



Satyam in Europe: The End of an Aura

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The Satyam saga continues to unfold, with each day bringing new twists and revelations. The Indian press is beginning to report on the [implications](#) for Europe-based IT services players, some of which have partnerships or subcontracting relationships with the now-disgraced Indian company.

The Satyam scandal does indeed have implications for European IT services, going beyond Satyam itself and even its European trading partners. In our view, the scandal marks a transition point in the perception of Indian-based vendors by their European customers and partners — coming as it does on top of a pretty miserable 2008 in which the Indians were shown to be as exposed to the industry downturn as their Western-based peers.

For IDC, in Europe at least, Satyam signifies the end of an era of Indian invincibility. Until last year, the Indians convincingly outperformed their Western peers with gravity-defying success, their financial and market share performance seemingly obeying a different set of rules to those of their Western-based peers. Significantly, Indian IT vendors' share prices declined last year as part of the worldwide industry downturn, even before the Satyam scandal. The aura has gone.

Ronald Reagan once remarked that 'you can't argue with success'. During the go-go years of the Indian vendors' spectacular financial success it sometimes seemed difficult or even pointless to raise a number of small but nagging issues. But the Indians have now been 'brought down to earth' — no-one will be 'blinded by the hype' of India Inc. again in quite the same way they were during the boom years, and that includes customers.

Trust is critical when a European customer has to wait months or even a year or more to see a return on their money, and when the transition to Indian-based delivery involves significant cultural and technical hurdles and risks. But after Satyam, trust can't necessarily be taken for granted from India Inc. Some buyers will start to think they can and should trust Western vendors with Indian delivery machines more than they should trust Indian vendors.

With the cushion of spectacular growth removed, investors, customers, and partners of India Inc. are starting to look 'under the hood' at these suddenly more-important issues, including:

- India Inc.'s structural handicaps are now more glaring. The Indian IT services industry used to be seen as a world-class player that had overcome the handicap of a third-world technical infrastructure, and customers were prepared to overlook or ignore the disadvantages of dealing with India Inc. But the Satyam scandal looks like it will create the impression of a huge and worrying deficiency/immaturity in the regulatory and governance side of India Inc. That is a harder burden for Indian vendors to shrug off than poor telecoms and road links.
- The Indian vendors' USP is fast disappearing. The Western vendors 'have their own Indians': larger operators such as IBM and Accenture claim to match Indian vendors in price and quality of their Indian-based delivery services. The Western vendors are adopting Indian techniques (e.g., process standardization, land and expand techniques) in their onshore operations too. This negates or at least erodes the differentiation of the Indian vendors, a differentiation that has (so far) been a major part of their success formula.

Moreover, we can see a number of longer-term structural shifts in the shape of the European IT services industry that will reduce the advantage that the Indian vendors have so far had this decade, slowing their momentum in Europe:

- Globalization is going back onshore. We are coming to the end of Globalization 1.0 and Offshore 1.0, the first, crude phases of service-delivery globalization. Globalization 2.0 and Offshore 2.0 will be a more sophisticated, granular mix of offshore, nearshore, and onshore delivery. This will cause the Indian-based vendors to lose some of their competitive advantage, as they tweak their structures to look more like their Western peers.
- IT services is becoming more consulting-enabled. Business consulting techniques and concepts are becoming increasingly 'embedded' in the sales, account management, and delivery side of the IT services industry, as clients expect their vendors to propose and deliver business rather than technology-led solutions to business rather than technology problems. The Indian vendors will undoubtedly adapt to this trend, but they will have no special advantage here over their Western peers.

Satyam is certainly not a 'bad' company. IDC has talked to satisfied Satyam customers in Western Europe, and our field research puts the company's service quality on a par with that of its larger rivals TCS, Infosys, and so on. So, enterprises in Western Europe will be asking themselves a worrying question right now: if a high-quality service provider like this can have such problems concealed, how many others are in the same boat?

Everyone hopes that the answer is 'none,' but the fact that the question can be asked is significant in its own right.

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