

GLOBALLY DISTRIBUTED WORK (GDW) AND THE IMPACT ON LOCAL ECONOMIES & SOCIETIES: AN EXPLORATORY STUDY

Anil Kumar,
Business Information Systems Department,
College of Business Administration,
Central Michigan University, USA,
anil.kumar@cmich.edu

A WORK-IN-PROGRESS RESEARCH STUDY

ABSTRACT

Domestic consumption and the service sector, especially high tech have led the phenomenal growth of the Indian economy in the last decade. The service sector now accounts for more than 50% of Indian GDP. Information technology-business process outsourcing (IT-BPO) services companies in India, such as Tata Consultancy Services, Infosys, Wipro and Satyam Computer Services Ltd., have become national heroes. As these companies bid for and win new contracts in the western world work is being distributed globally across borders. As a result of this distribution of work more people in India benefit economically from jobs being created locally. In this study the author explores the impact of globally distributed work on local economies and societies. The case study of India is used to discuss this impact as in the recent five years the country has witnessed an explosion of job opportunities arising from GDW.

Keywords: Globally distributed work, outsourcing, offshoring, information technology and business process outsourcing (IT-BPO), Information and Communications Technology (ICT).

1. INTRODUCTION

The two fastest growing and strongest economies of the world, China and India, have seen growth rates of more than 7-8% in the last five years. While manufacturing has led the growth in China, it is domestic consumption and the service sector, especially high tech that continues to explode in India. The service sector in India now accounts for more than 50% of GDP. It is interesting to note that unlike much of the western world which evolved from agriculture to industry to service, India appears to have skipped the industrial revolution and leapfrogged to a service economy. This boom in the service economy has been triggered in large measure by outsourcing of information technology (IT) operations by companies in the western world, especially the United States. US companies have been outsourcing their information technology (IT) operations as a measure of cost reduction and access to high quality technology services for some time now. Initially most of the outsourcing contracts were awarded to US based companies. Major US IT companies such as IBM, EDS, HP etc. and consulting firms such as Accenture, Deloitte Consulting, and Keane etc. became key players in the IT outsourcing industry in the US. Majority of the IT outsourcing contracts that were awarded were dominated by these predominantly local companies.

In the second half of the 90s several factors resulted in the entry of new players from different parts of the world. The factors include advances in telecommunications, the subsequent explosion of the Internet and a tremendous increase in the users of the Internet worldwide, increased globalization and opening up of economies around the world. As a result of these factors countries such as China, India, Philippines, and Eastern European nations that account for approximately 3 billion people, half of the world's population, became potential players in the outsourcing arena. These nations had a strong base of people educated in science, math and technology. The people used technologies developed in the western world to leapfrog to the information age and become an overnight threat to the US companies that were getting majority of the outsourcing contracts. As pointed out by Friedman (2005) in his frequently cited book, *The World is Flat: A Brief History of the Twenty-First Century*, the world became flat. In the book, Friedman (2005) when talking about people from these nations made the following observation, "a lot of the jobs that are starting to go abroad today are very high-end research jobs, because not only is the talent abroad cheaper, but a lot of it is as educated as American workers—or even more so." Similar skills but significantly lower

incomes have motivated people in these countries to be participants in the global economy and become potential competitors for all jobs. As stated in her January 2004 testimony before Congress, Hewlett-Packard chief Carly Fiorina warned that “there is no job that is America’s God-given right anymore.”

New companies entered the outsourcing marketplace and started bidding for contracts. The focus of these companies was to distribute work globally to locations such as India where the costs were significantly lower but the quality was equally good. Outsourcing evolved into offshoring and foreign companies such as Tata Consultancy Services (TCS), Infosys, Wipro, and Satyam Computer Services Ltd. from India became major players on the IT outsourcing landscape. These companies have been bidding and have won multiple contracts in the past several years. Though initially the contracts involved smaller amounts, recent deals have been for much larger amounts. For example, GM in its outsourcing contract announced in early 2006 awarded a \$300 million contract to India’s Wipro. This contract will focus creating middleware products that will enable GM’s disparate systems to work together more effectively. This trend has spread to European companies and ABN Amro, a leading Dutch bank, announced in September 2005 that it was outsourcing its IT operations to companies in the US and India. The outsourcing contract that was worth \$2.2 billion was for a period of five years. Further major US corporations such as GE, IBM, Oracle, Microsoft, EDS etc. have established a major presence in India. The Indian software industry which was practically non-existent before the 90s has now evolved into the IT-BPO (Business Process Outsourcing) and has become a major player on the world scene. President Bush, during his visit to India in early March 2006, pointed out that the Indian IT-BPO industry will bring in \$22 billion in revenues. According to the Nasscom⁴⁰ Strategic Review 2007 the Indian IT-BPO industry grew approximately 28% in April-December 2006, with more than 1.6 million people now employed in the industry and revenues are expected to exceed USD 45 billion for financial year 2007 (April 2006-March 2007). Amid this phenomenal growth of the IT-BPO sector of the Indian economy one has to wonder the impact this will have on the local economy and society. This study attempts to explore the following research question:

What is the impact of the phenomenal growth of Indian IT-BPO sector, resulting from globally distributed work (GDW), on the Indian economy and society?

2. IMPACT ON ECONOMY AND SOCIETY

The IT-BPO growth in India resulting from GDW has had a tremendous impact on the local economy and the society. To fully understand the impact of this growth one has to carefully examine both the opportunities created and the challenges that need to be addressed. Further, to sustain this growth, not only does a nation need to exploit the opportunities that are created, but also address the unique challenges resulting from this growth. While a lot has been written about the opportunities resulting from GDW in India, not enough attention has been paid to the challenges. In the following paragraphs the opportunities and the challenges are discussed.

2.1 Impact on Economy

In the last decade one can find stories of the booming Indian economy everywhere. Major newspapers and magazines from around the world have published specials describing or commenting on the economic progress that India has made. The indicators of success of the IT-BPO industry include tremendous wealth that has been created, phenomenal growth in market capitalization of Indian companies, increase in the number of companies, creation of thousands of jobs, and finally the addition of new billionaires and millionaires in the country. So what led to this growth? It is interesting to note that the IT-BPO industry in India has come a long way in the past 20 years. Before 1985 the industry was practically nonexistent. According to Nasscom in their annual report for 2004-2005 the organization initially had 38 members in 1988. The membership has since increased to 980 as of December 2005. More than 95% of the revenue generated by the Indian IT industry comes from members of Nasscom.

The constant growth in the number of Indian software companies since the late 80s parallels major economic changes that began to transform the Indian economic landscape during the same time period. The attitudes towards the economy, the private sector in particular, started to change. Indian political leader’s set in motion pro-business

⁴⁰“NASSCOM is India’s National Association of Software and Service Companies, the premier trade body and the chamber of commerce of the IT software and services industry in India. NASSCOM is a global trade body with over 950 members, of which over 150 are global companies from the US, UK, EU, Japan and China. NASSCOM’s member companies are in the business of software development, software services, software products and IT-enabled/BPO services”. Retrieved on March 4, 2006 from http://www.nasscom.org/artdisplay.asp?Art_id=2449

reforms leading to gradual liberalization. This encouraged entrepreneurs across the nation to invest in software companies that further fueled this growth. Revenues from the IT-BPO industry revenue crossed \$36 billion in the 2006 and companies such as TCS, Infosys, and Wipro were expected to cross the \$1 billion mark for the first time. A key factor for the tremendous growth of the Indian IT-BPO industry which fueled subsequent economic growth has been the easy availability of skilled manpower. India has one of the largest higher education systems in the world. As on March 31st 2005 there were 342 Universities and 17625 colleges in India. The government of India that subsidizes education extensively spent 4.02% of its GDP on education during 2001-2002. This is a significant increase from 0.64% of GDP that was invested in 1950-1951. This investment in the education system has benefited India as a large number of students select science and technology disciplines. India's universities, university-level institutions, and colleges have produced more than 200,000 science and technology graduates per year since 1985. The sheer will and drive of the Indian people as entrepreneurs or employees can be single largest reason for the success of the IT-BPO industry.

While the numbers are impressive and point to the fact that the growth of the IT-BPO industry has indeed led to the transformation of the Indian economy, the glitter and shine could conceal issues that are of seismic proportions and ramifications. Growth in the industry has been accompanied by unique challenges that if not addressed will make it difficult to sustain this growth. The most important challenge for India is the fact that the growth is not inclusive and has led to imbalances across the nation. The first phase of this growth has centered on 4 cities (Bangalore, Hyderabad, Chennai and Gurgaon) leading to increasing disparity in incomes. Further most of the employees in the IT-BPO industry are young graduates and they are the ones that have benefited the most. The existing rich-poor gap has increased quickly and can easily be segregated along demographic and geographic data. Successes in urban areas with increasing poverty in rural areas where most (approx. 70%) of the masses reside in India is an economic growth model that needs to be revisited if the growth is to be sustained.

Another challenge that needs to be addressed on a war footing is the availability of quality and qualified people for the IT-BPO industry. Paradoxically enough while availability of manpower in India is often cited as a key factor for the success of the IT-BPO industry, the industry faces a shortage of qualified people. Though 200,000 science & technology graduates every year may seem high it is important to remember that India has a population close to a billion people. The problem is compounded by noticeable inadequacies in the education system in India that impacts quality. When comparing 24 year olds with science degrees India does not make it to the list of top 10 nations (Lemonick, 2006). Approximately 130⁴¹ million females are illiterate in the country and only 30% of girls that start elementary education actually complete it. Further, as pointed out in the UNESCO Science Report⁴² India loses a lot of its graduates to the western world as a result of brain drain. Thus, even though the number of science and technology graduates in India may seem high, it is a fact that the country is facing a skills shortage due to an education system that is dilapidated. The public education system like the infrastructure in the country needs immediate overhauling if the success of the IT industry is to continue.

2.2 Impact on Society

From a societal perspective the growth of the IT-BPO industry has created multiple opportunities for India. Traditionally majority of the Indian students opted for engineering and medical degrees as these professions ensured a job that led to social stability for families. Growth of the IT-BPO industry has opened up multiple career options and students with degrees in diverse disciplines such as information technology, telecommunications, banking, pharmaceuticals etc. are now able to find jobs easily. Availability of jobs has led to opening up of private institutions and schools that provide education in these disciplines. For example NIIT has been so successful that they now provide their educational services in more than 30 countries around the world. Further call center jobs, a big component of the IT-BPO industry in India, provide options for women, especially housewives, which were not available earlier. As more and more people get jobs in the IT-BPO industry there has been a significant shift towards a consumption driven society. Increased jobs and disposable income has allowed people to spend more and pursue their dreams of a lifestyle that was not feasible earlier.

Similar to the economic challenges the impact of GDW on society has created social challenges. The economic growth has resulted in a society that can easily be divided based on income and wealth inequalities. The wide

¹ Source: <http://www.unicef.org/sowc07/>

⁴² Source: http://portal.unesco.org/en/ev.php-URL_ID=31407&URL_DO=DO_TOPIC&URL_SECTION=201.html

disparity in income and wealth has increased the gap between the haves and have nots substantially. Two and a half years ago the have nots responded by voting out the national government that was very supportive of the IT-BPO industry in India sending a clear message that all is not well. Further the inequalities in growth have led to increases in crime. For example, kidnappings increased substantially and in November 2006 the son of Adobe India was kidnapped and released after a hefty ransom was paid. Ironically it was reported that often ransom calls were “outsourced” in these kidnappings. The higher income earning professionals have created a lifestyle that is based on increased consumption. Following this group others have also increased their consumption and there are initial signs of a high-debt society that may not be able to cope with the debt. In addition, there have reports in the Indian press that call center jobs have led to stress and burn out due to the pressures of working at unusual often long hours and dealing with customer complaints. When one combines the impact of GDW on society with the economic impact we have a nation that is struggling with high income and wealth inequality. This is compounded by the fact that India was always an unequal society based on its caste system.

3. CONCLUSION:

The growth of the Indian economy is a fact that cannot be doubted but the story that is being written may be misleading as success stories are exciting to read and are rarely challenged. In this study the author attempts to demonstrate that beneath the success stories resulting from globally distributed work are other stories that we need to read, explore and understand. These stories include challenges that need to be addressed immediately if the success is to be sustained. Lack of a dedicated effort to address the issues may result in paradoxical economic growth where despite GDW hardships will prevail in the Indian economy. This could lead to an undesirable economic and social future. Nigeria, the world’s sixth largest exporter of oil, is a classic example where despite the oil resources the nation continues to struggle from an economic and social perspective.

REFERENCES

- Friedman, T. *The World is Flat: A Brief History of the Twenty-First Century*, Farrar, Straus & Giroux, 2005, pp. 265.
Lemonick, M.D. “Are We Losing Our Edge,” *Time*, February 13, 2006, p. 22-33.