

Outsourcing moves to the front office

By Anand Giridharadas

BANGALORE, India: Outsourcing is breaking out of the back office.

For years, most service-industry jobs that migrated to places like India were relatively low-skilled tasks like answering customer queries.

But that has been changing in recent years and increasingly the jobs of Western white-collar elites in fields like aircraft engineering, investment banking and pharmaceutical research have begun flowing to India and a few other developing countries as well.

And in the eyes of most authorities on the phenomenon, the reservoir of jobs that cannot be outsourced is slowly evaporating.

Boeing and Airbus, the plane makers, now employ hundreds of Indians on challenging tasks like writing software for next-generation cockpits and building systems to prevent airborne collisions. Investment banks like Morgan Stanley are hiring Indians to analyze American stocks, a role that can pay \$200,000 a year or more on Wall Street.

Eli Lilly, the drug maker, recently handed over a molecule it discovered to an Indian company, which will be paid \$500,000 to \$1.5 million a year per scientist to ready the drug for commercial use.

With some multinationals employing tens of thousands of Indians, some are even beginning to treat the country like a second headquarters, sending senior executives with global responsibilities to work from India. For example, Cisco Systems, a maker of communications equipment, has mandated that 20 percent of its top talent be in India within

Western companies increasingly shift high-end professional work to India

five years; it recently moved one of its five highest-ranking executives, Wim Elfrink, to Bangalore as its chief global-ization officer.

Accenture, the global consulting giant, has its worldwide head of business-process outsourcing in Bangalore; by

'We could place the work anywhere. We're here because we found a level of sophistication.'

December, it says it will have more employees in India than in the United States.

This is not a zero-sum game, in which every job added in India comes at the expense of an American or European one. In many ways, the shift simply reflects a symbiosis within multi-national companies as they find it easier to meet growing demands by taking advantage of the advancing skills of newly educated people in the developing world. And some companies are returning certain jobs to the United States, finding that the work in India and elsewhere wasn't up to snuff.

Nonetheless, as Indian back offices gain in sophistication, Western firms are finding that a vast swathe of their

work, even high-end tasks, can also be done from India. And India itself has emerged as an 1.1-billion-deep pool of customers for companies seeking faster growth. So many companies are re-deploying to where they see their futures being written.

"India is at the epicenter of the flat world," said Michael Cannon-Brookes, the vice president for business development in India and China at IBM, which has shrunk its American workforce by 31,000 since 1992 even as its Indian staff mushroomed to 52,000 from zero.

"It's one of the world's two biggest pools of high-value skills, which we want to leverage both to help clients in the domestic marketplace and to help clients globally," he said. "The two play off each other."

The advancing interest of Western firms in fast-growing developing countries like India, China and Brazil came to the fore last week when Citigroup's chairman, Charles Prince, announced in New Delhi that it plans to cut or reassign at least 26,000 jobs, or 8 percent of its staff. It will move many jobs to cheaper American cities, and many to India.

The bank has 22,000 employees in India, who are excluded from the cuts. That reflects its role as the bank's fastest-growing international market in revenue terms, said Prince, who predicted that overseas operations will supply most of Citigroup's future growth.

To underline the shifting geography of opportunity, Prince suggested days after the planned cuts surfaced that he planned to increase Citigroup's Asian work force by more than 10,000, by acquiring banks in Japan and Taiwan.

Still, experts warned that a continued flow of work to India requires drastic improvements in its physical and educational infrastructure. Water and power shortages are endemic, and the industry trade body has predicted that India could be short of 500,000 employable engineers by 2010.

Yet India has already tapped a deep well of English-speaking engineers to attract more outsourced work than any other country.

Alan Blinder, a former vice chairman of the Federal Reserve and economic adviser to former President Bill Clinton, recently described outsourcing as a "third Industrial Revolution" that, by his estimate, poses a challenge to as many as 28 million to 42 million workers in the United States alone.

"We have so far barely seen the tip of the offshoring iceberg, the eventual dimensions of which may be staggering," he wrote in the March/April edition of "Foreign Affairs."

But Blinder, who now teaches at Princeton, added that the consequence should not be large-scale unemployment but a shift in the job market in the West.

At the forefront of the outsourcing phenomenon is the well-known Indian firm Infosys, which has pursued a strategy of reinvesting the profits from low-skilled work into a vast upgrading

Raising the stakes

Some multinational companies are outsourcing higher-value tasks in India, as well as pursuing growing markets there. Four examples:

ACCENTURE

Global work force	Work force in India*	Percentage in India
146,000	27,000	18.5%

By December, Accenture will have more workers in India than in its home base of the United States.

IBM

355,766	52,000	14.6%
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Indian teams now autonomously develop software solutions, from start to finish, for global clients.

AVIVA

58,000	7,400	12.8%
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The British insurer originally came to India for basic call centers.

Today, it is moving toward outsourcing actuarial work, a set of complex statistical tasks at the core of the industry.

CITIBANK

327,000	22,000	6.7%
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600 India-based analysts do high-end outsourcing like analyzing U.S. stocks and evaluating credit worthiness of U.S. companies.

*Work force figures include all staff, back office or sales, except for Aviva, for which the figure does not include Aviva's domestic insurance business.

Source: The companies

Outsourcing in India takes move toward the front office

INDIA, From Page 10

of skills to prove itself to Western companies and fend off rivals from Eastern Europe to China.

Infosys, for example, devotes \$65 of every \$1,000 in revenue to training. IBM, by contrast, spends just \$6.56, according to a 2006 proxy statement.

A few years ago, the aerospace giants Airbus and Boeing were outsourcing basic work like digitizing old hand drawings.

But they have begun to rely on their Indian suppliers for even more complex work, hiring aerospace engineers from state-owned jet makers and aviation scholars from Indian engineering colleges.

Airbus hired Infosys, based in Bangalore, to design part of the A380 super-jumbo's wing. It is currently working with another supplier, Tata Consultancy Services, to build software for next-generation cockpits with up to half of the hundreds of switches removed and replaced by touch screens. Airbus has hired a third firm to design and build jet doors.

In Boeing's forthcoming 787 Dreamliner, two mission-critical systems — one to avert airborne collisions and another to land in zero visibility — will be built to a substantial degree by HCL Technologies, an outsourcing firm with its headquarters outside Delhi.

"In theory, we could place the work anywhere," said Ian Q.R. Thomas, the president of Boeing India. "We're here because we found a level of sophistication."

Western banks like Morgan Stanley, which have long used Indians for basic research, are now hiring them to write reports for institutional investors on American and European stocks.



Namas Bhojani/Bloomberg News

Accenture, the business-consulting company, said it planned to double its staff in India. By December, it hopes to have more employees in India than in the United States.

their own," read an advertisement posted on an Indian career site last year by Thomas Weisel Partners, an American investment bank. "They do not report to another analyst in the U.S. They will do their own research, come up with their own opinions on the stock and offer them directly to U.S. institutional investors. Simply put, we are not a back office in India."

And in the complex world of pharmaceutical research, Western companies have evolved from outsourcing slivers of research to Indians to outsourcing whole phases of drug development.

Eli Lilly's deal with Nicholas Piramal, an Indian firm, sent ripples through the industry.

Lilly turned over ownership of a patented molecule it had discovered to

first two phases of clinical development, including the first human tests of the drugs.

Moreover, Nicholas agreed to bear the risk of the project's failing, in exchange for much larger royalty payments should it succeed.

"Nicholas will do the whole thing, at their expense, at their own risk," said Gino Santini, a senior vice president at Lilly.

High-end outsourcing is only half the reason why companies are investing so heavily here, executives say. As India has become a lucrative market, many Western firms are looking to its vast potential market for growth.

And many executives argue that having a growing market and an outsourcing hub in the same place enriches

Not what it used to be

Some multinational companies are beginning to outsource more than just cheap labor in India. Though currently only representing tens of thousands of jobs — a tiny fraction of overall jobs in India — most of these professions did not exist in India a few years ago.

Average cost of outsourcing services, per worker per year
Calculated by dividing the value of outsourcing contracts by the number of workers

Average Indian outsourcing worker	\$25,000
Aerospace engineer at Infosys	\$100,000
Corporate researcher at PipalAnswers	\$40,000 to \$200,000
Business consultant at Infosys	\$300,000 to \$700,000
Drug researcher at Nicholas Piramal	\$500,000 to \$1,500,000

Sources: National Association of Software and Service Companies, Infosys Technologies, Nicholas Piramal, Boston Consulting Group