


# THE indian

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ARANGETRAM



## AMERICAN



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# BUSINESS

## Outsourced

AN INDIAN AMERICAN JOURNEY



Venky Venkatraman



TWO WORLDS: Women workers take a break in front of a banner during preparations for India Internet World show in September 2000.

What began over two decades ago as a means for Indian IT companies to earn a quick buck from the salary differentials between India and the U.S. has now snowballed into a multibillion-dollar global business. From primarily “outsourcing” of computer services work, this has now evolved into “global sourcing,” where work is broken down but performed seamlessly and cost-effectively. Here’s an insider’s account of being part of this phenomenon (warts and all)

**I**N 1984, WHEN I was preparing to travel to the United States on a programming assignment, an executive from a local company asked me, “Why in the world does the U.S., which has the smartest people in the world, need Indians to do their programming work?”

Fast-forward to 2006, when I was guest lecturing about business process outsourcing (BPO) at the Cox School of Business at the Southern Methodist University in Dallas. An MBA student asked me, “Would a large Indian outsourcing company consider hiring a goofy white boy to sell software services or do you need to be an Indian to be taken seriously by an American client?”

When I look at the last two decades, I see my career (and fortunes) has mirrored the ebb and flow of India’s information technology evolution.

I graduated in 1983 from the Indian Institute of Management in Bangalore with a specialization in systems management. Career choices at that time were quite limited. I joined an Indian IT company at a miserly (even by the standards of those days) salary of Rs. 900 per month. As part of orientation, we heard a speech by the eminent jurist and economist Nani ▶





GUTTY IMAGES

**VISIONARIES:** Microsoft's Bill Gates addresses software developers in Bangalore in 2005. Below, former GE Chairman Jack Welch, who was the first to realize India's outsourcing potential. Bottom, programmers in Mumbai work on animation for Crest Communications.

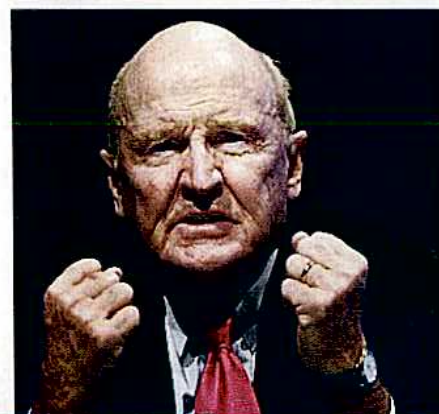
♦ Palkhivala, who exhorted us "to work hard and not bother about money since you are all laying bricks to build a cathedral called India." Suffice it to say, I was as inspired by his exhortation as the slaves who built the Taj Mahal on Shah Jahan's commands.

Almost all Indian IT companies started their business using the simple principle of "labor arbitrage," meaning the cost of an Indian worker was less than that of an American with equivalent skills. And therein lay the profits.

For example, when I was first "exported" over 20 years ago, my cost to the company (including Indian salary, American allowance and the cost of getting me here) was around \$10 per hour over a period of six months or so. The cost for an American company to engage an American to do the job was around \$100 per hour. So when the American company paid my Indian employer around \$25 per hour for services for which it would have to pay an American around \$100 per hour, it made huge savings. My Indian employer also made a fat profit of 150 percent or so on most of its billable employees.

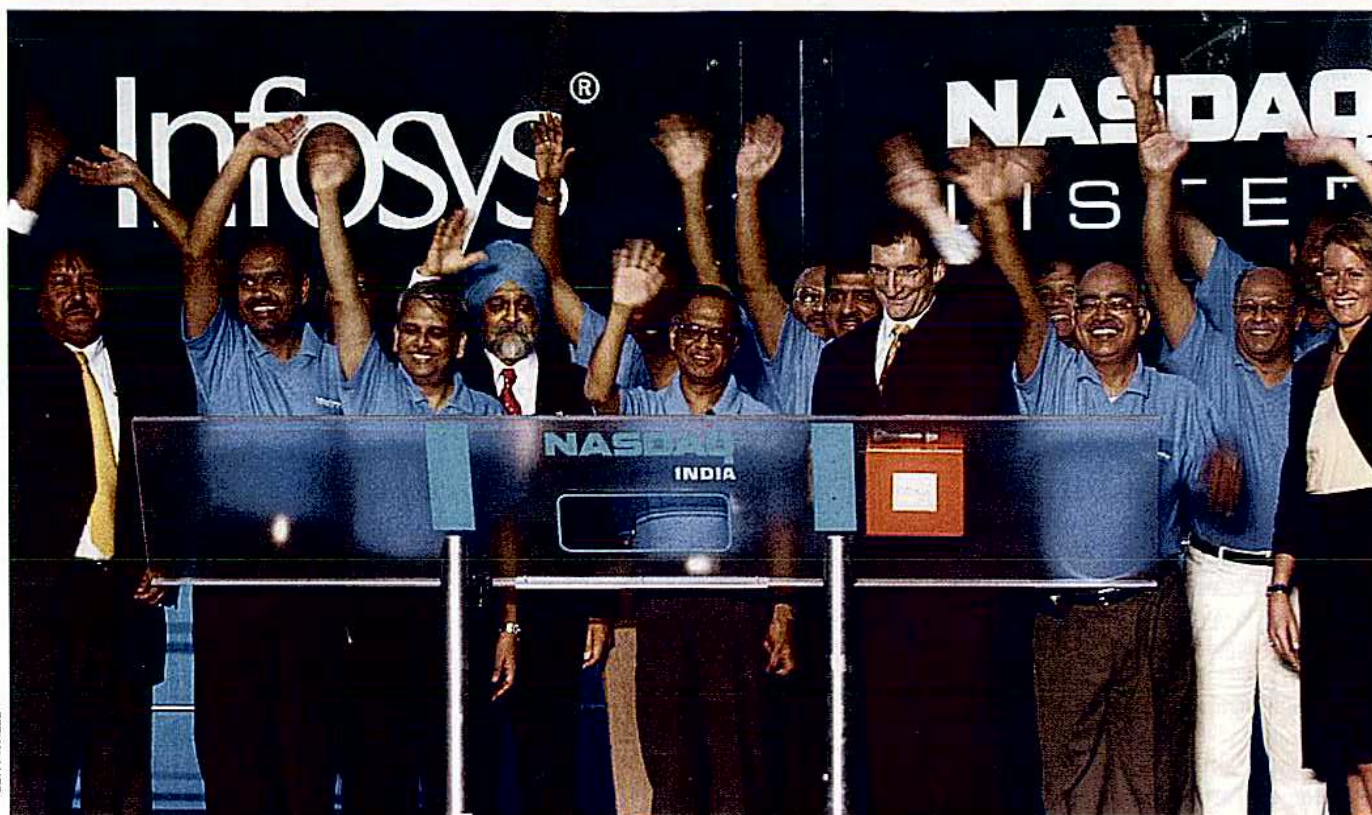
How did Indian companies get away with-out paying the prevailing American wage? By exploiting a loophole in American immigration law, bringing employees over on B1 visas (technically meant for business visits) and paying them a "living allowance" in the U.S. (typically, around \$1,000 per month). The amazing part is that most of us were quite

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GUTTY IMAGES





**LEADERS:** Infosys founder N.R. Narayana Murthy with NASDAQ President and CEO Bob Greifeld during the NASDAQ remote opening bell ceremony at Infosys' Mysore campus in 2006. Below, Wipro Chairman Azim Premji. Bottom, an ICICI call center in Bangalore.



After spending three years with the Indian IT company, I came to the same realization (as did many of my peers) that the only way to make some sort of a decent living was to move to the United States.

thrilled with this allowance and even managed to save enough dollars by the end of our stays to buy our Canon AE1 cameras and a lot of 110-220 volt appliances to take back to India.

Eventually, U.S. immigration authorities got wise to this sleight of hand and subsequently insisted Indian company employees working in the U.S. have H1-B visas and be paid the prevailing wage.

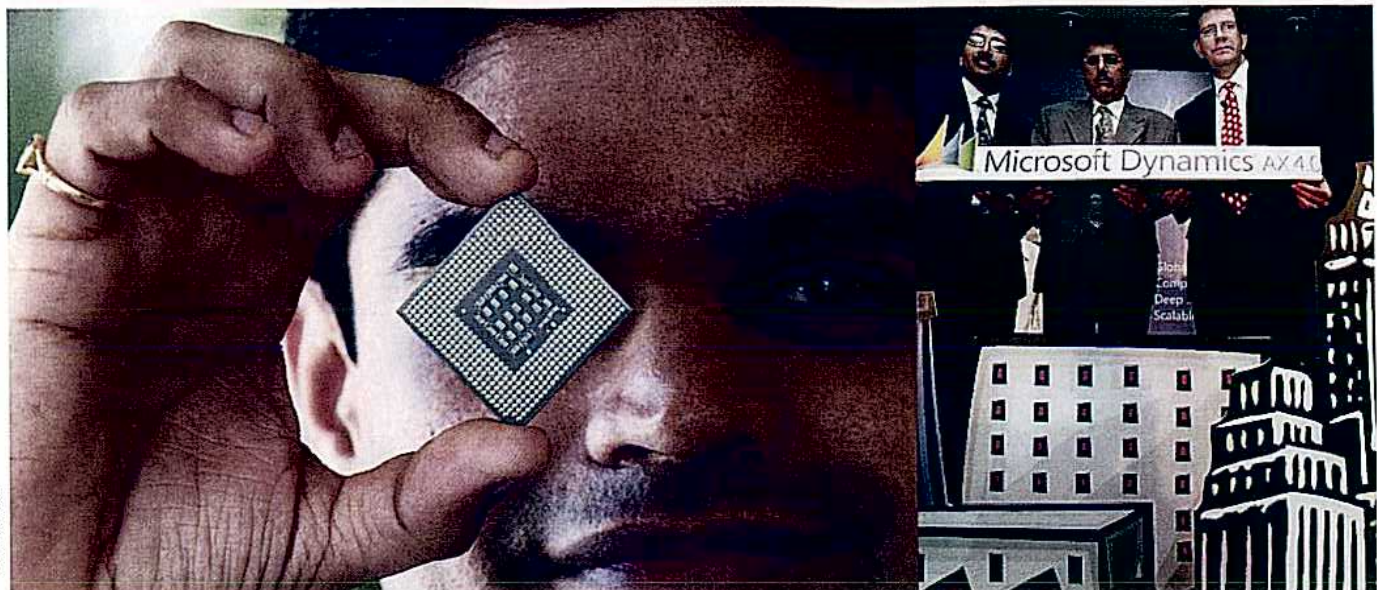
An unintended consequence of this was that U.S. companies began to move work off-shore more rapidly, resulting in the outsourcing boom with salaries in India increasing exponentially year after year.

After spending three years with the Indian IT company, I came to the realization (as did many of my peers) that the only way to make some sort of a decent living was to move to the U.S., rather than being deputed there periodically and making a reasonable income only when that happened. The 1980s was the period when the number of Indian IT professionals settling in the U.S. spiked dramatically. We were seeding the IT revolution in India, although none of us quite saw it in those terms at that time.

Then, with the opening up of the Indian economy in 1991 and the proliferation of Indian IT companies, hordes of Indians started hitting U.S. shores. In the early '90s, I recall working as an independent consultant at Caldor (now out of business) in Connecticut, and a co-worker, Jose (a Malayalee), com-







**TECH ADVANCES:** Left, Intel's India Director G.B. Kumar shows the new Intel Pentium 90 nanometer manufacturing technology, at its unveiling function in Bangalore in 2004. Top brass of Microsoft India at the launch of Microsoft Dynamics in New Delhi in February.

◆ plaining, "These damn Indians are taking away our jobs."

In some ways, worse was to follow. With telecommunication costs dropping and with the advent of the Internet, it was now possible to move a lot of technical work to India and get it done a whole lot cheaper. This trend was accelerated by companies like GE, with an express mandate from then-Chief Executive Officer Jack Welch, who challenged his management to offshore anything that was offshoreable. American consultants (including myself) could no longer charge the rates they were used to getting and soon many were out of work.

#### WHEN THE BUBBLE BURST

That led me to California in mid-2000 and a foray into the dotcom industry. That bubble burst in my face within a couple of years and sent me packing and back into the ranks of the same Indian IT companies where I had started my career.

So what brought us IT old-timers back to the fold? The main reason was the Indian IT companies had now moved up the food chain. They were no longer body shops capitalizing on labor arbitrage. Companies like Tata Consultancy Services, Infosys and Wipro had started moving into areas like high-end consulting and BPO that used to be the realm of the Accentures, IBMs and Deloittes.

Narayan Venkatasubramanian, an independent consultant based in Dallas, Texas, has witnessed this sea change in Indian IT companies.

"From my own personal (and very limited) perspective, I would say that things have changed a lot, specifically in one respect: In the early days, work that was outsourced was work that could be done readily by Americans

Under all the talk of moving up the food chain, most Indian IT majors mainly improve their operating margins by executing every project by using their cheapest employees possible.

but not at the price that Indian body shoppers could offer," says Venkatasubramanian, who has a Ph.D. in operations research from the University of Wisconsin, Madison, and a long stint at i2Technologies. Now, work that is outsourced is "work for which it is very hard to find qualified people in the U.S.," he says.

A graduate of the Indian Institute of Technology, Bombay, and IIM Ahmedabad, Venkatasubramanian focuses on rendering complex math models and algorithms into code. Because the technology to do this has changed so much, he says, "I can no longer



**A MARKET LEADER:** The Bangalore office Indian software giant Infosys Technologies. The second-largest computer services provider in India said its second-quarter profit increased 18 percent this year. Profit matched the median estimate in a Bloomberg survey of 13 analysts.



do it myself, nor can I find suitably qualified people in the U.S. who are available for contract work. I find myself outsourcing work to people who are essentially me, just 20 years younger and infinitely better trained."

While Indian IT companies are attracting American businesses, they do need client-facing U.S.-based Indians who, in addition to being able to navigate their way around an Indian company, are savvy enough to operate in the American business environment and comfortable in dealing with the CEOs of top U.S. companies.

Ironically, the more things change, the more they remain the same. Today, if you look under the carpet, beneath all the talk of moving up the food chain, most Indian IT majors mainly improve their operating margins by executing every project by using their cheapest employees possible. That is essentially nothing other than refining the tried-and-tested labor arbitrage model. This is why the appreciation of the rupee versus the U.S. dollar has sent most of these companies into panic mode as this has seriously eroded their profit margins from labor arbitrage.

Yet, it remains a fact that Indian firms are taking on more and more advanced work.

Amit Basu, chairman of the Information Technology and Operations Management Department at Cox, says Indian IT companies have come a long way from the time when body shopping was the norm.

"The trend toward using India as a base for knowledge-intensive business processes leverages the science and analytical strengths of the Indian technology and business work force, rather than the shrinking labor-cost arbitrage opportunities offered by low-level 'body-shopping,'" says Basu, a graduate of IIT Delhi and the University of Rochester.

#### PERPETUAL BOND MODE

In the past, a reason many employees chose to stay back in the U.S. was the "bond" system. This was an agreement employees had to sign prior to their departure for the U.S., agreeing to return to India and working at the Indian company for twice the duration of their U.S. stay. After returning to India, if the employee was sent back to the U.S., the clock started all over again, essentially putting the employee in a "perpetual bond" mode. Since many assumed the bond was more likely to be enforceable in India than in the U.S., where it was probably in contravention of local employment laws, a whole lot of Indian employees chose to break it and quit the Indian company while in the U.S.

Today, with multinationals like IBM and Accenture going on a hiring binge in India, the "bond" appears to be making a comeback at Indian companies that are trying to stem the loss of their employees to these multina-



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tionals as well as other Indian competitors.

Whatever my personal misgivings about some of the questionable ethics and business practices that continue to prevail among India's IT majors, one cannot argue with success. What was a tiny business composed of a handful of small Indian companies providing IT services for U.S. businesses only a couple of decades ago has now burgeoned to a point where the Indian IT majors make billions of dollars in annual revenue and have themselves morphed into multinationals hiring a significant number of foreigners.

"The evolution of IT as an industry has been phenomenal," says Ranjan Guha, president of an IT services company in San Jose, Calif. "With the advent of the desktop computing power and the development of powerful productivity tools encompassing the entire ecosystem of the commercial enterprise, I have seen it undergo a paradigm shift."

Palkhivala was certainly a visionary: So many years ago, he was seeing a future for India that most of us could not really comprehend at that time!

And I will not be too surprised if it turns out that the goofy white boy from the MBA class at Cox is now in Bangalore, getting his orientation at an Indian IT company and looking around in wonder at the booming Silicon Valley of India just as I looked mesmerized at New York City over two decades ago.

Venky Venkatraman is a program director of ADEA, a Texas-based IT services company.



**CLOSE TO HEART:** Above, Gates meets with children at a child health center in New Delhi in 2000. The Bill and Melinda Gates Foundation allotted \$30 million to benefit children and students in India. Top, Hotmail founder Sabeer Bhatia remains the face of India in the infotech world.