

# Outsourcing Booms, Although Quietly Amid Political Heat

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Despite the recent reluctance of U.S. companies to talk about moving jobs overseas, the practice is accelerating, according to outsourcing-company executives and financial results of the biggest Indian outsourcing firms.

In fact, a number of executives and consultants expect that the pace could pick up even more after the U.S. presidential election on Nov. 2.

"Some customers were waiting for the elections to be over" to place outsourcing orders, says Suresh Senapaty, chief financial officer of Wipro Ltd., a large Indian technology-outsourcing company based in Bangalore. He notes that the outsourcing of jobs has become a political issue in the U.S.

On Friday, Wipro reported revenue jumped 44% in the fiscal second quarter ended Sept. 30, driven in part by the addition of 19 new customers from the U.S. (See related article1.) Meanwhile, India's two largest information-technology companies, Tata Consultancy Services Ltd. of Bombay and Infosys Technologies Ltd. of Bangalore, last week reported revenue grew 44% and 52%, respectively, in the quarter, based on strong growth in U.S. companies outsourcing to India.

Controversy in recent months has made many U.S. companies -- and outsourcing firms -- reluctant to divulge details about the overseas destinations of jobs awarded to other contractors, for fear of ending up in a campaign speech.

Sen. John Kerry, the Democratic presidential candidate, has made outsourcing of jobs overseas a key issue. And CNN's Lou Dobbs has emerged as a strong critic of the practice, listing companies on his Web site that move jobs outside America to take advantage of cheaper labor.

But while companies have become quieter about their plans, the pace of outsourcing continues to increase as businesses seek to use lower-cost labor overseas -- as indicated by the recent revenue surge at Indian outsourcing firms. While U.S. companies have sent manufacturing jobs outside the country for decades, they increasingly are sending more white-collar and service jobs overseas to take advantage of far lower salaries -- from call centers to engineering and other information-technology work. Outsourcing firms with operations in India, Eastern Europe and other parts of Asia are seeing a swift increase in business.

Paul Laudicina, a managing director at Alexandria, Va., management-consulting firm A.T. Kearney Inc., which advises companies on offshore-outsourcing strategies, says the pace is likely to accelerate. "The public debate over offshoring has probably made corporate executives much more careful about how they communicate their consideration of offshoring," Mr. Laudicina

says. However, "I would be very surprised if the election campaign itself and the debates around the offshoring issue are actually having a significant effect on plans to offshore."

Estimates of the size of the practice vary. According to Forrester Research Inc. of Cambridge, Mass., an estimated 315,000 U.S. services jobs had been moved overseas by the end of 2003.

Wipro executives say their business was being supported by strong software orders from companies in the U.S. and Europe, as well as growing demand for the company's back-office and research-and-development services. The company won 34 new clients during the latest quarter, including 19 from the U.S. and eight from Europe.

Wipro counts Lehman Brothers Holdings Inc. of New York and Nortel Networks Corp. of Brampton, Ontario, among its major clients. Wipro executives say their business from Europe and the Asia-Pacific region is now encompassing a larger portion of their revenue, and they expect sentiment from American companies to improve after the U.S. elections.

In India, Wipro is continuing to hire staff rapidly. The company says it added more than 5,500 employees in the recent quarter, lifting its total work force to about 37,000. Mr. Senapaty says 2,200 of these employees are working on business processing, while the rest focus on software development.

Tata officials say they added 52 clients during the recent quarter, particularly from companies in telecommunications, banking and financial services. Tata is the largest offshore provider of software and back-office services to General Electric Co. of Fairfield, Conn.

Meanwhile, U.S.-based outsourcing companies also are growing. Electronic Data Systems Corp., which is based in Plano, Texas, but has operations all over the world, has said its pipeline of potential deals is robust and growing. Last quarter, EDS signed a \$1.1 billion outsourcing deal with Bank of America Corp. of Charlotte, N.C. EDS primarily services the bank inside the U.S.

Overall, EDS employs 120,000 workers, including about 9,200 in lower-wage countries such as India, Ireland, Brazil and Hungary. However, EDS has said it plans to increase the number of employees in lower-wage countries to about 20,000 by the end of 2005.

Technology Partners International, a Woodlands, Texas, firm that helps other companies structure outsourcing deals, says its number of significant deals valued at \$1 billion and above has been growing every quarter this year. The company had just one such deal in the first quarter, four in the second and eight in the third.

Indian software workers' salaries have increased over the past few years because of rising attrition rates, sparking some worries about cost pressures. But the strong demand for software services and increasing efficiencies by the Indian companies could offset some of the impact, say analysts.

Some say U.S. politicians are missing the point in suggesting more education as a solution for outsourcing, since the jobs moving overseas increasingly are affecting highly educated professionals, particularly in technology.

"We're not creating many new jobs in the U.S., and certainly not new jobs in technology," says Ronil Hira, an assistant professor of public policy at the Rochester Institute of Technology in Rochester, N.Y. "There is this mythology that it's just a matter of training. But what are you going to train them in?"

In the U.S. presidential campaign, Sen. Kerry has proposed a plan that he says will reduce the tax-based incentives to move jobs overseas, while President Bush has emphasized the need for additional education.

Whoever wins the U.S. election, Wipro executives are confident their business will remain robust. "Looking ahead, the environment we see is one of strong volume growth and stable prices," says Wipro Chairman Azim Premji.

--Gary McWilliams contributed to this article.

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