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The Other Side of Outsourcing

■ In India, they have to come to terms with the good and bad ends of a booming economy. We should learn something from them.

August 15, 2004

By SUJATA SRINIVASAN

"I spoke to your fellow countryman this morning," my colleague Chris Bernhard announced with gusto. Chris, who describes himself as "middle-aged, non-computer savvy," had called his Internet service provider's technical support line and was routed to a call center in India. "I was impressed," he said enthusiastically, describing how the Indian operator had guided him click by click until the dropped connections were quickly resolved. "He said he'd make my problems disappear and he did!"

I could almost put a face on my fellow Indian, half a world away. Sitting in his tiny cubicle in Chennai or Kolkata, he unleashes his Yankee speech and Texas drawl on customers from Connecticut to California. He's one among thousands of twenty-something college graduates working in call centers, earning money to fulfill dreams and commitments that till now were unthinkable. Perhaps he's saving money for his MBA. Perhaps he's helping support his aged parents and younger siblings. With more money, more opportunity and more financial independence, there's a certain spring in his step and confidence in the way he and his friends carry themselves.

While working as a business journalist in Chennai, South India, until three years ago, I'd seen this huge buildup of hope bubbling just about everywhere. CEOs, government officials and everyday people like me felt the excitement when American companies and their Indian counterparts built huge, state-of-the-art centers for research, back-office operations, product development, customer service, accounting, sales and what have you. We rejoiced when state governments built massive "IT parks" and expanded infrastructure, when underwater cables were laid and bandwidth capacity inched upward. "This is it," we thought. "We're in." We were part of this exciting global chain where the world becomes one big pool of labor and free markets.

The buzz started around 1991 and continued through the decade, when, reacting to a severe foreign exchange crisis, India liberalized foreign investment, reduced trade barriers, reformed the financial sectors and de-licensed the auto industry. A flood of American corporations entered the

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country, enthralled by a market of about 350 million middle-class consumers in a nation of 1 billion people. The wave included companies from General Motors to Motorola, GE Capital, Kentucky Fried Chicken, Hewlett-Packard and American Insurance Group. Microsoft, Intel and IBM, whose products were previously sold through local vendors, set up a direct presence in India. These companies brought everything from credit cards to cars to colas, benefiting immensely from this new, empowered market.

Many of us supported the entry of American companies even when domestic industries wanted protectionism and cried foul that these large corporations would flood the Indian market with cheaper products and automated factories that would lead to widespread job loss. Domestic companies such as Wipro and HCL saw their 80 percent share in the PC market plummet. Entrepreneurs feared the Indian dream of owning a small business to cater to the local market would be shattered.

What happened next was similar to what happened in the United States in the wake of Japanese carmakers flooding the American markets through the 1970s and `80s. Companies like Toyota, Nissan and Honda captured the American market with cars that were lower priced and had higher fuel efficiency, a factor that became acutely important in the aftermath of the energy crunches in 1973 and 1979. While American consumers benefited from this, American automakers took a massive blow, and sadly, thousands of employees were laid off. But the auto industry learned to survive. Automakers improved their technologies and processes and became stronger and more competitive, much to the benefit of consumers.

The same thing happened in India. In the process, some individuals and companies were badly hit. Small auto parts suppliers, for example, were either forced to improve their technology or were wiped out of business. Hundreds of companies closed shop, resulting in massive job loss. But hundreds more transformed into extremely competitive businesses generating immense wealth through domestic and export consumption.

None of this would have happened had both countries closed their economic borders. How ironic it is that America, which led the way in free markets and open competition, benefiting immensely from the sale of products in global markets like India, is now lobbying for protectionism against outsourcing, thus turning the clock back on decades of progress achieved in global economic integration.

As a Democrat, I was extremely upset when politicians like presidential candidate John Kerry called companies that outsource "Benedict Arnold." It seems unfair to lash out at companies for making money. After all, isn't this what they are supposed to do? We've seen what happens when costs hit the ceiling. Companies lose their competitive edge and lose money, and eventually exit the business. Companies that cut costs survive; companies that survive make money, and companies that make money reinvest in the economy and generate employment.

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Growing up in India, I've seen the reach of American brands with Indian consumers. Recently, my friend Neha Rastogi, an advertising executive in Bangalore, sent me an e-mail. "Can you believe I still don't own a pair of Levi's?" she lamented. Those of you who've visited India saw Coke and Pepsi flow freely with South Indian filter coffee, women clad in gorgeous silk saris dot the colorful landscape with girls in MTV-style mini-skirts and halter-neck blouses. The aroma of masala dosas entwines with the aromas from McDonald's and Pizza Hut; sacred cows graze tranquilly amidst zooming Ford cars; Motorola cell phones beep alongside ancient temple bells. Step inside any office - you'll probably see Dell computers, Intel chips and Microsoft software. With India recently privatizing the insurance sector, American companies and their Indian counterparts are set to tap the huge market for insurance and financial services.

And now, globalization has taken the next, inevitable step with outsourcing - the globalization of talent and labor. To many, this might seem like an exploitation of Third World wages. But look at it this way. As I write this piece, the value of the rupee to the dollar is roughly 47 to 1. An average call center employee earns roughly Rs. 8000 - about $170 a month - an amount that is economic liberation for the middle class in India. This burgeoning segment has benefited the most from India's economic boom.

However, it is important to remember that there are two, starkly different Indias. The other India, which you will discover when you drive away from the tech capitals of Bangalore and Hyderabad, comprises more than 350 million people earning less than $1 a day. Here, time stands still. Insulated from the global buzz, the other India lives in abject poverty with limited access to drinking water, has no electricity or decent sanitation. Their children don't go to school. They cannot afford it. The vote of this deprived 350 million people ousted the ruling Hindu nationalist Bharatiya Janata Party from power in the recent Indian elections, although the economy was doing extremely well, thanks largely to the outsourcing factor. Yet, it is a colossal mistake to assume globalization has failed. Instead, this is victory for democracy, and people's voices were heard. It is a reminder to the government to pay attention to education, health care and core infrastructure, especially in rural areas.

Meanwhile, leading Indian companies that made immense wealth from outsourcing have slowly but steadily taken upon themselves to give back to the community. Infosys, one of the top outsourcing companies, has a foundation that works in rural areas in health care and social rehabilitation. Infosys invests a percentage of its profits into community projects and has constructed a hospital near its headquarters in Bangalore to treat brain fever, a cancer hospital near Chennai and a specialty hospital near Mumbai. It has also built orphanages and relief shelters in various rural locations.

Similarly, Azim Premji, chairman of Wipro Technologies, another leading outsourcing company, invests in rural education in partnership with UNICEF through his foundation. The Stanford-educated Premji, whose personal net worth is $6.7 billion, invests some of this money into elementary education in 3,700 villages in South India. And it's not just the biggies. Individuals who have returned to India after successful careers in the U.S. continue to contribute toward education and health care.

While outsourcing is creating a lot of promise, hope and prosperity in India, it has resulted in the pain of job loss here in the United States. It is unfair that the well-being of people in one part of the world should come at the expense of people elsewhere. I have close friends and family who work in industries that outsource. They tell me the only thing in their control is to be good at what they do, and constantly enhance their knowledge and skills when they can. For example, companies such as UTC, The Hartford Financial Services Group, IBM, GE, HP and many others pay for their employees' education. I have spoken to several employees of these companies who were benefiting from this educational assistance while increasing their value to the company.

Of course it is fallacious to assume that retaining one's job can be this simple. Some time ago, I met an Indian-American at a party who was quite distressed that her company might outsource her entire division to an Indian vendor. Later when I learned that she was laid off, I spoke to her about what she was doing now and how she felt about the whole thing.

Requesting anonymity, the former employee of ING felt deeply frustrated that not only was she laid off, but had to train her replacement team as well. "About two years after ING bought us [her division] from Aetna, the maintenance of the technology component of contributions such as (401)k was outsourced to TCS [a leading Indian vendor]. I was one of the many employees who lost a job as a result of this," she recalls bitterly. She was happy with the company's severance package and its initiatives in bringing an external human resources company to help her and her colleagues rewrite their résumés, and search for new jobs for a whole year, although she did not use these resources, having found a consulting position on her own. She feels strongly that American taxpayers' jobs should remain in America.

Exactly how many jobs are leaving America? Forrester Research, a Cambridge, Mass., consulting firm, predicts that over the next 15 years, 3.3 million jobs will move offshore. This translates to roughly 220,000 jobs leaving the country each year.

The Institute of Electrical and Electronics Engineers elaborates that this number, though impressive, is small when compared to the total employment in the United States, which is roughly 130 million jobs. The number of new jobs that will be added between now and 2010 is expected to be 22 million. Annually, outsourcing will affect less than 0.2% of employed Americans.

Some argue that many of the new jobs are low paying. But fields such as biotechnology and nanotechnology are expanding, and numerous local subsidiaries of foreign companies, such as Honda, Nestle USA and Siemens Corp., are "in-sourcing" good jobs to the United States.

While the percentage of outsourced jobs seems minuscule, it is irrelevant to the individual who is laid off. Yes, it is unfair that people should lose their jobs due to factors beyond their control, while companies lower costs and chase profits. But if companies don't do this, it will lead to greater job loss and more pain in the future, when costs drive them to the ground.

The critical fact is that the dynamics of our world have changed. There is a circular flow of business between countries. Commerce, labor and talent constantly flow back and forth between India and America. Benefits are mutual. Shouldn't we then react proactively, rather than defensively, to these inevitable changes?

The story of America's continuous survival through excruciatingly difficult times such as competition from Japanese automakers was often a subject of discussion in many Indian homes. Growing up in India, it was a common notion to be inspired by America's innovation. It was generally accepted that the smartest kids on the block would move to the United States to pursue graduate and doctoral studies. Many believed the U.S. offered huge opportunities and comprised an international talent pool.

I remember as a kid when my cousins did well in school and my father came to know about it, he'd get excited and happy and tell them, "Excellent! You must go to America to study! It's a great place for nurturing talent." Each of my 15 cousins heard this more than once, and they still have fond memories of those conversations.

My father was a strong believer that one's education was not complete without traveling and experiencing different world cultures. He himself visited the U.S. after his graduation in India and spent the summer as a camp counselor, later backpacking across the country. The many friends he made during his stay often visited us in Chennai, making my childhood very diverse. Years later, he came back on business trips, which again resulted in beautiful friendships and reciprocal visits. It was very common for my brother and me to have people from various parts of the world visit our parents. As a kid, I felt this was how the world worked. It was perfectly normal for people to travel back and forth, sharing cultures and forging friendships.

However, a vast section of people in India were not happy with young people leaving the country. They heatedly discussed their concerns over "brain-drain," which in some cases, was at the expense of taxpayers. For instance, the Indian government hugely subsidizes the cost of education at the Indian Institute of Technology, a majority of whose graduates immigrated to the U.S. and eventually contributed enormously toward science, technology and business. Many helped start leading corporations generating huge employment here.

Vinod Khosla co-founded Sun Microsystems; Sycamore Networks was founded by Gururaj Deshpande, Juniper Networks by Pradeep Sindhu, Telecom Ventures by Rajendra Singh and Cirrus Logic by Suhas Patil. Among the prominent Indian Institute of Technology grads in American corporations is Arun Netravali, former president of Bell Labs, who has more than 70 patents and was awarded the U.S. National Medal of Technology in 2002.

But in the light of the outsourcing controversy, many Americans ask if we should export our intellectual property. Why should American companies share their expertise with the rest of the world? Won't this weaken America's position at the cutting edge of technology and business process systems?

I recently spoke to Warren McFarlan, a professor at the Harvard Business School, on whether transferring knowledge, as in the case of outsourcing, is a threat to America. He summed up his opinion in an interesting nutshell. "There was a whole group of highly trained people from around the other side of the world who thought the proposition of studying for a Ph.D. for five years, getting a Green Card and going to work for a university (conducting research in various fields) was one hell of a life proposition. We don't talk about that as outsourcing. But you go back and look at the immigrant population in this country and it's extraordinary." The difference now, McFarlan elaborated, is instead of people coming to where the work is, the work is going to where the people are.

Take GE, for example. Its energy business recently won a contract in China to provide gas power generation turbines for several different utility companies in China - a $900 million, multi-year, multi-location order. The equipment that will be sold to China is being built in upstate New York and in North Carolina, sustaining hundreds of jobs in the United States. On the other hand, two out of GE's four research centers are in China and India, employing hundreds of Chinese and Indian scientists, thereby harvesting the global talent pool and deploying their insight of the local market to GE's advantage.

"GE is trying to globally achieve a technology innovation culture. So it's hugely important to find great, innovative technologies by making sure we're asking all the great minds around the world to see what they come up with. All the ideas in the world don't originate in upstate New York," says Peter Stack, a GE spokesman.

Another case in point is a perspective from A.V. Srinivasan, a former Democratic councilman from Glastonbury who ran for a seat in the Connecticut House of Representatives, which he lost in 2002. Srinivasan has worked on both sides of the fence. His former employer of more than 20 years, UTC, outsources to his current Indian employer QuEST. "There is no way one can justify, argue or defend the position that some people in the U.S. need to suffer so that some other people thousands of miles away may have a better life," he says. But he's quick to point that outsourcing is a two-way street that will eventually benefit both sides. "Jumping on the protectionism bandwagon and feeding the fire of fear is unbecoming of leadership. It conveys a sense of insecurity and undermines the hopes and aspirations of millions of people here and around the world who look to our leadership for inspiration."

America must innovate to survive. "A lot of companies are not nearly as innovative as they might need to be," says Diane Morello, an analyst at Gartner, a research firm in Stamford. "Saving money doesn't generate innovation. Innovation comes from executive leadership and management's willingness to take risks. Probably a hefty 50 percent of the companies prefer to maintain a status quo and reduce their risks moving forward."

What we need, therefore, are strong policies to create an environment of innovation. But the current policies being debated on outsourcing are dangerously short-sighted. Protectionist policies, though comforting in the short run, will create more harm than good in the long term. Outsourcing is an inevitable business strategy in a free market democracy. But simultaneously, we must create safety nets for laid-off American workers.

Corporations should do what it takes to make money, because that is why they are in business. What we need is a set of rules to define how they spend their money. However, the current bills in consideration don't address this.

During the last session, the Connecticut General Assembly considered three bills on outsourcing, all of which were protectionist and punitive in nature. For example, although SB 395, An Act Concerning Employees of Call Centers, failed in April when it went to the Commerce Committee, it does not undermine the fact that it was seriously deliberated in the first place.

Had the bill passed in its original form, it would have meant, among other things, that an employee of a call center outside the United States would not have been able to access any of your personal or financial information without your written consent.

Think about it. Suppose you, like my friend Chris, had a problem with your Internet service provider, and you called your provider's help line expecting a quick solution. The person at the other end, in India, may be qualified to help you, but cannot do so till he or she receives written authorization to access your account information! So while you are trying to get your e-mail up and going, you have to wait for your written authorization to reach your ISP so that the person in India can work on your problem! This would make you unhappy; it would make the American ISP unhappy, and eventually no one would set up call centers outside America.

The word "written" was dropped from the bill in March, prior to the bill's failure in April.

Though a part of the bill was to ensure privacy and protection of consumers' personal information, such protection is already provided by The Financial Modernization Act of 1999, a federal act. Despite its failure, the bill sheds light on the kind of protectionist policies toward outsourcing that are being debated in the legislature.

Similarly, SB 430, An Act Concerning Outsourcing, and SB 501, An Act Concerning the Retention of Jobs in Connecticut, are protectionist bills that rest on the belief that putting up economic barriers will guard America `s future. But alas! Past examples show us otherwise.

Instead of bashing companies that outsource, politicians must sit with policy makers and see what we can do to create jobs, and how we can innovate and come up with new technologies and products. Currently, there are no standard policies across industries to ensure the wellbeing of employees affected by outsourcing. Most of what companies do - for example, UTC's employee education program to enrich the skills of its existing employees - is good, but not standardized. There are no laws or regulations governing companies to fund employees' education to expand their skills. Similarly, there are no standard rules regarding extended benefits like wage/health benefits, and job retraining and re-placement services for laid-off employees.

Also, we should develop a system of checks and balances to curb excessive CEO compensation. Not only does this affect the morale of employees, it takes away from the cost savings that companies achieve by outsourcing. There must be policies to ensure that companies that outsource should reinvest in the economy by apportioning funds for researching and developing new technologies for the future. Such innovation is the backbone of America and will create new kinds of jobs for the future. In addition to this, companies must be legally obligated to invest in education through university grants and contribution to local schools.

Sadly, we don't see politicians debating in this direction. Instead, we are barraged with passionate rhetoric and impractical protectionist policies. Like it or not, the global economy is here to stay. Let's stop lobbying for bills to curb outsourcing, and instead, find ways to structure the process in a manner that addresses the tremendous social upheaval and personal pain of job loss. Today more than ever, we must innovate as we move on to the next phase of reinvention.

The heart of the matter is, if we don't outsource, what other alternative is there? We can build walls and insulate ourselves from globalization. But we do this at a great cost to the American consumer.

Sujata Srinivasan, a Manchester-based freelance journalist, has written pieces for The Hartford Courant, Northeast magazine, Hartford Magazine, India Abroad, Silicon India and Business Line (India). Before she came to the United States in 2001, she worked with CNBC (India) and The Economic Times.

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