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Kerry's not scary

By Andrew M. Dailey, Matthew C.J. Rudolph & Kapil Shukla

Why Indian BPO partisans should stop dreading a Kerry win and worry instead about their marketing.

RITESH KOCHHAR worked as computer consultant in Boston, Massachusetts, for several years before returning to India to start a small Gurgaon-based outsourcing firm in late 2003. Unfortunately, like many small and medium-sized business process outsourcing (BPO) "boutiques" around Asia today, Mr. Kochhar's firm Infiniti Offshore threw its hat into the fray just as the U.S. presidential campaign cycle shifted into high gear. However, as early as January of this year Mr. Kochhar did not like what he heard from John Party's presidential candidate.

Mr. Kochhar is not alone among his colleagues at peer businesses in fearing a Kerry win after next Tuesday's U.S. presidential balloting. The downside of the increasingly close Indo-American BPO linkage has nowhere been more apparent than in the impact of this U.S. presidential campaign on small and medium-sized BPO firms like Mr. Kochhar's. They have suffered as risk-averse investors await polling results, or take refuge with large well-known multinational outsourcing blue-chips.

Such was precisely the case when, early in the campaign season, Mr. Kochhar's Infiniti bid against one of the largest global players. "We finally didn't get the contract," lamented Mr. Kochhar, "and found out later that our rival had promised the client the first three months of the project free, as bait."

Despite such horror stories, fears of a Kerry win among Indian BPO players and their potential clients are misplaced. BPO-oriented policy in the U.S. is now shaped as much by the U.S. Congress, and by the State and local governments as it is by measures devised in the President's executive branch. True, Mr. Kerry has decried the practice of sending jobs overseas, and has promised suitable incentives for companies that keep jobs at home. At the hustings he has pledged to create 10 million new jobs in the U.S. over the four years, in part by resisting the outsourcing trend.

Such posturing under colourful campaign bunting should be considered in the context of Mr. Kerry's 20-year career in the U.S. Senate. Casting his votes in that chamber, Mr. Kerry has adroitly balanced his pro-business activism with a stolid (but not militant) allegiance to the interest groups that traditionally support his Democratic Party. Mr. Kerry's business-friendly Clintonian legacy both ideologically and within his campaign management team is abundantly clear in the extreme delicacy with which he has addressed the BPO issue.

The Kerry team's way of dealing with the BPO issue has been to avoid it. When approached for

this article, the campaign's demure response was that their candidate's "position — a tax proposal — is really oriented to manufacturing offshoring, not BPO offshoring."

This tactic is tailored to address organised labour's apprehensions over outsourcing. The only specific Kerry proposal with implications for BPO — a change in the tax treatment for subsidiaries of U.S. firms operating abroad — is designed to ensure that the tax code does not 'favour' firms that outsource. However, the same nexus of communications technology and relative labour-cost opportunities that spawned the BPO revolution will not be nullified if some minor tax advantages are lost or — as is more likely — diluted.

Rather than regarding Mr. Kerry's outsourcing-related policy prescriptions with dread, Indian BPO firms should reflect on the positive potential of taking early action on the matter. First, since global trends in technology, commerce, and demographics all continue to favour further BPO growth, it would seem prudent to take some steps to head off even more strident labour union and State-level resistance to BPO in the U.S. Secondly, offering some federal BPO-oriented policy solutions will help ameliorate the uncertainty-driven near-term 'lumpiness' in the flow of BPO contracting caused by electoral cycles and multilevel (Central, State, and local) anti-BPO policy activism in the U.S.

Indians familiar with the causes and consequences of the 1997 Fifth Pay Commission will understand how, under pressure from politically powerful sub-national employee groups and partisan political networks, most of the recent policy measures limiting BPO in the U.S. have been enacted at the State and the local level. However, just like the problems produced by the Fifth Pay Commission, the liveliness of this political pressure from below must confront the cruel constraints these same sub-national governments face in the form of immediate revenue deficits and long-term fiscal weakness. The irony, therefore, is that an obvious option for governments to lower costs is through greater outsourcing. In a political legerdemain, government agencies at all levels across America will contract with 'U.S.' companies for outsourcing. These companies will then turn to their offshore operations.

Iraq will create further imperatives favouring the continuation of current U.S. BPO policy. Mr. Kerry has made "building a true, global coalition to help shoulder the burden in Iraq" a cornerstone of his campaign. Any future Kerry negotiators will know that informal assurances of maintaining at least the *de facto* BPO *status quo ante* will be necessary to garner Indian cooperation on Iraq.

The effects of the 2004 U.S. presidential campaign on Indian BPO are not a one-time problem. India's BPO match is still in early innings at the crease. Major IT research firms estimate growth of between 40 per cent and 80 per cent through 2008. Indian firms and policy makers must understand that the disruptive impact of American political dynamics on their BPO-linked commercial activity will be a feature of the Indian political economy for at least the next decade.

This American linkage must be put in the context of the global (but largely Asian) evolution of the BPO industry. The dispersal of outsourcing business globally is expected to erode India's dominant position across BPO sub-sectors (call centres and IT services, for example). So, even as BPO grows in India, the country's current share of the global BPO pie will shrink. U.S. consulting group Gartner recently predicted India's current 80 per cent share of the world BPO market could be halved by 2007 as the industry expands to new locations such as the Philippines and Eastern Europe.

Thus, for Indian BPO firms the central imperative now shifts to marketing. While seeking

lower-cost, higher-quality services, U.S. and European companies still want to interact with sales representatives from their own country. For larger firms in India, the challenge is to maintain their role as preferred partners, staying ahead of their nearest rivals in China and the Philippines. India's "Big Four" (Infosys, Wipro, Satyam and TCS) must be increasingly savvy about their marketing efforts if they wish to sustain their current sturdy growth trajectories. For small and mid-size players like Mr. Kochhar's Infiniti, sales will require even more urgent attention for survival.

The sensitivity of BPO-linked Indian businesses to the vicissitudes of American political cycles is an issue Indian policy makers must address soon. They must do so not only as part of their foreign economic policy, but also as a matter of a (light-handed) national industrial policy. This will mean fashioning tax credits, loan guarantees, and public-private collaborations designed to mitigate the shocks provoked by electoral and sub-national political dynamics on distant American shores. India and its firms can retain their edge in BPO, but doing so will require shaping policy in Washington as well as in New Delhi. The growing influence and expertise of the Indian diaspora in the U.S. makes this possible. Sadly though, the new United Progressive Alliance Government has been slow to exploit the momentum its predecessors launched in connecting with American-based non-resident Indians. Conscious, yet subtle, efforts to harness this group are necessary if the Indian Government wishes to alleviate the disruptive pain associated with the deepening Indo-American BPO connection.

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