

# Offshoring and the global labour market

Today, organizations see the substitution of foreign for domestic labor – a practice known as offshoring - as a tool to reduce the costs of doing business.

More importantly, offshoring achieves a broad range of strategic goals, such as flexibility and access to expertise, that can transform also-ran companies into high-performing sector leaders. Offshoring also benefits the economies of all countries involved, injecting them with new energy, new ideas and new buying power.

This white paper discusses the pivotal role of offshoring in human resources, and the benefits it can bring companies that adopt the proper approach. Rather than sacrificing expertise, Adecco research shows companies that transfer jobs to offshore locations actually build their process capabilities and improve the process of their business. Offshoring also delivers considerable economic advantages to the workforce of the country transferring the work and the country that receives the jobs.

## Chapter 1

### The Business Case for Offshoring

#### 1.1 The future of work

Not too long ago, many companies were grappling with the question of whether to transfer part of their business processes to countries like India and China. Fast forward a few years and the decision has morphed. It's not about whether to shift jobs from one location to another; it's about the future of work and making prudent business decisions.

Put another way, the migration of jobs is part of how globalization is transforming industries. The leveraging of low-cost countries is part of a high performance strategy, and a major source of competitive advantage, for those companies that can do this on a dynamic and global basis.

Indeed, moving work to lower-wage locations is no longer a tactical option that can help companies save a few dollars here and there. Rather, it has emerged



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as a strategic necessity in an era when opportunities offered by countries such as India and China abound.

A key driver is also the increasing realization that outsourcing – transferring work from employees to non-employees or contract employees – cannot deliver.

Dissatisfied with the traditional outsourcing model, companies are exploring new operating models that extend the traditional boundaries of the organization and encompass new-form alliances and business arrangements built on offshoring and a multi-location approach to work distribution.

While a select few corporations, including General Motors, General Electric and Hewlett-Packard, have been able to realize savings of up to 30%, many are frustrated that outsourcing has not delivered on its full potential.

Recent research on IT outsourcing, which accounts for the lion's share of outsourcing contracts worldwide, reveals between 25 and 30 percent of customers are dissatisfied with their outsourcing results. Moreover, almost half of IT outsourcing deals in 2003 failed to deliver their expected value. Against this backdrop, it is clear that new global challenges require new approaches. It is doubtful whether traditional outsourcing can deliver sustained business benefits.

As Chris Disher, who leads the Booz Allen Hamilton Global Outsourcing Advisory Service, puts it: "The traditional outsourcing model is broken." In its place, companies are exploring new operating models and business arrangements. Offshoring isn't an option; it's a business imperative.

Companies in the U.S. are well-prepared to practice global sourcing. Already U.S. businesses dominate the global share of offshoring, accounting for some 70 percent of the total market. Japan and the U.K. account for the remainder of the market, with the U.K. as the dominant player due to its liberal employment and labor laws.

These regulations allow companies greater flexibility in reassigning tasks and eliminating jobs – flexibility that is essential to capturing offshoring opportunities.



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### 1.2 Numbers speak volumes

Forrester Research, an IT consultancy firm, has recently examined the offshoring trend and determined that offshoring will grow at the rate of 30-40 percent a year over the next five years.

It projects that by 2015, US companies will move 3.3 million service jobs to offshore locations, accounting for some \$136 billion in wages. Of this total, 473,000 jobs – or 8% of jobs in the information and communication technology sectors – will go offshore.

Meanwhile, the Goldman Sachs Group Inc. forecasts as many as 6 million jobs held by American workers will be transferred in the next decade, to India and other nations, by companies in search of tech-savvy, English-speaking workers.

Indeed, offshore outsourcing of IT infrastructure management is likely to be the “next big wave,” according to results of a global survey conducted by Wipro Technologies, an IT services and solutions company based in Bangalore, India.

According to the online survey of 145 executives from various industries, more than 30% of the respondents were planning to offshore their IT infrastructure in the next 12 months and another 30% were researching or evaluating the same with active interest. Some 87% polled said that they planned to budget more for offshoring projects. On the average, organizations are likely to increase their offshore spends by 34%.

In Europe, offshoring is also gaining traction. A recent survey of 500 companies, conducted by the United Nations Conference on Trade and Development, found four out of 10 companies have already begun to relocate service operations offshore. Some 40% of all projects are destined for Asia, especially India.

As a rule, the more customer facing functions a sector has, the lower its potential to resource those functions remotely.

McKinsey Global Institute, an independent think-tank within McKinsey & Company, has calculated that 18.3 million jobs across eight sectors (packaged software, IT services, banking, insurance, pharmaceutical, automotive, healthcare and retail) could be done by people anywhere in the world in 2003.

Extrapolating from these figures to the global economy in 2008, McKinsey estimates that “160 million jobs, or about 11 percent of the projected 1.46 billion service jobs worldwide, could in theory be carried out remotely, barring any constraints on supply.

In the report, *The Emerging Global Labor Market: Part 1 – The Demand for Offshore Talent in Services*, McKinsey points out that as of 2005 some 565,000 service jobs in the above eight sectors were performed in low-wage countries.

By 2008, McKinsey expects that number will grow to 1.2 million for the same eight sectors. Altogether, McKinsey estimates that total offshore employment amounted to approximately 1.5 million jobs in 2003. In 2008, total offshore employment will reach an estimated 1.2 percent of total demand for labor in services from developed countries, equivalent to 4.1 million employees.

### **1.3 Benefits for all**

Offshoring enables global companies to be truly global enterprises, allowing companies to reap dividends beyond operational efficiencies.

Ultimately, McKinsey Global Institute estimates companies can save as much as 70% of their total costs by implementing a global labor strategy. Offshoring accounts for about a 50% savings. Task redesign and training contribute another 5%, and the remaining 15% comes from process improvements.

But there's more to globalization than saving money. Companies are also using offshoring as an opportunity to drive revenue growth. By leveraging a low-cost workforce, airlines are now able to chase delinquent accounts receivables they would ordinarily be forced to ignore.

A global approach also allows companies to speed up production cycles and design and make products with higher value added. Toyota, for example, outsources vehicle sub-assemblies from many Asian countries, a strategic choice that allows the carmaker to keep costs low and achieve just-in-time delivery.

As a result, by offshoring, many companies are creating far more value from increased revenues than from reduced costs.

### **1.4 The blame game**

Contrary to the widespread belief that money spent on services abroad is lost to western economies, research shows offshoring creates wealth for both the western countries and the countries receiving the jobs.



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Offshoring, and the massive migration of jobs it involves, is one of globalization's greatest achievements. It has resulted in a fast-rising living standard in poorer countries and has propelled better-educated Asian workers into an expanding middle class.

Case in point is a 2003 study by the McKinsey Global Institute that looks at the positive effects of offshoring on the U.S.

The study estimates that for every dollar of corporate spending that is outsourced to a low-wage nation, the spending economy captures more than three-quarters of the benefit and gains as much as \$1.14 in return. Far from being a zero-sum game, offshoring is instead a story of mutual economic gain.

McKinsey has also developed a breakdown of benefits for both sides when a dollar of corporate spending is spent to move a service job to India.

It found that the receiving economy (India) captures 33 cents, in the form of wages paid to local workers, profits earned by local outsourcing providers and their suppliers, and taxes collected from second- and third-tier suppliers to the outsourcing companies.

The gains to the U.S. economy – U.S. companies in particular - are much larger. For every dollar of corporate spending that moves offshore, U.S. companies save 58 cents. Companies can reinvest the savings in new business opportunities, pay additional earnings out to shareholders, or both.

Ultimately, in a competitive economy such as the United States, consumers benefit as companies pass on savings in the form of lower prices. Consumers also benefit directly from trade, since they can acquire goods and services at lower prices.

New research, by Catherine Mann of the Institute for International Economics, found that global sourcing of components in the computer hardware industry has reduced the cost of IT hardware by as much as 30 percent, thereby boosting demand and adding up to \$230 billion to U.S. GDP since 1995.

Offshoring delivers a host of other economic benefits. First, Indian companies that provide offshore services will also buy goods and services, ranging from computers and telecommunications equipment to legal, financial and marketing expertise. Often, they will buy these from western companies.

In view of this, McKinsey estimates that for every dollar of corporate spending



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that moves offshore, suppliers of offshore services buy five cents' worth of goods and services from the U.S. Furthermore, young Indian workers employed by outsourcing firms also buy goods imported from abroad. Thanks to these corporate and individual buyers, exports from the U.S. to India stood at \$4.1 billion in 2002, compared with less than \$2.5 billion in 1990. In the last quarter of 2003, exports to India grew by 26 percent.

The direct benefits to the U.S. from corporate savings, new exports, and repatriated profits total \$0.67 – twice the benefit to India. But the gains don't end here. Corporate savings can be invested in new business opportunities, and this investment will boost productivity as well as create new jobs.

The Bureau of Labor Statistics reports that U.S. manufacturing employment shrank by two million jobs in the past 20 years – but net employment increased by 43 million jobs in other areas, such as educational and health services, professional and business services, trade and transport, government, leisure and hospitality, and financial services. Over the same period, manufacturing output has increased, meaning that factories are more productive than before.

Put simply, higher productivity means more national income and a higher standard of living.

The same thing is likely to happen again as jobs in call centers, back-office operations, and some IT functions go offshore. Opportunities to redeploy labor and invest capital to generate opportunities in higher-value-added occupations will appear.

The Bureau of Labor Statistics (BLS), for example, estimates that from 2000 to 2010, there will be a net creation of 22 million new U.S. jobs, mostly in business services, health care, social services, transportation, and communications. The BLS also predicts that computer-related occupations – often thought to be at high risk of offshoring – will be among the fastest-growing jobs in the country.

Against this backdrop, McKinsey estimates that offshoring will create an additional 45 to 47 cents of value to the U.S. economy as labor is redeployed. “Far from being bad for the United States, offshoring thus creates net value for the economy – to the tune of \$1.12 to \$1.14 for every dollar that goes abroad,” the report concludes.



### Chapter 2

#### Achieving high performance

##### 2.1 Getting an edge on the competition through offshoring

As Booz Allen Hamilton points out, offshoring pays dividends. Labor savings alone—depending on the nature of the work and the skill level required—range from 40 to 70%.

However, lower labor costs are not the only factor in favor of offshoring. Booz Allen Hamilton suggests three other key factors:

1. People. Offshore BPO workers are invariably college educated, and many—more than 40%—have an advanced degree. Treated as white collar, salaried employees (in stark contrast to the hourly workers performing the same function in the U.S.), these individuals are in the 75th percentile with regard to pay for their age group. Proud to work for an international company, and motivated by targets and incentives, offshore workers tend to be more productive and proactive in enhancing processes than their onshore counterparts.

2. Market discipline. Even captive offshore subsidiaries are profit centers, which differentiates them from their domestic back-office counterparts. They compete in an open marketplace for business, so there is a strong focus on continuous improvement and customer service. Offshore service providers often refer to their operations areas as the “shop floor,” and top performers have already established Six Sigma, ISO 9001, or COPC certification programs.

3. Access to technology and resources. Put simply, offshore operations can afford to “throw more brainpower at a problem” to meet their performance goals. Technology know-how is a relatively cheap commodity in ample supply in offshore economies. Dedicating the equivalent technology and personnel to a problem would be cost prohibitive in the U.S. or Western Europe.

As every company strives to make its operations world-class, then each company must also be aware of how offshoring can support the attainment of world-class performance. Put simply, offshoring helps companies achieve a high level of process excellence.

Offshoring can help companies to achieve gains in support processes, enabling them to focus on achieving gains in the competencies that differentiate them in their markets.

### **2.2 Create a more effective operating environment**

The cumulative effect of the arguments presented in the white paper suggests that, for a significant percentage of companies and industries, offshoring and global sourcing of human resources has a beneficial effect that reaches far beyond the limits of the transferred function itself.

Acting as a catalyst, offshoring triggers beneficial dynamics throughout the enterprise. As other functions see the high performance emanating from the offshored function, the managers of these business processes are exposed to new thinking, new approaches and are inspired to be innovative in their own work.

Indeed, offshoring can be a major force in driving the organization to become a high-performance business.

### **2.3 New times, new models**

Companies at advanced stages of global sourcing are pursuing multi-location offshoring strategies, trying to find the most advantageous mix of benefits and risks from multiple destinations around the world, observes Ravi Aron, professor of operations and information management at the Wharton School of the University of Pennsylvania, located in Philadelphia, Pennsylvania.

According to Aron, “the debate over one or the other model is fading as companies move toward the Extended Organization Form (EOF).” This hybrid model is about companies telling off-shore firms what they want done, how much they will pay for it and, more importantly, precisely how they want it done.

The ubiquitous availability of bandwidth, and the development of new software platforms, make this real-time collaboration possible by effectively allowing client companies to track work, monitor progress and selectively intervene.

Moving forward, this new model (EOF) will have a huge impact on how and where work is done worldwide, Aron says. “Because the client firm’s managers act as very senior managers of a third-party provider, both can achieve new levels of control and cost-efficiency.”

Put another way, Aron says, the boundary of the firm is being compressed, while in other ways it is being expanded. What was once being handled inside the firm has now become a market transaction. An extended organizational form is emerging in which firms relinquish control and turn to monitoring instead.



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Such extended organizations, with digital ties that straddle the world, are being formed at a rapid clip as global multinationals in the West rush to move their back office processes overseas. The advantages that such organizations offer appear to be clear; greater flexibility and efficiency at lower costs.

In order to remain competitive, today's organization must extend itself through offshoring and through establishing partnerships with companies that have the talent to support processes, or deliver services, irrespective of their locations around the globe.

"With the help of technology, business processes once considered too complex to outsource to off-shore firms will be the next obvious candidates for outsourcing," Aron concludes. Ultimately, this will allow the boundaries between the client firm and third-party provider to blur and someday disappear forever.

### **Chapter 3** **The convergent economy**

#### **3.1 Open-innovation**

Plummeting telecommunications costs, the Internet and the digitization of paper-based business processes, have made data entry, transaction processing and call-center support top jobs to outsource to low-wage countries. However, offshoring is about more than cheap labor. Today Fortune 500 companies are farming out high-skill jobs in software development, manufacture design and pharmaceutical research to get new and better products to market faster.

It is all part of the global trend to open innovation and a truly global economy, according to Henry Chesbrough, executive Director of the University of California's Center for Technology Strategy and Management at the Haas School of Business in Berkeley, and author of the milestone business book *Open Innovation The New Imperative for Creating and Profiting from Technology*.

"No company has a monopoly on good people or good ideas," Chesbrough notes. Therefore, companies must work with the companies – wherever they find them - best suited to develop innovative products and services. "And they must leverage multiple paths to market - even if the path to success is through another company's business."



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Today's shorter product cycles make it difficult and expensive for even respected research powerhouses to develop breakthrough ideas alone.

Because R&D can account for anywhere between 5% to 18% of costs at a major electronics company, businesses are anxiously looking overseas for more cost-effective ways to generate breakthrough products and services.

Companies increasingly use offshoring solutions as incubation labs to lead innovation and develop new processes. This approach drives tremendous shareholder value as well as value for the firm.

A recent study, commissioned by Parametric Technology Corporation (PTC), a Needham, Massachusetts producer of collaborative design software, reveals much R&D work can be done offshore. The study – which looked at a typical R&D workforce in a typical electronics firm and classified each job according to whether it could be performed remotely - concluded about one-third of R&D jobs could be outsourced.

“Companies are asking themselves: What is important to maintaining a competitive advantage and what jobs can be done remotely,” observes Kevin Dehoff, who heads the Global Innovation Service offering at Booz Allen Hamilton.

Armed with this insight, companies are developing “new-form global innovation networks”, according to Dehoff. The creation of 24/7 innovation capabilities allows these companies to compress cycle times and be much more agile in response to customer demands.

“In my opinion, companies need to think about how to put together the networks that deliver access to the best capability from a global perspective at the lowest cost,” Dehoff explains. “This gives you a new competitive advantage in terms of the strategic capabilities you can build. More importantly, you’re getting more new products through your product development process in a much faster and much more cost efficient way.”

A second value proposition is speed. “Because these offshore capabilities can operate basically 24/7, this can be a key lever,” Dehoff concludes. “There’s a real advantage that foreign companies have in terms of shorter cycle times and shorter new product development cycle times.”

He advises companies, determined to tap into global innovation resources, consider offshoring as a strategic imperative. Companies need to look at it in the context of how they can create a competitive advantage based on higher



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productivity levels, faster time to market, and improved quality. “Then they need to systematically screen activities to determine which ones are potentially candidates for offshore.”

While low labor costs are clearly part of the picture, the access to a highly talented and highly motivated workforce is vastly more important. The value proposition here is about driving more and better throughput through the product development process and linking with the innovation resources of other companies.

### **3.2 China’s hidden talents**

Western companies think too narrowly about the benefits of moving some of their business operations to China. Motivated mainly by the short-term cost-cutting advantages of wage arbitrage, they tend to overlook the long-term skill-building opportunities of working together with powerfully innovative Chinese entrepreneurs.

However, the growing competitiveness of Chinese firms is clearly not just due to their lower wage rates. Their competitive advantage increasingly stems from their cultivation of path-breaking management skills that enable them to get better faster.

Indeed, the real strength of Chinese entrepreneurs – and the trait that will make them important partners and mentors for Western firms moving forward – is their uncanny ability to improvise. As a result, China is becoming the global center of management innovation.

Companies seeking to connect with middle-class consumers living outside China’s major cities are confronted by a multitude of problems, including inefficient infrastructure, poor logistics and sub-standard retail and payment systems. Rather than give up, many Chinese firms have turned infrastructure shortcomings into growth opportunities by devising new goods and services distribution models that defy business school dogma.

Chinese entrepreneurs are also driven by the stark realization that their home-grown businesses cannot depend only on low wages to attract investment and create jobs.

Despite a booming economy, marked by growth rates averaging 9%, and enviable position as the world’s number one manufacturer, China is already losing jobs and opportunities to lower-wage Asian countries such as Cambodia



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and Vietnam. To ensure robust growth and attract foreign firms China is racing the world to the top, not the bottom of the skills ladder.

Tsinghua, referred to as the “MIT of China,” has taken the lead in research collaboration with Western firms. Five years ago, it set up technology transfer offices at top U.S. research universities and negotiated projects with top-notch R&D partners. Since then, the university has signed research deals with multinationals including Alcatel, Lucent General Electric, Procter & Gamble and BP.

China also offers a huge pool of graduates skilled in disciplines sure to transform current R&D efforts into competitive products moving forward. In 2004, for example, Chinese universities graduated more than 200,000 students majoring in computer and information science, according to China’s Ministry of Education.

Drawn by China’s tremendous innovation resources, multinational companies, including Microsoft, Motorola, Nokia, Volkswagen and Procter & Gamble, are moving their research dollars to China.

And many can point to major innovations from Chinese labs and third-party partners that have worldwide importance and appeal. Intel’s Beijing lab staff, for example, developed a breakthrough way to optimize a compiler, the function that enhances microprocessor performance. Their insights were applied to Intel’s Pentium Extreme Edition dual-core processor, a cutting-edge chip architecture that made its debut on the market early this year.

Such developments speak volumes about China’s talent and its ability to mobilize its innovation resources, observes John Hagel III, a business strategist and co-author of the breakthrough business book, *The Only Sustainable Edge: Why Business Strategy Depends on Productive Friction and Dynamic Specialization*.

In Mr. Hagel’s view, the richest opportunities for innovation lie at the edges—the edges of business processes, the edges of organizations, the edges of emerging economies in regions such as Asia Pacific, and the edges of new generations of tech savvy consumers and workers.

Naturally, organizations gain more strategic advantage by positioning themselves at the center of this new knowledge creation, rather than focussing on protecting what they already have. They also benefit from tapping into the talent in countries such as China, where creative friction can yield breakthrough ideas and innovation.

### 3.3 India: Innovation unbound

India's IT industry is a powerhouse, attracting foreign firms and providing impetus for a burgeoning home-grown software and services industry. By 2008, according to the IT lobby group NASSOM, annual sales are likely to surpass \$50 billion. Major IT firms are hiring about 1,000 graduates a month straight from Indian technical colleges.

The rise of Infosys, a major Indian IT services provider, illustrates this trend. Its sales have grown more than eightfold in five years, to over \$1 billion in 2004.

Overall, the revenues generated by India's fledgling BPO (Business Process Outsourcing) industry are expected to reach \$21 billion by 2008. To date, about 70 percent of India's BPO industry revenues come from call centers; 20 percent from data work; and 10 percent from information works (such as dealing with insurance claims).

But India's reputation for excellence in R&D is also attracting a new clientele.

An example of this is the automotive industry, characterized by its global presence, complex products, excessive capacity, shrinking margins and intense pricing pressures. It is aggressively offshoring tasks close to the core of engineering, such as detail design, prototype builds and value analysis.

To optimize and reshape business and innovation processes, Satyam Computer Services Ltd, a global consulting and IT services company headquartered in Chennai, India, has created a separate business unit catering to automotive companies. Among its customers, Satyam counts eight of the top ten car companies and four of the top ten automotive suppliers. It has also been chosen as one of the three key vendors by Nissan Japan.

"The driver is not the cost; it's the skills availability that can help a client company to significantly reduce time-to-market," explains Subu Subramanian, Satyam senior VP and Global Head of the company's Automotive and Manufacturing Practice. "Companies that leverage automotive engineering capacity in India can shave the product cycle from three years to 18 months."

According to Subramanian, client companies increasingly seek out Satyam to design prototype products and the business processes that will allow them to transform good ideas into breakthrough products. Among these are real-time systems for critical car functions such as global satellite positioning and safety systems. "We design, develop and test systems before they are installed in the cars of the future."



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India is also a chief location for custom research. At Syngene International, a biopharmaceutical company based in Bangalore, India, research teams with skills in synthetic chemistry and molecular biology conduct high-value R&D in early stage drug discovery for a diverse global clientele.

Last year Syngene entered into a research agreement with Novartis to carry out research projects to support new drug development. "Close collaboration such as this partnership allow both (parties) to optimize drug discovery to the benefit of the patient," notes Goutam Das, Syngene chief operating officer. "Our clients can add to the quality of their R&D without stretching their R&D budgets."

Innovassynth Technologies Limited, based in Mumbai, India, has made a strategic decision to become a "knowledge-based R&D-driven chemical service company," according to B. Sahu, Innovassynth president and chief executive officer.

The company is involved in several joint research projects to cure diseases including cancer through gene modification. "During the last three years we have dealt with 500 molecules and have developed breakthrough chemistry around 425 molecules," Sahu says. "Genome-based methods for new drug discovery will be critical to our clients and key to our future growth."

### **3.4 Prime contenders for offshoring budgets**

Major companies in the communications and information technology sectors are also moving high-value R&D work to countries including Malaysia, where the Multimedia Super Corridor project – an attempt to develop a high-tech industrial zone similar to Silicon Valley- has attracted companies including Ericsson, Motorola and IBM.

A.T. Kearney, a global management consultancy that produces an annual survey of the world's actual and potential off-shore locations for outsourcing, ranked 25 countries in 2004. However, this year's A.T. Kearney Offshore Location Attractiveness Index survey could expand to include as many as 40 countries including the Morocco, Tunisia and Ghana.

To date India tops the index by a wide margin, ranked first not only for cost advantages, but also for the depth and breadth of offshoring experience and people skills. While trailing India in language skills and experience, China ranks second in the index, thanks to a similar combination of low-cost, high-volume



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skills. Malaysia, Singapore and the Philippines also rank in the top 10, confirming the strength of Asian economies in the offshore competition.

“Offshoring today is about much more than labor arbitrage,” notes Andrea Bierce, a vice president in A.T. Kearney's financial institutions practice in New York and a co-leader of the study. “Companies considering where to locate must weigh a complex balance of factors having to do with the availability and quality of the workforce and the business environment. There is no 'one size fits all.'”

### **Chapter 4** **Developing a Capabilities Mix**

#### **4.1 The skills gap**

The quest for workers is creating a talent crunch worldwide, and a bottleneck in the supply of talent in low-wage countries such as India and China.

Research from the McKinsey Global Institute shows that, although the potential pool of talent is growing at breakneck speed, only a fraction of job candidates are suited for employment at a foreign company.

Based on interviews with 83 human resource managers in multinational companies, McKinsey reports that only 13 percent of potential job candidates in degree specific occupations could successfully work at a multinational company.

The reasons for low levels of suitability are: lack of necessary language skills; the low quality of significant portions of the educational system and its limited ability to impart practical skills; and a lack of cultural fit, which can be seen in interpersonal skills and attitudes towards teamwork and flexible working hours.

The suitability of job candidates varies by occupation and by country. On average, 15 to 20 percent of the engineers, finance and accounting majors, life science researchers, and analysts could be hired by foreign companies, while only 10 percent of generalists could due to stricter language requirements.

McKinsey research further points out that in large emerging markets, such as China, India, and Russia, the pool of potential talent is further diminished by the fact that many university graduates do not live in major cities with international



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airline connections - a key criteria for multinational companies seeking an offshore location - and are unwilling to relocate.

In China, for example, McKinsey estimates that just half the potential talent pool is geographically accessible to multinational companies. In Russia, only one-third of students graduate close to a major international airport, and few are willing to relocate. In contrast, nearly half of all Indian students graduated close to a major international hub, such as Mumbai, Delhi, Bangalore, or Hyderabad, and Indian graduates are also the most willing to move.

In China, the suitable labor supply is further reduced by competition for talent from home-grown companies.

In summary, McKinsey estimates these factors will result increased competition for talent moving forward.

While there are 33 million potential young professionals in emerging markets, 4.6 million are suitable to work for a foreign company. Allowing that some professionals unsuitable for positions in their occupations might be suitable for generalist positions, suitable supply increases to 6.4 million. Lack of accessibility and competition from non-offshoring employers reduces these pools further still.

Altogether, McKinsey estimates that 2.8 to 3.9 million—or 8 to 12 percent—of the young professionals in low-wage countries are available for hire by export-oriented service offshoring companies. This compares to 8.8 million in high-wage countries.

### **4.2 A race for talent**

According to official figures, many countries including India and China will have trouble meeting their own need for talent, let alone the increase in demand coming from foreign firms.

India, for example, produces about 300,000 IT engineering graduates every year, compared to 50,000 in the U.S. But the quality pool is mixed. Effectively, Indian firms fight over the top 30,000-40,000 graduates, a pool in which foreign companies such as IBM also looks to find its workers.

The supply of top-quality Indian MBAs is also thinner than it might look at first examination. Indian business schools produce about 90,000 graduates a year,



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but competition is toughest for the top 5,000 from India's six- state-run Institutes of Management.

### 4.3 Adecco's commitment

Against this backdrop, talent scarcity is a constraint to growth for many companies and countries. The scarcity of middle-management, for example, is severe and growing.

According to a report from the research firm Gartner Inc., one out of every four high-tech jobs may be transferred to emerging markets with India in the top-notch spot.

India remains "the undisputed offshore leader," according to Gartner, with China and Russia emerging as "strong contenders."

At Adecco we also undertake efforts to improve the quality of talent – and encourage our clients to play an active role in the emerging global labor market through training and work preparation programs.

The focus must be on improving the quality of talent, not just the quantity, to create a worldwide diaspora of highly educated and global minded workers.

Offshoring is a major source of competitive advantage for those companies able to put the organizational capabilities in place to do this on a dynamic, global basis. And it is a huge disadvantage for those companies who fail to harness offshoring to drive high performance.

Indeed, firms can achieve much more than cost savings. One of the strategic advantages of a global labor sourcing strategy is access to better processes or efficiencies. By offshoring companies gain access to the superior knowledge and capability.

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