

GLOBAL WORKFORCE REPORT: INDIA

SECTOR
STATS

22%

Percentage of tech company CEOs in 2009 indicating the U.S. as the destination to which they are most likely to consider outsourcing

16%

Percentage of tech company CEOs in 2009 indicating India as the destination to which they are most likely to consider outsourcing

Source: BDO Seidman, March 2009



Adrienne Vaiser, above, an employee of Denver-based Alpine Access, provides customer phone support from her home. Business is up for U.S.-based "domestic outsourcers" as companies such as United Airlines and Monster Worldwide pull call-center support from offshore sites such as Mumbai, India, below, back to the States.

TOP: COURTESY ALPINE ACCESS; BOTTOM: SHERWIN CRASTO/REUTERS

India on the outs?

The global downturn, coupled with political concerns in the U.S. about domestic job losses, has caused companies to reconsider outsourcing to the subcontinent or managing their own workforces there. Some have found that bringing work back onshore makes better business sense. **Stories by Jeremy Smerd**

SITTING IN HIS dimly lit office in Hyderabad, India, two years ago, Hari Thalappali, then head of HR for Satyam Computer Services, jumped on a conference call with industry colleagues to defuse a growing backlash in the U.S. against companies outsourcing jobs to India.

At the time, U.S. senators alleged that outsourcing companies like his had abused the use of work visas to the detriment of U.S. employees. Thalappali dismissed the allegations as political fear mongering.

“There is nothing new in the U.S. for them to be looking at this issue,” he told *Workforce Management* at the time. As long as the American workforce remained employed, it seemed, the political and economic risks of doing business in India were minimal.

Two years later, however, much has changed. The U.S. is enduring a steep recession that has seen 5.7 million jobs lost, heightening the political and economic costs of offshoring. The House of Representatives passed legislation that would make it illegal for companies receiving bailout money to offshore customer service jobs. Although the measure has not passed the Senate, it has created image problems for companies—JP-Morgan Chase among them—that have received federal money and intend to increase offshoring to India.

India, meanwhile, has experienced its own problems. In November 2008, a terrorist attack in Mumbai took 166 lives, revealing the country’s security risks. Satyam founder B. Ramalinga Raju in January confessed to grossly inflating the company’s earnings, and prosecutors have alleged the company exaggerated by 13,000 the number of employees it had. The alleged billion-dollar fraud sent India’s business community into a panic and raised governance concerns among investors and corporate clients around the world.

All of this underscores the uncertainty pervading the global business community, which is showing a waning appetite for outsourcing to India. The worldwide recession is cooling the sub-continent’s once red-hot outsourcing economy as companies take a closer look at whether the complexity of managing foreign workforces and overseas partnerships is worth the risk and cost.

Though some companies continue to shift their workforces to India, others have closed their overseas offices, choosing to contract directly with Indian outsourcing companies. But even as Indian companies learn how to streamline their own workforces to operate in a leaner business



Domestic outsourcers are benefitting from rising U.S. unemployment. “We’re finding the economy to be good to us.” —ROB DUNCAN, COO, Alpine Access

Outsourcing on the home front

UNLIKE INDIAN outsourcing companies, domestic outsourcing firms, which use customer service agents who work from home, have found their business has picked up in recent months. “We’re finding the economy to be good to us,” says Rob Duncan, COO of Denver-based Alpine Access.

Angie Selden, chief executive of Miramar, Florida-based Arise, whose home-based agents work as independent contractors, says half of new potential clients are re-evaluating their commitment to India. Of 47 current clients, six have pulled back from outsourcing their call center work to India, most in the past year, Selden says.

Selden says rising unemployment in the U.S. has been a boon to her workforce. In 2007, 62,000 people made inquiries into working at home as call agents; in 2008, that number was 110,000.

“We’ve seen an unbelievable increase in the quality of talent—a significant uptick in sales acumen, professionalism and business knowledge,” Selden says.

One reason these companies are increasingly competitive, executives say, is that they have a workforce they can draw upon from anywhere in the country. The workers are motivated, well-educated and mostly female.

Duncan says the economic downturn has meant an abundance of well-qualified workers—85 percent of whom have some college experience—to meet the needs of businesses more concerned than ever with customer satisfaction and increasingly sensitive to keeping jobs in the U.S.

“No executive wants to be seen as adding fuel to the fire of unemployment,” says Peter Allen, a partner with global sourcing consultants TPI. “If there is a domestic option, executives will take it.”

Maria Felton, a 42-year-old mother of three, works as a customer service agent from her home in Centerville, Maryland. To become an agent for Arise, she had to form her own business, pay a few hundred dollars for a background check and training, and spring for home-office supplies like a dedicated phone line, broadband Internet and a computer. She remembers some of her first calls.

“People would say, ‘Oh, thank God, you are not in another country,’ ” she says. “They were just happy that I didn’t have an accent and they knew they were calling the States.”

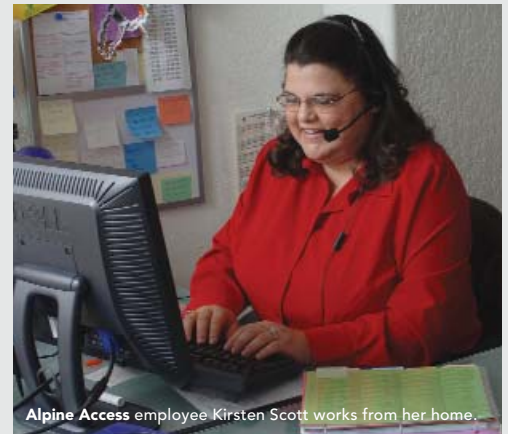
The job’s flexibility is one reason why home-based customer service agents have lower attrition rates, executives say. Felton has a master’s degree and is planning to keep her job while going to law school. She chooses to work early in the morning or late at night, when her children—and her barking dog—are asleep.

At-home call agents are paid less than their counterparts at call centers, but what they lose in pay they make up in savings on transportation, food and time, the agents say. The job appeals particularly to stay-at-home moms and older workers. Eighty-seven percent of Alpine Access’ agents are women whose average age is 41, the company says.

One Alpine Access agent is Lillian Crosby, 30, a mother of two children. Crosby used to work at a call center, but now she works from home in El Paso, Texas. The shifts in the economy have lifted Alpine’s business, but Crosby feels the pressure it’s putting on some of the people she talks to, especially if she is trying to collect on debts for a credit card company client.

In such cases, she finds that her work requires more than following the usual call center script. “The last few months, because of the economy, I’m hearing a lot more personal stories,” she says. “My job is to listen to the customer and find out what’s happening, so we know what to do to help them out.”

—J.S.



COURTESY ALPINE ACCESS

Alpine Access employee Kirsten Scott works from her home.

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environment, some American companies are choosing to outsource business processes within the U.S., where local governments are eager to use tax incentives to create jobs.

“A year or two ago, when you talked to a CIO or CFO, you talk about managing costs via outsourcing, and they think India is the place to be; a no-brainer—abundance of people, good cost points, track record,” says Peter Allen, a partner with global sourcing consultants TPI. There wasn’t much debate about India as a destination, but a few things have changed in the past several months.

Although India’s IT and business process outsourcing industries continue to grow, a report in March by consultancy BDO Seidman said U.S. companies in 2009 are more likely to outsource within the U.S. than to India. In a poll of 200 technology company chief executives, 22 percent said the U.S. is the destination they are most likely to consider, while 16 percent chose India.

“There’s a point in time when the efficiencies you gain with the movement of your workforce offshore don’t make economic sense because of the economic cost to administer,” says Douglas Sirota, a partner with BDO Seidman in San Jose, California. “Companies in down economies tend to retrench.”

Today, companies that are taking their first outsourcing steps in India are doing so as part of an overall strategy to establish the company’s brand in the region, consultants say. The advantages of setting up captives in India have largely been gained by the companies that moved to the region a decade ago. And with rising costs, many companies around the world would prefer to have the flexibility to contract with their foreign workforce rather than own it.

“It’s a period of uncertainty. Work has not stopped, but it might be reduced,” says Raj Bowen, managing director of PDI Ninth House India in Mumbai. “There’s an element of cautiousness because companies don’t want to be caught on the wrong foot.”

Last year, Indian outsourcing company WNS bought insurance company Aviva’s business process outsourcing business for \$228 million, giving the Indian firm \$1 billion worth of work for eight years.

Citigroup has also sold two of its Indian operations to Indian companies. Its financial services and banking sector BPO went to Tata Consultancy Services. Citigroup sold its soft-

ware application company, Citi Technology Services, to Bangalore-based Wipro in a deal that ended in a loss for the struggling financial services giant.

“The fact that they would sell it at a loss tells me that they were incurring a lot of losses,” Sirota says.

A Citigroup spokesman did respond to requests for comment.

DOMESTIC OUTSOURCING

Some companies have begun leaving India to bring customer-facing jobs, such as call center positions, back onshore to serve U.S. customers—even if their corporate subsidiaries remain in India to serve the Indian market. In February, United Airlines said it would shift 165 customer service jobs from India and Mexico to call centers in the U.S.

For three years, Monster Worldwide outsourced its call centers for U.S. clients to 400 call center workers in Mumbai. As of January, those jobs had returned to the U.S.

The company said it had not been satisfied with the quality of its Indian workforce because agents were often unable to resolve a customer complaint on the first call. The experience led the job board to declare it would support each country where it operates with native speakers.

“We’re really dealing with people putting together a résumé or posting a job and you need to be able to do troubleshooting, problem analysis and provide directions. And you can’t do that if there’s a language barrier,” says Art O’Donnell, executive vice president of customer service at Monster. “We felt we could do it with higher quality and equal cost here in North America.”

With the help of real estate management company Jones Lang LaSalle, Monster evaluated 1,000 locations in North America, analyzing the availability, cost and proficiency of local workers, real estate costs, tax incentives and standard-of-living levels.

O’Donnell was mindful that locations in economically depressed parts of the country, such as the Rust Belt, could offer an abundance of workers willing to work for competitive wages. He had been down this road before, however, as COO of Selectron Services, an electronics manufacturing services company now owned by Flextronics. He worried about “chasing the unemployment factor.”

“Eventually you run out of the labor pool,” he says.

The company says it ruled out coastlines. It wanted to be able to draw from workers within a 60-mile radius of its call center. Monster eventually picked five finalists, all in the Southeast, before settling on Florence, South Carolina, about 70 miles west of Myrtle Beach.

Monster says it chose that area in part because the state and local economic development teams provided the company with tax incentives and temporary infrastructure to train and develop its workforce.

In January, the call center’s 250 workers, whose annual salaries average around \$25,000, began taking calls from U.S. customers. O’Donnell says the overall cost, with fewer workers, is equal to Mumbai. The quality, he says, is much higher.

“The other reasons we moved away from offshore was strategic,” he says. “Being offshore, in addition to having the native-language barrier and having an outsourced workforce, it’s almost a rent-an-agent. We wanted to bring that function in-house to apply our own quality control and continuous improvement [methods].”

DEEPER INDUSTRY KNOWLEDGE

The challenges of working in India are often greater for smaller companies that don’t have the staff to effectively manage—or develop a relationship with—an Indian workforce and are too small to be doted on by large Indian outsourcing companies like Wipro and Infosys. Such challenges increase as the work grows in complexity.

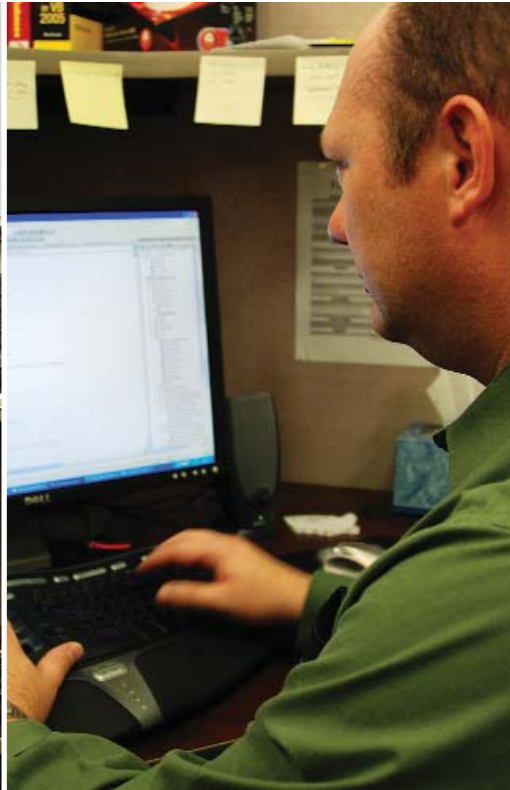
This was the conundrum for Clarus Consulting, a 10-person software company in Atlanta. The company recently looked to outsource the development of biotech and pharmaceutical industry software but decided against India. The Indian staff, while technically competent, did not have deep knowledge of the American health care market and its regulatory requirements, says chief executive Michael Brookman. The company was looking for a company that would act as a development partner and found one in Rural Sourcing, a software development outsourcing company whose developers are in the small town of Jonesboro, Arkansas.

The cost of labor at Rural Sourcing, Brookman says, is around \$60 an hour—twice what it would have cost in India, but half the cost of using a major consultancy.

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Rural Sourcing software developers in Jonesboro, Arkansas, receive roughly twice the salary of their Indian counterparts, says Michael Brookman, CEO of Clarus Consulting, which selected Rural Sourcing to help it develop biotech and pharmaceutical industry software. However, that cost is still half what a major consultancy would have charged, and the U.S. workers possess “a higher level of industry knowledge,” Brookman says.

edge,” he says. “The labor pool’s expectation on salary is significantly less, even given their skill set, because they want to live in this location. Companies like Rural Sourcing are able to make money on that cost basis, even if they are charging significantly lower hourly rates.”

The weak economy has brightened the near-term prospects of domestic outsourcing.



These providers are capitalizing on a “buy American” sentiment pushed by local governments and the Obama administration, if only rhetorically. President Barack Obama has pledged to keep more jobs in the U.S., but

the stimulus package passed in February does not require investments in IT projects to be carried out by U.S. workers.

Still, domestic outsourcing companies say their business model is gaining renewed interest among employers and local development organizations. Monty P. Hamilton, chief executive of Rural Sourcing, says he gets calls every week from economic development managers from rural areas asking what they can do to attract companies looking for domestic out-

sourcing locations. Hamilton tells them to invest in broadband infrastructure, partner with local universities to develop skill sets of local workers and identify the kinds of workers in the area. Communities with large retiree populations, for instance, may have many candidates to work in call centers.

Since the economic downturn accelerated last fall, Hamilton says he has seen “a significant interest in domestic sourcing as an alternative” to offshored outsourcing.

INDIAN BARGAINS

The India story, however, is far from over. Nasscom, the group representing India’s IT and outsourcing companies, expects the IT and business process outsourcing industries, which are still growing despite the recession, to rebound to earlier levels in 2010. By then, some say, Indian firms will have taken the lessons of the downturn to heart and learned how to streamline operations.

During the boom times of several years ago, companies in India hired more workers than they needed. This excess—known as the bench—gave them the ability to rapidly in-

crease the scope of their work for clients. Now, Indian employers and human resource directors are learning to do more with less.

“We are finding it easier to manage the team, as there is hardly any voluntary attrition and companies are using the situation to their advantage on this front,” says Umesh Bajaj, chief executive of Bangalore-based software developer HealthAsyst.

For employers already in India, the downturn presents an opportunity to renegotiate contracts amid lowered real estate and labor costs while voluntary attrition has slowed.

Some vendors, concerned about losing American clients, are voluntarily offering price reductions, says Glen Tullman, CEO of Allscripts, a Chicago-based software developer. Allscripts outsources some of its nonproprietary development to HealthAsyst.

“If you are operating in India and you want to expand in India, it’s actually better than it was, especially if you are a mid-sized company,” Tullman says.

Having already made a commitment to India, Tullman says he is more interested in building long-term relationships than jumping around the world for the latest bargain.

The Satyam fraud case and the Mumbai terrorist attacks have served as a wake-up call. Managers must be prepared to answer detailed questions from corporate boards about the due diligence they are performing.

“The old rule for investors and business applies,” Tullman says. “When you are answering questions, you are losing.”

Employers that did business with Satyam, as well as leaders working at Satyam, are learning this lesson the hard way. Satyam’s Thalappalli, who moved from head of HR to marketing, has had to answer questions from authorities about allegations that Satyam falsified its employee headcount to siphon money.

Though the proposed sale of Satyam to Indian firm Tech Mahindra may save the company from collapse, some clients, such as the United Nations, have nonetheless announced plans to cancel their contracts. Others have simply said that’s a possibility. Selective Insurance Group said in its annual report that Satyam accounts for 25 percent of its technology workforce, but that the company would manage a transition to a new vendor should the need arise. A spokeswoman said the company had “a backup plan,” but would not offer any details.

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