THOUGHT LEADERSHIP

GLOBAL SOURCING – IMPACTS ON SOCIO ECONOMICS OF DEVELOPING NATIONS

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SO WHERE ARE WE TODAY?

One consistent headline I have come across in the past year across global and regional media is the great predictions around outsourcing booming in recessionary times. While I am not arguing for or against this position, I am inclined to muse about the manner in which demand has shifted its priorities – if it has. A decade ago outsourcing started to look very attractive for companies from the west as they wrestled with bloated cost structures and dwindling margins, notwithstanding issues with competitiveness or lack of it. Then we see the arrival of saviors from a few developing nations of Asia bubbling with cheap yet competent workforce and fairly acceptable geo-political stabilities to boot, accompanied by grandiose promises of massive cost savings and value-orientation. Fast forward to today, many of those expectations did pan out, but a few critical expectations that become primary goals post-adoption of offshore outsourcing didn't really translate into reality. Consternation, anti-outsourcing drumbeats and disappointment became a mainstay conversation across most corporations who had embarked aggressively on leveraging the global sourcing opportunity. Exploring options did manifest into two key – and sometimes diametrically opposite – views: (A) bring work back in-house and try to recoup perceived losses; or (B) go elsewhere in search of similar opportunities but with a more experienced and sometimes skeptical view. In consequence it is quite interesting to observe how the world has responded, in particular governments and companies from developing and emerging nations. Are there lessons to be learned? Are there pertinent questions that have remained unanswered? Is this a one-sided conversation? Please read on.

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UNDERSTANDING THE DEMAND SPECTRUM

Is global sourcing going to lend lost credibility to corporations struggling to keep their balance sheets from going into the red? Or is there going to be a significant and palpable withdrawal from the industry in order to clean house internally through conservative adoption of strategic initiatives? Are supply nations competent enough to provide a level playing field for client organizations looking not only to shore up their bottom-lines but also to create sustained value for their consumers in a manner that assures competitive edge and global market access? Most CIOs across the globe have almost vowed to their boards to cut down on new technology spending. They are taking a diametrically opposite view to technology and infrastructure. There were days when CIOs were busy spending on adopting the latest state-of-the-art technologies so as to be – potentially at best – nimble and competitive, without much focus on utilization or expansiveness of applicability. Today the view is to make more with less. This in itself is changing the perception that older technologies or infrastructure are just that – old. Demand for innovating and reengineering business processes and functional applicability without additional investment is on the increase, forcing service providers to come up with solutions that go beyond standard services. *Are providers across the global landscape ready?*

In addition increasing pressure on Boards to defer or reduce capital expenditure, coupled by a lack of internal capabilities is pushing organizations to farm out even complex and core services to third-party service providers. Sourcing methods are increasingly incorporating core services as inherent targets for sourcing, with the caveat that service providers need to take on more risks than they are either ready to, or have the experience with. Do such risk-sharing approaches align with national imperatives of provider nations? Standard fee-for-service based business models are increasingly being seen as low value resulting in the demand that service providers put their "skin-in-the-game" through price entrenchment and ownership for the pass-through impact of such services. This is an inherently fundamental shift in the nature of global sourcing one has seen so far. While it is appreciable that customers are beginning to trust their global service providers more than they have done so before, it is also putting the noose around the necks of service providers as they are taking on more business risk than ever. While such entrenched models do offer opportunities for longer-term relationships between the customers and provider organizations, focus on co-creation of solutions is putting the pressure on providers to transform the view of their businesses. No longer are customers content with their providers branding or viewing themselves as IT or BP providers. The demand is for providers to view themselves as "vertically-aligned" and "user-oriented" solution providers where industry-specific solutions and innovation are driven in a cohesive manner to create and sustain value. *How reasonable is it – in this context - to compare a host of countries with varying socio-economic fabrics?*

While access to skills and talent has been touted for long in the industry, cost arbitrage still held the highest attention and focus in the minds of customers. It looks like the death of the mile-wide inch-deep outsourcing deals. Too many times has scale been touted as the biggest lever for winning in a fiercely competitive marketplace. Not too much emphasis was placed on depth of capabilities. I think the days of "value-scale" are here now and here to stay. Providers are being forced to create value at the business layer within chosen industry verticals, either through technology or business solutions, and add scale to such value through a concerted spread of such value across industries. *Is there sufficient experience amongst providers today to make it happen?*

Client organizations are pushing their products and services into new markets, thanks to the past 50 years of stability that has created many new democracies and emerging nations. To tap into such markets companies are finding it increasingly difficult to penetrate directly – either because of presence of incumbents or because of lack of demand or perception of utility for such products/ services. In such cases leveraging local partnerships, typically through sourcing models has become a key route that guarantees a fair amount of success with market penetration. In addition, borderless trading environments within various trading blocks – Asia, Latin America, and Europe – have created the ability of organizations to focus on their consumers' real needs without having to deploy a one-size-fits-all model. Customization of products/ services to each location has now become the norm. *But is this approach truly being pursued?*

The underlying technologies that in the hitherto days provided the core support to offering services from a centralized location no longer hold true. Today in order to provide utility-based services it has become critically important for organizations to set up "centers of excellence" that focused either on creating a core competence with services for the entire global marketplace, or for a regional marketplace with localized specificities. These COEs are being created by companies through leveraging local expertise either in form of resources or corporations. Such is the nature of the demand that most developing and emerging nations are being evaluated on their ability to be perceived as "centers of excellence" and not just as nations with the base requirements to conduct business. This trend is true of most large multinationals and mid-sized players who are scouting for local capabilities that are aimed at "creating utility based services" for their end-consumers, regardless of the function or industry they are a part of. The distinction between technology and technology-enabled services is becoming less important than the distinction between "values for end consumer" vs. "low cost destination for non-core activities". *But are most nations ready to become centers of excellence?*

The marketplace always engaged in the mainstay conversation surrounding core and non-core services. Today such discussions seem obsolete and irrelevant purely on grounds of the need for companies to locate or distribute services from a utility standpoint, and not just a functional or technological standpoint. Hence companies are bundling back core and non-core so long as such services - in a combined manner - are considered key utility for a segment within a chosen marketplace, In such contexts, destinations and providers within need to clearly morph their business models that address client organizations' needs for bundled service capabilities. Here the distinction is not around technology or business processes, rather it is utility-driven. *Are business models in fledgling supply nations ready for such morphing?*

THE SUPPLY SIDE CONUNDRUM

Advisors and experts in the sourcing profession have been relentlessly expanding their views and perspectives about the nature of demand, while articulating the complexity clearly, so much so that it is now quite rare to see any refreshing perspective. The same story is repeated and rehashed to the point of drawing yawns from listeners – buyers or suppliers. In an interesting twist to the equation, governments across the world have become active participants in the sourcing industry. Have they been able to distil the opportunity sufficiently enough to create opportunities for their local industries, or have they added another layer of inscrutability and complexity to an already cluttered marketplace? From India, Philippines, Czech Republic, Canada and Ireland as key sourcing destinations at the end of year 2000 to more than 25 countries today – all within a decade – the marketplace today has more choices than the ability to analyze such choices coherently. From across Asia, Middle East, Africa to Latin America and Eastern Europe, the choices are too many. Brazil, Chile, Nicaragua, Jordan, Egypt, Singapore, Vietnam, Malaysia, Malta, Macedonia, El Salvador, Columbia, Sri Lanka, Barbados, Russia, Pakistan, Costa Rica, China, Jamaica, UAE, Romania, Slovakia, Kenya, Ghana, Mauritius, Uganda, and South Africa are all speaking the same language that only a few countries were hitherto well versed with. I would like to think this is a reflection of a maturing industry where many developing and emerging countries would benefit by creating much needed jobs and providing their economies with significant thrusts to move forward. I am also inclined to think whether the opportunity that these nations – and their industries – perceive is really available for them to tap into.

While the demand for global sourcing has grown at a healthy rate over the past decade, making available over $240 Billion in opportunity; while there is always a rosy picture of the overall untapped demand currently standing at over $1 Trillion; is the nature of the opportunity understood well enough by the supply side? Is the demand side clearly articulating their needs appropriately? Is there a significant gap between expectations of both sides? What are the expectations worth considering?

I see a serious "supply clutter" around replicable, highly commoditized and cost-chasing services. Regardless of the nations these companies are from, and regardless of their regional or global footprint, this clutter has become quite indistinguishable and cacophonic, to the extent that demand is perhaps spending too much time sifting through the noise, much to the detriment of its own longer-term goals. It is quite the same language one hears in conversations worldwide. In addition, with the plethora of choices – location wise – that client organizations today have, their expectations have transcended the need to look at a location or region "inclusively" – a term I use loosely here to encompass not just client needs but the needs of the supply companies and locations/ nations. Such lack of inclusivity is perhaps the key reason for the large clutter we see in the marketplace today. Given almost zero entry barriers to creating service provider entities, and given the positive view governments are taking of the latent opportunity, there has never been a better time than now for many emerging and developing nations to embark on creating enabling environments that can attract investors and deals, and consequently create thousands of service jobs. So is this positive view sustainable? Has it helped supply destinations realize their small goals so far? Is the view of the industry still positive? I don't think so. We are not investing enough in understanding the key drivers of policies, and resultant industries within these nations. We are also not spending sufficient time in thinking about the economic and social impact that nations desire to create, when they invest in specific industries. We seem to be engaged in a one-sided conversation that more often than not does not go beyond the mundane and sometimes schizophrenic view we take of the diverse fabrics of developing and emerging nations. While I am surely not an economist, I would like to spend some time on a few key aspects that are pertinent to the sourcing industry.

Service Economies - Some developing nations [perhaps near-developed nations as they would like to be called] have robust economies supported by a diverse set of industries spanning the old and the new. Governments in such economies have invested heavily in enabling those industries with a view to transform or further enhance the benefits that can accrue to their economies and citizens. Over the past three decades such nations had embarked on modernizing their industries, government and citizenry through a host of initiatives aimed at increasing quality of life at commensurate cost structures thereby creating wealth. Such nations do reflect economies that are more service oriented. Typically over 50% of GDPs of these countries are supported by service industries, with ICT and services sourcing being key ones. Hence economic emphasis continues to be placed on enhancing the appropriate support structures and catalysts necessary to maintain dynamic service industries – from education to infrastructure, from tax to immigration, from capacity enablement measures to capital access, from partnerships to relaxed shareholding requirements. The value from such focus is clearly measured through increased foreign direct investments, a workforce more talented than the previous generation, reduced unemployment, increased labor pool as a percent to existing population, and a host of new-age industries that provide not only capabilities but support innovation and market access, resulting in export of talent as well. However, in order to attract demand, these nations have to speak the language of demand – which is exactly what we see world-over when representatives from these nations position their service capabilities. In doing so, one important facet is missed out – the supply side's socio-economic drivers. In absence of such understanding the only common ground for discussions rest on what the client wants – a one-sided conversation!

A year after the recent economic crisis, it was quite interesting to read Michael Schuman's [*from Time*] special report on the global economy's performance. He noted that an Asian economy was the one to rebound the fastest – not because it had large resources at its disposal, but because of lack of such resources. Singapore's economy rebounded from a GDP contraction of approx. 9% at end 2008 to a 20.7% increase in Q2 2009, resulting in an annualized contraction of a maximum of only 2.9% in the island-state's GDP for 2009. The vigor and speed of Singapore's rebound underscore two important facts about the economy. Like other nations in Asia, Singapore is increasingly turning to China and India for trade, to fill the hold left by the collapse of demand from the West, while promoting domestic consumption by its cash-rich citizens to help reduce the dangerous reliance of its economy on external demand. Similarly the most wired country South Korea has, with its U-city project transformed Seoul through a level of connectedness that directly impacts each citizen's quality of life, through creating a "ubiquitous" quality of life that is today difficult to see anywhere else on the planet. Looking at Malaysia and its focus on regionalization [thanks to ASEAN and regional FTAs], and its leadership with Islamic Finance, the traditional markets of the West are being increasingly replaced by newer markets from Asia-Pacific and the Middle-East-North-Africa regions. The resultant growth and sustainability of GDP has been impressive, while the impact of the recent crisis was hardly felt within the small nation where quality of life is comparable to developed nations.

Old-Age Economies – Typically termed the Emerging nations, the fabric here is quite different. Being relatively new democracies, still struggling with creating sustainable industries, typically burdened by heavy external debt, and fledgling economies that literally eliminate any opportunities to raise capital, the dynamics of supply are inherently unique. Such economies view global sourcing as a key opportunity not to enhance an existing quality of life, but to create base structures in the first place. Availability of infrastructure or supporting enablers is at best minimal. What is necessary here is co-investing in capacity development. Demand for specific catalysts will typically fall on deaf ears because of the inability of nations to support such requirements. Having said that why should such nations be consigned to the backburner?

We tend to do so since we make the first mistake of bundling together old-age emerging nations with the new-age developing nations and then take a holistic view of assessing their comparative ability to offer certain services. I find it quite difficult to fathom the arrogance that drives questions relating to scale and availability of a large workforce to a nation that has no more than 15 – 20 M citizens. I also find it incomprehensible when such comparisons are made with countries like India or China or even the Philippines where sizeable populations exist. Further compounding the issue is the discussion around costs. Notwithstanding the fact that commoditized services lend themselves to low pricing, and do chase costs continuously, how realistic is it to demand a certain price for services from a nation where the base costs are higher than the price itself? Where do such nations/ companies go? Do they shift their service offerings to higher-value services at the flip of a switch – like many advisors ask them to do so? How easy is it to make the shift? On the other hand many emerging nations have shown to the world that – with a little help and understanding – they can really transcend and leapfrog traditional industries with concerted initiatives. One needs to only look at the telecommunications industry in Africa to realize the forward-thinking "utility" approach citizens from various nations have adopted. This goes to show that the continent, though quite behind other continents / nations in terms of the development index, is quite ready to create the value client organizations are looking for, so long as such value includes them as recipients. Nations like India, Philippines, Brazil and Chile have many success stories where ICT and services have enabled a deprived citizenry. Whether it is providing financing for non-muster poor Brazilians, or it is providing poor Indian farmers with technological access to identify which markets to sell their crops to, ICT solutions have been created and deployed because of a socio-economic need. Along the way commercial imperatives have been addressed successfully as well. One needs to only read CK Prahlad's thoughts on the large opportunity available at The Bottom of the Pyramid to realize the value that can be co-created via global sourcing when the drivers include "socio-economic needs" consistently. In this context it is heartwarming to note the work Leila Chariyath Janah from Samasource does to promote social sourcing in Africa or what Greg Branish does in offering sourcing services through NISH in the US. Unfortunately we don't have too many such examples.

A recent article in *Time* about how American consumers are growing more socially responsible is interesting to read as it does reflect upon the fact that there are significant profits to be made in conjunction with such social imperatives. Similar stories exist with other developing nations – are we opening our minds to the opportunity to create a sustained value through engaging with nations from both a socio-economic and commercial perspective? Or are we just interested in shoring up corporate bottom-lines through partnering with companies and nations so long as our needs are addressed?

Unfortunately however, today's conversations around the attractiveness of global sourcing locations is driven purely as a one-sided conversation – that of the client. I have been a witness to a host of conversations where clients compare the catalysts available in a developing and forward-looking service-oriented nation with another emerging nation that has a debt-burdened economy and flailing old industries. How reasonable is such a comparison? How quickly would one expect emerging nations to capitulate and create the catalysts in the face of threat of retreat? Is this particular approach not self-centered? I recently was also witness to a series of recommendations a reputed advisory firm had made to an emerging nation on developing their sourcing industry capabilities so as to compete with the likes of India [where there is huge scale] and the likes of Philippines [where there are high levels of capabilities and a more talented workforce]. These recommendations were centered around how the nation should focus on creating a highly qualified workforce when the existing citizenry is suffering from lack of basic jobs. Further these recommendations touched upon how this emerging nation can benefit from offering high-value services - where the education system was barely sufficient to create a base level workforce. The moot point of my argument here is the lack of readiness – and whether we see it. Taking expectations of demand and translating them into imperatives cannot be done using a "one-size-fits-all" approach – which is exactly what happened with this emerging nation. It was interesting to note that the country's government rejected the recommendations because they were both unreasonable and quite long-term in their ability to create positive impacts. What saddened me however was that these rhetorical recommendations have become client expectations - *mantras* cast in stone - that are now being proffered to any and all emerging nations as the roadmap for a future in the sourcing marketplace.

IN BRIDGING THE GAP

My point with providing these examples is to articulate the importance of socio-economic development, and the role global sourcing can play in enabling these drivers, if understood sufficiently enough. Governments and trade promotion agencies are quite active in the global sourcing space. However they don't get the much needed attention they deserve. They have a story to tell – it is compelling, it is real, it has a base in co-creation of value, it incorporates significant flexibility at the highest levels of government, it has an impact that is collective, and it requires a commitment that is mutual. This white paper is not advocating sourcing destinations. Rather the emphasis is on giving these nations sufficient attention to their needs, and consequently incorporating such needs into the overall sourcing initiatives. Most nations have signed the Millennium Development Goals of the UN and are keen on investing in industries that can enhance the quality of life of their citizenry. Industries within such nations have the core responsibility to make it happen. The importance of ICT and its ability to create these positive impacts cannot be underscored enough, like Walter Fust [DG - Swiss Agency for Development & Cooperation and Chair of Executive Committee - Global Knowledge Partnership] would like to say – making the difference by creating a world of equal opportunities with ICT. Likewise the amount of access global sourcing provides industries and companies with cannot be underscored enough either.

I think it is time for the sourcing industry to do what it has always been expected to do – create socio-economic value for its participants. The days when we only discussed client needs to be replaced by a set of collective goals – such inclusivity can only happen with industries that span borders and cultures. The global sourcing industry surely is one such industry where these expectations can be translated into reality.

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