MARK KOBAYASHI-HILLARY

Outsourcing to India

The Offshore Advantage

Second Edition

Springer

noa
national outsourcing association

IBF INDIA BUSINESS FORUM

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Mark Kobayashi-Hillary
Director, Global Research
Commonwealth Business Council Technologies
18 Pall Mall
London SW1Y 5LU
United Kingdom
mark.hillary@cbctechnologies.com
www.outsourcingtoindia.net

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For my family Nobumi and Matilda,
Everything would be impossible without you both.

To the memory of my grandmother Mary "May" Jenkinson, 1928-2003 and the thousands of people across India and South Asia who perished in the horrifying tsunami of December 26 2004.

Foreword from India to the First Edition

If you're reading this book it is probably for one of three reasons. Either, you have been affected by outsourcing, are thinking of outsourcing a part of your business, or just want to find out the facts about a subject that has generated many column inches, but can yet do with more informed and open discussion.

As President of NASSCOM, I have been fortunate to be at the heart of the Indian outsourcing community and its rise to the top of the economic and business agenda. NASSCOM is the apex body of the IT software and services industry in India. NASSCOM members constitute approximately 95 per cent of the $12.5bn software and services market in India, and it has therefore emerged as the authoritative voice of the industry.

In response to a series of high profile outsourcing agreements to destinations such as India, comparative cost advantage has been singled out as the primary reason why many businesses are allocating a proportion of their operations to this region. However, whilst the potential cost advantages is a factor that many businesses consider, it is not the only one. Understandably, this has become an emotive public issue, because most people wrongly equate outsourcing with job-loss.

Independent agencies continue to rank India significantly ahead of its competitors for IT investment in many key areas. India scores highly on several key parameters that are relevant to IT including the level of governmental support, the quality of the work force and their proficiency in English. Businesses may initially come to India to save costs, but they invariably stay and grow because of the quality. The success of India as an outsourcing location demonstrates that in a global competitive environment, quality has become increasingly important as consumers demand a service that is timely and of a high standard.

Counter to public perception, this is not a situation in which several hundred million people are now competing for western jobs. Rather, it is an opportunity for all countries to benefit from the injection of new ideas, economic gains and stability that globalisation offers. A recent study by McKinsey supported this very argument, when they found that for every $1 previously spent in America and now off-shored to India, $1.47 of global value was created. Outsourcing, therefore, is by no means a one way street. Just as the Indian economy benefits from the in-ward investment that outsourcing brings, so too can domestic firms benefit from the demand that these workers generate.

In *Outsourcing to India: The Offshore Advantage*, Mark Kobayashi-Hillary has offered a balanced view on the trend to outsource to India. He makes a compelling economic case for outsourcing to this region whilst acknowledging and discussing the emotive aspects of such a decision. I hope that you learn from and enjoy this book as much as I did.

Kiran Karnik
President of NASSCOM
New Delhi, December 2003

www.nasscom.org

Foreword from Europe to the First Edition

It is a great pleasure to, on behalf of the NOA, write this foreword commending the thorough study of *Outsourcing to India: the Offshore Advantage.*

Outsourcing in Europe is becoming the new way of strategically effecting business, which if not obsolescing the "joint stock" company will nevertheless radically transform it. While over 70 per cent of UK companies have outsourced at least one business process, as few as 5 per cent have outsourced as many as five. Yet it is amongst that 5 per cent cluster of pioneers, that the impact and benefits have proved greatest. There is every sign that the UK and the wider European business marketplace will further embrace the outsourcing model, and that this trend will continue to stoke the burgeoning Indian offshore supply market.

Mark clearly demonstrates how India is taking up a key role in providing IT and Business Process Outsourcing using a remote delivery model. He shows that this can be very economically advantageous to European companies, but that such offshore outsourcing raises many challenges which – should you follow his advice – may nevertheless be pragmatically managed.

We are reminded that there is much in culture, tradition, and history that unite Europe and India, making them ideal business partners. In this context it is likely that in a few years time, when the rash of offshore newspaper headlines fades away, we will wonder how business was ever pursued without such cooperative global sourcing.

Nigel Roxburgh,
Co-Founder of the European Outsourcing Association and Principal Consultant to international services organisation Xansa
London, December 2003

www.e-oa.net

Foreword to the Second Edition

I first read this book early in 2004, soon after the initial publication. I found it quite different from many of the other books on the subject and more useful than most. Mark approaches the subject in a way of his own which compels hidden secrets to surface up. He is endowed with vision and insights. He synthesises useful data on outsourcing persuasively. Mark my words; this book speaks with authority backed by immense research and practical experience.

Offshore outsourcing to India has undergone a revolution in 2004. The conference hall gossip in the sourcing industry throughout the early part of the year was focused on the US presidential election. Fortunately, with the election out of the way, we can now focus on the true economic benefit without bothering about the realpolitik.

Other governments, such as the UK, have been very supportive of offshoring as a means to helping their own companies become more competitive. Companies are dropping the idea of global sourcing being solely about an onsite-offshore business model and realising that they can seek the best resources and skills from around the world. What we are witnessing in this early part of the twenty-first century is the creation of a corporate structure where a global delivery model is completely normal. Nations and regions will even become hubs for specialised services - true global centres of excellence. Who could deny that India now leads the world in providing high quality software services? Offshore outsourcing will soon be business as usual for competitive organisations in all nations.

Mark has observed some of the more recent trends in this updated edition. The convergence between the more mature IT service market and the Business Process Outsourcing players is one of the key changes to this industry and has the potential to change the entire global service industry. Delivering services from an offshore location now enables a company to benefit from a lower-cost environment, better resources, the opportunity to reengineer and improve processes and an overhaul of the IT supporting those processes. This is a world of multi-layered change, with benefits at each layer, driven by the possibilities that IT creates.

The global sourcing industry is maturing in India, though it continues to grow at a rapid pace. One clear sign of maturity is how some of the organisations are focusing on value enhancement rather than cost reduction. Everyone knows that business strategy is not always driven by a desire to reduce costs. An organisation that wants to improve how it delivers a service or product can utilise resources in India with palpable advantage without ignoring cost reduction. Suppliers are tapping into this desire by offering "value-minus" pricing and open-book quotations where they take on the risk of delivering a service and share in the benefit that is produced. This is a world away from the basic "time and materials" charging model used by many service suppliers. An era of true partnership is dawning.

The range and complexity of services being offered from India is becoming ever more complex. As companies realise that India can offer a lower-cost pool of well-educated people utilising the Internet and ever-cheaper global communications, they stop asking what is possible and start asking what cannot move to India? With complex processes such as financial advice, equity research, and patent filing and management all being performed from India today there clearly is no limit to what can be done and this book outlines how you can commence on your own journey to India.

In short, this book is an enlightening primer for those who have questions about the value of offshore outsourcing and India. It addresses the reasons for utilising outsourcing as a business model, but the author has also examined the risks and practical pitfalls that trip unwary executives along the way. It is an excellent introduction to the subject and I hope that it helps you establish a long-lasting relationship with India.

Mahesh Ramachandran
Chair 2005, India Business Forum
London, January 2005

mahesh@indiabusinessforum.org
www.indiabusinessforum.org

Preface to the Second Edition

My friends at NASSCOM and the NOA have already provided a warm welcome, so it may seem superfluous to add my own introduction; however I want to briefly explain how you can obtain the maximum benefit from this book and to thank those who have given their time to help me produce this second edition.

Outsourcing to India: The Offshore Advantage is designed to be read in a number of ways. You can sit and read it straight through as the chapters follow the logical progression of steps required to work with an outsourcing partner in India:

- India itself is introduced by chapters 1 through to 6, with information on history, politics and travel.
- The outsourcing industry in India is profiled by chapters 7 to 11, with information on the major players and locations.
- Chapters 12 to 25 constitute the management checklist; a step-by-step guide to outsourcing to India.

Alternatively, the individual chapters can be read as primers on each subject area, or the three main chapter groups can be read individually in order to focus on those specific areas.

Outsourcing to India: The Offshore Advantage is written for experienced managers who need to understand the outsourcing process and how this works with India, the most popular destination for offshore outsourcing. There are many books that focus on the cost benefits or business case planning for offshore outsourcing, however this title aims to blend the academic theory with practical advice for the global management community.

This book is written from personal experience and several years of research. It is intended to guide you through the outsourcing maze, allowing you to avoid many of the major pitfalls.

Outsourcing to India: The Offshore Advantage does not offer the detailed minutiae of example SLAs or outsourcing contracts. There is little value in this as every outsourcing agreement is different and any required examples will be available from your advising consultant (or half an hour on *Google*). It does offer you the knowledge that you need to work in India, creating a successful outsourcing strategy for your organisation.

I would like to thank everyone involved in the production of this book. The research has involved many interviews with authors, academics and business leaders in several countries and I would like to extend my sincere appreciation to every person who has helped me produce this book.

My editors at Springer in Germany have performed a wonderful job of crafting this manuscript to reflect my thoughts. Katharina Wetzel-Vandai has advised me through the entire writing process, from the time this was all just an idea to the book you are now reading and Gabriele Keidel has corrected my errors along the way. David Anderson and Jon White at Springer UK and Paul Manning and Mike Spano in the US have helped me to reach out to companies who may be interested in the book and all have helped to organise my various India-themed events in London and New York.

Pete Shelley inspired me to stop using a keyboard for software development and to start using it for creative English. Though my end result may differ from his song lyrics, I'm grateful for the push towards writing. No matter how many albums I purchase, I don't think I will ever understand how to write a great song so I have to offer respect to the artists that provided a soundtrack to my second edition efforts during 2004 and 2005, including The Hives, The Killers, Franz Ferdinand, Morrissey, Prodigy and The Libertines. How come this new music is getting better as I get older?

Of course, the most appreciation must go to my wife Nobumi. Not many partners would be as supportive as she has been. When I told her I planned to quit my safe, salaried investment banking job because I wanted to focus on this book, her only comment was "Go for it!" That's a special wife for you. Even Matilda the dog was useful, as she helped me to relax and think about the manuscript during long walks in Coldfall wood. I initially planned to take a few months off and that stretched to a year - exhausting most of my spare cash - before I entered into a start-up company. Nobumi really does deserve a medal if anyone from Buckingham Palace is reading this preface.

I am especially grateful to some within the outsourcing business community that I must name. I appreciate that lists of names can be tedious for the casual reader, but these people are all leaders in their field. They have helped me with the creation of this book and if you are in this industry then they could help you too.

I visited India for research twice in 2004 with Mahesh Ramachandran. Mahesh is the 2005 Chair of the India Business Forum and a London Business School Sloan Fellow. I'm grateful to Mahesh for helping to arrange these field trips and for being such an enjoyable companion during those journeys. Mahesh once introduced me to his wonderful family in Chennai with a PowerPoint presentation to ensure I could remember who was sitting at the vast dinner table. Only a LBS Sloan could come to a restaurant so well prepared. I'd like to thank Mahesh's brother Ramesh for helping to arrange some of our travel details and his parents in Thanjavur for ensuring we could access the wonderful library in that town, though with more than 40,000 books at home his father has a considerable library anyway.

At Commonwealth Business Council Technologies I would like to thank Dr Mohan Kaul, Anoop Singh, Prakash Sundaram and Sanmit Ahuja for their daily dose of intellectual stimulation. Thank you to Sakate Khaitan of ALMT Legal in London for legal expertise that borders on the impossibly knowledgeable. I'm grateful to Yash Rishi of Call ICCL for organising a fantastic book launch event in London for the first edition. David West, Carl Stadler, Tanya Gardiner, Sunil Warier, Manoj Balraj, Rajiv Dey and Venkatesh Iyer from NIIT Technologies and NIIT SmartServe have helped with the New York launch reception in 2004 and the second edition launch reception in London in 2005. Other Indian technology companies should take note of how NIIT presents itself to the market. Carl is doing a great job.

Thank you to the Oxford bookstore chain in India for providing me with several opportunities to talk about this research. Himani Grover Sawhney, Smriti Khanna, Meera Warrier and Bijal Sanghani have all helped to ensure that this is the best bookstore chain in India today -and they serve fantastic tea in every store!

I spent much of 2004 working on offshoring research with the British Computer Society, the product of which can be downloaded free from their website. I'd like to thank the entire offshore outsourcing working party of the BCS and in particular Elizabeth Sparrow and Rosie Symons - it was a pleasure to work on this research with such a great team of people.

The Indian High Commission in London has been particularly supportive of my work so I must mention the efforts of Manpreet Vohra who tirelessly treks across the UK promoting trade with India and the excellent Deputy High Commissioner, Satyabrata Pal. Mathew John and the DCG Ashok Tomar both do a similarly excellent job of promoting India at the Consulate General in New York. In addition, the respected scholar Parvan Varma, director of the Nehru Centre in London is someone I have been honoured to meet, let alone find him praising my own work.

Others who have helped me research this book include my friend Badar Sakriwala; Kiran Karnik, Sunil Mehta, Sangeeta Gupta and Jerry Rao from NASSCOM; Anja Boisten, Emma Shepherd and Jules McCrindle from Hill and Knowlton; Hilary Robertson, Alistair Cox, Saurabh Srivastava and Suzee Foster from Xansa; Alok Aggarwal, Marc Vollenweider, Mike Taylor and Hedda Pahlson-Moller from Evalueserve; Arnaud Lambert from Cargolux; Nina Sodha from Abbey, Vikas Pota from Saffron Chase, Martyn Hart and Nigel Roxburgh from the National Outsourcing Association; Andrew Baxter and Khozem Merchant from the Financial Times; Zubair Ahmed from the BBC; Mr HS Rao from the Press Trust of India; George Bell from London South Bank University, Raja Mitra from the World Bank, Professor Tim Shaw from the Institute of Commonwealth Studies, and Vijay Kumar from fxAuctions.com.

My apologies to any person I have missed from this preface. I have tried to list those who have been most helpful to me, but as Nobumi will tell you, my memory cannot always be relied on. Thank you to those I have not listed.

I have tried to represent every quoted individual and organisation fairly. At the time of writing I am not employed by or the owner of shares in any of the organisations discussed in this text, except where explicitly stated in the author notes at the back of the book. I have thanked several people and mentioned their companies in the book; however there has been no sponsorship of any content and my thanks are for the genuine help provided by those individuals - putting this research together is not easy! In addition, I am not employed by, or a representative of, NASSCOM, the India Business Forum or the National Outsourcing Association, however I do appreciate the support of these organisations.

If I have made any errors, omissions or misjudgements then it is my fault alone. Please contact me if you have any comments or corrections, or even invitations to your outsourcing contract award celebration.

Mark Kobayashi-Hillary
Commonwealth Business Council Technologies
London, January 2005

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Chapter 1: First Impressions

It is almost impossible to describe India in words alone. The nation is so large and enjoys such a rich and diverse mixture of language, culture, climate and history that it would confound even the most dedicated author. It is in many ways the most paradoxical nation on earth for it offers glorious riches juxtaposed with the desperation of extreme poverty.

The Lonely Planet guide to Delhi does make an attempt to describe why it is worth persevering through your first experience of India: "Your first impression of Delhi is unlikely to be a good one, particularly if it's also your first impression of India. You'll most likely notice the pollution, the crowds, the smell, the noise and the ceaseless hassles long before you notice the city's charms. But it's worth persevering: the history of this city is fascinating, and it's all around you; the bazaars of Paharganj are a wonderful introduction to India's backpacker trail; the city's monuments are among the most architecturally striking in the country; and the food here is great."[1]

In many respects India is a true world leader. Indian mathematicians gave the world the concept of the zero. Indian artists produce more films each year in Bollywood than Hollywood. India and China combined make up more than a third of all the people on the planet. The quality of the Indian knowledge based industry is leading the world into an outsourcing revolution that is no less important than the invention of the steamship or railway.

However any first-time visitor to India will be shocked by the images of poverty and deprivation. Landlords often avoid general maintenance and so buildings are untended and dirty. I have witnessed elevator users pray before their ascent as live wires hang loose from the floor buttons. Entire shanty towns are constructed from plastic sheeting and corrugated iron within sight of modern technology parks and gleaming offices.

The number of beggars on the street desperately seeking a few rupees is shameful. The beggars are often children or utilise children in a Dickensian ruse for increased profit. Foreign visitors will feel extreme discomfort as a young baby is pressed into the window of their stationary taxi or a small child tugs at a moving trouser leg.

Foreigners are a target for many of the beggars because they often retain the concept of monetary value they use back at home and are also less desensitised to the plight of the poor. A well meaning visitor handing over a small gift of $2 to shake off a beggar would be surprised to learn that they had just handed over almost twice the mean daily income - $460 per year according to the World Bank in 2001.

The grinding poverty is in part maintained by the low level of literacy in India. The total literacy rate returned in the 2001 census was 65.38 per cent.[2] This average figure across all states is skewed because the urban Indians are more literate than those from the rural villages, but the fact remains that across the entire population one third of the people cannot read or write. However, the population of India is so large that even with such a low level of average literacy, the nation still produces over two million college graduates every year.

This issue is being targeted by the government and a large contingency of NGOs who focus on specific literacy projects. As India leads the way into the outsourcing revolution through its expertise in offshore processes the question of general literacy is one of the most important domestic political priorities.

India and the world are poised on the cusp of a revolution. We have been here before though. The English of the late Eighteenth century witnessed immense social upheaval as the steam engine and cotton gin revolutionised textile production. This dawn of capitalism was subsequently enhanced through the nineteenth and twentieth centuries by the railways, steamships, steel production, widespread electricity, automobiles and then information technology.

Now the knowledge and information revolution is being led by India. The nation has a population in excess of one billion people with millions of educated English speakers entering the workforce each year. If California was the location for the 1990s dot com zeitgeist then India is the present location.

After a presentation at the Indian High Commission in London the British journalist Bryan Glick commented: "It was difficult not to be impressed by the way Information Technology has been identified as an area where India can have an enormous global influence as well as boosting its own economy. IT exports are currently $10 billion and growing by 30 per cent a year."[3]

India is often portrayed in a more negative light. The world media is frightened of the knowledge based economy and how it allows skilled tasks to be performed remotely. In the British technology paper, Computer Weekly, Brian Thomson wrote an opinion piece titled 'Exporting the future' about the disasters that would befall any country that welcomes outsourcing. In his Orwellian vision of the UK: "BT's field operatives receive their daily job sheets via the internet, their PDAs talk to Chinese servers, their monthly pay is transferred directly into their Egg accounts. They drive their Daewoo vans to the supermarket on the way home, where the shelves are stacked to plans e-mailed from Delhi; the checkouts send sales information back."[4]

To any business leader with a responsibility to corporate stakeholders this sounds far from Orwellian - it sounds like progress. It sounds exciting. It sounds like now. Why wait the five years that Thomson predicts it will take to reach this point?

India is far from just a better value workforce. The larger working population often means it is possible to locate niche services that just would not be possible at home. Trevor Foster-Black, managing director of Coalition Development, a UK research company that provides information on banking employees to recruitment firms, uses researchers in India to structure and format data. He says: "It would be very difficult to find such high-calibre people to do similar work in London."

There are other advantages to working with an Indian team too. As he adds: "They begin at 4am our time and everything's finished by the time we arrive."[5]

India is leading the outsourcing revolution. That position may be challenged in time, but the country has a strong lead with attributes such as the widespread use of English, population size and world-beating expertise in quality. India will do all it can to maintain that lead as the knowledge economy matures.

I want to open this book with some personal reflections on India. You may be reading this before your first visit to the country and these reflections will hopefully prepare you for the wonders India has to offer. If you have already visited India then you might recognise some of these experiences. India is so diverse and exciting that your initial visit can create a sensory overload, but rest assured, affection and respect for India will creep up and grow on you.

Personal Impressions

The writer E.M. Forster wrote in his most famous and popular novel *A Passage to India:* "Nothing in India is identifiable, the mere asking of a question causes it to disappear or to merge in something else."[6] This remains a perspicacious observation even for those visiting India for business related more to the twenty first century than hunting trips with Maharajahs.

My own first visit to India was to Mumbai (Bombay). Xavier Genet, a colleague of mine, had described Mumbai airport to me with a glowing smile. His recollection centred on the exit doors where each weary traveller finally departs the sanitised world of the airline and enters the Indian night. He told me how a sea of faces would swarm around the area by the exit, speaking a dozen noisy languages amidst a chattering cacophony of car horns, whistles and barking dogs. His description was quite accurate and I enjoyed walking through the chaos as I tried to locate my driver with one person after another attempting to commandeer my luggage and guide me to their vehicle for the "best rate into the city."

I arrived late at night and took a car to my hotel in the Nariman Point district which is a considerable drive of over one hour. During that journey I stared through the rain at thousands of people living in small self-constructed homes by the side of the road. I had been warned that Mumbai does not give the best of impressions to the first-time visitor. Mumbai suffers from the domestic migration of millions of country folk intent on achieving fame and fortune in the famous streets of Bollywood.

I am not alone in this first impression of poverty. Andrew Baxter, editor of the FT-IT section within the Financial Times newspaper shared his memories of arriving in India with me: "I remember thinking, as my cab took me through the streets of Bombay at 3am, and I looked out at all these people living in shacks by the dual carriageway: 'How has an IT services industry managed to grow in an environment like this!' The answer didn't come until I went to Bangalore and visited Wipro and Infosys. These companies have made real efforts to reassure clients - all of whom would probably have taken a similar taxi journey in the small hours."[7]

John Uncle is one of the leading dog trainers in the UK and he often lectures at veterinary colleges around the world. On his first lecture tour of India in 2001 he was surprised by the behaviour of kitchen staff on a train. He said: "I was starving, so I immediately went to see what food was on offer once the train started moving. There was not much of interest to me, except fried eggs, so I ordered some with bread. The man who served me looked extremely disinterested and before he started to scoop the eggs onto my plate he wiped it with a rag that was so dirty I wouldn't even touch my dogs with it! Like I said, I was starving so I went straight ahead and ate it. It didn't kill me."[8]

Lisa Goldman described her first impressions of travelling alone in India to the online women's travel magazine Journeywoman.com. She said: "Don't judge India by your first impression. India's big cities - especially Delhi and Bombay - are just foul. Delhi's air quality is so bad that I inevitably develop a persistent, wracking cough whenever I find myself there for more than one day. The city is also full of persistent touts who would try a saint's patience. Please remember, the vast majority of Indians do not live in the big cities."[9]

I have my own experiences that are regrettable and show how unprepared visitors can be literally taken for a ride. I once missed the free transfer bus between the international and domestic terminals at Mumbai airport. As I was in a hurry, I took a local taxi for the short journey around the airport perimeter. The taxi driver must have sensed my urgency to catch the connecting flight at any cost because he handed me a special price list for foreigners - demanding $75 for the short taxi ride. My immediate response was some indignant Anglo-Saxon language that does not bear repeating, though my protests were ignored. He pulled up and allowed two of his friends to join me in the car and then drove off, asking for the money once more, which I was clearly going to have to pay if I wanted to leave the taxi with both legs intact. I paid and charged it to my expense account as an 'airport transfer fee'. Even more annoying was that the driver had the gall to ask for a tip as I left the car and rushed for my flight.

John Hale is the UK Senior Sales Manager of Pittsburgh-based business solutions provider Apar Infotech. He suffered a similar experience as he passed through Delhi airport. He said: "I had plenty of time so I was prepared to wait for the transfer bus, but there was a particularly persistent taxi driver who kept on asking why I don't give him just 100 rupees for the journey. Eventually I decided to pay him, just so I would not have to listen to him any more. It was a hot day and it was worth the small price of a taxi ride to go and wait inside the air conditioned lounge rather than outside in a bus queue. As soon as we left the airport gates we hit a traffic jam. The driver turned and told me the price is now 200 rupees because of the traffic. We argued and I eventually got him to turn around and return me to the bus queue because I refused to pay his new price. It was not easy though. First he refused to remove my bags from the car and even after I had retrieved my case he was clinging on to it as I rolled it back to the bus queue."[10]

I had my own negative experience at Delhi airport once. I passed through in a hurry as I again needed to get from the international to the domestic terminal to meet a connecting flight. I noticed that there was no queue at the Thomas Cook foreign exchange bureau and so I took my $500 and handed it to the clerk. He smiled and chatted about the weather while counting my rupees and passing me the receipt. I signed the form, took the large wedge of rupee bills and hurried to my connection. It was only once I had returned to the UK and I was checking my expenses that I noticed the documents I signed only showed an exchange of $400. I know why the clerk was smiling at me.

Andrew Baxter is correct. The first-time visitor to a city such as Mumbai can be shocked at how different it is to London or New York. The overt displays of opulent wealth and dire poverty are so extreme when compared to the relative affluence of European or American cities. These stories demonstrate how a travelling businessperson needs to keep their wits around them. It is not that every person loitering around Indian airports is a villain - far from it - but the value of a few hundred rupees is far greater to a local than to a visiting corporate executive and ignorant visitors make for rich pickings. London has its share of villains, beggars and homeless citizens, as anyone walking through the Strand or Villiers Street at night will confirm. However, a few unfortunate individuals sleeping in shop doorways cannot compare to the desperate shantytown located between Mumbai airport and the city centre.

In his book, *India Unbound*, Gurcharan Das explains how the new generation of Indians are growing up with new ambitions that transcend the old barriers of class, religion and caste. This spirit of embracing modernity and all that it offers may be the best route to ridding India of its illiterate poor. Das recalls the example of a young man he met at a roadside café: "On a visit to Pondicherry from Madras a few years ago, I stopped at a roadside village café where fourteen-year-old Raju was hustling between the tables. He served us good south Indian coffee and vadas. Rahu told us that this was his summer job and it paid $11.50 a month - enough to pay for computer lessons in the evenings in the neighbouring village. For the next summer, his aunt in Madras had arranged a job for him in a computer company. 'What will you do when you grow up?' I asked. 'I am going to run a computer company,' said Raju. He had decided this when 'I saw it in TV, where this man Bilgay [sic] has a software company and he is the richest man in the world.'"[11]

While the first impressions of poverty can be shocking, it should not be forgotten that India has an immense middle class with a similar quality of life and purchasing power to European and American people. This is where the new consumers are located and it is from this stratum of the population that the new breed of knowledge economy technologists is drawn.

In the same book, Gurcharan Das comments on data from the National Council of Applied Economic Research (NCAER): "India's middle class was less than 10 per cent of the population in 1984-85. Since then it has more than tripled but is still less than 20 per cent. If the economy grows at 7 per cent over the foreseeable future and the population 1.5 per cent, if the literacy rate keeps rising, and if we assume the NCAER's historical middle class growth rate of the past fifteen years then half of India will turn middle class between 2020 and 2040."

Even now, the total number of middle class Indians is fast approaching the total number of citizens in the United States of America. This size and strength of the middle class is the key information for anyone doing business with India. The aspiring middle class are gaining wealth rapidly and securing their own seat at the table.

The total population of India at midnight on 1st March 2001 stood at 1,027, 015,247 persons.[12] Between the 1991 and 2001 census, the total population rose by 21.34 per cent. With continued growth at the same rate, the next census should record the total population of India as one and a quarter billion people.

The first impressions of poverty can be deceptive. India is a large country and it takes some time to see through the fragrant, but obfuscating sandalwood smoke. The effort is more than worthwhile. This book aims to make your partnership with India more rewarding than just another contract.

Chapter Checklist

- The population of India is immense. Over one billion people at present with an estimation of one and a quarter billion by 2011. Only China has more people.
- Poverty can be shocking to visitors, but India remains a developing nation and extensive poverty remains clearly visible.
- Literacy is improving, though one third of Indians still cannot read or write.
- The area of India is approximately one third of the continental US.
- Middle Class citizens of India have similar purchasing power to Americans and Europeans and are approaching the same as the population of the US. in number.
- Technology and the enthusiastic embracing of the knowledge economy are allowing India to accelerate the expansion of its middle class.

Chapter 2: Indian History and Religion

Introduction

India is blessed with an epic historical background that cannot be compressed into this single chapter. There are many volumes written on the different historical eras of India and the country has assimilated many cultures and religions into what has become twenty-first century India.

I want to introduce you to the major historical themes and events that have taken place in India. It will be enough information to help understand references to leaders such as Gandhi or Nehru without satiating your appetite for knowledge through the endless listing of dates and events. Although I have introduced some early history, this is best left to the dedicated history student. The events of the twentieth-century alone are enough for any visitor to digest.

When I asked the historian Lawrence James about the events that are essential knowledge for any manager planning a visit to India, he responded by noting: "Emotive subjects are the Mutiny, the Amritsar shootings and the management of partition. They are subjects that interest Indians, but they should always be allowed to raise them. As with so much else concerning history, topics will emerge naturally in conversation. If they do it is better to analyse rather than seek blame."[1]

Lawrence James is focusing particularly on visiting British managers, who need to exercise caution when discussing the effect of the British Empire on India. He said: "I think most Indians see the Raj, for all its flaws, as beneficial; it has provided a foundation and shaped habits of mind, particularly among the educated. Furthermore, in sixty years passions have cooled and a greater subjectivity has appeared."

Devesh Nayel, of Indian BPO firm Progeon, warned me that to attempt the summary of Indian history in a single chapter is a trap. A trap because the topic is too vast – India is unique and incomparable - and it is unavoidable that key events will be missed. Most Indians adore the heritage of their country and will enjoy the opportunity to enlighten you about events that are not documented here. Go ahead and ask.

The Nature of Indian Religions

India is the birthplace of several religions, such as Hinduism, Buddhism, Jainism, and Sikhism. It has also been able to accommodate and absorb the influence of numerous outsiders into a welcoming religious melting pot. Asutosh Varshney, author of *Ethnic Conflict and Civic Life: Hindus and Muslims in India*, comments: "India has also regularly received, accommodated, and absorbed 'outsiders'—Parsis, Jews, and 'Syrian' Christians (followers of St. Thomas, arriving as early as the 2nd century, Christianity thus reaching India before it reached Europe). In the process, amalgamated or pluralist forms of culture have emerged, based on a lot of cultural give-and-take between the various communities."[2]

The 1991 national census of India[3] reveals the following national breakdown of religion across the entire nation:

1. Hindu	82%
2. Muslim	12.12%
3. Christian	2.34%
4. Sikh	1.94%
5. Buddhist	0.76%
6. Jain	0.40%
7. Other	0.39%
8. Not Stated	0.05%

Hinduism is the undisputed religion that is central to the lives of most Indians; however the percentage breakdown can be misleading. Because of the immense size of the Indian population, the number of people practicing other religions can be significant. This table lists the numbers of people practicing the top three religions in India, based on the same census data:

Hindus	687,646,721
Muslims	101,596,057
Christians	19,640,284

Islam may be practiced by just 12% of Indians, but due to the immense population size, this equates to over one hundred million people. It is interesting to compare this to the current 153 million people resident in Pakistan. Many people believed that the 1947 partition would separate Muslim and Hindu, yet they are in almost equal numbers either side of the border.

Of course, these figures are the averages from a diverse nation. The population of each state is varied with different blends of religion and people. In Punjab, two thirds of the population is Sikh and in Sikkim almost a third are Buddhist. In Nagaland nine out of ten are Christian and in Arunachal Pradesh one third of the population practices the tribal animist religion Doni Polo/Sidonyi Polo.

The former Prime Minister Atal Bihari Vajpayee represented the Bharatiya Janata Party (BJP). The party has a character of strong Hindu nationalism though they have made recent efforts to reduce the influence of the hard-line nationalists on policy and debate.[4]

Since the election defeat of 2004, it is likely that the BJP will swing more towards a hard-line Hindu view of India. The basic philosophy of the BJP is that the Hindu nation was doing well prior to British rule. Without the British, the Hindus welcomed outsiders and new religions were easily assimilated into Indian life. The British annihilated this thinking and created an exclusive culture where religion soon became divisive and would lead to territorial battles between former neighbours. S. Gurumurthy of the Center for Policy Studies in Chennai said: "The assimilative Hindu cultural and civilisational ethos is the only basis for any durable personal and social interaction between the Muslims and the rest of our countrymen. This societal assimilative realisation is the basis for Indian nationalism, and only an inclusive Hindutva can assimilate an exclusive Islam by making the Muslims conscious of their Hindu ancestry and heritage. A national effort is called for to break Islamic exclusivism and enshrine the assimilative Hindutva."[5]

Asutosh Varshney believes that there are two main streams of thought about India's national identity: "The secular nationalist and the Hindu nationalist. The former combines culture and territory; the latter religion and territory."

The secular nationalist view is how most people in the west might define their own patriotism, a love of their home nation and its culture, irrespective of religion. Asutosh Varsheny states: "According to the secular nationalist conception, a man can be Tamil-speaking and Indian at the same time; there is no contradiction in having two identities. Similarly, being a good Muslim is perfectly consistent with being a good Indian."

However, this secular view is not quite how Hindu nationalists see the world. Asutosh Varshney explains: "According to the Hindu nationalist ideology, to become part of the Indian nation, Muslims must accept the centrality of Hinduism to Indian civilisation; own up to key Hindu figures such as Ram as civilisational heroes, not disown them as mere religious figures of Hinduism; remorsefully accept that Muslim rulers of India between 1000 A.D. to 1757 A.D. destroyed pillars of Hindu civilisation, especially Hindu temples; not claim special privileges, such as maintenance of religious personal laws; and not demand special state grants for their educational institutions. Moreover, the Hindu nationalists make no attempts to incorporate Muslim symbols in conceptions of Indian culture and history. Akbar, the tolerant Muslim ruler of the Mughal period, does not figure in their list of Indian heroes (as he does in the secular nationalist reading). Aurangzeb, the intolerant one, represents the Muslim essence. This makes the Hindu nationalist discourse on Islam highly selective."

Religion and language do not define India. Pluralism of religion is defined in law and practiced throughout the country. However, the adversarial relationship between secular nationalists and Hindu nationalists often produces inflammatory rhetoric and creates trouble without good reason.

Caste

Hindu society is divided into four castes, or divisions. The highest caste is the Brahmin (priest, teacher) followed by the Kshatriya (landholder, warrior), the Vaishya or bania (businessman) then the Shudra (labourer). Beneath the four major castes are the tribal people and 'untouchables', known as the Dalit meaning 'the oppressed'.

A foreign observer, visiting the cities and multinational corporations of India is unlikely to notice any caste influence on Indian society at all. The government and large corporations hire people based on merit. The management team in most Indian multinational corporations is often an impressive collection of religions and languages all working together without any consideration for caste.

The writer Gurcharan Das stated that as he grew up in Punjab, he was unaware of caste.[6] When he finally understood the concept he found that it had little influence on his daily life. When he started work and commenced regular extended travel through the villages of India his view changed. He said: "I realised that caste indeed was the central organising feature of social life in the countryside, even though the educated middle and upper middle classes in the cities tended to gloss over it. Caste seemed to divide Indian society into groups whose members did not intermarry and usually did not eat with each other, their status decided by who would and would not take water from the other's hand."

This duality exists within India for Indians as well as foreign observers. For most educated, city-based Indians in a modern job, caste has a very low impact on their existence yet it remains important in rural society. I have known a Hindu member of my Bangalore project team marry a Sikh. It took some courage for him to inform both parents and he grew a full beard for the wedding photographs, but the couple stood by their decision to marry for love rather than caste. Another member of the same team settled in Hong Kong with a Chinese partner. Couplings that ignore caste or race still attract comment, but they are on the increase.

A programme of positive discrimination was established on independence in 1947, in order to help lift the Dalit back into accepted society. A half century on and discrimination remains common, but the complete sense of untouchability has been removed everywhere except for the most backward villages. India today respects the Dalit people at all levels of society, including senior government positions and wealthy business leaders. Some people still don't agree. New Internationalist magazine recently featured a report on the Dalit Pariyar funeral drummers (hence our English word pariah) in which a Brahmin music professor commented: "The 'untouchables' of India are getting above themselves. They should know their place at the bottom of the Hindu hierarchy. Gandhi has done the greatest harm."[7]

Siddarth Shetty, Managing Director of Genovate Solutions in Singapore, believes that the growth in IT and IT-enabled outsourcing has had far-reaching social consequences, even changing the attitude to caste. He said: "This industry has been the best and the biggest social equaliser for India. Look just five or ten years back and you could see a large divide between the haves and have-nots. Even in the middle-classes you could not really aspire to use a five-star hotel or travel overseas or own a car. But because of IT, which has grown at such a fast pace, the educated people of India have been able to enjoy salaries around the level that a small businessman may have enjoyed previously. This is interesting because it ignores the caste system; everyone can achieve these benefits. Previously you could not aspire to be a businessman as it would have been determined by your caste, IT does not operate in this way. All you need is education."[8]

Shetty commented in particular on the effects of the IT industry in Andhra Pradesh, the state where Hyderabad is located. He said: "Look at the social and economic benefits of this industry. Caste is taking a backseat. What the government has spent many years trying to achieve, has been realised within a few years by IT. Students can get a computing degree and stand in front of the wave without thinking of caste."

Professor N. Rao Kowtha of the National University of Singapore Business School believes that genuine social change is taking place, but that some caution needs to be exercised when considering the economic effect of the outsourcing industry on India. He said: "An opium effect has been created in India. New IT millionaires now exist and they achieved it through their own originality. However, there is a creation of jobs and India is on the technology map, but IT is only a small part of the entire Indian industry."[9]

Professor Kowtha agrees that outsourcing has had a positive effect on Indian society. He explains: "Outsourcing has created a meritocracy. In an urban workplace, caste takes a backseat. The moment you step out of Bangalore, these issues are far more important than in the city. Communication through television and the Internet has allowed people to understand more about the world outside and their rights." Professor Kowtha summarises the effect this has had on caste in India: "As long as you are part of the establishment and participating in the system, there is no caste. If you are outside the system and you don't know what is happening in the city then you don't know about the opportunities that are available. There are these two social groups in India today."

Though caste remains a factor in the life of all Hindus, its grip on Indian society has been reduced. Even those in the villages enjoy greater societal mobility through merit than was possible in earlier decades and many in the cities treat caste division as an obsolescent practice, irrelevant for twenty-first century India.

Gurcharan Das concludes: "One day, perhaps, as the great scholar of caste M.N. Srinivas predicted before his death, caste will become more symbolic of ethnicity rather than hierarchy."

Epic History

The earliest history of India is recorded in the sacred Vedas hymns, written in classical Sanskrit dating back to before the first millennium BC. The combination of the Vedas with other epic Sanskrit works such as the Ramayana and Mahabharata constitute almost all knowledge of India prior to 500 BC. As a result, these monumental poems are revered and studied as the Homeric epics are in Europe.

One of the earliest stories told in the Satapatha Brahmana, which is one of several appendices to the Vedas, is that of Manu and the Flood.[10]

Manu is washing his hands one day when a small fish asks for protection from the larger fish. Manu obliges by promising to rear the fish, first in a jar, then a pond and eventually the sea. One day the fish warns Manu that a flood is approaching and that he should prepare a ship. Manu takes heed and is subsequently saved by the fish who tows his ship to a large mountain as the flood destroys everything in its path.

The story is remarkably similar to the Biblical story of Noah and how he used his ark to survive a similar flood. Indian historians have argued for years over the exact date and significance of the flood.

Some have dated the flood at the exact date of 3102 BC and declared that Manu was the progenitor of the new Indian people. Other historians claim that the same date is significant because it marks the great Bharata war, which inspired the 100,000 stanza Sanskrit poem, the Mahabharata.

Although the historians do not agree exactly on the foundations for modern India, it is generally concurred that the period around 3102 BC was the foundation of Indian civilisation. Twentieth century archaeologists have dated remains found at Harappa in Punjab to this time and believe that this Indus valley civilisation may have been an offshoot from Sumeria.

Areas of India frequently changed hands as the nation developed. Rajput clans, Delhi sultans, Mughals, Marathas and eventually the British would all claim this jewel of the East as their own.

British Raj

Clive and the British East India Company

The story of the British Raj begins in 1661 with the marriage of King Charles II of England to a Portuguese princess, Catherine of Braganza.[11] Charles received the island of Bombay, on the west coast of India, as part of the dowry and he later rented Bombay to the British East India Company.

By the mid-eighteenth century, the coast of India was dotted with European trading stations. The British were trading at such ports as Bombay, Calcutta, Madras with the French at Pondicherry and Mahe. The Portuguese were at Goa, Daman and Bassein while the Dutch were at Cochin, Colombo and Pulicat.

In 1743, the young Robert Clive arrived in India as an employee of the British East India Company. Intent on making his fortune in India and then returning to the life of an English gentleman, Clive was unaware how his actions would influence the future of his new home.

The British East India Company was trading with India and ensuring that the British demand for cheap calico, chintz bedspreads and hangings, silks, china and tea was satiated. This demonstrates that the concept of outsourcing existed back then in the eighteenth century. The East India Company found that even with the cost of transport and customs, there was room for a wide margin on the goods it shipped from India. This even applied to such goods as textiles that were already being produced in Britain. Groups of English workers, such as weavers, bemoaned the fact that their own manufacturers were now out of fashion as cheaper and higher quality imports arrived from India.

The company had been founded in 1612 after the British defeat of the Spanish Armada. This allowed the British to break the Portuguese trade monopoly and exploit the lucrative trade in spices and textiles from India.

The war between England and France over the Austrian Succession ensured that the two nations would commence battle over their trade in India and so Robert Clive soon found himself fighting for England and the Company rather than exercising his skills as a clerk.

Clive developed a growing reputation as a cool-headed leader of fighting men. He found war exciting and the admiration of others only made him desire further conquests. He found that he could command respect from men and enjoy all the personal riches he desired as he defended the Company. His legendary courage was enhanced by the siege of Arcot in 1751. Clive had led a force of 800 into the unguarded city and taken charge, only to be surrounded by a Franco-Indian army of 10,000. Clive and his small army resisted assault for 50 days before a relief force arrived and broke the siege. Without pausing, the remaining 240 troops went immediately on the offensive and turned the retreat of the enemy into a rout.

The battle for supremacy continued until the British East India Company defeated the French forces at the battle of Wandiwash in 1760. After this battle, the British were in a far superior trading position compared to all the other Europeans in India.

The major events shaping the entry of the British to India over this period are summarised in this itihaas.com chronology[12]:

1661 Cession of Bombay to the English
1740 The Marathas invade Arcot
1742 Maratha invasion of Bengal
1747 Invasion of Ahmad Shah Abdali
1749 Madras restored to British
1750 War of Deccan and Carnatic succession
1751 Treaty of Alivardi with the Marathas
1756 Accession of Siraj-ud-daulah
1757 The British capture Chandernagore
1759 Forde defeats the Dutch at Bedara
1760 Battle of Wandiwash

Robert Clive entertained ideas of political power on his return to England; however he was dogged by the scandalous reputation of the British East India Company. By 1773 the British government had introduced legislation to make it clear that Indian princes and other officials in power were not to directly reward employees of the Company. Britain as a nation wanted to establish its authority over the activities of a British company and some of the rogues employed by it.

Commenting on how Clive and his peers achieved fortune and reshaped India, Lawrence James said: "What was astonishing was that this ascendancy was achieved within forty years by a handful of men of determination and foresight with at best lukewarm support from the government in Britain and downright hostility from the directors."[13]

Clive committed suicide a year after the new legislation was introduced. The timing of his action would make it appear to be remorse for his years of personal enrichment; however Lawrence James believes that a painful illness is the more likely cause.

The Mutiny of 1857

Rumours about the way the East India Company conducted itself swept throughout the nation constantly and generated an ongoing fear of change. The Indian people, and in particular the sepoys who served in the British ranks, were concerned about changes to their social and religious status and the Raj found it difficult to control what people thought of the future.

The rumours spread like bushfire. An untouchable labourer, refused water by a Brahmin sepoy, commented that there would soon be no barriers of caste as the army was already grinding pig and cow bones into the flour used for feeding troops. In Gujurat, the Company was suspected of mixing cow's blood with the rice due to its curious red tinge. The colour was actually a result of the red ochre dye used on the rice sacks, but the rumours of social upheaval continued to spread.

Every soldier had also learned, from idle latrine rumour, that their new rifle cartridges were lubricated with a mixture of pig and cow fat. No official statements to the contrary could convince the sepoys that this and other rumours were not grounded in truth. There was a wave of ever more seditious intent as the rumours unearthed new supposed conspiracy theories.

Eventually, one of the sepoys cracked under pressure and started a one-man mutiny on the Barrackpur parade ground. With a loaded musket, Mangal Pande called on his fellow soldiers to join him, for to continue in the army would condemn them all to a life as infidels – for using the tainted cartridges.

The British reacted by disbanding the 19th Bengal NI regiment. They repeated this process several times as unrest boiled into violence in other regiments. This was a harsh method of control, designed to crack down and destroy mutinous rumours before they could swell into action. Sepoys from disbanded regiments lost their job, pension, and returned home in disgrace.

Pande's outrage was just the beginning. A similar mutiny occurred later on the parade ground at Meerut, though on a grander scale. Eighty-five sepoys refused the order of Colonel Edward Carmichael Smyth of the 3rd Bengal Light Cavalry to use the new cartridges. A court martial sentenced the sepoys to ten years hard labour. In addition, the British decided to increase their misery by staging a show that would humiliate them before their peers. The prisoners were taken to a parade ground, shackled in chains and then stripped of their uniform in a grim show for a select audience of other regiments.

The following day horsemen stormed the parade ground to rescue their friends. Those who had been forced to watch the grim spectacle of the previous day joined the mutineers. The rampaging mob of rebel sepoys and sympathetic local civilians attacked and murdered every European they could find.

The British had not expected a full-scale mutiny. These random acts of sedition had escalated to the point where the masters were in grave danger of losing control. The British eventually controlled the situation, but it took them a hard and bloody eighteen months to quell the violence and restore the Raj.

The crushed mutiny allowed the British to directly rule India for the next ninety years. The difference now was the Britain would rule through its Monarch and military might, rather than though the commercial activities of the British East India Company.

Gandhi and the Quest for Independence

The Early Years

Mohandas Karamchand Gandhi is probably the single most influential Indian that ever lived. His dogged persistence to fight the British with a doctrine of non-violence and self-discipline led India on the path to independence. He embodied a spiritual world unchained by the doctrines of a single religion and lived every word of his own teaching. Even after death he inspired great leaders of oppressed people including Martin Luther King and Nelson Mandela and his influence lives on across the world today. Gandhi was the personification of non-violent diplomacy, a person who focused alone on the all-important issue of human relations. When he died, his only possessions were the meagre clothes and sandals he was wearing, his spectacles, watch, rice bowl and a book. Albert Einstein declared of him: "Generations to come, it may be, will scarce believe that such a one as this ever in flesh and blood walked upon this earth."[14]

Gandhi was born in 1869 in the coastal town of Porbandar in the state of Gujarat. His parents offered an eclectic mix of religion and culture at home. His mother belonged to the Pranami sect of the Hindu cult of Vishnu, combining Hindu and Muslim beliefs. His father had a number of Jain friends, who preached views on self-discipline and non-violence.

His schooldays were mediocre, with average test results and by the time he was 13 he was married by arrangement to Kasturbai. She was also 13. Gandhi became a strong opponent of child marriage in later years; however at the time he behaved like any newly married teenager and his marriage produced four sons.

He travelled to England in 1888 to study law and enjoyed the life of an English gentleman of the time. He was eventually called to the bar in June 1891 whereupon he returned home to commence working life as a barrister.

Gandhi did not start his career well. His shyness was a problem for a person expected to speak in court and he turned to managing legal paperwork instead. A South African legal firm contacted him with an offer of work as a lawyer and correspondence clerk. Gandhi jumped at the offer and travelled in 1893, intending to spend a year in South Africa, but staying on for 21 years.

Gandhi found a new world of discrimination from his first day in the new country. He was thrown off a Durban to Pretoria train for daring to travel first class. When he took a stagecoach, he was expected to ride outside with the driver. Later, he was even kicked into the gutter by a sentry for daring to walk too close to President Kruger's house in Pretoria.

He stayed and fought on behalf of the Indian people in South Africa and this battle for equality in a foreign land taught him several valuable lessons, including the arts of networking and marketing. He initiated his first non-violent protest in 1907 against a law in the Transvaal that required all Indian workers to be fingerprinted and registered. The draconian legislation even allowed the authorities to enter and search houses for non-registered workers. Gandhi used his method of satyagraha for the first time when Indians picketed the registration centres and burned registration cards. Gandhi developed this form of non-violent protest and had some success in blocking or amending legislation that affected the life of Indian people in South Africa.

When Gandhi returned to India in 1914 the mission he planned was a complete regeneration of India. The experiences in South Africa had moulded his character into that of a deeply religious, well-known political thinker and leader. At the time he was a strong supporter of the British and encouraged other Indians to support Britain in their war effort.

Gandhi toured India, listening to the people without comment. He made it a personal crusade to not comment. He was determined to find out what the people in the towns and villages thought about the nation he had been away from for so long. The people had two major concerns, the British colonial oppression and the breakdown of society through various divisions, including caste.

Gandhi formulated a plan for the regeneration of India, which he termed the Constructive Programme. This plan proposed many actions including the removal of the 'untouchable' caste, Hindu-Muslim unity, equality for women and a national common language amongst others in a comprehensive syllabus for national moral improvement. This plan founded the basis for his campaigns, lobbying and non-violent protests over the following three decades.

Amritsar and Non-Cooperation

One event triggered Gandhi on the road to the campaign for independence and changed India forever. The colonial government of Punjab had banned all public meetings after earlier demonstrations had been marred by cases of arson and looting. When a meeting took place in Amritsar on 13 April 1919, Brigadier General Dyer gave orders to his troops to fire on the assembled crowd without warning. 379 people were killed and 1,137 were wounded, though the inquiry into the event exonerated Dyer of any blame. This event stained the colonial rule forever in the eyes of most Indians, Gandhi included. He wrote a letter to the Viceroy announcing that he could no longer retain 'respect nor affection' for the colonial government and within months he declared sedition a national duty for all Indians. Gandhi had decided that the British rule must end.

Gandhi launched a subversive movement termed the Non-cooperation Movement in 1920. The idea being that Indians should withdraw their service to the Raj by resigning from government service and refusing to pay tax or join the armed services. It was a semi-anarchist movement that caused some Indians great unease. There was so much to lose as the removal of the British seemed to be an impossible goal, but Gandhi continued the non-violent offensive with such public stunts as the burning of foreign cloth.

India had plenty of indigenous cotton and so Gandhi rejected the import of foreign cloth as a symbol of conspicuous consumption, a badge of infatuation with wealth and westernisation. The poet laureate Rabindranath Tagore was concerned about a possible association with xenophobia, but Gandhi rejected this charge. It was Tagore that bestowed the honorific title 'Mahatma', meaning 'great soul', on Gandhi and village peasants soon adopted the name.

Gandhi was eventually jailed for 6 years in 1922 for his leadership of the Non-cooperation Movement. He was released in 1924 on grounds of ill health and immediately set to work again on his programme of change. For the entire year of 1926, Gandhi observed complete silence as part of his struggle to improve the status of women.

The Salt March

Gandhi needed a way of bringing together Indians of all religions, caste and social background. The nation was divided and violence was in the air when the government decided to tax salt in 1930. Gandhi decided on a new satyagraha in which he and his supporters would make their own salt on the seashore. The issue was well chosen as it affected all Indians, regardless of religion and the poor were more affected than the wealthy.

He commenced a 241-mile march to the coastal village of Dandi with 78 male supporters who represented various religions and regions of India. While marching, he read the holy books of various religions to the crowd and was urged on by thousands of supporters, including the international media circus.

In Dandi on April 5, Gandhi arrived and started to collect his illegal salt, inspiring thousands of people to follow his lead. This led to Gandhi and 60,000 others being beaten, arrested and jailed for various periods of time for the crime of collecting their own salt. The injustice of the charge and inhuman treatment of the perpetrators announced the struggle for independence to the world.

The Endgame

Suddenly, the British were seen by an international audience as an oppressive regime. Gandhi was the Time magazine 'Man of the year' in 1930[15] and this international awareness of his struggle prompted an invitation to London for political negotiation in 1931.

Gandhi had adopted the fashion of dressing only in a sparse loincloth since 1922 as a sign of his identification with the poor of India. Gandhi added only a shawl to protect against the English September chill. When a journalist commented on his attire, Gandhi remarked that 'the King had enough on for both of us'.

The conference was the start of a push towards independence for India, though it became clear that the two major groups needed to be convinced of the personal and political direction. The 'untouchables' and Muslim people needed to be convinced that violence was not the only option. Over the following years Gandhi endured many personal fasts in protest at the rising tide of violence sweeping India.

Mohamed Ali Jinnah was leader of the Muslim League and he started arguing the case for a new nation of Muslim people. He believed that India consisted of two nations, rather than communities of Hindu and Muslim. Gandhi argued vehemently to the contrary and made attempts to bring the people or various communities together as Indians. Jinnah became one of the strongest advocates of partition and the creation of a new nation - Pakistan.

As the momentum for partition increased, the violence escalated. Though Gandhi accepted the idea of partition with good grace, he did not believe it was correct as it denied the shared history of the Indian subcontinent. The violence in north India approached a crescendo as the independence and partition of 1947 approached. Gandhi was now 77, but he travelled to the areas of worst violence and walked for 18 hours a day talking to villagers and cooling the inflamed passions.

Independence for India and the birth of Pakistan arrived on 15 August 1947, but Gandhi was not celebrating. He ignored the fireworks in Delhi and instead focused efforts on the continued violence in north India. In September, frustrated with the all-out war zone that Calcutta had descended into, he announced a fast unto death. The announcement caused a near-miracle as the warring factions lay down their arms and many came to tend to Gandhi during the fast. Lord Mountbatten was astonished and commented that Gandhi had single-handedly managed to achieve peace where 50,000 well-armed British troops had failed in the Punjab.

After Calcutta, Gandhi rushed to the violence of Delhi. He existed in a whirlwind of violent meetings where he talked of peace and understanding, but the listeners often rejected him. Chants of 'death to Gandhi' were common, however Gandhi refused any protection and he continued to walk barefoot through villages, listening to the fears of ordinary people.

On 30 January 1948, Gandhi was being helped to his outdoor prayer pavilion in New Delhi when Nathu Ram Vinayak Godse, the editor of an extremist newspaper, Hindu Rashtra, approached him. Godse bowed in reverence to the Mahatma before firing three shots at point-blank range. Gandhi died 28 minutes later, spark-ing a fresh wave of violence in India as his supporters sought the blood of the extremists.

Nehru and Partition

Jawaharlal Nehru was born in Allahabad in 1889. He studied law in England, and returned home to India in 1912 where he commenced his legal career.

Nehru longed for more than just his legal work and he found his calling in politics. He joined the Home Rule movement in 1917 and quickly became a loyal follower of Gandhi's campaigns. Nehru first tasted time behind bars when he was jailed in 1920, eventually spending a total of 9 years in jail for his campaigning work with Gandhi. In the process, Nehru became one of Gandhi's most trusted aides and his position in the independence movement was second only to Gandhi himself.

He served as General Secretary of the All India Congress Committee and was elected president in 1936, 1937 and 1946. Though Nehru was jailed between 1942 and 1945, his release allowed him to play a major role in the negotiations for an independent India.

The empire had been winding down to a certain extent since the stock market crash of 1929 and the subsequent Great Depression. However, independence remained unforthcoming even in the face of continued protest. It was not until the end of the Second World War in 1945 that the British really made a serious effort to grant India its independence.

Clement Atlee replaced Winston Churchill as British Prime Minster soon after the war. He was known to sympathise with the Indian quest for independence. Negotiations commenced with Nehru, Gandhi and Jinnah all taking key roles along with the princes who still controlled vast areas of India. Agreement proved hard to find, with few in the All India Congress and Muslim League agreeing on how India should be constructed as a new independent nation. Jinnah had proposed a separate state for Muslims in 1940. Gandhi was opposed to this split in the subcontinent, though he eventually agreed to back the plan once he could see there was no other way forward for the negotiations.

Eventually, Atlee announced in February 1947 that British rule would cease by June 1948. Atlee wanted to push the negotiation process by announcing a clear deadline to the people of India and to the world. Atlee appointed Lord Louis Mountbatten as the last British Viceroy of India in March 1947. He granted Mountbatten the freedom to conduct negotiations without interference from London and the Mountbatten plan for partition, creating a divided India and Pakistan, was eventually proposed in June.

The British government approved the Mountbatten plan almost immediately. Mountbatten rushed the proposed date for independence forward as far as he could, as the agreement was still fragile. Independence and the partition of India finally took place at midnight on August 15 1947.

Pakistan was initially two separate and unconnected areas of land, one to the northwest of India and one to the northeast. West Pakistan was the land we now term just Pakistan and East Pakistan was what we now know as Bangladesh. Pakistan remained divided in this way until a bloody civil war forced the independence of Bangladesh in 1971.

Nehru became the first Prime Minister of India and soon established himself as a great leader and intellectual statesman, ruling unchallenged until his death in 1964.

By October 1947, India and Pakistan were at war – Pakistan had chosen to invade Kashmir.

After the British

In economic terms, the period since independence can be broadly defined by the pre and post 1991 eras. Before the economic reforms of 1991 the British Raj was replaced by what commentators often term the 'Licence' Raj. Successive socialist governments took a paternalistic approach to managing India, crippling the economy as the government bureaucracy stifled enterprise. The great industrialist J.R.D. Tata once suggested to Nehru that the public sector should be making a profit. Nehru snapped back: "Never talk to me about profit, Jeh, it is a dirty word."

Alvin Toffler, the celebrated social thinker, commented on typical Indian policy of the time in his writings on the future. In 1978, the government banned further expansion of mechanisation in the textile industry. Handlooms were encouraged with the intent of stunting the increasing urbanisation of India by supporting rural cottage industries. Toffler comments: "There is much about this new formula that admittedly makes excellent sense. It confronts the need to slow down the massive migration to the cities."[16] Toffler goes on to state that the policy prevents expensive imports, is ecologically sound and employs the poor making the villages a better place to live. However he concludes that this type of social engineering was amelioration rather than transformation: "a Band-Aid, not a cure."

Nehru and his family dominated the period. Nehru was prime minister from independence in 1947 through to his death in 1964. In 1966 his only child, Indira, assumed the role of Prime Minister when Lal Bahadur Shastri died suddenly after a heart attack. Indira Gandhi (no relation to Mahatma) dominated Indian politics through the 1970s until she lost the 1977 election, only to return again in 1980. She led the nation for the next four years until her own Sikh bodyguards assassinated her. Gandhi had inflamed Sikh opinion by ordering an assault on Sikh terrorists holed up in the Golden Temple in Amritsar. The terrorist threat was destroyed, but the sacred temple was damaged during the operation.

The baton was passed to Indira's first son, Rajiv, who was Prime Minister for the remainder of the 1980s. He lost the election in 1989 after leading the government from one scandal to another, though he still has many admirers today who believe he was robbed of the chance to prove himself. During the election campaign of 1991 his chance of a return to power was thwarted when he was murdered by a human-bomb blast at close range. The Nehru family legacy lives on with Rajiv Gandhi's wife Sonia, who led the Congress party to victory in 2004, but stepped aside and allowed Manmohan Singh to become Prime Minister.

Narasimha Rao was supposed to be a stopgap leader, an unthreatening seventy-year-old who could lead the Congress Party until a long-term leader was found. However he would change the destiny of the nation, sweeping away years of economic depression - the world mourned when he died in December 2004. The soaring oil prices of 1991 led to a foreign exchange crunch – India had no cash left to buy oil. Rao arranged an emergency loan of $2.2 billion from the International Monetary Fund and chose to face the crisis by reforming the economy. In a whirlwind of planning the then finance minister Manmohan Singh authorised the devaluation of the rupee and the destruction of trade barriers and bureaucracy. Rao introduced India to the free market.

Rao wanted India to become a world-class industrial nation, to move away from the restrictive government policies that prevented Indian companies from operating efficiently and they succeeded. Gurcharan Das said: "Since then, all the [political] parties have learned to value the efficiency of the market. There is now broad consensus for incremental reform across all political parties (except the extreme left and right). This explains why the reforms have not been undone. This is Narasimha Rao and Manmohan Singh's great legacy."

Das is frustrated that the reforms of the early 1990s are not being capitalised on quickly enough. He said: "Although it [The BJP] has kept up a strong rhetoric for economic reform, its achievements have been modest, except in information technology." The general public agreed by voting Congress into office in 2004.

The classic problem of all politicians is the tyranny of the majority. Reform may be needed, but often the people on the street don't like it, so any attempt to change means a guaranteed loss of votes at the next election. Das concludes: "The issue is not public or private electricity, but how to create more power capacity when the customer – the State Electricity Board – is bankrupt and the politician insists on free power for the farmer. How to reform is a more difficult challenge and it is not for lazy minds."

Summary

India has a rich and vibrant past that is fascinating, especially to the foreign reader unfamiliar with the exciting classic tales of the Bhagavad Gita or the Upanishads. Investigating this classical literature and learning more about the past of a country with such a colourful history is an adventure in itself.

When outlining the importance of historical awareness for me, Lawrence James recounted the example of an Indian cricket tour where the British players were behaving in a rough and raucous manner – disdainful of their Indian hosts. Indian observers were quick to comment on the working class background of these 'little sahibs', in contrast to the educated behaviour of the 'burra' or great sahibs. Visitors should avoid making these unfavourable comparisons to their home nation, as this is not polite in any society. Lawrence James emphasises: "This may seem unfashionable, a degree of politeness and decorum is welcomed by Indians of all backgrounds."

Though there are many books on the history of India and a surfeit of online material, I can recommend two single-volume works on the history of India that will provide a more detailed understanding, without the requirement to spend hours ensconced alone in a dusty library. *India - a History* by John Keay travels from 3000 BC to the recent millennium in 500 pages. It sweeps the reader along and offers sympathetic guidance to readers with only the most basic knowledge of India. *Raj. The making and unmaking of British India* by Lawrence James offers a more detailed focus on the period of rule by the British Empire. Independence being the single most important event for India in the twentieth century, this book gives a fascinating account of how the British ruled India with detailed accounts of the events leading up to 1947. I am indebted to both these texts for help in providing this summary.

Chapter Checklist

- Religions are diverse in India, though 4 out 5 people are Hindu. Islam and Christianity are the other most common religions with large numbers of worshippers due to the huge overall size of the Indian population.
- Robert Clive was a clerk in the British East India Company, however he established himself as a superb leader of men in battle. Clive led the Company to many famous military victories that established their leadership within India.
- The 1857 Mutiny was a rebellious uprising that caused a major threat to the stability of British rule. The rebellion took almost a year and a half to crush and resulted in Britain increasing its military might considerably. The Queen of England was crowned Empress of India and British rule became more regal than commercial.
- The 1919 Amritsar Shootings were a turning point in the history of India. Almost 400 people were killed as troops fired on a crowd, without warning. This event caused Gandhi to start his Non-Cooperation movement, his first major steps against the British.
- Independence and Partition in 1947 was the event that Indians had fought to achieve for many years. Pakistan was created as a Muslim state, with newly independent India officially secular, though with a clear majority of Hindu people.
- Jawaharlal Nehru was the first Prime Minister of India after independence from the British. Nehru had been an instrumental part of the campaign to free India, working for many years with Mahatma Gandhi.
- Mahatma Gandhi was the leader of the campaign to free India from the British. Gandhi had few personal possessions; his life was dedicated to

his cause. He died at the hands of a Hindu assassin, a victim of his constant attempt to bring faiths together.

- Lord Louis Mountbatten was the final Viceroy of India, appointed by British Prime Minister Clement Atlee to handle the process of independence. The Mountbatten plan was the agreed plan for partition and independence.

Chapter 3: Contemporary Indian Politics

The political scene in India is full of surprises. At present the government and opposition parties appear stable, things are as you might expect from a mature democracy. Debate rages on a number of issues and discussions on how to improve literacy or raise millions out of dire poverty can take place in a parallel room to conversations on improving the conditions for information technology investment. It is a world of paradoxes.

Just look at this comment from Salil Tripathi in the UK publication, *New Statesman*: "The next country to rush to the International Monetary Fund to get out of financial crisis may find that India is part of its lifeline. You read that right: India. In May and June [2003], India became a lender to the IMF, contributing £180m ($275m) to a reserve fund used to bail out countries in a mess."[1]

India has a huge national reserve of foreign exchange and is now contributing money to the IMF. A decade ago, this might have been unthinkable. Now Indian business leaders and politicians are not thinking so desperately about handouts from the IMF, they are up there at the top table thinking of their own long-term economic strategy.

Yet, for all the technology parks and political development since independence, India still suffers the politics of crushing poverty. The UK non-governmental organisation Traidcraft attempts to fight poverty through trade with people in countries, such as India. Traidcraft comment: "Poverty is still a critical issue that needs to be addressed. Of a total population of 1 billion, India has 433 million people who live below the poverty line. This constitutes 36 per cent of the world's poor. India ranks 115 out of 173 on the Human Development Index."[2] Traidcraft are working on a number of interesting projects in India, designed to stimulate a reduction in poverty through trade in basic products, such as cotton or tea. A new research project based on market intervention in the tea industry is aimed at tackling the crisis currently affecting the industry, which has led to over 500 starvation-related deaths in tea estates.

This chapter aims to introduce the most important people and issues of the present time in Indian politics. The main subjects outlined are:

What is the attitude towards the government in India?
How is outsourcing influencing politics at home and abroad?
Who leads the present Indian administration?
What do major commentators believe is the right direction for the Indian government?

Of course, as this book is focused on the outsourcing industry in India and how this creates a strong competitive advantage for India, it is worth first looking at how this industry and the government can beneficially interact. In *The Competitive Advantage of Nations*[3], Professor Michael E. Porter describes the determinants of national competitive advantage as:

- *Factor Conditions.* The nation's position in factors of production, such as skilled labour or infrastructure, necessary to compete in a given industry.
- *Demand Conditions.* The nature of home demand for the industry's product or service.
- *Related and supporting industries.* The presence or absence in the nation of supplier industries and related industries that are internationally competitive.
- *Firm strategy, structure and rivalry.* The conditions in the nation governing how companies are created, organised, and managed and the nature of domestic rivalry.

Porter adds that the complete system of national competition is augmented by two other factors, chance and government. Chance is, by its very nature, impossible to control. A business leader cannot predict a major new invention or war, however the role of government is crucial and Porter admits that he considers it tempting to make government a fifth determinant.

Porter states: "Government's role in national competitive advantage is in influencing the four determinants. Government can influence (and can be influenced by) each of the four determinants either positively or negatively." He adds: "Factor conditions are affected through subsidies, policies toward the capital markets, policies toward education, and the like. Government's role in shaping local demand conditions is often more subtle. Government bodies establish local product standards or regulations that mandate or influence buyer needs."

The behaviour of the Indian government is therefore a key condition of the outsourcing industry as it influences every sector of industry. What do people feel about the administration?

Attitude to Government

The attitude of many business leaders to the government and the changes required to compete in a global economy are often negative. India existed in a state of global economic exile from independence until the reforms of the 1990s. Companies could not invest abroad and they were prevented from domestic growth, the control of the government was absolute.

The events of the last decade have swept through the nation and created an astounding pace of change. Gurcharan Das believes that the onset of the knowledge economy is the very catalyst India needs. In *India Unbound* he writes: "The beginning of the twenty-first century is a time of ferment. Two global trends have converged - both of which work to India's advantage and raise the hope that it may finally take off. One is the liberal revolution that has swept the globe in the past decade, opening economies that were isolated for fifty years and integrating them spectacularly into one global economy. India's economic reforms are part of this trend." [4] On the second major trend he adds: "The information economy is transforming the world - this is the second global trend. We may not be tinkerers, but we are a conceptual people. We have traditionally had a Brahminical contempt for manual labour, which was relegated to the lowest caste, Shudras, who were also denied knowledge. In information technology we may have finally found the engine that can drive India's takeoff and transform our economy."

It is true that business everywhere is almost always dissatisfied with some aspect of national governance. The political lobbying firms around Washington D.C. would be cast adrift if businesses in the US were satisfied with every matter of national policy. India has this feet-dragging problem of a large, controlling government that is rushing through reforms, but often does not want to give up complete control to the market. The difficulties of representative democracy in a nation where the electorate ranges from the destitute to InfoTech billionaires can sometimes be all too evident in a lack of decision-making for fear of offending huge swathes of the electorate.

Kjell Nordström and Jonas Ridderstråle outline the typical problems associated with big government: "Unemployment is not a Dutch problem, nor a French problem; environmental pollution is not simply a German or Turkish challenge. National efforts in such areas are commendable but they are, by their very nature, simply Band-Aids when radical surgery is required."[5]

Though these two Swedish economists are referring specifically to the way globalisation forces cooperation between governments, the point is just as true for multi-national corporations. A company that is working across many territories will determine the best way of working that allows the best performance. This is not as easy as it sounds when the Indian government is a part of the equation.

In a lecture to the Indian government department of administrative reforms and public grievances, the Chief Mentor of technology giant Infosys, Narayana Murthy, made his views on government clear: "In a country like India, it is much better to show smartness in areas that are market-determined rather than government-determined. I do not mean any disrespect to the government; it is just that we believe that the stakeholders in the marketplace, rather than in the government will determine our success or failure. This is because the days of leveraging tariff barriers or the days of success based on patronage from the corridors of Delhi are over. The extraordinary initiatives that successive governments in the last ten years have put in place have ensured this. I think, today, we have to rely more on success in the marketplace than otherwise."[6]

The present administration is making attempts to support the outsourcing industry though, as did the last. They can see not only immense potential for growth in the industry as it exists now, but also the possibility that Indian multinationals will be able to grow from this boom and become household names in London, New York and Tokyo.

Parthasarathi Banerjee is a scientist at the National Institute for Science, Technology and Development Studies, New Delhi. He told me: "I think the present Indian administration is very positive on business process outsourcing (BPO) from India. They are keen on retaining the competitive edge. In fact, even Indian industries have commenced outsourcing using the local BPO providers."[7]

Supriyo Sanyal, Chief Marketing Officer of ICICIoneSource told me that many state politicians are now projecting a business-leader image to their electorate. He said: "The perception people have of Indian politicians, such as Chief Minister Krishna in Karnataka, is of professionals doing a job; this is far from the earlier image of Indian politicians."[8] Krishna lost his job in the election of 2004 though as the electorate decided to focus more on development and education than hi-tech.

The support needs to go further. Leaders of companies such as Infosys and Wipro have asked for infrastructure improvements; more international flights to key cities such as Bangalore, road improvements, public transport improvements. These are slow to materialise, often due to vested interests in the status quo.

A small, but important personal complaint of my own is the fact that the Bangalore bus service uses only the local Kannada language to display details of the routes and destinations. It forces me to use a taxi or auto, where I could probably manage my journey on a bus, if I knew where they are going to. This type of local-thinking does not only affect foreign visitors such as myself, Indian visitors from outside the local state are unlikely to be able to understand the bus routes either! Imagine if Texan tourists could not understand the New York subway. Though on reflection, it is a fact that only New Yorkers understand the vagaries of the subway.

Gurcharan Das sees other issues in bureaucracy that remains even after reform: "What has not changed is the disconnect between our politics and economics. Instead of working single-mindedly to make every Indian literate, the education ministry has enacted a rule whereby donations to Indian colleges must be routed through Bharat Shiksha Kosh (so that a babu [bureaucrat] decides what donations are worthy). This will surely kill the wonderful movement started by alumni in recent years to give funds to their colleges, and this is why a wealthy Indian in America, Gururaj Deshpande, recently decided to endow MIT with $20 million rather than give it to his own IIT Madras."[9]

As Das concludes: "So the wheel turns, but what never changes is the enormous capacity of our rulers to do mischief."

The Politics of Outsourcing

Governments and electorates throughout the world contain some supporters of outsourcing and some detractors. The media often chooses to focus on the detractors as they make for a more exciting story.

The Financial Times recently ran a story looking into the different political effects of outsourcing, particularly to India. The newspaper mentioned some recent events in the US that have some members of the outsourcing industry worried: "In the most notable example to date, the State of New Jersey last year introduced a bill 'to ensure that state funds are used to employ people residing in the US.' The bill was prompted by reports that telephone enquiries from people receiving benefits under the state's Families First programme were being handled in India."[12]

In addition to the discussion and introduction of anti-outsourcing bills in the US, there is the rising discussion of the topic in the European parliament and other related institutions. The European Trade Union Congress has started to take the view that corporate restructuring around outsourced services may be for short-term profit at the cost of long-term sustainable development.

Though no European directive has even reached the draft stage, there is discussion about the possibility of creating a framework proposal that would encourage 'socially intelligent' employment in the European Union nations. This is likely to make it far harder to justify net job losses as a result of any outsourcing programme.

There is a further proposal linked to this, that corporate training could offset the cost of redundancy. The proposal is based on the fact that well-trained employees are in a better position to seek new employment than those without current skills. However, unions in the UK don't believe that this kind of career opportunities plan is workable.

On the possible effect of increased EU legislation on outsourcing, Kevin Barrow, a partner at law firm Tarlo Lyons said: "The outsourcing of UK-based functions to India and other low cost bases may become more difficult."[13] Barrow added further comments on employee redundancy in the UK: "Effectively employees affected can be dismissed at no more than the (relatively low) price of redundancy, and UK employers implementing offshore outsourcings do not face unfair dismissal claims or injunctions. Any new directive may substantially change this."

Barrow has also made reference to the situation in the US and in particular, the New Jersey bill, backed by Senator Shirley Turner: "Other states are following the New Jersey lead, and there are related moves to limit the ability of offshore workers to work in the USA in connection with the setting up of offshore outsourcing projects."

The Hindu newspaper has quoted pro-outsourcing Democrat Congressman Jay Inslee. He said: "There are several stages of legislation - after introduction, there are hearings, from where it goes to chambers where voting takes place, then it goes to the executive for potential veto and I can tell you that none of these stages have come in Washington since the bill was introduced."[14]

Congressman Inslee added: "Not all of the US is of the opinion that such policies would help. We cannot hope to sell Microsoft products and Boeing airplanes here unless we give access to India and Indians."

The difference between the attitude of the private and public sector is an important point to note. The proposed US legislation is focused on taxpayer dollars, so the only possible effect would be to make it more difficult for public services to work offshore.

Editor of *Express Computer India*, Val Souza, comments on this proposed legislation: "Scary? Hardly when you consider that US government contracts have anyway accounted for less than five per cent of business to the Indian IT services/BPO industry." Souza adds his view on the worries of Indian industry: "The issue has been blown up by the Indian general and financial press too, as the harbinger of a desolate morrow for India's BPO ambitions, wherein the US private sector too would follow its public counterpart and toe the patriotic line, if only to cosy up to government agencies for smooth and favourable treatment. Get serious, guys! Business does what business has to do, in order to remain competitive, cost-effective and profitable."[15]

Trade unions still feel that the world is not changing and that outsourcing is just one more business fashion. The retiring General Secretary of the GMB union, John Edmonds, told me: "I believe that some outsourcing is inevitable, but I do not believe that the present balance between core and non-core work will be maintained into the future. More and more companies are understanding that some of their essential support services need to be under their direct control if the company is to achieve a reasonable level of efficiency. I believe that there is a business fashion in such matters and that we are due to see a swing back to more direct labour work."[16]

The European Union nations and the US are both looking closely at the outsourcing concept, particularly offshore, and organisations such as NASSCOM are working hard to ensure the benefits are understood. Rash protectionist legislation cannot help the underlying national economy, though it may be a popular vote-winning ploy.

The companies that are already using, or proposing to use outsourcing, add value to the nation they are based in and the stakeholders in the success of each company run to many more than just a small number of local employees affected by particular processes going offshore. The US economy needs a healthy Microsoft or Intel just as the UK economy needs a healthy BT or Prudential. Creating legislation that tells a multinational corporation where and who it can employ does not sound like a recipe for economic success.

Protectionism can only lead in one direction, to failure. History has taught us this lesson often enough. One only has to examine the US steel industry for proof. Strongly protected by tariffs and government-subsidised, but employment has dwindled from 610,000 in 1974 to 181,000 in 2001 and there is not a single US producer in the global top ten. Now contrast this to the US automobile industry, which has shunned protectionism and learned how best to work with global suppliers and partners. The US has some of the finest automobile manufacturers in the world and the industry has grown 20 per cent over the period 1974 to 1994.[17]

British Deputy High Commissioner to India, Stuart Innes, has a very positive message regarding the development of future outsourcing agreements: "India and Britain have every strategic reason to co-operate and co-ordinate trade activities between them and there is a huge scope there. Geo-politically the countries share sections of their history, which extends to the present day. In fact, if ever there were two countries, which were made for each other as natural partners, it was Britain and India."[18]

Innes believes that the politicians need to remove themselves from the outsourcing argument - this should be an economic argument about the best location to source services. He said: "A select committee has been formed in the British parliament, comprising of representatives of political parties and trade and industry leaders to look into the improvement of UK as a competitor in the knowledge sector. The loss of jobs in the UK will be just a part of that. It will be surveying high tech industries and whether Britain is actually losing business or jobs or whether Britain is being profited in an indirect sense by the outsourcing. I don't think there will be any adverse affects on policy even if the government changes. There are certain basic principles for aligning a country to development. They are not a matter of politics, they are a matter of economics."

Kevin Barrow concludes with a call to action for any company that is thinking about the feasibility of outsourcing: "Whilst the EU initiative [regarding offshore outsourcing] is still at a very early stage, it seems that any private sector employer looking to outsource (especially offshore) may save itself trouble by doing so sooner rather than later."

Other Current Issues

The overriding issue concerning Indian politics is that of security and the ongoing conflict with Pakistan. This conflict and the question of security is analysed in chapter 6. I have chosen a number of other ongoing issues that may be of interest to a visiting business executive. Of course, the potential list of 'issues' could be far longer as every government has a full agenda, but I hope this whets your appetite for further investigation in Indian current affairs.

Convertibility of the Rupee

The Indian Rupee is still not a fully convertible currency (capital account convertibility). In practice, this means that you can't obtain foreign exchange anywhere other than on arrival in India, which can cause a small delay at the start of each visit. In addition, you need to ensure that you convert your Rupees back to your own currency before leaving India, as your local bank will not be able to help.

As mentioned earlier by Salil Tripathi, Indian finances are undergoing a dramatic improvement. Indian foreign reserves were recently at $84bn and continue to increase at more than $2bn a month. This is a complete turnaround from the economic reforms of 1991, when Prime Minister Rao was forced to turn to the IMF for help.

This is one of the issues that most countries would love to have, but it is attracting some criticism because much of the inflow is from non-resident Indians (NRI) taking advantage of local deposit accounts with high interest rates, around 6 per cent.

In the Financial Times, Edward Luce comments: "There are now very few remaining limits on the amount the foreign companies or NRIs can invest in India or repatriate outside the country."[19]

In Luce's report, Ila Patnaik, a senior fellow at the Indian Council for Research on International Economic Relations comments: "India is probably about 75 per cent of the way towards full convertibility of the rupee. The remaining restrictions mostly apply to individual resident Indians and they are being gradually eased."

The black market in Rupee and gold smuggling is dwindling and companies are getting used to greater freedoms to borrow in other currencies. The day when the Rupee enters full convertibility on the global foreign exchange markets cannot be far off and for many businesses and frequent travellers to India, it cannot come a moment too soon.

Education

Literacy remains below the target level of 75 per cent literacy, with the 2001 census reporting a figure of 65.38 per cent. The government has set 2005 as the target year to achieve the immense task of reaching this goal. [20]

Some commentators believe that the target is itself Utopian, however the previous decade saw a leap in literacy of 13.17 per cent, so major leaps forward can already be demonstrated.

Monetary backing for elementary and adult education has been increased as part of a five-year-plan commencing in 2003. The budget allocation to elementary education will increase by 75.63 per cent with the allocation for adult education increasing by a 98.29 per cent. With increases in education spending this high, it may not be a foolish dream to believe that India might one day enjoy universal literacy.

Environment

The central government often gives the appearance of a benign uncle in matters of environmental management. Major decisions have been taken without effective impact analysis and serious planning for issues such as logging and water supply are reduced to televised squabbles between states.[21]

- Shark fishing was banned without research into the possible effects of a ban, causing hardship for around 500,000 people. The government reversed the ban after a few months following strong campaigning to demonstrate that over-exploitation was limited to a few small areas.
- Five years after a logging ban in the northeast states, there remains no alternative mechanism for environmentally friendly forest management in the region. Many local communities have been forced into a dire situation due to this lack of long term planning and some are resorting to illegal logging.

- The government has cleared the genetically modified Bt cotton for cultivation in India, much to the dismay of environment campaigners throughout the globe. China and Egypt have already started their own cultivation programme for Bt cotton. Those supporting the introduction of the new crop remain muted at present as the first crop in Madhya Pradesh failed, in spite of adequate soil moisture.
- Tamil Nadu introduced legislation banning the use of any non-recyclable plastic. This follows and builds on the example of other states, such as Goa, Jammu and Kashmir and Sikkim, where certain plastics were already banned.
- Water shortages brought out the worst in state politicians as they fought over the rights to drinking and irrigation water from dwindling rivers, such as the Cauvery in south India. Years of over-exploitation have been masked by good monsoons, yet with average or below-average precipitation the supply is no longer meeting demand. Many local organisations are working on water conservation programmes, but the issue has yet to be addressed in full by a central government strategy for the long-term.

The approval of GM crop farming appears to be particularly dangerous. Regardless of whether the concept of genetic modification of cotton is good or bad, the approval is granted on the condition that some crops must remain GM-free. However, in a nation of small-holdings it will be very difficult to police this and cross-contamination of GM and non-GM crops will no doubt occur.

Health

In 2002, the Bill and Melinda Gates foundation made a grant of $100 million to fight HIV in India. Currently there are over 4 million HIV-infected people in India. The World Bank projects an increase to 31 million people by 2005. Naturally, the Indian government disputes this projection.

Only South Africa has more HIV-positive citizens, although the numbers are modest when compared to the 1bn-plus population in India. A problem reported by health activists is that the government does not want to promote open discussion of sexuality or support measures such as free condom distribution because of ideological objections. Deputy Prime Minister L.K. Advani has criticised the distribution of condoms, saying it promotes promiscuity.[22]

Julie Gerberding, director of the US government's Centers for Disease Control, said: "It looks like Africa did a decade or so ago. If we don't intervene in those environments, we will have a catastrophe." [23]

The Financial Times reports that there is also a particular risk to vulnerable groups, such as homosexual men. Anjali Gopalan, executive director of the Naz foundation, a non-governmental organisation that focuses on homosexual men says there is denial of homosexuality in Indian culture. "A large number of men who have sex with men are married, or see no reason why they shouldn't get married. You'll find many people who say 'all boys do it [have homosexual sex] but they stop once they're married'. But of course, they don't' Ms Gopalan says.

Gender Inequality

Though women are increasingly involved with politics at all levels (often estimated at over 1 million women), there remains a depressing lack of gender equality in India (see the chapter 5 section on airlines). One study estimates that every 26 minutes, a woman is molested, every 34 minutes a woman is raped, every 42 minutes an incident of sexual harassment takes place, every 43 minutes a woman is kidnapped and every 93 minutes a woman is burned to death over dowry.[24]

Male babies continue to be preferred to female, ostensibly because of the ancient dowry tradition. The World Bank estimates that every sixth infant death is infanticide, linked to gender discrimination. Enterprising individuals have created mobile ultrasonography clinics, which offer their gender determination service to pregnant women with the compelling argument 'pay for a test now - you could save thousands later'.

In May 2003 a 21-year-old software engineering student, Nisha Sharma, called off her wedding when she learned that the groom's family had demanded an extra $25,000 dowry to be paid on the wedding day - in addition to the agreed amount. Sharma became the toast of newspaper editors throughout the world as a modern Indian woman, prepared to stand up to such devious practice. She eventually found a husband who admires the size of her character more than the size of her dowry.[25]

The State government in Andhra Pradesh has been embarrassed by a number of child adoption scandals, where Indian children have been 'harvested' for foreign visitors, who are prepared to pay around $25,000 for a baby girl. For a rural family living in extreme poverty, it can be easier to sell a girl than to raise her and though Andhra Pradesh has cracked down on the adoption agencies, the practice continues in other areas of India.[26]

Commentators believe that an initial way forward would be to ensure that at least a third of Indian parliamentary seats are reserved for female candidates, yet the idea remains stuck on paper - to be debated without real action.

Venkat Narayanan, CEO of data warehouse specialist Knowledge Dynamics in Singapore, feels that the growth in wealth from IT-enabled services is changing India for the better and giving both men and women a more equal choice about how to manage their life. He said: "There is an increase in double-income households in India. It used to be that there would only be a single earner, but now the chances are that job opportunities exist for men and women. Marriages are taking place later in life and it's now quite common for women to continue with a career after having children. Many mothers are using maids or family to allow them to continue their career. Some women are even deciding to focus on their career rather than having a family, in a similar way to some Singaporean women."[27]

Narayan acknowledges that most marriages are still arranged by parents. He said: "We do still have arranged marriages. Typically, there is an informal process to arrange the marriage though. Things are changing, but predominantly marriages are arranged. Because of the dot com bubble bursting, there have been some social impacts for people in the IT industry. Quite often, people have been scared of marrying those in the IT industry. Suddenly we all found that IT was no longer a favoured community. Only a few years ago, the father of the bride would ask which IT company the groom works for!"

Possible Future Directions

The two terrorist bombs detonated in Mumbai on August 25th 2003 are likely to lead to a stronger focus on the war against terror. India is certain to start talking tough with Pakistan, in an effort to destroy the Pakistan-based terrorist groups.

Edward Luce, South Asia bureau chief of the Financial Times sees a more attractive vision of wealth and an increased middle class, with areas of India such as Gurgaon becoming similar in appearance and wealth to Singapore.[28]

The Economist Intelligence Unit published this prediction for the political outlook of India:

> The BJP's main rival, the Congress party, may be able to profit from the collapse on August 25th of the state government of Uttar Pradesh, India's largest state, by forming a new alliance with the BJP's former coalition partner, the Bahujan Samaj Party. This could set back the BJP's plans to take control of four Congress-led states holding elections in November.

In September 2001, McKinsey published a detailed analysis document titled 'India: The Growth Imperative."[29] This was a detailed study of Indian business, outlining the key issues surrounding growth prospects in all the major Indian industries. McKinsey makes the following recommendation:

> India has two choices before it: Continue with economic growth of around 6 per cent a year or grow at 10 per cent per annum over the next 10 years to take the country to new levels of development and prosperity. The first option will create only 24 million jobs outside agriculture in the next 10 years and lead to an unemployment rate of 16 per cent. The second option will create 75 million jobs, which is enough to absorb the expected surge in the workforce and contain the unemployment rate at 7 per cent.

The McKinsey report identifies that to achieve faster growth a package of reform is needed. Specifically this reform needs to remove product market barriers, land market barriers and government ownership. McKinsey says: "What India needs is a broad-based reform programme focusing on 13 key actions that will collectively bridge close to 90 per cent of the gap between the current growth rate of 6 per cent and the target figure of 10 per cent."

To understand the recommendations in full requires the report itself, however I shall list the titles of the 13 recommendations proposed by McKinsey as this gives an indication of the broad sweep of the report:

1. Remove product reservation for small-scale industry.
2. Equalise sales tax and excise duties for all companies within a sector and strengthen enforcement.
3. Establish an effective regulatory framework and strong regulatory bodies in the telecom and power sectors.
4. Remove all licensing and quasi-licensing restrictions that limit the number of players in an industry.
5. Reduce import duties to ASEAN levels (10 per cent) over next 5 years.
6. Remove ban on FDI in the retail sector and allow 100 per cent FDI in all sectors.
7. Resolve unclear real estate titles.
8. Rationalise property taxes, stamp duties and user charges.
9. Reform tenancy laws to bring rents into line with market values.
10. Privatise all state and central Public Sector Units.
11. Reform labour laws by repealing Section 5-B of the Industrial Disputes Act and allowing flexibility in the use of contract labour.
12. Transfer management of existing transport infrastructure to private players, and contract out construction and management of new infrastructure to private sector.
13. Strengthen agricultural extension services.

Dipak Basu is Professor in International Economics at Nagasaki University, Nagasaki. He believes that more attention should be paid to the parallel development of civil society and economic prosperity in India. He believes that the protests against globalisation will increase and resemble the anti-British campaign of the last century. He writes: "There are already signs of decline in both agriculture and industry in the developing world due to globalisation. Oppressions during the nineteenth century gave rise to the freedom struggles in the colonised world during the twentieth century. Oppressive forces of globalisation will create similar popular revolts in the emerging market economies. The popular demonstrations against globalisation all over the world signify this."[30]

Professors Bhanoji Rao and M.V. Lakshmi note that India is still in transition from developing to developed nation. Illiteracy remains high and according to the World Bank Development Report 2000/2001, 44.2 per cent of Indians exist with less than $1 a day of purchasing power. Rao and Lakshmi comment: "It may be apt to describe the goings on in India as a manifestation of 'a nation of contradictions, held together by invisible strings'. A major contradiction is the persistence of a rather high level of absolute poverty - in the neighbourhood of some 20 to 30 per cent of the people - in a country that boasts of a large pool of technical and scientific manpower and a vibrant democratic polity." They go on to add: "Poverty and other social maladies such as gender inequality, inadequate housing and sanitation prevail in spite of much progress achieved in areas such as building a modern industrial economy."[31]

Summary

Professor Sudipta Kaviraj of the School of Oriental and African Studies in London considers India to be unusual in that it achieved a condition of democracy before major economic reforms and social modernity. In *Dilemmas of Democratic Development* he writes: "The historical process of democratisation in India was quite different from Europe. The first difference consisted in the temporal sequence of the relation between democracy and other essential processes of European modernity. These included secularisation of the polity, creation of an individuated 'civil society', and the formation of a modern capitalist economy through the displacement of large segments of the peasantry from the land with the imposition of modern work discipline on them, since the productivity of capitalism in intimately connected to the disciplinary aspects of the factory regime."[32]

Though Professor Kaviraj is writing in an academic textbook and therefore assuming the reader has some understanding of the general theory of modernisation, his point is clear. In a normal situation, a society would undergo economic development and the creation of many groups of people in churches, clubs and associations before there is a demand for democracy and universal suffrage. In India, the democracy was put in place at the time of independence, allowing all the other aspects of development to come later. Author and journalist, Gucharan Das, believes that the only other example of this form of development is the U.S.A, where the constitution was defined while the young nation was still undergoing immense societal change.

Salil Tripathi summarises the present situation: "To be sure, it isn't all rosy. India still has the world's largest population living in absolute poverty. It still wastes resources in industries the government has no business running; and it needs to invest much more in primary education. But in the first decade after integrating its economy with the globalised world, it has lifted more people out of poverty than at any time in its history. More Indians can aspire to a better future than at almost any other time. And today, India is able to use some of its new wealth to help the less fortunate."

Chapter Checklist

- The Attitude of many individuals to the government is often disdainful. The Indian government is seen as an elephant where a tiger is needed; however there are genuine signs of progress in the InfoTech sector.
- New Jersey has led the US states in proposing legislation that would outlaw the use of offshore facilities for public-sector contracts. Though these bills are being proposed, none have progressed to legislation yet, and are all restricted to the public sector only.
- European Union discussions have started along the same lines as the bills being proposed in the US. The EU is proposing to focus on redundancy

and retraining, though it remains difficult to predict exactly what will be included in any future legislation.

- On the differences between the Congress and BJP election campaigns in 2004, India commentator Mark Tully said: "Appeals to religion, ideology or dynasty will not work. Indians want good governance and the development that comes with it."[33] Congress won by a good margin.
- Reform for growth is recommended by analysts such as McKinsey and most Indian business leaders would agree that reforms are needed if strong growth is to continue.
- Democracy came before social change in India, rather an unusual situation as most countries change internally and then demand a democratic structure of government. The general theory of modernisation states that political development should follow capitalist development.
- Poverty and illiteracy are still major problems throughout India. Regardless of the new found wealth of the past decade, these two major human issues remain and need to be addressed by the government.

Chapter 4: Culture and Food

India is an immense cultural smorgasbord. When a foreigner visits the country, they can be overwhelmed by the sensation. From every direction there is the sound and smell of unfamiliar music, dance, films and food. It is certainly too much to absorb in a single business visit, though this chapter aims to give a flavour of what to expect.

One thing you can't avoid on a busy schedule is the food. Eating is essential for everyone. Though it is possible to avoid Indian food in the major cities, it is not advisable as the local food is too good to resist. During a business trip you may have little time to absorb some of the other cultural influences, however make time to open your eyes if you can. India is certainly worth it.

Bollywood

India leads the world in film production with an output of more than 800 feature films a year. The Mumbai-based Hindi-language film industry, known as Bollywood (a contraction of Bombay and Hollywood), produces at least a quarter of these Indian movies. The remaining 600 or so are regional films in languages such as Tamil, Telugu or Kannada.[1]

Based on output alone, Bollywood far exceeds Hollywood, however almost all Bollywood films lack a Hollywood production budget. In his analysis of the industry for potential investors, George Darley-Doran notes: "The total aggregate budget of every Indian film produced in 1998 did not equal the cost of that year's mega-blockbuster Titanic something in the region of US$1bn. And in terms of value, India still accounts for less than 2% of the global entertainment market."[2]

However, we are all aware that production budget alone does not make a great movie. Writing on the demise of cinema in the west, Sukhdev Sandhu, author of *London Calling: how black and Asian writers imagined a city*, comments: "Anyone who has ever made the mistake of going to see Charlie's Angels or Bad Boys II will know the rage that mediocre films can induce. You stand outside the picture house afterwards feeling sullied and despoiled."[3]

Sandhu makes a valid point and recognises that many western writers and directors are now looking east for their inspiration. He said: "Certainly Bollywood, even though it is generating few new hits in India itself, is becoming more familiar to western audiences through such creolisations as Moulin Rouge and The Guru."

Many Bollywood films follow a predictable Romeo and Juliet type story where girl meets boy, family pressure forbids their relationship and after much angst it all ends in tears or joy. Along the way they get to sing and dance in various locations with a backing chorus and play with some gentle no-touch sexual allusions.

This formula has worked for many years though it has become a stereotype that many writers and directors are trying to escape as they reflect the realities of life in the 21st century. Films such as Jism and Kwhahish are now redefining the boundaries of cinema in India.[4] Kwhahish features 17 kissing scenes and a young couple purchasing condoms on their wedding night. Oops is about a hidden world of male strippers and Mumbai Matinne features a 30-year-old man on a quest to lose his virginity. These new features are no longer limited to scenes of dancing around broad tree trunks with fast cuts to crashing ocean waves.

Some Bollywood stars are managing the transition to the world of western cinema. In 2002, former Miss World Aishwarya Rai was at the Cannes film festival to promote her movie Devdas and she returned again in 2003 to sit on the jury for international films. Rai is the reigning queen of Bollywood and has even been tipped as the first Indian female lead character in a James Bond movie.[5] In 2004 Gurinder Chadha, director of Bend it like Beckham, wrote and directed an updated Indian version of the Jane Austen classic Pride and Prejudice (renamed Bride and Prejudice) with Aishwarya Rai in the lead role.[6]

Devdas is a good example of Indian cinema as it is to date the most expensive Indian-produced film, yet George Darley-Doran notes that the total cost was in the region of $10m. The fee for Hollywood A-list stars is about double that figure, regardless of other production costs.

The director of Calendar Girls, Nigel Cole, has teamed up with London-based actor and writer Sanjeev Bhaskar to produce a comic love story about call centre agents in India who pretend to be English for their callers.[7] Bhaskar is well known for his work on Goodness Gracious Me and The Kumars at No. 42. This film will take Indian culture and the issues regarding offshore outsourcing to a mainstream audience through humour.

These crossover movies will certainly bring Bollywood to a wider audience and some of the revered stars in India, such as Aishwarya Rai or Amitabh Bachchan may yet become household names outside of the Indian community. My local cinema in London (www.phoenixcinema.co.uk) has even started showing films such as Veer Zaara with Shah Rukh Khan and Preity Zinta. Regardless of where you live, who can resist the charms of Preity Zinta?

Music and Literature

Most popular music in India is linked to the film industry. Film songs are immensely popular and the production is as classy as that used by any non-Indian pop singer. In fact, Britney Spears has stepped into the Asian zone with her latest album, featuring Bhangra beats, sitar strings and finger cymbals woven into her synthesised pop tracks.[8]

You may already know what a sitar sounds like, provided you remember 'Norwegian Wood' or 'Within You, Without You' by The Beatles. George Harrison introduced the sound to many in the west, though there are probably not many readers of this book with both Britney and the Beatles in their CD collection.

The sitar and tabla (Indian drums) are synonymous with Indian classical music and can be as fascinating to watch as listen to. Speaking to me about Indian music, the novelist Shrinivas Sharangpani said: "I love the vocal as well as instrumental especially jugalbandis, which can be described as a musical race or competition and are normally very sonorous to the ears. The rhythm of tabla is very pleasing as is the sitar. Lata Mangeshkar, Asha Bhonsle, Kishore Kumar, Mukesh and Mohammed Rafi are some singers whose film songs of yesteryear are possibly unparalleled in melody."[9]

Indian classical music is based on the use of the raga and tala to construct what often sounds like improvised free-form music. The raga is a collection of a few notes, similar to a single bar of western music. The tala is the rhythm, controlling the speed and flow of the notes. In his book, *Shaping the future*, Arun Maira describes this further: "Indian classical music is much closer to jazz than to Western classical music. There is no written score in Indian music. In fact, Indian classical music is even more unbound than jazz. There are not any set melodies either!" [10]

As with the general shift in the film industry, there is a move to raunchier songs with accompanying videos featuring pretty young girls without too many clothes on. The difference in the music industry is that many of these songs are actually remixed versions of earlier hits. Composers and lyricists are upset about the hijacking of their work, in addition to the fact that they are usually not receiving any royalties for the updated versions.[11]

There are dozens of Internet sites offering clips of Indian film music and jukebox facilities. Yahoo! India has an entire category devoted to film music in various Indian languages and is worth exploring.

It is far easier to find world-class Indian literature in the English language than to find live shows of a similar quality. Most major cities feature a thriving local theatre scene; however it is hard to enjoy many of the plays and operas without a good understanding of the local language. Shrinivas Sharangpani goes so far as to say: "English language plays are few and far between and I do not think they are worth watching."

However, English literature by Indian authors is well-known and respected throughout the world. Arundhati Roy won the Booker prize in 1997 for The God of Small Things as did Salman Rushdie in 1981 for Midnight's Children, a book that was also proclaimed the 'Booker of Bookers' in 1993.[12]

Roy is one of the leading lights in the anti-globalisation movement and is therefore not likely to heap any praise on this book. Rushdie is as well known for the 1989 fatwa declared by Ayatollah Khomeini of Iran as he is for his writing alone, though he is in fact a prodigious writer of immense talent. Rushdie edited the Vintage Book of Indian Writing 1947-1997, an anthology celebrating fifty years of Indian literature since independence and also since the birth of Rushdie himself.

R.K. Narayan, whose recent death was reported in media obituaries throughout the world, wrote many stories about the fictional village of Malgudi, supposedly close to Bangalore in Karnataka. Other writers of prominence at present include Anita Desai and Kamala Markandaya, both female and both making waves far beyond the shores of India.

The best way I have found of observing the latest literature from India is to check on the website of retailer Amazon.com. Amazon features the option to list fiction titles by country of origin, so it is easy to view the latest Indian literature and read comments or reviews.

Indian Food

The most popular restaurant dish in the UK is chicken tikka masala, so the British are very familiar with Indian food. Meena Pathak, director of Patak's foods in the UK said: "To say that Indian food has been warmly received in Britain over recent decades would be akin to claiming that Amitabh Bachchan has had only a mediocre impact in the world of film."[13] However, not everyone has this British sense or sensibility and the type of hot curries served by many Indian restaurants outside India is not really representative of the food you will find in the country itself.

You can find authentic Indian cuisine in most cities though and it is worth seeking out an authentic restaurant to try a few dishes before you travel. Indian cuisine is not as fiery or oily as many restaurants would lead you to believe so take care to ignore the vindaloo page in the menu. When Ramesh Kumar, CEO of SG Software in Bangalore, paid a visit to London I took him to Rani in Finchley for their masala dhosa. He declared it was the best dhosa he has eaten outside India.

One of my personal favourites is a very simple lentil dish available across India, tarka dhal with rice or bread. I am lucky because there is an Indian restaurant called Majjo's close to my home that provides me with an authentic substitute for when I am not in India. Their food is excellent and they provide all the snacks given away on Bollywood Sundays at the Phoenix cinema!

Something to remember when eating in India is that vegetarianism is very common. Eating out can be a paradise for visiting vegetarians, with menus and entire restaurants dedicated to serving food without meat. Most restaurants use the terms veg and non-veg to denote whether they serve meat or not so if you can't manage without your meat then look out for a non-veg sign.

I asked several people from the outsourcing industry about regional food they would recommend to a visitor, based on the most likely destinations you may visit. Their views and recommendations are listed here.

Mumbai

As Mumbai lies along the west coast it is no surprise that Sethu Venkataraman, General Manager of Marketing for GTL in Mumbai recommends the local sea food. He said: "Try Konkan sea food - This is a popular non-veg delicacy in

Mumbai and is a coconut-rich preparation with gravy. Typically, prawn or crab is suggested with it."[14]

Mudit R., Senior Manager of Business Development for Datamatics Financial Software believes that there is more food on offer in Mumbai than anywhere else in India. He said: "Being the cultural melting pot, Mumbai has the highest variety of food available anywhere in India. This includes various Indian and international cuisines."[15] He added that if he is forced to name some specific delicacies from the Mumbai region then he would choose the following: "The coastal Malwani & Konkani seafood fare: This includes various fish curries, prawns, lobsters and crabs. We even have a dish called 'Bombay Duck' which makes for some mouth-watering curry. To be able to eulogise about your Mumbai visit confidently to anyone, you must have multiple helpings of Pav-Bhaji (assorted vegetables cooked in butter and spices served with bread bun) and vada-pav (fried potato patties sandwiched in a traditional bread bun)."

Mudit adds that Mumbai has several local sweets worth trying: "These include the puran poli, which is roti stuffed with a sweet mixture of jaggery and gram flour, modak (flour bread stuffed with a sweet concoction), and the shreekhand (a sort of thick yogurt sweet flavoured with cardamom, saffron and mango)."

Delhi

Ashish Sonal, Country Manager for Hill Associates advises on trying the snack food chat or chaat. He said: "Chat is a characteristically unique fast-food snack that is very popular in Delhi and typical of this region in India. It is spicy with a combination of sweet and sour flavours. A traveller should however be cautious because it is generally sold in street-side outlets and can easily be a source of waterborne bacteria that cause gastroenteritis."[16]

It is worth remembering this warning when eating street food in India; however I have enjoyed food cooked in a dhaba (road-side café similar to a truck-stop) without any stomach trouble. Just ensure you always drink bottled mineral water.

Chennai

Aashish Agarwaal, CEO of Amnet Systems in Chennai recommends south Indian food as lighter on the stomach and easier to digest than the food from other regions. He said: "Typical food from Chennai would be: Idly (white rice cakes), Dhosa (rice pancakes), Vada, Idiyappam (again another form of rice pancakes) with Coconut Milk, Malabar Adai with butter (or) Avial, Chappathi (flour pancakes) with Kurma (vegetables in coconut gravy)."[17]

Aashish added that there are many local accompaniments for these foods, such as: "Sambar, a vegetable based curry and various chutneys - made of coconut, onions or garlic." Aashish also recommends asking for a 'Kappy' to complete the meal - a local blend of filter coffee.

Mouly Raman, Managing Director of Scorp IT Solutions also recommends the local dhosa and vada and adds that every visitor should try curd rice. He said: "Eating curd rice with your meal is the best antacid you can use and helps you to digest all the curries."[18]

Hyderabad

Just to the north of Chennai, Hyderabad is another tier one outsourcing location. I asked independent consultant Sailesh Kumar what he recommends from the local cuisine. He said: "Hyderabadi Biryani. This is a spicy recipe, made with a special long-grain variety of rice known as Biryani rice. The rice is mixed with either mutton chops or chicken pieces. There is also a vegetarian variety, though mutton and chicken are more popular."[19]

Sailesh advises that these local dishes will be available from the restaurant of any good hotel and adds: "If you are eating at a hotel then it will be easy to ask for the chef to reduce the spice in your biryani, in case you are not used to spicy food."

Bangalore

Bangalore in the south may be most likely destination for those in the IT industry as it remains the Indian IT hub. Tom Thomas, CEO and Managing Director of Ekomate, recommends that visitors try the bisibelebath. He said: "This is a dish unique to Karnataka and Bangalore and is a spicy dish comprised of rice and beans. It can be served as a meal or as a snack, and is available in all the popular roadside eateries or darshinis. No Bangalorean can do without his bisibelebath! It is a unique dish, and any visitor to Bangalore must try it."[20]

I have to agree with Tom as bisibelebath is one of my favourite south Indian dishes. It is quite hard to find outside of Bangalore so I always take home a few packets of MTR bisibelebath, available in most of the food stores in Bangalore. The alternative is to cook it yourself. The London-based chef Das Sreedharan, famous for his *Rasa* restaurants, has published a number of books on south Indian food and I can recommend his recipe.

Hemanth Krishna of BPOfirst.com adds that as Bangalore is in central south India, it absorbs the foods from the surrounding regions. He said: "There are hordes of varieties to choose from. You get to pick from the coastal food of Kerala and Mangalore as well as fine Andhra food in addition to food from Maharashtra and Tamil Nadu. "[21]

Hemanth added: "The best flavours for a visitor to Bangalore would be any of the local south Indian Udupi food. To lay the menu, idlis, masala dhosas and all sorts of rice cooking with sambar and chutney are really lip-smacking and easy on the western digestive anatomy." Hemanth advises the visitor to step beyond the confines of a hotel complex though: "The best food is available outside the five star hotels."

So do get out and try some fresh cooking at a local dhaba or street café, but remember to be wary of what you drink. Safe bottled water, produced by trusted companies such as Coca Cola and Pepsi, is available everywhere at a very reasonable price.

Chapter Checklist

- Bollywood has laboured for many years under the stereotype of musical boy-meets-girl movies, but the output is impressive and some crossover to a mainstream western audience was seen in 2004.
- Music is usually linked to the film songs, but the more traditional styles of Indian music can be heard without looking too far.
- Literature is a strongpoint as India is famed for the quality of its English language canon.
- Food could be a good enough reason to visit India alone. The food is fantastic and is varied across regions with very few dishes reflecting the fiery curries sold as 'Indian food' in the west.
- Vegetarians will love India as it is a common practice to live without eating meat. This is so widespread that restaurants normally distinguish themselves as veg or non-veg.

Chapter 5: Domestic Travel

India is a very large nation, so for a travelling executive it is important to understand how best to get around. The basic options of air, road and rail are familiar to any traveller. However, the visitor needs to be aware of the time involved in road and rail travel before expecting to rely on these for transport to an important meeting.

From Srinagar in the north to Chennai in the south is approximately three thousand kilometres (1900 miles), comparable to the entire Eastern seaboard of the USA. Even the distance between the financial centre of Mumbai and the technology hub of Bangalore is a considerable 1000 kilometres (620 miles), a similar distance to the drive between Charlotte, North Carolina and New York City.

Air travel is clearly the option of choice for most visitors to India; however I have outlined information on the rail and road networks for those with a little more time and possibly a desire to see India far from the madding crowd.

Air Travel

Until 1993, domestic air travel meant buying a ticket for state-owned domestic operator Indian Airlines. However, for the past decade, the skies have been opened up to private operators.

Two major players formed in the wake of the government reforms in 1993; Jet Airways and Air Sahara. Jet Airways now has a 45 per cent share of the entire domestic air travel market in India, comparable with that of Indian Airlines. Air Sahara mops up most of the remaining section of market share.[1] There is now a shift to the low-cost point-to-point airline model that has opened up the skies to travellers in the US and Europe with Air Deccan already airborne and other airlines waiting to take off soon.

In his book, *India Unbound*, the writer Gurcharan Das gives a picture of how domestic travel operated in India prior to the reforms. In 1982, while working for Richardson Vicks in Mumbai, Das was summoned to New Delhi by a government official who wanted to discuss an application to market a new product. Das recalls: "He insisted that I rush to Delhi immediately. Indian Airlines, the government monopoly carrier, used to run only 3 flights a day to Delhi, and seats would get booked weeks in advance. So it was not surprising that I was 182 on the waiting list. (Ten years later, after the reforms, there are twenty-two flights daily run by three airlines on the same route.)" [2]

However, though market reform has taken a brush to the lack of supply, Indian airports are still shocking in their lack of basic amenities. The facilities have changed little in the past decade, though more airlines are operating from the same airports and require basic infrastructure, such as check-in counters. Executive lounges and fast-track security are not always available, no matter how much extra you spent on a business class ticket. Where such facilities do exist I have been refused an extra drink or sandwich beyond the one "free" snack. Try explaining that your business class ticket has a premium over economy that is worth much more than a single lousy sandwich and you are likely to be greeted by a stonewall of bureaucracy. A breakfast I recently 'enjoyed' at the Delhi domestic terminal reminded me of an old episode of 'Prisoner Cell Block H'.

Security and immigration (at the international terminals) seem to be organised by supervisors with no knowledge of how best to utilise their resources. It can't be that difficult to estimate the number of passengers passing through a terminal each day and academics have decades of research in how best to utilise a checkout line, yet everyday at every Indian airport you will witness hundreds of passengers funnelling into a single or double file just to pass by an uninterested official. Queue-jumping is endemic and is never addressed by the security staff, so there is little incentive to remain in an orderly line - think of a rugby scrum and you get the picture. If you are not a patient individual then do pack the St. John's Wort.

Fantastic airport design does exist in Asia. I can immediately think of Hong Kong, Singapore and Osaka. All these airports are designed around the concept of passengers as fluid, passing through the building from check-in to gate through a path of least resistance. I love arriving at Singapore's Changi airport because I know I can leave the plane, buy some last-minute duty-free goods, pick up my bag, clear immigration, catch a taxi without pre-booking and sink into a soft chair at the hotel within an hour of the tyres hitting the tarmac. At an Indian airport I generally feel I am doing well if I can locate my bag on the conveyor belt within the same timeframe.

This diatribe is a warning to the business traveller who may expect a pleasant journey by air (unlikely while still on the ground) and a plea to the federal government to improve the situation. Both Hyderabad and Bangalore are planning completely new airport terminals so there is a chance for two major cities to create twenty-first century facilities. Indian airport facilities don't need to be as smart as the fantastic Virgin lounges provided by Sir Richard Branson's airline. The lounge Branson has built in London is so much fun it makes me want to arrive at the airport as early as possible, and then you even get a massage on the plane.

Just being able to control the queues, providing facilities such as restaurants, bars, cafés and wi-fi Internet access would help. Most Indian travellers would pay more for better facilities and all foreign business travellers would pay considerably more. The revenue opportunities are there for the airport managers to exploit. After all, what other retail environment has thousands of high-worth individuals with money in their pocket and time to kill in an enclosed environment?

Indian Airlines

Indian Airlines was founded in 1953. It is owned entirely by the government of India and employs around 19,600 people. It remains the biggest domestic carrier, with more destinations and flights in and around India than any other carrier, however Jet is snapping boldly at its heels.

The airline offers 64 domestic destinations and also 16 international options to immediate neighbours of India in the Middle East and Asia. These direct flights to nearby destinations, such as Kuwait and Singapore can be very useful when conducting business close to India. Indian Airlines used to enjoy a monopoly on the high-tech Bangalore to Singapore route, but recently Singapore Airlines have launched their own direct service.

There was a time when Indian Airlines enjoyed a complete monopoly on air-travel in India. My own impression of their fight against the new entrants is that they are extremely uncomfortable with the free market. Check-in and cabin service is acceptable, but nothing special, yet the new players work hard to win new customers and make them feel good - they have to because there are no tax dollars underwriting their operations.

www.indian-airlines.com

Jet Airways

Jet has grown to a level where it can now compete directly with Indian Airlines, though it remains a private and unlisted company. The two companies have a similar share of the market for domestic air travel and are both engaged in a tussle to take a majority share.

Gurcharan Das lists Jet Airways as an example of an 'Indian gazelle', a company that starts small and grows extremely rapidly through innovation. Das goes so far as to comment that Jet is "arguably the best domestic airline in the world." Though I would prefer to remain impartial on domestic airlines, I can't. I have to say that the polite (and fun) cabin crew on the 3am Jet shuttle from Mumbai to Bangalore is probably the best thing about flying to the office at that time of day. I have travelled frequently within India and the Jet check-in and cabin crew are certainly the best I have encountered. They offer a fantastic service and are all so smart and well-groomed it feels as if they just walked onto the aircraft from a Bollywood set.

Jet flies to 44 destinations, operating over 260 flights a day. The company is the largest private domestic airline in India and the growth rate has been phenomenal. Jet started in 1993 with just 4 aircraft and by January 2005 had 42 in service. It is definitely a company to watch - provided the 'unlimited' government funds available to Indian Airlines can be fairly controlled.

www.jetairways.com

Air Sahara

Air Sahara was founded in December 1993 with a fleet of just two Boeing 737-200s. Sahara is smaller than Jet, but is trying to steal business through innovative product offerings including free seat deals and frequent flyer points that can be transferred to other airlines.

Sahara has 20 jets and 4 helicopters offering 123 flights a day to 24 destinations. All the major destinations, such as Mumbai, Delhi, Bangalore and Kolkata feature on the schedules of Sahara, Jet and IA. This encourages fierce competition on price and convenient flight schedules, improving the experience of traveling within India for the passenger.

The large photographs of Aishwarya Rai at each check-in counter make it a far more pleasant experience when waiting in line, but unfortunately I have never met her waiting to check-in for a flight.

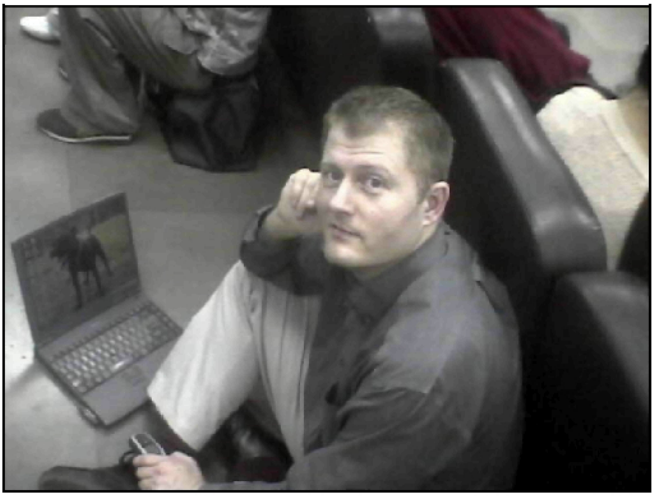
www.airsahara.net

The Budget Alternative

As I write this in early 2005 the air travel market in India is about to explode. Air Deccan recently took to the skies offering a budget service with online variable pricing based on the model pioneered by low-cost airlines such as Southwest, easyJet and Ryanair. Travelling through Chennai in the summer of 2004 I saw a huge billboard proclaiming a 500 rupee ticket on Air Deccan from Chennai to Delhi. That's about $10 to fly from one end of India to another.

When I returned to London, I booked an Air Deccan flight from Delhi to Mumbai as I knew I would be back in India in December. It was about 3000 rupees ($60). Not bad, considering it is a two-hour flight, but not as cheap as the advertising might lead one to believe - even with several months notice.

The result of my foresight can be seen on the next page. Hours spent sitting on the floor in Delhi airport trying to pick up a wi-fi signal so I can cancel my engagements - and it is not a very clean floor.


The author trapped in a fog surrounding Delhi airport, 22 December 2004. (Photographer: Mahesh Ramachandran)

To be fair to Air Deccan, a lot of other flights were cancelled that day due to the pea-soup fog that enveloped Delhi. However, the experience provided me with a stark reminder of the ticket conditions when using low-cost airlines. There was no explanation of the situation beyond the cancellation message. There was no help getting from the airport back to the city. There was no help finding a hotel in a city I had not intended to spend the night. There was not even any help getting on to another flight later that day or even the next day - it was just cancelled.

I have used easyJet and Ryanair in Europe many times so I appreciate that you get what you pay for, but what really annoyed me about this particular episode was something I observed as I vacantly wandered the departures car park trying to locate a taxi, all the taxis being over at the arrivals section. My own problems were shared by the Air Deccan cabin crew. Even these airline employees were wandering around looking for a taxi and complaining bitterly into their mobile phones that they had no idea what was going on.

www.airdeccan.net

As I write, Kingfisher Air is gearing up to launch their own domestic service across India in 2005, with ambitions to go international. Beer drinkers the world over will be familiar with the Kingfisher brand, one of the most popular exports from India and available at a restaurant near you now. The UB Group, owner of Kingfisher beer, is hoping that the 'good times' brand value of the beer can be transferred to an airline.

Kingfisher plans to pitch itself between the economy class of the full-price carriers and the bus-style economy carriers. They plan a loyalty programme and corporate rates, so this is clearly a serious entry that is not going to appeal to the consumer on price alone. The brand really is the key for this new airline and with the international appeal of the Kingfisher brand it is likely that they will succeed.

What bothers me about the Kingfisher launch is that the company has launched a national search for beautiful models to work as cabin crew, a move lauded by the media as something that is in keeping with the fun spirit of the brand.[3] Simone de Beauvoir wrote *The Second Sex* more than half a century ago and yet companies still feel it is acceptable to hire a woman based on her desirability to weary male business travellers. Of course, hiring pretty girls makes good business sense as Hooters Air in the US can attest and I'm sure that Kingfisher is going to succeed, but I just can't imagine Sir Richard Branson conducting Virgin cabin crew recruitment by holding a beauty contest. It's not quite the meritocracy Indian women deserve in the twenty-first century.

By the end of 2004, the number of people travelling by air on domestic routes touched 22 million, up 25 per cent from 2003, while international traffic breached the 9 million mark, a growth of 20 per cent.[4] In addition to Kingfisher, other new airlines waiting for takeoff include Alliance Air, Air One, Indus Air, Royal Air, East West, Wadia, Visa, Yamuna, and Air-India Express.

The major private carriers, Jet and Sahara, will have a tough time fighting this new competition, but the entire sector (except Indian Airlines, until the tax-payer starts asking why) is opening to competition and this can only be a good thing for the consumer.

Rail

The Indian rail network recently celebrated 150 years of operation by recreating the very first passenger journey from Mumbai to Thana. Now, Indian Railways carries 13 million passengers and nearly two million tonnes of freight every day. The vast network is spread throughout the country, offering the only means of transport to many Indians without the means to book air travel.

The network compares favourably with other benchmark countries. According to McKinsey analysis India has 12.4 kilometres of track per thousand square kilometres of land area. This is more than Indonesia (3.4), China (5.9) and Thailand (7.2) and marginally less than the Philippines. However, McKinsey also warn that India has a shortage of freight wagons: "India currently has only 4.3 freight wagons per kilometre of track compared to 7.4 in China and an average of 4.8 in countries with a GDP between 12 per cent and 25 per cent of the US."[5]

Though diesel and electric trains are now common, there are still some steam locomotives in operation. The oldest still running is the 'Fairy Queen', built in 1855 by Kitson, Thompson & Hewitson in the UK.[6]

Depending on the class of travel, it is possible to book a ticket on the New Delhi to Mumbai train for $8 to $80. This represents fantastic value for money, considering the journey is some 1378 kilometres (955 miles). The drawback is that even an express service takes the best part of an entire day to travel between the two cities.

In Mumbai, around 6.5 million commuters use the local rail network every day and the railway provides employment to 1.6 million people throughout the country. As a result, the railway is seen by many as a government leviathan, too large to control efficiently.

As a counterpoint to the anniversary celebrations, the BBC reported that during the rush hour, a suburban train in Mumbai with a capacity of 1,200 passengers sometimes carries as many as 5,000 commuters.[7] When I was in Mumbai, I made an observation to an Indian colleague about a passing train that appeared to be packed full of passengers. 'This is lunchtime - that's nothing' he told me. 'You should see the trains in the rush hour.'

The rail network is a useful way to reach almost any corner of India at low cost, but cannot be recommended to anyone in a hurry. In addition, I find it impossible to sleep at night on Indian trains, even in a first-class air-conditioned coach. There is always someone nearby with a snore louder than Lemmy from Motörhead.

www.indianrail.gov.in

Roads

Travelling by road is an even more somnolent pastime than rail transport. Within the major urban areas, the level of traffic reflects that of other major cities throughout the world - gridlock. However, the real problems begin once you leave the city. India has the second largest road network in the world at 3.3 million kilometres (2 million miles)[8], but the interstate system is overburdened and not of a high enough quality surface to allow rapid transport. Long drives are more autocross than autobahn.

However, the amount of developed road in the Indian network does compare favourably to other nations. With 950 kilometres of paved road per million people, India outranks Indonesia (810), China (220) and the Philippines (550).

Road travel cannot be recommended for the business traveller with a tight agenda. However, it can be a wonderful mode of transport for the tourist who wants to see the real India - away from the cities. Stopping at small villages and eating at the dhaba with long-distance truck-drivers gives a new perspective.

In 2001 I stopped at a dhaba on the way back to Bangalore after visiting Mysore with my friend Badar. It was the Muslim holy month of Ramadan, so he had not eaten all day. We consumed a huge feast of wonderful south Indian food, washed down with copious amounts of lassi and took a couple of bottles of mineral water back to the car - all for $3. I recommend eating this way.

Summary

Most business travellers will only need to consider air travel within India. The three major domestic airlines and new entrants offer flights to all cities and many rural areas of the country so connectivity is guaranteed. With multiple airlines all competing on the same major routes, frequency and good prices can also be expected.

The train might be considered for good value connections between major cities, though the distances can be extreme so expect a long journey. First class coaches with air conditioning are available on all the major express routes. Even the price for first class compares favourably to train fares in Europe or the US so I recommend booking the best seats. The Indian Railways web site allows reservations to be arranged even before your journey to India.

Extensive journeys by road should be reserved for leisurely tourist travel or visits to nearby towns and cities. For example, Bangalore to Chennai is a 5-6 hour journey even with good modern connections. Mysore is closer than Chennai, but it makes for a very long day trip because most of the journey is on two-lane roads crammed with people, potholes and animals.

The Indian government is investing in infrastructure improvement; however commentators such as McKinsey believe that more is needed. For example, McKinsey believe that investment in the road network requires an increase from 1 per cent of GDP to at least 2.2 per cent, to fund the required highway widening and resurfacing.

McKinsey advise that the expected increase in passenger numbers at airports in India should demand at least an additional 0.1 per cent of GDP. This would seem prudent when commentators such as Bill Murphy, chairman of UK-based Global Software, claim that it is now getting difficult to find a business class seat on a flight to India.[9]

Chapter Checklist

- Size does matter. India is an immense nation. A visitor with meetings planned in several cities needs to consider the best way to travel.
- Air travel is the obvious choice for most executives. Indian Airlines, Jet Airways and Air Sahara all compete for your business on the major routes.
- The air travel market is becoming increasingly deregulated with new entrants such as Air Deccan and Kingfisher Air storming the market with new business models and deals for consumers.
- Rail is an alternative for low-cost long-distance travel, though the journey time may be excessive.
- Road is best for leisure or short journeys to neighbouring locations. Long distance road travel is not really an option as the interstate highway sys-

tem is not as developed as the US Interstate network or European motorways.

Chapter 6: Security Concerns

The Canadian writer and anti-globalisation campaigner Naomi Klein once described New Delhi as a jungle of fences where security firms reap the rewards of nervous citizens: "selling iron gates, armoured cars, elaborate alarm systems and renting out armies of private guards."[1]

Most visitors to New Delhi, or any other major metropolis, would not describe the cities of India in quite the same way. I have always felt perfectly safe there. The issue of security would be fairly low on the list if a visitor was asked to list their concerns about India after visiting the country. Prior to a visit, it may be one of the highest concerns as we live in an age of twenty-four hour global news with a voracious appetite for even the slightest scuffle over international borders.

In 1997, the sociologist Manuel Castells wrote: "religious fundamentalism has, of course, existed throughout the whole of human history, but it appears to be surprisingly strong and influential as a source of identity in this end of millennium."[2] Of all the terrorists groups in the world al-Qaeda, led by Osama bin Laden, has been catapulted to the forefront of public consciousness since the terrorist attacks in the United States on September 11th 2001.

After the 9/11 terrorist attacks in the US, President George W. Bush told the world that nations were either with the United States in the war on terror or against them. There could be no centre ground for diplomatic fence-sitters and both the former Prime Minister Atal Bihari Vajpayee of India and President General Pervez Musharraf of Pakistan leapt to the side of the US President offering their full support in the war against terrorism.[3]

The US-led war on terror is not the only concern for investors in India. Decision makers need to be aware of the delicate relationship with Pakistan and the possibility of natural disaster. It is a fact that India has its share of security concerns in common with most nations. Japan has the ongoing threat of earthquakes. Britain has suffered decades of Irish republican terrorism, only recently subsiding with the Good Friday peace accord. The US suffers from extreme weather conditions and occasional terrorism caused by its own citizens.

India is not unusual and remains a safe country for visitors and investors. This chapter identifies the key areas you need to be aware of so investment decisions can be fully informed.

Natural Disaster

On the morning of January 26, 2001, a natural disaster struck at the State of Gujarat in North West India. With its epicentre close to the town of Bhuj, an earthquake measuring 6.9 on the Richter scale shook the area for almost two minutes with tremors that could be felt throughout India and Pakistan.

It was the worst earthquake in India for 180 years and was the longest ever recorded. Initial estimates indicated that over 30,000 people were killed, however this was later revised to 19,800 as the government believed the initial list contained many duplicate names[4]. Nonetheless more than 166,000 people were injured including 20,717 serious injuries such as permanent incapacitation.

The situation was chaotic as Gujarat was cut off from the outside world. Telecommunications had completely broken down with the destruction of 147 telephone exchanges. Power was not available for weeks as 45 sub-stations were damaged. Over 1,300 villages lost their water supply.

The government was severely criticised for its inexperience and utter inability to control the relief operation. During the immediate aftermath, a group of doctors from Mumbai flew into Bhuj. They carried a portable electricity generator, sterilisation equipment and medicines, but after a day of waiting to help they gave up and flew back to Mumbai. Relief materials remained unused and rotted.

India has since discussed the creation of a permanent disaster management committee comprising politicians and experts, but the seismologists continue to emphasise that there is no method of predicting earthquakes. The best they can do is make educated guesses based on geological activity.

On the opposite north-east side of the country in Orissa State, flooding remains a perennial problem. The first survey of the Mahanadi River was completed in 1858 by Captain C.J. Harris after tragic floods wreaked havoc on Orissa that year.[5]

It took until the 1960s for a comprehensive series of recommendations to be produced that would offer full flood control through the construction of a series of dams on the tributary rivers joining the Mahanadi downstream of the recently completed Hirakud dam. The dam construction programme is yet to be completed and the area is flooded year after year.

Orissa suffered major flooding in 2001 adding to the agony of locals who were still recovering from the cyclone of 1999. This disaster touched millions of people throughout the world and the international aid effort was extensive. However, the Mahanadi also suffered major floods in 1964, 1967, 1969, 1973, 1976, 1978, 1980 and 1982.

The dam construction programme is a political hot potato as it displaces people from their homes and floods fertile land planted with valuable crops. Orissa needs to continue the debate or forever suffer its reputation as the flooded backwater of India.

Of course, the most recent disaster to strike the region is the tsunami of December 26 2004. This caused more than $2 billion of damage to India and claimed over 10,000 lives. In Tamil Nadu, 15,000 fishing boats were lost, destroying the livelihood of thousands. India refused all offers from help from foreign governments, though it did accept help from aid agencies. Significantly, President Bush of the US formed a coalition of nations to help coordinate the relief effort comprising the US, Australia, Japan, and India. This natural disaster has at least proven that India can stand on its own feet in a moment of international crisis and be a regional leader. India has announced its own National Disaster Management Authority and tsunami warning system since this tragedy.

Pakistan and Kashmir

The territory of Kashmir has been fought over even before India and Pakistan won independence from the British in 1947.[6] The partition plan allowed for Kashmir to accede to either India or Pakistan. The Maharaja, Hari Singh, preferred independence, but when forced to choose he decided Kashmir should be part of India.

War in Kashmir followed in 1947-8 and again in 1965. Many smaller conflicts have taken place in the region and the two nations have fought over the territory ever since. In recent years the conflict has escalated beyond the rhetoric of politicians to the car bombs and suicide attacks of religious militant fighters.

After the 9/11 terrorist attacks both India and Pakistan rushed to the side of the US. When the Bush administration attacked the Taliban regime in Afghanistan, both nations assisted. Pakistan offered geographic access and intimate knowledge of the Taliban while India granted military support.[7]

Pakistan had been isolated since the military coup of October 1999 that brought General Musharraf to power. This new spirit of international cooperation against terrorism not only legitimised the Pakistan government, it encouraged dialogue between India and Pakistan aiming at smoothing out their prickly relationship, which had taken a damaging blow the previous summer.

The Agra summit in July 2001 had been an attempt by India at starting a new dialogue of peace, the first negotiations for two years.[8] Prime Minister Atal Bihari Vajpayee invited General Musharraf to India to "walk the high road to peace and prosperity." Musharraf came to India, however the agenda prepared by India covered a diverse range of issues such as Pakistani student fellowships and fishing rights whereas General Musharraf had a single subject up for discussion - Kashmir.

The discussions appeared to go well and the draft Agra declaration covered extensive ground with both nations agreeing to work together further for peace and security in Kashmir. However, the declaration was never signed. General Musharraf was taped at an off the record breakfast meeting expressing strong, rather than conciliatory, opinions on the Kashmir issue. The tape inflamed the Indian politicians and general public who felt their visitors were not sincere.

The improved relationship was tested in October when militants attacked the Jammu and Kashmir Assembly complex in Srinagar. Three armed men, dressed in police uniforms, leapt from a vehicle and fired shots at the building. The car exploded with the driver still inside killing all those unlucky enough to have been walking past as the bomb was detonated. For the first time in the history of militant violence in Kashmir, Pakistan immediately condemned the attack in a public display of solidarity with India.

Shujaat Bukhari, Special Correspondent for The Hindu newspaper in Jammu and Kashmir has observed: "The genesis of militancy in Kashmir is its direct link with the political uncertainty that has been looming large since the partition of India."[9] Although the political uncertainty and violence has existed since the partition, the level of insurgency increased dramatically after the 1987 Assembly election. Bukhari calls this moment a "turning point in Kashmir's history."

Indian relations with Pakistan have continued to improve since the dramatic events of 2001. In May 2003, full diplomatic relations were restored. In July 2003 regular bus services recommenced between Lahore and Delhi, once more linking the two nations for the travelling public. At the inauguration of the new bus service, the Pakistani High Commissioner to India, Aziz Ahmed Khan, even declared that "rail and air links should also be restored."[10]

The new bus service proved to be a lifeline for one young child from Pakistan. Noor Fatima is just two, yet she suffers from a severe heart condition and required open-heart surgery by specialists in Bangalore. Doctors in Pakistan arranged the operation with their colleagues in India, yet without public transport between the two countries she could not have made the life-saving journey. [11] Another passenger, Mr Mehmood, lived in Indian Punjab before independence and then moved to Lahore. He said: "When we were children we used to think Indians were from a different planet, we knew nothing about their country. Of course as soon as I went there I realised they are no different from us."[12]

The relationship between India and Pakistan continues to improve and the newspapers love to feature these goodwill stories as they demonstrate genuine hope for the future. The renowned painter Krishen Khanna was born in Lahore and has campaigned for many years for peace and goodwill between India and Pakistan. He was honoured in 2003 with a lifetime achievement award from the Government of India for his efforts in promoting peace.[13]

On the day of the Gateway of India bombing in Mumbai in August 2003, Pakistan immediately condemned the attack which killed at least 50 people. Foreign Ministry Spokesman Masood Khan said: "We deplore these attacks. We condemn all acts of terrorism and I think that such wanton targeting of civilians should be condemned in the strongest possible terms." [14]

As the situation calms, the Kashmir militants become progressively marginalised as the vast majority of Indians and Pakistanis seek peace, but the change in militant objectives is notable. Pakistan made the offer of a truce along the Kashmir border in November 2003, a complete ceasefire. India accepted. The Kashmir militants were historically nationalists, fighting over land their each side believed was rightfully theirs. The argument has shifted through the 1990s toward a religious battle, the Islamic jihad (Holy war). The BBC in London commented[15] that the factors leading to this ideological change in the Kashmir militants are:

- The high-handedness of the Indian security forces
- Encouragement given to pro-Pakistan groups by Islamabad
- The availability of large numbers of Islamic fighters from Afghanistan

The intervention of the US and the global war on terror may be the catalyst for peace both countries have been waiting for, ending years of dramatic posturing and conflict.

C. Raja Mohan, Strategic Affairs editor of The Hindu newspaper in New Delhi said: "The year 2002 then marks a significant shift in the triangular relations New Delhi, Islamabad, and Washington. The external environment has never before been more favourable for a fundamental rethinking on Indo-Pak relations. While there are many pitfalls before a substantive peace process between the two nuclear rivals in the subcontinent could begin, the unprecedented American involvement in Indo-Pak relations has radically altered the geopolitical template of the subcontinent."

The Commonwealth Head of Government Summit, held in Abuja in December 2003, declared that Pakistan would remain suspended as a Commonwealth member until there is further democratic and judicial reform, so not everyone has forgotten the coup. The organisation readmitted Pakistan later in 2004.

Nuclear Arms

The last full-scale war between India and Pakistan was in 1971. Many commentators believe that the threat of a nuclear conflict has been the key restraint on India and Pakistan in the same manner as the US and Soviet Union during the Cold War.[16]

India first tested nuclear weapons in 1974 while Pakistan maintained a deliberate silence on its own test programme. By the end of the 1980s it was accepted by the international community that Pakistan had developed a nuclear arsenal, even though they still refused to confirm it.

There is no way to conclusively prove that the nuclear deterrent has prevented other conventional wars as the Indian Government will not admit that it is not prepared to wage a conventional war against Pakistan for fear of a nuclear strike. In turn, Islamabad has never agreed to sign a "no first use" agreement with Delhi as the nuclear threat remains the ace card for the smaller nation.

Indian diplomats believe that nations have taken their position in the world order more seriously since they conducted nuclear tests in the Rajasthan desert in May 1998. After the Indian tests, Pakistan detonated its own nuclear devices and officially joined the small group of nuclear capable nations. As might be expected, the tests led to fierce condemnation by the international community.

Sanjay Majumder, a BBC correspondent in Delhi, said: The jury is still out on whether India lost more than it gained by going nuclear. Increasingly, it is being felt that by becoming part of the nuclear club, India has forced the world to take it seriously and strengthened its diplomatic position, particularly over Kashmir."[17]

Al-Qaeda

The Islamic jihad terrorist groups around the world can be divided into three main groups:

- Al-Qaeda which is led by Osama bin Laden and is an exclusively Arab organisation.
- The International Islamic Front (IIF) which was formed by Osama bin Laden and is a coalition of international jihad groups.
- The remaining jihad groups that operate autonomously of the IIF, though many were inspired by Osama bin Laden.

Al-Qaeda and Osama bin Laden are considered to be a terrorist threat the world over and were elevated to new levels of notoriety following the 9/11 terrorist attacks in the United States, though this was not their first blood. Saudi Arabia was rocked by al-Qaeda explosions in 1996, US embassies in Kenya and Tanzania were bombed in 1998 and the American Navy ship USS Cole was attacked off Aden in 2000. More recently there has been a synagogue explosion in Tunisia and further attacks on Saudi Arabia.

B. Raman is Director of the Institute for Topical Studies Chennai and Convener the Observer Research Foundation Chennai Chapter with a former government career as Additional Secretary in the Cabinet Secretariat. He has undertaken extensive research into the activities of al-Qaeda in India and has published a number of papers and articles on the subject.

In a paper published by the South Asia Analysis Group[18] Raman said: "While Al Qaeda itself has not been active in India, four of the five Pakistani components of the IIF have been active in our territory and have been responsible for 80 per cent, if not more, of the terrorist incidents by jihad elements in India. The Harkat-ul-Mujahideen [one of the five Pakistani IIF members] is a founding-member of the IIF and had signed bin Laden's first fatwa of 1998 against the US and Israel. The other Pakistani organisations joined it subsequently."

Raman adds: "There was no suicide terrorism in Jammu and Kashmir before 1999. It has been imported into our territory since these organisations joined the IIF. Since 1999, there have been 46 suicide attacks in Indian territory, of which 44 are believed to have been carried out by these Pakistani organisations. Indigenous Kashmiri groups, not members of the IIF, were suspected only in the remaining two incidents."

On June 26 2003, General Musharraf spoke to the Washington Post to announce an end to the terrorism of at least two of the Pakistani groups within the IIF. Musharraf said: "The Lashkar-e-Toiba has been banned. The Jaish-e-Mohammad has been banned. There are hundreds of offices out there and I mean hundreds and hundreds of offices around the country, including Kashmir, have been sealed and closed. Their accounts have been frozen. Nobody before this could have touched them. They couldn't even have touched anyone of these organisations or their leaders."[19]

The chances of al-Qaeda themselves mounting an attack on India appear slim, though the IIF groups remain as a credible threat. The tripartite negotiations between the US, India and Pakistan are the best hope for a long term solution to the terrorist threat of Osama bin Laden in India.

In a series of articles on al-Qaeda in India, B. Raman observed: "As the economic and social development of the states affected by Maoist terrorism moves forward, these groups are bound to wither away. The Indian Muslim community, despite feeling hurt because of the large-scale anti-Muslim violence in Gujarat last year, has remained fiercely loyal, law-abiding and forward-looking. It has kept its distance from Al Qaeda and the IIF and repulsed the approaches of Pakistani jihad organisations aligned with Al Qaeda."[20]

Nationalism and Border Disputes

The famous Assam Rifles force was created in 1835 when the British needed guards to protect the tea gardens in Assam. They were a leading combat force in the Indian efforts through several wars and are today deployed by the army as specialists in counter-insurgency.[21] While the main border dispute is with Pakistan, others have rumbled on through the years, occasionally flaring into public consciousness before subsiding again.

The border between Assam and Meghalaya States and Bangladesh was the scene of several sudden and violent skirmishes in April 2001. The region is normally peaceful yet on April 15th, 3000 troops of the Bangladeshi army occupied the Pyrdiwah outpost, which had been occupied by the Indian Border Security Force (BSF). [22]

Bangladesh claimed the outpost was illegally controlled by India and had been ever since their 1971 liberation. This outpost was just one of 112 Indian enclaves on Bangladeshi territory, with the Bangladesh army watching over 32 of their own enclaves in India.

The dispute escalated into a diplomatic disaster with several members of the BSF killed by Bangladeshi troops - often in cold blood and after torturing the victims. It took the intervention of senior politicians up to Prime Minister Vajpayee himself to prevent the situation deteriorating further.

An eventual agreement on the status quo was reached. A working party was established to further the debate into the border dispute peacefully. Demarcation of the entire 4,000km border was also established, except for a 6.5km stretch where the terrain proved too harsh.

The State of Nagaland is just to the east of Assam on the north east corner of India. It is a small area with a chequered history. It took the British five and a half decades to gradually secure this area from the Naga tribes, up to 1878 when they finally took control after an eleven-day siege on Kohima.[23] When India won independence from the British, the Nagas themselves wanted independence from the union.

India would not grant independence to the Nagas and the violence was ongoing as the demands for independence fell on deaf ears in New Delhi. The violence was expected to subside once Nagaland was proclaimed as a full State of the Indian Union in 1963, however there was no let up and the argument continues today. Periodic ceasefires allow the politicians to work, but the threat of further insurgency remains.

The State of Sikkim has been the subject of a long running dispute with China. However, following a visit to China by Prime Minister Vajapyee in July 2003, the issue has been largely resolved. [24] China and India have agreed to set up meetings to finalise the political perspectives of recognising Sikkim as part of India and the friendly manner in which the two nations have reached agreement is encouraging.

Risk Mitigation

India is a large country and even though several security issues are listed in this chapter, most are very specific and geographically focused. It is worth remembering that the distance from Srinigar in Jammu and Kashmir to Chennai is approximately the same as the distance between New York and Denver, or London and Moscow.

When I asked AS Lakshminarayanan, Vice President and Country Manager UK and Ireland for Tata Consultancy Services to comment on the security risk of doing business in India he said: "Managers investing in India need to understand that nothing will flare up. Any disputes are always magnified by the media and are rarely as serious as the newspapers make them appear. Sound Business Continuity Planning is essential, but that is required for any company in any country."[25]

Ramesh Kumar, the Chief Executive of SG Software in Bangalore, turned the terrorism argument about face when I asked him about al-Qaeda in India. He said: "In fact it is in the interests of American and European managers to diversify risk away from their facilities in the US and Europe as these areas are more likely to be targets for Al Qaeda."[26] Kumar stressed that the dispute in Kashmir is "localised in a specific region and does not impact the whole nation" and he observed that almost all the religions in the world co-exist in India. He said: "India is a peace loving country. To put it in the right perspective, the recent war in Kosovo should not affect Indian investment decisions in France or Germany."

Ram Srinivasan, the former UK country manager for stock market research specialists Irevna adds: "Many Indian companies are addressing international concerns by setting up business continuity centres in Mauritius, Philippines, Singapore and Canada." Mr. Srinivasan has also noticed a thawing in relations with China: "India has actively worked to reduce differences with China, which is the primary supporter of Pakistan. The levels of mistrust are falling and both sides realise the potential benefits of economic cooperation."[27]

These senior managers acknowledge that risks are present in India, but localised violence in the northern extremities of the country rarely has any impact on business in cities thousands of kilometres away, such as Bangalore, Chennai or Mumbai. Risk is present everywhere, just ask any New Yorker.

Summary

There is some positive news in the study of terrorism in India. In November 2002, militant terrorists attempted to disrupt the inauguration of the new Assembly in Jammu and Kashmir after relatively peaceful elections.[28] The frustration of the militants in attempting to cause chaos after the event underlined the legitimacy of the election process to the international community.

Also in November 2002, the police in New Delhi uncovered and foiled a plan to attack a busy shopping centre on the eve of the Diwali festival. This type of success increases the morale of the security agencies as well as restoring public confidence in their ability to control terrorist acts of violence.

These events demonstrate that the Indian security forces are working hard to prevent terrorism. Where militant groups exist, the Indian authorities are prepared to ruthlessly hunt them down. There is still an immense level of distrust between the political class of Pakistan and India. Indian politicians have very little faith in the efforts of General Musharraf to ban terrorist organisations in Pakistan.

Ordinary people travelling the reinstated bus service between the two nations are more cordial about their neighbours. The senior managers commenting on risk in India do not even consider the violence to be an issue as the problems India does have are so localised.

Events are taking place frequently that push the process in the right direction and there is a momentum for peace in the region. The former Prime Minister Vajpayee attended a South Asian trade summit in Islamabad in January 2004 and Pakistan has removed the 2-year ban on air links with India, allowing Indian flights to now pass over and also land in Pakistan. Pakistan has even vowed to remove all troops from Kashmir if India vows to reciprocate.

The ongoing peace process will be an interesting journey. Out of the remnants of the World Trade Center in New York may emerge a lasting peace in South Asia, if the politicians can maintain the present momentum.

Chapter Checklist

- Pakistan and India are working together for peace. The negotiation process has been accelerated by the 9/11 terrorist attacks in the US and the US is assisting the peace process.
- Jammu and Kashmir remains the single most important dispute in India though in recent years the militant violence is more overtly linked to religion, rather than territory.

- Nuclear Arms are possessed by both India and Pakistan and many regional commentators believe that this threat has prevented conventional warfare.
- Al-Qaeda is an exclusively Arab organisation and does not have any major foothold in India.
- The IIF is also led by Osama bin Laden and several Pakistani militant groups are member organisations. Pakistan is attempting to ban these militant groups, but India is calling for US help to eradicate the terrorists.
- Natural Disasters plague certain areas of India with the most common being the regular flooding in Orissa State.
- Nationalism and Border Disputes exist in small pockets, however as the agreement with China over Sikkim has proven, India can negotiate mature agreements with its neighbours.

Chapter 7: The Outsourcing Drivers

Outsourcing is not a new phenomenon, though the screaming headlines of the national press make it feel like the latest in a long line of business fashions. However, it would be false logic to connect the dot com boom and bust to the growth of offshore outsourcing.

Tim Hindle, of *The Economist*, reflects this view: "Outsourcing has been increasing since the second world war, and especially rapidly in the 1990s. According to one estimate, in 1946 only 20 per cent of a typical American manufacturing company's value-added in production and operation came from outside sources; 50 years later, the proportion had tripled to 60 per cent."[1]

Rob Aalders repeats a similar observation in *The IT Outsourcing Guide*: "Outsourcing is a proven business process. Over the past 50 years, companies have outsourced advertising, legal services, fleet management, building maintenance and production. Outsourcing is not new."[2]

Elizabeth Sparrow, author of *Successful IT Outsourcing*, observes: "In the 1960s various computer bureaus were established, selling mainframe time to other organisations for data processing. This was effectively one of the earliest examples of IT outsourcing, used in this instance to gain the benefits of investment and specialist skills. As early as 1963, Perot's Electronic Data Systems (EDS) was handling data processing services for Frito-Lay and Blue Cross." [3]

However the reason offshore outsourcing has hit the headlines repeatedly is because a lot of ordinary people don't like it. The lyrics of this song[4] by English singer-songwriter Billy Bragg are reflective of popular sentiment:

> I lost my job, my car and my house
> When ten thousand miles away some guy clicked on a mouse
> He didn't know me, we never spoke,
> He didn't ask my opinion or canvass for my vote
> I guess it's true, nobody cares

In 2001, Naomi Klein published *No Logo*. She has since become the standard bearer for the anti-globalisation protest throughout the world. Her follow-up book *Fences & Windows*, sub-titled Dispatches from the front lines of the globalisation debate, adds more fuel to the fire. No Logo is an excellent document and the magnificent research undertaken by Klein has, no doubt, improved the lives of many Asian manufacturing employees.

However, a danger for the wider outsourcing community is that some of the mud thrown at western employers by campaigning journalists, such as Klein, will stick to caring and responsible organisations. In *No Logo* a typical comment on brand management and strategic sourcing reads: "When the actual manufacturing process is so devalued, it stands to reason that the people doing the work of production are likely to be treated like detritus - the stuff left behind."[5] Provocative indeed.

I know that this is not always true. In the UK, the National Outsourcing Association has engaged in dialogue with organisations such as Amnesty International, in order to ensure that the industry is not only a fair employer, but is seen to be a fair employer.

Susan George is Associate Director of the Transnational Institute in Amsterdam. In an essay titled 'Corporate Globalisation' she writes: "Transnational corporations measure their success by profit rates and 'shareholder value', meaning the market price of the company's stock. Some corporations even buy up their own stock to cause the market price to rise. Cost-cutting, especially through massive layoffs, is another way to increase shareholder value, and loyalty to employees or to the communities where they happen to be located is a thing of the past." [6] Remember what Nehru said to Tata? Never talk to me about profit, it is a dirty word.

Large social groups oppose any form of change, especially the changes associated with globalisation. In *the Power of Identity*, Manuel Castells has analysed several social groups that have fought back against the perceived new world order.

The Mexican Zapatistas fight for their dignity through opposition to the North American Free Trade Agreement. The dozens of American militia groups spread throughout the US campaign extensively on the Internet for the right to personal sovereignty, without the stranglehold of the US federal government. The Japanese Aum Shinrikyo group, famed for their 1995 sarin gas attack on the Tokyo subway, want to redefine people's lives and to avoid the apocalypse.[7]

These groups have rejected what they see as a modern Orwellian world, though they remain a component of the complex fabric that is twenty first century society. None of us can really check out from life and ignore the drivers of social change, not unless we can all become organic potato farmers on Hawaii.

Not everyone opposed to change is part of a protest group. Henry Kissinger made scathing comments about offshore outsourcing at a conference in Las Vegas. He said: "The question really amounts to whether America can remain a great power or a dominant power if it primarily becomes a service economy, and I doubt that." On the topic of jobs moving overseas he added that it called for: "some careful thought of national policy of how we can create incentives to prevent that from happening."[8]

Gary Hamel writes of a new age of revolution in his book *Leading the Revolution:* "We now stand on the threshold of a new age - the age of revolution. In our minds, we know the new age has already arrived; in our bellies, we're not sure we like it. For we know it is going to be an age of upheaval, of tumult, of fortunes made and unmade at head-snapping speed. For change has changed. No longer is it additive. No longer does it move in a straight line. In the twenty-first century, change is discontinuous, abrupt, seditious. In a single generation, the cost of decoding a human gene has dropped from millions of dollars to around a hundred bucks. The cost of storing a megabyte of data has dropped from hundreds of dollars to essentially nothing. Global capital flows have become a raging torrent, eroding national economic sovereignty."[9]

It is possible to observe some basic drivers that fuel our changing world and make outsourcing an attractive proposition for business leaders across the world. There are many specific reasons why organisations use outsourcing as a business tool and these are explored in more depth in chapter 13. The media pays less attention to the underlying drivers that are making outsourcing an attractive prospect.

These basic drivers of outsourcing are:

- Government policy and political stimulation
- Globalisation and the Knowledge Economy
- Technology
- Corporate Strategy

This really is Galbraith's affluent society and change being the only constant is somehow no longer a cliché.

Government Policy

As the speed of improved communications and the Internet decreases the size of the globe, it is becoming more common for people themselves to migrate throughout the world seeking work and many governments are encouraging the arrival of skilled labour.

Nicola Tiffen, a solicitor specialised in employment law at law firm Lewis Silkin, writes in Personnel Today: "The [UK] government has recently taken a number of measures in the hope of achieving 'managed migration' into the UK. These acknowledge the difficulties many UK employers face in finding suitably qualified staff, along with the huge number of illegal immigrants currently working in the UK." [10]

Manuel Castells believes that people with the right 'knowledge' skills are already above the laws of immigration policy: "There is, increasingly, a process of globalisation of speciality labour. That is, not only highly skilled labour, but labour which becomes in exceptionally high demand around the world and, therefore, will not follow the usual rules in terms of immigration law, wages, or working conditions. This is the case for high-level professional labour: top business managers, financial analysts, advanced services consultants, scientists and engineers, computer programmers, biotechnologists, and the like. But it is also the case for artists, designers, performers, sports stars, spiritual gurus, political consultants, and professional criminals."[11]

So it would appear that we are already in a situation where huge numbers of illegal immigrants move in search of a better life and those with the right qualifications of experience need not worry about the process as they will be welcomed. As

Castells says: "Anyone with the capacity to generate exceptional value added in any market enjoys the chance to shop around the globe."

As far back as 2000, the British government was talking about the importance of managing migration in a knowledge economy. Labour Member of Parliament Barbara Roche made a speech at the Institute of Public Policy Research conference in which she said: "Immigration policy must protect and promote our national interest, both economically and socially. It cannot be static and must respond to changes in the world around us. Our economy is part of a global system that is becoming ever more tightly integrated. Increasingly, the global economy is driven by knowledge, and our future within it is determined by the skills of our people."[12]

Several US states have attempted to introduce bills that would prevent the state from outsourcing any of their activities offshore. The view of the UK government is rather more supportive, though it is worth remembering that introducing populist bills is a far cry from actually establishing new legislation. When I asked the Department of Trade and Industry about offshore call centres I received a response from Herbee Thomas, the person in charge of coordinating call centre issues. He said: "It is a commercial decision for companies to decide where to locate their call centres. Attempts by Government to try and prevent outsourcing by putting barriers in the way of commercial decisions by companies on where they locate their operations are likely to be ineffective."[13]

In the UK, the opposition to outsourcing is led by the Communication Workers Union (CWU), Amicus and UNIFI, along with other professional bodies such as the Professional Contractors Group (PCG). The CWU-led Pink Elephant campaign is an attempt to highlight the stampede of jobs to India - the pink elephant has spent many of the summer months touring the UK.

The campaign organisers feel they are making headway as they have been invited to debate the issue with government ministers. Peter Morris, policy advisor to the CWU Deputy General Secretary, said: "I believe that we can stop outsourcing or at least lessen its impact. Already, we are seeing problems with attrition, training and motivation in India. Things are far from rosy."[14]

BT recently raised the stakes by claiming that its new call centre team in India is better than those employed in the UK. BT Retail chief executive Pierre Danon (now at Capgemini) was celebrating the success of the two BT call centres already opened in India when he said: "They are up to 40 per cent cheaper than the UK and the quality of service was sometimes better."[15]

Peter Morris wants companies to try focusing on the long term customer relationship rather than short term savings: "If the quality of service is comparable then we can't win the cost argument, so we have to get an edge. We don't see outsourcing as inevitable; we see it as flavour of the month."

Liz Cairns, a research officer at UNIFI believes that improving service quality is the key issue. Cairns said: "UNIFI recognise that UK workers cannot compete on costs and therefore, have identified 'upskilling' and moving workers up the value-chain to compete on knowledge. We are confident that training and retraining will increasingly be demanded by workers in the sector."[16]

At a meeting of the National Outsourcing Association, the Deputy High Commissioner for India, Satyabrata Pal, dismissed the CWU Pink Elephant campaign as anachronistic. He said: "The CWU campaigners have the wrong end of the stick. The pink elephant would have been better coloured white."[17]

Martyn Hart, the chairman of the National Outsourcing Association, delivered a lecture titled 'The demands and challenges of the IT economy' in 2001. In this lecture he painted a picture of a world in the near future. Birth rates in the developed world had dramatically declined, the population above 65 years of age had tripled and the demand for skilled workers had increased at an exponential rate.[18]

This was a developed world in which the working age population had declined so far that there would no longer be enough people to get the work done. Only the migration of people to these developed countries or the offshore outsourcing of excess work could resolve the situation.

Of course, as head of the NOA, Martyn Hart would be expected to present this type of argument. But the data he used was from the OECD - independent and easily available. Population projections are a reliable science. It is easy to count the number of births in the present year, then project forward 21 years (discounting some unfortunate deaths) and you know how many young people will be entering the future workforce.

Policies on the migration of labour will become a key manifesto issue for developed governments and will be closely linked to the official line on offshore outsourcing.

Globalisation and the Knowledge Economy

The globalisation of business and government is affecting every person on earth. When Robert Goizueta was the chief executive of Coca Cola, he said: "We used to be an American company with a large international business. Now we're a large international company with a sizeable American business."

Despite the ongoing protests, there is no way to ignore the fact that the world is becoming a smaller place and this trend is allowing the idea of offshore outsourcing to gradually become accepted as a 'normal' business tool.

The major benefits of globalisation for the consumer are:

- Business services and products are subjected to greater transparency when used across many nations.
- Choice of suppliers becomes more attractive when any global supplier can be chosen, rather than just local service providers.
- Competition is created by this choice, ensuring an improved service and better pricing.

Herman E. Daly is Professor of Economics at the University of Maryland. In an article for UK newspaper, The Guardian, he outlined some of the difficulties associated with global free trade and its logical progression - free migration. Daly writes: "The World Trade Organisation wants foreign capital to be able to go anywhere in the world and once there to have the same rights as domestic capital. But it doesn't call for people to have the right to go anywhere in the world and have the same rights as the indigenous people." He adds: "It is hard to imagine how a national community could maintain a minimum wage, welfare programme, subsidised medical care or state school system in the face of unlimited migration."[19]

However, as Ohmae has pointed out, there is already a global market for labour - provided the skills each person can offer are attractive. Computer programmers from India can be already be found in the offices of London, Tokyo and New York. Why? Because these skilled individuals offer the best service to the organisations in those cities, whether they are individuals that have relocated or representatives of an outsourcing vendor.

In *Competitive Strategy*, Professor Michael E. Porter describes the trend of reducing differences between countries and how this affects global competition. He said: "A number of observers have pointed out that the economic differences among developed and newly-developed countries may be narrowing in areas like income, factor costs, energy costs, marketing practices, and distribution channels. Part of this reduction may be due to the aggressiveness of multinational companies in spreading techniques around the world. Whatever the causes, it works toward reducing impediments to world competition." [20]

Countries and companies are becoming more alike. This makes it much harder to defend the argument that a local firm is needed to service the requirements of your organisation. The distance is becoming irrelevant. All that matters is whether they can do the job in hand.

In *Funky Business*, Kjell Nordström and Jonas Ridderstråle comment on this attitude: "It is the older generation that remains loyal to nationally produced goods. The British buy British. The French buy French and the Americans buy American out of long-held habit. It is an expression of patriotism. The young couldn't care less. Today, it's made by BMW, made by Nokia, made by Alessi, made by Sony. What matters is who - not where. It's made by - not made in."[21]

With what appears to be a healthy dose of common sense, Kenichi Ohmae adds: "Global brands of blue jeans, colas, and stylish athletic shoes are as much on the mind of the taxi driver in Shanghai as they are in the kitchen or the closet of the schoolteacher in Stockholm or São Paulo."

Brands, Beckham and beer; they encircle the world and make it easier for one country to interact and do business with another. Never before has knowledge and information been valued so highly, but just a single glance at the companies of today demonstrates that 'knowledge economy' is not the catch-phrase of dry academicians. It is a mantra for any business that wants to survive in a world that lives on Internet time.

Kjell Nordström and Jonas Ridderstråle made an interesting comment on the future: "Singapore - once described by author William Gibson as 'Disneyland with the death penalty' - spends 25 per cent of its GDP on education, research and development. We think those guys have a plan. But of course, Singapore could be wrong. What if we are not going through a revolution? What if knowledge isn't going to be a key asset in the future? Dream on."

Technology

The world would not be declining in perceived size if we could not use email, instant messaging, video conferencing and the telephone itself to keep in touch. The unrelenting progress of technological advancement is driving a new way of thinking. Who remembers when it was a big deal to leave the city for a weekend? Now divers are leaving Europe for a weekend diving in Thailand and remaining in touch thanks to the global roaming facility on their mobile phone.

Science writer James Gleick published his book *Faster* in 1999 about the acceleration of everything and how it would affect modern society. As he predicted, the book itself has dated since publication. A high-specification Hewlett Packard PC I owned in 1999 is now eclipsed by cheap machines with ten times the processing speed and my old dial-up Internet connection has been replaced by ADSL. What happens when ADSL Internet is no longer fast enough?

Gleick believes that our mind-set is changing as society adapts to a new acceptance of, followed by the requirement for speed. Earlier years show how previous technological advances were quickly assimilated into our lifestyle: "By 1915, in the fourth decade of commercial telephone service, the American transcontinental system had developed the capacity to handle 3 simultaneous voice calls. A generation later, AT&T developed a coaxial cable that could handle 480 calls at once. By the 1980s, individual Telstar satellites had enough capacity for nearly 100,000 telephone links, though they were more likely to use the bandwidth for television transmission. Now terabit transmission is coming online - one trillion bits per second, or enough for three centuries of a fat daily newspaper." [22]

He adds: "We can barely understand, omniscient as we are, that the 1941 attack on Pearl Harbour ended an eleven-day voyage by the unseen, unheard Japanese fleet through a data vacuum; or that two thousand people died in the 1815 Battle of New Orleans a fortnight after the relevant peace treaty had been signed in London. We expect information to shine everywhere, soonest. "

Without the current low price of global telecommunications, outsourcing could not have exploded in importance the way it has. What is so amazing to a detached observer is the exponential increase in capacity and speed. Any technology undergraduate can describe Moore's Law; the concept first described by Gordon Moore of Intel in 1965 where he predicted that the number of transistors on an integrated circuit would double every couple of years.[23] Moore was right, even though commentators have predicted for many years that computing speed and power cannot continue to grow at its present rate. The development of atomic computing will ensure Moore's legacy lives on.

In *Strategic Outsourcing* by Ian Benn and Jill Pearcy, technology is highlighted as playing a leading role in the present wave of outsourcing. They comment: "In the highly manual operations of the past, there were limited ways in which a service could be delivered. A third party would only operate a similar service in a similar way, but with a margin on top. However shifts in the technology landscape are now opening up a host of new ways to deliver services. In addition, the sheer pace of change means external vendors will often be in a position to revolutionise old technologies and practices, and capitalise not just on economies of scale, but on economies of skill - reapplying lessons learned elsewhere."[24]

This concept of the technology driving the business, rather than just being a tool of the business creates a virtuous circle. The business leaders can use technology in order to gain a competitive advantage over their rivals, while the technologists can continue to improve their systems knowing that the improvements will find a waiting market.

Frances Cairncross believes that the company of the future will have a radically altered supply chain, because of the available technology. She said: "The revolution in purchasing departments will not stop there. It will engulf and reshape the whole corporate supply chain. Indeed, this is the heart of the change that Internet technologies are driving through business.

The very concept of the supply chain is altering, as companies think of it as a 'demand chain' through which product is pulled by the customer's need rather than pushed by the production department's decision."[25]

Cairncross adds, that in her opinion: "The main driver behind outsourcing to India is clearly the cost difference - a lower wage buys the same or greater skills than in the rich countries."[26]

A 'demand' not supply chain. Not only is the service to the customer improved, but the company can save on inventory management and being able to read customer needs instantaneously.

This is a single specific example of technological improvement allowing a company to change the way it functions, but Kenichi Ohmae believes that there are some more broad and sweeping effects: "First at the macroeconomic level, they have made it possible for capital to be shifted instantaneously anywhere in the world. This means both that capital flows no longer need to be tied to the physical movement of goods and that, by extension, the traditional forms of trade represent only a minute and decreasing fraction of cross-border economic activity. Second, at the company level, they have changed what managers can know in real time about their markets, products and organisational processes. This means managers can be far more responsive to what their customers want and far more flexible in how they organise to make and provide it. Third, at the market level, these developments have changed what customers everywhere can know about the way other people live, about the products and services available to them, and about the relative value such offerings provide."[27]

It is worth thinking further about the three broad themes Ohmae has identified:

- Information can flow freely throughout the world instantaneously.
- It is possible to track information about people, products and services in real time.
- The customer can compare and contrast your service with other firms throughout the world.

Twenty or even ten years ago these were difficult issues for any senior executive to contend with. The technology was not good enough to allow a global market in information, yet today there is a considerable infrastructure available in the Internet and this is improved at an accelerating rate.

Ohmae's thematic vision is real and affects us all. In the last couple of years, I have used Instant Messaging and SMS text messaging to manage a globally disparate team. I have been interviewed for a job via video conference. I have tracked the trading commission my company is earning in real-time across an Intranet. When I renewed my car insurance, I did not just renew with the same company as last year, I used an Internet site that compare hundreds of policies to find me the best deal.

In their essay 'Powered by India', Mohanbir Sawhney and Deval Parikh, observe: "The Internet is the fifth network of the modern age; the first four networks were the telegraph, the railroad, the telephone, and the electric network. Each of these networks had an enormous impact on how people live, work and communicate, and the Internet is no exception. The creation of a ubiquitous network and digitisation of information is leading to unprecedented innovation and opportunity."[28]

There are hundreds of ways in which technology is now driving change in our personal lives as well as in corporate life. Outsourcing is being enabled by this surge in global connectivity and the opportunities are unlimited.

Corporate Strategy

Though outsourcing was observed in earlier decades, it really entered into the strategic arsenal of executives in the 1980s. Two men can share the credit for popularising the concept of outsourcing as a tool for gaining competitive advantage, though in different ways.

Professor Michael E. Porter of Harvard University published a series of books focused on competition in which he dissected the corporate value-chain. Porter urged managers to understand how their company works and where it really adds value to the service or product it produces.

Charles Handy, a writer and former professor at the London Business School, published his 'shamrock' theory in *The Age of Unreason.* [29] The shamrock is the Irish national emblem. It was used by St. Patrick to symbolise the holy Trinity. Charles Handy uses it to describe the three groups of people within an organisation.

- Core workers for essential and managerial tasks.
- Contract employees for non-essential work.
- Flexible workers, temporary, part-time and occasional labour.

Handy described how companies would employ an essential core team, around which they would hire contracted expertise for specific time-bound projects. In addition, there would be the flexible labour needed for maintenance, sorting the mail and cleaning the office.

It sounded like a radical idea, but look around your own company now. Isn't there a core team of essential people? Don't they hire contract teams or outsource non-core activities and are the cleaners and mail-room staff still employed by the company you work for?

In *The Death of Distance*, Frances Cairncross describes the same vision: "Companies will come to look more like Hollywood studios. Between the two world wars, Hollywood stars tended to be employed on contract by studios. That had advantages: it stabilised the stars' incomes and guaranteed them work, but it also meant that the stars effectively subsidised the less good or less popular performers. In time, the studio system broke up. Making a movie today involves assembling a temporary 'company': buying in the services of script-writers, costume-designers, technicians, producers, Leonardo di Caprio, and full supporting cast."[30]

Professor Michael E. Porter describes the value chain in *Competitive Advantage*: "These activities can be represented using a value chain. A firm's value chain and the way it performs individual activities are a reflection of its history, its strategy, its approach to implementing its strategy, and the underlying economics of the activities themselves."[31]

Porter advises that value added activities should be identified by management. He said: "Identifying value activities requires the isolation of activities that are technologically and strategically distinct. Value activities and accounting classifications are rarely the same. Accounting classifications (e.g. burden, overhead, direct labour) group together activities with disparate technologies, and separate costs that are all part of the same activity."

Focusing on the core competencies of your organisation and outsourcing other processes as advocated by Porter and Handy is described in the *Financial Times Handbook of Management* by James Brian Quinn, Philip Anderson and Sydney Finkelstein. Their essay argues: "Many entrepreneurial ventures such as Apple Computers, Sony, Silicon Graphics, Nike or Norvellus have started in a heavily concentrated and heavily outsourced fashion, leveraging their fiscal capital by factors of three or more - and their intellectual capital by 10s or 100s - as compared with integrated companies.

In today's hypercompetitive climate such core competency with outsourcing strategies let companies be simultaneously the lowest cost, broadest line, most flexible and most highly differentiated producer in their market. No other strategy supports efficiency (through focus), innovative flexibility (through multiple sourcing) and stability (through market diversity) to the same extent."[32]

On the subject of locating core competencies, The Financial Times reported Jason Bremner, senior analyst of outsourcing services at IDC Canada, suggesting that outsourcing should have a broad appeal. He said: "While every organisation has unique needs, there is undeniable evidence that outsourcing allows executives to focus on the core business while resolving skills shortages or resource problems, reducing costs, and fundamentally transforming how an organisation thinks, acts and operates."[33]

Mary C. Lacity and Leslie P. Willcocks have documented the leading global strategy trends in outsourcing in their book *Global Information Technology Outsourcing*. Lacity and Willcocks comment: "From 1996 we have seen a number or practices - new and not so new - gaining ground. These trends would seem to be a product of a number of factors. In some respects some are reactions against previous practices in other organisations that seem to have had a high disappointment rate. In some cases they are the result of a long learning period."[34]

The eight major trends in technology outsourcing noted by Lacity and Willcocks during the period 1996 to 2001 are:

1. Value-Added Outsourcing. This is where two partners with complementary strengths combine to achieve what is impossible alone. An example is Kodak and IBM forming Technology Service Solutions to provide PC maintenance to the manufacturing industry.
2. Equity Holdings. Joint equity deals have taken the form of client and supplier buying each others stock, or both parties taking a stake in a new organisation. The deal is designed to ensure that both parties have an equal interest in success.
3. Offshore Outsourcing. As this book outlines, the concept of working with a partner in an offshore location, such as India. It should be possible to leverage price, quality and other factors to achieve a better end product for the client.
4. Multi-Sourcing. This is where one client uses a single contract for several suppliers, rather than outsourcing to a single organisation. The idea is to reflect the same service as a single supplier, but with built-in competition so the client is insured against escalating fees and inflexibility.
5. Co-Sourcing. This was created by EDS. It involves an enhancement of the entire system, rather than just taking a process away from the client. An example is the management of parking tickets in London. Numerous local authorities managed parking tickets and fine collection across London, with no central control. EDS took over the entire process of sending out tickets and collecting fines for all the local authorities.
6. Spin-offs. This is the creation of an entirely new organisation, focused on a particular service or product. The organisation may be born of its parent, but as separate entities they can create a genuine client/supplier relationship.
7. Smarter Contracting. This is a collection of practices used by clients to make their outsourcing supplier work harder. It includes supplying customer-written contracts with the RFP, flexible pricing, provision for future competitive bidding and long-term partnerships being created on short-term contracts.
8. Business Process Outsourcing. The outsourcing of an entire process or service. Common outsourced processes are payroll, tax management, insurance claims, human resources and contact centres.

In their book, *Inside Outsourcing*, Charles L. Gay and James Essinger comment on strategy: "A large factory that decides to deal with the problem of low staff morale and frequent pilfering in its factory canteen by outsourcing the whole canteen to a specialised caterer is certainly using outsourcing, but not in any particularly strategic sense. There is not much difference between this kind of outsourcing of an element of ancillary service and merely delegating that service to an external party." Gay and Essinger add: "Strategic sourcing means that an organisation works with one or more suppliers in order to effect a significant improvement in business performance."[35]

The strategy of focusing on core competences as detailed by commentators such as Charles Handy and Professor Porter naturally fits the outsourcing model. Look into your value chain and focus on what you are good at. Let the experts worry about the remaining tasks.

Summary

There are many individual objectives that drive companies to outsourcing, but the environment we live in now is not only encouraging for outsourcing vendors, it is a world of opportunity.

Throughout the developed world, governments are generally supportive of business and their need for skilled resources and freedom to trade. The ongoing march of globalisation ensures that it becomes easier for one nation to trade with another. Technological advancement is facilitating this trading and sharing of resources while modern corporate strategy encourages managers to divest the parts of their organisation that do not increase competitive advantage.

Outsourcing has its detractors. The labour unions continue to mount brave battles for a return to a time before instantaneous knowledge became a valuable commodity. However, the genie is already out of the bottle as Kenichi Ohmae comments: "Centuries ago, the first Western travellers to reach Asia returned with goods and spices and artworks that forever changed the universe of possibilities out of which tastes and preferences at home would later crystallise. On this road of discovery, there is no going back."

Chapter Checklist

- *No Logo* and other books in the anti-globalisation canon are hostile to many organisations that use outsourcing; however the work of authors such as Naomi Klein is still worth reading. It is important to understand both sides of any debate and to ensure that your own organisation uses outsourcing as a business tool that respects and rewards the people in the vendor organisation.
- Governments across the developed world are playing a key role in managing the migration of people and controlling union demands.

- Globalisation in general is driving competition and allowing companies to seek partners anywhere, rather than in the same city or country.
- Technology is the key to the outsourcing revolution. Without the Internet and instantaneous global telecommunication systems, it would be impossible to work with teams of people in offshore locations.
- Corporate Strategy has looked hard at managing core competencies for many years, but the technology has finally caught up with the academic theory. Now it is possible to read the 1980s texts of Porter and Handy and to apply the theory immediately.

Chapter 8: The Major Industry Players in India

Trying to list or describe the major players in the Indian outsourcing market is rather like trying to nail water to a wall - impossible. The market is vibrant and constantly evolving. New players enter the market and grow to be major influences across various sectors or start to dominate a niche. New services are created and are first greeted by possible clients with bemusement, mild interest then a flood of enquiries.

During my research for this book I questioned a number of senior managers from the large majors and smaller fast-growing firms. I had a personal belief that the hyper-growth of the smaller firms may cause some overstretching on occasion and force projects to fail where a larger, more experienced firm may have succeeded. This opinion was negated by several key figures from the major firms, the very people I expected to support that view.

The market is growing fast, but the smaller firms are catching up and finding niche areas of specialisation. The effect is a market like any other. You can pay more for an established brand product and enjoy the security and reassurance of your partner's name or you can pay less and often get the same level of service. With smaller firms it may be possible to share the risk of the project through joint investment, the kind of flexibility that may not be possible with larger firms.

The rules of negotiation are the same as with any other major procurement plan. Never forget that it may be just as much in the strategic interest of the outsourcing firm to take on your business as it is for you to employ them.

This chapter introduces the three main Indian technology outsourcing firms with comments on the foreign competition and the rise of other companies in the Business Process Outsourcing sector. Other sectors are appearing, but technology has been the historic centre of gravity for outsourcing to India with BPO becoming the new rising star.

In the original first edition of this book I included revenue figures and staff headcount in this section and immediately regretted it because the information was out of date by the time the book was in print. I believe that Progeon had just about doubled the number of people employed between the time I researched the figures and typed it up in my office and the book hitting the bookstore shelves. It was a mistake to comment on the industry being so fast-growing and to then include very specific company size details, so I have omitted the information from this edition of the book. Some of the quoted media articles do refer to company size or staff headcount, however you should assume in all cases that the company has grown since the media comment was published. I have given the URL of each company, so it is very easy for any reader to go and check the corporate web site for the latest information.

This chapter is not ordered by revenue size or staff headcount. It is a reaction to my experience of being a foreigner entering India and learning about this industry from the ground up. You can easily find a list of the Indian technology and BPO sector companies ordered by revenue on the NASSCOM web site, however this is a more personal list of companies that I feel it is essential to be aware of. Others are important too and some managers have complained to me, saying that their company is bigger than some of those I have listed, however I make no apologies for the way the list is constructed.

Infosys, Wipro and TCS may be the Indian giants this year and they are working hard to remain at the top of the tree, but the market is evolving so fast that new service providers are emerging each and every week. This is a fascinating industry to observe.

Infosys

Corporate History

In a speech to the Indian government, Department of Administrative Reforms and Public Grievances, Narayana Murthy recalled the birth of Infosys: "Let me first trace the history of Infosys. My mind goes back to 1981, when we put together Rs. 10,000 (less than US $ 250 at today's exchange rate). We started out in my small 700 sq. ft. apartment in Pune. We were long on hope, commitment and hard work; we were short of money. We thought we had a little bit of smartness. I was sure at that point of time when we founded Infosys, to quote Leo Burnett, that when you reach for the stars, you may not quite get one, but you won't come up with a handful of mud either. I can only say that God has been very kind to us. As somebody said, when God is shy to announce his presence, he comes in the form of chance. This is the only way I can rationalise, if our performance is seen as better than that of others."[1]

The small start-up became the fabled star of Indian technology firms. Now, world leaders queue up to visit the Infosys headquarters in Bangalore. When I made my own pilgrimage to the verdant lawns of the Infosys centre in Bangalore, I was quickly escorted away by strong security guards. How was I to know that several Chinese government ministers were inside, taking a look at the Infosys way of developing software?

Infosys expanded to the US by 1987. They went public on the Indian stock market in 1993 and by 1995 were setting up software development facilities across India.[2]

In 1996, the first UK office was opened in Milton Keynes and the company started focusing on strategic offerings by creating spin-off initiatives. The first was the Infosys Internet Consulting Practice. In 1997, Infosys were rated at CMM level 4 and opened an office in Toronto.

1999 was an important year as the company crossed the $100m revenue mark and achieved CMM level 5. The company was judged to be India's most admired company by a survey in the Economic Times. Infosys listed on the NASDAQ market, the first Indian company to do so. This move not only opened up new sources of equity capital, it increased brand awareness throughout the US and Europe. Here was a successful Indian company, on the NASDAQ with the other big information technology players.

Offices and development centres continued to open as Infosys expanded throughout the world. Facilities soon opened in Japan, Germany, Sweden, Belgium, Australia, Hong Kong, France, Canada, UAE, Argentina and there was further expansion to additional offices in the UK and US.

By 2001, revenue had reached $400m and Business Today awarded the company the title of 'Best employer in India' - an award that was retained in 2002. The growth has continued, with revenues soaring past the half-billion dollar mark in 2002 and eventually beyond one billion dollars per year.

Leader Profile: Narayana NR Murthy

Mr. Murthy has served as Chairman of the Board and Chief Executive Officer of Infosys since 1981, when he founded the company with six software professionals. He also served as Managing Director of Infosys until February 1999. While at Infosys, from 1992 to 1994, he served as the President of NASSCOM. He has also been a member of the National Information Technology Task Force of India and a member of the Prime Minister's Council on Trade and Industry. He is a Director of the Board of the Reserve Bank of India (RBI). He has received several honours and awards, including Businessman of the Year 1999 by Business India and has been featured in Asiaweek's Power 50, a list of Asia's most powerful people. He is a Fellow of the All India Management Association (AIMA) and the Computer Society of India (CSI). He received a Bachelors Degree in Electrical Engineering from the University of Mysore and a Masters Degree in Technology from IIT Kanpur.

Mr. Murthy's present position is Chairman of the Board and Chief Mentor. Mr. Nandan M. Nilekani is the Managing Director, President and CEO. Both are considered to be two of the leading experts in this field and their vision is highly respected.

Major Clients or Projects

Infosys has worked for an impressive array of world-class organisations from many different industries. Engineering companies include Airbus, Boeing and Siemens Energy and Automation. Well known financial services organisations include Swiss Re, Sun America, ABN AMRO Bank, Franklin Templeton Investments, UFJ Bank and Deutsche Asset Management.

Technology companies are natural partners, but Infosys has worked on behalf of some of the biggest players, including Microsoft, Cisco Systems, Nortel Networks, Lucent Technologies and Tibco. Infosys has also worked for many companies in the Manufacturing and Retail sectors, including Apple Computer, McCain foods, Monsanto, Reebok, Toshiba, Lear Corporation, Gap, Dell, J. Sainsbury, J.C. Penney, Adidas and The Business Depot.

Comment

- Started life in 1981.
- Offices in 16 nations worldwide.

An incredible fact is the amount of travelling and time spent abroad by the employees of Infosys and the other major outsourcing vendors. The Financial Times commented: "Today, nearly a quarter of TCS' 24,000 software professional are abroad for periods of between two weeks and two years. About half of Wipro's 13,000 IT engineers are overseas on short-term assignments, while some 4,000 out of Infosys' 14,000 engineers are on overseas assignments at any one time."[3]

www.infosys.com

Wipro

Corporate History

In 1947, an important year for India, 32-year-old M.H. Premji, owner of the fledgling Western India Vegetable Products Ltd., laid the foundations of a vegetable oil mill at Amalner in Maharashtra. The company went on to manufacture vegetable ghee and laundry soap.[4]

M.H. Premji died in 1966. His son, Azim Hasham Premji, was then a student of engineering at Stanford University. He was called on to immediately return home to run the company. Though he missed out on graduation from Stanford, he later managed to complete his degree by correspondence.

Azim Premji was more ambitious than his father and soon set about expanding the company. Within five years, its turnover shot up from Rs 40.82 million in 1965-66 to Rs 104.09 million in 1970-71. The first diversification came about in 1975, in fluid power, at the suggestion of an Indian Institute of Management (Ahmedabad) graduate, M. Seethapathy Rao. Rao, who still heads Wipro Fluid Power, chose Bangalore as the ideal base for Wipro's new venture.

The consumer care business was expanded in 1979, after the arrival of P.S. Pai, now vice-chairman of Wipro Ltd. The business diversified into soaps, toiletries and baby care products, and distribution was considerably expanded. The financial strength of the consumer care division powered further diversifications, particularly into InfoTech and healthcare.

InfoTech took off in the late seventies and Wipro climbed aboard the wave of information technology opportunity. Wipro set up its IT business in Bangalore in 1980 under Ashok Narasimhan, who had under him a dynamic team of professional R&D and marketing managers.

The growing reputation of Wipro ensured that GE Medical Systems chose the company for its healthcare joint venture in India. In the start-up team headed by D.A. Prasanna, now managing director & CEO of Wipro GE, was Vivek Paul, who is today vice-chairman responsible for Wipro Technologies.

Leader Profile: Azim Premji

An alumnus of Stanford University, USA, Azim H. Premji joined Wipro in 1966 at the age of 21. Under his leadership, a $1.5 million company in hydrogenated cooking fats has grown to a $900 million diversified, integrated corporation in services, technology products and consumer products with leadership positions in the businesses it is in.

A role model for young entrepreneurs across the world, Azim Premji has integrated Indian entrepreneurial tradition with professional management, based on sound values and uncompromising integrity.

Wipro believes that Azim Premji's strength lies in bringing together and building charged teams of high potential, high performing people. His vision and pragmatism have helped Wipro Corporation become the 2nd most competitive and successful company in India as rated by Business Today, a leading business magazine in India. Wipro in terms of market capitalisation is among the top 10 corporations in India.

Mr. Premji very strongly believes that the most important contributors to Wipro's success have been the articulations and faithful adherence to core values, a shared vision for the future, identification and development of Wipro leaders through clearly defined Wipro leaders' qualities.

A hands-on business leader with standards of excellence in everything that the corporation does, Mr. Premji is almost fanatical about delivering value to customers and his willingness to sacrifice business and profits to hold on to "Our Promise".

Mr. Premji was the prime mover behind Wipro's decision to achieve "Six Sigma" status. In his address to the top management of Wipro Corporation on May 2, 1997, he said, "The end objective of our 'customer-in' concept is that we want to build the voice of the customer in our products and services. This is opposite to the concept of 'product-out', which is the way the world has been operating for some time." In this journey of achieving the near defect-free products and services, Mr. Premji is very clear that as a world class organisation, what Wipro needs to be concerned about is the process, not merely the results.

Major Clients or Projects

BusinessWeek magazine has ranked Wipro as the 7th best software services company in the world in their Infotech 100 list, published in November 2002.
The company has over 300 major clients at present including HP, Lehman Brothers, Boeing, Nationwide, Ericsson, Toshiba, Cisco, Seagate, Putnam Investments, United Technologies, Best Buy, Digital, Friends Provident, IBM, Microsoft, NCR, Thames Water, Transco and Sony.

Comment

- Started life in 1947.
- 30 offices worldwide.
- Over 20 years of IT Consulting, Systems Integration and Engineering Services experience.
- Quality leadership: Most mature Six Sigma program in the industry. World's first PCMM, CMMi and CMM level 5 company.

Wipro is large, but it continues to grow at an impressive rate. On July 18 2003, Wipro reported a 43 per cent rise in net profits for the first quarter of 2003-2004, the period ending on June 30 according to IndiaInfo.com.[5]

Commenting on the threat from overseas of other lower-wage countries such as Vietnam, China and the Phillipines, Vivek Paul, Vice-chairman commented "I do not think it is an immediate threat. Everybody is going to emulate the Indian model one way or the other."[6]

On the same subject, Azim Premji said: "That is going to happen. Work will get done wherever it is most cost-effective and quality is assured. We see China as our single most important competitor. China is behind because it is still not English-speaking, a disadvantage in the global scene. They don't have project management capabilities yet; they still have to learn, like we learned, the hard way. They don't have the same sophistication in technology; they don't have the same sophistication in quality processing. I reckon they are four years behind India; now, because of SARS, they'll be five years behind India."[7]

www.wipro.com

Tata Consultancy Services (TCS)

Corporate History

TCS is a division of Tata Sons, the holding company of the $10.4 billion Tata Group, India's best-known business conglomerate. Established in 1968, its founding was based on the understanding that the management problems in Indian industry could be resolved through the effective use of information technology. Under the leadership of F C Kohli, TCS spearheaded the pioneering efforts in creating a globally recognisable brand for the Indian software industry.[8]

For several years now, TCS has been India's largest IT enterprise, as well as Asia's largest independent software and services organisation. It is the single largest software services exporter from India, and now services clients in over 55 countries around the world.

Leader Profile: S. Ramadorai

As chief executive officer of Asia's largest software services company since 1996, Ramadorai has guided this IT legend to cross the magic US$ 1 billion mark in revenues, making it the first Indian IT services company to achieve this landmark.

S. Ramadorai has played an integral role in building Tata Consultancy Services (TCS) in attaining its current global reputation. His vision for the future includes establishing TCS as one of the world's top ten software companies.

Ramadorai's relationship with TCS started much before 1996. He started out as a junior engineer and was later entrusted with the task of setting up and developing the important TCS base in the United States in 1979 in New York City. The TCS-US network now boasts of 40 offices in strategic locations.

Ramadorai's vision is evident from the active role he played in establishing offshore development centres (ODCs) in India to provide high-end quality solutions to major corporations. With a view to keep pace with changing technologies at all times, Ramadorai set up technology excellence centres in India that have acquired knowledge, expertise and equipment in specialised technology areas.

Ramadorai's key initiatives include his relentless pursuit of excellence in quality, taking fifteen of TCS's development centres in India to SEI's CMM Level 5, the highest and most prestigious performance assessment issued by the Software Engineering Institute (SEI). TCS also attained the impressive distinction of being the world's first company to have four centres assessed as operating at Level 4 of PCMM (People-CMM).

Ramadorai is one of the few Tata professionals to have been appointed to the boards of non-Tata companies, including Hindustan Lever Limited and Nicholas Piramal.

Deeply committed to promoting education, he maintains strong ties with academia. He is a member of the corporate advisory board, Marshall School of Business (USC), and is also on the advisory and governing boards of several reputed Indian academic institutions. Among his other distinctions, Ramadorai is a fellow of the Indian National Academy of Engineering and senior member of the Institute of Electrical and Electronics Engineers (IEEE).

Ramadorai's commitment and contribution to the IT industry has received appreciation from various quarters. In 2003 he received a 'Lifetime Achievement Award' from the Indore Management Association, a 'Distinguished Achievement Award' from the Indian Institute of Science, Bangalore, and a fellowship from the Institute of Management Consultants of India. He has also been honoured with

CNBC Asia Pacific's prestigious 'Asia Business Leader of the Year' award', as well as the 'Management Man of the Year' award by the Bombay Management Association. He was named in June 2002 by Consulting magazine (USA) as being among the top 25 most influential consultants in the world, the only Indian CEO on the list. Ramadorai has also been honoured with the position of 'IT Advisor to Qingdao City', in China. As vice chairman of the National Association of Software Companies (NASSCOM), Ramadorai extends his support to the Indian IT Industry.

Ramadorai' s academic credentials include a bachelors degree in physics from Delhi University, an engineering degree in electronics and telecommunications from the Indian Institute of Science, Bangalore, and a masters in computer science from the University of California, UCLA, USA. In 1993, he also attended the Sloan School of Management's highly-rated senior executive development program.

Major Clients or Projects

TCS has an impressive list of over 800 clients served to date and claim that a full 75 per cent of their business comes from the existing client base.

The companies are from many industries and include such well known names as Nortel Networks, Prudential Insurance, Microsoft, Mcgraw-Hill, Merrill Lynch, Royal Bank of Scotland, Johnson & Johnson, Kellogg's, American Express, Deutsche Bank, Eli Lilly, Northwest Airlines, Singapore Airlines, P&O Nedlloyd, BT, GE, Harrods and the UK National Grid.

Comment

- Started life in 1968.
- More than 100 offices worldwide, with over 40 in the US.

During celebrations marking the new status of TCS as the first Indian software and services company to earn $1bn in annual revenues, S Ramadorai said that the company had started out three decades ago as a 'BPO outfit'. Khozem Merchant, Financial Times Mumbai correspondent said: "Every business, it seems, wants to talk up its association with business process outsourcing, which from a client end indicates an attack on costs and from a vendor perspective reveals a link with the most remarkable aspect of India's information technology services industry over the past two years."

www.tcs.com

NIIT Technologies

Corporate History

NIIT was founded in Delhi, India in 1981 by Rajendra S Pawar (Chairman since October 1999) and Vijay Thadani (Director) with the mission of 'Bringing People and Computers Together'.

NIIT pioneered computer training in India and the genesis of NIIT Technologies can be traced to the year 1984 where NIIT extended its business into the IT software and services market. Having established itself as the leader in the IT training industry in the country, NIIT created a new business division within the company to capture a share of the global and Indian software markets. By 1991 NIIT established an international presence and by 1993 began trading NIIT stock on the Bombay and National Stock Exchange. NIIT's commitment to quality has seen the company assessed to ISO 9001 Certification in 1994 and the 12th company in the world to be assessed at SEI-CMM Level 5 for software development. In 2001 NIIT became the first company worldwide to be assessed at SEI-CMM level 5 for content management and was assessed at SEI-CMMi Level 5 for software development in 2003. By 2002 NIIT SmartServe was established to provide Business Process Outsourcing. In the BPO space, NIIT offers Services in Insurance Back Office, Policy Management, Compliance Services and Technical Support Services.

As a result of the rapid growth of NIIT's IT Solutions and BPO business, NIIT Technologies was created in June 2004 and so today NIIT consists of 2 main business areas – NIIT Technologies and NIIT Limited.

NIIT Technologies provides innovative IT solutions and Business Process Management Services to key verticals and ranks among India's premier software exporters with a broad portfolio of offerings and a significant stake in verticals such as financial services, retail, transportation, and manufacturing. NIIT Limited provides Learning Solutions, and operates a franchise of over 2,500 IT training outlets spanning Asia Pacific. The Software Solutions and Learning Solutions offers NIIT a unique strength whereby experience gained in one area can be fed to the other.

NIIT Technologies is a leading IT solutions organisation, with a footprint that spans 44 countries across the world servicing customers in the USA, Europe, Japan, Asia Pacific and India. Its services include Custom Software Development and Maintenance in Legacy, Client-server, Web and Wireless Technologies, Data Warehousing Solutions, Testing Services, Legacy Applications Re-engineering, Package Application Services in SAP, Managed Services and Business Process Management.

Leader Profile: Rajendra S. Pawar

Mr. Rajendra S. Pawar Founder, Chairman and MD of NIIT Technologies is an Indian IT industry leader and visionary, he ranks among India's celebrated entrepreneurs. Mr. Pawar helped create and nurture NIIT, Asia's Number One IT education company and NIIT Technologies, India's leading IT solutions provider. Recognising his pioneering and entrepreneurial work, Ernst & Young conferred on Mr. Pawar its prestigious Master Entrepreneur of the Year Award in 1999. His valuable contributions to the IT industry in India also earned him the IT man of the Year award instituted by IT industry journal, Dataquest. A respected opinion leader and thinker, Mr. Pawar has spearheaded several IT industry initiatives. As Chairman of IT association, MAIT, during its formative years, when the process of economic liberalisation had just begun, Mr. Pawar used the platform to give voice to the industry's aspirations and strengthen the organisation. Mr. Pawar is a member of the International Business Council of the World Economic Forum and also member of the IT Governors body.

Mr. Rajendra Pawar has worked intensely on the concept of Quality Management. His commitment to quality is highly influenced by the renowned proponent of quality management - Philip B. Crosby. Mr. Pawar works closely with him on the India Quality Foundation, a non-profit making organisation. Mr. Pawar also holds the office of Chairman, Institute of Quality Limited and is President of the India Quality Foundation.

Mr. Arvind Thakur, is CEO of NIIT Technologies.

Major Clients or Projects

The NIIT commitment to quality and adherence to global standards has further strengthened its credentials among discerning customers. Its major global customers include world leading airline companies, Channel 4, ING Group, Ministry of Defence - Singapore, Office Depot, SEI Investments, Singapore Airlines, Toshiba and Toyota Motors.

Comment

Spending over 20 per cent of its annual revenues on research and development, NIIT carried out the world famous "Hole in the Wall" Experiment. This kiosk based project, pioneered a method to deliver IT education to millions of young under-privileged children. This project, featured by the BBC, was given a $1 million donation by the chairman of the World Bank.

NIIT Technologies' achievements in IT software have earned it numerous awards and recognitions over the past few years:

- 2003: Assessed at CMMi 5 - among the handful of Indian IT companies to bag the highest quality certification.
- 2003: ISO 9001:2000 certification for ESRI India, NIIT Technologies' GIS arm.
- 2003: Ranked among the Top 10 Indian Software Exporters in NASSCOM's Software Industry Survey, July 2003.
- 2003: Ranked among Top 25 'Great Places to Work' by GrowTalent, and Business World using 'Great Place to Work Institute, Inc., US' methodology topping the list of IT companies to be ranked in this list.
- 2002: Conferred the "Excellence in Exports Award 2001-02" by the Manufacturers' Association for Information Technology (MAIT).
- 2002: Osprey, the SAP Division of NIIT Technologies recognised as the Vertical Solution Reseller of the Year by SAP in 2002.
- 2002: Ranked among Top 25 'Great Places to Work' by GrowTalent, and Business World using 'Great Place to Work Institute, Inc., US' methodology topping the list of IT companies to be ranked in this list.
- 2002: Conferred the "Microsoft CTEC Solution of the Year" award 2002.
- 2001: Won the "Outsourcing Contract of the Year" award by Financial Times publication, The Banker, UK, December 2001.
- 2001: "The Innovative HR practices Award (2000-01)" from the World HRD Congress

The Foreign Invaders

There will always be some local competition to Indian outsourcing firms. European, American and Japanese firms will attempt to take on the business processes and offer savings to their clients in the same way firms such as Wipro and Infosys can.

Accenture is a good example of this trend. They are seeing revenue from outsourcing grow considerably as consulting revenue declines. The Financial Times reports: "Accenture, one of the biggest IT consulting and services companies, said revenues from outsourcing jumped by 33 per cent to $828 million in the latest quarter. Meanwhile, Accenture's traditional consulting business suffered a 15 per cent decline in revenues, to $2 billion."[9]

The problem is that it is difficult for those firms to achieve cost savings without also being in India, so many firms have started to ramp up their own Indian facilities.

The major "big five" international players are EDS, IBM, CSC, Unisys and Accenture. They all have facilities in India and all plan to increase their investment in India over the coming years. IBM purchased the major Indian BPO firm Daksh in 2004, creating a very large offshore BPO capability and potentially setting the trend for the future. Watch these other companies to see what they do next. In 2003, Dow Jones International News reported: "EDS, which employs about 900 people in India at present, has said it will expand its work force in the country to 5000 by 2004; IBM, with about 4,700, plans to expand to 10,000 this year. Accenture wants to boost its staff numbers above the current 1,000, although it hasn't given a target."[10]

Whether to choose one of these vendors or an Indian firm is a decision for the vendor selection process, however it is important to be aware that even though companies such as EDS and Accenture may appear to be closer to home, the reality is that they are working extensively with India too.

The British service-provider Xansa positions itself as a leading international services company with its main body of resource very much in India. Alistair Cox, Chief Executive, Xansa, said: "I see our Indian operations as central to the success and growth of Xansa worldwide. Our increasing use of our technology centres in India, as part of our international and integrated delivery capability, is not for reasons of cost alone but also the impressive levels of quality and productivity. I see India as being imperative to competing in every one of our marketplaces and we will continue to invest in our Indian business accordingly."[11]

Xansa is fast gaining a reputation as one of the leading transnational service companies. Ostensibly British, their staff count and facilities in India have been continuously ramped up over the past few years creating a truly global operation where they can offer both onshore and offshore delivery.

There are many commentators arguing that the next step for Indian business, after the success of outsourcing, is to build the multinational company (MNC) sector. Narayana Murthy commented on this back in 1998, as a crucial process of growth that will improve India's long-term economic standing.[12] Perhaps one day soon TCS, Wipro and Infosys will be providing this full consulting service, not just outsourcing, to present clients of Accenture and IBM. India has the cost advantage, if they can just improve the local delivery then there is a distinct possibility that the future will be an Indian masala.

The BPO Market

The Business Process Outsourcing suppliers are segmented into the following areas, as defined by Ernst & Young: [13]

- Captive arms of global corporates
- Indian start-ups
- Indian IT service companies
- Global BPO majors
- Broad based global service companies

This chapter is focused on introducing the start-ups and service companies that are likely to be unfamiliar to managers new to India; however the entire Indian BPO industry segmentation can be summarised as follows:

Captive Arms of Global Corporates

This section comprises the offshore captive subsidiaries of major firms such as Dell, HSBC or Standard Chartered. These companies maintain an offshore presence serving their own internal needs, rather than outsourcing to a third party.

Indian Start-Ups

With BPO growing so fast, it is no surprise to learn that there are many new companies in this domain. Some of these small start-up operations are now major companies with several thousand employees. Firms such as EXL Service or Daksh (though now owned by IBM so from 2005 it is officially a multi-national company) can claim a large highly-skilled workforce and very rapid growth over the last 3-4 years.

Indian IT Service Companies

Some of the existing technology players have entered the BPO space, providing an end-to-end package of services. This is true of Infosys with their Progeon BPO arm and Wipro, who purchased the BPO start-up Spectramind to create WiproSpectramind. Satyam has created their Nipuna subsidiary and TCS has now launched its own BPO venture using the single TCS brand.

Global BPO Majors

The large international BPO firms such as Convergys and Sykes have created their own subsidiaries in India allowing them to continue offering the same services, but using lower-cost Indian resources.

Broad Based Global Service Companies

The consulting and service companies such as Accenture, IBM and EDS are all working to establish their own BPO offerings from India. Even before the Daksh purchase in 2004, IBM employed around 6,000 Indian employees in BPO alone, with EDS employing around 5,000.

BPO Summary

According to estimates published by DataQuest[14], the $3.5 billion Indian BPO pie in 2003-04 comprised four main constituents; the multi-national captives who contributed around 56 per cent; the India-centric third party BPO service providers with around 29 per cent; the multi-national BPOs with around 8 per cent and the remaining 7 per cent came from the domestic call centres that were primarily captives. The Indian BPO industry has experienced an amazing increase in the number of seats utilised during 2003-04. It increased from 140,000 on March 31, 2003 to 210,000 on March 31, 2004. The total number of employees increased from 171,000 to 245,000. Most of the increase was in the Indian vendor companies and captives. The share of captives, currently between 65%-70%, is expected to grow.

Attrition levels continued to cause problems for hiring firms who train these staff and then watch them poached by the competition. Some companies have now stopped hiring anyone who has spent less than a year in their previous job or has hopped from one job to another frequently. Job hopping in BPO remains an issue, with some employees reporting that they have worked at 4 different companies in a year.

The following information outlines a few of the major Indian BPO players, in the same manner as the technology companies were listed.

Progeon

Corporate History

Progeon was founded in April 2002 by Infosys. It is focused entirely on the growing BPO market and aims to augment the offering of the parent company by developing separate expertise whilst utilising Infosys expertise and property.[15]

Leader Profile: Akshaya Bhargava

Akshaya Bhargava is Managing Director and CEO of Progeon. Akshaya has over 22 years of global experience with Citibank N. A. and led the establishment of Citibank's captive outsourcing operations in India. He was most recently Global Product Manager for the Emerging Local Corporate Business of Citibank in Emerging Markets, and Chairman and Country Manager for Citibank A.S., Czech Republic. Akshaya is a graduate in Economics from Ferguson College, Pune and has an MBA from the Indian Institute of Management, Calcutta.

Major Clients or Projects

Progeon has a number of interesting clients on board including GreenPoint Mortgage, Cisco, British Telecom and Fidelity Capital.

Comment

- Started life in 2002.
- Based in Bangalore, but has the option of using other Infosys property if required for expansion.

Progeon is still a smaller player than some of the majors in the BPO market; however the Infosys brand name and investment should lead to impressive growth in the next few years. The company has established an Eastern Europe centre at Brno in the Czech Republic, which will be able to offer the Progeon service to European clients without the requirement of travel to India and can offer services in a range of European languages.

Time magazine featured comments from US-based Progeon employee Dick Taggart: "After 18 years in financial services, most recently at J.P. Morgan Chase, he now works for Progeon as its man on Wall Street. One week out of every six or seven, he takes securities firms to India to show them the savings that are possible. He knows the transition is painful for the workers left behind, but he has seen it before. 'It was the same thing when we moved from Wall Street to New Jersey then to Dallas,' he says. 'Guess what? This is next.'"[16]

The Indian media has reported that Progeon is planning to purchase US BPO firms, especially those presently running at a loss with a view to improve their foothold on the US market This is becoming a common story now as Indian BPO companies seek to establish partial service delivery from the same country as their customers.[17]

www.progeon.com

Wipro Spectramind

Corporate History

Wipro Spectramind started life as Spectramind in March 2000. The company was founded by Raman Roy and is a classic story of dot com wealth generation.

Ciol.com described the situation leading to the creation of Spectramind: "44 year old Roy was immensely successful in setting up the call centre operations of GE Capital in Gurgaon. During his stint in the company, he came across numerous requests from the company's clients for a range of services, which were not possible by GE's call centre since it was a captive unit. Roy saw gold in the opportunity and decided to seek it on his own."[18]

Roy achieved that gold when he sold the company to Wipro for Rs. 407 crore ($88m) in July 2002. He now continues to lead the organisation, with Vivek Paul of Wipro Technologies, as chairman of the board.[19]

Leader Profile: Raman Roy

Raman Roy is the Chairman and Managing director of Wipro Spectramind. Raman is widely regarded as the pioneer and "guru" of the IT Enabled Services Business out of India having played a pivotal role in proving India as a Locale for Remote Processing and has successfully delivered servicing solutions from India.

He has lead the Indian initiatives of two of the largest players in this arena in India (GE Capital and American Express) and has been associated with setting up organisations which have created over 10,000 jobs in India to service the needs of organisations in USA, Europe, Japan, Asia, Pacific and Australia.

Prior to Spectramind, Raman was associated with GE Capital where he successfully led the setting up of their flagship Remote Processing Centre. The centre presently employs over 7500 local Indian Staff. Raman was responsible for the conceptualisation and implementation of the initiatives including establishing new Global Service Businesses from India which focused on providing comprehensive high value add process & service solutions to international clients. He also played a key role in the structuring and setting up processing capabilities for GE Capital's Joint Ventures with Mastech USA and State Bank of India both of which involved setting up of processing capabilities in India.

Before his successful stint with GE Capital, Raman, was the Business Leader of Accounting Operations with American Express and played a played a key role in setting up a global centralised accounting facility in India catering to Europe, USA and Japan Pacific Asia Australia region. The centre presently employs over 1000 Indian staff and offers all aspects of accounting services to American Express offices in USA, Europe, Japan, Asia, Pacific and Australia. Raman's contribution included evolving the strategy, designing and development of the 'centralised' centre of excellence. In his earlier career with American Express he was responsible for Operations, Customer Service, Systems, Technology, Data Processing, Administration, Finance, Planning and business monitoring for Card, Travel and Travellers Cheques business in India, Sri Lanka, Bangladesh, Nepal, Maldives, Bhutan and Afghanistan.

Raman is a Chartered Accountant from India and Chartered Management Accountant from UK. He is also a member of the Executive Council of Nasscom and the CII Council of ITES. He is one of the friendliest chief executives I have ever met and I recommend buying him a fine bottle of whisky or a cigar before any business negotiation.

Major Clients or Projects

Wipro Spectramind is the largest call centre operator in India and serves a number of major clients including Delta Airlines and Netscape/AOL.

Comment

- Started life in 2000.
- Offices in Mumbai and Delhi with close links to the worldwide Wipro presence.

When US ambassador to India, Robert Blackwill, commented that India needs to adopt some more 'give and take' in order to quell fears about outsourcing, CEO Raman Roy said: "Barriers to availability of our pool of knowledge workers, who are capable and competent and are available at a good price, are not tenable in the spirit of free trade."[20]

The company is well known for its caring attitude towards staff. Raman Roy considers the chance to touch so many lives as being of more value than the financial rewards. The Financial Times commented on this employee care when describing an unusual perk - arranged ambush. The FT said: "When women join SpectraMind, the company arranges to have their cars ambushed while they are in them. The hold-ups are designed to reassure rather than terrify. It is difficult to persuade Indian call centre staff to work at night, so SpectraMind chauffeurs drive them home. The company stages the mock robberies to show employees that any real attack would be repelled."[21]

www.wiprospectramind.com

ICICIoneSource

Corporate History

On May 27 2002 the ICICI banking group launched their OneSource firm as a new player in the BPO market. ICICI OneSource, or I-OneSource for short, was created by the $19.3m purchase of Bangalore-based BPO firm CustomerAsset. ICICI is the largest private sector banking group in India, with assets in excess of $20b under management.[22]

CustomerAsset had been launched two years earlier and had built a strong position in the market, with over 10 clients in the US and UK, including several Fortune 500 companies. ICICI OneSource acquired all the assets of the purchased company, including over 750 employees and a 350 seat contact centre in Bangalore.

ICICI OneSource has $40m of initial investment from ICICI bank and further venture capital funding from eVentures, antfactory and Jumpstartup.

At the time of the launch, Mr. K. Ganesh, Co-founder & CEO, CustomerAsset, who has joined ICICI OneSource as President, Contact Centre Business, said: "The financial strength, domain expertise and brand name that ICICI OneSource represent proved to be compelling reasons for us to pursue this relationship. The combined value proposition will help enrich the suite of services offered and enable us to move up the value chain to provide an enhanced offering to our clients."

Leader Profile: Ananda Mukerji

Ananda Mukerji is the Managing Director and Chief Executive Officer of ICICI OneSource. Ananda Mukerji has over 17 years experience, working in a number of areas including project finance, corporate finance and investment banking. At ICICI he set up and/or managed a number of new businesses including the Infrastructure, Structured Finance and Advisory businesses. He has also been Executive Assistant to the MD & CEO and Head of Strategy for ICICI.

Ananda Mukerji rejoined ICICI in January 2002 as the Managing Director & CEO of I-OneSource. Previously, Ananda has served as CFO for Enron India Limited. He has also been Group CFO for BPL Communications Ltd.

Ananda is a graduate from the Indian Institute of Technology (IIT), Kharagpur and also has a Post-Graduate Diploma in Management (PGDM) from Indian Institute of Management (IIM), Kolkata.

Major Clients or Projects

ICICI OneSource clients include Fortune 500 and FTSE 100 companies in the financial, telecom, media, retail and travel sectors for whom they handle a variety of services. Virgin Atlantic airlines have contracted ICICIoneSource to manage their back office from Bangalore.

Comment

- Started life in 2002.
- Offices in Bangalore and Mumbai with sales representative offices in the US and UK.

Given their banking pedigree and strong brand name it is no surprise that ICICI OneSource is looking for business in the financial services domain. What is particularly interesting for clients in this space is the fact that they are the first Indian BPO organisation to achieve the British BS7799 IT security standard. This is an important standard to achieve for any organisation hoping to offer a financial BPO service.

www.icicionesource.com

Daksh

Corporate History

Daksh has an impressive background. Funded by a single angel investor in 1999, it grew and won venture capital funding. The angel investment came from Ashish Gupta, founder of the famed Junglee.com. The first round of venture capital funding came from CDC, a leading UK based venture capital firm. Daksh secured a second round of funding from Citigroup.[23]

In April 2004, Daksh was purchased 100 per cent by IBM in a deal rumoured to have been worth around $180 million. Daksh has retained its brand identity, but is now marketed as an IBM subsidiary. IBM is rapidly divesting itself of loss-making enterprises such as hard drive and PC manufacturing and entering the off-shore service delivery market head on with this purchase. It seems like they have a plan.

Leader Profile: Sanjeev Aggarwal

Sanjeev is CEO of Daksh. He is an electrical engineer and an MBA. He has 19 years of experience at the intersection of the telecom, information technology and networking industries with leading Fortune 500 companies like 3COM, Motorola and Digital Equipment Corporation as CEO and Profit Centre head. He is also an active member of the 'NASSCOM BPO forum' as well as CII member.

He has extensive cross-functional experience in running a profit centre, business development, running technical support operations and conceptualising and executing new projects. His key strengths include building and managing large teams, aligning organisational resources behind a customer centric vision and delivering profitable growth.

In the last assignment at Motorola, Sanjeev was responsible for Motorola establishing India as an intellectual resource base, creating a 500-man team that helped relocate Asia-wide financial systems to India. Prior to that as CEO for 3COM India, he built 3COM as the second largest networking company in the country from a start up operation. At Digital Equipment Corporation he was responsible for a profit centre delivering revenues of $20 million, including functional responsibility of business development and customer support.

At Daksh, he built a 3,200 man strong team in 3 years of operations. He has won the prestigious 'Ernst & Young - Entrepreneur of the year - 2002' award (In the start-up category).

He is responsible for guiding and executing overall strategic vision and building a highly customer centric organisation with a strong focus on delivering exceptional customer service.

Sanjeev brings extensive leadership, strategic planning and visioning skills to Daksh as well as a deep understanding of the mechanics required to effectively build a scaleable off-shore operation in India catering to global customers.

Major Clients or Projects

Daksh has grown at an amazing rate since 1999 - from start-up to thousands of employees. They are particularly associated with the customer services of Amazon.com, yet other important clients are also on board, including: Intuit, Bigstep, Yahoo and PayPal (eBay).

Comment

- Started life in 1999.
- Main offices in New Delhi and Mumbai with sales offices in the UK and US.

Daksh was the first company in the Indian IT enabled services sector to offer every employee stock options. The company is clearly a leader in the management and retention of talented people.

www.daksh.com

Evalueserve

Corporate History

Alok Aggarwal and Marc Vollenweider set up Evalueserve in December 2000 with the intention of capturing the high-value and high-complexity end of the BPO value chain. The company has grown steadily since then and accelerated in the past couple of years.

Both the founders lived in New Delhi in 2000 and their children attended the American Embassy School. Mrs Aggarwal and Mrs Vollenweider knew each other from the daily school run and they agreed that the two husbands just had to meet. When they finally met, the inspiration for Evalueserve was created.

Leader Profile: Marc Vollenweider and Alok Aggarwal

Alok is a co-founder of Evalueserve. Prior to this, Alok was the Director of Emerging Business Opportunities for IBM Research Division Worldwide. In this capacity, he headed IBM's India Research Laboratory where he was managing a team of 55 researchers involved in research and development of major IBM products and technologies, including those in e-Commerce, Supply Chain Management, natural user interface, speech recognition, networking software, data mining and media mining products and systems management.

Alok received his B. Tech. in Electrical Engineering from the Indian Institute of Technology, Delhi and his Ph. D. in Computer Science from the Johns Hopkins University.

He has published over 50 research papers, 10 patents, and has received 2 Outstanding Invention Awards.

Marc is a co-founder of Evalueserve and the present CEO. Prior to this, Marc was a Principal with McKinsey & Co. He spent 20 months in the Delhi office and was in charge of the McKinsey Knowledge Centre, an internal research operation providing services to McKinsey consultants worldwide. He was also actively involved in both the financial services and the pharmaceutical practice in India and Switzerland.

Marc has an MBA from INSEAD, France and a Masters in Telecommunications from the Swiss Federal Institute of Technology, Zurich.

Major Clients or Projects

Client names are strongly protected, as is usual in the research business, however some of the projects delivered by Evalueserve include:

- Evaluating the commercial prospects of inventions in Russia and China. Evalueserve's client, which specializes in extraction of intellectual property from Russia and China, was hired by the U.S. Commerce Department to analyse such inventions with the objective of keeping such technology out of the "wrong" hands.
- Research for a hedge fund's database, tracking financial statements of 2,300 companies. This is soon expected to grow to 6,000 companies.
- Research and analysis of value-chain segments and industry developments for a market research firm specializing in information technology and telecommunications.
- Market forecast studies for an OTC drug worldwide for a research firm.

Comment

Evalueserve has now delivered work in 192 different countries and in 65 different languages. Their research team in India is very well educated and a third of them are graduates of the Indian Institutes of Technology and the Indian Institutes of Management (the elite "Ivy League" schools of India), each with potential GMAT scores of between 680 and 720.

The company has published some excellent and thought-provoking research including:

- Analysis of the impact of offshoring on the US economy
- Analysis of the impact of offshoring on the UK economy
- Analysis of higher value BPO services - KPO

- Analysis of the effect of the Indian diaspora on the development of India

Evalueserve coined the term KPO and now they are leading the market that they helped to define. Other players are entering this market, including Irevna, Aranca and RocSearch, but none has the track record or depth of knowledge of Evalueserve. Given that the company was brought together by the children of the founders I hope they are getting as much ice cream, iPods, clothes or whatever else they ask for.

www.evalueserve.com

Summary

TCS, Infosys and Wipro have been the natural technology leaders in India. However, to say that the companies listed here are the only vendors in India would be like saying that IBM offers the only source of e-business consulting in the US - quite wrong. As I mentioned in the introduction, this is a fast-moving market and it would be quite impossible to comment on every service provider.

GTL, Satyam Computer Services, HCL Technologies, ITC Infotech and Patni Computer Systems are other well-respected major technology names with large resources and growing revenues. New delivery models from organisations such as Collab-soft.com are even creating cooperative groups of smaller vendors. This allows a collaboration of smaller vendors to pitch for business in the overseas small to medium-sized enterprise market.

In Express IT People, Mohan Babu commented: "Infosys, Wipro, TCS, HCL, et al, are not rookies in the software industry. They were not founded to profit from the Y2K boom or even the dotcom mania. Their history goes beyond the recent trends. They are professionally managed high-tech companies focusing on helping clients across the globe."[24]

Niche players may be better if you are looking for strong business domain knowledge, rather than just technology skills. Companies such as MphasiS, iGate and Techspan have strengths in the financial services domain and Irevna is leading the move to offshore equity research.

There are many players within the top twenty, but outside the powerbase of the top three, who can offer good service. Sonata is employed by major investment banks such as Lehman Brothers and Deutsche Bank and i-flex has recently announced they will work together on financial service solutions with IBM.[25] Commenting on the new BPO start-up ventures in India, New Delhi-based Business Week writer Shelley Singh said: "In the next 18-24 months at least 10 Indian start-ups will reach a turnover of $100 million each."[26]

NASSCOM is the best place to start a search for any partner, big or small. The NASSCOM Resource Centre features a 'Top 20' list of the largest exporters of software and services from India.[27] Web sites, such as BPOINDIA.org can also provide useful information on niche firms and encourage debate among client firms. Further information on these resources is listed in chapter 11.

Other Important Corporate Contacts

Company	Website	Comment
eFunds	www.efunds.com	**Electronic payment and ATM services.**
EXL Service	www.exlservice.com	**Leading pure-play BPO firm, with contact centre and customer care services.**
HCL	www.hclbpo.com	**Extensive facilities in both India and Northern Ireland allowing excellent customer facing services.**
MphasiS	www.mphasis.com	**Technology and BPO provision, with a focus on the combination. Large firm headed by Jerry Rao, Chairman of NASSCOM.**
Patni	www.patni.com	**Top ten ranking technology firm. Excellent reputation.**
Satyam	www.satyam.com	**Large technology and BPO player. Very well known and with excellent clients.**
vCustomer	www.vcustomer.com	**Focused mainly on helpdesk, customer care and back office processing for the US market.**
WNS	www.wnsgs.com	**Originally the back office function of British Airways, but spun off and now offering a variety of BPO services - one of the largest BPO firms in India.**
24/7 Customer	**www.247customer.com**	**Large, mainly voice-based contact centre operations. Good reputation for quality voice services.**

Chapter Checklist

- Infosys, Wipro and TCS are the big three technology companies in India. Many other companies are there and also offer a good service, but these are the giants.

- EDS, IBM, CSC, Unisys and Accenture are the main foreign players that are increasing their own footprint in India in order to leverage the benefits for their own clients.
- Business Process Outsourcing is the new mantra in outsourcing. Everyone wants to take over entire services (such as call or contact centres), whether they are IT or IT-enabled services. In 2004, the Indian BPO market earned $3.5 billion.[28]
- Evalueserve defined the term KPO and is now leading the high-value BPO services market.
- Wipro Spectramind and Daksh (now the IBM BPO subsidiary) are two leading lights in the BPO sector. Other major competitors in this sector include ICICIOneSource, Progeon, MphasiS, HCL, WNS, 24/7 Customer, and EXL Service.
- NIIT has a fascinating delivery model. With their combination of education, technology and now the BPO delivery of NIIT SmartServe they are clearly going to become one of the major players in the market.
- Progeon is a company to watch. They are still relatively small, but with the muscle of Infosys behind them it will not be long until they are a major player in the BPO market, especially if they grow through acquisition.

Chapter 9: Ownership Models and Partnership

Outsourcing is often the wrong term to use when describing the practice of working offshore in India. To outsource means to contract work out from your own organisation to another, however the picture is not always that simple.

Some organisations have opened their own subsidiary companies in India, so work can be contracted out to India, but it remains within the parent organisation. Some organisations are literally outsourcing by contracting work to another company. In some cases a new company is formed that is a joint venture between the client and supplier.

The question of outsourcing to a partner or setting up your own facility to create 'internal outsourcing' is one of the first that needs to be answered when considering the move offshore. This chapter explores the different ways of working offshore - and how the services can be priced - and aims to throw some light on the benefits and drawbacks of each.

Direct Investment

Direct investment in creating your own 'captive' facility is often the preferred route for foreign companies with low experience of outsourcing and a desire to maintain strong control over the operation. The term 'captive' is often used to describe when a company has its own office, infrastructure and employees, rather than the people and facilities being contracted from another organisation. Companies like GE have made an art of exporting their own high-quality management practices to India, while enjoying the benefit of a lower cost environment, though GE recently sold 60 per cent of their captive operation GECIS.

There are a number of ways to set up your own captive facility in India. The website Outsource2India.com describes the main options as[1]:

- Branch Office: A representative office can easily be opened in India, however this does not allow you to sell or market your products or services in India. This may be a possible option if you are only considering software development.
- 100% subsidiary: If you would like the facility to be locally managed or you want to sell your products in India then you need to look into this option. There are a number of very attractive options from the Indian government for foreign investors creating a subsidiary company in India including tax breaks

and import duty exemption. These incentives are usually available to firms locating themselves in a Software Technology Park or Export Processing Zone.

- Joint Venture: Working with an Indian partner to create blend of your products or services with their local expertise is a common 'toe in the water' step for foreign firms. It allows both firms to benefit from the relationship and the option to switch to a 100% subsidiary is usually agreed if certain conditions are met. The growth of the Internet and lower communications costs are encouraging joint ventures with Indian firms. In *The Death of Distance*, France Cairncross comments: "The Internet encourages alliances. Again, they were already proliferating before it began to worm its way into the corporate structure. In 1998, a quarter of the earnings of the top one thousand firms in the United States came from strategic alliances, double the share in the early 1990s."[2]
- Acquire an existing Indian company: This is a feasible option, usually through transferring shares to the investing company. It has the advantage of allowing a running start as the company and its infrastructure will be immediately in place. The Reserve Bank of India does need to be informed before a foreign investor purchases shares in an Indian company so there are some possible legal pitfalls to be wary of.

A number of major multinational companies have facilities in India now and they are not clustered in a single area. Though the technology sector often focuses on the south, this investment is spread throughout India. Major investors include General Electric, Standard Chartered, Ford Motor Company, Texas Instruments, Oracle and Microsoft.

The main benefits to a firm of creating their own captive facility in India are:

- Perceived better control: Managers unfamiliar with outsourcing as a business tool often feel that keeping the project teams as employees of the parent organisation encourages better performance - everyone works together.
- Management style and culture: The culture of the organisation and its management expertise can be exported to India, so the Indian teams adopt similar methods of working as those used elsewhere.
- Security: Sensitive information does not leave the parent organisation; it is just transferred to another office for processing. The office could be in Bangalore or Baltimore.
- Flexibility: Some managers find the fully outsourced model less flexible than retaining direct control over their offshore employees. Resources can be redirected without the requirement of working through a detailed offshore management process.

- Cost control: All efficiencies and savings from the lower-cost environment are passed on directly to the parent organisation. There is no outsourcing supplier making a profit on the savings.

Though these are formidable arguments in favour of setting up an 'internal outsourcing' policy and creating a subsidiary in India, there are some disadvantages when compared to outsourcing to an Indian partner:

- Expertise: This is especially applicable to the information technology sector where skills become dated very quickly and niche skills can develop quickly. Using an outsourcing supplier means always having access to the latest or legacy skill-sets, depending on your requirements as a customer. It can be far cheaper than the cost of ongoing employee training programmes. By outsourcing, you ensure that your people are always the best in the market, not just the guy who is not doing much right now.
- Brand name: Indian employees are just like other employees, they want to feel that they are working in an organisation that is well-known and respected. Large multinationals with global recognition have no problem attracting Indian talent to their captive operations. However, if your company is unknown in India then the captive facility will struggle to attract talented people.
- Demand: Creating a facility in India and hiring people means that the demand from the parent firm needs to be constant or growing. It can be difficult to manage excess employees when demand subsides. This is especially true for intermittent demand.
- Size: Unless the supply of work is large, it can be difficult to generate the economies of scale required to generate extensive savings.
- Experience of offshore work: The Indian supplier will have extensive experience of working within an offshore model from previous clients. They will use this experience to ensure that your contract runs smoothly. With a captive centre, the control and communication protocols are entirely an internal matter for management who may have very little experience of working with a remote team.
- Start-up Issues: Obviously the creation of a new company is not trivial. The legal issues of a remote site need to be studied along with the creation of a new executive team and then the hiring and training of a large employee pool. It may be hard to recoup these initial costs, where an outsourcing supplier will already have access to a large pool of talent and there are no legal headaches or searches for office space.

Outsourcing

Clearly there are both benefits and drawbacks from the captive model that need to be assessed against working with a supplier in India. Although many major multinational firms are using their size to establish their own operations in India, there is an impressive list of firms using the services of Indian experts.

It is interesting to note that companies from all geographic regions and industry sectors are working with India, not just the technology firms. Some examples of major players outsourcing work to one or more Indian suppliers include Microsoft, Cisco Systems, Nortel Networks, Lucent Technologies, Apple Computer, McCain foods, Monsanto, Lehman Brothers, Boeing, Nationwide, Ericsson, Toshiba, Cisco, Seagate, and Putnam Investments.

Some companies, such as Microsoft, have established their own captive facilities, but they still maintain relationships with Indian outsourcing suppliers. This allows them to enjoy the best of both models, supplying a steady flow of the best talent to their Indian offices. I personally feel that this will become the most popular model, a hybrid allowing companies to enjoy the best of both models.

In addition to the points raised above, the additional major benefits of working with an outsourcing partner, as opposed to creating a captive subsidiary company in India are:

- Product/Service Improvement: Processes can be improved and reengineered using the benefit of the outsourcing suppliers experience in quality control and the offshore model. ISO, CMM and continuous improvement are not just concepts to outsourcing suppliers. They need to supply a high quality product to every client so this value is drilled into every person in the organisation. Now take a look at the quality values of your own company and see how they contrast.
- Flexibility: True flexibility can be attained by using a supplier instead of internal employees. If you need 1,000 call centre agents or 200 Microsoft *.net* experts then the outsourcing supplier can immediately arrange the service, even if they need to ramp it up by hiring themselves - that is not your problem as a customer. If your own business declines then you can reduce the service level without worrying about employee redundancy or wasted time, the outsourcing suppler can divert their employee efforts to another client.
- Cost: You should make savings on the current internal costs by improving the efficiency of the processes and using the resources India can offer. The outsourcing supplier should be able to make a living from these savings, creating a win-win situation where the cost structure is far more transparent that the internal model.

As described in the section on captive facilities, the outsourcing supplier can offer the best people on the market with the latest skills and with long experience of managing offshore projects. In most cases, there will be a local office so the client rarely has to visit India in person. All project based meetings can be conducted in the client's office with a liaison team based in that country.

Outsourcing and direct investment are often confused and just labelled 'outsourcing', but there is a difference. The benefits of each option need to be carefully considered against the service requirement.

Stephanie Overby commented extensively on the decision by Otis Elevator to establish an outsourcing relationship with Indian vendor Wipro in CIO Magazine. She said: "The benefits of a dedicated offshore centre are clear: sustained knowledge retention, better rate negotiation, speedier ramp-up times for new projects and increased productivity. Additionally, foreign workers even halfway around the world can feel more connected to the client company, as they are often located in a private building or floor with the client company's logo adorning the wall."[3]

Otis Elevator has created a dedicated offshore centre in partnership with Wipro, leveraging on their existing relationship with Wipro, but avoiding the expense of opening their own captive centre. For a client that can estimate their future labour requirement with any degree of accuracy, this could be an attractive option between basic outsourcing and going captive.

Two further activities will help your organisation decide whether outsourcing is the right choice:

- Selecting the specific services you want to outsource.
- Initiating contact with outsourcing suppliers so you can understand the feasibility of the programme through dialogue with several vendors.

Mapping the Services

Mapping the services that you want to outsource is an essential process. You can't outsource everything and the programme manager needs to be aware of what is going to be simple or difficult to move to India.

In their book, *Intelligent IT Outsourcing*, Sara Cullen and Leslie Willcocks outline a five-stage plan for selecting the services that can and cannot be outsourced[4]:

1. Map the services: Break out the different services into a list of what is performed and where.
2. Establish the criteria: Identify the short and long term rationale for outsourcing and also the barriers that may prevent it.
3. Apply each criterion: Map the reasons for outsourcing against each service that you want to move offshore, one reason at a time.
4. Aggregate the results: Produce a map that shows all the services and criteria or blockers mapped in a grid.
5. Determine priorities and service bundles: Organise the information so outsourcing phases can be created by bundling easy, medium and hard services - discarding the possibility of outsourcing any blocked service.

This process is important whether you choose to work with a captive facility or outsourcing vendor - you still need to decide which processes can be moved offshore. The process gives a better picture of what you want to outsource and how it will be phased, so it is useful to complete the exercise before considering whether to work with a vendor or captive facility. Most vendors would be pleased to help with this process, but it would be wise to have your own independent view on the processes before letting anyone else offer advice.

Initial Supplier Contact

Outsourcing will require a period of vendor selection, to ensure you pick the best partner from the multitude of possibilities in the market. This process is described further in chapter 17; however Elizabeth Sparrow, author of *Successful IT Outsourcing*, advises that earlier contact with potential suppliers may help you through the decision with more ease. Sparrow advises[5]:

- Arrange a conference to which many prospective suppliers are invited. Use this occasion to explain the background, objectives and scope of the outsourcing initiative. Ask a senior executive to contribute to demonstrate to suppliers your organisation's commitment to the programme. Include a question and answer session so that suppliers can clarify their understanding of the initiative.
- Issue an information pack to the main suppliers and others on request.
- Schedule a series of meetings with the main suppliers. You will need to make it clear that this is not simply a sales opportunity for the supplier. The primary purpose is to promote a clear understanding of the outsourcing initiative and to give service providers an opportunity to influence your organisation's thinking and approach. Three meetings with each supplier may be required; the first to hand over and discuss the information pack; the second to take questions from the supplier and provide answers; and the third to discuss refinements to the outsourcing programme that are being introduced as a result of the meetings with various suppliers.
- Issue a press release about the proposed outsourcing programme.

Although this process forms part of the initial vendor selection process, it is performed without any formal contract. At this point, you are announcing that you are going to outsource a set of services and then the general advice from the suppliers can help you to formulate exactly how you want the programme to look. It may rule out certain unhelpful vendors or push you in the direction of working with a captive facility or the ideas could be so good that you decide to move further in the vendor selection process with a subset of the companies that have provided input.

Partnership

As chapter 18 describes, pricing the outsourcing contract can be a minefield of conflicting issues. Some performance targets can work against one party rather than helping both, so partnership pricing models have emerged to try encouraging closer, more productive relationships.

Whether the outsourcing supplier a subsidiary of the parent organisation or is a genuine vendor, they will need to charge and invoice the client. Most organisations using a captive model create a subsidiary organisation that charges the parent using an internal market structure, giving the impression the service is from a different organisation.

There are three basic pricing models that can be used by the outsourcing supplier to try and establish an improved relationship with the client:

- Fixed Price: The vendor prices a task or service at a specific price, regardless of any variations in the actual cost of the product or service that is delivered. For tasks like software development, this can be attractive to the client as software projects often overrun. Ian Benn and Jill Pearcy cite the example of airline food being priced per passenger regardless of the food on the plate.[6]
- Gain Share: The efficiency gains and reengineering benefits achieved by the supplier are shared with the client, encouraging the client to try new working methods.
- Joint Venture: The classic model of working as partners to achieve a service that may be difficult or impossible for either partner to provide alone.

Partnership pricing can be hard to get right if the client has very little experience of offshore outsourcing and when the outsourcing is internal, to a captive facility, there is often little incentive to work this way.

The concept of creating a genuine partnership, as opposed to paying lip-service to the idea in a PowerPoint presentation, is catching on. Two of the leading advocates for this type of pricing model at present are Xansa and NIIT Technologies. NIIT is trying to adopt a value-minus, rather than cost-plus, approach to working with their partners. Cost-plus is the standard model for services - work out what it costs your company to deliver a service and then add a healthy margin on top so you create some profit. Value-minus is, as the name suggests, the reverse process. Both the buying and selling partners enter into the deal with open books and are aware of how much it costs to provide the service and how much value it will create, therefore the pricing can be based on sharing this value rather than just adding an arbitrary amount of profit to the cost of service provision. Not only is this a more effective pricing mechanism for both buyer and seller, it inherently creates a sense of trust and partnership as both sides have to come to the table with open books.

David West, UK vice-president of NIIT Technologies explains how he believes that this is a key strategy for Indian vendors: "Transparency is a vital tool in this industry and the Indian vendor community must mature and offer this as the way forward. Once you can offer the proven Indian delivery model and overlay it with innovative structures in the onshore location, such as gain sharing and output-based pricing, then the whole debate about hidden costs and outsourcing surprises will vanish."[7]

An example of this innovation mentioned by West is the outsourcing of finance operations from embattled British travel company MyTravel. Xansa took on the kind of contract where other suppliers might fear to tread - a company in financial difficulty - and modelled it so that both companies would gain if the processes could be improved.

Aidan Connolly, deputy group finance director of MyTravel, explained: "Gain sharing with Xansa became an important part of the commercial negotiation and part of the success of the project has been that this gain has been accelerated to year one of the deal." Mr Connolly said outsourcing could be a driver of reform within the organisation: "Outsourcing is an important way of focusing people on end-to-end process change and where value can be driven out in non-core competencies. We are a service company that sells holidays. Why should we be the world's best at processing invoices?"

Both NIIT Technologies and Xansa have been busy creating strong partnerships and modelling pricing around the trust in those partnerships. It is likely that this form of pricing could work for your own contract.

Market Trends in Outsourcing Models

There is a constant debate about the best possible model for going to India and a lot of it is entirely hot air. In 2004 there were around 100 conferences on outsourcing in London alone so there is no shortage of opportunity to discuss how this may work for you. The problem is that every company has a different problem that needs to be resolved and different expectations of how they need to operate. In the earlier part of this chapter I have listed the main reasons for outsourcing or going it alone and creating a captive subsidiary, but the trends and justifications appear to be changing with time.

The classic model would be to outsource initially. If the operation is fairly small and you don't want to go to the trouble of creating an offshore venture then go to a vendor and let them manage the offshore headache. This is the accepted standard and would normally apply until the vendor is managing a few hundred people on your behalf, at which point your finance director would say "we are paying for 250 offshore resources and the vendor is taking a margin on each, so why don't we just open our own office?"

So the next step would be the creation of a captive facility and these can grow very large indeed. GE Capital has over 13,000 staff in their Indian captive centres performing research and back office functions. However, GE Capital decided to sell off 60 per cent of their captive operation in late 2004 for over half a billion dollars. So now the situation for GE Capital is that they originally created value for the company by pioneering BPO offshoring in India and saving on process costs, they created further value by selling a 60 per cent stake in the offshore company and now they are free to compete on the open market as a service provider. With the GE reputation and the experience of their management team, they are likely to be a formidable force in the Indian BPO market as a vendor.

But does this mean that the days of the huge captive operation are numbered? Many senior executives swear by their captive policy and don't believe that they could provide the same level of service with the same quality of staff if they were a service provider and not an integral part of the parent company. However, now that GE Capital has managed to do this it could be the tipping point for several other large captives to take a long hard look at how they are operated and whether they might be better off as a remote service provider.

The GE Capital sale is a blessing for Indian service providers and you will probably hear it mentioned in every sales pitch; don't go captive - even GE is now a vendor! Though the industry is re-evaluating where the shifting boundaries for captive and outsourcing may now be, the same basic rules outlined in the chapter still apply. Don't lose sight of how you want to manage your offshore service as not every offshore model will work for you.

Summary

Moving processes offshore is a big step for most companies, especially if the organisation is contemplating a move offshore at the same time as outsourcing for the first time. Therefore the risk of failure can be high, so it may be wise to work with experienced outsourcing professionals; however in some cases it is possible to create a captive Indian facility that offers additional value.

Both options have merits and drawbacks. Both options have their supporters and many large multinational companies are successfully using both models simultaneously with no emphasis on one or the other.

Chris Gentle, Director of Research at Deloitte Research believes that there are six factors that determine the selection of a specific ownership model[8]:

1. What is the trade-off between desired cost savings and operational risk?
2. How much control do executives require over the facility?
3. What level of flexibility is required? The processes that are going to go offshore need to enter the equation before the relative merits of captive/outsourcing/joint venture can be determined.
4. How fast should the service be? Typically outsourced processes work faster than captive.
5. How close is the organisational culture of the two parties?
6. Local knowledge is essential, especially an understanding of the differences between the different outsourcers.

Gentle adds: "Further, gaining an understanding of the issues important to the local workforce serves as an important ingredient for making offshoring work. For example, captive facilities in Indian cities often are based on the periphery of the city. Staff have to travel relatively long distances between home and office, so it is important to maintain a fleet of buses to ferry employees to and from the office."

Whichever route is decided on, the safest next step would be a proof of concept pilot. Whether you are planning to establish a captive site or work with a new partner, it will not be supported without some form of test. Use the pilot phase to establish the ground rules of the relationship before growing further.

It is essential to make the right decision. Management writer Charles Handy provides a vision of the questions that will be asked if you can't make sure your outsourcing project succeeds: "Airlines code-share, automobile companies pool their purchasing, elephants marry their competitor elephants in order to boost their clout or their research budgets, all facilitated by the Internet and the web. Exciting stuff if you are in that world, but the new changes only lend more urgency to the old questions - how do you manage something that you don't fully control? Or trust people whom you never meet? Or belong to something that is more like a bundle of contracts than an extended family with a home?"[9]

Chapter Checklist

- A 'captive' facility can be created in India in a number of ways. This subsidiary service-providing company works only for the parent organisation and the employees are a part of the same group, though the company will usually invoice the parent as if it were a 'client'.
- Outsourcing differs from the captive model because the work in India is performed by a contracted company that has no relation to the client.
- Partnership pricing offers some interesting ways to tie the interests of both parties together. The use of methods such as gain sharing can encourage efficiency, cost saving and shared goals.

Chapter 10: The Major Outsourcing Locations

Outsourcing has grown throughout the various cities of India and continues to do so. Many BPO operators avoid the major cities and are rewarded with lower operating costs in what are often termed 'B+ towns', though all the major cities feature an array of major vendors and captive operations.

Although this expansion is ongoing, most of the offshore outsourcing organisations are clustered around a few key areas, for obvious reasons. Organisations need skilled people and skilled people gravitate to the major cities in any country. The larger cities also offer travel, power and telecommunications infrastructure that may not be available in all areas of India.

There is of course the domain importance of particular areas through the clustering of certain industries. For example, Mumbai is the home of financial services in India and so many service companies offering support to this industry will locate themselves nearby.

There are many guidebooks available offering a general overview of the major areas and cities of India. The Lonely Planet, Rough Guides and Culture Shock! series all feature books on India. These general guide books can be used before travel to determine what best to see once you are out there negotiating the outsourcing contract. This is assuming you have left enough time in your schedule to enjoy some of the wonderful sights India has to offer.

North and West India

The north and western India outsourcing map is focused on two major areas; Mumbai and Delhi. As mentioned, Mumbai has strong historic links to the financial services industry. At Nariman Point, almost every building houses a bank of some description.

Pune has scooped up some of the work previously performed in Mumbai. It is itself a large city, yet is close enough to Mumbai to allow business to be easily performed with Mumbai-based clients.

The Delhi region houses the national capital and is a huge metropolitan area. The nearby cities of Noida and Gurgaon are enjoying tremendous growth as outsourcing organisations move in and take advantage of their proximity to the capital district. The entire area is usually termed the National Capital Region (NCR).

Kolkata is not yet a major location for outsourcing organisations, however it is growing fast. The infrastructure exists and the operating costs are far lower than the other more established cities - it is a location to watch. It has a poor international reputation because of the historic association with poverty; however other Indian cities suffer similar levels of poverty.

South India

In the south, most outsourcing activity is concentrated on the 'technology triangle' of Hyderabad, Bangalore and Chennai. Bangalore is often referred to as the 'Silicon Valley' of India, though the more literally correct 'Silicon Plateau' is sometimes used.

Bangalore has grown from being the 'garden city', where folks move to spend their retirement years, to a frenetic supercharged city of growth and excess. The rapid growth has led to some diabolical traffic problems, but it remains an exciting place to visit and work. Poverty is notable by its absence in Bangalore. You can find it, but in other large cities you don't need to go searching, it comes to you.

Hyderabad and Chennai both have their own history and attractive compliment of industries, but remain slightly in the shadow of Bangalore. The focus of these southern cities has been historically rather more technology-oriented than other destinations; however Chennai and Hyderabad are both starting to earn a strong reputation in BPO services.

Delhi

The entire Delhi region, including the capital city New Delhi, has a population of 13,782,976 people[1]. Delhi has a large international and domestic airport. As the capital city, most international airlines fly to Delhi and it is very easy to arrange onward domestic flights, as all the local airlines offer routes to Delhi.

As this is the National Capital Region (NCR), most of the major outsourcing firms have a presence here. NIIT and HCL Technologies are based here and BPO players Daksh, vCustomer and WiproSpectramind all have major local facilities.

Noida and Gurgaon are two local cities to watch within the NCR. EXL Service has a facility in Noida with around 3,000 employees. These two cities are growing rapidly and are close enough to the capital to enjoy major transport links without the drawbacks of locating a new business in a very large and well-established city.

Delhi Chief Minister Sheila Dikshit is driving the push to become a completely electronic administration, offering facilities to local people via the government website. In May 2003, the Chief Minister announced the development of a 6,000 square kilometre IT Park for Delhi.[2]

A fact worth remembering is that Delhi will be only the second Asian city to ever host the Commonwealth games in 2010, after Kuala Lumpur in 1998. Around 5,500 athletes will travel to Delhi for the games, after it beat Canadian rival Hamilton in the final deciding vote.

Delhi is a very pleasant city to visit. The traffic can be bad in some places, but seems mild when compared to Bangalore. The view of New Delhi from the air or from a tall building is beautiful. The tree-lined avenues make the city feel very green and it is a city filled with heritage. With Noida and Gurgaon so close to the capital city, this is an excellent place to consider for an Indian base.

www.delhigovt.nic.in
www.travel-delhi.com
www.gurgaon.nic.in
en.wikipedia.org/wiki/Delhi

Mumbai

Mumbai (formerly Bombay) is located in Maharashtra state. The entire Mumbai region, including the suburbs, has an immense population of 20,501,959 people. Over eight and a half million people live in the suburbs alone and commute into the city area.

Mumbai has a large international and domestic airport. As the home of the stock exchange and financial services industry, most international airlines offer a service and it is very easy to get an onward flight to all destinations using the local domestic airlines.

Mumbai is a vast city, though growth is constrained by water in a similar manner to Manhattan in New York. The journey from the airport to the city centre can take more than an hour - in good traffic conditions. It contains the spirit of the nation more than any other place in India; Mumbai has the entire opposites of palatial grandeur cheek by jowl with desperate poverty.

All the major outsourcing organisations have facilities in Mumbai. Some notable organisations include TCS, WNS Global, Transworks, Air India and i-flex solutions.

The international firms can also all be found in Mumbai. Accenture have a major facility in the city, offering their 'Business Transformation Outsourcing' services[3] and Gartner produce industry research from Mumbai.[4]

A large shanty-town is located between the airport and city and is navigated by unseeing taxi drivers. To the visitor, such overt poverty can be disheartening. Yet Indians continue to flock to Mumbai. It is the city of a million Bollywood dreams. Each new potential star migrating cross-country is hoping that their experience is of gold-paving, not an unsanitary iron shack.

Mumbai is very large and the traffic can get very bad, especially in the peak commuting times. If you are visiting then it is essential that your hotel is close to the locations you want to visit. If you are staying in the Taj Mahal hotel and working in Andheri then you can expect to be in the car for around 4 hours a day.

This is also the night-life capital of India. If you cannot find something to do after work in Mumbai then you are not alive.

www.maharashtra.gov.in
www.mumbai-central.com
www.mumbainet.com
en.wikipedia.org/wiki/Mumbai

Pune

Pune is also located in Maharashtra state. The city has a population of 7,224,224 people. Pune only offers a domestic airport, though the airport offers connections to all the major cities.

Pune is a major city, yet it is just 163 kilometres (101 miles) from Mumbai, making it an attractive alternative location. It is close enough to Mumbai for easy shuttle rides, yet local organisations do not need to tolerate the commuting issues associated with living and working in a city of twenty million people.

Many well-known organisations are working in Pune, including vCustomer, Customer First, MsourcE, WNS Global and EXL Service.

In November 2003, vCustomer launched a 1,000-person office in Pune, their fourth office in the city.[5] In the same month, technology company GTL announced the launch of a new 500-person facility in Pune and an additional plan to increase their BPO facilities in the city by 750 people.[6]

The city has a very young population so it is entirely geared up for life outside the office, with plenty of bars, club and coffee bars.

www.maharashtra.gov.in
www.virtualpune.com
www.punecity.com
en.wikipedia.org/wiki/Pune

Kolkata

Kolkata (formerly Calcutta) is located in West Bengal state. The city has a population 4,580,544 people.

The city has a large domestic airport with limited international services. The International service is generally only provided to nations that are immediate neighbours of India.

Kolkata is a growing destination for outsourcing work, but some major players such as Customer First and Manjushree Infotech already have facilities there. Major technology firms such as Satyam are in talks with the local government about establishing new sites.

In 2003, IBM agreed to open a 200-seat software development facility in Kolkata and West Bengal IT Minister Manabendra Mukherjee revealed that discussions were ongoing with several other companies. He said: "We have initiated a dialogue with 36 IT companies, out of which discussions with six companies are at an advanced stage."[7] Wipro have extended their facilities in Kolkata so 2,500 professionals will be located in the city from 2004.[8]

Kolkata is trying to make an impact on the BPO market. BPO is generally labour intensive and Kolkata has people, so it could succeed. The cost of living is far lower than other major cities - some commentators estimate up to 30 per cent lower. Local transport and salaries are lower, so it is proving to be an attractive destination within India for BPO organisations seeking to improve efficiency.

Though it remains early days for BPO in Kolkata, the state government is working hard to promote the region. Supriyo Sanyal, Chief Marketing Officer of ICICIoneSource, told me: "I think they are doing a good job of marketing the city of Kolkata. The IT secretary of West Bengal has made a personal pitch to several companies, including ours, and produced statistics that destroy the perception of his state as an area of labour unrest. People do have this perception of the city, but the statistics showed that very few days are lost to industrial action." [9] The communist ideology of the West Bengal government has been a concern to many local investors as well as foreign, however this is a communist government that is working hard to attract foreign direct investment and has declared BPO an essential service - meaning that strikes are banned. What would Marx and Engels have made of that?

www.wbgov.com
www.kolkatabuzz.com
www.bengalweb.com/calcutta
en.wikipedia.org/wiki/Kolkata

Bangalore

Bangalore is located in Karnataka state. The city has a population of 6,523,110 people, with an additional 1,877,416 living on the outskirts - termed 'rural Bangalore'.

The city has a large domestic airport with limited international services. The International service is generally only provided to nations that are immediate neighbours of India, though Lufthansa flies direct to Germany. Indian Airlines and Singapore airlines compete on the route to Singapore, a considerable distance from south India. A new international airport is about to be constructed in Bangalore so let's hope the service improves further.

Bangalore is home to some of the leading information technology players. Bangalore attracts three foreign equity companies every fortnight, resulting in a continuous growth of foreign investments.[10] Companies including Wipro and Infosys are based there and BPO players such as Progeon and ICICI OneSource are also locals. Major international firms such as General Motors, GE, Dell and HSBC have facilities in Bangalore.

If Mumbai is the home of finance in India then Bangalore is the home of technology. Software engineers migrate from across India to work here because there are so many leading organisations clustered together seeking their skills. Around 6,500 people work at Electronics City - home of the Wipro development centre - and this is scheduled to triple by 2005.[11]

The Government of Karnataka takes great pleasure in recounting some impressive facts about Bangalore to anyone who will listen. Some examples include the fact that the United Nations called Bangalore the 4th most important global hub of technological innovation in the world. Over half the world's fortune 500 companies have an office in Bangalore. More than 1000 software companies call the city home and over 50 per cent of the world's SEI CMM Level 5 companies are based there.[12]

In October 2003, the Information Technology minister of Karnataka, D.B. Inamdar, announced that software exports from Bangalore had rocketed by 65 per cent on the previous year. He said: "The attraction is the good human resources we have. Also, the success of the companies already here is attracting more. During the six months ended September, 66 new software and back office service companies started operations in Bangalore, and 44 of them were foreign."[13]

The city is growing fast, too fast according to many locals. Bangalore does not have the natural barriers of coastal cities such as Chennai or Mumbai, it has room to spread. A few years ago outlying districts such as Whitefield were distant villages more than 20km from the city. Now the urban sprawl is expanding to include areas such as this within the city itself.

Because of this fast growth, the traffic situation in Bangalore can be an absolute nightmare for commuters. There is no metro rail system and 500 new drivers pass their driving test each day and enter the cacophonous maelstrom of Bangalore's streets. It is no surprise that the public interest advocacy organisation "Friends for Life", a traffic safety group campaigning for actions such as increased use of motorcycle helmets, is based in Bangalore. This popularity is causing other issues such as the difficulty most foreigners now face when trying to book a hotel room in Bangalore. Good luck.

Although the traffic can be bad, the weather is possibly the finest in all of India. Bangalore is located at a fairly high altitude of 920 metres above sea level. This gives the city a temperate climate, avoiding the harsh summer heat of other cities such as Delhi.

B.V. Naidu, Director of Software Technology Parks of India Bangalore believes that Bangalore has a strong attraction for visitors. He said: "Bangalore has a global brand. When people come to India they often go to Bangalore first. In 1994 if a foreign visitor came to Bangalore I would have asked them what kind of business they are in and the particular expertise they need. Now we have the expertise in this city. I can just ask a new visitor when they need the people."[14]

www.karnatakainformation.org
www.karnataka.com
www.onlinebangalore.com
www.virtualbangalore.com

www.bangalorenet.com
www.geocities.com/acampaigner (Friends for Life)
en.wikipedia.org/wiki/Bangalore

Hyderabad

Hyderabad is located in Andhra Pradesh state (AP). The city has a population of 3,686,460 people. Like Bangalore, the city has a large domestic airport with some limited international connections.

Hyderabad has a number of respected technology organisations including ADP Wilco International, 24/7customer.com, Deloitte Consulting and HSBC. Hyderabad has a growing reputation as a centre of technology excellence. It has become an excellent destination for those who want to avoid the daily snarl of Bangalore traffic.

In September 2003, Knowledge@Wharton reported: "Revenue for BPO firms in the state [Andhra Pradesh] soared more than 300% in the nine months ended December 2002, to $247 million. The industry employs about 15,000 workers in Andhra Pradesh, mostly in Hyderabad."[15]

Sulaksh Dikshit is involved with the BPO efforts of Andhra Pradesh as a marketing manager for APFIRST. APFIRST (Agency for Promoting and Facilitating Investment in Remote Services and Technology) is the quasi-autonomous government agency charged with the promotion of new business in AP, particularly in the IT-enabled service sector.

Dikshit explained to me: "India can capture $21-24 billion of the global BPO market and create 2 million new jobs by 2008. AP wants a substantial part of this opportunity. We would like to achieve $12b in revenue and have 1 million people in BPO employment in AP by 2008."[16]

Impressive targets, but Dikshit emphasises that the state is on track to make this a reality: "The state is well towards its target growing by 104 per cent in 2002 against the national average of 65 per cent. In total ITES exports, it is second only to the Delhi NCR region."

Knowledge@Wharton awards much of the praise to Chief Minister Mr. N. Chandrababu Naidu: "Naidu's leadership has earned him a high media profile. He was named 'South Asian of the Year' by Time Asia and one of 50 Asian leaders at the forefront of change by Business Week magazine. What's more, the performance of both Naidu and Sudan was praised in a study last August by Nasscom, an Indian trade group representing information technology companies and BPO providers -- which are also known as IT-enabled services (ITES) companies. Nasscom ranked Hyderabad as the top destination among nine Indian cities for ITES companies, with the city taking first place in the sub-category of 'policy initiatives.'" However, in May 2004 the public begged to differ and removed Naidu from office at the general election.

www.apfirst.com
www.aponline.gov.in
www.reachouthyderabad.com
www.hyderabad.co.uk
en.wikipedia.org/wiki/Hyderabad%2C_India

Chennai

Chennai (formerly Madras) is located in Tamil Nadu state. The city has a population of 4,216,268 people.

Chennai has a large international and domestic airport. Flights arrive here from across the world as Chennai is the main air hub for south India. The onward hop to Bangalore takes around 45 minutes by air.

Chennai is an attractive location, with the facilities of a major city and the bonus of the seafront, though this meant that the area suffered terribly in the tsunami disaster of December 2004. Xansa, Astron, eFunds, HCL Technologies and Office Tiger have all located major facilities in the city and none were affected by the damage to the coastal regions.

The local government has been working hard to establish an 'IT corridor' running in parallel to an 'entertainment corridor'. This mature attitude to town planning will help to alleviate some of the problems faced by other cities; where all the young engineers can go to enjoy themselves after work.

This is just one part of a comprehensive IT Enabled Service strategy produced by the government of Tamil Nadu.[17] The strategy identifies the steps needed to groom other locations in the state for hi-tech growth. The government is fiercely competitive with neighbouring Karnataka and this competition ensures both states never stop planning how to improve the local business environment. At a Michael F. Corbett breakfast briefing about Tamil Nadu, Vivek Harinarain, IT Secretary to the Government of Tamil Nadu, said: "The best software professionals in the world speak three languages. C++, Java and Tamil!"[18]

Venkat Narayanan, CEO of data warehouse specialist Knowledge Dynamics in Singapore, believes that Chennai is fast becoming a more cosmopolitan city. He said: "A lot of Europeans and Americans are now migrating to India. It is a reverse of the traditional Indian migration. Chennai used to be a very conservative city compared to other places in India. Because of outsourcing and especially BPO, people are coming to the city and the social environment has changed. Nightlife has improved and people are eating out more often. This is not just because of the reverse migration though, but also Indians returning from jobs in the US or Europe often have a high disposable income and exposure to western attitudes."[19]

Chennai is a very attractive location due to the seafront location and major international airport. It is far easier to navigate by car than most other large cities in India, meaning that you can get more done in a day. There is a steady supply of skilled labour in the region with more than 60,000 graduates a year in Tamil Nadu alone. Chennai also enjoys close proximity to the tech-hub of Bangalore. For all these reasons, Chennai is now developing a strong reputation as a favoured destination for BPO companies.

www.tn.gov.in
www.elcot.com
www.chennaionline.com
en.wikipedia.org/wiki/Chennai

Chapter Checklist

- Delhi and the National Capital Region is the capital city area and a natural home for many outsourcing organisations. Smaller cities close to the Delhi region, such as Noida and Gurgaon, are experiencing rapid growth as organisations base operations there - enjoying Delhi infrastructure without the traffic headache.
- Mumbai is home of the financial services industry in India and naturally a large cluster of outsourcing services have grown around the city to supply the Indian and international banks, fund managers and insurance companies.
- Pune is a large city and home to many outsourcing organisations without the need for neighbour Mumbai, though many firms have leveraged on the proximity of Mumbai and higher quality of life for employees in Pune.
- Kolkata retains the historical stigma of poverty, but is fast-growing as an alternative location for companies that want to work with India, but not at the Bangalore price.
- Chennai has great facilities, a nice lifestyle with the second longest beach in the world and large city facilities. It is also far easier to navigate than other comparable cities and has an international airport, making it one of the most attractive major cities in India today.
- Bangalore is the 'Silicon Plateau' of India and is home to some of the leading Indian technology companies.

Chapter 11: Industry Associations and Research Bodies

You will find research essential for a number of reasons. It may be that you are already engaged on an outsourcing programme and you need to study best practice methodologies as part of a quality programme. Or you may not have started your journey yet; just looking at outsourcing feasibility, where you need to justify the expense of a new outsourcing programme.

Whatever stage of the process you are at, there is always new and relevant research, but it is not always easy to find. Books, magazines, web sites, trade associations and government offices – they can all contribute to your research effort, but they can also confuse matters. There is so much information now in the public domain about how outsourcing works or does not work, that it pays to know where you are looking.

This chapter outlines where best to look for the information and research you need to make the right decisions about your own outsourcing programme.

Outsourcing Research and Trade Associations

National Association of Software and Service Companies

NASSCOM should be the first port of call for anyone interested in any form of outsourcing to India. Based in New Delhi, NASSCOM is the industry association for the knowledge economy sector in India and provides the best knowledge and research on the sector. Ninety-five per cent of the IT and IT enabled service sector companies in India are NASSCOM members, so the organisation really is the voice of the entire industry.

The role of NASSCOM is primarily to lobby and advise the Indian government on policy formation; however it also provides an excellent education and debating forum. NASSCOM business conferences are held regularly at major cities across the world allowing clients and vendors to network and discuss best practice in the industry. NASSCOM works hard to build the brand image of India Inc. in all business sectors and industries.

If you get a chance then do attend the NASSCOM annual conference, held in India each February. It is an excellent chance to meet the key players in the Indian outsourcing industry all in one place and to enjoy some excellent networking opportunities over three days. NASSCOM provide excellent evening entertainment as well, including Bollywood singers and fashion shows making it quite an event for the visitor to India.

The NASSCOM website is an excellent resource, even for non-members. It features extensive guidance on commencing business in India, finding a partner, government policy and features links to a strong body of self-produced research papers. It is impossible to consider doing business in India today without consulting NASSCOM first.

www.nasscom.org

National Outsourcing Association (and EOA)

The objective of the NOA is to communicate the significant benefits and strategic lessons of outsourcing to a wider audience through conferences, exhibitions and publications.

It is an independent membership-based organisation based in the UK. Members are UK and overseas companies who have outsourced (or are about to outsource), significant business infrastructure (IT/telecoms/processes) as well as suppliers and legal/consultancy/service companies which support the industry.

The NOA works to promote best practice in outsourcing, lobbies the British and European parliament on outsourcing issues, updates its members with the latest market information and educates companies about the benefits of outsourcing. The NOA is the voice and forum for the business outsourcing community.

In June 2004, the NOA held the inaugural conference of the European Outsourcing Association in Amsterdam. Led from the UK chapter, this is a pan-Europe initiative to create a federal outsourcing trade body that can represent the entire community. In early 2005 the EOA can already boast chapters in France, Belgium and Germany with more planning to join soon. The EOA is growing to become the major trade association for this industry in Europe.

www.noa.co.uk
www.e-oa.net

Information Technology Business Trade Associations

Information Technology Association of America
www.itaa.org

Association of Computing Machinery
www.acm.org

British Computer Society
www.bcs.org.uk

Intellect (UK based IT, telecommunications and electronics industry)
www.intellectuk.org

UK Call Centre Association
www.cca.org.uk

Australian Information Industry Association
www.aiia.com.au

Canadian Information Processing Society
www.cips.ca

Information Technology Association of New Zealand
www.itanz.org.nz

Singapore Infocomm Technology Federation
www.sitf.org.sg

Computer Society of South Africa
www.cssa.org.za

Government and NGO Research

Ministry of Communications and Information Technology

The Indian ministry of IT has a wealth of information on the technology industry available directly from its web site. The site features various research papers and government reports. All the information on this site can be easily searched.

The India Image gateway is a portal to all Indian government web information, allowing information from all ministries and departments to be searched.

www.mit.gov.in indiaimage.nic.in

Indian National Census

The Indian national census is performed once every decade. The most recent information was collected in 2001 and even now, some of this data is still being collated and analysed. The most recently available data is all available on the census web site and can be browsed or searched. This is an excellent resource for general statistics on India. The web site will use the most recently available data, so some search results will find results from 2001 and others from 1991.

www.censusindia.net

General Statistics

Whatever statistics you require on India, be it the economy, industry, population, agriculture or infrastructure, you will find the information on this one site. The site contains over half a million tables of statistical information on India all in formats that can easily be downloaded to a spreadsheet and manipulated.

www.indiastat.com

Other Useful Government-related Sites

Department of Telecommunications

This site outlines telecom regulations, upcoming plans for investment and legislation. This is essential information for any firm involved in the telecom market.

www.dotindia.com

Directorate General of Foreign Trade

This is an essential site for arranging the import or export of goods – facilitating trade between other nations and India. All the required Import and Export control paperwork can be obtained online from the site.

dgft.delhi.nic.in

Telecom Regulatory Authority of India

The regulation of the telecom industry is fast-moving as the industry is changing so quickly. This site details the latest news and all upcoming proposals.

www.trai.gov.in

Software Technology Parks of India

Software Technology Parks of India (STPI), is a society set up by the Ministry of Information Technology, Government of India in 1991, with the objective of encouraging, promoting and boosting the Software Exports from India.

www.stpi.soft.net

Confederation of Indian Industry

The CII was founded over a century ago. It has over 4,700 member companies and a network of 35 offices in India with 11 overseas and institutional partnerships with 216 organisations in 94 countries. CII is the reference point for Indian industry.

www.ciionline.org

Federation of Indian Chambers of Commerce and Industry

FICCI was established in 1927 and represents the general Indian business community. It now has a membership of over 500 chambers of commerce, trade associations and industry bodies, representing at least a quarter of a million companies across India.

www.ficci.com

Bangalore IT

This is the official website of the Department of Information Technology and Biotechnology, Government of Karnataka. Karnataka is the state government controlling Bangalore, the high technology capital of India and the website is full of useful information on the following subjects:

- Bangalore city guide.
- Local Government information and department list.
- Local business directory.
- Local education initiatives linked to the technology industry.

www.bangaloreit.com

Corporate Research

Commonwealth Business Council Technologies

CBCt has already analysed various business sectors, such as the legal and accounting industries, for their offshore attractiveness. The organisation has a good library of research and can utilise their excellent government and corporate connections to produce bespoke research as needed.

www.cbctechnologies.com

Evalueserve

Evalueserve base their delivery from Gurgaon, close to Delhi, however most of their senior directors are spread across the US and Europe. Evalueserve has published some of the most interesting research on outsourcing in the past year including detailed analysis of the effect of offshoring on the US and UK economy, the impact of the Indian diaspora on development at home, and the rise of Knowledge Process Outsourcing. The company offers KPO services in addition to research, but is certainly one of the most interesting new players on the research scene over the past few years. Interestingly, their senior management team had never all been together in the same room at the same time until a strategy conference in Cambridge UK in January 2005 - a real virtual success story.

www.evalueserve.com

McKinsey & Co.

The McKinsey Company publish some of the finest research in the world in their McKinsey Quarterly and Mckinsey Global Institute publications. They have focused on outsourcing several times and all articles can be purchased.

McKinsey has a special relationship with India and NASSCOM as they perform a large amount of their research from India and are responsible for the NASSCOM-McKinsey Report 2002. This report is available for purchase from the NASSCOM website and is an essential read for anyone interested in doing business with India.

The McKinsey Global Institute publication of August 2003, *Offshoring: Is it a win-win game?*, has become well known throughout the world as one of the best summaries of the economic benefits of offshoring.

www.mckinsey.com/ideas/

Gartner

Gartner is one of the most respected global research firms. It offers authoritative research in many areas including outsourcing. Reports are available for purchase from the web site.

www.gartner.com/outsourcing

Forrester

The Forrester Research group is well known for publishing excellent information on outsourcing. Their research Vice President John McCarthy is one of the thought leaders in this industry today. Reports and information are available from the web site.

www.forrester.com

Wharton School – University of Pennsylvania

The Wharton school publishes business research regularly, with much of it being free and immediately available on their excellent Knowledge@Wharton web site.

knowledge.wharton.upenn.edu

Media

The media in general is an excellent and ever-changing source of research information on outsourcing. With almost all newspapers and magazines now archiving their contents online this can be a valuable source of information.

Useful English-language national newspaper websites that can be viewed online include the following:

The Hindu
www.hinduonline.com

The Times of India
www.timesofindia.com

The Financial Express
www.financialexpress.com

The Economic Times
www.economictimes.com

The Deccan Herald (Karnataka)
www.deccanherald.com

Express Computer
www.expresscomputeronline.com

Harvard Business Review
The HBR has turned its attention to outsourcing on a number of occasions. The research published in the HBR is world-class and ranks with the McKinsey Quarterly as a fine source of business ideas and experience.

www.hbr.com

Internet portals are also a useful and searchable source of news on the Indian outsourcing industry. Some of the best sites available are IndiaInfo (www.indiainfo.com), Rediff (www.rediff.com) and CIOL (www.ciol.com). Rediff and IndiaInfo feature news and information about all aspects of business and life in India, while CIOL has a strong IT focus.

Internet

BpoIndia.org

This excellent site is run by a group of part-time volunteers. They are experienced lawyers and accountants who wanted to put a site together to advise on the BPO industry in India. This site offers news, research, opinion and vendor information and is extremely useful even if your outsourcing model is not strictly BPO. This site is particularly attractive because it has no ties to any vendor and is developing into a close community of people involved with India and outsourcing.

www.bpoindia.org

FirmBuilder

Michael F. Corbett & Associates, Ltd produces this site. It collects together a wealth of excellent research reports from a variety of sources. The reports can be searched and are all focused on outsourcing, so this can be a key resource when searching for a report on any particular topic.

Mr. Corbett himself is one of the leading gurus on outsourcing in the US and his company runs a series of outsourcing summits each year as part of their corporate education mission.

www.firmbuilder.com

Global Sourcing Now

This is an online news site, with a daily newsletter focused on global sourcing. The research company Evalueserve runs the site, but the news is impartial and provided from media across the world. In early 2005 the newsletter had around 42,000 subscribers in 35 countries. It is the single most useful site for information on outsourcing and anyone involved in this industry should be on the mailing list.

The site features a relevant events list, corporate directory and a knowledge centre packed with white papers and useful research.

www.globalsourcingnow.com

Outsourcing Center

This is a portal into a number of online outsourcing magazines including the Outsourcing Journal and BPO Outsourcing Journal; these online journals have over 40,000 regular readers. The site also features white papers and research focused on outsourcing strategy and trends.

www.outsourcing-center.com

Silicon.com

Silicon.com's content is created by an experienced team of in-house journalists in the UK and a network of around 200 reporters working for CNET Networks around the world. With stories coming from Australia, Asia, continental Europe, and Silicon Valley, Silicon.com has all the latest product, technology and company news as it happens. It is well worth keeping a watch on articles written by Silicon.com reporter Andy McCue, as he is their resident offshore outsourcing guru. McCue wrote a series of articles in 2004 based on a visit to India and his reporting has been some of the most comprehensive and insightful on this subject from a non-Indian writer anywhere in the world.

www.silicon.com

Books

There are still very few good books on the process of outsourcing. Prior to the millennium it was very much a topic for the academic canon, rather than management and other practitioners. This is starting to change as more people realise how outsourcing is now changing the structure of companies across the entire world.

This list highlights the most useful books I have found on the subject, to date. The list comprises just two books that are focused on India. The remainder of the list is applicable for offshore outsourcing to any destination.

Rob Aalders
The IT Outsourcing Guide, John Wiley & Sons Ltd. (2001)

Rob Aalders has produced an excellent 'how to' guide that looks not only at the requirement of the party wishing to outsource, but also the requirements of the vendor. His book is a step-by-step guide through the entire process of outsourcing and is written in such a clear and easy to understand style that it just begs to be read. This book is focused on IT, but the chapter and section headings are worth the price alone for anyone who needs an outsourcing checklist.

Ian Benn with Jill Pearcy
Strategic Outsourcing, Hodder & Stoughton (2002)

This book is one of a series of books produced by the UK Management Consultancies Association. It has a fairly strong UK focus in the case studies, but this does not detract from the value of the text. It has a focus on strategy, which means that this is a excellent text for understanding the drivers underlying outsourcing as a concept and where it may go in future.

Sara Cullen & Leslie Willcocks
Intelligent IT Outsourcing, Elsevier Butterworth Heinemann (2003)

Here Leslie Willcocks has written a guide for practitioners, rather than academics, with the experienced management consultant Sara Cullen. This book focuses on eight different building blocks and is a very practical guide to planning and executing an IT outsourcing strategy.

Gurcharan Das
India Unbound, Profile (2002)

Gurcharan Das is a former CEO of Proctor & Gamble India who now divides his time between writing for The Times of India and advising a venture capital fund. This book is a personal account of his life up to the present day; however he goes far beyond normal autobiographical memoirs. Through each step of his own life, he details the social and political backdrop giving the reader a fantastic personal account of how India entered partition and grew to the nation it is today. This book provides an excellent picture of how doing business with India has changed and improved over the past 50 years.

Charles L. Gay and James Essinger
Inside Outsourcing, Nicholas Brealey (2000)

Charles Gay of the Shreeveport management consultancy produced this book and it stands up as a solid outsourcing manifesto – a consultant in 235 pages. It is based on his experience of outsourcing over twenty years and outlines a methodology for going through the entire process of outsourcing, from preliminary investigations through to monitoring the partnership. This is an excellent book for anyone who needs practical guidance through the entire outsourcing process.

Mary C. Lacity & Leslie P. Willcocks
Global Information Technology Outsourcing, John Wiley & Sons Ltd. (2001)

Lacity and Willcocks are arguably the worlds leading academic authority on outsourcing at present and any of their work deserves to be taken seriously. This text has a great deal of detail, with several detailed case studies of very large 'mega-contracts'. Though this book is focused on IT management, the framework concepts and stakeholder management presented here could easily be applied to other outsourcing situations.

Richard D. Lewis
When Cultures Collide, Nicholas Brealey (1996, 1999)

Richard D. Lewis is one of Britain's premier linguists; he has tutored Empress Michiko in Japan and is a Finnish Knight. He is chairman of a culture, communication and language training company with offices in over 30 countries. His book is about how to manage successfully across cultures. It gives some wonderful insights into the thoughts, behaviour and social practice of people from every country you are ever likely to do business with. The information on India is excellent and Lewis presents his information in an authoritative, but friendly manner.

Jane C. Linder
Outsourcing for Radical Change, Amacom (2004)

This book is not focused on the nuts and bolts of outsourcing. It makes no claims to be a how-to guide, rather it focuses on the bigger picture and examines how outsourcing as a business tool can be used to drive the strategy of an organisation. It is most interesting if you are considering transformational outsourcing and want to read some case studies of large-scale change projects and how outsourcing can be used to change your business and add value, rather than just reduce cost.

Frank-Jürgen Richter and Parthsarathi Banerjee,
The Knowledge Economy in India, Palgrave Macmillan (2003)

This book is a collection of academic essays, but the prose style is very readable and each essay has a separate, but equally urgent message. It throws light on the entire knowledge economy of India, including high-technology firms, venture capital and local entrepreneurship. This book is ideal if you want to understand the current activity and future direction of the high-tech sector in India.

Marcia Robinson and Ravi Kalakota
Offshore Outsourcing, Mivar Press (2004)

This book is an excellent primer to the entire world of offshoring. It examines how to construct business cases and roadmaps to successful offshore outsourcing and considers the major countries competing for offshore projects. There is some information on the "how-to offshore" in this book, but its strength is in describing the concepts, trends and various processes that are being offshored. It provides an excellent picture of best practice in offshore outsourcing.

Elizabeth Anne Sparrow
Successful IT Outsourcing, Springer (2003)

The book is a step-by-step guide to the process of IT outsourcing. It assumes a standing start, so the history lesson comes first. For example, Sparrow details how EDS was doing it 40 years ago. The main strength of this book is the quality of the case studies and examples. The author comments on real-life situations and creates a sense of inclusion. She has clearly seen many technology projects outsourced in various ways and her comments are from the real world of IT management, not an ivy-clad business school.

This is a very useful book for any manager thinking about outsourcing or anyone who wants to improve an existing relationship. The comments on project risk and delivery failures are direct, and ensure the book does not sell outsourcing as a panacea for broken systems. It is an authoritative guide to the process of IT outsourcing and I strongly recommend it.

Elizabeth Anne Sparrow
A Guide to Global Sourcing, British Computer Society (2004)

Elizabeth Sparrow has built on the strengths of her earlier book and broadened the theme of this book to the global picture of sourcing. This is very useful for readers of my book as Sparrow has examined 18 different countries, including India, in great depth to determine their strengths and weaknesses for global sourcing. For any manager considering where in the world an offshore project may work this should be the first book on their shopping list because Sparrow has already laid the foundations of your business case, for a lot less than a consultant would charge.

Chapter Checklist

- NASSCOM must be the first port of call for anyone considering offshore work in India. The organisation has an excellent web site with a wealth of research material and specific advice can be obtained through contacting their team in New Delhi.
- The NOA in the UK also provides an excellent service to the outsourcing industry in general. The NOA works with many organisations that have an offshore presence in India and they have published extensive research on the subject. Nigel Roxburgh and Adrian Quayle lead the NOA research drive and are both very approachable.

- Web Sites are valuable sources of research information, particularly where they act as forums for those already involved in outsourcing.
- Books are now being produced at a faster rate that just a couple of years ago. There is some valuable material being published, but as the number of outsourcing books increases be wary as they can't all be useful!
- Media is an excellent source of latest news. Who is doing what and where are the deals? The media usually provides a good summary of the major consulting reports as they are published.
- Government and Corporate Research is the most useful source of data if you need to establish basic infrastructure or industry detail. The NASSCOM website is a good portal to all the latest corporate research and government decisions that affect the outsourcing business in India.

Chapter 12: Management Checklist Introduction

The remaining thirteen chapters in this book are ordered into the form of a 'management checklist' for the process of outsourcing to India.

It is almost certain that you will need to introduce a change management strategy to ensure the entire outsourcing programme is a success. Regardless of the benefits to the organisation, some colleagues will want the programme to fail for a variety of reasons.

Many people fear the loss of their job. Many fear organisational change will reduce their responsibilities. Some just fear change itself and would prefer a life of quiet contemplation where nothing ever changes.

However, life and business is not like that. Even the labour unions now accept that they cannot avoid a globalisation of knowledge-sector jobs through protectionism. Many unions are now directing resource at studying ways to mitigate the effects of offshore work rather than protesting against each contract as it is signed.

Your preparation for outsourcing to India is needed in several areas and the management checklist ensures that all possible legal and cultural issues are addressed as well as advising on why India is the best location for your new team.

The management checklist is subdivided into three sections:

- Objectives
- Control
- Change

Objectives: Determine your objectives for outsourcing and the reasons for going to India as well as outlining how to measure a successful transition. This section is of most use before the decision is taken as it provides a guide to the why and where of outsourcing to India.

Chapters 13, 14, 15, and 16 address this by targeting the following subject areas:

- Outsourcing objectives.
- Destination India.
- Outsourcing flavours.
- Success criteria.

Control: Contracts need to be drawn up and due diligence undertaken. Service Level Agreements and quality definitions need to be understood as a new business partnership cannot be built on trust alone.

Chapters 17, 18, and 19 address this by targeting the following subject areas:

- Vendor selection.
- Legal contract arrangement.
- Quality and the service level agreement.

Change: A knowledge transition period may be required and there is the potential for a culture clash as those used to the old methods now have to interact with the offshore team. The organisation needs to adapt to the new outsourced business model. Redundancies may be inevitable.

Chapters 20, 21, 22, 23, 24, and 25 address this by targeting the following subject areas:

- Migration and knowledge transfer.
- Culture and communication.
- Adapt the organisation.
- Employee transition and exit management.
- The risk factors.
- Future potential.

Chapter 13: Outsourcing Objectives

Although chapter 7 studied the main drivers underlying the concept of outsourcing and why it has started to become a compelling business model, it is important to remain focused on the specific objectives you want to achieve for your organisation.

Outsourcing is on the increase. Even Dilbert is outsourcing to India now[1] and Forrester research predict that by 2015, US companies will outsource 3 million jobs compared to the present 300,000.[2] This is no reason to consider that it is right for you and without specific reasons for a programme, it could be doomed to failure. You must know why you want to go ahead with this. Success or failure, it will be impossible to define exactly what happened if no objectives were ever defined.

Every outsourcing programme manager has a set of goals; it may be a selection of many goals including cost reduction, access to new skill sets or improving the product quality. If these desirable goals are not translated into specific objectives then it is difficult to define exactly what is required from the outsourcing vendor and near impossible to measure success once the outsourcing is complete.

When I moved a large investment banking IT project from Singapore to India, there were a number of reasons for the move:

- Availability of expertise.
- Quality of the end product.
- Ongoing project cost.

I was facing serious recruitment problems in Singapore. I had some open positions in software development that were unfilled for months and this lack of resource in open positions was a drag on my projected deliveries. The late nineties saw a boom in the value of technologists and so my bank was not considered to be an attractive place to work. Not when it only offered a regular salary and dull office, compared to all the exciting start-up ventures offering companion animals in the office, stock options and the chance of immense riches when the company (hopefully) moves to its IPO.

I could not make the Singapore office any more attractive to technologists, as that would mean changing the entire culture of the organisation for the sake of a few computer programmers. Bankers are not as keen on Border Collies at work as Internet start-ups are. I needed to look around for a place where talent was easier to find. I was not aware back then that I could just wait for the end of the dot com boom, at which point the dynamics of the technology labour market would change considerably. Hindsight is a wonderful thing.

Quality was becoming a serious problem with my software production in Singapore. The team had started moving from the maintenance of a mature system to development of a new, global mission-critical equity trading system - alongside the earlier maintenance work. It was more exciting work, but the rapid deliveries demanded by the traders in London and New York meant that quality took a nose-dive.

Even a single bug could cause an expensive trading error and when a rollback was required, to reverse a new software release, it meant support technicians from Tokyo to New York had to synchronise frantic weekend work to avoid failures the following Monday.

The mistakes had to end. As the system became more complex, the errors became a part of the deal. The end users expected them. Each release required a number of attempts to get right, yet without a quality assurance or testing team in Singapore there was no other way to deliver.

I found there was no support from other managers when I proposed the establishment of a QA team in Singapore, so a new solution was required.

The project cost was escalating as Singapore remuneration rates were shooting up to be almost on par with European levels. The company had started working with technologists in Singapore in part because of the cost differential, yet this was being eroded. Though they had the expertise, if the company was going to pay the same price in Asia as a person might cost in Paris or London then it would make more sense to have the people closer to home.

I had thought about the possibility of moving everything to London or Paris. Some of the existing people could be transferred and an immense amount of management time, effort and expense would be saved by not travelling across the globe so frequently.

A group of technology managers in Asia had already started to consider all these issues. They had formulated a plan where we would shift operations to Bangalore. I visited India and was soon a strong supporter of the plan. My three major problems would be addressed:

- Bangalore offers a rich seam of talent. Not only are the people there, but they are available quickly so it is possible to ramp up from small beginnings to a large scale operation without compromising on staff quality.
- The plan was to create a new software company, linked to the parent firm, but independent. This would allow a genuine concern for product quality, creating a need to start working to process guidelines, managed by dedicated quality personnel.
- The proposed costs were far lower than the Singapore staff costs. Even the fully-loaded hourly rates for Bangalore, which included all costs (bonus, pension, office rent, heating, lighting etc.), were cheaper than Singapore salaries alone.

I quickly found that my problems could be turned into objectives and my own move to India could then be judged by them:

- Could I start recruiting high-quality employees for my team without open positions remaining open for considerable lengths of time?
- Could I start delivering a better quality product to the end-users?
- Could I save money?

Although you may have open and general goals for an outsourcing programme, the objectives need to be more specific and measurable in their definition of the desired outcome. It was therefore important to take stock of the present situation, in order to define a real target and then compare results later.

I created other objectives for the move to India, such as improving the overall quality of the team and ensuring the team is more flexible about the work they perform. These could have been achieved through reorganisation in Singapore; however the three main objectives were achieved entirely because I moved to India.

What I was doing was looking at the core competencies of my organisation and trying to work out objectives for the things that someone else could do better. In their essay, Funky Inc., Kjell Nordström and Jonas Ridderstråle wrote: "As strategy guru Gary Hamel sometimes puts it, you can take a fat man and cut off one of his legs, but that won't really make him any thinner. Every little process and activity in the firm must be exposed to the question: are we really world class? If not, outsource it. Buy it from someone else - someone who is better. Funky Inc. competes on the basis of its core competence and components, the people who make competencies happen."[3]

There was a time when Ford made everything that went into its cars. Richard Lamming, Professor of Purchasing and Supply at the University of Bath, School of Management said: "In 1980 it made about 87 per cent of a car itself. Now it only makes about 30 and 40 per cent."[4]

Ford realised they could not be the master of every manufacturing competency and focused their energy on the design of popular automobiles. To move from the in-house manufacture of 87 per cent of a vehicle to 30 per cent in two decades is a considerable achievement.

So how can you best define your own objectives when planning an outsourcing programme?

Deriving Objectives

In his book, *The IT Outsourcing Guide*, Rob Aalders argues that some strong analysis is needed up front in order to define what is just an ambition and what is reality.[5] He says that even the very process of debating what can be achieved has the benefit of:

- Drawing other executives into the debate and obtaining their views and commitment to any outsourcing initiative.

- Testing the gap between the ambitions stated in the goals and the business belief and commitment to these goals.

This is an important point to stress. End users of a service will often make ambitious predictions of their need to use it when an internal manager is analysing a future budget. The end user often predicts a huge self-serving increase in business, which prompts the service manager to invest in resources, training and equipment.

If the service team is internal, there is usually no action taken when the predicted upturn does not materialise. It does not feel as if real money has been spent, even though everyone has a new PC earlier than expected or the internal helpdesk answers on the first ring of the telephone. The additional costs are lost in the accounting system and forgotten, but this is very different when a service is outsourced.

For example, if you instructed a contact centre to be ready to handle 75,000 calls per day and they found that only 5,000 calls were being placed, the outsourcing vendor would still need to charge as if it were the planned figure due to their initial investment in resources. Of course the contract could be renegotiated once the sunk costs are removed from the equation, but the point is that your management team needs to think about ambition and reality when defining objectives.

Charles L. Gay and James Essinger, authors of *Inside Outsourcing*, recall the case of Signet (formerly Ratners), a UK-based high-street jewellery chain: "Signet provided its IT operations, support and development internally. When a group of senior managers were asked what requirements they had of the IT unit, they produced a wish list that bore little relationship to what was actually provided or what the unit was capable of providing and, even more fundamentally, what the unit thought its targets were. With such a lack of clarity, it is no surprise that the IT department was criticised at every opportunity."[6]

Gay and Essinger go on to make the point that there may be considerable internal savings that can be made by reorganisation prior to outsourcing: "A poorly run area of your business could produce significant savings of 20 per cent and probably more. A better-run area should yield cost savings of 10 per cent. Outsourcing a mess will possibly result in a mess and, worse, gives all the easy wins to the supplier."

It is essential to examine the present processes, define the reality and then plan the true objectives of the programme - not just the ambition.

Common Objectives

In their book, *Strategic Outsourcing*, Ian Benn and Jill Pearcy list the following key reasons[7] - without including cost savings - as the potential goals of any outsourcing programme:

- Focus on Core Competences
- Quality of Service

- Recruiting the Best
- Better Technology
- Wider Skills Pool
- Agility
- Employee Benefits

You may notice that my own earlier outsourcing objectives of availability and quality are listed here. These objectives crop up in every outsourcing programme and can be described as follows:

Focus on Core Competence

Chapter 7 has looked at this concept in more depth and I have also mentioned the example of the Ford motor company. The world of industry is full of organisations that are not using their talented people to the full, because they are focused on tasks and processes that are not strategic.

If your people are not creating an advantage over the competition, then what are they doing that could be done better by experts?

Quality of Service

A company like Daksh (the IBM BPO subsidiary) can handle your customer services email and telephone calls better than you can do it internally. Why? Because all they do is live, breathe and dream of customer services for several Fortune 500 companies, including Amazon.com.

Companies such as this have the infrastructure in place to offer a high quality service that can even be measured using global standards such as ISO and CMM.

Recruiting the Best

When I managed my technology team in Singapore I had to suffer the political issue of managing the expectations of technologists within the constraints of a bank. Technology skills that are popular with recruiters today are irrelevant within a year. Now imagine my discomfort when trying to tell the entire team that corporate policy dictates that they are only allowed one training course a year.

That team was a fantastic group of special people, but they had to keep learning mostly through their own personal efforts as the company could not accommodate their needs.

A BPO firm, such as ICICI OneSource, will constantly be training its people so you only ever get the best representatives answering your phones. A technology firm, such as Wipro, can offer you engineers with certified skills in any discipline you care to name.

As service providers, it is in the interest of these companies to keep their employee skills up to date because clients demand experts when purchasing a service.

Better Technology

An outsourcing vendor can afford to invest in better systems, networks and other technical services because the cost will be spread across various clients. Every client will benefit from the use of the latest computer hardware or call centre technology, without the need to invest millions in purchasing the premises and equipment this would require.

In addition, as any accountant would notice, any major capital investment in premises or equipment must be reflected on the company balance sheet as a corporate asset. Paying for a service as it is used has none of the complexity of tax or depreciation of assets.

Wider Skills Pool

When managing an internal team, you make do with the team you have. The only way to change direction is to retrain people in new skills. When working with an outsourcing vendor, you can be guaranteed that the latest skills are always available.

This can be a critical issue for technology teams where skill sets change so frequently and a failure to identify the correct technology for a system design (due to ignorance of new methods) can be expensive.

Agility

Outsourcing frees the company from the capital considerations of office space and equipment. People can be taken on when a service needs to be quickly ramped up to meet demand and then released to the vendor as the project goes into decline. This allows a level of flexibility that is impossible to achieve with in-house services.

Employee Benefits

I mentioned training in the section on recruiting the best. While recruiting the best is clearly in the interest of the client firm, the training is in the direct interest of the employee.

A call centre operator is not likely to want to spend their entire career selling life insurance to people they never see, however what career progress can be offered to an internal telesales team? Within a BPO organisation in India, the keen operator can progress to supervision of teams and management at various levels of the organisation.

Technology teams suffer, as my Singapore team did. When employed by an outsourcing vendor, technologists find that the company is urging them to learn new skills. It is common for technology teams to undergo some training every week, or at least every other week. They need to keep up to date to remain attractive to clients and this is a fantastic experience for a technologist who has earlier experienced a reluctance to help with personal development.

Though most people suffer shock and anger when they find that their organisation would like them to transition from an internal role to an outsourced one, it often works out in the favour of the employee. Chapter 23 studies this process in more detail.

Ian Benn and Jill Pearcy conducted a telephone research programme in which they asked over 100 senior company directors why they had outsourced various business processes. The leading response, by a long margin, was to reduce costs. 31 per cent of the respondents gave this as their primary reason for outsourcing. Next, was the ability to access key skills at almost 20 per cent, followed with just 6 per cent by strategic changes in the organisation - focusing on core competencies.

The remaining reasons all scored just 1-2 per cent of the director's votes. The responses, in order of the most popular first, were Balance Sheet, Flexibility, Quality, Space, Risk reduction, Divested Company and Capacity.

Cost is the objective in most management minds and it is often reported as the end-result of an outsourcing project. For example:

- With Xansa as their outsourcing partner, UK mobile phone operator O_2 has reduced costs by 25 per cent.[8]
- Standard Chartered bank claim savings of up to 50 percent after outsourcing many of their IT and back office operations to India.[9]
- Procter & Gamble has saved over $1 billion since 1999 through outsourcing their back office processes.[10]
- Thames Water has reduced IT maintenance costs by 40 per cent in an outsourcing deal with Wipro.[11]

Cost remains the leading single reason to outsource, but my personal view is that the strategic significance of outsourcing is rising in importance. I expect it will not be long before a company with an internal call centre or IT support department will be considered as anachronistic as Mr. Ford buying a rubber plantation to ensure a steady supply of raw materials to his tyre department.

Implications of Measuring Objectives

Rob Aalders believes that it is important to look at the possible downside of any stated objectives. It may seem that the objectives look positive - everything is about to improve - but the effect on other areas of the organisation does need to be considered.

Aalders suggests that when the objectives for the outsourcing programme are defined, the management team should then try to consider the top 5 positive and negative implications of each one. This is often forgotten as executives are swept along on a wave of positive implications, with little regard for the negative. End users can be surprised by the negative side of objectives that they agreed. This surprise needs to be anticipated.

Aalders gives a specific example related to the outsourcing of a computer network. The objective is: "Our objective in outsourcing our network is to improve network up time to 99.7 per cent and extend the hours of service from 06:00 till 18:00 daily, seven days a week. The current level is 94 per cent between the hours of 07:30 and 17:30 daily."

The positive implications might be listed as:

- Staff productivity will increase by 25 per cent.
- Service to customers will not be interrupted by down time to the extent it is today.
- Staff morale will improve and turnover may reduce.

The negative implications might be listed as:

- Existing assets will be disposed of and may fetch little in return.
- We will be tied to the continuing performance of the outsourcer's network.
- The outsourcer will charge for additional hours of coverage.
- The system will be disrupted as we move to the outsourcer's network.

No Objectives, No Future?

Objectives are critical to the success of your outsourcing programme. Goals are useful and help to drive people, especially the management who need to be on board, but goals are often too generic and lack clarity.

Try to ensure that your objectives all pass the SMART[12] test:

- Specific - Include detailed targets within the objective as Rob Aalders demonstrated with the networking example.
- Measurable - If it can't be measured, it can't be SMART. What are your Key Performance Indicators going to be?
- Achievable - Do you have the resource and time available for what is being proposed?

- Realistic - Ask questions to differentiate between ambitions and true objectives. Some ambitions may never happen.
- Time-Related - Always ensure that target dates are in place for all objectives. It is impossible to plan without targets.

It is likely that you will have numerous goals for the programme and different managers will each be the champion of their own favourite. A good approach is to run a series of workshops with internal managers, but chaired by an external party, to ensure fairness in the planning process. Rob Aalders believes that it is during this planning process that a few key points need to be recalled: "Know yourself - as a company. Know your company's true values, its style, its culture, its strengths and weaknesses. Know what your company values and does not value."

At a time like this, you need strong strategic leadership to see through the false hopes and ambitions and to lead the organisation into a new structure, based on clear objectives.

By 2004, more than 80 per cent of US executive boardrooms will have discussed offshore outsourcing, and more than 40 per cent of US enterprises will have completed some type of pilot.[13] Outsourcing is clearly here to stay and by defining your objectives in advance you can make your own programme succeed. Alan Pelz-Sharpe, Vice President (North America) of consulting firm Ovum said: "India is deeply committed to the long term success of hosting offshore operations and as technology work moves there, it is likely to stay and grow."[14] He added: "The Indian operations doing the work formerly undertaken by US teams not only do the work more cheaply, but they are often more productive, and work to high standards. The cost and quality benefits of offshore outsourcing have been well proven, with many offshore operations working to more rigorous quality methodologies than is common in US operations."

Chapter Checklist

- Cost is not the only objective when outsourcing. There are many reasons for going down this road, including corporate strategy, quality improvement and flexibility.
- Objectives are not ambitions and should not be treated as such. The management may have hundreds of ambitions for the future outsourcing programme, but you need clear objectives with built-in targets.
- Creating a process to derive objectives is going to be essential. The workshop process helps to ensure all managers contribute to the creation of objectives and refines those that are on the table.
- Think of the negative outcomes that may occur if you achieve some of those initial ambitions. While basking in the glory of achieving the outsourcing programme objectives, you may have changed an unseen part of the business.

- Be SMART when setting your objectives. Remember the acronym: Specific, Measurable, Achievable, Realistic and Time-Related.

Chapter 14: Destination India

"If India was a stock, I would buy the hell out of it. I see beauty everywhere in India - even in her chaos." Saira Mohan - Author and Model.

You are probably reading this book because you are considering offshore outsourcing and you heard that India has some outsourcing expertise. However, you are not sure how India is ranked against other nations. You might have read an article in a newspaper about how the investment bank JP Morgan is researching global equity markets from Mumbai or UK supermarket group Somerfield is saving £1 million ($1.5m) by developing software in India, rather than in the UK.[1] The aim of this chapter is to show you how India can help your business more than any other offshore location.

By reading this, it is clear that you have outsourcing on your agenda. Offshore outsourcing to India can make you look great because India combines the best quality with low cost. How else could you reduce cost by 40 per cent or more, increase service quality to your customers and improve the strategic vision of your company? This is not about the hype of globalisation or inflated claims of the dot com era. This is the modern reality of the knowledge economy and you can harness it to create a genuine advantage that separates you from your competitors.

But why outsource to India? India is a very long way from Europe or the United States and right now, bhaji, Bollywood and Bangalore may mean nothing to you. Why should it be the first choice for any manager considering an outsourcing partnership?

To begin the case for India, just look at some of the big names investing in India. British Airways and Lufthansa manage ticket reservations from India. General Electric, American Express and BP all manage their accounting in India. HSBC, General Electric and Lufthansa run their call centres in India. Microsoft, Dell and SAP use Indian specialists for their research work. Oracle and BT perform software development in India. Citibank and General Electric perform basic data entry in India whilst Standard Chartered runs back office work for their entire global banking operation.[2] GE even managed to sell 60 per cent of its Indian back office for over $500 million to General Atlantic Partners and Oak Hill Capital Partners in November 2004.

All these companies are leaders in their respective industries and all of them are investing in India. But this is just the tip of a very large iceberg. These firms are busy creating a strong competitive advantage for their shareholders and they know it. Their management has realised that India can offer world-class expertise at a more attractive price than the specialists back home in Seattle or London. Typical salaries for well-qualified professionals with market experience are just 25-30 per cent of the European equivalent.[3] These companies are not just investing in low-risk call centre services or legacy software systems maintenance. They know that their partners in India are adding value to their business by contributing knowledge and experience to every possible service.

This is great news for shareholders and fantastic news for customers; it is also good news for the management team who takes their business into India. The manager who champions offshore outsourcing, and then makes it work, is guaranteed to be future CEO material. You have a far better chance of making it work if you partner with India because there are success stories in every industry and at every project size. Those years of experience with US and European firms mean that Indian outsourcing partners know what your concerns will be and they are ready to reassure you before problems occur.

Framework for Comparison

It is useful to list the companies investing in India; however it does not give you, the reader interested in offshore outsourcing, much objective information to base a decision on other than reminding you that others are already there. The fact that you have started considering India as a destination for your offshore activities means that you are already in good company. The legendary former CEO of General Electric, Jack Welch, devised a useful formula to describe his own confident views on outsourcing. Welch insisted on outsourcing 70 per cent of all GE business processes. Out of this, he outsourced 70 per cent of the processes offshore and 70 per cent of that offshore outsourcing would be destined for India. Welch used the formula 70:70:70 to remind his management team of his views on outsourcing.

Not many Chief Executives publish such easy to remember aphorisms to guide their managers. In most cases you will need to convince your own management team that India is the right destination for your own company. Many of those managers will be concerned about outsourcing to India for a variety if reasons and some may be unsure about outsourcing anywhere. You need a framework of capabilities to show that India can help you to achieve far more than just a reduction on the bottom line.

The management consultants McKinsey & Co. look at two broad variables when comparing offshore outsourcing destinations; location attractiveness and people attractiveness. The attractiveness of the local people can be measured by examining the size and quality of the labour pool. Factors such as the labour cost, quality and English language skills are key considerations when comparing one workforce with another. The attractiveness of the location is measured by examining the local Government and infrastructure. The quality of basic infrastructure such as roads, telecommunications and electricity as well as political stability and investment incentives all contribute to location attractiveness.

Location Attractiveness

India and Pakistan continue their occasional sabre-rattling arguments over the rule of Kashmir however the Government has been stable and open to business innovation since 1991, when a wave of reform swept away much of the old bureaucratic legislation in a process the writer Gurcharan Das named 'the golden summer of 1991'.[4] Now many infrastructure improvements such as the creation of technology parks and the liberalisation of the telecoms sector combined with generous tax breaks are making India a very attractive destination for investment.

The Indian Government has repeatedly made it clear that they see Information Technology as a key strength and they are keen to promote new policies that are of benefit to the technology and ITES industries. The IT bill passed in 2000 has provided a framework for electronic contracts and the prevention of computer crime, essential for the outsourcing industry. The Indian Government is extremely proactive in its support of the various industries supporting offshore outsourcing and this strong knowledge industry growth may become the greatest legacy of Prime Minister Manmohan Singh.[5]

The Government has created a variety of tax breaks and other incentives for investors in India ranging from concessions for scientific research to full ten year tax breaks for new companies within industrial parks or special economic zones.

Telecommunications

Telecoms bandwidth in India is easily available. Since the opening of the first Indian private undersea cable in April 2002, bandwidth leapt from 0.002 Tbps in 2001 to 8.4 Tbps. This level of bandwidth is 10 times the present requirement and investment is ongoing to ensure that capacity is increased further.

The increase of bandwidth and the privatisation of the industry have helped the turnover of the Indian telecom sector to reach an estimated $9 billion in 2002. The market has grown by over 20 per cent year-on-year since 1996. International Long Distance, National Long Distance and Basic Telephone services have been opened up for free competition. Examples of recent price cuts include a 62 per cent reduction in the cost of national long distance rates between January and March 2002. Internet Service Providers have been granted licenses freely and been allowed to set up their own international gateways and submarine cable landing stations. The cellular market is growing at almost 100 per cent, with the number of subscribers reaching 11.3 million during 2003.

Power

Power availability and reliability has also dramatically improved. All the Software Technology Parks in India have 100 per cent power backup through their own sub-station and generators and most State Governments are planning power reform - if they have not already launched their reform programme. The State Government of Maharashtra has privatised power distribution in Mumbai and the improved infrastructure has quickly led to fewer power cuts. Offices usually have excellent power generation units with UPS to allow a smooth cutover, if needed. The Xansa office in Chennai can cope without power from the main grid for up to a week and Xansa had no problems continuing to deliver a continuous service, despite the problems in and around Chennai after the tsunami of December 2004.

Quality

India is famed throughout the world as the leader in high quality software and outsourced services. Every serious vendor you speak to will be using an internationally recognised quality benchmark, such as ISO9000, to show that their process management is second to none.

In the software development vendor community it is increasingly normal for the companies to be assessed for the Software Engineering Institute Capability Maturity Model. The CMM rating runs from 1 to 5, with 5 being the highest attainable quality rating. CMM Level 5 is extremely difficult to attain and demonstrates not only that the company provides exceptionally high quality software, but also that they are constantly improving the quality. As of June 27 2002, India had 85 companies ranked at CMM level 5. No other country comes remotely close. As I write this, the best that the software industry in Western Europe can manage is CMM level 4.

When Pramod Bhasin, President of GE Capital in India, was asked to comment on Indian process quality at an outsourcing conference in London he made a simple, but powerful statement.

"GE Capital has moved seven or eight hundred business processes to India and over ninety per cent have increased in quality. Companies come to India for the cost, but stay for the quality."[6]

Transport

India has a number of international airports making it easy to get from Europe or the US to all the major cities, such as Delhi, Mumbai and Chennai. Bangalore in south India even has a regular connection with Germany, thanks to Lufthansa, allowing an easy journey from Europe to the Indian Silicon Plateau.

Air travel is now the preferred way to travel between cities in India. With Jet Airways, Sahara Airlines and Indian Airlines all competing on domestic routes and new budget entrants popping up regularly now, the prices are low and the service is excellent. The domestic airlines run regular point to point connections between the major cities and connecting services to smaller airports.

Road and rail transportation is also possible for domestic journeys; however both are fairly slow and are not recommended for anyone with a tight schedule. India has the second largest road network in the world with more than 3.3 million kilometres of asphalt and the Indian rail system is enormous. Some 11,000 trains serve 6,853 railway stations with 1.39 million tons of freight traffic and 13.24 million passengers daily.

People Attractiveness

Education

India has more than 250 universities and over 900 colleges creating the next generation of knowledge workers. Every year, 19 million new students enrol into high schools across the nation. At the end of each academic year 2.1 million new graduates and 0.3 million post-graduates leave college qualified and hungry for work. Although 8 per cent of workers are destined to leave the country, this is still a very high number of educated people joining the workforce.

These young people join the ranks of the service vendors or software divisions of multi national corporations and work hard. It may be a personal observation, but I have never witnessed such determined and loyal employees anywhere in the world. When a task is going well, I have witnessed people working long hours through the sheer enjoyment of completing a task. When things are bad I have seen dedicated teams work through the night without a complaint. In my opinion, this spirit of utter dedication to getting the job done does not exist in any other nation.

India therefore has a very large talent pool of low-cost English-speaking people. This remains the single most important advantage for India in the long run as other nations attempt to offer similar offshore services. McKinsey has calculated that even if the wage increases of the large Indian workforce were to increase at an extreme level of 9 per cent per annum then India would still enjoy a cost differential on the West for several decades. The cost advantage of outsourcing to India is going to remain, even with strong and consistent growth.

In addition to the traditional elite schools many private universities are now flourishing and supplying the strong demand for young graduates. Martin Prinz, Joint Managing Director of SAP Labs India sees the future as a blended public-private partnership: "Partnerships in higher education are emerging as a new paradigm of academic administration. Cooperating closely with the IT industry and operating out of world-class technology parks, these institutes can produce highly qualified graduates and become catalysts for innovation and growth of the Indian IT sector. The Indian Institute of Information Technology, Bangalore (IIITB) is a good example for this new model. "[7]

Professor Sowmyanarayanan Sadagopan, the Founder Director of IIITB agrees with Mr Prinz: "A lack of money has meant that the Government is now willing to admit private players in education. In the past, some unscrupulous private sector firms created a poor track record causing many academics to look down on private colleges. The scene is changing though and you will find several interesting Public Private Initiatives such as the Dhirubhai Ambani Institute of Information & Communications Technologies and - of course - IIITB." [8]

As well as federal Government encouragement and assistance, the technology industry is also supported by enthusiastic State Governments such as in Karnataka. Not surprisingly, Karnataka is the home of major IT centre, Bangalore. Karnataka is taking large strides in a push to accelerate the number of technical graduates and other qualified young people emerging from the education system. They have established a forum to bring together key stakeholders in the future of IT education. The Board for Information Technology Education Standards (BITES) forum works with industry, academia and the national Government to devise standards for IT education in Karnataka. The main objectives of BITES include the publication of reliable information on IT education, facilitating interaction between stakeholders, providing support services for educators, advising the national Government and curriculum development. [9]

So India has a huge quantity of highly skilled labour. This not only makes it easy for the outsourcing vendors to locate good people to help you with your offshore projects, it can also help you to raise the quality of your own service. Phiroz Vandrevala, Executive Vice President of Tata Consultancy Services in New Delhi explains "Services like call centres are becoming more complex. Companies are offering a higher level of service and customers expect to deal with multiple transactions in a single call so the operators need to be smart. In India you can hire the people you need - people with graduate level qualifications for work in call centres. That is very difficult to achieve in a country like the US or UK." [10] Employees at Daksh eServices (the BPO subsidiary of IBM) even adopt an easy to understand Western name and undergo dialect training to smooth the edges of their Indian English. These people are smart, flexible and ready to make life easier for the manager outsourcing a key service.

Professor Chandru Rajam, Dean of Universitas 21 Global in Singapore, said: "One of the biggest impacts of the fast growth in this industry is that lots and lots of good people are in India because of the growth whereas they might previously have left for the US or Europe. There are also a lot of people in India with exposure to other countries. I myself stayed in the US for 12 years, then returned to India and eventually moved to Singapore."[11]

Cost

The investment bank Credit Suisse First Boston published a research report in December 2002 outlining the cost structure of offshore outsourcing services in the IT industry. CSFB found that Indian vendors can provide a service that is at least the same quality as the present service, but with a cost reduction of 30-40 per cent. This is a good indication of the level of cost reduction achievable by working with a partner.

Although there is an initial start up cost if you choose to establish your own site in India, it will allow you to hire your own people at around 25-30 per cent of the cost in Europe. The scale of your offshore operation will enter the equation when deciding whether to establish a site in India or work with partners, either way the potential savings are very attractive.

So India offers smart people, improved quality and a better service all with the chance to save almost 40 per cent of costs. If you need further convincing before booking your own passage to India then look at how the globally respected research organisation Gartner has compared India to nine other countries offering offshore outsourcing services.

Gartner Research Country Ratings

At their 2003 Outsourcing Summit in London, Gartner published research comparing the attractiveness of several nations for offshore outsourcing. This Gartner data remained the same a year later in 2004.[12]

The resulting country rating table presents a strong case in favour of India. The table compares ten different nations on nine criteria, with India being judged as having the best overall climate for offshore outsourcing. India does not receive a single 'Poor' grade and scores five grades of 'Excellent' or 'Very Good'. Local rival China does not score so well, with Gartner awarding four 'Poor' grades and only a single 'Excellent' - for cost. Ireland is the strongest competitor however Ireland cannot begin to match India on cost. The country rating table is useful as a broad overall guide to the areas of excellence in each country.

Gartner Country Ratings:	**India**	China	Israel	South Africa	Northern Ireland	Ireland	Czech Republic	Poland	Hungary	Russia
Government Support	**E**	F	G	F	VG	VG	P	F	F	P
Labour Pool	**E**	G	G	F	G	G	F	G	G	VG
Infrastructure	**F**	P	VG	F	VG	VG	F	F	P	P
Education System	**VG**	F	VG	G	VG	VG	G	G	F	VG
Cost	**E**	E	F	VG	G	F	VG	G	VG	E
Political Stability	**F**	F	P	F	G	E	VG	G	F	F
Cultural Compatibility	**F**	P	VG	E	E	E	VG	VG	VG	G
Data/IP Security	**G**	P	VG	G	E	E	F	F	F	P
Overall Climate	**VG**	P	F	F	G	G	F	F	P	F

P	Poor
F	Fair
G	Good
VG	Very Good
E	Excellent

Source: Gartner - Choosing an offshore outsourcing location.

The Competition

Chris Gentle of Deloitte Research has documented the 'Asian hot banana' where outsourcing excellence can be found from South Africa to Australia, curving up through India and South Asia. It seems that every country wants to promote their outsourcing industry, but only China and the Philippines have a large enough low-cost labour pool to mount a credible threat to India. No other nation can compete on the sheer volume of new graduates being produced by the Indian education system. [13]

In the Philippines 94 per cent of graduates speak English, but the country suffers from an insufficient supply of capital and lack of telecoms bandwidth. The Filipino Government has responded by establishing the Information Technology and E-Commerce Council (ITECC) to oversee and promote e-commerce. The Philippines has the potential to rival India, but without real results from bodies such as ITECC they will be left behind as a strong infrastructure is essential for offshore services.

China has made significant improvements to its business infrastructure, but remains constrained by the language barrier. China is mainly providing a niche service through local captive sites owned by multinational corporations such as GE Capital or HSBC rather than local vendors offering an offshore service to remote clients.

The Chinese infrastructure is already very good. Dozens of high-tech software parks offer guaranteed telecom and power connectivity. Telecoms provision is not expensive. Power is reliable and real-estate rent is low. The language issue remains the major problem for China and must be addressed before the nation can become a serious threat to India.

Phiroz Vandrevala adds his own view on the threat from other nations: "India offers credibility and quality. The companies offering an outsourced solution in India have a strong track record. They have been doing it for years and can demonstrate success. No other nation can offer this level of credibility and reassurance."

Even if China can eventually match India, with millions of English-speaking graduates and an excellent infrastructure, then they need more time to build credibility. Bill Gates of Microsoft backed up this view when he said: "The main competition I think will come from China, but it is way behind. In terms of English skills and success stories, it has a long way to go."

Summary

India is clearly the premier global location for offshore outsourcing today. As Elizabeth Sparrow summarises in her book, *A Guide to Global Sourcing*: "India is the undisputed leader of the global offshore services industry and sets the benchmark against which all other countries are measured. The scale, professionalism and commitment shown by the major Indian suppliers (and many of the medium-sized firms too) are very impressive. Although now facing competition from China, Russia and elsewhere, India retains some compelling advantages in the global marketplace."[14]

The argument in favour of offshore outsourcing to India is far more compelling than just the fact that India offers the best people in the world at a an unbeatable price.

- India has a stable democratic political system that has recognised the need for strong support of the knowledge based industries supporting outsourcing. Karen Williams, director of marketing at the financial services outsourcing vendor eFunds, reflected the common view when she said: "India is a very stable country. The atomic crisis with Pakistan was mainly posturing and both governments know they have too much to lose through war. The Philippines is far less politically stable."[15]
- Many incentives are available for new investors, such as ten-year tax breaks.
- Travel to and from India is easy and competition between the three domestic airlines (and new budget entrants) ensures a frequent and excellent service within India. Leading international airlines are lobbying hard for more landing slots in India, particularly in prime outsourcing cities like Bangalore.[16] In 2004 the Indian government yielded a little, granting more slots to European airlines including Virgin and BA.
- India has more telecoms bandwidth than it needs and investment continues to ensure this situation remains.
- All technology parks and office complexes have guaranteed power supplies and the state power generators are in various stages of privatisation reform.
- The time difference with the US and Europe can be exploited to allow a longer working day. This allows teams both onshore and offshore to share workloads and improve efficiency.

There is a huge supply of educated people providing India with an immense pool of talent.

- More than 2 million graduates and 0.3 million post graduates entering the labour market each year.
- Typical salaries are 25-30 per cent of European equivalent.
- The huge pool of talent and lower costs allows the customer raise standards by recruiting smarter people.

- Large teams of high-quality people can be quickly recruited as the labour market is large enough in the major urban centres to allow a very constant supply of talent.

Many commentators believe that major players in both the captive and vendor community have already proven the capability of India to deliver. Other companies should now be catching up with the advantage that their competitors have already gained. B.V. Naidu, Director of Software Technology Parks of India Bangalore explained: "Companies coming to India know that there is now a lot more maturity. It is a proven engagement model and coming to India is no longer an unusual decision. There is an enormous amount of trust in India."[17] He added: "There are a lot of US corporate representatives in India, scouting for partners. It is a very healthy situation with available venture capital and growth driven by the experiences of US companies. I would call it a good state of play for business. The Indian government and NASSCOM have given help to this industry at the right time. We may have missed the boat with manufacturing, but now we are working hard; just look at the growth of the BPO industry."

Michael F. Corbett, President & CEO of Michael F. Corbett & Associates, echoes the sentiment of B.V. Naidu when he states: "I believe that there is a proven value proposition in outsourcing to India. I can't see any reason why you shouldn't be doing this. Companies that are working on studies to prove why they should be outsourcing ought to turn around the argument and ask why can't we be outsourcing?"[18] Corbett believes that the pioneers have made India a more comfortable place for new entrants. He said: "I do think there is a level of comfort with India. When you look at India there is a feeling of stability. Business decisions on outsourcing are driven forward because GE is doing it, Dell is doing it. People should ask if it is good enough for these guys then why can't India be good enough for us?"

Supriyo Sanyal, Chief Marketing Officer of ICICIoneSource, summarised the feeling within India when he told me about the positive effects of so many young people feeling positive about the future. He said: "It is a challenge to focus the entire nation, but we can invoke a sense of pride in the nation, much like our support of cricket. There is definitely a buzz in India now. Just look at some of the new industrial projects and real estate developments that are taking off. There is a huge amount of expansion in this country. Go to the pubs and coffee shops and the graduates are all there with a large amount of disposable income; you meet a lot of younger people with far more confidence than they had a few years back." [19]

I recently visited Thanjavur in Tamil Nadu, a small town in the south of India more famed for its temple (a world heritage site) than any contribution to the global information technology revolution. Yet, here in this town, which is an overnight train ride from Bangalore, I found a small company making a big contribution to global embedded systems software.[20] KRA Systems has a team of about 18 people cutting the code that is hidden in electronic consumer products. I knocked on the door unannounced and was welcomed into the office and shown well-known brand products such as MP3 players and TV set-top boxes. The enthusiasm of the team was infectious and the demonstration of their capabilities in this small town, with a huge satellite uplink positioned by the backdoor of the office, was very impressive. These are the people that will provide the next wave of talent and services for India, without the need to brave the traffic of Bangalore.

India still offers a cost advantage that is hard to beat. The large talent pool and low costs ensure that you can achieve success by saving money and improving quality. Gartner and McKinsey analysis verifies that on both counts of people and location attractiveness, India is the most attractive location for offshore outsourcing.

The Indian track record in outsourcing is hard to beat. Even as other countries catch up in terms of labour force and infrastructure, it will be many years before they can claim the same level of experience making India the place for you to invest in offshore outsourcing.

Chapter Checklist

- People attractiveness is the measure of how attractive the local people are and includes variables such as English language skills, workforce size and education.
- Location attractiveness is the measure of how attractive the location is and includes variables such as Government support and incentives for investment, telecommunications quality and ease of travel.
- Gartner research highlights India as the premier destination for offshore outsourcing now and several years into the future, based on both people and location attractiveness.
- China and the Philippines are the only major rivals to India; however both nations require several years to resolve language and infrastructure barriers to success.
- In terms of quality and overall outsourcing service without considering cost, Ireland is the strongest rival to India.
- More than 2 million graduates a year enter the labour market in India. In comparison, Ireland produces only 43,000 graduates each year. Nowhere else can match the levels of experience, credibility and intelligence found in Indian companies because of this steady flow of university-educated talent.

Chapter 15: Outsourcing Flavours

There are now so many diverse flavours of outsourcing it really is becoming a moveable feast. Chapter 9 described the different ownership models often used in outsourcing arrangements. Sometimes a company chooses to partner with a local firm in India to outsource the processes and sometimes they look to set up their own facility in India, but regardless of whether a partner is involved there are different methods of delivering the service from India.

The most common forms of outsourcing to India are related to information technology or Business Process Outsourcing (BPO). Software developers, infrastructure engineers or technical support teams can provide a service from India in much the same way as a local team, provided a standard process is in place to manage the relationship between sites.

BPO is the trailblazing practice of working with a Business Service Provider in India, so an entire service can be outsourced. This is the form of outsourcing that is most frequently featured in the media - in a positive and negative light - as it often involves complete services such as contact centres or back-office administration. Research specialists The Yankee Group predict that the value of the BPO market in Europe alone will have doubled to $120bn by 2007.[1]

BPO has spawned a number of other three-letter acronyms, based on higher-value BPO services needing a way to distinguish themselves from regular BPO - which is often assumed to mean contact centre or data entry work. Research company Evalueserve launched the acronym KPO to describe Knowledge Process Outsourcing, a term describing high-value BPO and I have also seen the more explicit RPO used, where the R stands for Research. BPO remains the standard term for business processes, but you can expect more acronyms to join the fray.

IT services and BPO are the most common forms of offshore services delivered from India. To consider how you need to deliver your own outsourced service, first you need to consider the process itself.

Process Requirements

If you have read Chapter 9 then you will have already performed the following research:

1. Map the services: Break out the different services into a list of what is performed and where.

2. Establish the criteria: Identify the short and long term rationale for outsourcing and also the barriers that may prevent it.
3. Apply each criterion: Map the reasons for outsourcing against each service that you want to move offshore, one reason at a time.
4. Aggregate the results: Produce a map that shows all the services and criteria or blockers mapped in a grid.
5. Determine priorities and service bundles: Organise the information so outsourcing phases can be created by bundling easy, medium and hard services - discarding the possibility of outsourcing any blocked service.

So there should be a list of your company processes, bundled into groups by service or priority with a clear distinction between what can and cannot be outsourced.

Taking these steps protects you from outsourcing the wrong process. By listing every service with its required criteria and blockers, it becomes possible to remove tasks that are considered as core competencies or those that offer some advantage over the competition.

Those tasks that remain can be prioritised by the potential ease of transfer, so the easiest tasks start moving offshore first. Creating this map of tasks, priorities, blockers and potential transition phases is an essential prerequisite to consideration of the appropriate outsourcing strategy.

These are the most basic high-level strategic choices:

- Tactical Outsourcing
- Strategic Outsourcing
- Transformational Outsourcing

Tactical Outsourcing

This is the practice of outsourcing a very specific problem or task. It is usually applied where in-house resources cannot immediately deliver what is required and can be mixed with in-house services creating a blend of in-house and outsourced services. As such, it can be viewed as a short-term approach though the effects are immediate.

Commenting on tactical outsourcing, Elizabeth Sparrow, author of *Successful IT Outsourcing* said: "In recent years many companies have adopted tactical outsourcing solutions to contract out the development of web sites and services, using small innovative companies to gain rapid access to new technical skills."[2]

At the opposite end of the innovation scale to new web sites is the maintenance of legacy technology systems. For many software developers, programming languages such as COBOL are archaic relics from a bygone age. However, there are systems across the world still using this legacy technology. Even where an organisation has its own internal technology team, it is quite common to use tactical outsourcing as a tool for managing the legacy part of an operation.

A Facilities Management (FM) contract can be considered as an example of tactical outsourcing. FM is the practice of paying a vendor to manage your equipment, though you retain ownership of that equipment.

The main reasons for choosing a tactical outsourcing solution are:

- Resources with the correct skills are not available internally to launch and run a specific project.
- Ongoing maintenance of an existing service is difficult due to a lack of suitable resources.
- There is a need to quickly reduce or control spending on a particular service or function.

Strategic Outsourcing

With strategic outsourcing business strategy enters the equation and the overall corporate 'big picture' has to be considered, rather than individual projects or required skill-sets.

This form of outsourcing allows the company to step back from the debate over whether to outsource or not and to consider what it does best and how. Strategic outsourcing can be an opportunity for the senior management of a company to do some serious re-engineering on the products and services offered.

This business process reengineering effort needs to consider why the company exists, what competitive advantages it has and how to best take advantage of this in the marketplace. Strategic outsourcing is a powerful tool for an organisation that truly wants to shift focus to the things that matter, intelligence and intangibles.

In *Funky Business*, Jonas Ridderstråle and Kjell Nordström, explain: "Things that were in demand used to consist of a little knowledge and a lot of stuff. The new valuables are made up of a little stuff and a lot of knowledge. The average weight of a real dollar's worth of US exports has more than halved since 1970."[3] The funksters add: "Today, competitive advantages weigh no more than the dreams of a butterfly."

So if your competitive advantage depends on your ability to get a new product to market quickly, but your management are forever tied up with IT, accounts, customer services or other essential, but baseline, services then it might be time for a strategic review.

Elizabeth Sparrow believes that a critical issue when planning any form of strategic outsourcing is to focus on the end-result, not how the company gets there. She said: "Managers will need to adopt a new perspective on control and are likely to be more successful if the focus is on outputs rather than inputs."

This is an important point to consider as most managers are more familiar with managing daily activities than planning services, measuring targets and managing a partnership.

The main reasons for choosing a strategic outsourcing solution are:

- To provide access the best resources in the business by ensuring that only leading experts work on your projects.
- Internal resources can be freed from non-core activities and allowed to focus on revenue generation.
- It allows the business to focus on its core competencies rather than reinventing the wheel.

Transformational Outsourcing

As the name suggests, transformational outsourcing goes beyond strategic considerations and works on the basis of how you might run the business if you could start over again.

This complete business redesign would use outsourcing as a strategic tool to ensure that the benefits of strategic outsourcing are achieved as a new way of doing business is created. This is a complete corporate overhaul and has far-reaching long-term consequences.

Transformational outsourcing might typically be used when a company is being spun-off from a parent firm or when a new product or service is created that is so different from previous offerings that only a corporate transformation will suffice.

Innovation leads to transformation. Today, every manager knows the story of 'Who moved my cheese?' Outsourcing can be the guide that allows your company to navigate the maze and transform into a true innovator. In this global knowledge-based economy differentiation has become critical to success and differentiation cannot be achieved by a company that does not focus one hundred per cent on how to best leverage its competitive advantage.

Gary Hamel argues this point in *Leading the revolution:* "Without radical innovation, a company will devote a mountain of resources to achieve a molehill of differentiation. The amount spent on advertising indistinguishable soft drinks, the legions of telemarketers trying to induce customers to switch from one mediocre long-distance carrier to another, the millions of 'free' miles given away by airlines to induce customers to remain 'loyal' despite uniformly awful service, the marketing investment needed to get investors to pay attention to any one of the more than 3,500 mutual funds available in the United States, the resources expended in producing half a dozen look-alike television newsmagazines, the 'incentives' car companies have to pay to move indistinguishable autos off dealer lots - these are just a few examples of the high-cost, low-impact futility of carbon copy strategies."[4]

A good example of transformational outsourcing is the partnership between UK-based Easy Group and Wipro. Easy are well known in Europe for their low-cost airline and car rental chain, but they recently decided to enter the cinema business. The differentiation between easyCinema and other cinemas is that the technology is an integral part of their business model. Customers buy tickets online or from a terminal at the cinema, there is no human interaction and there are no popcorn outlets - customers are advised to bring their own.

The easyCinema computerised ticketing system will charge a variable price depending on the popularity of a film, time and how far in advance the movie is booked. This makes it possible to watch films at the first easyCinema in Milton Keynes for almost nothing, provided you book several weeks in advance for the lunchtime showing of a film like *Gigli* - remember that one? Easy group claim that working with Wipro saved 45 per cent compared to the cheapest alternative bid for the contract.[5]

However, transformation can be dangerous and managers are afraid of organisational change. They need to be aware that the twenty-first century consumer does not tolerate average companies. Transformational outsourcing may be your first step to long-term survival.

The main reasons for choosing a transformational outsourcing solution are:

- To redefine the supply chain; creating new and better relationships with suppliers and customers.
- To enter new markets.
- To overhaul the time-to-market process for new products and services.

Business Process Outsourcing

BPO is the hot ticket in outsourcing in this early stretch of the twenty first century. Though the idea of BPO has been with us for many years, the advent of inexpensive global telecommunications and the Internet has paved the way for complex services to be provided from India.

BPO generally means that an entire function, including computer systems, corporate assets and employees, are transferred to a Business Service Provider. Many services are being delivered from India this way, for example:

- Call and contact centres.
- Email and chat-based customer service.
- Document processing.
- Payroll management.
- Human Resources management.
- Accounting services.
- Financial service processing and operations.
- Airline ticketing.
- Market research.

- R&D.

In fact, where a service does not require a physical presence, then India is well-placed to offer a BPO solution. Each month new services spring up, stretching the very limit of where people thought a remote service might be able to go. When my doctor was conducting a physical examination prior to my (successful) attempt on the London marathon, it was no surprise to hear him declare that he has founded a BPO firm in India dedicated to the transcription of medical Dictaphone messages.[6]

BPO is growing in complexity and value as more companies realise the benefits it has to offer. The value to a client of letting a vendor manage and improve business processes is far beyond the earlier use of outsourcing for the management of technology infrastructure. Accenture call it Business Transformation Outsourcing for a good reason - the vendors usually improve what the client is already doing.[7]

As is often the case, the financial services sector is leading the way. In the Financial Times, Shelley Singh commented on the scale of the processing operation one bank has created in India: "Citibank, part of Citigroup, has 100m credit card holders around the world. Annually the bank makes 5bn calls to solicit new business and sell fresh plans to existing clients. It has invested in eServe International, a transaction processing company based in Mumbai. eServe (formerly known as Citicorp Securities and Investments) has more than 3,000 employees working in nine Indian cities, from where they service Citigroup entities in 23 countries. eServe processes 70m transactions-loans, cash management, credit cards, insurance policies and claims - and 20m customer interactions (through voice, web and e-mail) a year."[8] Impressive numbers.

As this increase in value progresses, BPO is gradually shaking off its image as shorthand for call centres alone. BPO services do include call centres, but there are many more business processes that can be outsourced to India. When I visited the SAP R&D laboratory in Bangalore I found myself in a new world. The colourful office was filled with glass meeting rooms where designers and engineers could be seen in animated discussions, creating a future for new SAP products from India. I felt a similar sense of awe when I recently visited Infotech Enterprises, also in Bangalore. They work on engineering R&D, but not just for anyone. They are involved in complex aircraft engine design work for Pratt & Whitney and engineering services for Bombardier.[9]

The fact that these world-leading organisations are performing complex research or design processes in India demonstrates the level of maturity and quality that is available in the Indian BPO sector.

Emphasising the importance of BPO to modern organisations Detlev Hoch, Head of the Global Software and Services Practice at McKinsey, said: "BPO is no longer an option. While you sit and debate employment issues, your competitors will race ahead of you."[10]

Just a few years back, who would have imagined that an offshore firm such as Office Tiger could handle your tax return - and word processing in multiple languages? In the equity boom at the close of the millennium, who could have predicted that major investment banks would be turning to Irevna or Evalueserve for stock market analysis? Or that the 'where's my stuff?' enquiry you sent by email to

Amazon.com would be answered by IBM's BPO arm, Daksh? These are all examples of Indian BPO - today.

Writing about BPO in Fortune, David Kirkpatrick asked: "Where is work most efficiently done?" He concludes: "In the age of the Internet, a company's location hardly matters. That's starting to make labour little more than a commodity."[11]

Indian web portal rediff.com summarised the extraordinary growth of BPO in India with this comment: "It took software 25 years to achieve a people strength of 500,000; in BPO people strength has in five years already surpassed 100,000 and will employ well over a million in a little over five years. This will be made possible by the fact that only 5 per cent of the processes which can be globally outsourced are now being outsourced."[12]

The higher-value BPO market is set to grow even faster than regular BPO services. According to a recent study by Evalueserve, the global KPO market is expected to grow at a cumulative annual growth rate (CAGR) of 46 per cent, from $1.2 billion in 2003 to $17 billion in 2010.[13] Compare this with the prediction for the low-end outsourcing services market. This is expected to have a CAGR of 26 per cent, from $ 7.7 billion to $39.8 billion in the same period. It is an amazing prediction - this industry will grow year-on-year by approximately half.

One of the dangers in being successful is that everyone wants to join the bandwagon. As BPO has become a viable business model and is now a true success, many small and unknown players are jumping in to the business, trying to grab their own slice of the pie.

Clearly you would perform thorough due diligence on your BPO vendor before agreeing a contract, so it goes without saying that the BPO firms touting for business with a Hotmail email address and a cellphone number are not worth calling back. As Selvan Swamy, CEO of Irevna, a financial-research firm - purchased by Crisil in October 2004 - with offices in Chennai, New York and London, said: "'You can't just throw a bunch of smart people into a room and expect it to work. We've got the scars to prove it." [14]

Variant Services

Managed Offshore Facilities

i-Vantage has created a very interesting blend of services they call Global InServe. This basically allows a foreign company to create and own a subsidiary company in India, but with i-Vantage managing it using their standard incubation service for start-up companies.

They claim it reduces the headache involved with starting a new offshore site in India and reduces the cost involved in hiring consultants to advise on launching offshore because i-Vantage handles all the detail.

"Our Global InServe offering allows companies to create and manage their India delivery center sans the hassle of deploying and running an offshore operation," said president & CEO of i-Vantage Inc. Amit Maheshwari.[15]

Five multinational companies have now employed the services of i-Vantage and their Global InServe service to create their own offshore software development centre. The company is doubling its capacity and has recently invested a further $3m into their Indian facilities so the idea does appear to be working.

This is a variant of the Build-Operate-Transfer model where an outsourcing vendor builds and runs a new facility, but the client has the option to take ownership of the facility if they choose to do so by a specified date.

Distributed Consulting

One of the common complaints about outsourcing to India is that the offshore team is too remote to appreciate what is really going on back at the client office. Not only do they not experience daily life within the client organisation, they may also have low domain knowledge.

Many of the vendors have approached this problem by ensuring that the outsourcing contract allows for an onshore team in addition to the team in India. The onshore team provide strong business knowledge and are able to track the 'water cooler' issues that really make a difference to a client.

Describing this onshore/offshore blend, Arjun Malhotra, Chairman and CEO of TechSpan said: "We attempt to maintain at least 30 per cent local staff at all times. This includes industry-leading domain experts who are not only conversant with the client's business and market but often serve as advisors in the formulation of a client's IT strategy."[16]

Other Variations

Selective Sourcing

This term describes a blend of sourced and in-house activities. In the case of IT outsourcing, it may be that a vendor manages the global network and infrastructure while other IT functions, such as software development remain in-house.

Most outsourcing is in fact selective, as it is unusual for a company to hand over everything it does to third party vendors. Often the company will have a selective sourcing strategy to determine what can or will be outsourced.

It is also worth noting that as BPO matures, many client firms are considering the idea of a 'bundled' service. The idea is that if a vendor is managing your IT infrastructure and they also offer a BPO service, then a better deal can be negotiated for them to bundle together an outsourced IT and BPO offering.

InSourcing

This practice creates an internal market within an organisation so the service is delivered using the same principles as an outsourced service only the resources all remain in-house. The internal service provider will contract with the internal clients and a service level agreement will be monitored to ensure the service is satisfactory.

Insourcing can be a useful tool. It does ensure that internal service departments are given the resources they need to provide a defined level of service. This is often a major improvement on the status quo; however there is none of the upside of outsourcing such as industry expertise and cost reduction.

Transitional Outsourcing

This is the practice of outsourcing services during the transition from one state to another. Often when a business goes through a period of major change, it may want some additional help managing the previous state - allowing the in-house employees to focus on the new strategy.

This is particularly applicable to information technology, where a move from one legacy system to a new platform will require extra specialised resources to maintain the legacy system.

Chapter Checklist

- Process Mapping is the essential process of research where you map what you are doing against its criticality and decide on what can and cannot be outsourced.
- Tactical Outsourcing is short-term sourcing with immediate gain, such as employing an offshore team to build a new web site.
- Strategic Outsourcing is the use of outsourcing as a strategic business tool.
- Transformational Outsourcing is the strategic use of outsourcing where it creates a new business or transforms an existing one. Often the opportunity would not be possible without the outsourcing arrangement.
- Business Process Outsourcing is the management of an entire service by a vendor. Examples include call centres, airline ticket processing and research centres. The vendor owns the facilities and manages their own employees to deliver the specified service. Managing business processes, rather than just technology adds value to the outsourcing relationship - Indian BPO is growing fast.

Chapter 16: Success Criteria

Success is often hard to measure or define in life. Did you achieve success by getting an inflation-busting pay increase this year or did you deserve more? With an outsourcing programme, success is something that needs to be understood in more defined terms. This is essential for both the client and supplier to have an appreciation of what works and what does not.

Specific targets are a certainty. Just do not enter the offshoring programme with a vague idea that 'it will save some money'. Think about the end-result, rather than the process of getting there. After all, you are performing this function already, whether it is answering telephone calls or creating computer software. Outsourcing is just another way of getting the job done. Measuring whether the outsourcing programme really works is going to need some metrics and expected results.

Chapter 7 defined the drivers that are moving you toward the decision to outsource and chapter 13 should have helped to clarify the specific objectives. When you reach chapter 19, you will read further information on the definition of Key Performance Indicators (KPIs), the very well defined and specific measurement of service provision that define success or failure, but what are the 'big picture' elements of an outsourcing programme essential for success? Furthermore, is there anything specific about outsourcing to India that must be in the initial game plan?

Specific details of the programme can be codified in the contract and SLA; however these are the five areas that need careful attention in any offshoring programme:

- Get the right people in the right place
- Design your metrics for results
- Design KPIs for the future
- Build a great relationship with your new partner
- Benchmark the service against others

If these five critical areas are planned well then the programme is going to be a success. For example, if you planned a poor SLA, then enjoying a good relationship with the partner will ensure you can revise it with ease. These are the five 'outsourcing manifesto' items you need to print on a small card and carry around in your back pocket - as political parties like to do. However you need to deliver on your promises, unlike most political parties!

Everything in the Right Place

Patrice Hervé, a project manager at SG Software in Bangalore, said: "A key success factor is the use of an onsite manager. If the person does not have very strong management capabilities or the right mindset then there can be a problem."[1]

Hervé is referring to the practice of locating a manager from 'head office' out in the new Indian facility. His own role allows him to not only manage projects in the normal sense of controlling budgets, deliverables and project teams, but also to act as a mentor and business advisor because he moved to India from SG headquarters in Paris, France.

The team in India cannot know as much about your business as the staff on the ground in the main office. A European investment bank needs its Indian team to understand the intricacies of equity trading and settlement. An airline needs its technical team to understand the process of managing high-value frequent flyers. All these business processes are learned by the local service teams, because they speak to the business teams on daily basis. Pay careful consideration to how this knowledge will be created in the new team.

If you are planning a captive facility, then it is essential to get some of the business line teams to India. Ensure the end users visit the team and arrange a few key expatriations so there is always a person in the Indian office who knows how the end users think, feel and behave in Paris, London or New York.

Plan the relocation of people and travel throughout the programme; don't award people a trip to India for good behaviour. There will be a lot of flights booked throughout the transition and afterwards, but the initial and ongoing cost is more than compensated for by the success of delivering a great product from India.

The point Hervé makes is not quite so essential when dealing with the major outsourcing suppliers, though it is important to ensure your end users meet the outsourced team. With a vendor team, you don't need to worry about placing your own experts in India because companies like TCS, Wipro and Infosys already have experts with experience of working in Europe or the US.

It may seem like a cliché but the career path of a young Indian knowledge industry worker can often be summarised thus; graduate from school, build up a couple of years of local work experience in India, work for a decade in Singapore, Europe or the US then return home to raise a family.

This is a common story for a number of reasons, most Indians want to experience the better opportunities and higher wages on offer outside of the country, yet there are many attractive positions now tempting people back home. Many are now actively seeking a job back in India because it is where the 'action' is taking place. Some people do stay in their adopted homes, but many return to raise a young family.

The point of this story is the fact that there are many highly-skilled people in India working for the outsourcing suppliers with experience of US and European companies. Outsourcing suppliers love these returning knowledge workers because they have a decade or more of solid work experience in the same places that the clients are based. They offer the same sagacious counsel to the team members around them that Hervé offers to those in SG Software.

Design Metrics for Results

One of the common errors faced when designing the measurements for the programme is to get tied down in measuring the outsourcing programme itself. Who cares about measuring how you deliver a service to the business? Think more about structuring your metrics to you measure the value-add created for the business, rather than how that process is delivered.

Robert H. Schaffer and Harvey A. Thomson describe in the Harvard Business Review[2] how the difference between managing activity-based and results-driven change to your company can be the difference between success and failure. Their views on this concept should be a mantra for any manager involved in an outsourcing programme. Break down the long term process into a series of smaller goals, so results are visible to all.

Think of what you want to achieve by outsourcing over that long term period. Often your senior management will be looking for results in an impossibly short window of time - a total Return on Investment (ROI) within 3 months. You can start planning all activities around that 3-month target and end up failing or work back from the results you want to achieve. If a realistic ROI is going to take 6 or 24 months then make sure the boss understands why. That process is a lot easier when the projected results are the basis for the plan.

Motorola India Electronics Ltd is a great example of an offshore success story. From the launch in 1991, it took the company just two years to achieve CMM Level 5 - the highest possible level of certified software quality. This was two years ahead of plan. This achievement was managed through a constant measurement of project data and working to direct resources at results, not just a change in working practices. Quality Manager Sarala Ravishankar explained:

> "We use a lot of numerical data; data on projects such as cycle times, quality, productivity and defects. We have systems in place where project data is captured, analysed and made visible on at least a monthly basis to management. Almost everything we do is measured and the measurements are tracked visibly in a continuous attempt to move them in the right direction."[3]

It is an important distinction. Make sure the metrics are in place and that they are observed so the entire ship is being steered in the right direction.

Sometimes it can be hard to plan metrics for an outsourced process. Not everything lends itself to easy and discrete measurement. In an essay for Knowledge@Wharton, Professor Ravi Aron comments: "The outputs of some processes are clearly understood and are readily quantifiable. Processes such as medical transcription, in-bound call support and data transformation (from paper to digitised data stored in a database) are all clearly understood and their outputs can be measured. In the case of processes such as customer analytics, MIS reporting, yield analysis or education and training, however, the task of measuring outputs is much more complicated. Useful metrics to measure the effectiveness of such procedures simply don't exist."[4]

High-value knowledge tasks can be hard to measure as Professor Aron suggests. An equity analyst based in Mumbai can't be measured on the number of published reports alone, the quality will suffer. Take the time to consider what results you are seeking from the entire programme before defining how you will measure the service.

Design KPIs for the Future

Devesh Nayel, Vice President and Practice Head of Finance and Accounting at Progeon in Bangalore explained to me that good KPI metrics are the most important factor in the success of an offshore transition. He said: "Cost per payables transaction, cost per payslip processed, cost per manhour or cost per accounting head are good metrics for an accounting project." He added: "One could also have subjective measures like the number of complaints in a month, or number of customer calls dropped in a month, or cycle time to resolve customer support queries. It really depends on the nature of the particular project."[5]

Nayel is right to comment that KPIs can be very objective or highly subjective. While a basic framework of KPIs will be defined by the outsourcing supplier or captive centre manager, it is essential to think further into the future. Think beyond the transition. It is fine to be worried about how you will move the projects to India - it is a big transition project, but the KPIs will live on beyond the transition process, try thinking from a customer perspective as Nayel suggests.

Relationship Building

This is going to be a long term relationship between partner firms. Outsourcing is not just procurement. You can't keep the supplier at arms length without any access to useful information. Try that and the contract will fail. For the supplier to perform well, they need to behave as if they are a part of your firm and that means you need to work with them as if they are.

Karen Williams, Director of Marketing at eFunds, believes that the relationship between the client and supplier is one of the key areas that determine the success of any offshoring programme. She said: "You need to be very upfront and open with each other, in an effort to build a good relationship. This cannot be any form of master and slave relationship, it has to resemble a partnership." She adds: "You may often be jumping from a relatively small pilot to a large commitment of time, finance and resource and there will be teething problems along the way."[6]

Think about it. There is a huge amount of material and procedures all locked away in the brains of your best people. That information needs to be in the open and documented for an outsourcing relationship to really work well. It can be a genuine wrench for some. A 'them and us' situation can develop between the client and supplier teams. This needs to be planned for right from the start.

A. S. Lakshminarayanan is Vice President and Country Manager, UK & Ireland, for TCS. I asked him about the criteria used when TCS takes on a project for a client and he explained to me that there are three very basic measurements that define success for any new project:

- The outsourced service level must at least match the existing service level.
- It must be possible to reduce cost while retaining that service level.
- It should then be possible to increase the service level.

TCS aims to start building the client relationship right from the first meeting. These basic building blocks assure the client that 'things can't get any worse' and the intention of TCS is to come on board and to improve the process. This client-soothing three steps approach is reminiscent of Eddie Cochran's '3 steps to Heaven', though TCS promises to match what you already have, reduce the cost and then improve the process, rather than finding a girl to hold tightly. Maybe they missed a marketing trick?

Lakshminarayanan said: "These are the most basic measurements of success. TCS also measures the index of backlogged work, so we seek to reduce the backlog and reduce errors too. It is important to keep sight of the lower-priority work as well as the high-profile tasks."[7] He added: "TCS has some very elaborate metrics to help initiate the project move, but these will usually need to be redesigned a couple of years into the outsourcing programme as the goalposts will then shift from transition to maturity."

The TCS approach is to build the relationship with the client, introducing basic metrics that everyone can understand and then revising them as both sides become more familiar with the ongoing programme. It is aimed at building client confidence from the start and helps to cement a great relationship for the long term.

Benchmark the Service

Human Resources departments have long used benchmarking to determine if people are being paid the right salary for the job they perform. It is now becoming more common for clients to demand that their outsourced service and its price be benchmarked against what can be offered elsewhere, so don't feel that you can't check on the competition just because a deal has already been signed with outsourcer X.

In *Computer Weekly*, Mark Vernon reports that Deloitte Consulting believe 77 per cent of selective outsourcing deals work well. However Deloitte has also reported that 25 per cent of outsourcing deals fail with the first two years and a further 25 per cent fail within the next five years. Vernon reports a client revolution: "Jacques Hales, director of methods research at Butler Group believes that the next 10 years will see a dramatic shift in power from the service supplier to service users, since buyers will increasingly insist that suppliers back up promises with tangible results. This shift will be triggered by a growing board-level scrutiny of IT budgets and a requirement to demonstrate returns on investment."[8]

It may be that your executive management seeks a consistent drive for value. Don't fear the supplier. Remember that the outsourcing supplier may be a partner in service delivery, but they are still being paid to provide that service so benchmarking them against others before and during a contract is acceptable.

Sometimes a full set of metrics is in place, but the client is still not happy with the service being offered. Sure, everything is as originally planned, but the marketplace may have changed since the deal was structured. This discord is usually created because the outsourcing deal has been incorrectly structured with short-term requirements in a long-term contract.

Douglas Hayward writes in the Financial Times: "Clients compare their performance to that of competitors in functions either controlled of heavily influenced by an outsourcer, such as call centre response times or transaction processing costs. The outsourcer gets paid by results, encouraging it to invest in efficiency-producing techniques."[9] Hayward adds: "'Benchmarking has altered our thinking on several matters, such as how we provide customer service and what it is that customers want,' says Steve Owen, partnerships and operations director at National Savings & Investments, a UK government agency four years into a 15-year outsourcing deal with Siemens Business Services."

You may be happy with your supplier, the contract and the SLA, but don't ever stop looking at what the marketplace has to offer.

Summary

There are a number of basic policies that need to be adopted during the contract creation and transition process that can have a strong influence on the overall success of the offshoring programme. It is advisable to adopt these basic policies as 'golden rules' throughout the entire process, even once the programme is established and is operational.

Meena Ganesh, CEO India of British retailer Tesco explained to me that no one should lose sight of the fact that not everything can move offshore. She said: "First, you must create a solid set of metrics to define exactly what can move offshore and what will happen when it moves. Second, it is essential to have all requirements stated and agreed up front so the entire transition plan can be measured from a baseline, with regular planned checkpoints."[10]

Strong words from a seasoned professional. Don't try to offshore everything. Think about what can and cannot move, then put the right measurements in place along with a plan of the entire transition process and watch your new team grow.

Chapter Checklist

- Get the right people in the right place because you need that business knowledge in India somehow, whether they are your own employees or gurus supplied by the outsourcing company.
- Design your metrics for results because large offshoring projects often get weighed down by the process of managing the transition itself. You don't win any management awards for offshoring if the team can't deliver what the old team were delivering. Keep focused on results and design the metrics to ensure this is what is being monitored.
- Design KPIs for the future because those performance measurements need to look beyond the transition. Think of what your customers expect, not the person managing the outsourcing programme.
- Build a great relationship with your new partner because they need to become as close to you as the former internal team. They need to be your partner, not just a vendor that is dealt with by the procurement department. Try that 'hands off' approach and you can wave goodbye to success.
- Benchmark the service against others because even though your supplier is working with you to achieve mutual success, they are still part of a competitive marketplace. You need to work with the supplier to ensure their service and price is comparable to other industry players.

Chapter 17: Vendor Selection

Vendor selection is the process of choosing a partner or supplier to work with on the process that will be outsourced. It is possibly the most critical part of the entire road to outsourcing because, after months of planning, you have taken the decision to go ahead with the project and that plan must work.

In many cases, vendor selection and management has been treated as nothing more than a procurement decision. This approach does not work with major offshore outsourcing projects because procurement is generally geared to achieving a given service for the lowest possible price.

Selecting a vendor by choosing the lowest quote, then offering the contract on the condition they reduce the price a further ten per cent, may well work for purchasing office stationary, but not for strategic sourcing. Ian Pearl, director of financial services outsourcing consultancy Scindo, said: "This style of vendor selection and management needs to be consigned to the history books. I can't believe anyone thinks that there is any value in developing an adversarial relationship with a company that should be your strategic partner."[1]

Pearl makes an excellent observation. Companies don't outsource processes that are unimportant. There are relative levels of importance, but accounting, technology, human resources and client management are all typical processes that are regularly outsourced and yet each one is a critical part of the supply chain. With this in mind it becomes even more important to establish a good relationship with the right vendor.

Robert W. Krahl of management consultants Transition Partners states a long list of questions that should be continually asked right from the start of the selection process: "Are their working styles and personalities compatible with yours? Will the vendor bring the 'right' policies, procedures and management disciplines? Will the vendor have the courage and maturity to implement the necessary disciplines? Can the vendor be trusted to be a long-term partner? Does the personality and values of the vendor align with those of your organisation?"[2]

That's a long list of questions. I hope to provide some answers.

There are a couple of situations where the type of competitive tender described in this chapter is not applicable. Some organisations use a preferred supplier list and will not open their doors to new bidders and for certain niche services there may be only a single credible supplier in the marketplace, in which case there can be no tender.

The Critical Path to Finding the Right Vendor

David Porter is Vice President Application Delivery at Electrolux IT Solutions, the technology division of the global Electrolux group. In 2001, Electrolux took the decision to outsource much of their IT support and programming work in order to move their internal staff up the value chain and improve service delivery. In a NASSCOM/FT conference presentation Porter listed the following steps to the contract award[3]:

- Request for Information (RFI). Sixteen companies responded to the initial tender with basic information on how they might provide an outsourced service to Electrolux.
- Site Visits. Porter and the Electrolux executive team visited India to meet the most impressive seven companies, based on the RFI data.
- Request for Proposal (RFP). Four companies were then invited to make a formal proposal for the business, including legal terms and service cost.
- Negotiation. Two companies were discarded at this stage allowing a final contract negotiation process to take place between the most impressive two before the final contract award.

Porter stated that throughout the entire process Electrolux considered that any partner must have the following attributes:

- Accredited Process Quality
- Evidence of large scale applications management
- People excellence

Porter found that the main differentiating factors between different outsourcers were:

- Culture
- Motivation
- Price

The experience of Electrolux neatly outlines the major steps to finding a partner in India. Their own vendor selection process spanned a period of seven months; however every selection process is different as each project has differing qualities so this is no indication of a 'typical' timeline to selection.

Chapter 16 outlined some of the process mapping and criticalities planning that are essential steps before any decision to outsource. This analysis of which are your critical processes and which can be outsourced will feed into the creation of the initial RFI document.

The steps taken by Electrolux and most other firms who have entered into an outsourcing contract can be summarised as:

1. Research the supplier market.
2. Issue the Request for Information (RFI).
3. Visit the supplier sites in India.
4. Visit reference clients.
5. Issue the Request for Proposal (RFP).
6. Negotiation with the final two players.
7. Contract Award.

In their book, *Intelligent IT Outsourcing*, Sara Cullen and Leslie Willcocks list supplier selection as step 5 of 8 in the outsourcing process. Before choosing a partner, they propose you first need to[4]:

1. Discard myths: Prepare realistic expectations.
2. Prepare strategies: Plan the outsourcing model.
3. Target services: Feasibility planning.
4. Design future: Draft SLA, pricing, contract.

The message is clear. There is a lot of preparation to do before you get on the phone to any potential suppliers and ask them to bid.

Research

Vendor selection process is a multi-layered process. The client team will start research into potential suppliers long before any official evaluation. This initial and ongoing research helps to ensure that the initial RFI is delivered to the right potential suitors.

It is essential to maintain the research effort even once the shortlist has been drawn up, to ensure that you are aware of any impending changes to the marketplace.

Request for Information (RFI)

The RFI needs to summarise your requirements for the potential supplier. The level of detail needs to be enough to allow a good understanding of the effort involved in the proposed contract; however the suppliers are only going to express an interest, not a detailed proposal with pricing schedules. In addition, much of the information will be proprietary so it would be undesirable to share this with every outsourcing vendor in the marketplace.

In addition to a statement of your project requirements, the RFI should also state your preconditions for engagement. These are the basic expectations you have of any supplier that offers to engage with you, such as quality standards, size, location, stock market listing and so on.

Michael F. Corbett & Associates call this the 'prequalification' criteria. Corbett states: "Incorporating such criteria as demonstrated innovation and continuous improvement, proven capabilities, relationship dynamics, compatible culture, flexibility, company size and competitiveness of the solution into a profile sheet will not only help narrow down the list of providers, but will also help establish credibility among senior executives for the entire process." [5]

Some of the preconditions listed by Corbett can be determined in advance of any meeting and some need further research with personal contact to confirm.

Site Visit

The site visit is an essential part of the selection process. When you are faced with a dozen or more RFI documents and each of those vendors has sent a sales team to meet you, each time with a similar pitch, the site visit highlights the real strengths and weaknesses of a supplier.

In an article analysing the use of offshore resources, the Mckinsey Quarterly advises: "Information about the capabilities, tools and expertise of some offshore vendors is sketchy, so on-site visits (as well as references and research) are essential in selecting partners. First and foremost, potential ones should be ranked on their ability to provide all of the needed expertise. Another important consideration is whether their resources will be devoted solely to one's company, since an outsourcer that works for several clients simultaneously may require sophisticated resource - and project - management procedures it doesn't really have."[6]

The site visit can be especially important for members of the executive team that are not entirely convinced of the offshore concept. Get the doubters to come and join the site visits, to meet the potential suppliers in India. When executives of Standard Chartered bank conduct a presentation about their facilities in Chennai, they always include photographs of their employees and facilities. Why? Because the people look smart, they wear the same clothes as you or I and the office buildings are better than any in New York or London. Their Chennai office is a fantastic site and well worth a visit for anyone who doubts what can be achieved in India.

The Mckinsey Quarterly comments specifically on the people in India by advising that you also consider the track record of your potential partner in attracting top talent. It said: "To estimate the ability of a potential offshore outsourcer to ramp up and sustain its resources, companies should therefore try to gauge its financial soundness and history of attracting, training and reallocating talent. Talent in some key categories will undoubtedly run short as more companies begin using offshore partners, so only those with strong training and training programmes are likely to keep up with the demands of the work. Finally a potential partner needs a good local presence near the client IT organisation to communicate with it freely and to manage the project smoothly."

Most doubters become evangelical converts once they brush away the stereotypes and witness the service quality available from India for themselves. This is a story I have heard over and over again. Senior executives who are worried that their process is 'too complex' or that the 'time zones may be a problem' or that they have seen 'extreme poverty' or the tsunami damage on a television documentary about India. For the price of an air ticket, these same people return with their fears dispelled and are talking about when and how to manage the transition programme.

Offshore advisory firm NeoIT recommends that the site visit programme should also achieve the following objectives[7]:

- Improve your understanding of the present and future capabilities of the supplier.
- Enable you to understand the process the supplier will use and how this can be priced or discounted.
- You should have a better understanding of the background and reputation of the supplier.
- Your understanding of the near and long-term competitive marketplace should improve as you compare suppliers.
- The process of visiting India in person will help you to better understand the local culture and socio-political climate.

It is essential for the client to prepare in advance. The site visits will be conducted together during a business visit with a full schedule, so questions can easily be forgotten if they are not planned and documented in a standard format. If you have employed a consultant or advisory firm to help with the preparation of the site visit timetable then you should expect a briefing on each company to be provided.

In addition to bringing a standard list of questions, NeoIT advises on allocating your time with each potential supplier in a generally similar way, according to this structure:

1. Company information. 10%
2. Growth and financials. 5%
3. History, experience and capabilities. 30%
4. Operations. 25%
5. Client experience. 10%
6. Tour of the facilities. 20%

Of course, every supplier meeting will be different so these standard rules cannot be applied to every situation, but the objective remains to compare potential suppliers. It will be easier to make that business comparison if the same data is available for each supplier.

Reference Visit

The reference visit is not used often enough in my opinion. If one of your potential suppliers is reluctant to introduce you to a similar client then it should set off an immediate alarm bell in your selection process. For this reason alone, it can be a very powerful selection tool.

Although the main purpose of the reference visit is to witness the supplier providing a good service to a similar type of company as your own, the meeting can provide other useful insights. The people you meet will have gone through the same vendor selection process you are presently engaged in and are probably keen to share some of that knowledge.

They might have had a similar shortlist to your current one, so it can be interesting to learn how they arrived at the supplier they chose. Just learning about the process they used and the mistakes they made along the way can help you to avoid some of the same pitfalls.

Request for Proposal (RFP)

The RFP is the next step, once you eliminate the wheat from the chaff and start to focus only on the suppliers that are serious about taking on your service. It should comprise the following sections:

- Description of current process with cost and issues.
- Outline of the proposed relationship structure.
- List of all required processes and how they should be managed.
- Clear measurements defining the expected service performance.

Michael F. Corbett advises a focus on objectives and results rather than resources and methodology. This is good advice as some RFP documents can become labyrinthine in their complexity, with information on required headcount in various locations even before the supplier has had a chance to consider what is needed and where.

When creating the RFP, it is essential that you understand your own systems and processes through a process of discovery. The discovery process requires you to audit the processes you intend to outsource, so that you understand exactly what is required and what resources you are using at present.

Discovery is an essential process because it allows you to compare the real cost of operating the service in the present environment, allowing you to compare this objectively to the price your outsourcing vendor will charge. Rob Aalders, author of *The IT Outsourcing Guide* comments: "Discovery must be done. Its value is maximised if it is done early - producing a better business case, a better RFP, a better set of responses and a better outcome."[8]

The next couple of chapters enter into the contract and service level agreement (SLA). If you have created draft documents outlining your expectations from the relationship then these can be included with the RFP. Corbett advises: "Many organisations in fact include their performance criteria in the RFP so that vendors will understand the important goals and client expectations."

Both client and vendor should be aware that both the contract and SLA may change during the final negotiation, but including these documents with the RFP allows the vendor the best possible view of your expectations.

Due Diligence

When a contract is awarded, the vendor will want to conduct their own due diligence audit on your processes, in effect this is their own discovery process as they verify whether your numbers and estimates are correct. The RFP should include details of how you will allow the vendor to carry out the due diligence inspection.

Data room inspection means that you will supply all relevant information about your processes to a secure location, usually away from your office. The vendor can examine your discovery data in this location, along with any other required data they request. The alternative is granting free access to the vendor employees, so they can perform on-site inspections of your facilities.

Both options have their advantages and disadvantages. If the outsourcing plan is not known to the staff and you want to clear due diligence before an announcement, then clearly the off-site option is best. However, this means the vendor is relying on your internal data without corroboration by their own consultants. Vendor consultants gathering information on-site may be disruptive, poor for the morale of the people in the existing team and duplicative - as most of the information should already be available from the discovery process anyway.

Rob Aalders advises that these areas of your company will be scrutinised by the outsourcing supplier during the due diligence process:

- Human Resources: Numbers, qualifications, experience, benefits.
- Software licences and agreements: Applications, upgrades, databases.
- Other licences and agreements: Telecommunications, disaster recovery.
- Hardware: PCs, peripherals, network equipment.
- Non-IT-assets: Mobile telephones and pagers.

Aalders is focusing on a technology outsourcing agreement, but the principle is the same for any process. The people and the equipment they need to do their job will be audited by the new supplier and it should match your own discovery research. If not, then you may be in for a nasty shock.

Negotiation

The negotiation is best conducted between the client and the final two potential suppliers. Both these companies have won through your selection process and so either is in a good position to work with you, the only remaining issue is the detail of the contract.

Price is obviously a major issue at this stage and with two organisations competing for the contract it will usually be negotiated to a more favourable level for the client. The client needs to be wary of setting the price too low for an expected service. This just creates an unrealistic contract that will deteriorate into the type of adversarial relationship earlier described by Ian Pearl.

In their book, *Strategic Outsourcing*, Ian Benn and Jill Pearcy stress that you need to sell your own organisation to a supplier as much as they need to sell their service to you: "Negotiating an outsourcing contract involves a significant investment of time from beginning to end. Even at the selection stage, it is worthwhile entering the process with the aim of helping each prospective supplier put forward the best, most relevant offer possible." They add: "The more opportunity the prospective outsourcer can see for kudos or future revenue growth, the better the deal it will want to put together. The more it likes working with you, the harder it will work to secure the deal. And the more impressed it is with the potential of your operation, the better deal you are likely to get when it comes to negotiating risk/reward later in the process."[9]

Managing the price and performance balance is therefore the key to the negotiation process. You must be aware of your key goals and corporate values when entering the negotiation process, along with the values and goals of the outsourcing supplier. Corbett advises: "Capturing the 'intent' not just 'terms' leads to a successful system. Although a contract serves specific legal purposes, capturing the intent involves capturing goals and objectives, communication throughout both organisations, knowing when the environment changes, and the ability to ensure the continuity of information over time."

Elizabeth Sparrow, author of *Successful IT Outsourcing*, warns that the supplier's senior executives may bypass the negotiation process and win concessions from their peers in your own organisation, who are not fully aware of the implications.[10] Golf course conversations can be dangerous - be warned.

Contract Award

The contract award is a time for celebration, but before the champagne starts to flow ensure you have discussed the transition plan and ongoing evaluation plans.

The plans for how exactly to get from where you are today to the outsourced state must be agreed in advance along with the procedures you will use to monitor and evaluate your new partner.

Common Mistakes

Elizabeth Sparrow, explained to me her views on the most common mistakes made when selecting a vendor[11]:

1. It's increasingly the case these days that companies are looking to re-compete their outsourcing contracts at the end of the initial term, perhaps to test the market for a better deal or to extend the scope of outsourcing. In these cir-

cumstances it's difficult to establish a level playing field between the incumbent supplier and potential new vendors. The mistake most commonly made in my experience is to give too much weight to the perceived deficiencies of the incumbent supplier. Organisations that don't have a realistic assessment of their own performance as a customer soon learn to their cost that a new vendor does not solve all their problems.

2. Good market intelligence is particularly important these days when company failures, mergers and acquisitions are common. Organisations need to take care not to be caught by surprise by vendor company developments shortly before or after an outsourcing deal has been reached.
3. I have seen some organisations place too much authority and responsibility on their external advisors. Consultants brought in to help select an outsourcing vendor may be very well equipped to design the selection processes and structure the contract, but it is crucial that the senior IT and business managers are actively involved in selecting the vendor. They ultimately have to work effectively with the vendor to deliver benefits through outsourcing.

These are clear and effective reminders for any organisation seeking an outsourcing supplier.

Sajai Singh, a partner with law firm J. Sagar Associates in Bangalore, comments that many organisations fail to work with an appropriate Non-Disclosure Agreement (NDA) during the vendor selection process. The NDA is designed to protect both parties during this sensitive period as revenue, client and capability information must be revealed for any bid to be serious. Singh said: "NDAs should be signed by all concerned, including the Service Recipient. While enforceability of NDA's in India is questionable (there is no clear case law on the subject), it is advisable to enter into a clear NDA specifying the scope of disclosure and the harm which will be caused if the information is disclosed to third parties not related to the transaction. This is clearly imperative as extensive disclosure to each of the parties concerned happens during the negotiation process. Each party should send detailed queries to the other side and seek detailed written responses from them. All material verbal disclosures should be followed by a written note confirming the accuracy of the verbal disclosure. Without this level of clear and open disclosure, the parties would not be able to evolve a transparent and fair contract and relationship between themselves." [12]

Tapan Mukerji is President & CEO of Collab Information Systems, a collaborative sourcing company. His company pre-approves small to medium outsourcers and connects them to potential clients, also of SME size. When I asked him about the selection process he warned: "All dates do not necessarily lead to marriage."[13] Mukerji advises that an independent consultant is involved in the process, due to the relative inexperience a client will have of working in India. He said: "You need a consultant who is familiar with the story of both client and vendor. I suggest several face to face meetings with the potential outsourcer, inspection of their facilities and a review of their previous project work. In my opinion, seeing is believing - nothing better exists."

Consulting and outsourcing delivery experts Stylus note that one of the key issues is scope creep and the associated misunderstanding. Stylus said: "Often there are conflicts resulting out of poor understanding of the scope by either party." [14] They advise these six pointers for partner selection:

1. Examine the development partner/service for good documentation practices.
2. Examine your service provider's requirements documents to verify it truly reflects you needs.
3. Ask your service provider to submit their methodology and project plan.
4. Ensure your service provider has clear and excellent communication channels.
5. The project scope must be well defined and understood by both sides.
6. Ensure your service provider understands your business model. A service provider who sees the bigger picture of your business is always the better choice.

Dennis McGuire, president of Technology Partners International says that executives often sign up to a vendor before considering how they might move from the present arrangement to the outsourced structure. The solution needs to be finalised, a transition plan agreed, multi-year pricing arrangements discussed and ongoing project governance put in place. He said: "Unfortunately, it takes them twice as long to do those things after they sign the contract as it does to do them before."[15]

An additional mistake is to trust the wrong advisor. Elizabeth Sparrow mentions the problem of letting your consultants do too, much, but in an unfamiliar offshore environment it is likely that you will need their help. However, India is filled with 'advisors' that are interested in nothing more than how much money they can take up front before vanishing.

P. Venkatraman, director of Vital Link outsourcing in Mumbai said: "There is more Scotch whisky drunk in India than is made in the whole of Scotland."[16] I think most of it vanishes in the 'drink all you can for 1000 rupees' offer at the Taj President hotel in Mumbai. Most of the consulting scams actually take money from the suppliers, rather than genuine clients. A supplier with an investment in facilities and human resources may get a call from a 'consultant' who promises to line up a multimillion dollar contract from the US/UK/Germany, provided they supply some money in advance to help with flights or hotels.

In June 2003, an American national was arrested in Delhi and charged with cheating several call centre operators out of thousands of dollars each. John Schofield, of Salt Lake City in Utah, had spent the previous 18 months in India posing as a consultant for major American firms, promising business and then vanishing.[17] P. Venkatraman summarises the consulting scam: "Take a gullible and ignorant victim and plant in him greed of untold wealth. Be thin on the due diligence. His ignorance will not make him see 'through' it. If he asks 'funny' questions then tell him that he is not worth it. Make him part with the money. Then run."

So do get an offshore advisor, but ensure the advice is from a reputable company with freely available references in India, or a firm that is local to you and has knowledge of India.

Selecting a vendor can be hard work. It requires a great deal of research, meaning time, effort and investment. You will almost certainly need some consulting advice, whether it is to draft the required documents or just to introduce you to some potential partners in India.

The effort will pay off though. A good outsourcing partner becomes a key part of your own organisation. They enter your supply chain and become a critical link. This is the approach of the future as Charles Handy has described; of managing tribes of organisations in order to deliver a service to your customers.

The author, teacher and writer Peter F. Drucker once said in an interview about outsourcing: "I met with a very big company not long ago - around 80 or so on the Fortune 500 list. They expect to be number 5 on that list in 10 years, and I shocked them by saying I don't think that list will exist, so the goal is meaningless. That list basically assumes that everything you do is under your roof and is owned by you and run by you. But already in many companies, most work is done through alliances, joint ventures, minority participation, and very informal agreements which no lawyer could possibly handle."[18]

With a future based on the quality of your sourcing relationships, now is a good time to start planning the best approach to finding great partners. My own organisation strives to help with this process. The Commonwealth Business Council provides completely independent advice and has a database of vendors in several countries, including India, where due diligence has already been completed. This is a useful resource for anyone who needs a partner and wants to move fast. The website for this information is: www.cbctechnologies.com.

Chapter Checklist

- Vendor selection is always critical. This is going to be your key partner for this service so you need to ensure the right company is chosen. Remember, every outsourced process is an important process.
- Research and market intelligence is essential prior to the RFI, so you are aware of the players in the market, but also during an outsourcing relationship. It pays to be aware of what your supplier is doing elsewhere.
- The RFI is the initial request for information from prospective suppliers. It contains enough information about the proposed project for them to express an interest, without requiring any level of detail.
- Non-Disclosure Agreements should be signed by client and vendor so the negotiation can be open and transparent.

- A site visit is essential when setting up an offshore outsourcing agreement with an Indian company. Your executives must visit India to see the facilities in person if they are expected to support the project.
- A reference visit is not always used or required, but it can be a useful method of experiencing the relationship you are about to enter. Most suppliers will allow you to meet their existing clients.
- The RFP needs to provide as much information as possible to the potential suppliers, allowing them to provide the best quality proposal.
- Due Diligence is the process of allowing the service provider to review the environment they are about to take responsibility for. The similar process of examining your own systems and processes prior to outsourcing is called 'discovery'.
- Negotiation is the final hurdle, where you can compare just two vendors who meet all your criteria. Now you can focus on the best price and performance blend.
- Compare like for like when studying vendors. Existing vendors or internal processes may seem worse than they really are.
- Get involved in the evaluation process. Don't let the hired consultants do all the work because once they leave you will be required to manage the relationship.
- Transition and ongoing evaluation must be considered and planned before you sign the contract as they will take far longer to agree once the service is already outsourced.

Chapter 18: Legal Contract Arrangement

The contract is the key point in the outsourcing arrangement that can make the difference between a smooth-running partnership and an expensive nightmare that winds up gracing the cover of every global business newspaper.

The contract arrangement is usually completed in detail once the vendor selection is complete. It is legally binding and defines the agreement to provide or purchase a service between both parties at both a legal and practical level.

Outlining the basic role of a contract, offshore outsourcing experts, Michael F. Corbett and Associates, note: "Providing a framework for the outsourcing relationship, the contract is intended to memorialise the arrangement and arrange for the negotiation process. This formal commitment becomes the basis for moving forward, as well as setting specific legal purposes."[1]

The outsourcing lifecycle begins with the vendor selection and is confirmed by the creation and agreement of a contract. What is often forgotten, in the noise of contract signing celebrations, is that this is a long term agreement. The contract needs to specify how the service will be delivered and also manage the process of regular renegotiation or termination. This overall strategic view of the contract as an agreement for the creation, management and eventual termination of the outsourcing relationship, is the healthiest approach to crafting a working document that will not constrict the relationship.

Independent outsourcing advisors Gartner believe that the two parties need to commit to the new relationship more in the style of a marriage than a transaction. Gartner advises: "When negotiating the contract, it's tempting to believe that every concession by the provider is a win for the buyer. The more wins, the better. Wrong."[2] Gartner believe that a client hammering out the lowest cost deal from a supplier will end up paying for their lack of relationship skills further down the line.

The outsourcing contract negotiation is not straightforward and can be extremely complex when everything from cross-border legal issues and intellectual property to transition details are thrown into the process. This chapter aims to serve as a reminder of the key considerations for the offshore outsourcing contract and a primer on the potential pitfalls.

Key Considerations

Indian Location

One of the most important things to remember about India is that it is a remote and very different country. The legal system may resemble Britain, but the law and process of law is different.

When I asked Rob Aalders, author of *The IT Outsourcing Guide*, about the key considerations of the contract process he said: "This can be a really tricky issue. I think the most important thing to do is engage a local [Indian] high-powered law firm to consult with your usual domestic firm. They need to agree on the processes of law, the cultural management of legal disputes and the time issue regarding bringing a case to court in India."[3] On this last point he added: "It is essential that the reality and probability of realising contractual damages and repatriating them are well understood. The key area is not so much the contract per se, but the context and cultural framework in which it has to be realised."

Kurt Vandenberg is a Partner at financial services consulting firm Capco, with global responsibility for Capco's offshore delivery activities. When I asked him about offshore contract issues specific to India he warned about telecoms legislation. Vandenberg said: "Telecoms legislation is quite tricky in India. Telecoms costs can be quite high depending on how you handle voice and data traffic. The handling of voice and data is subject to some arcane laws."[4]

It is therefore important to appoint local Indian counsel, even in addition to your regular legal team. Local counsel can brief your own advisors on local laws and regulations specific to the outsourcing contract being prepared with your supplier.

Pre-Contract Steps

It is important to step back just before creating the contract, to ensure that the information expected of the vendor selection process has all been collected and is satisfactory. Angus Finnegan is a partner at law firm Osborne Clarke. In a presentation to the UK National Outsourcing Association, he listed the following actions as essential steps prior to entering the contract negotiation process[5]:

- Request for Information and Invitation to Tender should not form part of the contract.
- Viability study.
- Customer 'housekeeping'.
- Supplier due diligence.
- Identifying relevant assets.
- Third party contract review.
- Identify affected employees.

This checklist reflects the basic points to remember before entering into the contract drafting. For example, it would be impossible to consider planning the human resources impact without first identifying which resources are affected. As Finnegan suggests, it is important to create a checklist of information that can be brought to the table during the contract negotiation process.

Documentation

Elizabeth Sparrow, author of *Successful IT Outsourcing*, believes that the documentation of the contract itself is often very poor. She said: "I've been surprised by the number of times I've found incomplete or even missing outsourcing contracts. This seems to crop up:

- If there is insufficient time available when the outsourcing deal is first agreed, no one quite gets round to documenting the agreement and no contract is actually signed; or
- When requirements develop and change, corresponding contract changes are not made and signed; or
- After personnel changes at both customer and vendor organisations no one who was involved in the original deal is around and no one remembers quite what happened to any contractual documents."[6]

Sparrow outlines the recommended basic structure of the contract in two major parts:

1. Main clauses that include general terms and conditions governing the rights, powers and obligations of both customer and supplier and general statements about the services to be provided, assets to transferred and staff who will move to the outsourcing supplier.
2. Schedules (or annexure or appendices), which are discrete documents providing detailed information on specific topics. The schedules are legally binding and will include the service level agreements, detailed transition plans, information on asset sales and detailed employee information.[7]

Each contract is different and so the main clauses will change on a case by case basis. Templates are available from outsourcing consultants, books and web sites. The templates allow the documentation to begin with at least a list of useful section headings.
Sunil Kunte, COO of Zensar Technologies advises the following sections as the main imperatives of the offshore outsourcing contract[8]:

- Define the minimum service levels (including details on disaster recovery).
- Ownership and confidentiality of data.
- Roles and responsibilities.

- Knowledge retention strategy.
- Penalties and rewards.
- Change request procedures.

These are the broad areas that need to be covered in the contract and though this book does not attempt to analyse the contract itself in detail, other publications do feature working templates.

Pitfalls

There a number of pitfalls in the contract drafting process, where time and again companies repeat the same errors. Before summarising the various groups of potential pitfalls, I want to feature two lists of legal and regulatory issues in India as described to me by Sajai Singh, a partner in law firm J. Sagar Associates in Bangalore.[9]

The first legal hot-list is for vendors of outsourcing services:

1. India does not have any Data Privacy laws, as of now. Drafting is underway; however the draft still needs to be passed into law by Parliament.
2. "At will" employment concept does not exist in India.
3. India offers statutory protection to employment, compensation, welfare and working conditions to a category of employees who may be categorised as "workman" and software engineers, call centre employees, etc. may fall within the definition (though there is no case law to substantiate it as of now). The defining factor is the nature of work undertaken by the employee, if it is supervisory or managerial in nature he may be considered excluded from the definition of "workman".
4. "Work for Hire" concept does not exist in India, however under Section 17 of the Indian Copyright Act an employer has a copyright over any work produced by the employee in the course of his employment, unless a contrary agreement is in place. It is however better to ensure that a clear assignment of IPR is made by each employee to the employer in an appropriate form, if IPR ownership is going to be an issue in the transaction.
5. Up to 100% of foreign investment is allowed in Indian companies undertaking outsourcing business activities, in the event the foreign investor desires to invest in an Indian company.
6. India is a member of MIGA, so the insurance against expropriation, etc. can be obtained.
7. India has full current account convertibility of the Indian Rupee.
8. Indian courts do offer injunctive relief, but damages are hard to obtain, unlike in the west, specially pecuniary, unsubstantiated and exemplary damages are not awarded by courts in India as a rule.

9. Indian courts may refuse to enforce foreign judgment / award, if it is contrary to public policy in India. Further, a judgement of a US court is not directly enforceable in India. A suit based upon foreign judgment must be filed in Indian courts, which could be a time consuming process. On the other hand an arbitral award obtained in the US is enforceable in India since India is a signatory to the New York Convention.
10. Clauses addressing certain issues can not be governed by any other selected law, i.e. they have to be governed by Indian law, including issues relating to IP transfer, registration and protection; real estate; labour laws; bankruptcy; and enforcement of foreign judgment / award.
11. India has clear transfer pricing regulations, though these may be at slight variance from what the Service Provider may be used to as a part of his standard international tax practices exposure.
12. A clear study should be done of the implications of having a Permanent Establishment / Business Connection, under the Double Tax Avoidance Agreement between India and the Service Provider country, if it is going to be sending a lot of its staff to India to supervise its work being done in India.

The second list is for potential clients, the recipients of an outsourced service:

1. The Indian Service Provider chosen should have the values and rapport needed to maintain and enhance an effective relationship over time.
2. Time driven processes may not yield the best value.
3. Indians have a problem saying "no", and tend to over commit.
4. Focus on technology, delivery capability and capacity of the Indian Service Provider.
5. Try to lock down as many details as possible in advance of the contract signature, as addressing missing information (service levels, asset counts, etc.) after the contract has been signed leads to increased costs and conflicts.
6. Try and have some people common in the initial team negotiating the contract and the one managing the Service Provider later. As much as possible, the individual who will manage delivery for the client should be involved in the negotiations and authority for the negotiations team must be identified to minimise end-runs.
7. In drafting it is advisable to start with a single master contract; roll-out the service level contract, etc. in phases.
8. Align the transaction with the goals and objectives of both parties.
9. Develop a carefully thought out schedule which includes all the important tasks and make proper resource allocation, on both sides, to meet the requirements of the schedule on time.
10. Indian Service Providers are not used to very complex pricing models and point systems; therefore it is advisable to keep the pricing simple.

I have listed details of the most dangerous potential legal issues under the following headings:

- Price
- Exit Strategy
- Cross-border information transfer
- Data Protection
- Human Resources
- Tax

Price

Kurt Vandenberg sees price as one of the major unforeseen issues with offshore outsourcing. He said: "Pricing is the biggest issue I have seen for offshore contracts. The rates have a high degree of variability due to foreign exchange and labour market fluctuations. You need to be able to take advantage of cost reductions while also protecting against upward revision."

Let's go back to the basics now. Pricing methodologies for services are generally defined by a cost for the units of a service multiplied by the unit price. Michael F. Corbett and Associates give some examples of unit measurements as[10]:

- People employed - such as hours and days, categorised by skill level, such as junior or senior, or by time of day, such as normal hours or off-hours.
- Resources employed - such as call centre workstations dedicated, machine cycles utilised, equipment hours expended and supplies consumed.
- Events handled - such as customer calls taken/placed, units shipped, square feet cleaned, automobiles maintained and transactions processed.

The prices for these units can be expressed in many ways:

- Fixed price per unit.
- Fixed price with guaranteed minimum and maximum utilisation.
- Variable price per unit based on consumption ranges or other factors.
- Prices based on cost plus profit margin.
- Prices based on prevailing marketplace rates.

Although some outsourcing contracts may have relied on strict pricing definitions using these rules, the trend has been toward a more 'trusting' relationship. This has been due to the desire of most companies to achieve a harmonious partnership, rather than a strict client and supplier relationship. Corbett states: "Few, if any, outsourcing contracts written today rely on this simplistic formula because the incentives for this pricing formulation work against the expressed desire of both parties to create and sustain a long-term, mutually beneficial relationship. Under a simple units-of-service-times-price model, the provider has incentive over time to drive up the amount of services consumed by the client and to drive down their own per unit costs, thereby ensuring increased revenues and higher profit margins." In addition Corbett adds: "The client, on the other hand, has incentive to reduce the units of service consumed and to constantly 'shop around' for lower per unit rates. Over time, the interests of the two parties diverge and the relationship ends."

This means that the pricing models in a modern outsourcing contract need to be smarter than just a fixed cost for n hours of service. The success of the relationship needs to be of benefit to both supplier and client. This can be achieved through such methods as gain sharing.

Various methods of gain sharing can be employed when crafting the contract, to ensure that the interests of both parties are served by trying to improve performance. This may be through sharing of efficiency savings or credits for helping the vendor win new business. The contract should encourage the outsourcing provider to improve business value by understanding the clients business and helping them to achieve its basic business objectives.

Corbett suggests the following types of contract as being based on business value:

- Contracts tied to production targets or similar measures of the client's business volumes.
- Contracts based on a per cent of the total savings realised by the customer.
- Contracts based on a per cent of the revenue realised by the client from the process supported.
- Contracts with the same performance measures as those of the client company's executive management.
- Contracts that include stock options or other incentives for the vendor based on the client company's overall performance.

Sara Cullen and Leslie Willcocks, authors of *Intelligent IT Outsourcing*, warn not to move too far down the road to complete trust - until it is earned. They comment: "We have observed in recent times an alarming trend to forego investment in a prudent contract, the rationale being that the parties desire a 'partnership' based on trust and the perception that a comprehensive contract is at odds with this desire. However, this is a high-risk strategy, particularly where trust has not been earned over many years of the parties working with one another."[11]

This view is enforced by Rob Aalders, author of *The IT Outsourcing guide*, who warns: "Staff whose remuneration is dependent on winning the contract, rather than on providing the service, may populate the service provider's team." Aalders goes on to add: "Contract negotiation is a professional process. It is not a game for enthusiastic amateurs. Do not rely on personal powers of persuasion."[12]

Exit Strategy

The contract should be treated rather like a project or product; it has a start, life and then end. When drafting a contract, the end date is usually known because few contracts are open-ended, however it is a common mistake to not plan for what happens next.

Elizabeth Sparrow, believes that this is the number one pitfall when drafting the outsourcing contract. She said: "The most common omission is probably a definition of procedures to be followed and assets allocated when the contract terminates. At the outset of an outsourcing relationship it seems rather insensitive and inappropriate to talk about the contract ending, but it's far better to do this up front when both customer and vendor are focused on the agreement and working positively together."

Sara Cullen and Leslie Willcocks have documented the contract term of 90 different outsourcing contracts. Their research showed that the length of the initial contract term was:

Number of Years	Per cent of Contracts
Under 2	40%
2 to 3	39%
4 to 5	38%
6 to 10	6%
Over 10	3%

Academic research indicates that shorter initial outsourcing contracts yield better results. This is due to the increased requirement to achieve a return on the investment in the relationship and the potential for replacement. In a survey, 87.5% of managers agreed that most of their expectations had been met during a contract of less than 3 years. This can be contrasted with 59% of managers satisfied with the delivery during their 4-7 year contract and just 38% satisfied with 8-25 year contracts.[13]

So the 'threat' of termination does focus the mind of the service provider, but what do management practitioners think of the academic data?

Ramesh Kumar, CEO of SG Software in Bangalore, is in complete agreement. He believes that the eventual contract termination process needs to be remembered right from the moment it is initially drafted. He said: "Special attention must be paid to contractual clauses for renegotiation required due to a change in requirements or market conditions. A complete exit strategy - and its implications - should be considered before the contract is even signed." [14]

Michael F. Corbett and Associates have found and documented six common events that trigger a party to exit an outsourcing contract. These are[15]:

1. Failure to achieve objectives; where the customer chooses to terminate the contract because expected obligations have not been met by the vendor.

2. Expiration of term; the contract is usually applicable for a fixed term and will expire unless renewed.
3. Adverse action by government entities; where the outsourcing deal depends on a favourable government environment, such as licenses and approvals.
4. Default; material default of either party.
5. Disputes; even after dispute resolution it may be a valid action to exit the agreement.
6. Change in control; a change in control of the vendor or its parent company.

Corbett advises: "It may seem pessimistic to discuss how an alliance will end before it even begins, but all parties will find enormous value in knowing, that if necessary, a clear path out of the alliance exists."

In addition to these 6 listed adverse reasons, there is also 'convenience'. This is where the supplier or client wants to cancel the entire contract, not because of any identifiable negative reason, but because of a change in management or strategy. It may be a decision of the client to bring a service in-house or a supplier that wants to exit a particular area of business. In these cases, the two parties will need to arrange adequate financial compensation to cover the costs of the affected company.

The contract not only needs to anticipate the reasons why the relationship may need to end, it needs to summarise the terms for the immediate steps following termination. In their paper 'Strategies for exit' Michael F. Corbett and Associates note that the service user must ask the following questions[16]:

- At the end of the relationship will another vendor take over the outsourced function?
- Will the work be brought in-house?
- Will the work be entirely discontinued?

These questions throw open a number of new discussion points that need definition. Though it is impossible to predict the future, some of these factors can be prepared for in a contractual statement:

- What should happen to any employees that were transitioned to the outsourcing vendor?
- Who owns the equipment purchased during the agreement?
- Who owns the intellectual property created during the agreement?

Ian Benn and Jill Pearcy go further on this issue of transitioned employees in their book *Strategic Outsourcing*. They comment: "There is very little to stop the outsourcer making personnel changes on that team at any point up to the termination of the contract. At its simplest, the outsourcer may choose to move a few of the best people onto different projects shortly before contract termination so that the bulk of the people move over, but the best are kept back. A more malicious outsourcer may choose to give substantial salary increases to all staff a week before contract termination."[17]

Clearly, an initial transfer agreement that outlines how assets, contracts, warranties and human resources are all transferred to an outsourcing supplier must include a section on the future reconciliation of any of those assets.

Cross-Border Information Transfer

Certain cross border functions may have national or regional legal restrictions on the transfer of information. This is especially applicable in applications where sensitive data will be moved between the client and supplier, such as in a financial services environment.

In fact, when outsourcing in the financial services domain, it is almost certain that the financial regulator (SEC, FSA, etc.) local to the client will want to have a detailed understanding of the proposal. This ensures the level of security that can be achieved in the offshore location meets their standard requirements.

Angus Finnegan comments: "European legislation prohibits data transfers outside the European Economic Area (EEA) unless the recipient country ensures adequate rights and freedoms of data subjects." He adds: "The European Union has confirmed that Hungary, Switzerland and Canada provide adequate security. Other non EEA countries must be looked at on a case by case basis."

The Indian government has worked to improve data adequacy, especially since the Information Technology Act of 2000 was passed, though the act remains only partially implemented.

Data Protection

The term 'intellectual property' has come to generally define patents, trade marks, copyright and industrial knowledge. With knowledge becoming an ever more valuable commodity and global communication becoming instantaneous it is important to ensure the contract defines how knowledge related to your outsourcing relationship should be treated.

It is useful to understand just how varied the legal definition of intellectual property can be. The Convention establishing the World Intellectual Property Organisation (WIPO), accomplished in Stockholm on July 14 1967, provides that the term 'Intellectual Property' shall include rights relating to the following[18]:

- Literary, artistic and scientific works;
- Performances of performing artists, phonograms, and broadcasts;
- Inventions in all fields of human endeavour;
- Scientific discoveries;
- Industrial designs;
- Trademarks, service marks and commercial names and designations;
- Protection against unfair competition;
- All other rights, resulting from intellectual activity in the industrial, scientific, literary or artistic fields.

A significant invention achieved by the outsourcing supplier could become their own property or yours, based on how the contract stipulates the treatment of intellectual property. Equally important is the ownership of client-related information, software code and other such intellectual information generated during the relationship.

Discussing the legal contract drafting process with outsourcing vendor Mastek, Stephen Mathias of Kochhar & Co. Legal Consultants said: "International clients, particularly US companies, tend to throw in their standard intellectual property clause and assume that US law would govern and that the works for hire concept would apply. That is not necessarily the case and if another country's law applies, special requirements for assignment need to be fulfilled for the client to own the intellectual property. International clients also need to ensure that the dispute resolution mechanism specified in the contract can be enforced, for example, a US court judgment cannot be enforced directly in all countries."[19]

The issues regarding copyright and data protection are not restricted to data that is created during the partnership. It can affect the licensing of third party tools, such as software support systems.

Mary Clarkson, author of *Developing IT Staff*, warns that there may be unforeseen issues in the offshore licensing of software being used to support your project. She said: "Watch out for copyright and licence clauses prohibiting or otherwise restricting software development and/or support of a third party supplied product or component. For example, I know of one software package from the US which has a licence stipulation preventing development and support from India."[20]

Human Resources

Clearly the people affected by any outsourcing contract need to have their position managed from within the formal contract, however there are a number if different issues related to people such as:

- Transfer to the outsourcing supplier or exit management (see chapter 23 for more information on this).
- Who remains to manage the new processes and how are they trained to work with vendors?
- What rights does an employee have if they are transferring to India?
- What happens to transitioned employees on termination of the contract?

In their book, *Inside Outsourcing*, Charles L. Gay and James Essinger, comment that the customer needs to think about how they intend to manage the contract once it is running. It is easy to forget that you will need contract management staff in future, which is a team that would not exist prior to the outsourcing contract being in place. They comment: "It has sometimes happened that at the end of the contract negotiation managers look round an empty table and ask: 'Who's going to run this contract from our side, then?' Don't let this happen to you."[21]

It is worth noting that employee transfers to companies in India are generally not covered by regional laws, such as TUPE in the UK. This means that the protection of remuneration and benefits is not enforceable by law.

Indian labour law can be a minefield for the uninitiated. Aparna Viswanathan, a partner in New Delhi law firm Viswanathan & Co., said: "Indian labour laws vary greatly from that prevailing in the United States and England as they derive their inspiration from the socialist views prevailing in the country upon independence and have not been significantly revised during the 1990s era of economic reform."[22]

Aparna Viswanathan echoes the view of Sajai Singh regarding the care required to determine whether employees are considered to be "workmen" or not and why this status is important to be aware of. She said: "There is a widespread perception that it is impossible to fire employees in India. In fact, this is true only if a company employs over 100 'workmen'. Such approvals are rarely, if at all granted. Therefore, in practice, a company would have to implement a Voluntary Retirement Scheme and pay the workmen to resign." She adds: "Persons who are not 'workmen' are 'employees' in Indian legal parlance and can be dismissed upon 30 day prior written notice or payment in lieu thereof."

Indian law defines 'workmen' as persons employed in any manual, clerical, skilled, unskilled, technical, operational or supervisory work, but does not include anyone operating in a management of administrative capacity. This is quite a vague definition and can be a problem as new categories of employees, such as call centre agents, are not clearly in one definition or the other. Aparna Viswanathan comments: "This is a space to watch and see whether Indian courts will find employees hired by outsourcing companies to be workmen or not."

Tax

The contract needs to document local tax regimes, including details of custom duties, sales tax and how these will affect service pricing.

There are many ways to save a great deal of tax when setting up a new facility in India and this can depend on the location or type of company that is created. A foreign BPO company can be classified as an Export Oriented Unit (EOU), basically because half or more of the services are for overseas clients and not the domestic market. EOU status grants exemption from import duty and taxation on profits until the 2010-2011 tax year. However this tax window can be improved, just by locating in designated areas.

Aparna Viswanathan explains: "The profits of a unit established in a Free Trade Zone, Software Technology Park, Electronic Hardware Technology Park or Special Economic Zone are also exempt from tax for a period of ten consecutive assessment years beginning from the first year of production." A full ten years from the start of business is far better than a tax break that ends in 2010.

Stephen Mathias comments: "For the vendor, the key tax issue is avoiding the need for the client to withhold tax as per the laws in the client's country. There is some leeway to obtain waivers and software companies in countries like India have been marginally successful in obtaining these. The other key issue, as mentioned earlier, is the tax holiday. Vendors in India must think of how their pricing would be affected if the tax holiday goes away or is substantially reduced, particularly in long term contracts where rates may be locked in. In hybrid transactions, careful structuring needs to take place to ensure that the tax holiday conditions are satisfied."

Summary

Stephen Mathias believes that the upcoming legal trends in offshore outsourcing are related to the increased complexity of deals as they continue to grow in size. He said: "One situation is where a client requires the vendor to staff a separate company for client projects with more than ordinary rights of supervision and a right to buy out the vendor at a later stage. Additional supervision or for example, the use of shared premises, could lead to co-employment and contract labour issues. Acquisition of the company at a later stage could result in loss of the tax holiday because the beneficial ownership may change. The big issue today arises from recent US case law that may result in Indian law governing the ownership of the intellectual property. This means that additional assignment requirements would need to be met in accordance with Indian law."

Charles L. Gay and James Essinger believe that the critical advice for a manager seeking to arrange an offshore outsourcing contract is to get expert legal advice early. They note: "Using legal advisers with experience of outsourcing is of critical importance, as those who have not been involved in the process before, while giving best professional advice, will not be able to draw on past events and draft contracts to mitigate commonly experienced issues."

This advice is emphasised by Sajai Singh, who said: "Often, I have found that clients do not set up an appropriate team to deal with setting up the outsourcing transaction. Sometimes the local lawyers are brought in at the last stage or the auditors have a limited role in the beginning and then are not called on to review changed circumstances and data. To successfully complete an outsourcing transaction, it will therefore be appropriate that each party assemble a team with the necessary expertise (from within their organisation and also an outside team of consultants, advisors, etc.) to evaluate the economic, commercial and legal rationale for the proposed relationship, ascertain appropriate terms and conditions of pricing and service delivery and enable the negotiation and conclusion of an agreeable contract."

It is worth considering the impartiality of your legal advice as most law firms advise both suppliers and clients. In the US, there are strict regulations covering conflict of interest. If a law firm is already advising a supplier and that supplier name is discussed with a client then the supplier must give permission for the discussion to continue. The UK does not have any such regulation and relies more on a system of internal 'Chinese walls' to prevent abuse.[23]

The Lawyer magazine lists Shaw Pittman as the only firm in the UK offering advice to outsourcing clients only, not suppliers. In the US, Milbank Tweed Hadley & McCloy adopt a similar no-supplier approach. The Lawyer summarises that there are benefits for the majority of firms, as they can see both sides of the picture and that any possible conflict of interest is not the top priority for most firms anyway.

In January 2005 I had a conversation about the legal pitfalls of outsourcing with Sakate Khaitan, a partner at Indian advocates ALMT Legal in London.[24] Khaitan is one of the leading advisors on Indian law based out of Europe so it is worth reporting some of his comments at length in this closing summary. Khaitan believes that outsourcing contracts in India face certain typical problems. Most overseas companies that choose to outsource to service providers in India, insist on certain key provisions in the contract that cause an issue in Indian law. He explained to me: "Most of these provisions are structured to adhere to specific legislations of the countries in which the overseas companies are based; and with good reason. The lack of adequate data protection laws, problems in enforcing certain specific clauses such as a non-compete clauses and above all a very slow judicial system, are all key factors, which support the choice of foreign governing law and a foreign dispute resolution mechanism. This in turn however results in one key problem i.e. enforceability of a foreign judgment or award. This process is not only time consuming but the foreign judgment itself may be challenged on the grounds that it goes against public policy or violates a fundamental principle of Indian law. So what you have is a great contract on paper but one that may provide limited protection. A way out could be to stick with a foreign governing law but provide for a local dispute resolution mechanism such as local arbitration."

He added: "This means that in the event of a dispute, immediate relief becomes essential. This is usually obtained through injunction orders. Another key problem when it comes to India is that injunctive reliefs granted by foreign courts are not enforceable in India. Accordingly, most contracts with Indian service provider provide either for jurisdiction over certain matters such as Intellectual Property Rights to Indian Courts, or for arbitration as the chosen dispute settlement mechanism." Khaitan also warned that some foreign companies forget about liability exclusion: "When creating your outsourcing contract you should specifically exclude all liabilities that may arise under Indian labour laws. Indian service providers are bound to adhere to certain specific labour laws, for example hours and time of work for women employees, or if employees are not permanent employees, then compliance with contract labour laws etc. Clauses specifically excluding all liability and indemnifying the overseas company in case of a labour dispute are a must."

Shalini Agarwal is a colleague of Mr Khaitan at ALMT Legal. She is one of the founding partners of the organisation and a guest lecturer at Leeds Business School in the UK. She stressed to me the importance of tax considerations when outsourcing to India: "Where the outsourcing contract is entered into by the overseas company with its own Indian outsourcing subsidiary, Indian tax laws need to be considered. In this case, a foreign company is liable to tax in India only if its (outsourcing) unit in India constitutes its permanent establishment (PE). Profits attributed to the PE are those, which the PE would have made if instead of dealing tributed to the PE are those, which the PE would have made if instead of dealing with its head office it has been dealing with an entirely separate enterprise under conditions and at prices prevailing in the ordinary market. To avoid any potential transfer pricing problems under Indian tax law, it would also be essential to ensure that the price paid by the foreign company for the services is an arms length price i.e. a price as may be paid if the two companies were unrelated. Non-compliance may result in wiping out a substantial part of the cost saving assumed when making the decision to outsource, additional work for lawyers and tax advisers, and a loss of management time."

Khaitan also noted that the contractual clause regarding continuity of service should be carefully scrutinised and his parting shot was that anyone thinking of outsourcing to India should seek expert legal advice. Of course any lawyer would give this advice, but he explained that quite often his advice is called on after the contract is in place and there is a problem, which can be a difficult situation for both client and vendor. Getting the details right with your legal advisors at the start of the process can save you time, money and a large headache in the long run.

As a final comment, it may be worth learning from an academic study focused on how trust can be built in outsourcing relationships. Abhoy K. Ojha is a Professor of Organisational Behaviour at the Indian Institute of Management, Bangalore. Professor Ojha believes that there are two major types of uncertainty that reduce trust in global outsourcing arrangements, uncertainty regarding the future states of nature and uncertainty regarding the behaviour of partner organisations. On the future states of nature he said: "It may happen that the government of the client's country stops issuing visas to Indians due to some other unpredictable event. The recent bombing of the Word Trade Centre in New York is an example of such events."[25]

It is important to be aware of the importance of trust when drafting a contract, for both suppliers and clients. Professor Ojha is confident that trust between the outsourcing client and supplier can be built through discrete steps. He adds: "The bond grows in strength the more it is utilised, i.e., each success based on trust raises the level of trust that facilitates even greater levels of confidence in the relationship."

As mentioned earlier by Gartner, the contractual relationship has to be approached like a marriage; the initial vows are important, but the behaviour of the two parties over the long-term is the key to success.

Chapter Checklist

- Contracts can change so ensure you define a protocol for changing the contract during its life.
- Do not seek to punish - look for joint opportunities where gain sharing can be applied to create a win-win contract.
- Pricing is not simple, but look for ways to ensure the pricing model also helps to encourage efficiencies from both parties.

- Exit strategies are often overlooked, but all contracts have an end-date and the termination or renewal process must be planned from initiation to avoid dispute.
- Get local counsel in India before drafting or signing any contract. The local knowledge will prove extremely valuable.
- Cross-border information transfers can be tricky in some industries, so ensure you are aware of the legal position regarding the outsourcing of your sensitive data.
- Data Protection and the management of Intellectual Property must be carefully analysed as local regulations in India can override 'standard' contracts. Make sure you know who owns your intellectual capital.
- Human Resources are the greatest asset any company has. During the contract creation phase, you must ensure the right people are around to manage the process and future scenarios, such as contract termination, are planned for.
- Tax can surprise the client as unexpected sales tax and custom fees create a marked increase in the expected service price.

Chapter 19: Quality and the Service Level Agreement

Quality is an interesting, yet maligned, topic. It is an area that every manager must be aware of, in large or small companies and in all industries, yet an astounding number of companies manage to blunder through without ever using any formal guidelines. Many in the UK seem to consider this a badge of honour.

I used to manage a software development team without any formal quality framework; software quality is obvious. I knew that if I delivered software to the end users that was bug-free and performed what they expected then they would be happy and I would continue to draw my salary. How could I measure different grades of quality - either it worked or did not?

What I failed to appreciate, before I started working offshore, was the amount of additional unaccounted effort that took place to keep those deliveries bug-free. Programmers and maintenance support teams would be working to test the systems on a live production environment in an iterative style, sometimes without the users even being aware of their guinea pig status. There was a process, but it was undocumented and managed to deliver only because I knew what was going on at different stages of the software development lifecycle.

This 'hands-on-fix-it-before-they-notice' approach worked. The end users were happy most of the time and they got their software deliveries quickly and to a satisfactory level. However, this laissez-faire approach sometimes led to problems with new software versions - new bugs were introduced that caused a direct impact to business performance. Given that most of my career has been in investment banking, rather than air traffic control, there has never been a true catastrophe.

Working offshore demands additional discipline to ensure the work is performed correctly for a couple of reasons:

- The offshore team is employed by an outsourcing supplier or your subsidiary in India. Their employees don't sit with your business end users every day. They don't listen to the problems or enjoy the celebration of a great deal. They just cannot have the same level of appreciation for what the business team wants; unless you ensure that some people with domain experience are included in your offshore hiring plans. Even with these leaders in place, it is difficult to replicate the business environment of the end users.
- The physical distance means that for large sections of the day, the Indian team and client team cannot communicate. So it becomes more important to make

use of the window of time each day when conference calls, emails and Instant Messages can all be dealt with. The time zone in India is GMT+5.5 hours. This allows a full half day of interaction each day with East Asia or Europe, but very little with the US.

These domain and physical constraints can be addressed by the use of quality methodologies. In many cases, the introduction of a quality methodology because of the offshore process can dramatically improve the overall process for the end user. The various methodologies all aim to provide a framework that prevents a misunderstanding of requirements so the service can be delivered as expected. The various services that are to be provided by the outsourcing supplier are then framed within Service Level Agreement (SLA) documents, to ensure that the expected service is documented and understood by both provider and client.

SLAs are often maligned as inflexible. Managers use the targets as a tool for attacking the service provider or over-charging the client. The construction of a sound SLA, based on the right level of service quality will ensure that the expectations of both parties are met and clearly stated in the SLA.

How you want to construct your SLA can influence the level of quality you demand from a supplier. The service offered by the supplier can influence the SLA construction, so these two topics are connected by the need to understand the level of quality on offer and how best to integrate these quality expectations in an SLA document.

This chapter explores the most important tools used for measuring service quality and how to determine which is appropriate for your organisation. The SLA construction is then described in terms of what is required from the SLA to ensure a consistently high-quality service, with a focus on the main errors to avoid in SLA construction.

Quality Methodologies

There is a broad range of accepted methodologies in the marketplace at present. Dominant tools are the ISO9000 standards and, for software, the Capability Maturity Model. Six Sigma is rapidly growing as a tool for developing continuous improvement and the COPC organisation is gaining ground in creating certification for the BPO domain.

Many of the methodologies have different grades or scales, reflecting different levels of adherence to quality guidelines. For instance, a software development function that has 'achieved' CMM level 1 can be defined as an ad-hoc process. CMM level 5 however means that the process is continuously being improved.

There are many ways to control a process and CMM level 5 may not be right for your organisation. Another consideration is cost. Every service, whether it is software development or BPO has a value that must be charged to the client. A higher level of service quality control is generally reflected in a higher cost.

The client should understand the methodologies on offer so an informed decision can be taken when weighing up the balance between cost and quality. Remember that spending more on creating a better service or system may result in a lower cost of ownership. In *Strategic Outsourcing*, Ian Benn and Jill Pearcy comment: "High-quality service costs everyone less that low-quality service. If the system is built such that it does not go wrong, it does not need an expensive maintenance and support operation behind it."[1]

In March 2002, NASSCOM conducted a survey to ascertain the adoption of international quality standards by IT software and services companies in India. An analysis of the top 300 companies in India revealed:

Quality Benchmark	No. of Companies
Already acquired ISO 9000 or using SEI and other standards	216
Companies acquired quality certification by March 2002	6
Certification expected between April-December 2002	64
Additional certification expected during 2002	70
No plans at present	22

Source: NASSCOM[2]

International Organisation for Standardisation

ISO is a network of the national standards institutes of 147 countries, on the basis of one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system.

The ISO 9000 family of quality management standards is possibly the most well known global benchmark of service delivery, currently in use by 610,000 organisations in 160 countries. Large and small organisations can use the ISO 9000 standards to define product and service quality for any industry.

ISO defines the 9000 family of standards as being primarily concerned with:

- the customer's quality requirements, and
- applicable regulatory requirements, while aiming to
- enhance customer satisfaction, and
- achieve continual improvement of its performance in pursuit of these objectives.

ISO 9000 is not a rigid strait-jacket on flexibility; it is a broad toolkit of standards. The standards are defined in general terms and focus on the quality of the end product. Specific services or production processes are not covered, because ISO 9000 is a generic tool that can be applied to any function.

Any organisation can adopt the ISO 9000 standards, the guidelines are freely available. Most organisations are interested in achieving certification as well. This is where the organisation adopts the standard, and then an independent audit confirms whether the processes satisfy the ISO 9000 quality requirements. After a successful audit, your organisation can proudly declare that it operates quality management procedures using ISO 9000 guidelines - a valuable marketing tool.

As ISO 9000 can be used for any type of service, it is likely that you will find outsourcing suppliers announcing that they are certified as 'ISO 9000 compliant'. In today's market, it is not worth speaking to a service provider that cannot offer at least this level of general quality management.

Patrice Hervé is a project manager for SG Software in Bangalore. He explained to me how SG has used the ISO 9000 guidelines to improve offshore software development quality: "We now have around 2000 very clear quality assurance processes in place at all stages of the development lifecycle. This ensures that all project documentation is kept up to date and facilitates improved communication between the users, support teams, analysts and technical staff."[3]

Hervé added: "The internal QA team conducts a regular audit of our software development methods to constantly improve the process and the external auditors also visit, to keep our certification up to date."

www.iso.org

Capability Maturity Model

The software CMM is focused on the software development industry. It offers a multi-layer benchmark that clearly indicates the product quality of a software company.

It is possible to develop software in many ways, from the old classic 'waterfall' methods where a feasibility study preceded analysis which preceded programming which preceded testing etc., to modern rapid application design using frameworks such as Extreme Programming (XP) or Agile. CMM aims to improve the process, not only by offering management control, but ensuring that the process is repeatable and continuously improving.

CMM was devised by the Software Engineering Institute (SEI), which is a federally funded research and development centre sponsored by the US Department of Defence and operated by Carnegie Mellon University. For this reason, you may occasionally see the extended SEI-CMM acronym, though most firms just use the term CMM with a number from 1 to 5 denoting the level at which they are working.

As of June 27 2002, India had 85 companies assessed at the highest possible SEI CMM Level 5. What is worth noting is the fact that the rest of the world can only manage 42 companies at the same level.

The SEI has also created the more recent People-CMM measurement. This adapts the basic framework of the CMM to the task of managing and developing company employees. P-CMM is a human resources strategy designed to help software companies attract, develop, motivate, organise and retain the best people. A large number of Indian companies have been quick to adopt this in addition to CMM standards for software delivery.

CMM level 5 is considered to be the 'gold standard' for technology companies. It demonstrates that a company can not only repeat former success, but it is constantly trying to improve on that success. The 5 CMM levels are:

1. Initial: Basic level - an ad hoc environment.
2. Repeatable: The process is disciplined.
3. Defined: The process is standardised and is consistent.
4. Managed: The process is now predictable.
5. Optimising: The process is now being continuously improved.

The CMM framework has been applied to a number of fields in engineering and software design, so the integrated CMM (CMMi) offers an overall corporate framework for supporting all product and process improvements.

All the major Indian technology companies are assessed at SEI CMM Level 5 and some have additional quality certification or standards in use. For instance, Infosys is also at level 5 for the P-CMM and CMMi standards.

www.sei.cmu.edu

Six Sigma and TQM

Six Sigma is a disciplined methodology that uses statistical analysis to measure and improve operational procedures by identifying and eliminating 'defects' in manufacturing and service-related processes.

The common definition is 3.4 defects per million opportunities for error. 'Opportunities' need to be defined depending on the service or product you are working with. Possible examples are lines of software code, components manufactured or customer queries handled.

The main aim of Six Sigma is to identify problems early and then resolve them immediately. Early identification may be harder than when problems are obvious, but it is less expensive to resolve issues early on. Just think of the cost and trauma associated with a product recall for confirmation of this.

Six Sigma exists on three levels: metrics, the methodology and the philosophy. The 3.4 Defects per Million Opportunities is a critical metric definition. www.isixsigma.com advises that the best way to plan the initial metrics is by allowing for a form, fit and functional error in each million opportunities.[4]

The methodology can be broken into two main streams, DMAIC (Define Measure Analyse Improve Control) and DMADV (Define Measure Analyse Improve Control). DMAIC is designed for improving an existing process and DMADV is designed for creating a new process or improving a process that has not improved after optimisation.

The Six Sigma philosophy demands that the organisation begins driving all decisions on data, rather than intuition and taking those decisions with a customer focus. It sounds simple, but it can involve some serious internal political wrangling as what is good for the organisation and customer may not always be right for some mid-ranking managers.

Wipro is the trailblazer for Six Sigma in India, with over 3,350 of their employees trained in the methodologies and 120 being certified 'black belts' - masters of Six Sigma. Wipro is using Six Sigma at present on over 500 projects in multiple areas including project management, market development and resource utilisation

The Six Sigma methodology is a set of quality management tools within an entire movement based on 'Total Quality Management' or TQM. Tim Hindle defines TQM in his book *Guide to Management Ideas*:

Total Quality Management (TQM) is the idea that controlling quality is not something that is left to a 'quality controller', a person who stands at the end of a production line checking final output. It is (or it should be) something that permeates and organisation from the moment its raw materials arrive to the moment its finished products leave.

TQM grew out of the Japanese management techniques of the 1950s and 1960s, though the idea was originally exported to Japan from the US by W. Edwards Deming and J.J. Juran. TQM is the practical application of the Japanese kaizen concept, meaning continuous improvement. The principles underlying Kaizen are:

- Human resources are a company's most important asset.
- Processes must evolve by gradual improvement rather than by radical change.
- Improvement must be based on a quantitative evaluation of the performance of different processes.

Although these concepts may appear to err on the side of the academic, rather than the practical, don't fear. High profile leaders, including Jack Welch of GE and Bob Galvin of Motorola, are strong advocates of Six Sigma as a tool for implementing the concepts of TQM. Wipro would not be running hundreds of projects in India using this method if it did not add value for them and their clients. As Deming once said: "If you can't describe what you are doing as a process, you don't know what you're doing."

www.isixsigma.com
www.ge.com/sixsigma
www.wipro.com/aboutus/quality/sixsigma.htm

BPO

The BPO sector in general is the new kid on the block, however most of the call centres are quickly adopting the US-devised COPC standard. Other BPO services would usually be covered by the ISO9000 standard.

The Customer Operations Performance Center(COPC)-2000® standard was originally written in 1995 by a core group of call centre users in the US. The original standard designers included representatives from American Express, Dell

Computer Corp., Microsoft, Novell, L.L.Bean. The Malcolm Baldrige National Quality Award criteria and framework were used as the basis for the standard.

The COPC organisation grew from the initial standard definition process and now offers consulting advice on call centre quality in addition to administering the certification of companies who want to demonstrate their use of COPC-2000. The original standard has grown and there are now three versions - Vendor Management Organisation (VMOs), Customer Service Provider (CSP) Base Standard and CSP Gold Standard.

The COPC web site lists all certified companies. Major Indian BPO firms such as Wipro Spectramind, ICICI OneSource and IBM's Daksh unit are all listed as certified to the most recent version of the standard.

www.copc.com

Service Level Agreement

The SLA ranks with the legal contract as a definition of the service expected from the outsourcing supplier and the way in which that service should be used by the client. I have witnessed senior managers howling with horror when this acronym is used. The reason for their pained reaction is that their only experience of an SLA is as a tool for beating each other, not for managing a partnership.

As you enter the contract and SLA creation process, you need to remember that the SLA should be is based on very basic and clear ideas of what the service is about. Who provides the service? Where is provided from? When is it available? What services will be available? The language of the SLA needs to be this simple, avoiding the legal jargon of the contract.

Definition

Sara Cullen and Leslie Willcocks, authors of *Intelligent IT Outsourcing* have experience of hundreds of SLA documents. They define the SLA as: "The definition of what successful service will be. It defines the expectations, being prescriptive only when necessary, sets the key performance criteria and much more."[5]

This is a nice way to define the purpose of the document in a single sentence. Remember, the contract is in place between you and the outsourcing supplier and that document contains the formal legal agreement to provide or use a service. The SLA is a working document that should not be as prescriptive as a contract, but should guide both sides along - so it is clear where the minimum level of service is defined.

It addition to the basic requirement to define an expected level of service, Elizabeth Sparrow, author of *Successful IT Outsourcing* defines other reasons for preparing a comprehensive SLA[6]:

- It helps demonstrate the performance achieved by the outsourced services.
- Service levels are guaranteed as far as possible.
- By involving users in the compilation and review of the service level agreement, you can ensure that the outsourced services meet user demands.
- It aids the measurement and assessment of the outsourced services.
- The level of service that can be expected from the outsourced services is clarified and this helps foster realistic expectations.
- Compliance with external standards, such as the ISO 9001 quality management standards can be specified.

These are critical points to remember. Defining an SLA should not involve pinning the supplier to the wall with 75 different measurements of service, when 3 will do. Think about how you measure the internal performance of your services at present. You might be working to outsource IT, Human Resources, Accounting even the mail room. How do you measure service right now?

Research performed by Sara Cullen in 2001 finds that in Australia, over 60 per cent of organisations questioned on SLA policy had no form of internal SLA. However, only 11 per cent of the same organisations did not have an SLA with an external supplier or service provider.

It is obvious that managers don't like to employ an outsider to perform services without defining what the minimum level of service should be. Yet if the IT technicians are internal to the organisation, then a gentleman's agreement to 'try our best' will suffice.

Realism on Both Sides

As I described, it can be disingenuous to pin down the supplier and expect a miraculous transformation of the services they are about to take on. It may seem like a positive value-extracting move by the client, but the client is likely to spend vast amounts of time just monitoring the service levels to see if there is any breach of the SLA, rather than working to generate revenue with their own clients.

On this subject, Rob Aalders, author of *The IT Outsourcing Guide*, offers the analogy of driving a car. He said: "Some basic instruments give us a good appreciation of the vehicle's overall state. I do not demand instruments to report on current pressure and flow of the injectors, the fatness of the spark, or the staus of the steering geometry."[7]

Aalders is right. You can drive a car and be fully aware of how it is performing, based on the information available from a few key indicators. Why would you want to monitor complete minutiae that do not impact the daily activity of your organisation?

Managers unfamiliar with outsourcing have a tendency to go ahead and do this anyway - every possible service measurement is documented with targets and minimum required levels of service. It is a natural process. Although most managers don't have any form of internal SLA, they know that service can be checked by walking down the hall and glancing into the business department. Outsourcing the service to India means that 'control' is lost, so the SLA will need an entire surfeit of minimum service level statements.

It is better to get controls in the SLA and to then whittle it down through a series of review meetings if the management team lack the experience or confidence to get this right early in the contract creation process. As Sara Cullen and Leslie Willcocks comment: "An SLA imposes a service commitment on both sides - the supplier to provide defined services with defined performance, and the customer to use those services within defined parameters. This depersonalises service review meetings and leads to an objective evaluation of performance by both parties."

This is a big commitment, but the comment is clear. Internal wrangling within both organisations can infect the performance reviews. It could be that some people want credit for great service or some managers are suddenly trying to become invisible as the service levels fail to match the SLA. If they are documented then there is no possibility the planned service levels can be affected by political spin.

If you do plan to create a large SLA and then to reduce it as your confidence increases then make sure this process is included in the overall programme planning. It can be a time-consuming process as Charles L. Gay and James Essinger, authors of *Inside Outsourcing*, describe: "If your organisation is likely to find this difficult, then plan in several iterations of service level definition, and plenty of validation with front-line or shopfloor managers."[8]

No Jargon

The SLA forms a part of the legal agreement between a client and their outsourcing supplier; however it needs to be a working document. End users and managers need to be involved in setting the expected service levels, but if the text reads more like the warranty statement for a new automobile than a clear and concise statement of facts then you will lose their support.

If the end-users lose interest in helping with the SLA then you can guarantee that one of two things will happen. Either the minimum level of service is not as high are required or, you are paying the supplier to build a cathedral where a house is all that is needed. In either case, the blame will be directed at the outsourcing programme manager - not the end users who failed to review the SLA drafts.

Daniel Minoli, author of *Analyzing Outsourcing*, makes a further point about the clarity of the SLA - the SLA details are describing the worst case, or unacceptable performance. He said: "SLAs are generally connected with penalty clauses to cover degradations in service; however, penalty clauses should be a last resort. Organisations need to make sure that the performance criteria described in SLAs are described in user's terms, not in system jargon."[9]

Define the Scope

One of the perennial arguments made by both clients and outsourcing suppliers is that of scope. What is in or out of scope would never have been a problem before the service was outsourced because the employees were all internal and service levels were not tracked.

An example pre-outsourcing an IT support desk might be when an employee brings his own personal computer to the office and asks the helpdesk team to clear a computer virus from the machine. The team might help out. It depends on their personal relationship with this person. If he offers to buy a few drinks for the helpdesk then it is likely that official activities will be put on ice while the virus is cleared - I know the support teams well!

Once the virus is cleared, he may want some email software to be installed and while they are at it, the helpdesk team set up his ADSL configuration for the broadband Internet system at home. It's all very good for team morale (especially the free drinks), but it is adding nothing to the bottom line of the organisation.

Micromanagement of what is and is not a part of the contract is not helpful, but ensuring that both client and supplier know what is in the scope of the agreement is vital for a smooth relationship. No one gains from checking the contract each time the service is requested so it pays to make the scope definition as clear as the basic service definition - what is in and what is out.

Define the Key Performance Indicators

The Key Performance Indicators (KPIs) are the benchmarks that will be used to measure whether or not the minimum service levels are met or not. Prior to outsourcing the IT helpdesk function, the helpdesk manager may have received a number of vague complaints about service; calls take too long to be answered, email is not answered, emergency hardware problems take too long to resolve. None of these complaints are actually measured with any kind of indication of performance.

In contrast, relevant targets for these complaints might be:

- The support phone is always answered in fewer than 3 rings.
- All support email must be responded to within 4 hours.
- Emergency hardware faults must be resolved within 1 hour.

These performance targets can be utilised as KPIs by recording how often the target was achieved within a certain timeframe. With an SLA and suite of KPIs in place, the helpdesk manager could easily see exactly how often the phone was not answered quickly enough or emergencies not resolved.

It is clear that careful drafting of KPIs is essential. The KPIs are also of use to both client and outsourcing supplier. The supplier is fully aware of what the client requires and where the minimum service benchmark exists. The client uses the KPIs to define what they want from the relationship in quantifiable terms. KPIs can easily translate into management reports or a 'dashboard' of the most important indicators.

Planned KPIs provide the tools for measuring the quality of service and guiding the client and supplier to a harmonious relationship where both are aware of what the other partner needs and expects. The KPIs need to emphasise the service accuracy, availability, expected response, quality and response times.

When planning which KPIs to use, it is essential to involve the business team or end users. These are the people who will really know if the service is working or not. The programme manager needs to ensure that the users take some form of 'ownership' over the SLA as it defines their expectations. Rob Aalders believes that ownership should be enforced on a team in both the supplier and client camps. He said: "The IT department frequently selects what it believes are critical indicators of success for key business processes, and far too often it is wrong. If no one in the business wishes to take ownership of a SLA, it may be because it is unimportant or because it is absolutely critical. Find out which."

Karen Williams, Director of Marketing for electronic payment firm eFunds, explained to me: "We negotiate the required service levels with each client. The KPIs are always defined by working with the client to determine what they need to achieve. We have used Six Sigma for many years now, but we still go through the full negotiation process with each client to ensure a consistent quality of service."[10]

Rebates/Bonus/Penalties

In some outsourcing contracts, the SLA has been viewed as a tool for defining the level at which penalties apply - and not much more. Clients would trawl through the smallprint of the SLA at service review meetings to see how many penalties could be enforced.

Times have changed and as I have mentioned, the SLA has become far more of a guiding instrument. As Rob Aalders alluded to, the SLA needs to be the dashboard indicators of the relationship, not dozens of obscure KPIs that require constant monitoring.

Sara Cullen and Leslie Willcocks agree with this view. They comment: "The goal of a penalty scheme should never be to actually obtain the penalties, but rather to ensure that minimum expectations are met. In this spirit, some organisations elect to allow the supplier to 'clawback' penalties if subsequent performance is good."

This is an interesting concept. The client would expect service credits if performance is poor and the clawback idea allows the supplier to reduce some of the free credits by subsequently improving performance past the minimum required level. As Cullen and Willcocks state, this type of clause can only be introduced where the relationship between supplier and client is already good.

Providing a supplier with service 'debits' because they offer a good service is not usually expected. We have all over-tipped a good waiter at the end of a great meal, but whoever decided that the food was so good you want to pay the restaurant more than the listed menu price?

Ian Benn and Jill Pearcy warn explicitly against accepting service debits. They comment: "Service credits are effectively penalties on the outsourcers, should they fail to meet a particular service. Service debits are the reverse - a bonus payable if they over-perform on the service level targets. Service levels are set based upon the business requirement - the call centre must answer the telephone within three rings, the PC must be fixed in four hours, the number of cheques processed over 10,000 per hour. Over-performance has no business benefit for the client - otherwise it would have set the threshold higher in the first place."

Do ensure the penalty clauses are specified. The SLA does need to define where the minimum required level of service is going to be and the consequences of failing to deliver, but try to think beyond penalties and fines. As described in chapter 18, crafting the contract and SLA needs to be about thinking of what is going to be mutually beneficial as the relationship grows.

Termination

The contract should include information regarding the reasons why the client may want to terminate the relationship. One of those reasons will be the failure to deliver an adequate service, so the SLA must define where penalties end and possible termination procedures begin. This is not a pleasant subject to approach, but it should be defined from the start to avoid later confusion.

The SLA must define whether the unacceptable services in different areas are triggers for partial or total termination of the relationship. Different services are at different levels of importance for the client. Even a total failure of a minor service may not trigger a total termination - it could just lead to the removal of that service from the overall outsourcing relationship.

To define this, ensure that each KPI not only has a minimum service level requirement, but a failure level that triggers a potential termination investigation.

Reporting

Monitoring the relationship is essential, but a smart manager can leverage this KPI management in his favour. Charles L. Gay and James Essinger comment: "Not only do SLAs provide the basis for measuring service provision, they are a powerful management and communications tool for both the service provider and the customer, to the mutual benefit of both."

This returns us back to the analogy Rob Aalders presented - driving a car and monitoring the instrument panel indicators. I previously used an Intranet site to publish my project KPIs. All the interesting facts and figures were regularly updated and presented as a series of colourful graphs and diagrams. This was fantastic material for the senior management. They could immediately see how the team was performing and what was being delivered.

In addition to internal reporting, this transparent flow of information helps to manage the client and supplier relationship because potential issues are spotted early and acted on by both parties.

Reporting tools like Crystal Reports or Business Objects can be used to sift through large amounts of information very quickly. They can then automatically publish charts and graphs, based on the KPIs, to an Intranet or report document. Even a programme manager can learn how to use these flexible reporting tools. I know because I did, though it feels like ancient history now!

Summary

Writing an SLA is a complex task, especially for a manager with no experience of outsourcing. It may need to be an iterative process, rather than heavily prescribed and this needs a flexible approach.

Outsourcing consultants can offer advice on how to construct the document, but care should be taken to ensure that each individual agreement is based on your relationship with the other party, rather than a standard document template.

Template-form SLAs can be found in the outsourcing books by Elizabeth Sparrow and Sara Cullen and Leslie Willcocks, both listed in chapter 11. These are useful guides to ensuring points are not missed, but for the inexperienced it is best to take advice and to construct the SLA in parallel with the contract itself.

Remember, while the contract rarely changes, you should expect the SLA to be a living working document that you can adjust as your business changes. It reflects your expectations from the outsourcing relationship and those required service levels may increase or decrease over time. Change is the only constant.

In any case, quality is often a concept that is in the eye of the beholder, at least that's how it works with retail branding. A pair of Levi's jeans exudes a sense of quality even though they may cost the same to manufacture as a less well-known brand. With technology and IT-enabled services though, quality is being measured all the time though various metrics. It really is possible to determine exactly what is going wrong with a service and where, so when a service is provided from offshore it becomes critical that some form of standards are in place to ensure a baseline quality.

Professor Abhoy Ojha of the Indian Institute of Management Bangalore cites an example: "Take the humble Personal Computer. Most people knew that it had Intel inside, but Intel eventually branded their product so well that a PC without 'Intel inside' became a second-class PC."[11]

Professor Ojha believes that Indian service companies in the IT-enabled service sector are still operating without a strong brand image of quality, but trust in India is growing. He would like the general public of the entire world to realise that their world-class Multi-National Companies have 'India Inside.'

Professor Ojha said: "India has dirty roads and beggars. Many visitors still have a strong image association with elephants in the street, an expectation to see them. However, a manager who has seen India and witnessed the quality work that is being produced in India will be able to change perceptions."

Professor Ojha compares the growing trust in Indian service quality with the established global trust of Chinese manufacturing. He said: "I think we will be able to catch up with the Chinese image quite quickly. People have a very positive view of the image of China and its manufacturing industry. I think that 'made in India' can assume this level of acceptance in western countries within the next 5 years. People are very comfortable buying Chinese manufactured products; soon people will be very comfortable buying Indian services. We have already achieved service quality and we will achieve the branded image and universal perception of quality soon."

Professor Sowmyanarayanan Sadagopan, the Founder-Director of the Indian Institute of Information Technology Bangalore took up a similar theme when I discussed these issues with him. He confirmed my view on measurement of service quality when he said: "People love metrics in this industry. In IT-enabled services, all this information is logged automatically. People have shown me numbers demonstrating that Indian call centre operators working on IT support can close the calls more efficiently than any other operators. These are genuine figures from log files and they create a strong value proposition for India." [12]

Professor Sadagopan drives the point home. With real information that has been produced by measuring a service, the metrics create their own value proposition. This is not just a warm fuzzy feeling or perception that India provides a better service, the numbers prove it.

Professor Sadagopan goes further and estimates that 'made in India' will soon be associated with quality products in addition to services. He said: "A few interesting things are happening in India in the last two to three years. Now, we are looking more seriously at products in addition to services. People like i-flex and Infosys are looking at how to achieve strong revenue growth in this area. It is happening slowly, but there are more and more success stories. For instance, there is a small company called Impulse Software. They have developed the world's first 'Personal Gateway' right here in Bangalore and they are now talking about licensing the technology to the major Japanese manufacturers. A 'Personal Gateway' is a small radio system that goes into your pocket. It functions as a GSM cellphone, but if you are near a wi-fi hotspot then it is automatically routed to the Internet and it uses Bluetooth to communicate with a small earpiece. That's three different radio signals in a tiny device. India is really starting to work on world-class product design."

Companies such as i-flex have been marketing products in addition to services for a number of years now, but the crucial trust in Indian quality is only just beginning to grow. Professor Sadagopan suggested one idea to a major player for raising awareness in Indian quality: "Just imagine the opportunities for India if Australian telephone users received their itemised bill from Telstra with a message stating 'Powered by Infosys.'"

Chapter Checklist

- ISO is the International Organisation for Standardisation, based in Switzerland. Their ISO9000 series of process guidelines form the basis of quality standards for thousands of organisation across many industries.
- The CMM standard offers a benchmark for the process quality of technology companies and more recently, how those same companies manage their employees. All the major Indian technology firms have achieved the gold standard of CMM Level 5.
- Six Sigma is a set of tools and philosophy of continuous improvement, based on the Japanese kaizen and Total Quality Management concepts. Wipro is a leader in the use of Six Sigma quality management.
- COPC is an organisation that promotes call centre quality management. The various COPC standards are being used by call centre organisations throughout the world to define service quality. Most of the Indian BPO players have achieved COPC certification.
- The SLA is the document that defines the expected minimum levels of service availability and quality. It is defined with the legal contract, but is more of a working document that can be referred to frequently and changed, if needed.
- The KPIs are the indicators that are used to measure service quality for the SLA. The SLA will include a number of key indicators that are regularly measured and reported on. These indicators provide the client and supplier with information on the current state of the relationship.

Chapter 20: Migration and Knowledge Transfer

The handover from an existing internal team to the Service Provider needs to be as flawless as possible and complete within a defined timeframe. Internal clients or external customers will not forgive mistakes attributed to the outsourcing programme so the migration and knowledge transfer is a process that can make or break the entire programme. It therefore needs careful advance planning.

Planning the transition itself is a major operation that requires senior management support. The programme manager needs to focus on several key issues:

- How will the organisation and processes adapt?
- Who will stay and transition to the outsourcing vendor and who will leave?
- What are the conditions and benefits for those who are staying and those who are leaving?
- What to do about employee resistance?
- What is the transition timetable?

One of the most important processes not mentioned is the process of knowledge transfer. Knowledge transfer is required mainly where valuable employees are going to exit the organisation and be replaced by new people without experience of the job function.

In the case of transition, the requirement for knowledge transfer is avoided, because the same people join the outsourcing vendor. When outsourcing a function to India, it is unlikely that any of your existing team is going to be a part of the future equation. You need to think about how to get their knowledge and skills to the people in India.

This chapter focuses on the steps required for planning a managed migration to India and the issues associated with the knowledge transfer process.

Offshore Transition

I want to first look at the steps needed for successful project migration to India. I asked Meena Ganesh, former COO Contact Centre Business of ICICIoneSource, to help me and she responded by providing a wealth of information.[1] Ganesh is now the India CEO of British retailer Tesco, however this section outlines how I-oneSource has successfully transitioned several clients to the offshore model.

At a speech to NASSCOM delegates in London, Steve Dunning, the Managing Director of BPO firm WNS (UK) said: "Go beyond the obvious and acquire a vision. Look at firms like GE who have moved 15,000 people for inspiration, rather than planning a 30 seat pilot."[2]

Dunning has a strong point. India works well for many major companies, but there is a major difference between the migration of a small pilot project and an entire business function. It is essential to break down the entire migration into ever smaller stages so both the client and outsourcing supplier can create a strong sense of control and purpose.

I-OneSource breaks down the transition process into a number of defined stages. These can be described as:

1. Understand and arrive at the order in which the processes should be migrated (Feasibility Analysis).
2. Develop a project plan for each phase.
3. Measure deliverables and timelines through a progress report.
4. Review overall project performance through a post migration review.

Feasibility Analysis

The feasibility analysis is designed to look at the current process and to plan how it might work using the offshore model. When studying each process, the opinion of the reviewer will fall in to one of three broad groups, based on how difficult the process might be to outsource offshore. Although the reviewer will apply some detailed analysis to the feasibility study, the end result is the determination of whether each process is easy, fair or difficult to move offshore.

I-OneSource uses a detailed list of areas and issues that should be studied for every process that is proposed to move offshore. These include the following:

Issue	Possibilities
Process Complexity	• **Least Complex - primarily auto reconciliation and less manual intervention** • **More Complex - manual reconciliations, no alternative investments / international securities, no specific client requirements** • **Most Complex - manual reconciliations, alternative investments, / international securities, governed by client requirements**
Hand-offs	• **One or no handoffs involved in the process** • **Two to three hand-offs involved in the process** • **More than three hand-offs involved in the process**

Issue	Possibilities
Training Effort	• **Well defined training structure & associated modules exist, development of training structure & modules not required** • **Training structure & associated modules exist partially but need customisation** • **Training structure & modules do not exist**
IT Feasibility	• **Off the shelf solution available for access to application and databases, No scanning and workflow solution required** • **Solution can be developed for remote access to applications and databases, Scanning and Workflow solution required** • **Remote access solution not available, Scanning and Workflow solution required**
Time Criticality	• **Time criticality not significant up to 2 weeks** • **Time criticality not significant up to 3 days** • **Time criticality most significant for daily reconciliations**

Each process is then assessed, based on the scores allocated in this feasibility process. The total 'points' awarded to each process are assessed and then each process is ordered, so it can be easily determined which are the easiest and hardest to move offshore.

The processes are then divided into three groups, based on this raw analysis:

1. Ideal for migration - least effort required.
2. Suitable for migration - more effort required.
3. Suitable for migration - most effort required.

This arranges the processes into migration phases, where the easiest processes can be migrated first. Migration of the easiest work first has a number of advantages:

- It builds momentum for the entire transition process. Starting with difficult tasks could jeopardise the entire transition if the process is not smooth.
- 'Quick wins' help gain senior level support and win over the detractors who still do not believe in the outsourcing project.
- The new team in India feels involved in helping the client immediately; even though the tasks may be simple they are real tasks and add value to the relationship.

- The new team is learning about the client, their business and the people they will be working with. This domain knowledge and interpersonal relationship building is best performed when the tasks are relatively simple and this knowledge will be essential when tackling the more complex tasks.

The complexity analysis of some tasks is weighted. This is generally where the process may need to be reengineered or changed in some way, rather than being lifted from the client and managed by the outsourcing vendor. For instance, a very simple task that would usually take its place in the first phase of moving offshore might be delayed to the second phase if reengineering is required.

Project Planning and Milestone Tracking

I-OneSource then sets in place a set of project plans and milestones, to track the progress of every task that will move offshore. Key activities in this process include:

- List all activities, deliverables, milestones of the Project (People, Process, Technology).
- Identify dependencies & relationships between activities.
- Assign owners to each task.
- Assign timelines to each task in consultation with the owners.
- Issue Project Plan to all stakeholders.

For a large transition, a number of project managers will need to be working under the guidance of a programme manager to achieve this. It is essential that every task is trapped, planned and milestones set in place because once the processes start moving offshore then these milestones will be the measurement of success for both client and outsourcing supplier.

Project Tracking and Reporting

The project managers need to use standard methods for defining each project, to ensure a high quality transition. Nothing can be missed and the client will expect to be kept updated on a regular basis so this needs to be built into the framework of the entire management programme.

I-OneSource uses these steps as a basic framework for the project manager when constructing the project tracking framework:

- Formal Reviews of Project Status conducted during the Define, Design, Implementation and Handover Phases.
- Project Progress Report circulated to both internal stakeholders and Client on a weekly basis.

- Closely monitor progress of all components of Migration - Recruitment, Training, Technology Implementation and Process Integration.
- Key decisions and approvals taken during reviews.
- Necessary Red Flags raised and mitigating plans agreed.

The project plans need to be designed as plans for the entire transition process, in advance of it commencing and then live documents that can be used during migration. The plans feature key milestones that signal progress to the client and outsourcing supplier.

Post Migration Review

I-OneSource does not consider its job to be complete once a client has handed over its processes and migration is complete. They feel it is essential to complete a post migration review of each process and function that moved to India. The review plan is be summarised here:

- Design and Circulate Project Score Card to all functional heads.
- Collate, Analyse and Prepare Post Migration Review Report.
- Circulate Report to All stakeholders.
- Request formal meeting with all stakeholders.
- Review Post Migration Review and document learning, create storyboard.

The purpose of a post-migration review is to ensure the company can continuously improve its service to the existing client, but also for future migration projects. The post migration report will analyse what worked, what did not work, what migrating actions were required for plans that failed and it will ensure that an entire storyboard of the whole process is captured for future analysis. Without this process, the client could not be satisfied that the migration has been completed to a satisfactory standard and the outsourcing supplier could not learn and improve its service.

Each migration is different and not every single aspect of a migration plan can be guaranteed to work exactly as described in the project plan, though an experienced project manager does mitigate the risk somewhat. By always analysing the most recent migration, companies such as I-OneSource ensure that their future migrations can be improved.

Knowledge Transfer

Sara Cullen & Leslie Willcocks have covered the issue of staff transition and exit extensively in their book *Intelligent IT Outsourcing*. They comment: "It is a common misconception that in ITO arrangements the majority of the organisation's IT staff are transferred to the supplier. While this may be true for the 'mega-deals' that receive a great deal of media exposure and can involve the transfer of hundreds, if not thousands of employees, it has not proven to be the case on average. For example, in Australia, the majority of personnel remained with the organisation."[3]

Cullen and Willcocks have identified one of the misconceptions of outsourcing. There is often an assumption that all employees are transferred from the client to the outsourcing supplier, or the entire workforce faces redundancy. In fact, the situation is usually more complex and is further described in chapter 23.

What is important to remember when transferring a process to India is that it is unlikely that any existing team member will transfer to the new team. There may be some local project management or control, but the outsourced process will be undertaken by people in India who have no experience of your business or its functions.

This is a problem that exists with all offshore outsourcing, it is not unique to India and I have yet to find a book on outsourcing that mentions how best to address the question of transferring knowledge and expertise from the existing team to the Indian team working for the outsourcing supplier.

In my own experience the following factors need to be taken into account:

- Recruitment
- Retention methods
- Transition timing
- Travel arrangements
- Domain knowledge
- Tracking individual progress

Recruitment

You may have spent a year planning to outsource this business function, but the sponsoring business, will not allow you such a leisurely timetable once the decision to outsource is taken. You need to study the skills of the existing team members and then look at the processes being outsourced. Ask whether the current arrangement is perfect or whether a shift in emphasis could produce better results. This will allow you to create a resource map with the outsourcing supplier detailing the required skills and resource strength - so the supplier can determine how many individuals need to be hired.

Get involved with the hiring process. The supplier should welcome your assistance, though it is unlikely they want the client to take responsibility for hiring their own employees! However, you have the knowledge of what these people need to do, so help ensure that the right people are brought on board.

Retention Methods

Your existing team needs to help with the transition process, but this must be planned as it could be a difficult process. Clearly they might not be happy about their job being outsourced to India and then, to add insult to injury, they are expected to train a replacement for themselves. Chapter 23 details the issues surrounding exit management, but here I would like to list the specific steps required to ensure the existing team helps to construct the new organisation, rather than destroying the migration process.

1. Cash Bonus. This is the most basic requirement. Each person will ask 'what's in it for me?' Ensure that an attractive cash bonus is attached to their performance in helping the transition process. Specific Key Performance Indicators can be created for each individual, to ensure that their assistance is measured. This might be as simple as creating full documentation of their responsibilities or training individuals in their job function. It must be documented in this way for it to be effective - the payment can only be guaranteed if the KPIs are satisfactorily completed.
2. Defined Exit Timetable. Ensure that everyone knows how long they have left with the organisation and when the bonus will be paid. This timetable then forms the basis of their KPIs, as the required achievements must all be within this timeframe.
3. Flexibility. Ensure that the manager of the team is very flexible with them during this period. They may need new references or time away from the office to attend job interviews. The 'normal' rules should not apply - give them a break. They know what has to be done because completion of the KPIs will be the difference between a full and partial exit bonus.
4. Change in role. Ensure that you investigate the possibility of a changed role or location with each person. Just because this particular function is going to be outsourced does not mean that the employee cannot add value elsewhere in the organisation. They have experience and knowledge of the company that may be useful in a different location or department.

Transition Timing

It is essential the client and outsourcing supplier agree on strict project plans that outline where and when each task will be handed over. This ensures that there is no confusion of responsibilities during a period when hundreds of individual functions may be moving from one location to India.

Meena Ganesh highlighted this as a key point of the entire transition, but it is critical when considered in the light of knowledge transfer. The human resources with the knowledge you require will only be around until a new job beckons, so the transfer of their skills to new employees from the outsourcing supplier needs to be managed carefully.

Travel Arrangements

It is essential to plan for a period of travel. The knowledge transfer process is almost impossible without face to face contact. This is a useful time to ensure that members of the new team in India get to visit the client site and meet some of the business people they will support.

Even where the most logical approach to cross-training may be to send several of the existing team to India for a period of time, it can be valuable to ensure that people travel in both directions. The new team will be picking up the baton for the long term and just meeting the end users in person can give a strong sense of motivation. This increased motivation is worth a few additional air fares. Get both teams in the air.

Domain Knowledge

Travel has an additional advantage. The new team may be skilled in the area of offering a BPO service or technology, but they may not understand much about your business or the industry in which it operates.

If you are an investment bank, then bring the new people over to see the equities trading floor in London, New York or Hong Kong. If you are an airline, then bring the new people to your home airport so they see dozens of your aircraft lined up on the tarmac. If you are a retailer, then bring the new people to your home market so they can see your stores in the shopping malls and city streets.

The sight of what the business is about will help to motivate the individual. You can then take the opportunity to also educate the new team about what you do as an organisation.

It is not essential for every single member of the new team to undergo this experience and for a large team the cost may be prohibitive. For a small team it would be sensible to invite everyone out to meet the client. For a larger team, invite key team members and then ensure that they run a training workshop on their return to India - to ensure the rest of the team understands what it is that the client actually does.

Tracking Individual Progress

The overall knowledge transfer KPIs will be tracked by a project manager, but it should be on an individual basis. The existing team may be demotivated, regardless of the bonus on offer. Ensure that a regular review takes place with each team member so progress can be tracked.

This regular review should also be applied to each individual in the new team, to track how far they are towards matching the knowledge and skills of the existing team members. This might be as simple as a percentage figure, estimated by the project manager and trainers. It is not likely that any new team member would reach 100 per cent before the existing team leaves. Just ensure you define a level of comfort before the process begins - I would expect around 70 per cent to be enough to ensure comfort and good service, though with some learning still to be completed.

Summary

This planning must be included in the overall project planning arranged by the project and programme managers. There will be a serious impact on the transition timing and success of the programme if the knowledge transfer is not executed correctly.

The people in India are very good and will learn quickly. Your outsourcing supplier will have experience of recruiting new people quickly and can help you to find and train them as quickly as possible.

It is common for highly skilled people with non-technology backgrounds to be working in the technology or BPO fields as the work is interesting, the pay is good and the prospects for career growth are excellent. Seeking out these people with your outsourcing supplier can help to ensure success as they bring far more than just IT knowledge into your team, especially when you have a strong need for particular industry or domain knowledge.

Adam Lindstrom the former Director of Operations and Development for Softbrands Hospitality in Bangalore comments: "India's highly educated and highly motivated labour pool migrates to where the jobs are; much like migrant labour has been doing for thousands of years. I have seen that Indians have a remarkable way of changing domains and professions. For example, a doctor working in software testing or a builder working in web development and this is repeated throughout the workforce."[4]

Commenting further on these skilled workers crossing over from other sectors into IT services, he adds: "They do not have a degree in an IT-related field but they have intelligence, motivation, and loyalty; that is where India will succeed."

Chapter Checklist

- Feasibility analysis is an essential process and should clearly determine not only what processes need to be transferred to the offshore destination, but how complex they are and in which order the phases should run.
- Project planning is critical before and during the migration. The project manager will establish key milestones for every process, allowing progress to be tracked using agreed meetings and reports.
- Post Migration Review is a useful process for both the client and outsourcing supplier as it allows the client to understand the entire process from start to finish and the supplier to learn and improve their service for the next client.

- Knowledge transfer is particularly important in offshore outsourcing, as it is unlikely that any existing team members will join the new team. There are a number of inter-linked key processes that can make this work.

Chapter 21: Culture and Communication

Even with the best partner firm, the best people and the highest possible standards of quality measurement, outsourcing projects can still suffer because of poor communication. Charles L. Gay, managing director of Shreeveport Management Consultancy believes that: "The human resources issue is one of the greatest challenges to the success of an outsourcing initiative."[1]

It is easy to find examples of people with outsourcing communication problems. After all, outsourcing is a major change in the way many businesses work. If you combine the move to outsourcing with a move to India then you need to not only understand how to communicate with a partner firm, but with a partner firm used to a different personal and management culture. It can be a challenge to rise above this and to achieve maximum efficiency, but it has been done and several cultural experts have produced some excellent observations on India that can help you prepare for the transition.

In a Computer Weekly article that analysed the problems associated with outsourcing, Mark Ballard commented: "Most criticisms of Indian providers stem from cultural differences of the sort that confuse British managers operating in countries such as France, which can cause problems between customer and supplier."[2] Getting the management culture right is clearly a key part of making outsourcing work for your business.

All too often, attempts at mimicking a foreign culture fall flat. An appreciation of the style and culture of a foreign land cannot be learned through a process of television osmosis. Many journalists have reported that call centre operators in India are prepared for contact with the American public by viewing endless episodes of Friends, or in the case of the British, Eastenders. Any contact centre manager will dispel this myth. Cultural awareness is taken more seriously by companies that realise their operators need to flawlessly engage a stranger in conversation, even though the stranger is many thousands of miles away and may not share a single cultural reference point.

Mary Clarkson, author of *Developing IT Staff*, confirms that it is not so easy to teach cultural awareness: "It is relatively easy to learn a new skill based on background knowledge and new activities. It is much harder to realign one's attitudes and approach to life in order to build one's ability in a particular competency. Behavioural competence stems from our own individual attitudes and experiences, which shape our reactions to the world around us."[3]

Elke Anderson of Blue Sky Consulting demonstrated how assumptions of cultural affinity can go wrong in an article for Call Centre Focus. Anderson said: "I called a customer service department the other day and during the course of the call, the agent asked me if I'd seen the previous night's football match. 'No,' I replied. 'I'm not into football.' Imagine my surprise - not to mention irritation - when he then asked if I wanted to know what the score was."[4] Anderson goes on to make the point that many consumers will find the cultural stereotype approach to be annoying. Not every British person is interested in football, obsessed with the ever-changing weather or addicted to gritty soap operas. Well, maybe there is a gentle obsession with the weather.

Making these sweeping cultural assumptions can damage your business. It is important for the Indian partner to understand you and your business model, but to achieve the most from your experience with India it is important to understand their own culture and methods of communication. In many outsourcing arrangements this will be essential as it may be required for you to pass detailed information and instructions to the Indian team. Knowing how best to communicate and work with your partner's team is essential for a smooth relationship.

Cultural Awareness

Many consultants with a history of working with India are offering specialised cultural training to help managers prepare for business in India.[5] There are also several specialised cultural and linguistic experts that can help to smooth the path.

Indian business leaders openly acknowledge that visiting managers need to improve their cultural awareness. Venkat Narayanan is founder and CEO of Knowledge Dynamics in Singapore. Narayanan advises that western managers should attend "culture acclimatisation" training sessions to prepare them for working with an Indian team. He finds that the offshore team can be strengthened by including people with experience of working in the US or Europe. He said: "People from the US and UK share a similar Western culture and when these managers are confronted with an Indian team the culture divide is the first major issue." To illustrate this, he said: "During a meeting, a Western manager will want to pursue a discussion to its logical conclusion and then create team action points; however it is common for an Indian team member to change the subject once they personally understand the point being discussed."[6]

Richard D. Lewis, chairman of Richard Lewis Communications, is a long established leader in the area of cultural training, with experience of advising royalty and national leaders. He spent 5 years in Japan as tutor to Empress Michiko and was knighted by President Ahtisaari of Finland in 1997. Lewis speaks at least twelve languages and has been employed by a similar number of national governments, eager to improve their understanding of other cultures.

Lewis believes that it is important to have an appreciation of the cultural values of India, in order to understand what drives and interests Indian people. He states: "Values revolve around a strong family orientation as well as loyalty to a 'group', which often has to do with their profession. Examples are the diamond trade community or textile merchants. The honour of both family and group is strongly defended and arranged marriages are common within the trade."[7] He makes an interesting point about the value of honesty in public: "Honesty is not a major issue as a value, being seen as essentially relative. Stealing crops is seen to be as honourable as growing them and highwaymen - who have their own honour - are recognised as a social group."

This echoes the view of Tim Bond, CEO of consulting firm Launch Offshore, who has experienced many problems in his long history of working with Indian teams. He said: "It is a question of shortcuts being too easy and too commonly used. We find that the concept of client delivery and service is very different in India so a new team will often be trained and managed by a British expert until they behave and perform in the right way. Any manager entering into an outsourcing arrangement expects a more efficient and high quality service. That is what is being sold, but the cultural changes can require some initial hand-holding."[8]

During his cultural research into the status of women in India, Richard D. Lewis met and interviewed an Indian who had the benefit of an education at Oxford, where she completed her PhD before returning to India. When asked about marriage and the number of children desired by Indian women she replied: "Both arranged marriages and dowries are still very common. The Indian woman does not enjoy much freedom in the marriage. The modern Indian woman of middle class wishes to have two children. This is generally uncontroversial as far as the husband is concerned. As for balancing career and child care, the family undoubtedly takes precedence." When asked how she viewed the future for women in India she said: "Things are getting better rather quickly, especially in the area of education for the lower middle classes. The middle classes as a whole are radically transporting themselves. There is also a conscious promotion of the backward classes, though rural India is way behind."[9]

As the British ruled India for the two centuries prior to independence the two nations have many cultural connections and this can be a great advantage for British managers travelling to India. Richard D. Lewis lists the following examples of commonalities between the British and India: "Cricket, tea, army traditions, Oxford and Cambridge elite, protection of accumulated wealth, titles of nobility, admiration for (English) literature, democratic constitution, parliamentary rule, early industrialisation, class system, the English language as a vehicle of culture and administration, large civil service, legal system, respect for property."

The connections are numerous, but for most British managers visiting India it is still a very foreign culture, irrespective of the shared fondness for sweet tea. Lewis adds: "There is an easy acceptance of foreigners in business dealings - many invasions have brought familiarity. They are, however, suspicious of the iniquity that the foreigners may bring with them."

G.D. Sharma, an Emeritus Fellow of the All India Council for Technical Education (AICTE) believes that most Indian people, including managers, seek a sense of inner peace even if they do not declare themselves to be overtly religious. He likens this attempt to achieve inner peace with a sloka from the Bhagavad Gita: "Even though the various waters pour into the ocean, and yet it remains undisturbed and full, so the fulfilled individual remains calm when various desires enter into his mind, and not the one who is driven by desires."

This general acceptance of a spiritual facet to life is in stark contrast to the western task-oriented business culture.

Leadership

The style of leadership in India can often appear to be dictatorial to a foreign observer. Indians generally accept their place in the hierarchy and each rung on the promotion ladder carries its own set of obligations and duty to superiors along with subordinates. Managers often bark orders in a manner that would not be acceptable to an American or European team. Their position is accepted almost unconditionally allowing the manager to dispense with 'soft' skills, though it is common for mentor relationships to form as favoured or weaker subordinates are taken under the wing of a senior manager.

The psychoanalyst Alan Roland commented on the Indian hierarchy in his book *In search of self in India and Japan:* "In contrast to Western hierarchical relationships - which tend to be based on a fixed status and power relationship, governed by contractual agreements and an ideology of essential equality - Indian hierarchical relationships are oriented toward firmly internalised expectations in both superior and subordinate for reciprocity and mutual obligations in a more closely emotionally connected relationship."[10] Roland is describing a form of manager to team relationship where the manager is expected to be caring, concerned and responsible. In return, the subordinate is deferential and loyal. This can be a shock to Western managers brought up with flat team structures and blue-sky thinking.

G.D. Sharma has developed his theory of Indian leadership, based on classic Indian literature.[11] A rajarishi is a king or wise person, a person with immense self-control and wisdom. Sharma proposes a Raj-Rishi model as an ideal example of Indian leadership. The attributes for this leader are:

- Cultivates the intellect by association with elders.
- Keeps his eyes open through spies.
- Is ever active in promoting the security and welfare of the people.
- Ensures the observance (by the people) of their dharma (duty) by authority and example.
- Improves his own discipline by (continuing his) learning in all branches of knowledge, and
- Endears himself to his people by enriching them and doing good to them.

Sharma's example of the ideal Indian leader is a model that can be observed in almost every Indian company. The CEO must be benevolent to the employees and provide a great example to them along the lines of this Raj-Rishi model.

A parallel can be drawn with the theory of the philosopher king in Plato's *Republic.* A major difference is that Plato was hypothesising on a desirable form of leadership in a time of ignorance, where knowledgeable leaders would be groomed to their future position from an early age. Plato desired this form of leadership whereas in India something similar exists today in the modern world. Thomas More developed the Platonic argument further in his *Utopia*; however authors such as George Orwell and Aldous Huxley managed to twist these ideal mores into frightening visions of benevolent dictatorship.

In western society, the individual player is often rewarded for an ability to work without 'disturbing' the manager. Indian subordinates often require more guidance than a western manager will be comfortable with, as he may expect them to 'get on with it' rather than frequently asking for advice, however this state of dependency on the manager is a very normal situation. Sharma explains: "Dependence-proneness is a tendency of the subordinates to seek support, advice and help from superiors even in situations which do not warrant such dependence. Dependence-prone persons tend to avoid responsibility and do not show initiative. *But in a nurturing climate of warmth and emotional support, dependence-prone persons are likely to perform better than others.*"

The emphasis on that last statement was added by Sharma. In a western context, this means that there will be many situations where a person can be a valuable member of the team, but they need to be taken 'under your wing' in order to perform. Just think of all those Hollywood movies with a rookie cop or cub reporter and you should have a good appreciation of how to help these people grow in stature. Just don't use 'Dirty Harry' as a management role model; the rookie was always shot before the end of the movie.

Arun Maira is Chairman of the Boston Consulting Group in India. In his book on leadership Maira talks of how different people lead their subordinates. He cites the Bush/Gore US election campaign as a good example of two men from the same nation, with similar cultural values, who lead in entirely different ways. Maira said: "My firm belief however, having observed leaders in many settings and many countries, is that leaders are defined by what they do and thereby what they accomplish. My working definition of a leader is, 'a person who takes the first steps towards something he or she cares about, and in a way that others wish to follow.'"[12]

India is culturally different; however a leader is always a distinctive animal in any culture and is not created through a management title alone.

Language and Meeting Behaviour

Indian authors can often express themselves in evocative Booker prize winning prose, proven recently by Arundhati Roy. However, spoken Indian English is a fascinating blend of perfect English peppered with the occasional Hindi phrase or archaic expression long forgotten in the UK or America. The English speaker can be baffled as dacoits rob wallahs of lakhs and crores in this strange pidgin Hinglish. Engineers tell their perplexed manager they are working late due to the software upgradation or system updation and may shake their heads to indicate interest in a manner that is similar to the western shake of disagreement.

English is the Indian lingua franca, especially for business communication, but it takes some getting used to. Richard D. Lewis observed: "Indian English is old-fashioned, flowery and verbose. It excels in ambiguity and such things as truth and appearance are often subject to negotiation."

Although this remains true today, global television and cinema is starting to have an effect on spoken English in India. The younger generation is becoming more influenced by the American English of CNN news and countless Hollywood movies than the clipped vowels of the BBC world service.

When conducting a meeting it is important to have a strong understanding of the language, however the differences in negotiation style are as important to appreciate. Richard D. Lewis recommends the following key points:

- Remember they are very skilful and can often fool you.
- Understand their needs and objectives.
- Be humble at all times.
- Avoid sarcasm and irony.
- Be patient - few Asians like to decide things quickly.
- Focus on relations; they see this as more important than any specific deal.
- Indians will accept 'losses' if they mean future gains.
- Their negotiation concept is win-lose, but they are very flexible.

The final point is worth further emphasis. The American or European approach to negotiation is often to achieve a 'win-win' situation, where an agreement is reached that is of mutual benefit to both parties. The classic Indian approach is that if one person is going to gain then the other must lose, so the negotiation can appear to be a calculated battle of wits rather than a discussion on how to work together. Fortunately this mindset is becoming less common due to the increased international experience of many Indian managers.

How to Empathise with Indians

Your Indian partners and colleagues will be impressed if you have made an effort to undercover what is important to them. The outsourcing deal is the main reason for being together, however Indians will not restrict conversation to business alone during your time together and it can be embarrassing if you remain ignorant of basic facts about India. David A. Ricks, author of *Blunders in International Business* warns against this more explicitly when he declares: "In India, it is considered a violation of sacred hospitality mores to discuss business in the home or on social occasions."[13] Personally, I feel this is overstating the point as I have discussed business within an Indian home and I never faced the wrath of an angry wife or any other such judgement.

Richard D. Lewis notes that Indians make a good audience for speakers. He advises: "Indians are willing to listen at length to humble, eloquent and respectful speakers. A good vocabulary and friendliness are key attributes to respect from an Indian audience."

It is important to have a basic understanding of basic politics and the key political leaders, such as Nehru and Gandhi. On this point, Lewis comments: "Avoid confusing him with Indira and Rajiv Gandhi's family, to which he was not related."

The earlier chapters in this book summarise the basic, but essential information you should be aware of. The main areas of importance being:

- Ensure you are aware of basic Indian geography. Researching such basic information as the location of major cities and understanding which countries border India will aid many conversations and help to avoid embarrassing blunders.
- Jokes are welcome when respectful or even self-deprecating; however the use of sarcasm or irony is not advisable.
- Patience is a virtue. The State governments are trying to streamline their famous form-in-triplicate bureaucracy and recent reports do speak of nothing, but an eagerness to help firms complete their paperwork.

Indians are generally a far happier group of people than most citizens of western nations. Stress is lower as there is a strong sense of fatalism and a lower importance attached to time. S.K. Chakraborty, Professor at the Management Centre for Human Values, Indian Institute of Management, Calcutta commented on this in a collection of essays titled *The Knowledge Economy in India*. He said: "Viewed from the perspective of a low need-low greed, long life-low profile Yogic culture like India's, the hurricane of globalisation during the last two decades of the twentieth century may be seen as flooding the world with rising materialistic wants."[14] Professor Chakraborty notes that people in the west often confuse the standard of consumption (SC) for standard of living (SL). He adds: "A 1999 World Happiness Survey placed Bangladesh on top in terms of happiness, the USA 46th in rank and India occupied 5th position. It is well known that SC in Bangladesh is among the lowest in the world. But this has not robbed them of happiness. Equally well-known is the fact that US citizens enjoy the highest SC. Yet they score so low in terms of happiness. Such data yield the plausible hypothesis that SL in Bangladesh and India still preserves, somehow, such non-measurable qualities of life as make for greater happiness than that in high SC countries."

Cross-Cultural Communication

The advice of cross-cultural experts such as Richard D. Lewis and Sunit Jilla is valuable for managers visiting India and hoping to cement new business relationships on the grounds of trust and mutual respect. In addition to this awareness of cultural likes and dislikes, it is useful to know something of the linguistic problems documented in academic cross-cultural research.

Stephen P. Robbins, Professor Emeritus of San Diego State University, summarises the cross-cultural communication research of M. Munter in his book *Organisational Behaviour.*[15] Robbins outlines the four basic issues related to language difficulties in cross-cultural communications as:

- Barriers caused by semantics where words have different meanings or cannot even be translated. The Finnish *sisu* is just such an example, meaning 'dogged persistence' or 'guts'.
- Barriers caused by connotation where words can imply a different meaning to different people, such as the Japanese use of *hai* which translates as yes, but does not always signify agreement.
- Barriers caused by tone difference when a language has several levels of formality and the speaker is using an informal tone in a formal environment or vice versa.
- Barriers caused by a difference of perception because people think of the world in different ways. For example the word 'no' does not exist in Thai vocabulary.

These are the four foundations of misunderstanding in cross-cultural communication and can apply even where both parties are speaking the same language. Professor Robbins warns: "Most of us assume that others are more similar to us than they actually are. But people from different countries often are very different from us. So you are far less likely to make an error if you assume others are different from you rather than assuming similarity until difference is proven."

Achieving Cultural Comfort

Cultural comfort and a smooth project is where everyone wants to be. Getting there is not just a matter of tasting Indian food and avoiding poor jokes. Some observers believe that there are more specific actions that can be taken to avoid catastrophic communication between outsourcing partners.

Professor Balaji Parthasarathy of the Indian Institute of Information Technology in Bangalore believes that issues now are very specific to individual teams or contracts. He said: "Outsourcing to India in the 1980s was focused toward on-site tasks because clients had concerns about confidentiality, infrastructure and skill levels. In the last ten years telecommunications have improved and Indian firms have established strong credentials through catering to the needs of the Fortune 500."[16] His concern is that regardless of how much cultural acclimatisation takes place; people are people and need to be managed remotely far more than in the past.

Patrice Hervé is a project manager at SG Software in Bangalore. He transferred from the Paris head office of French investment bank SG to their Indian technology subsidiary in 2001. Hervé repeats that an appreciation of the culture gap is essential: "The gap can be huge and it exists at all stages of the manager to team member relationship, causing miscommunication and frustration."[17] However, he goes on to insist that for an offshore team to work effectively, a formal methodology is essential because it creates a framework for remote project communication. SG uses the ISO9001 process; however India is the global leader in adoption of the CMM quality model, as outlined in chapter 19.

Darcy Wiborg Weber, Vice President of development at Telelogic, believes that the culture difference and additional communication need to be factored in to any new project planning. Weber said: "Recognise that there is a commitment of time and effort required to make the project successful. The overhead of communication is estimated to increase the total project hours by 10 per cent."[18]

The suggestion that project managers add time to projects for cultural alignment and increased communication can be aligned with the concept of management by crisis as documented by Sharu Rangnekar: "A crisis manager can regale his wife and friends with stories of raging fires controlled single-handedly. The non-crisis manager will listen to his wife saying: 'You just go to the office at 9 in the morning and are back by 5 in the evening. There is no substance in you, nothing happens to you. You and your company are useless.'"[19] Rangnekar is playing for laughs in his anecdote. Factoring additional communication time into an offshore project is a good way to avoid management by crisis.

Even the International Labour Organisation admits that globalisation is forcing Indian companies to review their training policies in the light of increased exposure to international partners. A. Sivananthiran is a Senior Specialist in Industrial Relations at the ILO in New Delhi. He said: "There is a need to orient, train and educate managers regarding their duty to communicate and consult with and seek the cooperation of workers and their unions. Similarly, workers and their unions should be oriented, trained and educated about their rights to seek access to information and upward communication and obligation to cooperation."[20]

A leftfield suggestion by Gary Luck of Ashridge Consulting suggests the use of expression as a way cutting through the cross-cultural barriers. Citing recent experience at a client site he said: "A multi-cultural team within a multinational client was recently working to understand and describe the project environment at the company. Storytelling, drawing, body-sculpture and poetry were all used to portray a scenario, which emerged in a far more meaningful and broadly understood format than could have been created by any word-bound analytical approach."[21]

Professor Geoff Walsham of the Judge Institute of Management, University of Cambridge, has extensively analysed the issues of cross-cultural management in software outsourcing. Professor Walsham said:" Particular societies tend to have distinct ways of working, and these can prove problematic when attempting cross-border collaboration. For example, Indian software companies have found that they need to approach communication with US and Japanese clients in very different ways. US client companies normally work to extensive written agreements and explicit documentation, reinforced with frequent and informal electronic contact through media such as e-mail. In contrast, Japanese clients tend to prefer verbal communication, more tacit and continuously negotiated agreements, and less frequent but more formal use of electronic media. "[22]

Professor Walsham believes that for larger projects the cultural alignment of the team becomes critical and requires more than just training in awareness - it needs people to travel. He said: "Although some movement towards other cultures is possible, it is unrealistic to expect expatriates in any country to be able to think and act like locals. This can create serious problems in areas such as applications software development, where in-depth client contact is needed. As one approach to this problem, successful outsourcing relationships often involve people who can 'bridge' cultures. For example, people originally from India, but with higher education and long-term residence in North America, have been reposted to India as expatriate managers for outsourcing projects. Such managers have often been very effective in overseeing complex outsourcing projects."

Professor Walsham adds a further suggestion: "A complementary solution to the problem of cultural bridging is for the software supplier to maintain a mixed cultural team in the client country. Locals in this country can then be used to perform a range of tasks, including being members of the sales force and of bridgehead teams in client premises, or sometimes as senior staff dealing with the corresponding level in the client company. One reservation that third world software suppliers have about employing 'first world' staff is cost. However, such staff should be regarded as an essential overhead for major projects."

This point can be demonstrated by the fact that the number of Indian IT companies with offices in the UK has grown from ten in 1994 to several hundred now.

An offbeat AFP story on Yahoo! News[23] outlines the way one Indian faced his own cultural crisis: "Software professional Sudhir Udayakanth, who heads a company managing web content, lost a foreign client when one of his Indian engineers repeatedly burped at the negotiating table. So he set up an academy seven months ago in India's technology hub of Bangalore to train code writers and engineers on how to dress, communicate and mingle in professional settings." He said: "Most of the time when I am with a foreign client I am on the edge of my seat as I fear my colleagues will commit a social blunder. He may bum a cigarette or pick his tooth and burp aloud. I have lost quite a few clients because of this."

This is the type of behaviour that scares some senior executives away from India. However Karen Williams, marketing director of eFunds, believes that India is "culturally pretty close to the UK. They even scramble to read each new Harry Potter book."[24] I have seen those Harry Potter books stacked up on the streets of Bangalore. Even stories that J.K. Rowling has not even thought about, let alone written can be found there! Williams adds: "If you are going to outsource offshore then India is as culturally close as you can get to a country like the UK. Once people visit India and see that the office is no different to London or New York and realise how good the people are then no minor cultural barrier will stop an executive making the decision to partner with India."

Chapter Checklist

- Training in cultural awareness and communication should be considered for those who need to manage or work with cross-cultural teams. It is an investment in the future stability of a team because communication is even more vital than usual when a team is offshore.
- Group loyalty is important in India, whether it is to a company, family or particular trade. Individual eccentricity is rare.
- Women exist in a complex duality where they are increasingly well represented by political parties yet they remain subservient to men at home.
- Britain has many cultural connections with India and this can be a comfort to British managers visiting India. However the shared cultural reference points do not automatically lead to perfect communication and understanding.
- Hierarchy is important to Indian managers. The concept of 'face' restricts subordinates from correcting their boss and you may often witness managers 'sending a stinker' to their subordinates, reinforcing their position of authority.
- English is spoken throughout India as the language of education and business. There are more English speakers in India than in England itself. It is worth becoming familiar with some of the terms particular to Indian English through conversation or the Indian press.
- Negotiation is a tricky process than can leave you closer to a miserable solo than a beautiful *pas de deux*. Indians love business negotiation, but they are offended by arrogance and conceit - especially if conducted in the condescending manner of an ex-Colonial. If you conduct a gentle bargaining process with patience and avoiding the constant Asian fear of losing face then you will succeed, but always be wary of any promise that is too good to be true. It is.
- Awareness of political leaders, basic geography and patience with the process will pay off.
- Jokes are best avoided, unless they are at your own expense.

Chapter 22: Adapt the Organisation

Outsourcing will force your organisation to change the way it does business. At a strategic level, you are seeking to improve the way you work, regardless of the specific objectives around cost savings and quality improvement.

At the very least, it will encourage people to sit up and think about the best way to achieve a result, whether that means a great service or a faultless product. You must consider how to introduce the concept of partnership with a third party as beneficial for the everyone, so the company can adjust to the new style of operation.

In her book, *The Company of the Future*, Frances Cairncross asks the question: "What should a company look like? In the early years of the past century, the Ford Motor Company thought that a wise company should own every stage of it s entire production chain. It even bought a rubber plantation to ensure that it owned a source of the raw material for making tyres, and fleets to ship its materials across the Great Lakes. But go back three centuries earlier, to the first joint-stock companies of all, and you find a quite different sort of creature: a bunch of people banding together for a single project - a perilous trading voyage to the East Indies, say - and disbanding when the task is done."[1]

Organisations don't work that way anymore. Organisations are now built on knowledge. Management thinker Charles Handy once said: "The new formula for success, and for effectiveness, is $I^3 = AV$, where I stands for Intelligence, Information and Ideas, and AV means Added Value in cash or in kind."[2] I have already looked at the drivers underlying outsourcing in this book, but it is an important point to remember. Outsourcing is not a business fashion; it is a tool that can be used to improve the knowledge within your company.

Outsourcing needs to be at the heart of strategic planning, at the very core of your company. Once you have made the journey and set up your first outsourcing arrangement, you need the right structure to be able to monitor and control the partnership.

In their book, *Inside Outsourcing*, Charles L. Gay and James Essinger comment: "Once the deal is signed and the outsourcing initiative is under way, there is an enormous temptation to breathe a sigh of relief and, rather optimistically perhaps, 'go back to normal'." [3] Life is never that easy.

Outsourcing as Corporate Strategy

The acceleration of business, management and decision-making processes may feel like a new phenomenon; something brought on by the introduction of the Internet. Just look at the words of thinker and futurist Alvin Toffler: "Today, organisational lines are changing so frequently that a three-month old table is often regarded as an historic artefact, something like the Dead Sea Scrolls. Organisations now change their internal shape with a frequency - and sometimes a rashness - that makes the head swim." [4]

Toffler wrote this in 1970, yet it could be extracted from a present-day newspaper or management textbook. It is predicted, that by 2025, the average length of time a company resides on the S&P 500 index will be no more than 10 years, compared to 20 years today. In their book, *Creative Destruction*, Richard Foster and Sarah Kaplan comment: "The pace of change is accelerating. Survival alone, as we have seen, is no guarantee of performance. Based on the historical record, even those companies that do survive to the year 2025 will likely underperform the markets." [5]

It was Joseph Schumpeter who coined the term 'creative destruction' in his work on the economics of capitalism. Much like Karl Marx, he believed that for an economic system to progress, the destruction of the former state is essential. Kiran Karnik once even described the entire IT industry in India as a constant process of creative destruction.[6]

You will not need to destroy your organisation, in order for it to rise like a phoenix with outsourcing wings. However, you will need to think for long time about what it is that your company does well. What are the core competencies of your organisation?

In their classic management text, *Competing for the Future*, Gary Hamel and C.K. Prahalad said: "A core competence is a tapestry, woven from the threads of distinct skills and technologies. A car company could hire the best engineers and technologists, and lavish billions on R&D, and still not produce the best engines."[7]

According to Hamel and Prahalad, companies need a different type of employee for a world in which outsourcing and partnership is common: "What is required are generalists, not just narrow specialists. Experts who are sympathetic to other disciplines, and who can overcome the parochial perspectives of their specific technical or functional background, are rare." Jack Welch, former CEO of GE makes the point clear when he argues that "hierarchy is an organisation with its face toward the CEO and its ass toward the customer."[8]

With this in mind, what kind of organisation might your present one become? There are many models for outsourcing and you may end up in one of several places. Richard Finn, Managing Director of Penna Change Consulting comments: "Remember that a lot of outsourcing learning has come from IT. There is a continuum with outsourcing at one end and partnership at the other. The style of outsourcing is a really critical strategic issue. Straight outsourcing is surrounded by SLAs, we want you to deliver service x for n years. Many people are realising that they need to think more strategically about the degree to which they can specify a standard with any clarity and moving to partnership is likely to be a richer arrangement than straight outsourcing."[9]

Finn believes that by strapping yourself in to an outsourcing agreement without any thought for the strategy and competencies of your company, you can only be asking for future trouble. He said: "Knowledge management is a good example of a process that can be outsourced, but needs to be approached very strategically. If you outsource this part of your business you not only outsource cost, you outsource your creativity and innovation. You need to arrange something far beyond an SLA. Ask the partner to think about how your knowledge and expertise can benefit both sets of shareholders. It puts some added value into the outsourcing arrangement."

Once you have decided to outsource, the chosen style of outsourcing will determine the corporate change issues that are likely to arise.

Retaining Your Edge

With the reshaped organisation, there is a danger of losing valuable information if the way you structure the new teams is not carefully planned. More than ever, knowledge exists in humans without any other physical form. How do you control this situation when the knowledge workers are not even on your own payroll?

Richard Finn believes that there are two methods for controlling this, risk clustering and restructuring. He said: "The key issue is ensuring that any knowledge that is created within the outsource organisation becomes structural intellectual capital in the parent or host organisation. It is easy for this knowledge to be lost and there are costs here in continuous improvement and long-term future development if it is not retained." He goes on to explain the two proposed methods of control: "Clustering is just risk reduction by ensuring one level of tasks is outsourced, while a control level remains in-house. It is better to build a new structure that ensures the knowledge is always returned to the host organisation. Make sure you schedule lots of regular review meetings and ensure you have good process maps. To identify where knowledge is created and ensuring that it is shared is just plain good management."

In one of my former employers, a large European investment bank, the support for outsourcing was engrained into the project creation process. To launch a project and use any resources, the manager needed to complete project initiation forms, which would then be signed off by a higher authority, granting the requested budget. One question, very early in the project creation form, asked: 'Can this project be performed offshore at our technology facility in Bangalore?'

It was still down to individual managers to investigate the feasibility of going offshore, but the process was introduced and so each manager had to at least consider the option. A mistake they made was to allow managers who were not supportive of outsourcing to check the box saying 'no this work cannot be performed offshore.' A presumption had been made that what was good for the company, was good for the individual project managers and this is not always the case.

Managing the transition from old to new state is a complex task. You need to create the new outsourced model of business, but also maintain the service levels expected with the previous model. It is very easy to take your eye off the ball during this transition process and once transition is over, you have the new procedures and relationships to maintain.

If It Is Broke, Then Do Fix It

One of the things vendors learned from their history in IT outsourcing was to never outsource a process that is broken. You fix it first. If you want to try improving and reengineering a process that does work, then outsource it and work with the vendor to improve efficiency. It is not advisable to believe that by outsourcing a failing process to a competent vendor you will suddenly make it work.

Meena Ganesh is now the India CEO of Tesco, the British retailer. When I interviewed her for this book she was the COO of Contact Centre Business for ICICI OneSource. Ganesh explained to me: "We will not attempt to manage a process that is clearly not working, even before it goes offshore. We would work with the customer to improve the process before engaging in the transition." Where the customer wanted to extract improvements and new efficiencies from the expertise of the outsourcing partner, Ganesh advised: "It is best to take the process and move it offshore without much change. Once that transition is complete, the vendor and customer can plan a business reengineering process together."[10]

An initial component in the transition process Meena Ganesh described was the creation of valid metrics that allow present and future performance to be benchmarked. It is essential for the quality of a service to be measured when it moves offshore, but metrics are often overlooked prior to outsourcing. Richard Finn said: "Surprisingly, organisations often don't have a good database of benchmark information to start with, so it is hard to measure success."

Even after the success of outsourcing within one area of a business, individual managers can still choose to ignore the initiative unless the processes are baked-in to the way they need to work.

Dr. Abhoy Ojha is professor of organisational behaviour at the Indian Institute of Management in Bangalore. He believes that companies need to be very careful when undertaking an offshore outsourcing process, especially where they have not even used localised outsourcing as a business tool before. He said: "A firm from the UK that has little experience with outsourcing (within the UK) that introduces outsourcing to a firm in India has to deal with the impact of outsourcing as well as off-shoring simultaneously. Outsourcing is based on simpler make or buy decisions that cause fewer internal changes, while off-shoring changes are significantly higher. The effort should be to keep the negative energy within bounds to give time for the benefits to accrue."[11]

Professor Ojha advises on choosing an easy pilot project, to convince those with doubts of the benefits of working with an outsourced model. He said: "It is best to start with the activity/department/function that is least likely to disrupt normal functioning while at the same time provide significant economic benefits. There are bound to be problems, but if a 'low hanging fruit' is selected then despite the teething problems, you are more likely to have positive results. While positive results may not convince everyone, it will definitely help fence-sitters accept the value of the move.

Risk and Potential Issues

Vendor Management

Misunderstanding the relationship is a major risk for both vendor and customer. The customer may outsource a group of critical processes, yet find that they have no person available to perform the post-transition vendor management. A common problem is that vendor management is a new competence that just has not been used before.

In my experience, I have met several capable managers who could not manage vendors satisfactorily. They were good managers in their own niche - and usually technical - area, but vendor management was like a mystical art that they were incapable of comprehending. One manager I knew considered it to be his right, as a customer, to receive copious free Champagne each Christmas and expensive football match tickets through the year. However, his contribution to managing the outsourcing relationship amounted to little more than shouting at the account manager in each weekly status meeting.

In *The IT Outsourcing Guide*, Rob Aalders recommends that a new department is created for the administration of outsourcing contracts.[12] The purpose of the new department is entirely different to any of the previous sections within the organisation and so the staff can be hand-picked for the job, regardless of which projects they were focused on before. Aalders defines the purpose of the contract administration office as monitoring the adherence to the following:

- Performance standards, including adherence to periodic reporting timetables.
- Budget management and financial reporting.
- Monitoring and approval of service provider site staff quality and quantity.
- Corporate principles and standards.
- Ensuring there is no deviation from key contractual clauses.
- Maintaining the issue register and participating in dispute resolution.
- Management of all variations to the contract, in conjunction with the CIO.

It is important to staff this department correctly. Do not use the new vacancies as a landing ground for those escaping possible redundancy. You need to think seriously about the right management profiles and if you don't have the right people available then go to the open market - hire new people. No matter how smooth the transition is; if your new contract administration office is full of the transition is; if your new contract administration office is full of the wrong people then the long term supplier relationship may be doomed.

In *Organising Genius*, Warren Bennis and Patricia Ward Biederman comment: "Great groups are a on a mission from God. People in great groups often have the zeal of converts, people who have come only recently to see some great truth and follow it wherever it leads. Great groups are engaged in holy wars."[13]

You don't need to hire a team of evangelists. Just make sure you take the creation of the monitoring team as seriously as the selection of the outsourcing vendor.

Remembering the Strategy

Richard Finn emphasises that building competence in vendor management is "really very important." He goes on to say: "If your reason for outsourcing in the first place was because the organisation saw it as a strategic move then one of the benefits is that you release resources to focus on more valuable things. This is an organisation design issue, a refocusing issue, a performance management issue - the whole gamut of leadership and management in refocusing people on the things that will create greater value."

Finn makes an excellent point. You need to be aware of what people are really doing with their time after the transition programme is complete. Not everyone is going to remain just to manage the vendor relationship. If you are keeping resources that are made redundant by the outsourcing of their role, then these people should be free to focus on the value add - the core competencies.

This is also one of the key areas where problems occur with the restructuring of an organisation during an outsourcing programme. If the initial plans focus too much on cost reduction alone then any measurement that shows headcount or cost is not reducing quickly can condemn the plan to failure. The value addition is often forgotten when monitoring post-transition progress.

Talent Management

Talent management is a new issue. Something that happens by definition when you outsource is that you remove much of the low value, high transaction work from your own organisation. Richard Finn comments: "The outsourcing vendor takes on responsibility for that work, so you then raise the bar in terms of the competence you require in your own organisation." So you need to think far more about the type of people you employ and how to manage their career path in order to attract and retain talent.

Understand Your Stakeholders

When arranging the contract, the executive management of both host company and outsourcing vendor can agree on various points, but there is a greater depth of opinion and need in both organisations. The agreement can never be a simple dichotomy where organisation x promises service y for n dollars. Various layers within the organisations have different expectations and goals.

Mary C. Lacity and Leslie P. Willcocks have identified this and studied the various relationships that need to be controlled and managed.[14] Using an example of IT outsourcing, Lacity and Willcocks have identified the following stakeholders:

Stakeholder	IT expectations/goals
Customer senior business managers	**Customer senior business managers expected demonstrated business value for IT expenditures. Inability to assess the benefits of IT often caused senior business managers to focus on IT costs.**
Customer senior IT managers	**Customer senior IT managers balanced service excellence expectations from users against cost containment expectations from senior business managers.**
Customer IT staff	**As technical enthusiasts, customer IT staff focused primarily on service excellence, but within budget and time constraints.**
Customer IT users	**IT users expected service excellence. Cost implications were often not apparent due to centralised accounting and contracting for IT.**
Supplier senior managers	**Supplier senior managers balanced customer service and profitability.**
Supplier account managers	**Supplier account managers negotiated deals that would satisfy the client while maximising profits.**
Supplier IT staff	**As technical enthusiasts, customer IT staff primarily focused on service excellence, but within budget and time constraints.**
Sub-contractors	**Sub-contractors were expected to deliver on their contracts. Sometimes sub-contractors also seek more direct relationships with end customers.**

Although the focus is on technology outsourcing, the point is clear. There are multiple layers of people within your organisation and the vendor organisation who are affected by the relationship. They don't all have the same requirements or expectations, so be aware and plan around this.

Managing Expectations

Gay and Essinger urge managers to remember that nothing will change overnight: "A very common misconception is that the level of service will change from day one after the outsourcing contract begins. This is not a reasonable expectation."

Often the outsourcing partner is brought in to offer new expertise or an improved quality of service. It is only to be expected that the service users will expect a miracle, but you can prepare for this by ensuring those who are going to use the outsourced service are fully briefed on the transition plan. Gay and Essinger advise on the following key areas to study when agreeing a transition plan:

- A structured approach to any staff transfer.
- A realistic period of appraisal of equipment and assets.
- A reasonable approach to asset/equipment improvement through investment or better maintenance.
- Clear and uncluttered management structures to ensure that progress is continuously made and problems are readily identified and addressed.

Professor Chandru Rajam is Dean of Universitas 21 Global in Singapore. He reiterates the need for caution when restructuring the organisation around an outsourced model. Professor Rajam advises: "Don't completely outsource. Depending on the technical complexity and project scope, keep a project team on site and create a hybrid model. That's a more sensible approach."[15] Indeed, this is the approach most of the technology operators have adopted, allowing savings to be achieved with a complete knowledge transfer.

Professor Rajam believes that the transition team needs to have an eye for detail because issues can be magnified many times when the distance between one team and another is introduced. He said: "Working offshore and communicating with your client can create a lot of problems. How do you explain certain things to people who are so remote? So you need to use tools such as NetMeeting and video conferencing, but some of these tools can be expensive. Ensure you drill down to the detail, where possible. With an offshore programme the plan might look nice, but you can never make any assumptions. A company like Citibank has strict guidelines for working hours or meeting times and those general procedures may not have been factored into the plan."

As Larry Patrizio of equity research firm Sanford C. Bernstein once said to me: "Never ASS-U-ME." Then again, David Brent in *The Office* also used that expression and I wouldn't want to rely on his managerial wisdom.

There are some genuine pitfalls associated with corporate restructuring and without approaching this in a structured manner it can be hard to yield the benefits of outsourcing. The good news is that most of the issues have been seen before by others. You have the benefit of that experience and can create an implementation plan that not only reflects the strategy of where you want to get to, but builds in checkpoints along the way.

Chapter Checklist

- Corporate strategy may have led you to outsourcing, but don't forget the drivers that are important to your company; a focus on core competencies, release resources for value-add, reduce cost, increase quality. Remember the main reasons for entering the outsourcing programme and target these benefits when restructuring.

- Checks and balances will probably be needed in a new structure to prevent a situation where the outsourcing vendor owns all your valuable domain knowledge.
- Fix broken processes before you try to outsource them. Going to a vendor won't help if the processes are already broken and could make the situation far worse.
- Vendor Management is often overlooked. It is a distinct competence that you need to develop or hire in to the new team. If possible create a new team to just focus on maintaining the outsourcing contract and vendor relationship.
- Talent Management is an interesting side-effect of outsourcing lower value work outside the organisation. You need to start thinking more about career paths and training when, by definition, the people in your organisation are only focused on high-value tasks.
- Remember the stakeholders are not limited to the senior executives of the host firm and outsourcing vendor. IT staff, end users, account managers and executives may all have different agendas for the same outsourcing process so it pays to think carefully about what different people expect.
- Transition expectations can often be unrealistic, with many users expecting an overnight success. Keep the people informed of progress and plan a transition process they can understand.

Chapter 23: Employee Transition and Exit Management

One of the hardest things about outsourcing is how to manage the people it impacts. Regardless of all the benefits brought to the arrangement by both parties, the process can fail because of poor transition management and people are the single most important factor in any transition.

Outsourcing is not a process of discarding years of loyalty and experience in favour of a cheap solution, yet it often receives negative media coverage and so most employees fear the process. However, outsourcing is a major change to the way a business is operated and it may involve the transition of employees to a new role, a continuation of their existing role or redundancy - voluntary or compulsory.

A typical reaction to outsourcing is reflected on by Gurcharan Das, in his book *India Unbound*, as he describes the news that upmarket London retailer Harrods planned to outsource customer services to Delhi: "A regional radio station in Yorkshire reported in a rather blunt manner that the local community which had earlier operated the Harrods call centre was deeply concerned; trade union officials in London quickly issued a statement expressing reservations about British companies shifting their 'back offices' to India. Another newspaper raised questions about whether the distinguished customers of Harrods would be able to understand the English spoken by Indian boys and girls."[1] The response from Harrods was both a defiant show of support for their new team and a statement of fact: "Indians speak English just as intelligibly as the citizens of Yorkshire."

In many outsourcing deals, there is in fact the opportunity for employees to join the vendor, so change is minimised for vendor and customer. In the UK, the TUPE directives protect the working terms of the employee and similar regulations are applicable elsewhere. Obviously this does not apply when a project is moved offshore, but as outlined in this book, outsourcing generates new roles throughout the economy. The positive aspects of outsourcing as a business tool are often brushed over in the popular media, leaving the newspaper readers of Europe and the US in fear of an Indian spectre looming over their company.

Even huge corporations can struggle to manage a transition and exit policy that satisfies the requirement to communicate what is happening to internal employees and keep the public informed of why outsourcing is being undertaken in the first place. The telecom giant BT suffered a poor media and trade union response to its use of Indian technology staff and plans for a number of call centres in India.[2] The insurance company, Prudential, has seen a similar public reaction to its plans for a call centre in India[3] and the threat of industrial action forced a watering down of the transition plan. American Express has been accused of replacing employees with 'untrained Indian staff.[4] A Computer Weekly opinion piece recently featured the headline 'Exporting the future', prompting a flurry of supportive letters to the editor from technologists with a fear of the future.[5]

BT has attempted to allay many of the fears about outsourcing by stressing to its own staff and the media, that outsourcing is part of an entire package of strategic sourcing measures. It is certainly not about getting staff 'on the cheap'. BT has even announced a major initiative with the telecommunications union Connect, where they guarantee that no permanent employee will be displaced by any outsourcing deal.[6]

In the Financial Times, Prudential finance director Philip Broadley said: "The infrastructure and potential for savings and productivity gains made India a winner." [7] Broadley mentions the potential for savings, but the higher quality infrastructure is clearly the primary reason for working with India. In theory, this should dampen the incendiary media coverage, however most employees care little for the strategic reasons behind outsourcing. They are worried about their next mortgage payment and the credit card balance that is still reflecting Christmas presents bought last year.

Understand the Fear

Change is not enjoyable for most people. Think about how often you vary your journey to work each day. If you change route regularly then count yourself in the minority. When a situation is full of fear, uncertainty and doubt it is no surprise that people resist and everyone needs their job so resistance to the threat of outsourcing is natural.

Commenting on the fear of organisational change during an outsourcing programme Charles L. Gay and James Essinger, authors of *Inside Outsourcing*, said: "This is one of the most serious problems that will need to be overcome if the outsourcing initiative is to succeed. Essentially resistance is a vote for the status quo."[8]

Richard Finn, Managing Director of Penna Change Consulting said: "The people that stay may see their jobs change significantly, so you need to rethink talent, rethink career paths and then there may still be some redundancies."[9]

Gay and Essinger have produced a detailed list of reasons why regular line staff will resist all attempts to explain the benefits of an outsourcing initiative.

- They feel that they have lost control over their jobs and possibly their lives.
- They are upset by the uncertainties surrounding the project.
- They are afraid of the difference – what will I be doing, how will it affect me, what will I have to do that I don't do now?
- In some cases they might fear increased workloads without any compensation.
- They will almost certainly feel that they have lost some power or been disenfranchised, even if this is not the case.

- They feel under threat, mostly because they have misunderstood the truth and paid attention to half-truths and falsehoods.
- Staff represent the old way of doing things and do not want to change (we tried that beforehand and it didn't work).
- They perceive a political threat to them – often why some managers are against outsourcing – which is sometimes not unfounded.
- There is a culture clash between their current organisation and the new one (real or perceived).
- The ramifications of the outsourcing initiative haven't been explained to them.

Most organisations use a variation of the Lewin three-step model when approaching change.[10] This means they see the transition in three major parts. First, the existing way of doing things has to be unfrozen, then the new processes are introduced during a period of movement and finally the new process is frozen in place. As a textbook model of how to change a process it sounds fine, but outsourcing transitions involve people and people are often unpredictable.

John P. Kotter has observed hundreds of companies as they undertake transition programmes, including such well known institutions as Ford, General Motors and British Airways. Kotter describes the eight major errors committed by management during a change programme as follows:

1. Not establishing a great enough sense of urgency.
2. Not creating a powerful enough guiding coalition.
3. Lacking a vision.
4. Undercommunicating the vision by a factor of ten.
5. Not removing obstacles to the new vision.
6. Not systematically planning for and creating short-term wins.
7. Declaring victory too soon.
8. Not anchoring changes in the corporation's culture.

Kotter's guidelines are clear and it is possible to fail in the entire programme, through failing in the management of any one of these areas. Kotter has even documented cases where a CEO engineered the worst-ever accounting results in the history of his firm, just in order to generate the support for change.[11]

The fear of organisational change can be further understood by thinking about precisely why people come to work. What are the expectations of the employees and how will the outsourcing programme damage them? Paul Strebel has argued that without clearly defining the place you are going to then it is impossible to win support.[12] People need to know exactly what is going to happen, right from the start of the programme. Strebel lists three dimensions to the expectations of employees: formal, psychological and social.

Personal commitment to the company comes from the employee being able to satisfactorily answer the following series of formal questions:

- What am I supposed to do for the organisation?

- What help will I get to do the job?
- How and when will my performance be evaluated and what form will the feedback take?
- What will I be paid and how will pay relate to my performance evaluation?

Followed by these psychological questions:

- How hard will I really have to work?
- What recognition, financial reward or other personal satisfaction will I get for my efforts?
- Are the rewards worth it?

And finally, these social questions:

- Are my values similar to those of others in the organisation?
- What are the real rules that determine who gets what in this company?

Managing the expectations of employees is crucial to achieving a successful employee transition programme, whether those people are moving to the vendor firm or leaving the company. Where redundancies are essential, the reputation of the firm needs to be managed as well as the morale of those left behind. The use of outplacement agencies can achieve the twin aim of providing the departing employee with help in locating a new job and showing you care – even if this milk of human kindness is poured more through concern for brand management than genuine altruism.

Communication

Academics argue that most employees have some loyalty to the organisation they work for. Though some keep returning each day for the monthly pay cheque alone, the majority have other reasons for being there. A psychological bond exists between employer and employed; the relationship should be able to ride out the transition process if it is managed well through a good communication strategy. However, this loyalty is limited. Professor Albert O. Hirschman declares in *Exit, Voice, and Loyalty*: "the barrier to exit constituted by loyalty is of finite height."[13]

Getting this wrong can destroy the entire process as most organisations are filled with rumour, incorrect perceptions and politicking. This applies to even the best organisations in the world – a company is just a series of individual people working together as a group toward a shared goal. If the outsourcing process is not communicated as far as possible from the very first decision to move forward then individuals can quickly become destructive.

Rob Aalders, author of *The IT Outsourcing Guide*, comments: "Many of the problems that arise in outsourcing agreements are people-centred. It is important that these issues are managed from the outset. The task of transition will be so much more difficult if morale is allowed to deteriorate and if negative attitudes are allowed to develop in isolation."[14]

From my own experience I know that getting the communication right is the key to launching the process. Even before the final management decision is taken and budget approved, the employees will be expecting your announcement. It helps to try involving the team even before a decision is taken. Tell them that a series of options are being reviewed and outsourcing is a possible outcome, however it is not a decision that has yet been reached. It may sound like a risk, but this level of honesty with people helps in two important ways.

First, you aren't deceiving your team. You probably have some excellent people in your present team, I know I did in a software development team that I had to make redundant in Singapore. They suspected for a long time that the company might be shifting software development to Bangalore, but I was answering in good faith when I told them nothing could happen to their jobs because a transition had not even been considered. When the investigation did commence, I informed them and made a personal commitment to ensure that the company would look after them. They knew that if the news from the investigation were bad, then at least they would get plenty of notice and some form of financial severance.

This level of honesty with the people who may be affected helps to destroy the rumour mill before it starts. Rumours will always fill a communication vacuum so it is better to ensure the cards are on the table. A team of 50 with a good understanding that there will soon be 15 redundancies and that a formal process is analysing how to proceed is easier to manage than a team of 50 worried that they are all about to receive their papers.

The second key reason for the honest approach is that it gives a head start to the change process. The manager will build credibility through regular, honest and open updates, so when it comes to working through the transition itself this will be valuable.

Some of the team may need to be retained as part of a knowledge transition process. It can be a delicate situation. In some cases team members are training their own replacement.[15] Richard Finn comments: "When I have been involved in the type of situation where people are training replacements and making themselves redundant, I usually use 'golden handcuffs' or other ways of holding on to the people for the limited period you need them."

Aalders advocates commencing the transition plan as soon as a strategic decision on outsourcing is taken. There is no point waiting for the vendor to be chosen, when much of the preparation for a transition can be undertaken prior to that decision.

Richard Finn believes that excellent communication is essential for success: "Good communications, external and internal are critical to this. This is one of the really critical success factors, right from the start. Be upfront, open, help people to understand what is going to happen, increase management time with line workers, lots more one on one sessions, lots more notice board activity. You need to create an entire communications strategy that defines here are the audiences, what are the media and how are we going to make this happen?"

Aalders has formulated such a communication policy. The focus of this list is the transition of an entire IT department from host to vendor. He does not claim that this is the authoritative guide for every situation, however this is an excellent framework on which to base a corporate outsourcing communication policy. In every individual case, the CIO and change management team would need to formulate specific actions related to the structure of the company or department being outsourced. The actions Aalders suggests include:

- Staff briefing by the CEO out the outset of the project and at pre-planned milestones.
- More frequent briefings by the CIO of chief IT executive, say every two weeks.
- Weekly newsletter by the project team on progress.
- Preplanned individual counselling sessions (if possible do this for all staff; if sheer numbers make this impossible, then seek to do it at least to team leader level).
- Information packs on the project, including background information on preferred candidates that has been acquired through the RFI process.
- Full briefing by CEOs of both the host company and the service provider when the selection is made.
- Full information packs – preferably individualised – to all affected staff members.
- Individual interviews and meetings for all staff with their new colleagues.
- Farewell celebration for transitioning staff that recognises their contribution. Caution: do not try and gloss over the situation – cynicism will probably be running high and plain truth is likely to be more respected.
- Welcome function by the service provider, followed by a well-structured induction and training plan.
- Continuation of the CIO, project team and newsletter briefings for the first six months of the contract.

Aalders adds an important comment about interaction with the vendor during transition: "Both parties should work hard at ensuring open communication between the host company and its IT staff. This is often easier said than done. Staff often want cut and dried answers to uncertain issues. Some aspects of the outsourcing plans may, of necessity, be shrouded in commercial secrecy."

Gay and Essinger state that the new relationship should be described from the moment the contract is agreed: "The positioning of the entire outsourcing arrangement can be quite important. Most companies that we have worked with in the past have been honest in declaring that they are entering into an outsourcing contract. However, they have also emphasised the 'partnership' nature of the deal in order to soften the blow, and highlighted the close working relationship that the two organisations will have in future."

Be open with your own people. Don't mislead them - they are not stupid - and make sure you have a formal strategy for dealing with both internal communication and external PR related to the outsourcing policy.

Plan the Transition

Though employee transition is going to be rare in an offshore outsourcing arrangement compared to onshore, it can still be arranged. Sajai Singh, a partner in law firm J. Sagar Associates in Bangalore, warns that the transition process is not always simple when Indian employment law has to be considered. He said: "Several Service Providers are requiring clauses and commitments that the Service Recipient shall take on a defined number of employees on its rolls. This causes several employment related issues which both parties need to bear in mind, including, Indian employment laws which provide statutory protection to a category of employees defined as 'workmen', India does not have a 'hire and fire' policy, there are certain statutory protections available on compensation, tenure of employment and conditions of employment. So what terms does the employee move to India on? What laws govern this employment? What kind of visa does he move to India on (should come here on an Employment Visa, often such employees are sent on a Business Visa which is improper and incorrect)." [16]

Even with excellent staff communications and a fantastic PR team to handle the media, strong planning is essential. A programme manager must be appointed to deal with the outsourcing programme. Richard Finn warns: "It is a big complicated project. You need a big project manager to oversee the whole thing. You don't want to use a recent MBA or a spare person who is not too busy at present. It needs big programme management. This is a frequent mistake because it is often not done this way. You often find the head of the department being outsourced ends up in control of the transition and then problems crop up in vendor management or other areas."

Ian Benn and Jill Pearcy, authors of *Strategic Outsourcing*[17], have formulated a ten-point guideline for helping employees through a smooth outsourcing process:

1. Helping staff through this is vital for the future success of the outsourced organisation. It is not just a moral responsibility.
2. Long-term operational staff have a unique knowledge of how the organisation functions. Losing them can increase inefficiencies and reduce staff morale.
3. Disgruntled ex-staff can cause a great deal of damage to your organisation.
4. Bear in mind your reputation. Your employees will have partners or friends working for customers or competitors who are ready to exploit your weaknesses.
5. Tell staff as much as possible, as early as possible.
6. People will be shocked by the initial announcement. Make sure people are on hand to talk and answer questions.

7. Ensure the staff that are transitioning to the outsourced company are offered a formal letter outlining their position, On the day of transition there should be some evident changes to avoid a feeling of anticlimax.
8. Work with HR management to ensure the new environment is an attractive one for staff, to ensure people are happy in the new environment.
9. 18 months after the transition, all staff should now be happy and focused on the new mission. Career development opportunities should become a focus.
10. Be aware that management morale is often the opposite of the staff and this may take a year or more to settle down.

Gay and Essinger warn that not all these planning points may apply to the internal management team. Point 10 is of particular interest. Managers may be initially excited about the outsourcing contract, so when they are fired up and ready to move on the staff are plunged into uncertainty. As the employees begin warming to the reorganisation, the managers may be tired of evangelising and so their morale dips. Managers may have a different empire-building agenda to the regular staff and so careful attention should be paid to how to ensure their needs are also met.

Mary C. Lacity and Leslie P. Willcocks are two of the world's leading academic authorities on outsourcing. They have extensively documented the negotiation process and contract between the British Inland Revenue and EDS.[18] The negotiation to manage the IT function of the Inland Revenue took place during 1993 and 1994. The staff walked out on strike in 1993 on hearing the news that negotiation had commenced, but by the end of 1994 the Inland Revenue Staff Association had agreed to the staff transfer arrangements. EDS and the Inland Revenue went to extensive lengths to agree on a satisfactory severance package. Even those who were offered jobs in EDS, but refused to take up the offer, were eligible to be paid compensation for redundancy.

This last point caused a period of strain during the process as the financial impact would be £50m ($80m). EDS insisted on an additional payment for a time, while the Inland Revenue insisted a one large price for the entire contract. A stand off that should have been avoided. In any case, EDS were fired by the Inland Revenue in December 2003 in favour of Capgemini.

Chris Gentle, Director of Research (Europe) at Deloitte Research summed up the issues when he warned a NASSCOM delegation in London that many managers still do not have the HR issues on their agenda: "Working with your HR people is the key to the exit management process. The PR people need to be fully briefed and, given the current circumstances, it is essential to get this right."[19]

Chapter Checklist

- Preparation is a critical part of the transition and redundancy process. Even though you are dealing with people, it is possible to predict and map the resistance and acceptance of a major organisational change –

even where redundancy is involved. Communication is the key. Most managers assume that once a message is broadcast, it is also understood, but this type of assumption can be catastrophic for an outsourcing programme.

- Honesty really is the best policy. It maintains the credibility of the management to an external and internal audience as well as helping to start the transition process earlier than it could be if planning was covered up.
- Planning is often overlooked. Don't assume a team manager can deal with a major outsourcing project. Get a programme manager who has been there, done it and is not a personal friend of the team facing redundancy or transition.
- Ensure your media and PR team is fully briefed. All information must be from the same source and delivered as soon as possible to prevent leaks and rumours.

Chapter 24: The Risk Factors

You need to sell the programme of offshoring to India within your organisation because that is what everyone is doing. But outsourcing to an offshore vendor is a risky business. This may be the new knowledge economy, but offshoring your important business processes is too risky a project for cost reduction alone. When you start selecting vendors, the sales team will give you the following message, in various formats and with some very slick PowerPoint slides:

1. Offshoring allows you to tap into global resource pools. You can gain access to resources in an environment where skilled labour-supply is almost unlimited. For example, India produces almost 2.5 million new graduates each year and at least 350,000 of those are in science and engineering disciplines.[1]
2. Offshoring is strategic. You can focus on your core competencies and, therefore, allow your organisation to focus on winning new business and servicing clients, rather than keeping the lights on. Hand non-core tasks to the experts and let them get on with it.
3. Offshoring creates flexibility and innovation. You can ramp up the team size quickly as markets improve, and reduce it easily when there is less demand. Innovation is created through the process of creating a new environment where continuous improvement is the norm.

That is all fine. You probably know it already if you read this book from front to back, but the success rate has been patchy - as companies such as Dell and Lehman Brothers can affirm. Consultants and vendors highlight the benefits of cost reduction and process reengineering without mentioning that lifting your technology or business processes and dropping them into a vendor organisation halfway around the world is not easy. Sometimes it is not even the right choice and sometimes it does not work, for a variety of reasons.

Vendors are very good at selling outsourced services. They can present glowing images of their own services and can make others in the same market appear to be mere amateurs. However, they often focus on the process of selling the offshore service without helping the client through the entire process. This is my experience of what the vendor often forgets to tell you about the risks of outsourcing:

1. Search costs and outsourcing style;
2. Metrics and key performance indicators (KPIs);
3. Change;

4. Culture;
5. Media and public relations;
6. Data protection; and
7. Infrastructure.

Failure in any one of these key areas can cause the breakdown of an existing vendor relationship or negate months of negotiation over a new contract, so it is essential to keep these points in mind right from the start of your outsourcing venture. This chapter refers back to earlier sections of the book where the specific risks are addressed.

Search Costs and Outsourcing Style

In a simple analysis of offshoring, the cost advantage will always rise to the top of the list of reasons to move forward with the programme. That's what the press chooses to focus on and it is a fact that this is the easiest way to get your board members to also sit up and take notice. However, a simple business plan that only emphasises the arbitrage between the cost of performing a process in an industrialised nation and the cost of performing that same process in a lower-cost environment fails to acknowledge the effort involved in getting from here to there.

As outlined earlier in this book, there are many ways of entering into the creation of an offshore subsidiary or outsourced relationship, and the process of determining how best to do this will consume a considerable amount of management effort. You can become consumed by the multitude of options and suffer from an attack of analysis paralysis. This has been labelled the "search cost" of outsourcing by the Work Foundation *iSociety* think-tank. The questions you need to ask here are:

- What do you want to outsource? Which processes can and cannot be outsourced from the main operation? And, should you phase this process to initially target the "low-hanging fruit" or take a "big bang" approach?
- Why do you want to do it? It is important to create and track measurable targets before, during and after the transition programme to allow a focus on the initial criteria and to highlight further benefits.
- How will you achieve it? You may need to utilise the services of a consulting firm or hire some new internal expertise. It is going to be a long road to offshoring success, so getting some experience on your team is essential.
- Where will you go to? Many countries are now offering excellent human resources and infrastructure. India may remain the world leader for many offshore services, but other nations are raising their game and becoming increasingly attractive.
- Who will you work with? You may seek a local company to partner with through plain vanilla outsourcing or a more complex arrangement, such

as a joint venture, or creating an offshore subsidiary of your own company. There are many ways to utilise the talented offshore labour pool, each with different benefits.

Each of these questions is inter-linked, and all of them need to be answered before you can plan any offshore initiative, so "search costs" really are the often-forgotten hidden costs of offshoring. If your organisation is convinced that offshore outsourcing is a beneficial business strategy for your situation, then the final two questions - Where do you want to go? And, how will you structure the deal? - are the most important.

It is important to decide on the country you want to work with before complicating your decision-making with questions over which supplier to use or whether you might be able to do it alone. Elizabeth Sparrow's book *A Guide to Global Sourcing* is useful for this as it compares the benefits and challenges of outsourcing to 18 different countries, including India.[2] It is possible to compare nations based on criteria similar to this list, recalled from the Gartner chart in chapter 14:

- Is the local government supportive of foreign direct investment? Are there local initiatives - such as tax breaks – that actively encourage you to choose this location over others?
- How many people are available to work in the area of expertise your company requires?
- Are all the basic facilities required for your business, such as reliable power, water, roads, hotels, telephones and Internet access, in place?
- Are the local universities producing graduates of a high enough standard for you to willingly employ and is there a plentiful supply of new graduates?
- What is the cost of operating in this country? Think of all operating costs, not just base salaries, when trying to make a comparison.
- How stable is the local political situation? Is there the danger of riot, violent protest, war or any other civil collapse that might threaten your business?
- Cultural compatibility is an important consideration since your own managers need to interact with nationals from the new country, and some cultures may be more closely aligned to your own values than those of others.
- Intellectual property and data protection legislation is an important consideration when working offshore, so consider what structure there is to protect your property in each country.

You may have additional criteria based on industry- or domain-specific requirements, and these can be added to the basic criteria. A matrix of potential countries against criteria can be formed to allow comparison and scoring. It is likely that some criteria are more important to your organisation than others, so weight them accordingly. When you have decided on the most attractive nation for your company, you still need to consider the deal structure: whether to create your own facility or outsource to a third party. This was covered in detail back in chapter 9, but your basic options will be:

- Creating a 'captive' facility.
- Outsourcing to a vendor.
- Some other hybrid arrangement; Build-Operate-Transfer, Joint Venture, formal partnership etc.

Search costs are an important consideration, since this research process cannot be undertaken lightly. Your organisation will need to invest management time, effort and expense in this process before any gains are realised.

Metrics and Key Performance Indicators

As discussed in chapter 19, the key performance indicators (KPIs) are the benchmarks that will be used to measure whether the minimum service levels are met or not. It is clear that careful drafting of KPIs is essential because they are of use to both client and outsourcing supplier. The supplier is fully aware of what the client requires and where the minimum service benchmarks exist. The client uses the KPIs to define what it wants from the relationship in quantifiable terms and KPIs can easily translate into management reports or a "dashboard" of the most important indicators.[3]

Planned KPIs provide the tools for measuring the quality of service and guiding the client and supplier to a harmonious relationship in which both are aware of what the other partner needs and expects. The KPIs need to emphasise the service accuracy, availability, expected response, quality and response times. Unfortunately, many service providers do not help the client a great deal when planning which KPIs to use. After all, it is for the client to determine what it feels is the most important aspect of the relationship to monitor. This can lead to one of two problems: Either the KPIs are the wrong indicators of good performance (so they are of no genuine use in monitoring the relationship), or there is a KPI overload as the client attempts to monitor too much.

By ensuring that your KPIs are clear and understandable, most problems of confusion in this area can be avoided. Thinking ahead to efficiency gains right from the outset can pay dividends as the relationship matures.

Change

Outsourcing, whether offshore or not, means that the way you do business will have to change. You are going to be working in partnership with a professional service provider, not the team down the hall. Even if the offshore team is a part of your own organisation, then there will probably be an internal pricing structure in place so the relationship will resemble that of a real service provider. This means that your experienced project and programme managers, used to dealing with large technology teams, may not be equipped with the right skills to manage vendors.

But it is not only a lack of relationship management skills that may cause a problem. Outsourcing will force your organisation to change the way it does business. At a strategic level, you are seeking to improve the way you work, regardless of the specific objectives around cost savings and quality improvement. The use of strategic sourcing is a change in how processes are delivered, and change is disruptive.[4] At the very least, it will encourage your people to sit up and think about the best way to achieve a result, whether that means a great service or a faultless product. You must consider how to introduce the concept of partnership with a third party as being beneficial for everyone, so the company can adjust to the new style of operation.

It is unlikely that the outsourcing vendor will help you with this change process. Some might offer a project manager or someone with experience in change programmes, but it is really up to you to change your company and define how it will work in the future. The vendor will be too busy focusing on operational delivery in the offshore location to worry about helping you sell the change to the team back home.

It is clear that your outsourcing programme needs to be at the heart of strategic planning and at the very core of your company because it is usually a change in the very fabric of the company. Once you have taken the journey and set up your first offshore arrangement, you will need the right structure to be able to monitor and control the partnership and to manage the expectations of those affected by it.

Culture

"It gets late early out here." - Yogi Berra

This is an amusing thought for anyone schooled in the aphorisms of Yogi Berra, but would be baffling for your offshore team, which may not share any cultural reference points with the team at the head office. Going offshore means new people with different cultural backgrounds working with your team to deliver services for your clients. You will need to adapt and engage in new working practices in order to get the best from your new people.

It is easy to find examples of people with outsourcing communication problems. After all, outsourcing is a major change in the way many businesses work. Managing human resources across different cultures is one of the key challenges in going offshore. If you combine the move to outsourcing with a move to an offshore location, then you need to not only understand how to communicate with a partner firm, but with a partner firm that is used to working by a different personal and management culture. It can be a challenge to rise above this and achieve maximum efficiency, but it has been done, and several cultural experts have produced excellent observations that can help you prepare for the transition.

The nations involved in offering offshore services differ greatly from some that can be easily integrated into a western style of management culture, such as Ireland or South Africa, to those that are quite removed from the US or European way of doing things, such as India or China. This can be an important factor in your decision on the country your organisation is prepared to work with. India is a lower-cost location than Ireland, but your team needs to adapt far more in order to work with the Indian culture and management structure.

Cultural training for your present managers may be an essential part of your offshoring transition programme so that your team has an appreciation of the cultural values of India in order to understand what drives and interests Indian people.

These principles apply to any offshoring programme, not just one involving India. If you don't understand the country where you are offshoring to, then you will encounter trouble right from the instigation of the transition to the ongoing management of the new facilities. Even where the offshore team is working for an outsourcing vendor, it pays to understand their motivation and cultural references.

Media and Public Relations

Taken as a whole, the general public opinion of offshore outsourcing is negative. Macroeconomic reports from various analysts across the world, including Evalueserve and McKinsey, have failed to shift the public perception that a job created in one nation must mean a job is lost elsewhere, though all these economic reports demonstrate a positive net effect to countries that utilise offshore outsourcing. The cover story of BusinessWeek magazine on 3 February 2003 summed up the general mood among employees throughout the US: "Is your job next?"

Any organisation trying to create an offshore strategy is forced to deal with this environment of partisan political posturing and unhappy consumers. Because of this, it is essential to create a media and public relations strategy for external communications, but to also help educate the internal team and get it on board with the programme. After all, those unhappy consumers are also your own employees. It is essential to create this support internally, which is a vital section of the communication process. If your own people don't believe that the offshoring programme is in the company's best interests, then it will fail since they are the folks who will deliver it.

Special care has to be applied to any customer-facing function that is offshored to a remote location, including India. Although the stories of unintelligible accents on customer support help lines are largely apocryphal, there is a danger of alienating the consumer, even when they receive good service from the offshore team.

UK research firm Contact Babel published a report in 2004 suggesting that only a small number of customers need to defect to a competitor for there to be a cost in financial and brand image terms.[5] The telephone survey of 1,008 adult consumers in the UK found that:

- Of those customers who had actually experienced offshore customer contact themselves, 14.2 per cent defected to another supplier. Only 3.2 per cent of customers who have not had offshore service experience defected to another supplier.
- Telephone and insurance providers were likeliest to have experienced the greatest levels of customer defection, with, respectively, 2.2 per cent and 2.3 per cent of customers changing supplier based on offshoring.

It is worth stressing that this research is focused on the offshoring of customer contact roles, such as call centre agents, and not technical or back-office processes. However, the summary of this research is ominous for any organisation considering an offshore customer service programme:

> Although the proportion of customers who have actually defected can seem low (e.g., only an additional 1.7 per cent of utilities customers changed supplier based on their dislike of offshore customer contact last year), the sheer weight of numbers that this actually represents is extremely significant and can actually wipe out all of the cost savings which offshoring can bring. Worryingly for UK businesses with offshore contact centre operations, customers who have actually experienced offshore interactions are four-and-a-half times more likely to have defected compared to those customers who have not yet experienced it.

A good example of how an offshoring programme can be misrepresented is the plan by British telecom giant BT to open two Indian call centres.[6] I mentioned this case earlier on in chapter 7, but I would like to elaborate further here. The plan was announced in March 2003 with a target of employing 2,200 people in Bangalore and Delhi by 2004. The British labour unions immediately leaped on BT, and the British media chose to fan the flames.

The Communication Workers Union (CWU) made a number of public statements about the BT offshoring programme, and even created a national "pink elephant" campaign to highlight the "jobs stampede to India." The CWU believes that the BT proposal was based on cost alone, because an Indian call centre worker would cost only $1.50 an hour. The CWU created media frenzy when they produced a comprehensive list of objections to the BT offshoring proposal.[7] In summary, the CWU objections were:

- Over 200,000 office-based jobs throughout the UK are at risk in just about every sector, but especially in call centres, banking and communications.
- BT is a UK company that derives its profits from UK customers and is therefore obliged to support the UK economy by employing UK workers.
- BT's cost arguments, if applied across the company to all remote work areas, would result in the loss of tens of thousands of BT jobs. Such fears are reinforced by BT's blank refusal to consider any agreement limiting the amount of work transferred to India beyond 3 years.

- BT claims they are moving work to India in anticipation of possible similar moves by competitors. None of BT's direct competitors have advanced plans to move significant chunks of work to India.
- BT will be setting a hugely dangerous trend by moving UK jobs dealing with domestic traffic to India.
- Quite simply, every job created in India will be a job lost in the UK.

The CWU objections managed to paint a very gloomy picture of the BT offshoring initiative - and the British media bought it. Not only was BT planning to hire foreign people when they should be hiring locals, they were not reacting to competitive pressure and not reducing prices. It was a clear case of "fat cat" executives lining their pockets with increased profits as the poor consumer and British employees suffered.

However, the story was far more complex than the union image of rampant capitalism. BT had been in negotiation with the union for many months over the offshoring programme. As a responsible employer, it had trusted the union to represent the employees in a competitive environment where such negotiations could affect capital markets. However, the union walked away from the negotiating table and chose to go on the attack through their pink elephant campaign and media briefings.

During this period, BT Retail (the consumer business division of BT) CEO Pierre Danon commented: "Instead of continuing a constructive dialogue with us, they [the CWU] are trying to disrupt an organisation that has one of the best track records in the UK for dealing responsibly and sensitively with its people issues. We should be working together on an issue such as this, which is designed to help BT be competitive in key markets and improve customer experience. It is in the best all-round interests of our shareholders, our customers and our people."

BT produced an explanatory checklist for the media. This was designed to limit the damage being inflicted by the union comments to British journalists, although it was rather too late as the media had already created the public perception. BT stressed these facts about its proposed offshoring plan:

1. Not one BT permanent person will lose their job as a result of moving some work to India;
2. Not one agency worker in BT Directories will have their contract terminated;
3. Every effort will be made to meet reductions in agency posts as a result of any further work going to India through natural turnover in UK centres;
4. BT Retail's plans to develop 31 of the best contact centres in Europe in the UK remain unchanged. The investment of £105 million ($188m) in those centres will safeguard the jobs of around 17,000 people in the UK. These figures dwarf BT Retail's involvement in India, where £3 million ($5.3m) is being invested and around 2,200 will be employed;

5. The contact centres in India will be at least of the same standard as those in the UK and they will be managed by BT Retail, using its own systems, processes and technology;
6. They will be superb working environments and the people will be paid at the upper quartile within the information technology-enabled services market in India;
7. BT Retail's partners, HCL E-serve Technologies and Progeon, are both highly respected employers, who meet all BT Retail requirements in terms of ethical trading and working practices.

The BT response contained three key messages. First, the BT investment in the UK call centres far exceeded any offshoring initiative. The local investment in the UK was 35 times that being invested in offshoring to India. Second, BT had taken efforts to minimise the impact of offshoring through job guarantees and union negotiation. Lastly, BT was creating high-worth jobs using leading companies in India that met all the working practice requirements of their UK teams.

However, the CWU would not acknowledge any of these points and continued to protest at BT call centres across the UK, even where none of the staff in the centres were in any danger of losing their jobs. This example demonstrates the importance of planning a robust public relations strategy in advance of announcing the offshoring programme. Internal and external communication has to be planned, and the benefits should shine through the business plan. BT had an entire programme of investment for contact centres in the UK and offshore, but allowed the media and union to dictate the terms on which the subject would be discussed, causing damage to their reputation and potentially encouraging consumers to switch their telecom supplier.

Understandably, most organisations considering a similar move will be sensitive to the negative reaction or how it might play out in the media, with American or global consumers and with the employees who may be affected. Although an effective public relations strategy can help anticipate and control media or union damage, it should not be the only consideration.

Any business leader taking the right decision for his or her company should be aware of what is right for the organisation, and this conviction should be enough to face down the critics, the uninformed and the xenophobes who cannot see any value in a global economy. If the extensive research your organisation performs shows that there is a value addition for the company, then it should be possible to win over the media critics and internal staff. A corporate leader should also be able to defend the opposite too - a decision to not go offshore when the business trend says it is essential.

Most corporate leaders realise that offshoring is a product of globalisation and should allow lower-value tasks to be exported as higher-value, more rewarding work is created locally. In the 1990s, the call centres that opened across Britain in a wave of hi-tech activity were termed "dark satanic mills" after William Blake's poem "Jerusalem." The media mounted high-profile campaigns to close these call centres and yet, a few years later, it seems that the CWU and media consider them to be an irreplaceable source of employment.

There is clearly a public backlash against the concept of offshoring, but the situation is opaque and remains unexplained to most people. In macroeconomic terms, there is a true benefit to offshoring, and economists across the world are busy producing reports that explain the effect of free trade and how offshoring can benefit its supporters. However, the very nature of changing global labour markets and regional losses means that the short-term ride may be rough for some nations or individuals, even though the long-term benefits are clear. The best advice I can offer to a company is to come clean about the offshoring programme with both employees and the public, and set out a bullet-proof case for your offshoring programme.

Data Protection

Privacy and data protection is something that is often beyond the control of the offshore vendor. It may rely on national legislation and, in some nations, the protection of private data and intellectual property is not at the level expected by your organisation or your local legislation.

Although India has been successful in presenting itself as the most attractive destination for offshore outsourcing from the US, the country has been dogged - more than any other nation - by media reports of private data being abused by disgruntled employees. The greatest fear for a client is that its entire database of customers is made public or abused in some other way and, with all manner of back-office processes being performed offshore, from credit cards to airline loyalty programmes, the potential for abuse is real.

Many offshore vendors are turning to the British BS7799 or international ISO17799 standards as a means of demonstrating data security to their international clients. These forms of certification outline strong recommendations for information security management for initiating, documenting, implementing, and then maintaining security. At present, these standards are the best common basis for vendor organisations to develop strong security processes and to document those processes as a corporate policy that clients can inspect.

BS7799 is normally valid for three years, subject to satisfactory maintenance of the system, which will be checked during surveillance visits at least annually. After the initial award, certificates will usually be granted for three-year periods. All the major auditing organisations can offer the required auditing for this form of certification. Vendors will usually need to dedicate 6 to 9 months to the certification process and, naturally, will have had to adopt the secure procedures in advance of the audit, so any vendor that can offer these forms of security certification will have been using secure methods for a number of years. BS7799 contains more than 130 different guidelines on data handling, so adherence should encourage a sense of security in the client.

These guidelines for data security address the staff in the vendor organisation handling your data. The systems that are put in place around these processes need to insulate the company against careless staff or criminal activities and ultimately, laws are required to punish those who abuse this data. Laws in some locations offer better protection in national legislation than in other locales. European offshore destinations such as Ireland and Northern Ireland enjoy excellent data protection legislation since they are European Union member nations. Large countries such as Russia and China do not have strong legislation in place to protect data and, although it is the most often criticised due to the level of activity, India is working hard now to bring its own poor legislation up to scratch.

The Indian National Association of Software and Service Companies (NASSCOM), which represents around 95% of the outsourcing vendor community in India (or, more than 860 members) announced a major data security audit in August 2004. NASSCOM has pledged to facilitate and audit data security practices at all its member firms, although the process will not be mandatory since many of the larger vendors are already using internationally recognised security standards such as BS7799. The NASSCOM audit will cover such aspects as information security, physical security, network security and employee security, and even domain-specific competences, such as knowledge of the Sarbanes-Oxley Act in the US.

The overall idea of the NASSCOM initiative is to ensure that business process outsourcing and IT companies in India adhere to the best security practices across the world. NASSCOM completed most of the audit by the end of 2004. I expect this kind of national initiative will become more common, especially in nations that lack strong data security legislation, as clients demand better minimum standards and security frameworks. This is going to be driven by the consumers, and any nation that cannot offer strong security with good service at an attractive price will lose out on all those offshoring programmes that involve personal data.

It would take only two or three major incidents to tarnish the reputation of any company or country offering offshore data processing, so the power is in the hands of the client. Ensure that your vendor utilises one of the major standards, and make a personal visit to the facility to witness its procedures in action. I have personally visited many offshore financial service facilities in India and found myself impressed by security measures that I have never witnessed in Europe or the US.

Infrastructure

The vendor always has to sell a service. It may be offering that service from a country that is still economically developing, so the basic infrastructure may not be at the same level you would expect in the US or Europe. In India, the foreign observer can witness the juxtaposition of world-class office facilities and poverty-stricken street-dwellers just by turning his or her head. Most service providers can work around this by creating their own capabilities and through the use of satellite data links and uninterruptible power supply (UPS) units. But it is still worth checking some basic information about the location where your processes will be performed. Your checklist should include the following:

- Tax breaks: It is likely that you are eligible for government tax breaks if you are offshoring a process. Many governments want to attract direct foreign investment. So, in a competitive market where many nations want your offshore processes, it is essential to consider these potential gains. This would usually only be applicable if you are offshoring rather than outsourcing.
- Power supply: Your new office, or the facility used by the vendor, must have backup power capacity. Developing nations are subject to unreliable power supplies and as your process is likely to be IT dependent, even if it is not actually an IT service, you will need reliable electricity. Ensure that the UPS and generation system can support you through any likely down-time, not just the time required to safely power down the equipment.
- Telecommunications: Global telecommunications costs are tumbling and this is one of the main driving factors behind offshoring. But the capacity and quality varies from nation to nation and should be investigated. This should be checked for your data lines, voice lines and mobile services used by your team in the offshore location.
- Transportation: If you need to get around the offshore country, then how easy is it? Are there regular domestic flights or train services? And how good is the road network? This is certainly one of the key areas where some nations, such as China, can beat India, which suffers from poor roads and an antiquated rail system.
- Quality: Although this is more of an issue for the individual vendor selection, there is a case for checking the attitude to process quality in each location you are considering. Some nations are using ISO standards for every form of service delivery from software to business processes, and some places are less mature.

Major vendors will be able to demonstrate competences in all these areas regardless of the delivery location; however, each item on the infrastructure checklist represents a potential failure to delivering your service. Whether it is failed telecoms, power or just difficulty in getting the staff into work, they can all impact your process delivery.

Summary

Offshore outsourcing is developing into a mature industry and a strategic service that is now essential for large organisations. As the media frenzy subsides, it will become an increasingly attractive option for companies of all sizes. The criticised onshore-offshore model is developing into an international network of resources that allows organisations to select the best skills in the best locations. Many large American companies are utilising resources in India or China, and yet they have employed people and facilities in those regions for decades - the transnational business model is growing.

In the rush to service American and European companies with less experience in the offshore model, vendors have tended to focus only on their service delivery capabilities. While this is a natural expectation of the client, there is surely a market for vendors that can help clients through the entire offshoring process.

This value-added service could be an extension of the sales function by offshore vendors, so an Indian technology vendor such as Infosys may employ more local consultants in the US to offer a more complete upfront service. Alternatively, the major international service companies that already have excellent consulting functions could improve their offshore delivery functions. Both of these possibilities are not just ideas anymore. The offshore vendors are now trying to raise their game, and the international service companies are building their own offshore capabilities. Who will win the race to providing the perfect offshore vendor service is anyone's guess, but they are all trying hard.

Chapter Checklist

- This entire book is focused on the potential benefit of outsourcing to India, yet such a dramatic change to your business does come with a commensurate level of risk. You can minimise this risk by being aware of the major areas where companies that go offshore have stumbled in the past.
- Search costs are created by not knowing what to do and not having a clear map of where to go and how to get there. This is the cost of not understanding what you want to achieve from outsourcing.
- Metrics need to be handled carefully. It is critical that you measure offshore services, yet too many companies cannot measure effectively.
- Change in your company is more disruptive than any outsourcing programme. This is just a single step along the road to getting the company that you want.
- Culture must be taken seriously when you utilise an offshore location. It should be possible to determine a measurable gain in efficiency if the teams are more culturally aligned.
- Handle the PR internally and externally with professionalism. It is easy to blunder and the press is always looking for a story.
- Data protection and intellectual property rights are respected in different ways around the world. In some places these values are not respected at all and this is a major consideration for where your important data is going to be processed.
- Infrastructure must be up to the job, including physical infrastructure and packages the government can offer.

Chapter 25: Future Potential

In 1942, the economist Joseph Schumpeter first used the phrase 'Creative Destruction' to describe the constant evolution of a free-market economy.
Schumpeter described how new and better ways of doing business will be created and old methods will be discarded[1]. During the 1990s dot com bonanza years the term bordered on cliché as Internet evangelists and dot com Chief Executives insisted the only good business was an e-business. Hindsight allows us to see the error of their predictions; however no commentator can deny that the creation of the Internet is one of the most important technological developments of the twentieth century.

Creative destruction is now being applied more frequently to descriptions of the very structure of organisations in the twenty-first century. Academics have long debated the potential for outsourcing as a business tool and for several decades outsourcing has been used by manufacturers seeking particular expertise and service companies sub-contracting non-core tasks to trusted partners.

The change in focus over the millennium period has been the possibility to outsource skilled service-sector tasks to offshore locations such as India, all made possible by the tumbling costs of international communication and the Internet.

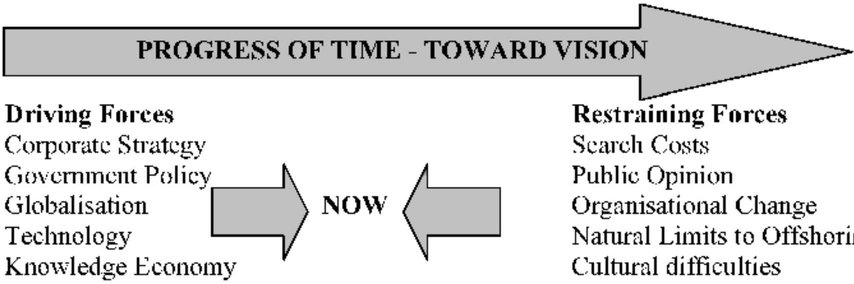
While many companies have rushed to utilise skilled services in lower-cost environments some have resisted, for reasons of patriotism or just inability to manage the offshore process. Much of the negative media coverage of this topic fails to acknowledge that it is not simple to transfer knowledge across the globe and smoothly continue to deliver services.

This chapter lists the drivers that have created the present situation leading on to examine the future drivers and inhibitors of offshore outsourcing. I have then listed some of the present trends and issues affecting India. I would state that there is such a myriad of variable influences driving the use of offshore outsourcing that future predictions can only be qualified as educated guessing.

Force Field Methodology

Perhaps the best way to examine where we are today and how offshore outsourcing may develop in future is through the use of force field analysis.[2] This tool allows change to be described as a state of imbalance between driving and restraining forces.

Although force field analysis is usually used for change management where there is a definite vision of the future, rather than future-gazing, some important observations about the influences on offshore outsourcing can be inferred - even if the future remains unclear. For the sake of this analysis I shall assume that a desirable vision is for companies to be able to determine their own global strategy, allowing the use of offshoring when and where appropriate for their business.



The Lewin model demonstrates that for any situation, there is a state of equilibrium because driving forces and restraining forces are pushing in opposite directions. Where an organisation wants to use this for controlled change, the model allows the restraining forces to be identified and relaxed or the driving forces to be increased. In the case of this overview it is enough to identify the areas. The industry players need to decide where best to push and pull.

I focused chapter 7 on the outsourcing drivers and the previous chapter highlighted some of the issues and risks that are holding back the industry in India. I will therefore briefly list the constituents of the Lewin model and use comments from interviews I conducted in 2004 to illustrate the points further.

Driving Forces

Corporate Strategy

Offshoring is rapidly moving from an exotic and risky option to an orthodox choice for any organisation seeking specialist skills on a global basis. It is even lampooned by Scott Adams in his Dilbert cartoon series and the fictional Financial Times columnist Martin Lukes is a supposed director of offshoring. It has become normal for organisations to be thinking of and planning their strategy along global considerations.

Although the cartoonists still joke as if it were a new phenomenon, outsourcing has been with organisations for centuries. One only has to read the political musings of Machiavelli to realise that mercenary forces used to prowl Europe in search of "business" - outsourced armies. More recently, EDS was providing IT management services to other companies in the 1960s. The recent wave of interest in offshoring of services has developed as communications technology has matured. The world experienced a similar wave of offshoring in the 1970s as Asia developed its manufacturing expertise, so the concept of domestic and offshore outsourcing has been with us for some time, however the strategic use of contracted services has entered into boardroom vogue over the last decade and is now a management mantra that is unlikely to change for some time.

Marco Mukherjee, Sourcing Strategy Director of Customer Operations for UK bank Abbey, is a leading advocate of this corporate model and he believes that this is driving the future of offshoring. He said: "The future for offshoring will be linked to the overall outsourcing trend which will continue over the next few years as organisations look to focus on strategic or core competencies and seek to access new capabilities and pursue improving service, quality and productivity more cost effectively. The offshore market will increase as organisations seek to gain competitive advantage by entering the globally outsourced market to manage costs and increase the flexibility of their operations - to be able to move operations as geographies become less competitive. For example, as specific offshore market segments (e.g. India) mature, organisations will look to locate their operations elsewhere to take advantage of other opportunities."[4]

Government Policy

Government policy influences the countries seeking to perform work offshore and can make the recipient nations more or less attractive. This may be through supporting and facilitating companies who are considering work with an offshore partner or providing foreign direct investors with attractive tax breaks and local benefits.

India is a good example, as it has prospered from offshoring by establishing a strong industry body (NASSCOM) to lobby on behalf of all local technology and technology-enabled service companies. However prosperity does not equate to a perfect legislative situation, even in India. The perceived poor quality of local data protection legislation is cited as the reason why many organisations refuse to invest in the country.

Tony Khindria is the founding partner of Lexindia, an Indian law firm with offices in London, Delhi and Paris. Khindria explains the problems related to storing and utilising personal customer data: "The range of obligations that must be met are wide ranging and are very relevant to businesses that seek to invest in India. Using the current trend of outsourcing as an example, there are data protection requirements which relate to the security service levels which by law must be imposed upon a service provider; and the steps which must be taken by a European business before data which includes information about individuals is sent outside the European Economic Area to countries such as India."[3]

The European Union directives on the protection of personal data are very precise as Khindria adds: "The EU directive 95/46/EC is very specific on the requirements for the transfer of data. The directive states that personal data of EU nationals cannot be sent to countries that do not meet the EU 'adequacy' standards with respect to privacy. The directive also sets down the principles regarding the transfer of data to third countries. Under this directive the third country should provide an adequate level of protection to personal data of the citizens of EU member states."

Globalisation

The discussion on globalisation is often confused. I want to focus on the fact that increased national interdependence has encouraged offshore outsourcing. Not only are skilled people are finding it easier to move around the globe seeking better opportunities, but companies are finding it easier to source particular skills in the best location. There is no longer a requirement to source skilled employees in your own backyard and whether you bring those skills to your home nation or setup an operation where the expertise is located is your call.

In some highly developed nations with small populations, globalisation has driven them to adopt the offshore outsourcing model as a way of attracting business. Ian Prisk is the CEO of Black Coffee Software in Wellington, New Zealand. Prisk believes any New Zealand company that wants to achieve success must embrace a global business model: "Offshore outsourcing is most definitely strategic for Black Coffee Software. The New Zealand market is quite limited in scope for any company to develop to any reasonable size; therefore many NZ companies have the export market firmly in their sights from day one. Black Coffee Software is no exception."[5]

Dr Mohan Kaul, Director General of the Commonwealth Business Council, perfectly summarised the new world order to me in a single sentence: "Global trade in services is an essential part of the twenty-first century economy and the benefit of this international trade has been proven for both the country that is outsourcing and receiving the service. We are entering a new era of global services."[6]

Technology

Seven out of ten employees in the UK believe that a computer is important or essential for their job and this ubiquity of technology is also driving the offshoring revolution.[7] Black Coffee software can focus on their Java programming in Wellington just as Infosys can in Bangalore. The code produced by these remote computer programmers can be delivered across the Internet or private networks to the client, often on a different continent. All this is only possible because of the Internet and modern communications technology.

Knowledge Economy

The term itself is somewhat clichéd and tarred by the dot com crash in 2000, however the birth of the Internet and its use by the public for the past decade has created a genuine environment where electronic information is a highly valued commodity. Combine the connectivity of the Internet with the tumbling prices of international telecommunications and there is an environment that is more conducive to offshore work than at any other time in history.

In his book *Does IT Matter?* Nicholas G. Carr explains that he sees a commoditisation of products and services in a knowledge economy environment allowing formerly creative skills such as computer programming to easily be transferred offshore. In the book, Carr comments: "The increasing use of lower-paid overseas workers to write code echoes, of course, the earlier shift of manufacturing capacity offshore. And the parallels go even deeper. As the software requirements of companies become more modular, the development of code is coming to look less like a creative service and more like a manufacturing routine."[8]

Restraining Forces

Search Costs

Search Costs are the often forgotten issues related to offshoring. Whilst the focus may be initially on cost, the search costs affect the entire process and can be a significant slice of the entire offshoring budget. The search issue is that offshore outsourcing is not a simple procurement exercise. It involves a complex series of decisions based on a selection process where internal procedures and external vendors all need to be assessed.

Public Opinion

On the whole, public opinion of offshore outsourcing is negative. Macroeconomic reports from analysts such as McKinsey, Gartner and Evalueserve have failed to shift the general public perception that a job created in one nation must mean a job is lost elsewhere, though all these economic reports demonstrate a positive net effect to countries that utilise offshore outsourcing.

Marco Mukherjee of Abbey believes that there is a division between the US and Europe on offshoring and that regulatory bodies such as the Financial Services Authority (FSA) or Securities Exchange Commission (SEC) will also be influential: "There is increasing pressure in the US to stem the flow of jobs offshore. This [was a] major issue in the 2004 US presidential election. We are likely to see some legislation controlling offshore activity in the US due to this offshore 'backlash'. In Europe, less impact will be felt as governments and regulatory bodies are reluctant to act to stem the offshore trend. Countries competing for offshore business will look to bring local legislation in line with international standards in order to offset risk. In the Financial Services sector this will mean increasing pressure from the FSA for organisations to demonstrate full governance and control to protect customers."

Organisational Change

Most offshoring programmes could actually be termed change programmes, or Business Process Reengineering to apply a more formal title to the process. When a process is moved offshore it is almost always changed to improve the way it works, either by the company that plans to offshore the process or by the outsourcing partner seeking efficiencies in the work they have just taken on.

Atul Vashistha is Chairman and CEO of neoIT, a consulting firm based in the US that advises clients on the offshoring of IT and business processes. Vashistha has found that some companies are using offshoring as a lever to achieving change. He said: "We see companies using the offshore process to transform their own processes. When they start looking at the financial accounts or transaction processing they are not just looking at 'where I can do my data entry?', but they are thinking 'in the long run who can completely transform my ability to do these processes?' It requires the ability to leverage new technology. Sometimes it means finding the ability to focus on a set of new customers."

In addition to the change surrounding the actual process that moves, the remaining parts of the organisation need to learn how to interact with the outsourced operation. It is quite different to have a business function that is outsourced to a subsidiary or third party compared to having a team of people in the hall at the end of the office. Reporting lines and interaction between business units has to change and vendor management becomes a critical part of the arrangement - a new function as vendors did not need to be managed when the function was internal.

Natural Limits to Offshoring

Although public opinion is against offshoring, there is a natural limit to what can be moved. This is a key issue to remember and does restrain some projects that have reached the feasibility stage.

Marco Mukherjee of Abbey reiterates the legislative and regulatory pressures that are particularly strong in the financial services industry: "These pressures in the US are limiting offshore opportunities for US companies. There is a natural limit to offshoring as not all processes will be suitable based on an assessment of areas such as labour intensity, interdependency, continuity, risk, availability of required skills and regulatory constraints. The global offshore market will be sustained by an ongoing influx of new providers and locations providing incentives for organisations to move their operations elsewhere. My UK view is that as price becomes less of a differentiator, and the import of skills to the UK boosts capability, there may be an appetite for companies to relocate operations within the UK."

Atul Vashistha of NeoIT echoes the view that there is a natural limit for some specific processes. He said: "There are limits associated with offshore outsourcing for many reasons. One is because of the risk perception of offshoring some companies have. Some are more related to the capabilities that exist. In addition, when a process requires complex decision making and the process requires complex communications, the ability to offshore reduces dramatically. However, over a period of time, processes tend to get less complex."

Vashistha believes that the complexity of integration between a client and vendor is a further limiting factor, but he is not too concerned about the US legislators. He explains: "In highly regulated industries the compliance checks will become more complex. For example, [in the US] because of the Sarbanes-Oxley act the compliance required from service providers will be significantly higher than what is required today. An example is the focus on healthcare that Hillary Clinton brought to the issue. It did not really end up in legislation but it did change how healthcare is provided in the US. I think the same thing will happen to offshoring. Regulators will pay much more attention to offshore outsourcing now, not because of the law, but because of increased corporate responsibility. Because of that, companies will have to jump through more hoops to satisfy the regulators that they are doings things right."

Cultural Difficulties

Working away from home can expose the organisation and individual line managers to an entire raft of new problems related to the work culture of the new country where work is being performed. This can be an issue when working with a new partner through an outsourced arrangement, though it is most acute where the organisation has opted to create a captive subsidiary. Often it will be managers from headquarters who are flown in to set up the new organisation, without any form of cultural acclimatisation.

Legal differences are just one area where cultural differences can cause a problem with the working arrangement as Tony Khindria of Lexindia describes: "India started a process of economic liberalisation in the 1990s. One of the main features of this process has been to simplify rules and regulations to attract foreign investment. As a result of this, India is becoming easier to enter from a regulatory and commercial point of view, but there are still issues to overcome. Indian privacy standards for the outsourcing company are just one issue of many that need to be addressed."

India Developments

India has been developing this industry at a very fast pace, the IT services market continues to grow at around 23 per cent each year and BPO is above 50 per cent growth. High value BPO is now on the increase in India as key market players like Evalueserve have demonstrated that very complex intellectual processes can be delivered as an offshore service.

The cities are developing fast. Gurgaon has five times the grade A office space available in New Delhi, yet it has always been talked of as a satellite town to the big city. Any visitor to any Indian city can see a constant drive to build new residential apartment blocks and office complexes. There is a constant buzz as the country grows to meet the demands of the international knowledge economy.

India now has a number of key trends that are emerging:

Protectionism

The talk of 2004 was about the outsourcing backlash and yet that press coverage has died down. Although most companies used to retain a sense of nationalism, or a country they are 'from' it is becoming clear that many companies are now seeking to identify themselves as transnational. They use the term international rather than British or American when describing their home base.

This is a trend that flies in the face of the negative media coverage of the past few years. I outlined the case of BT earlier in this book and one of the key union objections was that BT is a British company and therefore has a moral obligation to hire British people. The world has moved on. The British in BT has never been spoken our loud for years. They are a global telecommunications player with their origins in the UK. No one, least of all someone dressed in a pink elephant suit, can tell them where they should be hiring resource.

Onsite/Offshore Model

The classic idea of the very low number of staff from the outsourcing company in the onshore location is being challenged. Clients are expecting the same service from the offshore vendors as they can get from the major international service companies.

Every Indian vendor is boosting its front-end with clients. I have had discussions with just about all the major players and they are hiring domain experts and locally-hired business development teams across the US and Europe.

The GE sale of 60 per cent of their offshore arm in 2004 will be an interesting story to follow as time goes on. This is the company that created BPO for India and certainly trained many of the CEOs now running their own vendors in India. How they present their new services to the world will be a lesson for every market participant.

IT and BPO Convergence

Many market commentators believe that IT and BPO are two separate animals, they just cannot meet. It is true that pay and rewards for the employees are very different so it creates HR complexities in the hiring and remuneration process by employing both sets of people in the same organisation. It is also true that the business development teams also need to speak to different people about these differing services. IT services will usually be pitched to the CIO or some other senior IT executive, whereas the IT management of a company are not involved in the individual business processes.

So even though the sales processes and HR management is different, some companies in India are now staking their reputation on a convergence of IT and BPO. Xansa is a good example. Their origins are in IT and they have grown into offering BPO services. MphasiS used to have a BPO arm named MsourcE, but

Jerry Rao rolled them into one brand to ensure that he could focus on the point where the two services meet.

Convergence allows the vendor to offer a lower-priced service because of the initial labour arbitrage between the customer location and India. Then the process can be reengineered to drive out further savings. Then the technologists can get to work on improving the underlying systems used for delivery. This converged approach creates more value - in theory - than a plain vanilla BPO offering.

Some Indian players continue to brand separately, think of Progeon (Infosys) as a good example, and they argue a very strong case in their own favour. However the mood in the market seems to favour a convergence of services.

Cost Saving Driver

The offshore outsourcing market continues to be driven by cost. Almost every executive looking at the offshore model has cost reduction as the primary reason for the strategy. As outlined earlier in this book, there are many other gains that can be achieved and what can be observed in the Indian market at present is that some firms are starting to focus on offering value rather than creating cost reduction.

NIIT Technologies are probably the leading light for this movement in Europe as their executives have been talking to the market through the media and business conferences about how value is their aim. It is refreshing to hear a service provider focusing on what they can do for the customer and then asking for a proportion of that saving, rather than just offering a daily rate for their people. This shifts the argument away from just 'how much can we save by offshoring to India' to a conversation with a partner that is prepared to talk openly about their own costs and strategy for reengineering the service.

This kind of mature conversation has the potential to drive a large slice of honesty into the marketplace. For years, vendors have hidden their true margins and some have coasted along on the offshore outsourcing wave enjoying very large margins without their client being aware - because they still feel they are getting good value compared to a local service. If negotiations over value creation become more common then margins have to be discussed.

Small and Medium-Sized Enterprises

The market for Small and Medium-sized Enterprises still remains largely untapped. Most people work for small or medium sized companies and yet they have not been able to tap into the benefits of offshore outsourcing because the research time and management overheads in setting up and managing a project have been too great.

There is now a move towards this market from two sides. The advisors are offering fixed-price packaged help so the smaller company can do the research and find a partner all for a cost they can establish before the work begins. My own organisation, CBC Technologies, offers this kind of packaged advice to smaller companies, as well as the larger ones too.

The vendors are offering there services to smaller clients. Many of the vendors, even some of the large players, are finding that the processes in smaller companies are similar to large companies. They have the resources and equipment available to service the large players and they are improving their management processes so smaller contracts can be taken on and bundled together with their larger teams. If you have a small contract, but you want a well-established vendor to do the work then don't feel shy about approaching them as many are now geared up to help the smaller customer.

Transaction Focus

The history of offshore business processes has been well-controlled and documented prescriptive tasks. Examples are repetitive tasks such as outbound marketing from a contact centre or transcribing a tape. These services are fairly low-value as the service provider cannot offer any benefit to the client, beyond just doing the job.

There is an increasing focus on high-end services from India. India has earned its wings by providing IT and lower-value BPO for many years now. Now the wave of Knowledge Process Outsourcing described by research firm Evalueserve is starting to take off. These are BPO services where intellectual processes and decisions need to be taken - the client grants authority to the BPO vendor to make critical decisions about its business.

NIIT SmartServe is a good example of this shift. One of their projects at the office in Gurgaon is to advise UK financial advisors on compliance with the regulatory environment. To achieve this, NIIT had to train all its team to become qualified UK financial advisors. The team then reads the case notes and advice being prepared by advisors in the UK and provide feedback to the advisors on the quality and compliance of their advice. Who could have imagined that the friendly advisor helping you to plan your pension is getting his work checked by a team in India?

Chapter Checklist

- There are several forces driving outsourcing to India forward, including the shift to a global business model.
- Many forces are restraining the development of offshore outsourcing and the equilibrium between drivers and restraints can be modelled using a force-field diagram.
- Protectionism is declining in general. Companies and the media are starting to see offshore outsourcing as part of the global business model for the twenty-first century.

- Indian firms are improving their onsite services, so you will see more of their team locally.
- IT and BPO services appear to be converging.
- Cost reduction remains the key reason for offshoring, but value enhancement is becoming more important day by day.
- SMEs are demanding a place at the table. They want vendor services for smaller players.
- Complexity is increasing as more value services are offered from India.

Afterword

The twenty-first century is already shaping up to be the knowledge century, so long predicted by commentators such as Alvin Toffler and Charles Handy. In the 1990s, the Internet created a global knowledge freeway, linking everywhere to everywhere at a cost to the end user that is now approaching zero.

The logical conclusion to this global voice and data connectivity is that any task not requiring a physical presence can be performed in the cheapest location or the location with the most expertise in a particular domain. Society is witnessing the death of distance everyday.

This is a beneficial situation for companies and the end users of their products and services. Companies that can use the best quality resources in the world will provide a better service to their customers. Companies that can source from the best value location will be able to pass on those savings to their customers, creating a stronger competitive environment.

Outsourcing in this way has become an emotional battle between those in the business community who support a global free-market and the anti-globalisation lobby. The anti-globalisation lobby advocates government protection against job displacement caused by outsourcing and urges consumers to boycott the services of companies that utilise offshore resources.

The reality of life in the knowledge century is that just about every major company is already engaged in an offshore partnership, at varying levels of complexity. The anti-outsourcing lobby would need to store their cash under the mattress rather than allowing a bank, any bank, to handle their finances with offshore resources. A healthy HSBC, Microsoft or Aviva ensures far more economic gain and share price value in the long-term than the short-term negative impact outsourcing may have.

Though I may hold this view, I am not an economist, I am a management practitioner. However, I can see that offshore outsourcing is a natural effect of the free society we live in. We demand the freedom to eat cheese from France, wine from California and rice from Thailand. We have become used to the fact that China is the manufacturing powerhouse of the world. At the famous Hamley's toy store in London, it is almost impossible to find a toy car that is not 'made in China.'

The McKinsey Global Institute has published detailed research on the economic benefits of offshore outsourcing and the results are fascinating,[1] McKinsey studied the US market and estimated that for every dollar spent on offshoring, $1.45-47 of total value is created in the world economy with $1.12-14 of that value creation being retained in the U.S. This is a powerful argument, demonstrating how offshoring can add value to an economy and explains why world leaders such as George W. Bush and Tony Blair have not supported the populist anti-outsourcing argument. The McKinsey study is an independent report by one of their leading analysts and was not commissioned or sponsored by any government or company, giving the research significant credibility as a view of the long-term.

Evalueserve has published similar reports on the US and UK in 2004 and the British Computer Society published a report in late 2004 analysing the effect of offshoring on the British IT industry - an industry one would expect to be damaged by the offshoring trend. Yet, the BCS (I was a co-author of this report) finds that although the market is changing, it is not true that offshoring is killing the British IT industry. Kids should continue to study Computer Science in the UK and US for now at least.[2]

In so many ways we encourage globalisation and yet it seems that some people want to enjoy the benefits capitalism and economic growth has to offer, without accepting the competition that is required to ensure a healthy economy. We have only just started on the road to knowledge economy outsourcing and the services will become more complex and pervasive as time goes on - Knowledge Process Outsourcing, or KPO, is the new mantra. The Indian Apollo healthcare group recently asked why UK patients in long waiting lists for treatment could not just come to India. Apollo believes there is a \$1bn market for outsourced healthcare from the UK alone.[3]

Though it may seem controversial in the midst of recent protectionist media coverage, I believe that the world in general will embrace the offshore outsourcing of services when the long term benefits are better understood. Of course, the informed business community has already embraced the concept. Soon, CEOs across the world will be checking to see if the companies in their value-chain are working with India as a condition of business.

The future is not some distant place that we have no control over, it is here and now. Consumers love products that allow more control over their life, such as TiVo or Sky+. Those same demanding consumers need services from your company on a 24/7 basis at a reasonable price. Getting the skills you need to meet this consumer expectation at an acceptable cost is where India can help.

I asked Ian Benn, author of *Strategic Outsourcing*, for his opinion and he told me that the drive for increased quality is essential. He explains: "As the offshore market becomes ever more crowded with more and more countries entering the fray, boasting low per capita incomes matched to a highly educated population, India may well find itself priced out of the very offshore industry it has done so much to create. By concentrating on quality rather than just price, however, I can see a day when the tag 'Made in India' could become a premium one. Already, in the IT world, the Indian development centres are leading the way with high levels of certification and this attitude to quality delivery rather than raw price could prove to be their industry's saviour."[4]

I have mentioned some of the books written by Professor Leslie Willcocks of Warwick Business School in this book. He told me his view of the future: "On my figures, outsourcing IT could be as much as 33 per cent of the average corporation's IT budget by 2006. But the real increases, because of their multiple potential will be in IT-supported business process outsourcing - about 15 per cent - and IT offshore - about 10 per cent of the average IT budget. Much depends on the maturity of suppliers in these areas, and how well outsourcing arrangements are set up and managed. The retained management capability is vital in a world where 58 per cent of the IT budget is with a variety of suppliers - as many total outsourcing deals already found to their cost in the 1990s. On offshore, for example, keeping up with the dramatic pace of change on the supplier side, knowing where the best deals are likely to be over the next three years, and knowing when and where to fill in for suppliers incapacities, are already difficult exercises in themselves."[5]

Rob Aalders, author of the *IT Outsourcing Guide* also believes that it is important to plan for outsourcing and offshoring as two separate concepts. He warns that India may become so wealthy that it can no longer offer a cost advantage. On offshoring he told me: "I look at the experience of textile, electronics and other manufacturers seeking to capitalise on high quality low cost labour over the past five decades - and must say we should be aware of basics of economic theory and 'relative advantage'. Over time originally low cost locations such as Japan, Singapore, and Malaysia became more and more expensive and outsourcing shifted to Korea, Indonesia, and Thailand. The rule of relative advantage is that as the work shifts to the poorer countries, they in turn become wealthier, and so the cycle of seeking low cost high quality locations requires a willingness to move with the pack on to the next India."[6]

When discussing general outsourcing, Aalders told me something positive: "The body of statistics suggest that the proportion of organisations that are unhappy with outsourcing is smaller than the proportion of such companies planning to renew or re-contract their outsourcing agreements." Aalders suggests that the body of evidence shows most companies are happy with their outsourcing arrangement, or taking the negative line, it may be very hard to go back once you have outsourced.

I spoke to some industry figures to gauge their views on where India is headed. Gautam Singh is CEO of the smart cube, a company offering research to investment banks and consultants. He explained to me how higher value BPO services are set to be the next wave of high value services from India: "This is due to two reasons: 1) Call centres and the like are now commodity offerings and therefore as suppliers have to reduce prices, they start trying to sell higher up the value chain. 2) India as a brand for offshoring is now recognised and the brand is even stronger at the human resource capability end (mainly due to the plethora of Indian professionals in the US economy). The best example of higher value added services is outsourced support to professional services – consulting, investment banking, accounting, legal etc. Here the opportunity is immense as the concept is relatively new. The cost differential is substantial while the quality is almost better and the time differences play to the markets advantage."[7]

Jagdish Dalal is the CEO of outsourcing advisors JDalal Associates based in Connecticut, US. Dalal is constantly on the road advising clients on their outsourcing programmes or speaking to conference delegates. I caught up with him in Bangalore and he told me that his major concerns are linked to the political development of India and the competing offshore nations. He said: "I think that the success of India has its own pitfalls. If Indian technology companies do not continue to stay ahead of the rest of the world's developing nations, they will soon find that the niche they have created in the world market will be exploited by other nations who may not have the same 'competition' for fewer resources. China, former Soviet Republic countries, and African nations will find that they can also create the necessary infrastructure for this business and start playing the 'lower rate' game; beating India at its own game. Another threat that is always on the horizon is the continuing struggle of the Indian political scene. India has been somewhat lucky in the last 3-4 years where there has been a level of stability. But the memories of the previous decade are still there and until Indian political leaders come to the realisation that 'a stable economy requires stable political leadership'; there is always the danger of law changes affecting the market dynamics. Personally, I believe that although the danger of the India-Pakistan relationship is overblown; it still remains a factor in decision making for many businesses and political leaders need to acknowledge the reality of it."[8]

Alistair Cox, CEO of Xansa believes that the offshore IT and BPO outsourcing models will converge as clients demand a total service rather than a series of discrete projects. Cox believes that this will create more demand for turnkey solutions, bringing together highly skilled IT people with business process specialists so the problems of the client can be managed as a whole. He explained: "I think there will need to be more integration of offshore and offshore teams. You can't just box up a project and send it offshore. We manage services and delivering a proper mission-critical service for a client is different to project work. This needs a different mindset and not many people can work in this way, yet. We have always seen IT and BPO together. If I need to deliver a turnkey project then all the different specialists need to consider that they are focused on the same client engagement. After all, you are helping the client to do their job. Everyone on the client team needs to be on board with the client objectives so they are working together."[9]

Cox is a strong supporter of India as the best global destination for offshore services. He told me: "I see India as head and shoulders above the competing countries in this industry. In time, countries such as China will compete, but there are language issues, business integrity issues, and intellectual property issues. All of these problems can be fixed, but they will take several years to address. I don't think it is going to be for some time yet. None of the competing nations can compete on the blend of cost, quality and language skills that India can offer."

Xansa has developed expertise in services like debt recovery. This is where resources in India chase unpaid utility bills that were lost during a house move. The reclaimed amounts can be quite low, amounts that would be written off if local staff had to chase the money owed. Cox said: "This work needs good technology and highly trained people. This type of offshore service recovers more than it costs, so it's not just about reducing cost, we can create new revenue growth and add to the bottom line."

NIIT Technologies believe that the future lies in a more open and mature negotiating approach between client and vendor. David West, UK Vice-President of NIIT Technologies, explained to me: "Gainsharing and open-book partnerships are key elements in the way forward for this industry. Companies across the world are realising that their technology partner is not just a service provider, they are a critical element to the overall supply chain. A service provider that behaves like a partner can create immense value for the client and it is natural for each of the parties to share in those gains. This is about a mature relationship, based on building value for both of the partners."[10]

One of the recurring themes I have found when discussing the future of offshore outsourcing to India with these academics and industry leaders is that we have barely scratched the surface of services that can go offshore. Research, education, engineering are all possible candidates for offshoring and the potential in economic terms is immense, as outlined by Suresh Gupta of Capco: "The knowledge work (characterised by typical back office operations and other business processes) varies dramatically in the amount of worker expertise and strategic input required. Today many of the tasks being sent offshore can be classified as data transformation, but there are increasing forays into processes that require expertise and judgement, for example in broker research, preparing 'pitch books', and securities back office operations. In fact, some analysts are predicting a $50bn offshore market for high-end processes by 2010 as more and more businesses seek the benefits of offshoring."[11]
Fifty billion dollars of high-value services alone, from an almost standing start of zero. These numbers were researched by Evalueserve and they have published more information on KPO through 2004. Though growth in these high-value services will be exponential, the traditional call centres are also predicted to grow. This table displaying contact centre services market share is from a different Capco report written by Gupta:

Country	**2003**	**2006**
India	70%	73%
Philippines	15%	13%
Singapore	7%	7%
China	3%	4%
Malaysia	1%	1%
New Zealand	1%	1%

Source: IDC

Capco summarise the advantage for India as: "The value proposition of offshore contact centres is simple yet compelling. Not only does it deliver dramatic cost savings but also, more often than not, it delivers those savings with significantly higher quality and access to large and highly talented labour pools."[12]

The future looks bright for India and the outsourcing industry. Outsourcing services to India looks set to become as common and accepted as outsourcing manufacturing processes to China. BusinessWeek magazine profiled the changing global economy and decided that America has the potential to create more jobs than those lost to offshore outsourcing vendors. BusinessWeek summarised their view as: "Adapting to the India effect will be traumatic, but there's no sign Corporate America is turning back. Yet the India challenge also presents an enormous opportunity for the US. If America can handle the transition right, the end result could be a brain gain that accelerates productivity and innovation. India and the US, nations that barely interacted 15 years ago, could turn out to be the ideal economic partners for the new century."[13]

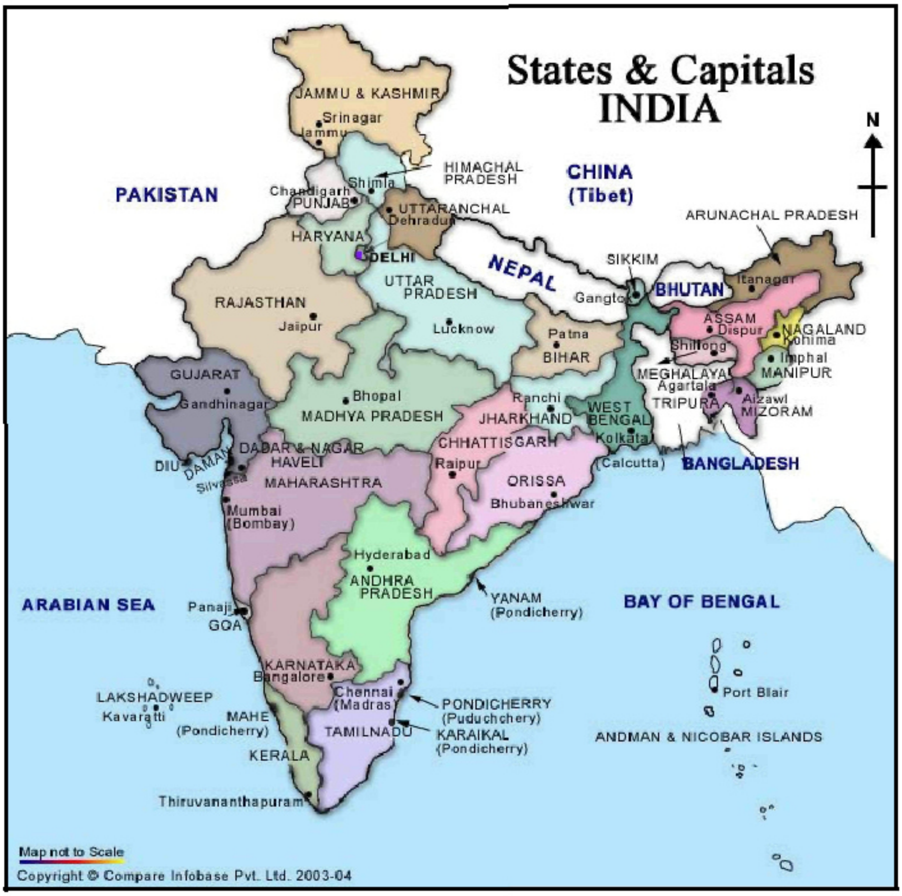
In recent months, criticism of offshore outsourcing has moved from direct opposition to specific issues. In a FT/NASSCOM conference address in London, Jerry Rao, NASSCOM's chairman, assured critics that the Indian IT industry "would not duck from fears such as data protection or confidentiality. NASSCOM is using the best people in the world to ensure that the services available from India are as good as or better than those on offer in other nations and we want people to come and look at India as a model of best practice in this area."

Mr Rao said the debate had to move on: "We are in the business of free trade. Offshoring is an awful word and I prefer not to use it. Our services should be defined as 24x7x365 supply chain management."[14]

On that note I would like to close this chapter of the Indian outsourcing adventure; consider this comment by author and model Saira Mohan:[15]

> To not like India is to not like yourself.
> Visit India - and meet yourself for the first time.

Political Map of India



Source: www.mapsofindia.com

Please visit the companion website for additional research information on India: www.outsourcingtoindia.net

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Author Biography

Mark is Global Research Director at Commonwealth Business Council Technologies in London. CBC Technologies leverages on the extensive government network of the Commonwealth Business Council, creating a three-way bridge between government, buyers of outsourced IT and ITES services and the vendor community. The development target for CBC Technologies is to promote global trade and investment for shared prosperity. Mark is also a non-executive director of fx Auctions plc and he contributes regularly to the media debate on offshoring, with recently published articles in journals including the Financial Times, Computing, and The Association of Computing Machinery.

Mark is researching a new book with co-author Mahesh Ramachandran, Chair of the India Business Forum at London Business School. Titled *'Beyond BPO'* this research analyses the development of business process outsourcing as a 'business as usual' strategy. Mark contributed a chapter on the future of offshoring to *Technology and Offshore Outsourcing Strategies* (Palgrave 2005) and he is editing a collection of essays analysing how offshoring can impact developing nations.

Mark is a founder member of the British Computer Society working party on offshore outsourcing, which published a major study in November 2004. Mark is a Chartered Information Technology Professional (CITP) and Master of Business Administration (MBA), studying at the University of Liverpool. Mark is a visiting lecturer on International Management at London South Bank University.

Mark lives in London with his wife Nobumi and Staffordshire bull terrier, Matilda. He enjoys the theatre, cinema, ballet, the novels of George Orwell, listening to (loud) live music and battling the London traffic on a bicycle.

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