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SIX BILLION MINDS

**Managing Outsourcing
in the Global Knowledge Economy**

*"Lorem ipsum usque tandem Catilinae
abudere patientae nostram.*

*Lorem ipsum usque tandem abudere
patientae nostram, forem,*

*ipsum usque tandem Catilinae a
budere patientae nostram."*

- Dr. John Smith, Title To Appear Here

BTM Institute

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Managing in the Global Economy

Just a few years ago, the press warned multinationals to innovate or die. Today, their headlines have a different spin—globalize or die. The world may be flat but it's not deep. Flat is surface. The human experience is more. Are we outsourcing the personal human scale experience for the sake of multinational corporations' expansion? Whether the world has flattened or continues to create centers of excellence, it is quite clear that countries, developed or developing, must become competitive in tapping into the world's six billion minds if they want to be a part of the Knowledge Economy.

Globalization is leaving a lasting impression. While not perfect, globalization has been extremely successful. It has created millions of jobs, raised millions out of poverty and improved the quality of life in countries that once were considered incapable of contributing to the world economy.

Indeed, the benefits of globalization and global outsourcing are far reaching. With shared interests in building robust markets, generating greater profits for all and building stronger relationships, East and West are more interdependent upon one another than ever before.

While the United States continues to hold its position of power in the world, booming economies in China, India, Russia and Brazil are very real. A threat? No one is using that language. Not yet. But it is clear that America and Europe, which traditionally set the standards for business, could be in a position to lose that coveted world status symbol—power.

The relative importance of the emerging economies as an engine of new demand growth and spending power may shift more dramatically and quickly than expected. Emerging economies have enhanced the world's infrastructure to deliver services in any geography based on a concept of real value-based virtual organizations. Capital flows might move further in favor of emerging economies prompting major currency realignments. As today's advanced economies become a shrinking part of the world economy, the accompanying shifts in spending could provide significant opportunities for global companies.

Outsourcing—a product of globalization—has become a supercharged issue thanks to fears of job loss. But as *New York Times* foreign affairs columnist Thomas Friedman points out, people need to be aware of the consequences of a flat world. There is no such thing as an American job. And we have to get over that. As we all know, the human experience is constantly repeated throughout time. America is going through dramatic change. We are exporting much of our manufacturing, design, engineering and innovation, which further decreases the costs of goods we import. Friedman says, “When the world is flat, you can innovate without having to emigrate.” What Friedman means by “flat” is connected. In other words, the lowering of trade and political barriers along with the exponential technical advances of the digital revolution has made it possible to do business, or almost anything else, instantaneously with billions of other people across the planet. Friedman states, “It is now possible for more people than ever to collaborate and compete in real time with more people on more different kinds of work from more different corners of the planet and on a more equal footing than at any previous time in the history of the world.”

Despite the concerns in the United States that outsourcing is taking away jobs from Americans, the reality is it's not the abyss it's made out to be at the water cooler. In fact, a study released November 2005, *The Impact of Offshore Software and IT Services Outsourcing on the US Economy and the IT Industry*, conducted by Global Insight, an economic analysis forecasting and financial information company, found that “world-wide sourcing of computer software and services continues to increase the number of U.S. jobs, improve real wages for American workers, and has

many other economic benefits as a result of pushing the U.S. economy to perform at higher levels.” Outsourcing IT services generated an additional 257,043 net new jobs in the United States during 2005. It is expected that 337,625 net new jobs will be created by 2010, according to the study. The U.S. GDP increased \$68.7 billion in 2005 and is expected to reach \$147.4 billion by 2010, the study reported.

It used to be that information was power. Not anymore. Information is becoming a commodity. The real power in a globalized world is knowledge. It turns out that good deal of creative work—software development, accounting, legal work, engineering—can be outsourced to India or China. The solution to becoming powerful is to focus on innovation and to design new core corporate competencies.

America may be at risk of losing its distinctive innovation as a result of “irresponsible optimism” during the so-called boom years. Perhaps Americans are too easily drawn to their dreams to be responsible all the time. A gradual decline in American innovation and its inventive spirit could affect our global leadership. The erosion did not begin with the widespread introduction of the Internet—it began when U.S. corporations outsourced manufacturing. Today, many U.S. companies are little more than a brand name selling goods made in Asia. Many computer, electrical and electronics engineers—most of whom were well paid just a few years ago—now cannot find work. Some would say that a country that does not manufacture doesn’t need as many engineers, because much of the work is being outsourced. And yet, through this erosion, it is not a stretch to say America may be transforming into a third world economy. Falling pay and rising prices of foreign goods will squeeze U.S. living standards faster than most Americans may realize.

For more than half a century, the United States has led the world in scientific discovery and innovation. It has been a beacon, drawing the best scientists to its educational institutions, industries and laboratories from around the globe. However, in today’s rapidly evolving competitive world, the United States can no longer take its supremacy for granted. Nations from Eastern Europe to Eastern Asia are on a fast track to pass the United States in scientific excellence and technological innovation. We

must create products and services that satisfy needs consumers don't even know they have yet. Mastering new innovation is the key to the corporate success, if not survival. Smart companies now have a senior level executive charged with driving innovation or sparking creativity.

Another major change is that we now live a virtual world. When it comes to work, geography does not matter anymore. Even in small companies, a growing number of people now operate in teams spread across the world. They use the latest hardware, laptops, e-mail addresses, mobile phones and intranet access to collaborate and share information. It is irrelevant whether you are in Wayne, N.J., Geneva, Switzerland, or Tel Aviv, Israel. Globalization makes it possible for workers to collaborate with their team members around the world. The result is a 24-hour endless day. And while we are much closer to each other now, the need for a global community never goes away.

The Knowledge Economy is upon us. More than 60 percent of U.S. workers are in a knowledge business, but we still live in the data world. In most companies knowledge-sharing rarely occurs. Only in 25 percent of companies is knowledge reused. Ten percent of companies have access to lessons learned and best practices. And every year, companies waste more than \$12 billion by duplicating work.

Those numbers make clear that many companies haven't learned to manage business and technology together, to design business models and processes and their enabling technology at the same time so that they can see — and not just guess — where in the world they must go to acquire the knowledge and resources they need.

Today China graduates four times more engineers and computer scientists than the United States. America is facing serious problems with both its education system and its immigration laws, and it wonders how to attract more students to science, improve education and open its borders. It is vital that tomorrow's leaders have a multi-disciplinary education — training in both business and technology with a global perspective — so that we can eliminate the disconnect that exists in too many organizations today. The future is leaders who understand how business and technol-

ogy have converged and who know to manage both in a global, knowledge economy.

Today, more than 70 percent of the products we buy in Wal-Mart are made in China, but still there is no equal distribution of wealth. The United States, with six percent of the population, has 50 percent of the wealth. Meanwhile, 47 percent of Chinese and 86 percent of Indians make less than \$2 per day. How does this impact the growth of the global economy and how will this change? It always has been a global economy. Many wars have stemmed from trade disagreements.

A large proportion of college students in the United States today have the mistaken view that the degree is more important than the education it is supposed to represent; so they look for the easiest possible route to a degree. What they don't know is that there are students in India, China and elsewhere who are out-studying them, out-learning them, and in a few years will be out-competing them in the global job market. The K-12 school system also is falling behind in the United States. These things must change if the United States is to retain its envied position as the country with the highest standard of living in the world. We can no longer take for granted that the United States will continue to be No. 1. We have to work hard to keep it that way.

Yet, the current world is seeing some incredible success stories in global outsourcing due to the selection of quality vendors, the degree of trust and openness, acceptance of virtual organizations, collaborative teamwork, and a values-driven success and motivation. Outsourcing is set to dramatically lower cost and increase profitability for American businesses.

Three-quarters of U.S. companies outsourced some—or all—of their information technology activities in 2004 and that percentage is likely to increase in the coming years. While a smaller percentage of companies are outsourcing those activities offshore (32 percent), half of that 32 percent have cut full-time jobs as a result. But companies need to be able to assess the risks and benefits of each country they're considering as an outsourcing destination.

By 2005 standards, India is the most competitive and popular technology outsourcing destination in the world. However, by 2015, China will surpass the Indians to become the locomotive for growth as it did in manufacturing—only this time it will be in

IT—related services—boosting world economic output and productivity. The world economy will certainly benefit from China's lead function, but what will happen with all those workers, IT-engineers, and managers losing their jobs in the United States and in Europe? Places like Singapore and Israel will continue to specialize in research and development (R&D) outsourcing. Russia eventually will evolve as a major R&D outsourcing giant. The political and economic dimension is still not entirely clear, as policy makers around the world have not thoroughly thought through that maze. But one thing is obvious—we are witnessing a sea change of what the future division of labor will look like. The old working class in the West is disappearing as developed nations provide capital and opportunities for the developing nations of the East. And the former underdogs may have a sustainable solution as more of their people have access to higher education.

Globalization is the reality. Global outsourcing is fast becoming one of the greatest organizational and industrial shifts in modern history. Instead of debating its merits, we could better spend our time learning how to thrive in it, rather than letting ourselves get trampled by it. That is the intent of this book. We believe that Global Outsourcing = Knowledge Economy. Global outsourcing allows companies to break complex tasks into many small parts, outsource each part to whoever can do it most efficiently, and then combine all of the completed parts into the final product.

This book tackles the subject with great insights and blunt realities from the business leaders pioneering and setting the pace of global outsourcing as the next generation of the Knowledge Economy. Our book centers on the Knowledge Economy in which human intelligence, creativity and insight are the key resources. Innovation. Intellectual capital. Creativity. Culture. Foreign policy. International governance. Technology. Social responsibility. All these topics are examined throughout this text to make it easier for newcomers to make their way through the nuances and complexities of this trend.

It is our objective throughout this book to offer examples of new collaborations that are emerging in global outsourcing—each of which has its own expertise or strength—to form unique solutions that serve global customers and individual needs more effectively than ever before.

We have covered the open-sourcing movement, which is opening new ways for grass-roots voluntary collaboration among programmers that humbled giants like Microsoft and IBM. We are spotting new business models and trends like homeshoring and multisourcing. We have uncovered this new way for America to lead the knowledge economy. Homeshoring is a way to revive United States and Western economies.

Homesourcing and rural outsourcing are catching up in the U.S. to complement, if not compete, and slow, if not stem, the politically volatile outsourcing and offshoring tide. The proponents predict that many advantages—infrastructural expenses of offices and related amenities, lower travel costs, fewer cultural and management differences, higher employee retention rates and minimal overhead costs—will be competitive alternatives to off shoring.

Gartner predicts that 10 percent of all U.S. call center activity may develop some home shoring component. Many homeshoring aficionados feel that software development and support work in low-wage U.S. areas, like Arkansas or rural North Carolina, can compete with Asian destinations. DC, a market intelligence company, estimated that in 2004 there were more than 100,000 home shoring jobs in the U.S.

Rural Sourcing, a North Carolina-based IT services company, claims to provide information technology services at 30 to 50 percent below most U.S. consulting firms by tapping into the increasing number of IT professionals in rural America, where overhead and wages are lower than in metropolitan areas. The company claims 20 clients, including Mattel and Cardinal Health, and averages \$1 million in revenue and 50 full-time employees at five IT centers in Arkansas, North Carolina and Missouri. The company is charging \$35 to \$50 per hour for IT expertise, which may cost around \$100 in New York City. While the cost is no match for outsourcing rates in India, the company propagates that their clients benefit from local accents and similar time zones.

The home shoring movement is aimed at moving call center jobs or jobs requiring basic IT skills to home-based U.S. workers and software programming jobs to low-cost U.S. metros or rural areas instead of to India, China, Brazil, Taiwan or other countries. Homesourcing is taking off, and teams of home-based profession-

als can be trained to replace outsourcing as the preferred approach by enterprises looking to deliver quality work at lower cost.

We did not write this work as a textbook or academic treatise. From the outset, we believed that the book should have as much relevance for managers and consultants in practice as students and professors in the classroom. So we set out to write an easily accessible explanation of the fascinating field of outsourcing and globalization. Our intention was not to be encyclopedic or to present a universal solution to the challenges of globalization. Rather, our intention was to identify the most universal success factors to advance corporate globalization to ensure corporate survival.