

The Academic System Is Not Market Responsive

Business Today

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Computer Services ;
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Research, IDC; **Vineet
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Kiran Karnik, President,
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Two of the more recurring themes at NASSCOM 2007, the annual congregation of the Indian IT services sector, were innovation and talent—both essential ingredients in the recipe for the industry's leap into the next growth phase. Not inappropriately, the theme for the Business Today-NASSCOM panel discussion was Indian IT: The Opportunities and Challenges Ahead. Debating the subject were Kiran Karnik, President, NASSCOM; Nandan Nilekani, CEO, Infosys; Vineet Nayar, President, HCL Technologies; Ramalinga Raju, Chairman, Satyam Computer Services; and Bob Welch, Group VP and General Manager, Worldwide Services Research, IDC. The discussion was moderated by Brian Carvalho, Executive Editor, Business Today.

BT: It's interesting to think that what was considered an opportunity or a competitive advantage five-six years ago may not be one any more for Indian IT services companies. For example, till not too long ago India's vast pool of talent was considered a great competitive advantage. Yet, two years ago, NASSCOM predicted a shortfall—a talent shortage of 500,000 by 2010. What was an opportunity yesterday could well be a challenge today. Mr Karnik, how has the industry been gearing up to tackle the talent crunch?

KARNIK: The 2005 NASSCOM-McKinsey study very clearly said that if we do nothing, we could have a shortfall of 500,000 by 2010 for this sector alone. But fortunately over the past two years, we have not sat on our backsides. We have initiated a number of actions. We are fairly optimistic that given what we are doing now, we should be able to take care of that shortage. But I must tell you that what we have done are short-term actions...rubber band solutions but in the long-term there are serious issues that need to be addressed. We need to get the quality aspect of talent right. It's not the numbers that are the issue. We already turn out 4,00,000 plus engineers a year. This year's admission in engineering schools is 5,69,000. It's the skill sets that they come out with, as a result of which they are not employable, that's the issue. Bigger companies are able to provide 3-6 months of training but not all companies have the wherewithal to do that. But even that's a medium-term problem that can be fixed by curriculum changes, faculty training and improving linkages between industry and academia. The long-term problem, however, has two dimensions to it. One, where is the faculty of the future going to come from? Two, the academic system by and large is not delivering. That's happening because the academic system is not market-responsive as a result of which people coming out of the system are unemployable. To change that, we need major reforms in the educational system. Our system is what the British left us with 60 years ago.

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Kiran Karnik
President, NASSCOM

BT: I want to quickly run through what each company would do on their own to fix this talent shortage and probably also reign in that wage bill. Mr Nayar, if we could begin with HCL's game plan on this front?

"The Accentures of the world have achieved what they set out to do, which is to lower costs and attract people-intensive projects"

BOB WELCH

Group VP and General Manager, Worldwide Services Research, IDC

NAYAR: Before we get alarmed about the talent problem, it's good to remember the fact that we can draw the future by looking at history. If we can go back and look at 2002-03, did we imagine that we could produce as many high quality people as there are today? The answer is no. Did we have a clear idea about how this would happen? The answer is no. It is good for industry and HCL to be alarmed about this issue, but at the same time this alarm should not turn to disorientation and panic. The second issue is that, five years ago, Indian it companies were thinking only India. Today, Indian it companies have several options-there are Chinese, Vietnamese, Polish, and all kinds of people we can recruit. Because domain capabilities, competence, knowledge of verticals are the drivers of

businesses. For the last five years, our ability to hire and deploy was the big driver and continues to be a big factor. But in the next five years that may not be the only factor.

BT: Mr Nilekani, as Indian companies become more multicultural, is there a challenge of managing growth?

NILEKANI: I think certainly managing multicultural forms have some degree of complexity that companies have to be clear about especially when growth comes through acquisitions. Because in acquisitions, companies can acquire several thousands of employees in several countries and cultures. That's food for thought. But I personally think that over past 4-5 years, there has been a dramatic improvement in ability to manage a global workforce. I think companies are beginning to understand what is it about a company that is of universal value, what is it that is of local value and how to merge the two. On the talent issue, things are happening at several levels. First, at Infosys at the firm level, we take training very seriously. We have invested \$300 million into building the world's largest corporate university in Mysore. At a slightly broader level, we have a programme called Campus Connect where we are working with 300 colleges of India. We are trying to explore ways in which quality of teaching in these colleges can be improved, how to make courses better. I think in engineering and business management, the quantity issue is getting addressed. There has been a blossoming of engineering colleges and business schools in India. We have more business schools than the us has. I think the quality issue now needs to be addressed. At the same time, the industry is working with AICTE, the regulator of all engineering and business schools, to improve the relevance of courses. Finally, the Knowledge Commission that I am a part of has come up with recommendations for higher education reforms. One of the recommendations is that India should dramatically increase spending on education to 6 per cent of GDP, which is one point the left and the right seem to agree on.

BT: Mr Raju, would you want to add to that?

RAJU: The talent gap we talk about exists at several levels. Normally, when we talk about a talent gap we refer to a talent gap in the junior or entry level. That's a serious problem we cannot run away from especially when we are using 15-20 per cent of people graduating from colleges. I would like to compare the situation to having raw diamonds in plenty and not having capacity enough to polish them. All you have to do is spend 3-6 months with them to ensure that they are up to global standards. We have established Gram it centres in villages and we found that people come up to mark rather quickly. It proves that it doesn't take years but only months or quarters to prepare them. Our experience over the last 5-6 years shows that the issue of talent is more pronounced at middle and higher levels. The dearth of talent is becoming more pronounced at the top 2-3 percentile levels of companies. That's where we find pressure for finding talent is at the highest.

"The dearth of talent is becoming more pronounced at the top 2-3 percentile levels of companies "

RAMALINGA RAJU
Chairman, Satyam
Computer Services

BT: Mr Welch, if one were to compare the productivity levels of Indian companies with the Accentures and IBMs of the world, is there a noticeable difference?

WELCH: If you look at the efforts that companies like Accenture have made to build the base of labour in India, they have recognised that they had a productivity issue they had to address. In general, the Accentures of the world would tell you they have achieved in what they set out to do, which is to lower costs and attract people-intensive projects that they were having trouble doing. I think they have made a good start.

BT: If one had to go beyond just ramping up headcount, what are the options in front of Indian companies today?

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VINEET NAYAR
President, HCL
Technologies

NAYAR: I believe there are various business models that will emerge. Each major global and Indian company will emerge by leading one particular business model, which will be a successful business model. From HCL's point of view, we see three key events happening in the market space. One of them is the commoditisation of services-if any industry has lasted for a particular period of time delivering high quality at low costs, commoditisation is bound to happen. So, you need to have a strategy against commoditisation. Two, our industry is based on effort-based pricing and customers are seeking higher value all the time. Our ability to jump from efforts to outcome is going to be the second-biggest challenge.

Thirdly, we are an extremely efficient, backward-integrated, operationally-efficient industry, with companies that have a strong emphasis on supply chain. We have to move away from that emphasis to innovation. To address these changes, we have transformed ourselves as a new generation company over the past two years. We have changed our business model from unique services to multi-service offerings. We have changed our pricing model from effort-based to transaction-based pricing.

BT: Infosys is one of the few Indian global companies in a sense but acquisitions haven't been one of the drivers to take it global. Mr Nilekani, do you think Infosys can be truly a global company without making acquisitions?

NILEKANI: First of all, I think acquisitions are a means to an end and not an end in itself. Acquisitions make sense when you have a strategic intent and for a variety of reasons that strategic intent is not achieved organically. Our fundamental strength comes from the fact that we have created a new business model, which is innovative. It's a model that creates value for customers faster, better and cheaper. It's a model that's disruptive to incumbents. Therefore, when the entire strength of your model comes from the momentum you have in the marketplace, which is driving profitability, it's not a great idea to contaminate the business model unless there is a sound strategic reason to do that. Now, what is the potential sound strategic reason we need to embellish the business model? Clearly, it can't be an acquisition which upsets the economics of this business model. However, given that our intent is to create what is the next generation it services and consulting firm, there are acquisitions that could make sense if we want to expedite the pace at which we enter new geographies, and develop domain skills. It could be because there could be a business model out there which, we think, we need to have but can't do organically.

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NANDAN NILEKANI
CEO, Infosys

BT: Mr Welch, any specific threats that the Indian outsourcing industry has to face up to?

WELCH: One emerging threat is the convergence of the software and services markets. It's getting harder and harder to define what the services market is anymore. When you look at emerging delivery models like on-demand services, and software as a service, it impacts directly the way in which these companies plan their future. It takes a lot of the labour out, and substitutes it with technology. It's not a problem faced by Indian companies alone but it is a problem faced by IBM, EDs and Accenture... I think there are a number of countries which are very active trying to be sources of labour ranging from the Philippines, which has competitive BPO capabilities, to Latin American countries like Brazil, which is good in finance and accounting. (But) one of the things that I fear for them is that they are building capabilities for a battle that is beginning to be over. When they get really good to supply labour-based services into the global supply chain, the supply chain will be looking for something else. We can argue about how quickly that is going to happen.