



WHY RIGHTSOURCE TO POLAND? QUALITY, STABILITY, AND PEACE OF MIND

By Armando Viteri, Neubloc, Chief Executive Officer

Poland today represents a compelling opportunity for software development outsourcing:

1. *Human Capital* - highly educated, hard working and loyal
2. *Low Attrition* - dramatically lower than either India or China
3. *Protection of intellectual property* - on par with Western norms
4. *Infrastructure* - modern infrastructure undergoing further massive investment from the European Union
5. *Cost* - competitive with India and China especially as it relates to effective productivity

Taken together Poland today represents an opportunity to reduce development costs by 40-60% while still preserving peace of mind. While there are many places in the world offering reduced labor costs for software development, Poland provides a unique blend of quality and protection for US based companies. A lot has been said about the failures in outsourcing – “an engineering team that costs a third but takes four times longer to implement doesn’t buy me much...” Many of these problems are directly attributable to the quality and stability of the software development workforce. The technically strong and stable Polish workforce ensures successful projects while the protection of EU law ensures peace of mind for US companies.

The global software industry is undergoing a fundamental change. Increasingly, companies are beginning to offshore "elements of their engineering, design, and research and development" as cited by a recent study conducted by Booz Allen Hamilton and India's National Association of Software and Service Companies (NASSCOM). The study anticipates that global spending on offshore engineering will soar to \$150 billion to \$225 billion by 2020, up from today's \$15 billion. ¹

"And although the impetus to reduce labor costs accounts for more than 90 percent of offshore innovation work in emerging markets today, that goal will give way during the next 10 years to more strategic priorities: market access, resource quality, increased productivity, and expanded capacity," Strategy + Business states. The study predicts that "the proportion of companies that are outsourcing primarily to reduce spending will drop 26 percent" by 2015, while at the same time, "the share of those motivated primarily by other benefits, such as boosting capacity, will multiply by as much as 10 times." Among other things, the article notes that there will be a "severe shortage of skilled high-tech

¹ Strategy + Business, "Innovators without Borders", Kevin Dehoff and Vikas Sehgal

workers" in the United States and Europe. For many companies the combination of labor shortages in Western countries coupled with the desire to better control costs has led to outsource development into India, China and Eastern Europe. Of the countries represented in this list, Poland represents a unique opportunity.

1. Human Capital

International corporations are increasingly interested in putting R&D capabilities in Poland. Investors choose Poland mainly for the availability of a highly qualified labor force, the presence of many universities and the support of the authorities. Among others, the following investors have set up their R&D centres in Poland: ABB, Avio, Fujitsu, Glaxo Smith Kline, IBM, Intel, Lincoln Electric, Motorola, Oracle, Siemens, TRW Automotive and Whirlpool. Their experiences are very positive and results are good, thus most of them are expanding.²

Poland has the largest working population in Central Europe as well as the youngest one in Europe. 50% of the population is under the age of 35 years and 35% is under 25 years of age. The young generation of Poles is one of the best educated in Europe. 45.2 % between the ages of 20 – 24 attend higher education centers.

Percentage of population in higher education in the 20-24 age group

Country	%
Poland	45.2
Germany	35
Hungary	34.8
Netherlands	34.4
USA	33.9
Ireland	28.3
Czech Republic	25.0
Slovakia	19.0

Source: "Education at a glance" OECD 2003

² Polish Information and Foreign Investment Agency

Over six million young people currently studying at the higher education institutions make up almost half of the student age population. In 2004 the number of graduates was 384,000. Studying is becoming increasingly popular among young people from smaller towns and rural areas.

Poland has a nationwide network of 427 centers of higher education. There are 126 state higher education academies including 17 universities, 18 universities of technology, as well as 301 private schools of tertiary education. They employ over 100 000 academics; half of them hold a Ph.D. degree. There are 20 ICT academic centers with more than 2500 students each and 150,000 IT, computer science and telecommunication students.

Polish ICT education centers and specialists are highly recognized worldwide. Poles are winning the prestigious Top Coder ranking and are achieving high positions in the worldwide Google Code Jam Competition and the IBM Linux Scholars Challenge. Polish IT specialists are employed by the largest IT companies in the world. They also constitute an important share of managers responsible for research and development (R&D) activities in multinational corporations such as Microsoft and Nokia. Over 300 Polish IT engineers are employed at the Silicon Valley.

The level of foreign languages knowledge is rising fast among young Poles. The most popular foreign language is English, followed by German and Russian. 44% of Polish society is able to communicate in a foreign language, 33% speak two foreign languages. It is significant that 80% of students speak English.

Percentage of pupils in general secondary education by foreign language

Country	English	German	French	Russian
Poland	80	53	11	18
Hungary	63	60	4	1
Czech Republic	64	49	4	1
Slovakia	56	51	1	7

Poles are one of the hardest working people after Koreans. According to the OECD Employment Outlook 2005, on average they worked 600 hours more in 2004 than employees in France and Germany.

Poles are hard working and loyal

Country	Average annual hours actually worked per person in dependent employment in 2004
Korea	2380

Poland	1957
Mexico	1920
Slovak Rep.	1913
Czech Rep.	1900
Japan	1840
United States	1812
Hungary	1806
Greece	1803

Source: OECD Employment Outlook 2005

2. Attrition

Many of the failures of offshore software development projects are due to instability in the workforce in geographies such as India. The demand is much greater than the supply, with engineers moving from job to job in time periods measured in months. Competition for engineers and programmers with specialized expertise is fierce, and turnover is high, with some firms in India reporting turnover as high as 40 percent annually. In India the norm is to provide “shadow engineers” – engineers who are not billable but are tracking a project to replace the next engineer who leaves. In many cases the “shadow engineers” are fully 20% of the engineering headcount on a project.

This situation almost guarantees project failure.

By contrast Polish engineers value job stability and as a result provide a stable work force. For example, one group in Katowice Poland has achieved zero attrition amongst their 58 engineers in three years. This is common in Poland but yet unheard of in other countries.

3. Intellectual Property Protection

Most neubloc customers are comfortable with the knowledge that development work done in neubloc companies is protected under European IP law. This IP protection is quite similar in scope, nature and rigor to US IP law. By contrast India and China are both notoriously cavalier in their protection of intellectual property.

From an article in CIO Magazine ("At Risk Offshore"):

On a typically steamy New Delhi day in late August 2002, Nnette Day walked into the Ashoka, one of the city's best hotels, for a meeting with Shekhar Verma. Verma had been fired from his job at Geometric Software Solutions Ltd. (GSSL), an outsourcer based in Bombay. He claimed to have the source code for SolidWorks Plus's 3-D computer-aided design package, which GSSL was debugging. Verma had contacted a number of SolidWorks' competitors and offered to sell them the source code. Day, an American, had taken the bait and flown to New Delhi. After confirming that what Verma possessed was indeed SolidWorks' source code, Day began negotiating on price, eventually bargaining him down to \$200,000 for the code. The deal struck, Day got up and left the room. Then agents from India's Central Bureau of Intelligence (CBI) swept in and arrested Verma. Day was not arrested—she is actually a special agent from the FBI's Boston Cybercrime Unit and had gone undercover to work with the CBI on this case, the first undercover operation for the FBI in India.

The arrest led to the first prosecutorial filing for outsourcing-related intellectual property (IP) theft in India, in a case that may come to trial before year's end. Given that software outsourcing was a multibillion-dollar business in India last year, the trial will draw close scrutiny from both sides of the world. Sound like an open-and-shut case? Day herself is not nearly so confident. "With no case precedents, the reality is we have no idea how this plays out under their law," she says. Day also says that Verma made two small mistakes (she declines to specify them) without which he could have already gotten off scot-free, and that after a full week in India working with the prosecutors this fall, Day still doesn't understand the applicability of at least one of the critical charges.

Intellectual property — if stolen — "is a genie that can't be put back in the bottle," says Day. Currently, she says "there is really no law to protect American companies' intellectual property."³

There is little recourse to take in places like India and China — the norms for handling intellectual property are simply different and cultural. Quoting Dr. Bidhan Chandra, an Indian cultural consultant:

"Apart from personal greed of some IT workers, the main reason for lack of US-style IP protection is the cultural difference between India and the U.S. IP protection is a new phenomenon in India. There is no doubt that some Indian companies don't pay the necessary attention to security. Almost all of the security services in these companies is outsourced to local companies. Many of these security people are not well-educated or trained to deal effectively with highly-educated developers and managers."

³ CIO Magazine, November 15, 2003 issue, "At Risk Offshore", Michael Fitzgerald

4. Infrastructure

Finally Eastern Europe does not suffer from the same infrastructure and distance problems as India. In India, all aspects of the infrastructure required to run a business (with the possible exception of the privately built telecommunications infrastructure) are not up to world standards.

Quoting Vinnie Mirchandani of Deal Architect Inc.:

"In his fascinating new book, ["The World is Flat"](#) Thomas Friedman, the NY Times journalist describes his visit to the high-tech [Infosys campus in Bangalore](#). But to get there he "reached by a pockmarked road, with sacred cows, horse drawn carts and motorized rickshaws all jostling alongside our vans".

The path to TCS's campus in the SEEPZ (a technology park) near Mumbai is even more of a turnoff – again, once you get there you are in a cocoon of high-technology. The capital, New Delhi is somewhat better – as the locals say, the politicians make sure there are few potholes for their cars.

An executive who does business throughout Asia once told me "India is the only large Asian country where the infrastructure from when you land to your hotel has not improved in the last two decades". A US CIO recently told me it is tough to get his staff psyched about visiting their India locations. In comparison, he gets volunteers for Philippines and China."⁴

By contrast Poland has reliable power generation coupled with a modern air, rail and automotive transport system. There are no requirements for providing electricity through gasoline fired generators in the back of the buildings. Rapid further improvements are being made to the transport system as Poland further integrates into the European Union.

5. Cost

Finally the cost advantage that India had through the late 90's and the earlier part of this decade has now disappeared. Eastern European development costs are essentially **on par** with India today.

The ultimate objective for outsourced development is to provide successful projects delivered on a timely basis at a reasonable cost. The ultimate desire for this development is that it does not put the company's "crown jewels" at risk in the process. The risk/benefit ratio is not in a US software

⁴ Dealarchitect.typepad.com, "India's Infrastructure Issues", Vinnie Mirchandani

company's favor today when looking to outsource to India or China. The EU countries of eastern Europe provide a improved risk scenario while the quality, size and stability of the Polish software development workforce ensures successful project delivery.

To learn more about how we can give you 'peace of mind' please contact:

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