

“Outsourcing Insights”

By Mr. Vivek Kulkarni - Former IT Secretary of Bangalore – India

“China and India are the big change agents for the years ahead. We have to go into risky new areas and that’s what is going to allow United States to stay at the forefront.” - Bill Gates

THE terms “Outsourcing” and “Offshoring” have become the bane of the general population of developed countries. And understandably so! After all they result in jobs being exported to foreign lands. Yet multinational companies continue to use these two processes to enhance productivity and cut costs. US President Bush & Senator Kerry have thrashed this issue and discussed the pros and cons of outsourcing, yet there is a great divide between both schools of thought. Questions loom large about the quality of work from developing countries. Does cost cutting justify the possible inferior quality of work and the unemployment back home?

But then what led Bill Gates, Chairman and Chief Software Architect of Microsoft Corporation to remark; “China and India are the big change agents for the years ahead. We have to go into risky new areas and that’s what is going to allow United States to stay at the forefront.” While addressing the students of University of California, Berkeley, Bill Gates said that the United States had nothing to fear from the rapidly growing technology markets in China and India.

As the IT and Bio-technology Secretary of Bangalore, I was fortunate to witness the outsourcing saga since its genesis. During my tenure of four years, I saw a new foreign IT Company setting up base in Bangalore every week. In fact after the September 11th terrorist attacks, we were expecting this pace to slow down. However, although business was very slow for 2 to 3 months, gradually it picked up as firms continued to show their vote of confidence in Indian off shoring. Presently Bangalore boasts of over 700 application development firms, 150 systems software firms, 120 telecom software firms as well as a hundred chip design firms. Later, a number of BPO (Business Process Outsourcing) firms set up base in Bangalore as well as in other cities in India. This growth meant thousands of professional jobs. Some estimates put the number of IT professionals in Bangalore at 150,000. The consistent growth in four years beginning from 2000

now puts Bangalore as the world’s biggest IT hub. The UN report recognized Bangalore as the fourth most advanced tech hub in the world. How did Bangalore develop such a vibrant eco system?

In this article, I will try to answer these questions and also support my opinion about how the phenomenon of off shoring offers tremendous advantages to both the US and other developed countries as well as India, China and the developing world on the other hand. If encouraged, the off shoring revolution can increase the world GDP by over one percentage point, increase the standard of living for all and make the US even stronger.

This article is divided into five sections:

The first section will introduce off shoring as relates to India in particular and begins with an historical perspective. It will look at questions about India’s telecom connectivity; intellectual property rights; and infrastructure – power, roads, housing and transportation. [read more..](#)

The second section is devoted to understanding the human resource situation in the Indian IT industry. How big is the talent pool? Is the Indian education system capable of supporting the requirements of the IT industry? How do you train in oral & written communications, voice and accent, data analysis, financial skills, technical skills etc? What is the cause of attrition? [read more..](#)

The third section will give an overview of the various processes that can be off shored. [read more..](#)

Section four deals with different off shoring models and the operational issues to be aware of. Is it wise to set up captive centers? What are the pros and cons of third party Indian vendors? How about exploring the middle path – BOT? What are challenges in quality? How can you cope with the Indian work culture? [read more..](#)

Finally the fifth section concludes by explaining the benefits of outsourcing for developed and developing countries. It looks at opportunities for developed countries to create jobs at home and to position themselves to be part of Indian growth. [read more..](#)

While the article refers to developed countries in general, most case studies and examples relate to Indo – US firms.

SECTION I

The telecom liberalization continues at a feverish pace putting Bangalore on the world map.

Historical Perspective

Let me start at the very beginning, when outsourcing had started in India. 1984 was a significant year for India, because that's when the IT revolution began in India with the arrival of Texas Instruments on Indian shores. They came up with a Blue Print of IT outsourcing plan, which proposed that Texas Instruments would hire Indian Engineers to write software codes that would be electronically transmitted to the TI offices in the United States. For this purpose, Texas Instruments asked the Indian Government for a 64 Kbps telecom line. This proposal caught India off-guard, and the proposal was studied in great detail by panels of experts, Government ministries and committees. Bureaucrats wondered if national secrets would be compromised, as these could also be electronically transmitted to other countries. This required a total paradigm shift in the thought process that was the foundation of all foreign and trade policies. After about 3 years of deliberation on the pros and cons, finally the Government agreed to give them a 64 K telecom line. That was in 1987. Texas Instruments has now grown and has filed hundreds of patents from its Bangalore campus.

Asia's largest radio network

In the nineties, telecom connectivity continued to be a major issue. Earlier last mile meant digging the ground to connect the company's network center with the telecom exchange with copper wires. In those days, dealing with the state monopoly – the Department of Telecommunication (DOT) was not easy. People would wait for years to get a simple landline connection. A few fortunate ones would get them out of turn thanks to quotas meant for the ruling elite –members of the Indian Parliament. IBM got tired of waiting for the last mile connectivity for its software operations and threatened to move out of India. That was 1991. In the same year the Indian government was under severe foreign exchange pressure. The rupee was losing ground and the country's foreign exchange reserves had bottomed out. IBM's withdrawal would have sent a bad

signal to the market and also considerable out flow of foreign investment. The problem was resolved ingeniously by creating one of the most successful government organizations – The Bangalore **STPI** (Software Technology Parks of India).

STPI resolved the last mile problem by collecting signals via wireless radio waves. It eliminated the use of DOT copper lines, by setting up a satellite dish on the top of the IBM building in Bangalore, and another one at Electronic City to transmit signals from the IBM office to Electronic City via radio waves. Electronic city then beamed the signals via satellite to installations in Europe and finally to the US via submarine cables. IBM stayed on!

STPI continued providing service to many more firms. Its last count had crossed 1200. All these IT firms in Bangalore sport a dish antenna on the top of their buildings. These dishes face the central satellite dish of STPI in the Electronic City that is situated in south Bangalore. Since then, the telecom liberalization has continued at a feverish pace and put Bangalore on the world map.

Telecom Liberalization

Since the success of STPI, the Indian government liberalized other sectors of the telecom industry as well. A number of players were allowed in fixed lines, long distance, and wireless voice and data markets. The last ten years saw numerous players in different sectors. Reliance has invested billions of dollars in the world's largest network operations center in Mumbai. They have laid fiber optics in over 678 cities in India and control the operations from a single NOC. They have also acquired FLAG that owns substantial fiber optic sub marine cables around the globe. In addition, Reliance offers wireless via local loop technology.

Another player that adopted CDMA technology is the TATA Company, which has both fixed line as well as the country's oldest and most trustworthy international gateway operator - VSNL. Bharti made it big in GSM technology and have large number of subscribers. They also have

SECTION I

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a joint venture with the SingTel, a Singapore Telecom firm and have a 10TB fiber optic line that connects the Indian east coast with the US west coast.

Telecom prices are now almost comparable to international standards. The service quality as well as the time it takes to obtain an India half circuit and local loop is less than the time it takes in the US.

Redundancy

Telecom liberalization has provided ample opportunities for firms to plan redundancy. B2K has multiple International Private Leased Circuits that use fiber optic cable via the Atlantic and the Pacific Ocean. It has two vendors providing the India half circuit and another two providing the last mile. Availability of network has surpassed the 99.95% level.

The red tape surrounding new foreign ventures has literally disappeared and made India an attractive destination for foreign companies. In 1987, Texas Instruments made headline news when they were given a 64 Kbps line after three years of deliberation. Last year, one of the world's largest software companies was given a 90-mega-byte telecom line in three months. This went unnoticed. A large number of firms in Bangalore have multiple redundant telecom networks now that can easily surpass world standards.

Intellectual Property

Earlier several US firms have had unhappy experiences in dealing with Indian firms regarding protection of their intellectual property. While this was a reality ten years ago, Indian firms are today much more sensitive to IP rights. India is also bringing up more specific laws and tighter regulation on data protection. Many firms including B2K invest substantially in IT infrastructure, firewalls and virtual private networks to maintain the confidentiality of all client data and information. Employees sign Non-disclosure Agreements and it is possible to prosecute the employees who violate it.

There are instances of employees getting arrested and tried before a court of law in case of IP infringements. For example a group of engineers formed a small company and developed a software product. This company was acquired by a large multi national. The engineers worked for the MNC for sometime and later setup a new company. This new company was found using the same software code violating the multinational's IP. Based on their complaint, those engineers were booked for violation of the same and were arrested and produced before the court. This sent a clear message that authorities were most concerned with IP rights of companies.

Infrastructure

The infrastructure levels in any developing country are usually sub-standard for the average population. But for expatriates and IT professionals, Bangalore offers world-class commercial and residential areas. However, the basic civic services are deficient in many ways and one needs to be aware of and accept these realities before working in India. Below I have described some issues that the city of Bangalore faces, however this scenario is commonly found in most metropolitan cities of India.

Bangalore Airport

The first visit to the Bangalore airport can be quite exhausting. Immigration takes more time than expected. The computerized system has its own deficiencies and inspectors have to do lot of manual data entry. A few agents also get busy clearing the documents of certain VIPs. India defines the term VIP in a loose way and many people can be categorized as VIPs. - Ministers, relatives, bureaucrats, some celebrities and police officers, often bypass the queue and breeze through the formalities. All these cause delays for the ordinary passengers.

Baggage claims is another point of delay. The international airport does not have enough conveyer belts, so be prepared to wait for up to an hour to collect your bags. Another reason for the inordinate delay in baggage claims

SECTION I

is the customs department which inspects every bag via a single X-ray machine. If it notices any electronic goods like cameras or laptops, they mark those bags with a white chalk. That means if you don't declare the goods inside your bags, you could be penalized. If your bags don't get marked you can walk out of the airport faster.

Power

Most cities in India have inadequate power supply. Companies face both scheduled and unscheduled power shut downs, as well as voltage fluctuations. However to counter this problem, most companies and upscale residential buildings have 24 hour power generator back ups. The network operations centers, server rooms, as well as the desktops do have a few levels of uninterrupted power supply (UPS) backup. Thanks to a PowerGrid line connecting surplus power state in the Indian east coast and Bangalore, voltage fluctuations have reduced to a large extent. Although power continues to remain an issue, companies are able to manage smoothly without any disruptions in their day to day operations.

Roads

Bangalore roads are bursting at their seams. The city lacks good public transportation and hence the roads bear a disproportionately higher burden. An elevated train project was conceived back in the nineties and is unlikely to see the light of the day. A Metro Rail project has yet to get government sanction. Often different political parties run the State Government and the Federal Government, and this can make it difficult for the State Governments to get their projects sanctioned in Delhi.

Most roads in India are not grade separated. Over time, unplanned development on either side of the new road makes traffic unbearable. Considering all these issues the IT Corridor project was conceived several years ago. The IT ministry and the Bangalore Development Authority jointly surveyed the project. Unfortunately it has not yet been implemented. More delay implies that soft areas would diminish and more obstructionist structures would be built, that make planning most difficult. The city municipal areas around Bangalore indulge in chaotic and unpredictable regulation of new building construction.

Transportation

Bangalore public transportation includes buses and three-wheeled "auto rickshaws". There are private taxi services available as well, for which you need to call, as they do not pick up passengers on the road. Intra-city train services do not exist. Only the seasoned local commuters who know how to survive in crowded buses with rash drivers too can use buses. So most people prefer to use their own cars and two-wheelers. As can be expected, the traffic scene is not the best. Due to this, BPO firms provide transportation to all their employees, more particularly women. As per Indian Labor laws women could not work beyond 8pm in the night. This was relaxed for BPO facilities, with condition that door-to-door transportation be planned for all women agents beyond 8pm. Most firms provide this to all agents and transportation can be a substantial cost to any BPO company. Expatriates need not worry about driving in the city as many people in the city commonly use chauffeurs.

Housing

While public infrastructure is a big casualty, private infrastructure projects are booming. Independent houses and plush apartments are easily available. Many prefer serviced apartments with maid services. Expatriates and Indian IT professionals do not necessarily have to go through the maze of regulation to buy property. Real estate developers now provide professional services which make it easy to rent or own properties with excellent amenities such as a clubhouse, convenience stores, swimming pool etc. It is quite common for two or three IT professionals to rent an apartment within close proximity of their office. Paying guest accommodation is easily available too. This makes it easy for new recruits from other parts of the country to move to Bangalore.

SECTION II

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How big is the talent pool in India?

India's stock of graduates runs into several millions. At least 30% of them are housewives who have traditionally not been in the work force. With rising cost of living, more women prefer working if given the opportunity. In addition, over 2.5 million graduates are available for recruitment every year.

To get an idea of the talent pool in India, I can cite the example of one of the world's large software firms, which received more than 87,000 applicants ...for just 700 technical support positions. In fact the challenge for the recruiter is to be discerning and to choose the cream of the applicants. To help the recruiters, assessment tests have been devised in various competencies such as communication skills, voice tests, analytical skills, technical knowledge, leadership abilities, psychometric tests etc. Often the candidates are further short-listed using group discussions and interviews. The foundation for good quality work is careful and scientific recruitment processes. All this ensures that companies get quality human resource.

IT Education Institutes

The Indian Institute of Management (IIM) and the Indian Institute of Technology (IIT) are two of the most prestigious institutes in management and engineering respectively. While India produces 2.5 million graduates a year, only a few thousands pass out of such premier institutes. The quality of these students is extraordinary as admission into those institutes is very difficult. Only those who score over 99% percentile in competitive entrance examinations get into these institutes. Brickwork leverages its ICRA brand to recruit such graduates. Over 35% of ICRA employees are from these premier institutes.

There are many other equally good institutes all over the country and companies have to plan a strategy to recruit them. That includes liaison with these institutes,

campus recruitments, sponsoring student scholarships and systematically building the company brand name in these campuses.

Indian Institute of Information Technology (IIIT or Triple IT)

Triple IT institutes were started recently by many state governments to offer programs in IT. The IIIT Bangalore offers a two-year Masters level program that is 80% technical and 20% management-oriented. Their students get placed within 5 days of graduation and the institute has world-class faculty. Most faculties have teaching and research experience in the US.

125 Engineering schools

Karnataka has 125 engineering schools, which is half the number found in the entire USA. All these schools are in private sector and only one is run by the state government. Karnataka was the first state in India to liberalize education in the private sector three decades ago. The Board of Information Technology Education Standards (BITES) that promotes higher education in the state and publishes quality rating of these institutes. In fact one of the reasons why the Information Technology revolution started in Bangalore was the availability of the engineering workforce in the state.

Training

IT sourcing and business process outsourcing are knowledge intensive sectors, which depend on quality human resources. Firms with dynamic and efficient HR personnel/policies and with excellent training solutions alone can have an edge over competition. The Indian education system produces graduates with excellent technical expertise. However one of the major pitfalls is that most schools encourage rote learning rather than analytical thinking.

SECTION II

Students are used to taking notes from the blackboard and seldom ask questions. Not much emphasis is given to communication skills, presentation skills etc. Hence firms have to spend considerable time and effort in soft skills training which include oral and written communication, team building, and assertive communication and so on. New recruits need to be oriented with the company culture. Technical and process training have to be planned effectively. Call Centers have to concentrate on accent neutralization training, to ensure that our agents can articulate and pronounce in a way that their global customers can understand. Here the emphasis is on clarity of speech and not on speaking with a US/UK accent. Some IT firms use training vendors for managing all their training requirements. While others prefer to have their own internal trainers, IT companies need to weigh the pros and cons and choose the most cost-effective option.

Attrition

While firms do get thousands of resumes for each position open, they also experience high attrition. Attrition can be attributed to many reasons: the employees are young and restless; they have many job opportunities in other IT companies; they expect quick promotions and higher salaries; and they are unhappy with relatively immature or inexperienced bosses. The general trend is for attrition rates to be higher in captives than in third-party operators. Most captives recruit youngsters and promote them quickly as managers. These young managers have yet to develop people skills and get easily swayed by emotions. The large numbers in the captives mean the expatriate managers are far removed from the day to day operation of the center and have to heavily depend on the middle management. The jobs in the captives are quite often repetitive and involve minimum client contact. The routine nature of jobs and minimal involvement from the senior management sets in boredom, resulting in attrition. Managing attrition is a major challenge that IT companies face and one should be prepared with robust HR policies to face this.

SECTION III

One multinational that migrated its processes simulated and invented in Bangalore, is expected to save more than \$150 million.

What can you offshore?

Off shoring began in the late eighties with small IT application development projects. Indian companies used to write small modules without much idea of how they fitted in the larger system. After becoming convinced of the quality deliverables provided by the Indian engineers, US firms started relying more on Indian companies and entrusted more modules and even the entire system to them. This gave a boost to more than 700 large and small application software companies.

Many cynics criticized and described Indian programmers as software coolies, doing repetitive simple coding. While the industry started in this manner, it has quickly matured into high-tech areas. On the one hand the quality of software writing has gone up substantially. On the other hand, numerous firms in systems development, analytics, R & D have been set up using very talented Indian manpower.

Quality Software

Software quality is ultimately based on user satisfaction. While this is hard to measure, the software development process is analyzed with reference to requirement analysis, error free & bugs free software, etc. Some firms that do have quality processes in-house get themselves audited by standards setting agencies. Carnegie Mellon University's Software Engineering Institute audits the company processes and assigns CMM levels to them. More than 75% of software firms that have got the highest CMM Levels are from India. Half of those firms are located in Bangalore.

Bangalore has a highly technical and diversified base. While more than 700 application development firms dot the city, many hundred systems software firms write sophisticated software. A large number of chip design firms have offices in Bangalore. It is easy to find a professional in any technology area in the city.

R&D Centers

In addition to almost 150 systems software firms, about a hundred telecom software and hundreds of chip design companies, Bangalore has many R&D centers. They are into extremely cutting edge research and save millions of dollars for their respective companies. The research cuts across multi disciplinary fields, and engineers and scientists from chemical, biological, computer sciences, mechanical engineering work together and build complicated models. They simulate real world processes in small laboratories and figure out the most optimum process. One multinational that migrated the processes simulated and invented in Bangalore, is expected to save more than \$150 million. These savings are not reported, as the firms do not want to disclose these for obvious competitive reasons.

Major R&D centers in Bangalore include the Jack Welch Technology Center, General Motors Engineering Center, Delphi, Honeywell etc. There are at least 106 different R&D Centers, which are doing different levels of Research & Development.

BPO (Business Process Outsourcing)

Rapid development of IT has lead to a class of firms that specialize in back office work, call centers, finance & accounting outfits, medical billing, insurance claims processing, and more. A large number of captives have set up their own centers and are reducing costs while increasing productivity.

Dell has set up their technical support center in Bangalore and other cities in India. HSBC centers support their credit card operations as well as many other internal processes. GE has professionals in India who write management discussion analysis for the company's annual report. Ernst & Young does IRS tax returns for the US corporate from their Bangalore center. A European multinational uses its India center to do finance & accounting for their worldwide entities.

SECTION III

The Brickwork knowledge center provides analysts who do web research, summarize articles, prepare PowerPoint presentations, produce excel sheets and financial models etc.

Investment research

Goldman Sachs, Fidelity and many more are in Bangalore and do processes connected with investment research. Information providers like Reuters are also competing for local talent. A few third party vendors offer investment research. B2K along with the premier Indian credit rating agency ICRA also has delivery capabilities in processes connected with investment research. The key to success in all these ventures is the ability to recruit high quality finance professionals. A large number of finance professionals in India have mastered GAAP (Generally Accepted Accounting Principles). This has been possible due to the work of large MNCs which outsource finance & accounting processes and also due to the drive by the American stock exchanges to list Indian companies.

Analytics

There are many firms in Bangalore, which are involved in analytics. However, many of their projects are code named, as these firms do not want to disclose their competitive advantage. Numerous credit card players use Indian talent to do pattern matching to provide early warnings of fraud. Some use advanced CRM analytics to leverage on a better understanding of customer satisfaction. Advanced analysis aids in market research projects and clinical trials for pharmaceuticals firms. India provides advanced manpower resources in Cognos, Hyperion, Informatica, and SAS. The Indian Statistical Institute, the apex institute in statistics and econometrics is located both in Kolkata and Bangalore, from where expertise can be sourced.

Medical Billing, Insurance claims processing

While insurance claims processing is hugely popular, very few firms do medical billing. In fact billing requires a thorough understanding of policies of various health care payers and firms have to hire smarter agents to cope efficiently with the complications. Many hospitals in the US have in house billing departments that can't cope with

mounting claims, repeated correspondence with health care payers and patient paper work. Both the hospitals and the billing firms are not able to recruit quality billers long term and face acute attrition. B2K's highly qualified graduates reduce typing errors, advise on coding and repeatedly follow up with the payers to enhance revenues for the providers., US hospitals and group practices could save about 50% in billing costs and even more as revenue improves.

Knowledge Centers

Many multinationals have established knowledge centers in India. These centers employ highly qualified professionals who support analysts and consultants in the US. They conduct web research and market research, competitor and industry analysis, prepare concept papers as well as make power point presentations. Some knowledge centers employ engineers, doctorates and intellectual property attorneys. When a brand manager wants to introduce a new product, the knowledge center presents him with various options to position the new product as well as information about violating competitor's patents.

The Brickwork knowledge center provides analysts who do web research, summarize articles, prepare PowerPoint presentations, produce excel sheets and financial models etc. Knowledge center work requires well-qualified professionals that are relatively hard to recruit. Brickwork is able to leverage on the ICRA brand when it comes to recruitment. ICRA has over 35% professionals who have post-graduate degrees from the IITs and IIMs. These institutes are extremely competitive and students that score 99% percentile in an all India examination only get to study at such institutions.

In summary, Indian outsourcing was not just simple application processing, but in many complicated knowledge oriented sectors. The bulk of outsourcing in BPO still remains in mundane repetitive tasks.

SECTION IV

Off shoring Models

There are three off shoring models that companies could adopt: Setting up a captive unit, hiring a third party vendor or using the Build-Operate-Transfer (BOT) model. Intelligent combinations of one or more of the above can also be used as an option. There are pros and cons to each model and I have briefly described each model in the paragraphs below:

Captives

This has by far been the most popular model that particularly suits large multinationals. These MNCs set up their own branch office in India, appoint an expatriate manager to oversee the operations, recruit local talent and keep the processes in-house. This model is beneficial when the company believes that its processes are the key to its competitive advantage and cannot be shared.

Many US firms appoint managers of Indian origin who are educated in the US and maybe even have had experience in the captive back home. However most non-US firms appoint managers from their own country as they may not have a supply of managers of Indian origin to the extent that US has. There are many instances of expatriates coming to India and setting up extremely expensive facilities, as they lack the local knowledge and also find many items relatively cheap compared to the dollar prices they are used to back home.

These captives display several short time gains, primarily their ability to scale up fast. They recruit at a pace much faster than was possible at home, train those agents and migrate processes from their country to India much faster than they had imagined earlier. A huge computer company came into Bangalore with a business plan to scale up to 900 agents in the first three years. They were able to scale up to 1800 in less than eighteen months. They could recruit more than 600 in a month and their present headcount is 5000 in Bangalore. Most captives lease their facilities from private real estate players, who have greatly improved their style of functioning and deliver good quality. The real estate market in India was earlier not very transparent in its dealings. With many MNC captives asking for space, they have developed better procedures, offer specific plans and deliver accordingly.

However, there are a number of long term risks associated with captives. The cost structure of captives gets bloated faster than a comparative third party vendor. Some of the risks are ineffective recruitment leading to heavy losses; a large headcount which makes people

management and training a mammoth task; lax monitoring leading to quality issues; and communication issues arising out of a lack of appreciation of the Indian work culture.

Most captive managers end up negotiating high costs for their facilities, transportation as well as employee salary. Quite often the facility is set up by expatriates who find the Indian salaries and costs far lower than those they are used to. Eventually this shows up in bloated cost structure. We find the same phenomenon in a few third party vendors who were recklessly funded by foreign venture funds.

Faulty recruitment and inexperienced

Many captives get carried away by the rapid pace of recruitment, but in that process many things might go wrong. A senior HR manager forgot his cell phone near the CEO table in a large captive. The CEO kept it in his drawer and decided to return it later. When the cell phone rang, the CEO answered the call. He was disillusioned when he found the caller asking where the money was to be delivered. After some more conversation, the CEO understood that his HR manager was receiving money from the external recruitment consultant. The HR manager was of course fired. This episode illustrates how careful the captives must be in their recruitment. If not they will pay the price in terms of increased costs and poor quality of recruits.

Most captives recruit fast and promote even faster. Most of their employees are young including team leads and managers. These managers have not really dealt with labor issues earlier and the outsourcing industry has not gone through the full business cycle of ups and downs. Presently the employees are paid one of the highest salaries and work in the best environment. Once they get used to this for a few years, one can expect associations and groups within the organization. A call center group may threaten the captive management for instance; they might stop taking calls unless their salaries are increased. Such labor instances could arise in the future and if they do, the young management would not be able to cope with them.

Quality issues

BPO operations require daily monitoring. There is never a time when you can give assurance that everything is under control and that all processes would go on smoothly. If not monitored properly, employees may resort to smart

SECTION IV

**Work ethic, sensitivity to deadlines, oral & written communication
have improved substantially, thanks to expatriate managers.**

ways to beat the incentive schemes, at the expense of captives' end customers. Agents may report incorrect performance metrics unless carefully monitored. This problem however is not necessarily unique to captives. There have been instances of third party vendors with lax monitoring systems who have committed fatal mistakes in their operations.

Indian Work Culture

Unless the Indian work culture is understood well, it can lead to long term failures. Indians respect elders and expect a far degree of hierarchy. Women are usually homemakers, are now entering workforce in big way. The families believe in simple living and consequently save substantially. The entry of captives have ushered in several changes in the work style.

On the positive side, the captives operate in a friendly informal management style. Indians are learning professional management styles, are able to use first names while talking to their managers and getting used to team work in a big way. Work ethic, sensitivity to deadlines, oral & written communication have improved substantially, thanks to expatriate managers.

There are some negatives too. Most captives recruit youngsters who are now paid much more than what their parents could ever dream of. The youngsters have lot of money and are getting used to the American life style. They now attend lot more parties and spend more. Some have taken to smoking, drug abuse and a few centers have this problem in their facilities. Unless checked properly these can result in lower quality. Large captives with deep pockets can be target for law suits as well as other legal actions.

Third party vendors

Third party vendors can deliver what the captives do. This will probably remain the only solution for mid size American firms that would like to take advantage of econ-

omies of off shoring. Even bigger firms could do well to selectively use them as a risk mitigating measure.

There are India centers of global third party vendors and they are subject to the same risks as captives. The local Indian third party vendors have certain advantages and constraints. The primary advantage is their ability to understand local issues, recruit effectively and operate under a low cost structure. A large number of third party vendors lack investments in infrastructure, quality processes and an articulate management that understands the US work culture. A few third party vendors who have large facilities have been set up by non professionals primarily with the backing of black money that the Indian political economy generates. The key to selecting the right third party vendor is to evaluate the ability of the management to set up, operate and run quality US processes as well as understand the Indian scenario in depth.

Build Operate & Transfer

Many large corporations have recently negotiated BOT deals that transfer all the set up risks to a third party vendor initially and take over the center three to five years later. This model combines the benefits of the earlier two models and the big player can impose certain security processes to preserve their intellectual property. Another advantage is the option to transfer the core processes back to the parent and continue with the third party vendor in most other processes. There are examples in all three categories of both success and failure.

SECTION V

How outsourcing has helped the US and the world economy

There has been an outcry that the BPO wave in India has led to job losses in the US. This has created a backlash against outsourcing and the issue was hotly debated during the presidential debate. Contrary to general opinion, I consider India to be at a very nascent stage in this industry. The big talk about the booming BPO business in India is only eyewash, because if we put ourselves on the world map, India has just about 1% share in the BPO business.

Instead of only looking at the job loss, if we look at the overall impact of outsourcing on the US economy, it will be clear that it has a positive impact and is the model to adopt for progress. Below are a few statistics to support this stand:

- ⊙ The number of customer support jobs in the US may be over 30 million. The jobs that have been outsourced to India are fewer than 200,000.
- ⊙ The US banking, financial services sector's costs are 7-10% lower than that of its European counterparts
- ⊙ For every \$1 invested in India, the value derived by the US economy is between \$12-14.
- ⊙ American finance companies have saved \$6 billion in the last four years by off shoring to India.
- ⊙ Nearly 170 Indian IT companies have offices in the US and they employed nearly 60,000 people in the US in 2001. These people paid nearly \$810 million in taxes in 2001. Employees of Indian IT firms bought goods and services worth \$1.2 billion in the US and paid nearly \$300 million as social security in 2001.
- ⊙ Off shoring has resulted in quality and productivity gains of 15-20% and customer satisfaction of almost 85%.

During my four-year tenure as the IT & Biotech Secretary, Bangalore, my job was to attract overseas tech

firms into Bangalore. I saw at least one new foreign firm enter India (Bangalore) every week. From that experience, I would like to make some observations to break some of the myths or misconceptions on the outsourcing industry:

The US can gain enormously by off shoring as it has indirectly created a market for western products and opportunities for developed countries to increase their customer base in the world. Along with the outsourcing business, Bangalore has also welcomed the US lifestyle. The most happening places in Bangalore are dotted with branded goods stores such as Reebok, Nike, Florsheim, Van Heusen, Arrow and so on. Indian taste buds give equal preference to Indian restaurants and Pizza Hut, KFC chicken and Domino's pizza. The serpentine queue at the entrance of a newly opened McDonald in Bangalore has to be seen to be believed. Coke and Pepsi are available even in small Indian villages. Dell, IBM and HP are in a unique position to take advantage of the growth in the Indian hardware market where the PC production crossed a million mark last year. The Dollar Store in Mumbai sells tens of varieties of American cornflakes, jams and salad dressings.

Off shoring has also motivated Asian countries to continue buying dollars to ensure a lower value of the local currency. This has created one of the lowest rates of interest for the US consumers. This in turn has increased value of residential real estate. This wealth effect has kept up consumption in the economy. Hence any change in off shoring policy has to be done carefully to minimize economic disruptions.

While outsourcing will result in job losses at home, the solution is not to ban it. The solution lies in America opening up the world markets in their core areas of strength viz. education, health and infrastructure to the developing world. For instance, if the \$ 250 billion spent on Iraq war was given to American universities like Harvard and Wharton, with a mandate to set up hundreds of schools in India and China, the US would have conquered 2 billion of the world population without a single casualty. Foreign students spend billions of dollars on American education as it has the highest brand recognition. So why not capitalize on this and set up universities the world over. Not only will this reduce the number of students coming into the US, but will also open up more job opportuni-

SECTION V

CONCLUSION

ties for US citizens as it would eliminate a large pool of alien graduates who apply for the same jobs. In addition, it would create new administrative and faculty positions for US candidates, in the universities, which are set up in foreign countries.

There is a strong need for training employees of BPOs and Call Centers on understanding US/UK accents and culture. This is a good job opportunity for US/UK citizens. Wives of many expatriates use some of their spare time to train Indian call center agents.

India & China together may need 300 million cars in the next 15 years. That will be a great opportunity for the big three car makers in the US. There are millions of people in India that require sophisticated services in banking, insurance, infrastructure, health and more. The US firms with deep expertise in these verticals are best positioned to take a lead in these markets. Their success could lead to more challenging managerial knowledge jobs home.

US healthcare providers have to overcome several challenges. Hospitals & group practices have inefficient billing systems. They do not have the resources to follow up rejected claims with the insurance firms. Healthcare providers can't recruit qualified billers, as the work is highly clerical and repetitive. Those recruited are often temps and look for better career prospects, resulting in high attrition. A few hospitals and group practices offshore their billing processes. Not only do they save on salaries, but they also see improvement in revenues. Healthcare providers have a choice. Retain all the mundane clerical jobs home and live with inefficiency. Alternatively train highly qualified managers who can supervise Indian billers work and enhance revenues. This requires training high quality managers. With the best higher education brands in the world, if the US can not do it, no one else can.

IT IS fashionable for Americans to question themselves even when they are at their best. In the eighties Americans agonized over Japanese supremacy in technology and manufacturing. Many predicted that Japan would dominate the world market at the expense of US firms. However decades later, America emerged stronger!

During the Second World War, Britain was on a weak base and surrendered the world leadership position to the US. Since then, the US has consistently been one of the most progressive and open countries in the world. A few temporary job losses should not be cause enough to press the panic button (or for the US to look inward) and shun globalization, as this would result in damaging the world economy. Instead, America should seize the opportunity in off shoring; integrate China and India into the mainstream and help raise the GDP rates worldwide.