

Talking Points

India as the Global Technology Hub

By Suresh Surana, RSM Astute Consulting Group

Introduction

Over the past two decades, India has become the global leader in offshore IT (Information Technology) and BPO (Business Processing Outsourcing) services. India's IT/BPO industry is poised to reach annual revenues of US\$225 billion by 2020.

The emergence of India as a global technological hub is reflected in Jack Welch's (former Chairman & CEO of General Electric) 70:70:70 rule:

"70% of your processes should be outsourced, 70% of those should be offshored and 70% of your offshored processes should be done in India."

India's successes in offshored IT/BPO services have catalysed growth of the country's broader technology sector. Based on a recent global survey, the Economist Intelligence Unit (EIU) identifies India as a research and development "hotspot".

Today, India hosts R&D subsidiaries of over 600 multinational companies. GE's facility in Bengaluru is the company's first integrated, multidisciplinary R&D facility outside the United States. Other prominent global companies that have established R&D facilities in India include Caterpillar, Cisco Systems, DaimlerChrysler,

DuPont, IBM, Intel, Lucent, Microsoft, Oracle, Philips and SAP.

This article explores the factors underpinning India's rise as a global technology leader and the challenges facing the Indian technology sector in the aftermath of the world economic downturn.

Drivers of India's Global Competitiveness

The growth enablers that have positioned India as a global technology hub include:

Information technology revolution in India

- According to the National Association of Software and Service Companies (NASSCOM), the IT revolution in India has helped transform India's image from a slow moving, bureaucratic economy to a land of entrepreneurs and a global provider of world class technology solutions.

Young and educated demographic profile

- India annually produces over 3.5 million graduates and postgraduates, creating a talent base that creates a foundation for sustainable long-term growth.
- India has a young population, with approximately 64% of the population aged between 15 to 64 years. The

country's median age is 25.3 years, compared to 28.6 in Brazil, 34.1 in China and 38.4 in the Russian Federation.

Conducive business environment

- According to Everest Research Institute, India's cost advantage over other IT sourcing countries (France, Japan, United Kingdom, United States) is likely to continue for at least 18-20 years.
- A recent study by Gartner placed India ahead of other emerging markets (China, Pakistan, Philippines, Sri Lanka, Vietnam), as a business-friendly locale. Against that cohort, India performs especially well in local language skills, government support, quality of labour pool and IP security.

Political stability and sustained government support

- As a constitutional republic and representative democracy, India enjoys a stable political climate compared to other countries in Southwest Asia.
- India's post-independence economic development plans have channeled substantial resources to education, training and research to accelerate the development of science and technology.

Favoured destination for offshored IT/BPO services

- AT Kearney's "Global Services Location Index 2011" ranks India as the most preferred destination for companies looking to offshore their IT and back-office functions.
- India holds its leadership position in the offshored services market despite growing competition from rival sites (Eastern Europe, Latin America, Philippines, South Africa).

Liberalisation of Foreign Direct Investment regulations

- The Indian government has liberalised foreign exchange controls by permitting royalty payments, lump sum fees for technology transfers and payments for use of trademark/brand name on the automatic route (i.e. without any approval of the Government of India).
- On 1 April 2011, the Indian government issued a consolidated Foreign Direct Investment policy that clarifies and streamlines rules governing inbound FDI.

Development of telecommunications infrastructure

- India's telecommunications sector has experienced consistent growth and infrastructural modernisation, including the expansion of third-generation connectivity.

- The development of India's telecom sector facilitates business communications for global companies dependent on an effective telecom infrastructure.

Example: Accenture in India

By effectively leveraging off high quality, low cost technology services, India has boosted the global competitiveness of many multinational companies. A case in point is Accenture, which began operating in India in 1987.

Accenture India employs over 60,000 diverse people from different backgrounds with vast ranges of skills and experience. In addition to consulting and technology services, Accenture India is a leading provider of finance and accounting BPO and other outsourcing services. Accenture India serves more than 500 global clients through its operations in Bengaluru, Chennai, Delhi, Hyderabad, Kolkata, Mumbai and Pune.

India is also an integral part of Accenture's Global Delivery Network (a global network of 55 integrated delivery centres across five continents), representing more than half Accenture's delivery centres worldwide.

Challenges Facing India's Technology Sector

The spike in unemployment in developed economies resulting from the global slowdown deepened popular beliefs that offshoring aggravates domestic job losses. This general perception has been dismissed by economists, who have demonstrated that outsourcing promotes economies of scale and global competitiveness of outsourcing companies and boosts employment in their home countries.

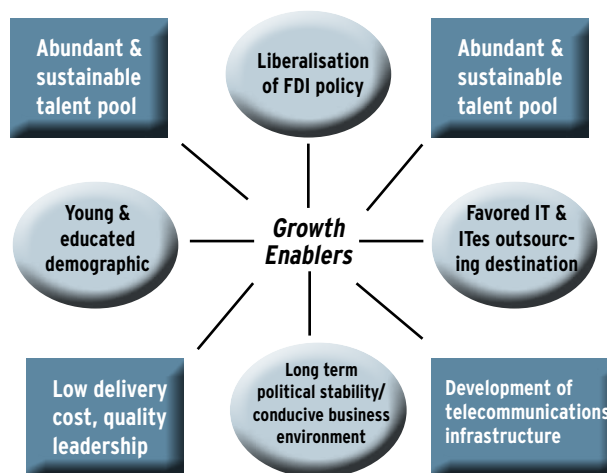
Nevertheless, the perceived negative labour market effects of offshoring constitute a major challenge for India, which is also facing mounting competition from lower cost locales like China, Philippines and Vietnam.

India's technology sector also encounters a range of internal challenges that threaten its global leadership position. These include: retention of talent amid high attrition rates; rising inflation; diminishing cost effectiveness stemming from increased labour costs; and the expiration of tax holidays for technology-driven export oriented companies.

Conclusion

Despite these challenges, India still has the benefit of long term cost competitiveness and an abundant supply of highly trained scientists, engineers and technicians. Combined with continued governmental support of the technology sector, these assets promise to sustain India's standing as a highly attractive country for global companies seeking to strengthen their cost competitiveness and service delivery capabilities.

Drivers of India's global competitiveness



About Suresh Surana

Dr. Suresh Surana is a Chartered Accountant and a graduate in law from Bombay University.

He completed his doctorate in 'Business Policy & Administration' from Bombay University.

He is the founder chairman of Astute Consulting and affiliates headquartered in Bombay (Astute Group). Astute and RSM's Indian operations have 14 offices in 10 cities in India and a team of over 900 employees.

Dr. Surana has authored several articles and is a regular speaker at various professional and business forums.

E: suresh@astuteconsulting.com

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