

Politics and Dynamics of Global Offshoring Business

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INTRODUCTION

At times, even a benign exchange of views on globalization issues or offshoring blues could entice journalism to masquerade as economics; economics to wear the garb of technology; technology to dabble with politics; and politics to ape the 'know-it-all' brand of journalism. The Indian IT (Information Technology) services industry has earnestly been pitchforked right into the midst of a political tsunami unleashed by shifting land masses of globalization. As a confident nation makes steady progress in this industrial arena, the world is witnessing the triumphant march of yet another Asian nation on a road of economic change more traveled by China or South Korea in the recent past and Japan much earlier.

While General Electric of USA did play a pivotal role as a starting point for the evolution of full-fledged IT outsourcing industry in India, several other global Fortune companies followed suit to reach the 'Tipping Point' for the industry's sustenance and growth. The Indian IT offshoring industry survived a presidential debate and the subsequent election in USA besides successfully grappling with the political landscape of Europe. This industry is making rapid strides towards the stage of maturity, and political debates seem to be running out of steam with the emergence of global IT outsourcing models – encompassing both technology and business dimensions.

The glorious chapter in the industrial history of India and the emergence of the IT services industry from the womb of a predominantly agrarian society owes its humble origins to the pioneering role of the nation's leading business conglomerate (Tata Group) and relentless business pursuits of visionaries as well as many unsung heroes. In a series of insightful publications and documented cases studies, researchers around the world analyzed the continuing success story of India using a plethora of frameworks such as competitive advantage of nations, islands of excellence in technical education, socio-cultural milieu and sustained political will.

Industry research analysts estimated the current business potential of IT outsourcing services in North America as US\$ 250 Billion and the individual shares of the top notch Indian IT majors hover around 0.2 to 0.4 percent in this market. The proportion of the entire industry in the GDP of India in 2008 is however expected to increase to 7 percent (5 fold increase from 2001) whereas the corresponding employment figure increases to 4 million (10 fold increase from 2001). These estimates are quite in contrast to the highly disproportionate attention the industry has been garnering on the political front, though one cannot undermine its invaluable contribution to the nation from the economic standpoint.

BIASED ROLE OF THE MEDIA

Lou Dobbs anchored for months *Exporting America*, a daily program on CNN. In his book bearing the same title, he published a sort of condemned list of all major corporations in USA that chose IT offshoring. An updated list of the same can always be found on the CNN website.

While he continues to harp on his pet themes such as plundering of American wealth by offshoring nations, job losses in USA, lack of proper statutory checks and balances (by the US standards) in developing countries, he also bemoans absence of a level-playing field owing to availability of cheap labor from abroad and lack of a firm response from the US government.

Thomas Friedman bracketed Al Qaeda with an Indian IT major in the op-ed column of the New York Times while dwelling on the topic of external threats – be it lives or livelihoods - faced by his homeland. The author’s devotion to globalization notwithstanding, the intended message is not lost on discerning minds. In spite of all its best intentions, an article on road accidents may be found insipid if it draws superficial comparisons between Europe-based mafia and an US auto major. After all, in his book, *The World is Flat*, he observes and explores the emergence of a level-playing field for one and all.

While a demagogue or an ideologue from every genre needs to reconcile to the fact that globalization is a two-way street, the global market forces, once set free, make no amends for factoring in the newfound impulses of deeply entrenched players. Researchers from the Global McKinsey Institute estimated that for every dollar spent on IT offshoring, India reaps \$ 0.33 as against USA gains in the range of \$1.45 - \$1.47. Indian benefit is in terms of revenues, taxes and local supplies. The gains for USA are both tangible and intangible and they include cost savings, redeployment of displaced labor and profits from offshore ventures.

FRONTIERS OF OUTSOURCING

Outsourcing services industry has been assuming multitudinous forms that include information technology (software development and maintenance related), business processes (call centre centric); knowledge processes (market research, business analytics, equity research, patent search, etc.); and R & D (chip design, clinical research, etc.). The final frontier appears to be ‘outsourcing innovation’ – integrated services encompassing technology, knowledge or business processes and R&D – that includes “business transformation” initiatives. In a lighter vein, A.J.Jacobs extended the final frontier of outsourcing industries much farther, embracing the hitherto unexplored realm of serving emotional needs of human beings – of course, for those who can afford or are inclined to avail of such services (*My Outsourced Life*, Esquire magazine).

The story of India’s successful foray into the IT services arena is replete with several lost chances too. "Indians are merely going for software programming: it is like a car mechanic repairing cars, which is a tremendous ability. But while we can repair cars, we cannot design them! We are merely roadside mechanics," opines Kiran Karnik, President, NASSCOM. Compounding to the precariousness associated with the lack of a comprehensive national strategic vision (demand creation vis-à-vis fulfillment) is the hurdle faced by the local industry to attract, nurture and retain the best talent. Sivathanu Pillai, CEO, BrahMos Aerospace, in his book, “Technology Leadership”, laments: “Recently, multinational companies have developed MNC Research Centers in India to recruit the best brains so that the Government depends on second rate people with no motivation for technology development”. A new breed of entrepreneurs (of Indian origin) has also been operating in USA that represents a type of genetic mutation of the ‘body-shopping’ business format prevalent during the first wave of the IT

outsourcing phenomenon. The developed world is leaving no stone unturned for tapping global talent pools at the lowest possible cost to quickly evolve its own 'info-highway'.

CHALLENGES

The near term and long term challenges faced by most India-based IT services firms include both industry and firm-specific factors. The major impediments are given below.

External threats (industry-specific):

- captive units set up in India by some of their global clients,
- quick emergence of BOT (Build-Operate-Transfer) model,
- global consulting majors exploring offshoring business with renewed vigor,
- competition from newly emerging offshoring nations,
- price/margin pressures owing to commoditization of services; and
- virtually no role in shaping IT trends in world markets.

Internal constraints (firm-specific):

- lack of in-depth knowledge concerning global business practices / industry domains,
- dissipation of organizational energy while coping with ageing corporate structures,
- defunct business models with over dependence on selling skill-based services,
- paucity of talent for innovation management, and
- inability to design superior value propositions through thought leadership.

The highly fragmented Indian IT industry has its own cup of woes related to competitive pricing, growth avenues, marketing capabilities abroad and maturity of domestic market. The multi-vendor concept is also fast gaining currency among the Fortune firms in USA for reasons ranging from mitigating business risk to gaining bargaining power. This is akin to the 'consortium approach' adopted by banks to deal with credit risks associated with large size loans; but an inverted version of it is deployed to suit business interests of clients of IT firms. Such deals are considered both a boon and a curse by the Indian IT majors with limited managerial, financial and infrastructural capabilities to handle large size deals individually, and consequently they are constrained to play second fiddle to the global IT consulting giants (IBM, EDS and Accenture).

CONCLUSION

Despite being an emerging global IT player, India is yet to make significant progress in bridging the "digital divide" between its urban and rural constituents. Incidentally, this forms one of the critical offshoots of the Millennium Development Goals enunciated by the United Nations (to be achieved by 2015). This brings into focus corporate social responsibilities, which have been duly addressed by a few IT majors in India. Notable are the laudable efforts of Tata Consultancy Services in launching the adult literacy campaign, commendable services being rendered by Infosys in the field of healthcare or rural upliftment and Wipro in the domain of universalisation of elementary education. In addition, sporadic social activities have also been undertaken by

Indian IT firms in other parts of the globe; thereby, gratefully serving the societies they do business with. However, much of the philanthropic pursuits of Indian industry might end up as ‘drizzle on desert sand’ owing to lack of concerted efforts towards evolution of reliable institutional mechanisms, collaborative participation from government bodies or global agencies, sustained efforts over prolonged time periods and firm financial commitments.

Ancient India’s clarion call for realizing ‘vasudhaika kutumbam’ (world is one family) can be brought to fruition by and in this very generation through sustained efforts towards *co-opetition* (hearty cooperation and healthy competition) by all the stakeholders concerned and leading to “win-win” situations – provided no party bargains for having the “hyphen” for themselves. Changing demographics due to an ageing population, inadequate technical workforce, global competitive positioning and necessities for strategic agility would force global corporations in the developed world to lobby for better business climatic conditions in which the developing world can also hope to thrive and prosper in the interconnected and interdependent world – be it by design or by default or by divine grace. India is all set to lead the offshoring nations in the WTO forum to successfully negotiate and ensure uninhibited flow of intellect-based service offerings across geographical borders in select industry segments – which warrants reorientation of global mindsets from political hegemony to commercial camaraderie.

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