BRIEFING

Rural U.S. Onshoring of Information Technology

Quality Jobs, Greater Competitiveness, and Enhanced Security

CGI

The Challenges

Creating jobs, increasing U.S. competitiveness, and protecting national security

Among the challenges facing government leaders today are creating jobs, increasing the competitiveness of the American workforce, and protecting the security of our nation.

The worst recession since the 1930s has resulted in extensive commercial layoffs and the steepest declines in state tax receipts on record, threatening hundreds of thousands of public sector jobs. Rural U.S. communities in particular are struggling with continuing job losses in the agricultural, manufacturing, mining, and automotive industries. The challenge for many rural areas is transforming from a commodity-based economy to one that is knowledge driven. That means retaining skilled workforces in these communities for the kinds of jobs—such as information technology (IT) jobs—that growing, innovative U.S. industries require.

Additionally, at a time when protecting sensitive government and industry data and infrastructure has become a critical priority, the U.S. faces an imperative to grow domestic IT capacity as a national resource for enhancing our security.

The Opportunity

Create quality IT jobs and a secure infrastructure in rural America

Expanding the availability of high-quality, highly secure, "made in America" IT expertise and infrastructure can create a powerful economic stimulus for the country's hardest-hit regions, increase the nation's IT competitiveness, and enhance America's security posture.

"Today, the opportunity exists to retain workers for high-wage, high-skill, high-demand jobs in the U.S., by locating these jobs in rural and other, smaller metropolitan areas that have competitive cost structures, capable workforces, and sufficient broadband access," writes Dr. Darrene Hackler, George Mason University, in her report, *Creating Jobs in America: Case Studies in Local Economic Development*.

The delivery of low-cost services from small and rural U.S. communities is also known as onshoring, homeshoring, or inshoring. In the competitive IT marketplace, onshoring enables public and private sector organizations to realize significant cost savings while also supporting the creation of good-paying, quality IT jobs and giving skilled workers from these communities more opportunities to live and work in their hometowns.

While IT outsourcing to what are known as the BRIC nations (Brazil, Russia, India, and China) is estimated to save 20 to 40 percent compared to sourcing those services in major U.S. cities, IT services provided from rural U.S. locations often generate 20 to 30 percent savings from lower labor and real estate costs. Yet, labor rates alone do not reflect the entire cost-risk-value equation when it comes to choosing an optimal IT delivery model. For example, common time zone, currency, and language; proximity to the business; data and infrastructure security requirements; and even political goals and mandates can be significant factors in an organization's sourcing decision. In addition, many organizations that contract IT services from offshore sources also complement that approach with onshore sourcing for redundancy and disaster recovery purposes. Implementing such blended work models can ensure complete U.S. daytime coverage, while also improving overall productivity, efficiency, and performance.

Rural America is starting to recognize and leverage these advantages in building its economic development strategies to compete for higher-paying, knowledge-based IT jobs.

The Solution

Industry-government collaboration

Creating quality IT jobs and fueling resurgence in IT workforce competitiveness in rural America requires true collaboration between the public and private sectors. State and local governments can be increasingly innovative in their efforts to attract IT companies to smaller communities by using stimulus dollars, tax incentives, and grant programs. For example, in May 2009, Alabama Governor Bob Riley signed Act 2009-722 which made more types of businesses eligible for state financial incentives when they locate or expand in Alabama. In the past, the State's economic incentive laws only covered manufacturing jobs. Now, they extend to space, research, and technology facilities; R&D centers; data processing centers, and more. The Governor has credited the new law with helping the State take its economic development efforts to a higher level and allowing it to compete for job-creating technology operations such as CGI's onshore delivery center which opened this year in Troy, Alabama.

Collaboration with local colleges and universities also is necessary to providing a highly trained workforce. In addition, by partnering with each other, states can provide a more regionalized approach to attracting new business, both expanding the workforce talent pool and the availability of incentive dollars. Governments must also reach out to the business community through Chambers of Commerce and Economic Development Councils to encourage IT job creation in rural America.

"With appropriate support from federal, state, and local policy-makers—and active involvement of private sector partners—high-wage jobs in information technology, life sciences, and other areas can be created in many communities, providing the opportunity to revitalize those areas and achieve national security objectives," Hackler observes in *Creating Jobs in America Case Studies in Local Economic Development.*

In *Securing America's Future: Responding to the Challenge*, Dr. Lester Salamon, Director of the Center for Civil Society Studies at Johns Hopkins University, recommended expand-

ing on the rural onshore delivery model "to promote the development of skilled, technology-oriented jobs in disadvantaged American communities." He suggested the creation of "at least a dozen economically competitive centers of information technology" in such areas over the next 10 years to build IT expertise as a matter of national security and create quality IT services that are competitive with offshore alternatives.

Making the broadband connection

Creating IT jobs and expanding capabilities to deliver the secure information technology needed for defense and homeland security requires broadband connectivity to link workers in rural communities to their clients. Through federal government stimulus programs, these communities now have access to funds to make their localities more attractive for such investments.

According to comScore, broadband penetration in rural markets reached 81 percent in Q4 2009, compared to 59 percent in Q2 2007. Broadband's potential impact in rural and disadvantaged regions is demonstrated where its deployment has helped give birth to IT centers of excellence such as CGI's onshore delivery center in Russell County, Virginia. "If all levels of government are visionary in their strategic planning, collaborative in implementation, and bold in surmounting structural and jurisdictional boundaries, then broadband can play a critical role, spurring not only economic development in rural and small metropolitan areas, but also sustained economic recovery across the country," writes Hackler in her report, *Sustaining Jobs after the Stimulus: Building on Broadband*.

Case in Point

CGI's investment in rural onshoring

Recognizing industry's role in fostering an economic and security transformation, CGI, a leading IT and business process services provider, adopted a concerted strategy to invest in U.S.-based technology centers. Onshore delivery has become an integral part of CGI's global delivery model which offers best-fit solutions from onsite, onshore, nearshore, and offshore delivery centers, each of which follows rigorous standards and employs highly skilled resources. CGI's U.S. onshore delivery centers, in Lebanon, Virginia, and Troy, Alabama, meet strict government and commercial security standards and mandates.

CGI's first U.S. onshore delivery center opened in December 2007 in Lebanon in Russell County, Virginia. The Center, which now employs about 400 professionals, is transforming conditions in a community that once defined its economic vitality by the coal-mining and agriculture sectors. "The region experienced a 20 percent loss in jobs over the decade beginning in the mid-1990s," notes CGI Federal President George Schindler in *Securing America's Future: Understanding the Challenge*, a companion report to Dr. Salamon's. "The coal mining industry alone, which included three of the top 20 local businesses, suffered a nearly 30 percent loss of jobs."

CGI's U.S. Center of Excellence in Lebanon, VA, supports both government and commercial clients with a full range of IT and business process services. CGI sited the Center in Southwest Virginia because of its geographic proximity to clients; access to a large, qualified talent pool from local universities, colleges, and technical institutes; and strong business incentives from and collaboration with state and local government agencies, industrial and economic development organizations, academia, and local businesses. The Center currently is one of CGI's largest U.S. offices. A 2007 study estimated the economic impact of the Center's ongoing operation in the region to total $68.5 million each year.

CGI's second U.S. onshore delivery center opened in January 2010 in Troy, in Pike County, Alabama. As of September 2010, over 130 quality business and IT professionals have been employed, and the majority are residents of Pike County. Over the next two years, the Center will grow to provide an estimated 400 jobs. CGI's U.S. Center of Excellence in Troy also supports a wide range of CGI's global clients, specializing in business process outsourcing and business intelligence. In addition to meeting key site selection criteria, Troy University also provided unique advantages for locating in Troy with its large network of satellite campuses around the world, commitment to IT infrastructure, and eagerness to partner with CGI to develop curricula to prepare graduates for quality IT jobs.

These are successful examples of the powerful opportunity that rural onshore delivery offers for creating quality jobs in communities that need them, increasing U.S. workforce competitiveness, and offering U.S.-based infrastructure and resources that meet strict standards for security. CGI plans to expand its operations in both Lebanon and Troy, and to create additional Centers of Excellence in other small U.S. communities.

About this Briefing

This document was created based in part on the following research commissioned by the CGI Initiative for Collaborative Government, a joint public policy project of CGI in partnership with leading academic institutions:

- *Sustaining Jobs after the Stimulus: Building on Broadband* by Dr. Darrene Hackler, George Mason University (April 2010)
- *Securing America's Future: Understanding the Challenge* by George D. Schindler, President, CGI Federal (September 2008)
- *Securing America's Future: Responding to the Challenge* by Dr. Lester Salamon, Director of the Center for Civil Society Studies at Johns Hopkins University (September 2008)
- *Creating Jobs in America: Case Studies in Local Economic Development* by Dr. Darrene Hackler, George Mason University (August 2008)

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