.
- ii the use of offshore ICT personnel (non-residents) in the Australian ICT labour market more generally, including the ICT graduate labour market.

In relation to (i), there are several issues of concern both here and overseas. One is whether offshore ICT staff are displacing or undercutting Australian ICT staff (ie not being paid market rates). Another is that temporary migration policies seem to allow offshore outsourcing companies to place their own offshore ICT staff onsite with ICT staff in a local company which is considering the offshoring option. The local ICT staff are then directed to effectively train their offshore replacements.

There are claims that local ICT staff are compelled to train up the foreign staff in the local company's systems, or assist them in 'scoping' the potential offshore outsourcing work; and that local ICT staff are instructed to do this under threat of dismissal, reduced severance benefits or some other financial penalty.

The ACS wants to obtain hard data on the extent to which policy and practice permits this (for example) in Australia and other jurisdictions; and views on what protections policy should provide in these circumstances, which can be similar in practice to those facing ICT professionals in a company merger situation.

In relation to (ii), the concern is whether the temporary migration program is allowing non-resident ICT personnel to compete in the general Australian ICT labour market in a way that unfairly disadvantages Australian ICT workers in terms of job opportunities, wages and conditions. The number of non-resident ICT workers on 457 visas in Australia has almost certainly declined since a June 2002 study estimated there were around 7,900 ICT workers in Australia on the main temporary work visa.³

But the ACS continues to receive reports of disturbing practices such as non-resident ICT workers undercutting local market rates; and the 'warehousing' of cut-rate ICT workers on temporary work visas who are hired out to local firms under labour hire arrangements.

In the ICT graduate labour market, new ICT graduates potentially face competition from non-resident ICT workers in a number of visa classes additional to the main 457 temporary visa – for example, overseas student ICT graduates from Australian universities who can now work in Australia for up to 18 months after graduating (while their application for permanent residence is assessed), and persons on the 12 month Working Holiday Maker Visa (around 88,000 visas issued per year currently). The ACS wants to better quantify these impacts in the graduate labour market.

Scope of study and terms of reference

The study will:

1. provide a global overview and status report on ICT offshoring from Western countries, as of 2003. This should focus mainly on the main English-speaking countries (US, UK, Canada) but also cover the EU and continental Europe.

This section should be based on secondary data sources only and cover, in relation to Western countries and the global ICT offshoring market:

- a) estimates of the current and projected size of the ICT offshoring market, in terms of spending, industry sectors offshoring, employment impacts in ICT and other areas,

³ Bob Kinnaird, *Australia's migration policy and skilled ICT professionals: the case for an overhaul*, *People and Place*, Vol 10, No 2, June 2002. The 7,900 estimate was as at September 2001, and included 6,600 computer professionals.

the impact on the labour market for ICT graduates and student demand for ICT courses, and any net economic and employment benefits claimed for offshoring.

- b) in relation to ICT employment, evidence of the scale and type of ICT work that has already gone offshore and views on what is projected to follow over the next 5-10 years. In particular, the extent to which the offshoring threat is limited to lower-end “commodity” work versus higher value added work such as software development, services and R and D.
 - c) a critical assessment of the cost and other factors driving the offshoring trend, including relative ICT wage costs in different countries, employment conditions for ICT workers, and the issue of the total real costs of offshoring.
 - d) the role of immigration policies (especially temporary migration) in facilitating ICT offshoring, key developments and issues which have arisen and government and other responses to date.
 - e) the current state of policy and debate on the offshoring issue, including responses at the political and government level and from professional organizations and associations.
2. in relation to Australia, provide a detailed report on ICT offshoring covering all issues listed in 1 (a) to (e) above, *plus* the following additional issues:
- a) the regional composition of the employment impacts of ICT offshoring, and the extent of IT offshoring by government agencies and public sector organizations in Australia, directly and/or via domestic outsourcers to these bodies (current and projected in both cases).
 - b) an assessment of whether any factors apply in Australia which might mean the trend to ICT offshoring by Australian-based companies and public sector organisations is faster or slower than projected in other Western countries.
 - c) the current and projected size of Australian- based companies’ share of the global ICT offshoring market (in terms of spending and ICT employment), ie the extent to which Australia itself currently benefits from “inbound” ICT offshoring from other countries and the growth potential here for Australia.
 - d) an assessment of the potential and likely net impact of ICT offshoring on projected *total* employment growth of computer professionals in Australia over the next 5-10 years. This should provide 3 scenarios for projected employment growth (high, medium, and low offshoring impacts), benchmarked against projected employment growth rates for all Professionals in Australia.

- e) a detailed assessment of the actual and projected impact of ICT offshoring on the labour market for new ICT graduates (from higher education and other sources) over the next 5-10 years
- f) in relation to Australian immigration policies (especially temporary migration), an assessment of the extent to which these are operating to disadvantage Australian professionals in the general ICT labour market, including new ICT graduates.

Note: In sections 2 and 3, “employment impacts” should as far as possible be provided in terms of full-year full-time jobs.

- 3. Set out options for responding to the main issues for Australia presented by offshoring (short and longer term) and identified in 1 and 2 above, including the costs and benefits of the options.

Provide recommendations that give a detailed and balanced position and an action plan for Federal, State Governments, academia and industry on these issues including “best practice guidelines”.

Suggested methodology

Tenderers are invited to propose a project methodology, but should note the following.

Section 1 of the report – global status report – is limited to secondary data sources only.

Section 2 – the Australian situation – would be expected to include a stocktake of existing research on the Australian scene, *plus* analysis of secondary data sources.

It is open to tenderers to propose primary data collections to obtain some information for Section 2. However, where this is proposed, tenderers should address the issue of how representative of the total situation will be the data collected by the method proposed.

Deliverables

A detailed report addressing the study terms of reference, in hard copy and electronic form. A brief Executive Summary highlighting the recommendations will also be required.

Copyright and all intellectual property in the report and associated materials will remain exclusively with the ACS. The consultant engaged for this project may only publish any part of, or summary of, the report with the prior express written permission of the ACS.

Delivery date for report

Within 12-16 weeks of commissioning by ACS (expected to be by late August 2003).

Conflict of interest

Any conflict of interest or risk of conflict of interest resulting from the award of this project should be addressed in the tender submitted.

Tender closing date

Close of business **Friday 15 August 2003**

Tenders to be submitted (electronically) to:

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Further information on the project: Contact Richard Hogg, as above.

Selection criteria

1. Demonstrated understanding of the requirements of the project brief, and the IT industry.
2. Demonstrated expertise in the design and conduct of significant high profile studies.
3. Demonstrated track record in conducting similar studies.
4. A budget that provides value for money.