

# **THE IMPACT OF “OFFSHORE” OUTSOURCING ON EMPLOYEE MOTIVATION IN THE INFORMATION TECHNOLOGY FIELD**

An excerpt of a Dissertation submitted to

The University of Liverpool

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January 12, 2005

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## **ABSTRACT**

The impact of “Offshore” Outsourcing on employee motivation in the Information Technology field

U.S. professionals that worked in the Information Technology (IT) field in the 1990's, enjoyed prosperous and rewarding careers characterized by competitive salaries, enjoyable work environments, and high demand by employers for talent that was in short supply. In the early 2000's, several events occurred that changed the operating landscape for many IT professionals. The dot com fad came to an end and the economy suffered a serious setback, displacing many IT workers. At the same time, networks and broadband communications continued to improve in reliability and reach, that physical proximity to work was no longer an issue. Faced with these challenges, many IT providers and foreign competitors started to offer offshore resources as a cost saving measure for clients. The selling point was an offer by offshore locations for comparable IT talent at discounts anywhere from 50% to 60% of the current US rate. Many executives argued that they can't ignore their obligation to maximizing shareholder value by utilizing cheaper and competent offshore resources.

So far, mixed messages have been communicated regarding the impact Offshoring has on the economy and unemployment levels. Some argue that the

impact is minimal and has been blown out of proportion by activists and politicians. Others argue that Offshoring poses a very serious threat to the economy and US leadership position in technology. Unfortunately, accurate data is not available to get a true picture of the overall impact. Additional factors that are unaccounted for include inter-company transfer of knowledge (on-shore to off-shore), natural end of contracts, new contracts that are staffed offshore from day one, and the small repetitive process of transition. Although Offshoring is a heated debate between opponents and proponents, one aspect that has been neglected, is the impact on employee motivation.

The new operating model and resulting change in organizational behavior, created challenges for both, employees and employers. IT professionals today face a different environment characterized by limited employment opportunities, concern for job security, and uncertainty about their future in the IT profession. The dissertation examines the impact of Offshoring through literature review and primary research conducted in the form of a survey using a sample of the target population (IT professionals).

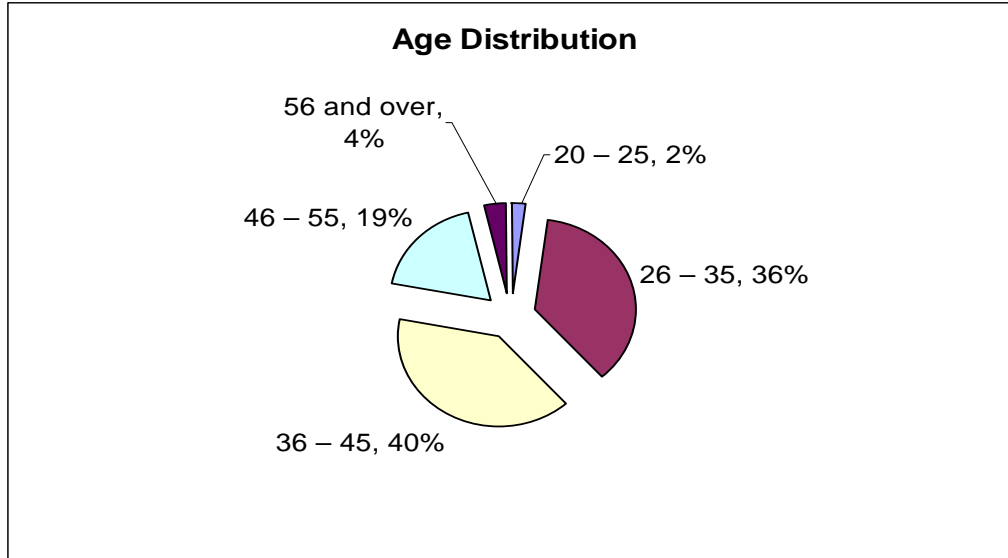
This document contains an excerpt of the dissertation focusing primarily on presentation and analysis of findings.

# **PRESENTATION AND ANALYSIS OF FINDINGS**

This research was conducted from September 1, 2004 through November 18, 2004. A total of 90 respondents participated from 16 countries, with the majority of responses coming from the United States. The analysis of findings section is presented in the following order: Demographics, employer, Offshoring, work environment and work group, job satisfaction, approach to work, motivation, and additional comments.

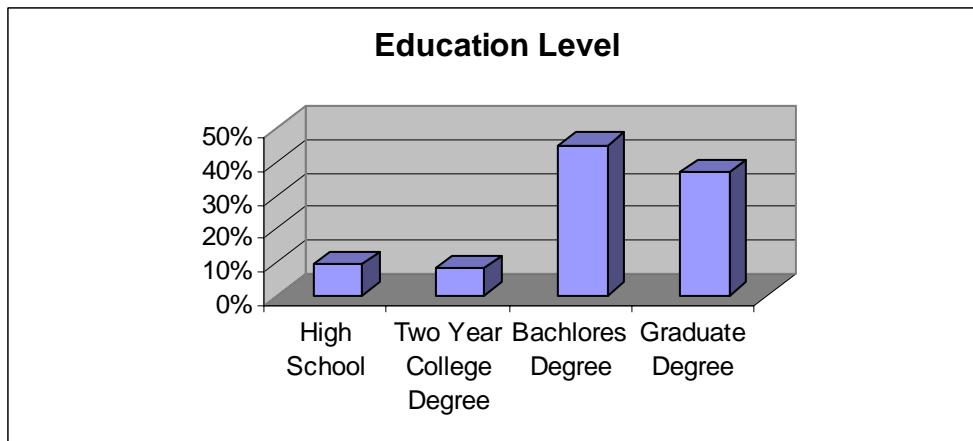
## **DEMOGRAPHICS**

Demographics examined respondent's gender, age distribution, education level, physical proximity to work, years of experience in the IT field, and country of residence (location). In total, 69% of respondents were male and 31% were females. The majority fell in the 36 – 45 year old age group as shown in Figure 7, emulating the age of the IT services industry itself, which is a little over 40 years old.



**Figure 1: Age Distribution**

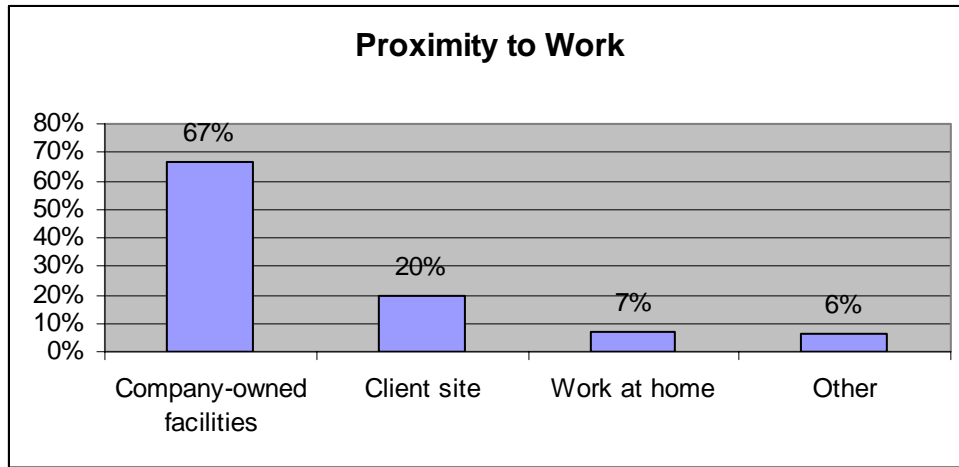
The requirements for high education and on-going training in the IT field, are evident by responses shown in Figure 8, where 82% of respondents held college degrees, of which, 37% held graduate degrees.



**Figure 2: Education Level**

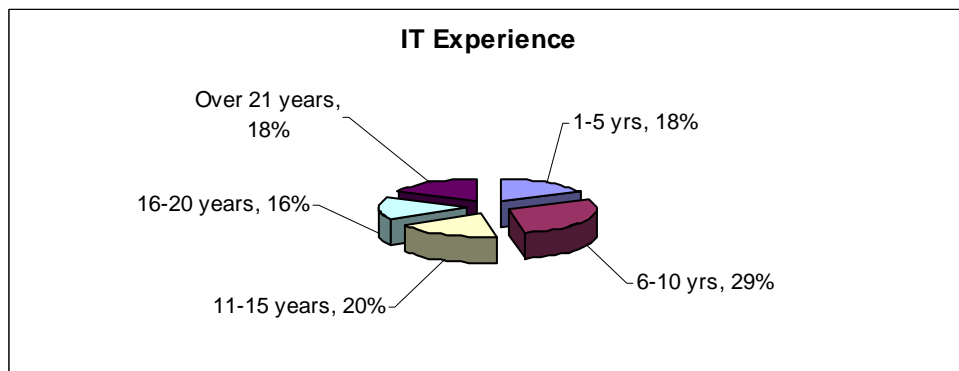
Surprisingly, physical proximity to work was higher than expected, considering the widespread use of telecommuting and virtual work locations. Only 7% of respondents worked from home while the majority, 87%, worked at

either client or company owned facilities. The “Other” category represented a mix of all three locations.



**Figure 3: Proximity to work**

IT experience, Figure 10, varied slightly with the extreme ranges, 1-5 years and over 21 years, at exactly at 18%. This may be an indication of the slowing growth in the IT field, where new comers are entering at the same rate seasoned employees exit (retirement, workforce reductions, etc).



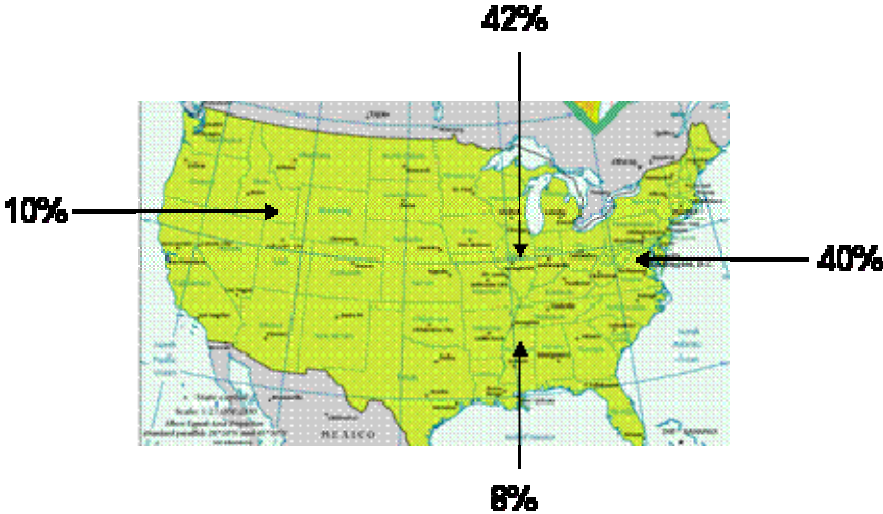
**Figure 4: IT Experience**

Overall, 16 countries were represented with the majority of responses, 58%, coming from the United States as shown in Table 4.

Country	% of Respondents
United States	58%
United Kingdom	13%
India	5%
Canada	4%
Netherlands	4%
Saudi Arabia	4%
Germany	2%
Belgium	1%
Brazil	1%
Colombia	1%
France	1%
New Zealand	1%
Singapore	1%
South Africa	1%
Sweden	1%
Turkey	1%

**Table 1: Responses by Country**

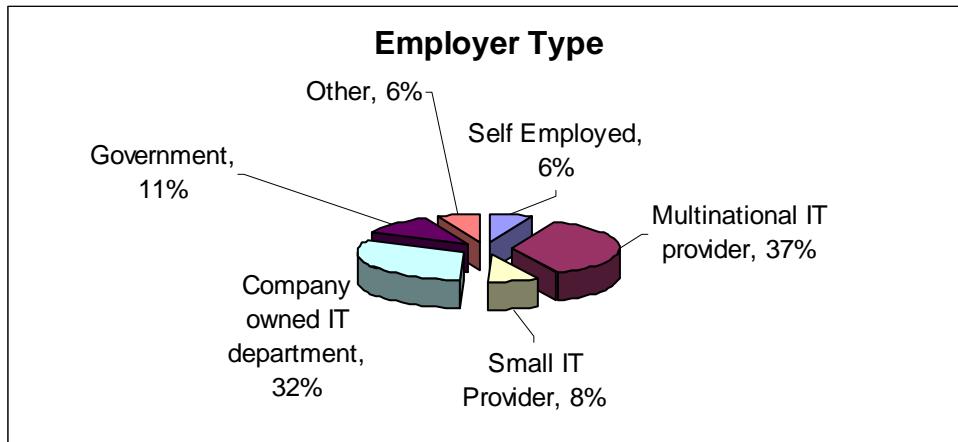
Within the United States, the Midwest represented the majority of responses at 42%, followed closely by the Eastern states at 40%. Western states came in at 10% and Southern states at 8%.



**Figure 5: Responses by US Region**

## EMPLOYER

Employer analysis focused on understanding employer types, work environment, industries supported, relationship with employer, and jobs performed by the sampling units. Multinational solution providers employed 37% of respondents, followed by 32% that worked at company owned (in-house) IT departments. The remainder worked for governments, local authorities, small IT providers, or were self employed.



**Figure 6: Employer Type**

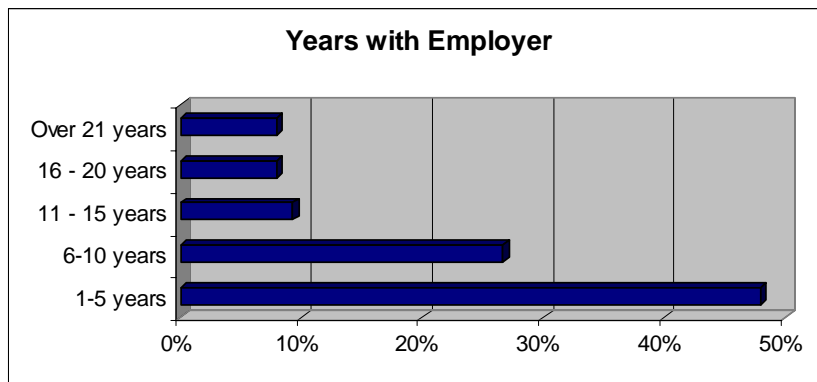
Multiple industries were supported, 43%, while the remainder, 57%, worked for specific industries as shown in Table 4. This is in line with the leveraged resource model used by many service providers

Industry	% of Total
Multiple Industries	43%
Financial Services	12%
Government	7%
IT	7%
Communications	5%
Manufacturing	5%
Energy	4%
Transportation	4%
Education	4%

Health Care	3%
Hospitality/Travel/Real Estate	3%
Insurance	1%
Police	1%
Startup Consulting	1%

**Table 2: Industry**

Years with current employer, Figure 13, shows that the majority of respondents, 48%, have been with their current employer for 1-5 years, and the minority, 8%, have been with their current employer for 21 years or more.



**Figure 7: Years with Employer**

Responses to questions related to employer Offshoring operations, contracts, and severance, are summarized in Table 6. It shows that 68% of employers have Offshoring capabilities and only 44% of respondents have formal employment contracts. Interestingly, 69% of respondents said their employers offer severance if their jobs were eliminated.

	Yes	No
<i>Does your employer have Offshore Operations or strong alliances with offshore IT vendors?</i>	68%	32%
<i>Do you have a contract with your employer?</i>	44%	56%
<i>Does your employer provide Severance pay if your job was eliminated?</i>	69%	31%

**Table 3: Employer Offshoring**

The primary roles performed by participants were tied between project management and technical functions at 33% each. Management roles followed closely at 24%. Administrative and Other roles followed at 5% each.

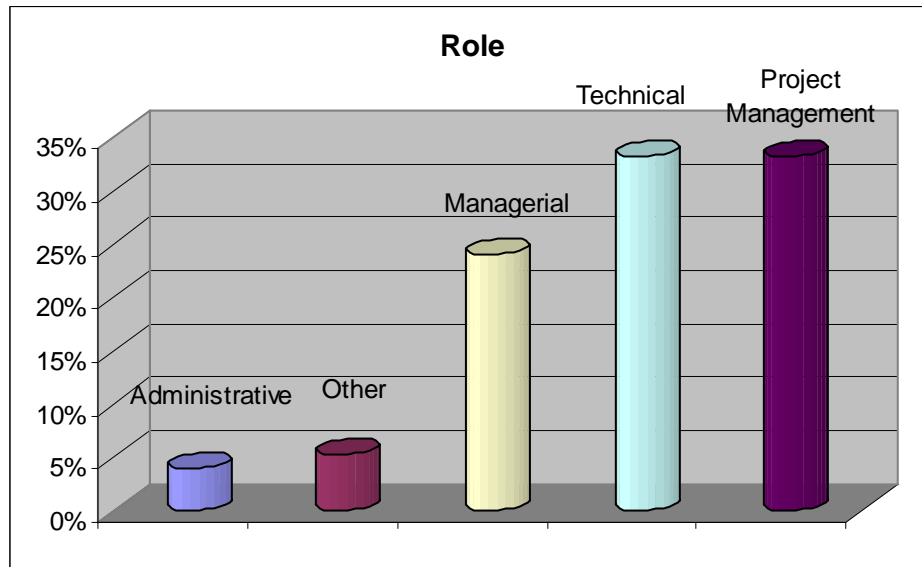


Figure 8: Role

Technical skills covered a wide range of areas as shown in Figure 15. The largest number of respondents, 23%, work in Network /System Administration and 22% selected multiple technical skills. Legacy and midrange skills (initial niche by offshore locations) represented 11% each, web development 19%, and Enterprise Resource Planning (ERP) 15%.

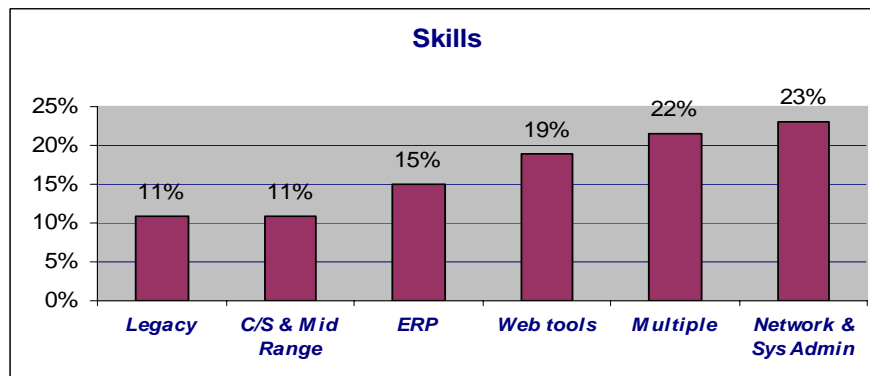


Figure 9: Technical Skills

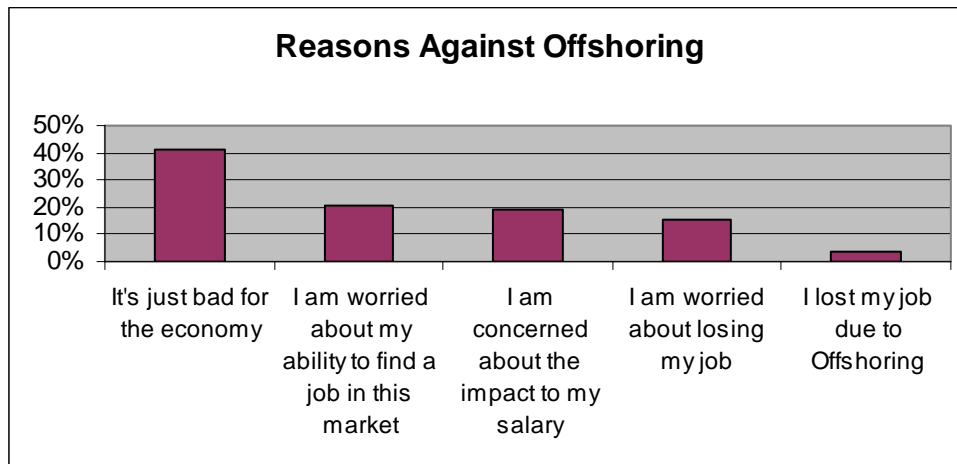
## OFFSHORE OUTSOURCING

The Offshore outsourcing section asked participants directly how they felt about Offshoring. The results summarized in Table 7, show that 90% believe it is not a temporary trend and 61% believe it is not good for the economy. As to the impact on motivation, 82% believe it negatively impacts employee motivation.

	<b>Agree</b>	<b>Disagree</b>
<i>I think Offshoring is a trend that will fade away in few years</i>	10%	90%
<i>I think Offshoring negatively impacts employee motivation</i>	82%	18%
<i>I support Offshoring IT work because it's good for the economy</i>	39%	61%

**Table 4: Opinions about Offshoring**

To understand why respondents were against Offshoring, several questions were posed and results summarized in Figure 16. The majority, 41%, cited economic concerns, 21% were concerned about finding a job, 19% were concerned about the impact to their salary, 16% were concerned about losing their job, and 3% actually lost their job to Offshoring.



**Figure 10: Reasons against Offshoring**

# WORK ENVIRONMENT AND WORK GROUP

In response to whether recent actions by the organization were in line or against culture, 45% of respondents felt actions were against culture, 25% felt it was in line, and 31% were neutral.

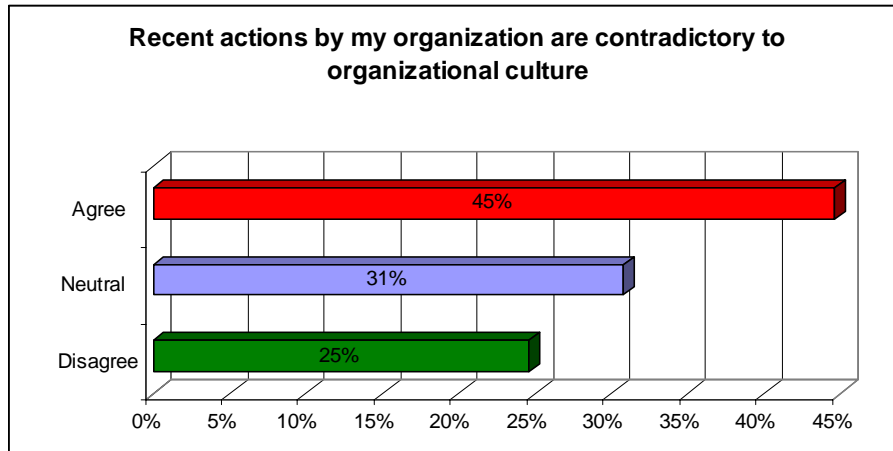


Figure 11: Organization Culture

Examination of the immediate work environment revealed that an overwhelming majority, 71%, felt that the work environment suffers from negative emotions and low morale. Only 15% of respondents disagreed and 14% were neutral.

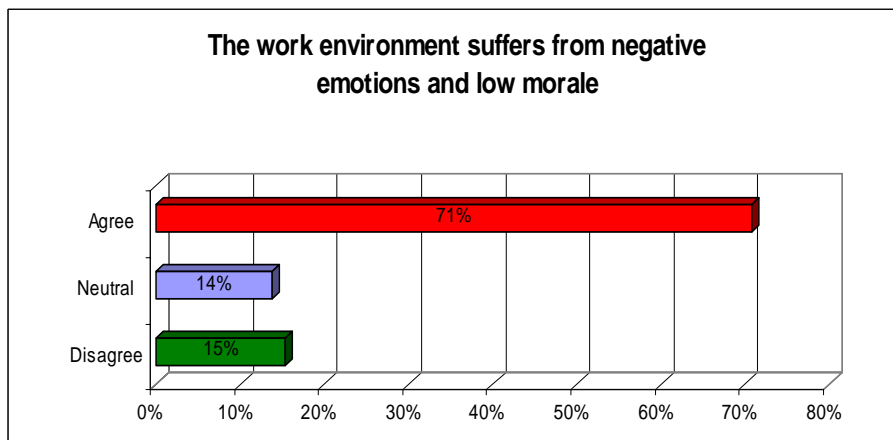
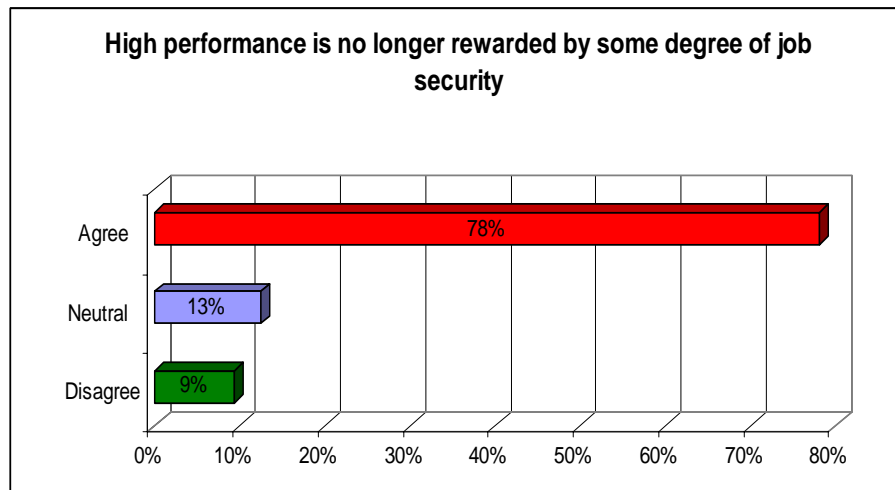


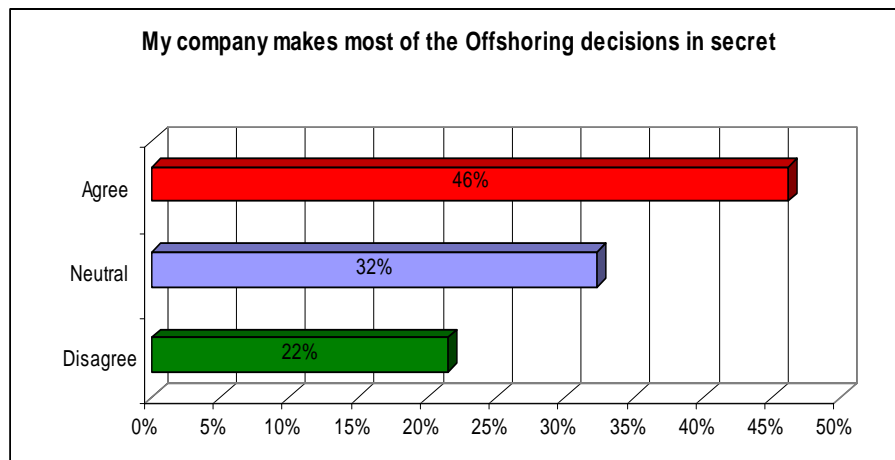
Figure 12: The work environment

The perceived psychological contract between employers and employees is no longer valid as shown in Figure 19. Only 9% felt that high performance by the employee is rewarded by some form of job security. The majority, 78%, felt that the relationship between job performance and job security no longer exists.



**Figure 13: Performance and Rewards**

When it comes to employer decisions about Offshoring, 46% said their employers makes Offshoring decisions in secret, 32% were neutral, and 22% disagreed.



**Figure 14: Company Offshoring decisions**

The last question in this section examined the shared feelings of the workgroup towards Offshoring. Most respondents, 69%, said Offshoring was viewed negatively by their workgroup, 9% felt it was positive, and 22% were neutral.

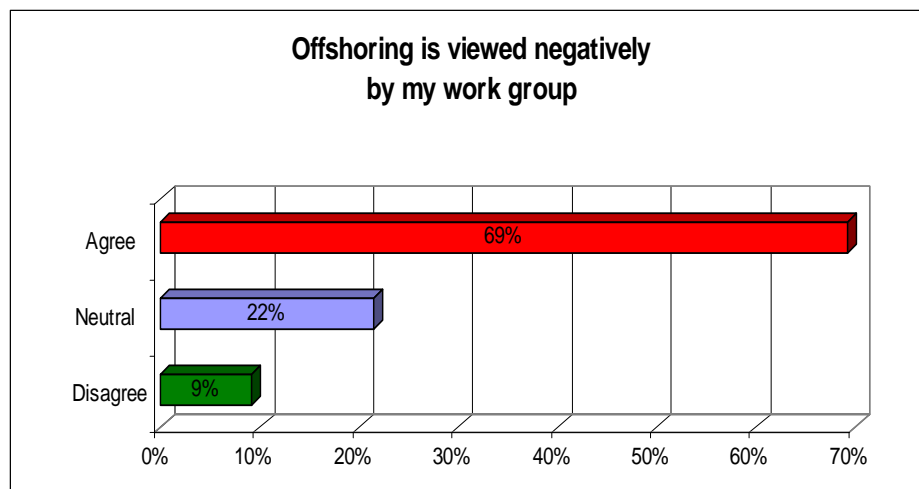
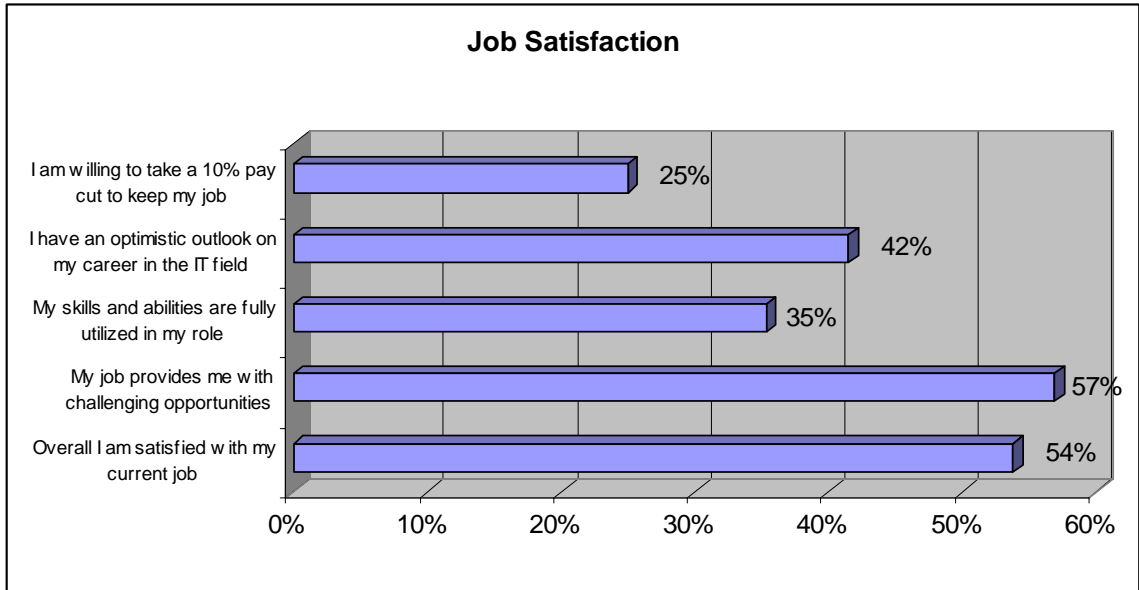


Figure 15: Offshoring and workgroup

## JOB SATISFACTION

In response to overall job satisfaction, 54% of respondents indicated they are satisfied with their job and 57% indicated that their job provides them with challenging opportunities (Figure 22). The negative aspects of job satisfaction were evident in response to utilization of skills and overall outlook on careers in the IT field. Only 35% of respondents felt their skills and abilities were fully utilized and 42% said they have an optimistic outlook for their careers in the IT field.

To gauge respondent's willingness to adjust their salaries in response to lower salaries in the market, only 25% were willing to take a 10% pay cut to keep their job.

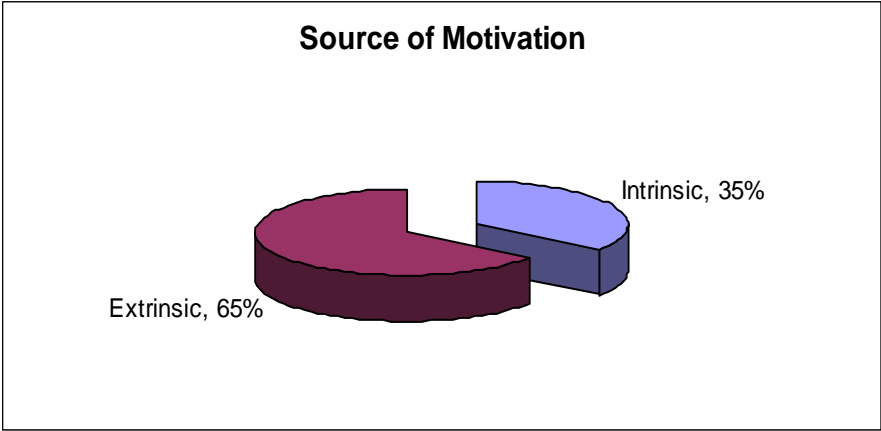


	Disagree	Neutral	Agree
<b>Overall I am satisfied with my current job</b>	25%	22%	54%
<b>My job provides me with challenging opportunities</b>	25%	18%	57%
<b>My skills and abilities are fully utilized in my role</b>	48%	17%	35%
<b>I have an optimistic outlook on my career in the IT field</b>	42%	17%	42%
<b>I am willing to take a 10% pay cut to keep my job</b>	59%	16%	25%

**Figure 16: Job Satisfaction**

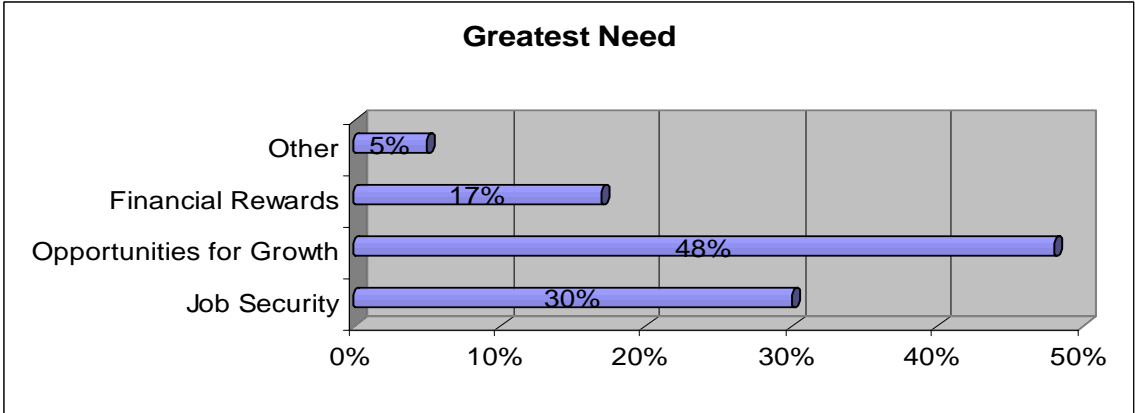
## APPROACH TO WORK

Approach to work examined respondents perception of their own source of motivation, their needs, loyalty to employer, approach to self improvement, and goal setting. The majority of respondents, 65%, believe that their source of motivation is extrinsic and greatly influenced by the work environment (Figure 23). Only 35% of respondents felt that their source of motivation is intrinsic (internal) and the work environment has little impact on their motivation.



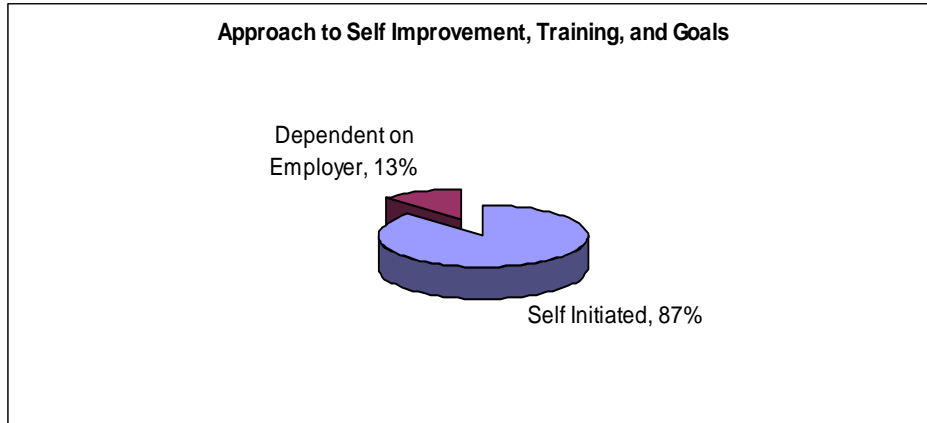
**Figure 17: Source of Motivation**

The greatest needs identified by respondents were; opportunities for growth 48%, Job security 30%, financial reward 17%, and other at 5%. The “Other” category included responses citing all three as equally important.



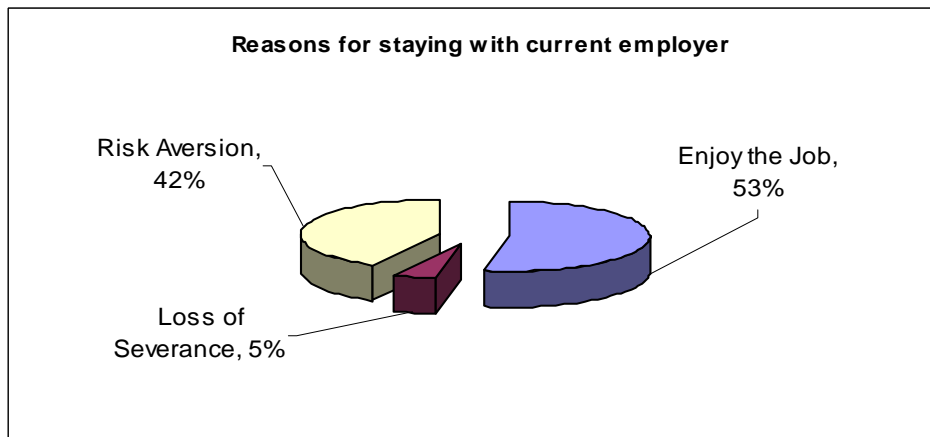
**Figure 18: Needs**

Responses to self improvement, training, and goal setting, show a strong interest and initiative by respondents in all three areas, Figure 25 . The majority, 87%, said they spend time outside work to improve their skills and set challenging goals, personally and professionally. Only 13% were fully dependent on employer sponsored training and goal setting.



**Figure 19: Approach to personal improvement and goals**

When asked about reasons for staying with their current employer, 53% said they enjoyed their jobs, 42% were risk averse due to current market conditions, and only 5% worried about losing their severance if they voluntarily left their jobs.



**Figure 20: Reasons for staying with current employer**

## MOTIVATION

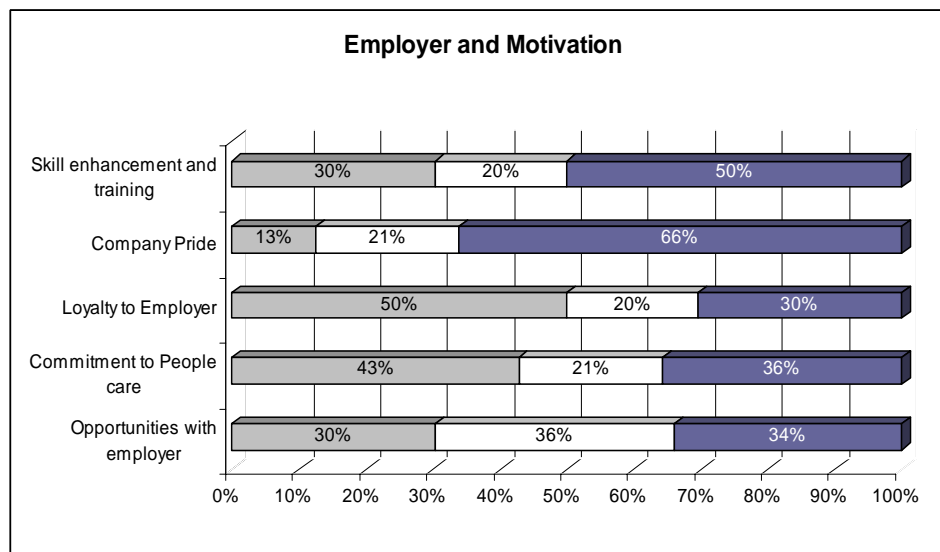
Although motivation based questions were purposely asked under other headings, this section focused on identifying respondent’s motivational tendencies. When asked what motivates you the most, Table 8, respondents ranked “Achievement” as highest factor and “Job Security” as the lowest.

<b>Achievement</b>	<b>9</b>
Opportunities for growth	8
The work itself	7
Level of responsibility	6
The work environment	5
Compensation	4
Recognition	3
Peers at work	2
Job Security	1

**Table 5: Ranking of motivating factors**

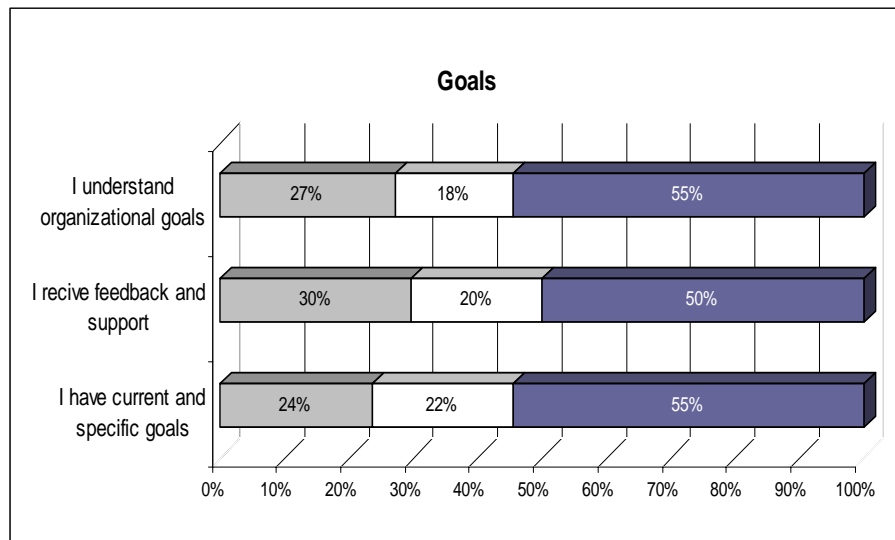
The majority reflected positively on their employer’s role when it comes to skills enhancement and pride in their company. Half of the respondents said, they have plans to enhance their skills through training with their employer and 66% expressed pride in their company and what they do.

On the negative side, only 30% expressed loyalty if an equivalent external offer was presented. This may be explained by two other responses related to opportunities for growth and people care. When asked about the former, only 34% said they have opportunities for growth. When asked about the latter, a mere 36% said their employer remains committed to people care.



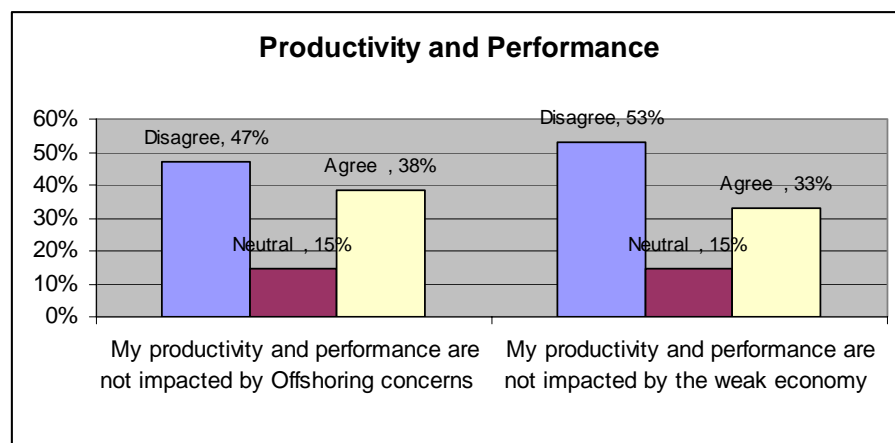
**Figure 21: Employer and Motivation**

The goals category had an overall high percentage of favorable responses. Figure 28 shows that 55% of respondents understood their organizational goals and have current, measurable, and specific goals to accomplish. In addition, 50% said they receive ample feedback and support for their work.



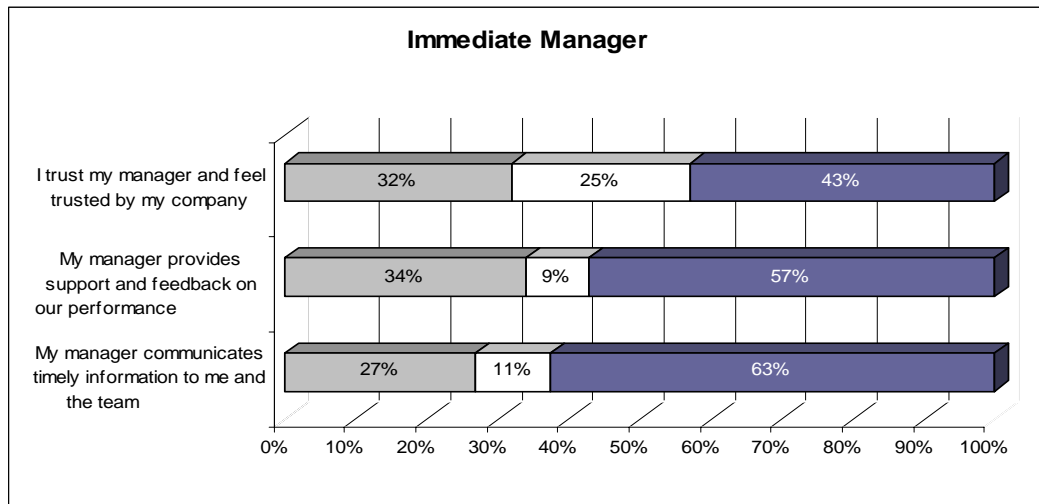
**Figure 22: Goals**

In support of earlier results regarding the external environment, respondents said their productivity and performance are negatively impacted by Offshoring concerns (47%) and a weak economy (53%).



**Figure 23: Productivity and Performance**

Respondents provided high marks for their immediate manager's role. The majority, 63%, said their manager communicates timely information, and 57% said their manager provides support and feedback on their performance. Only 43% said they trust their manager and feel trusted by their company.



**Figure 24: Immediate Manager**