THOUGHT LEADERSHIP

GLOBAL SOURCING & TRYST WITH GROWTH

SERIES II: BATTLE OF WITS

Author: **BOBBY VARANASI, COP**
Chairman & CEO

IT'S IN THE ECONOMICS

For nearly five decades emerging economies have been pursuing various forms of industrialization, with more failed initiatives than successes. Enlisting a few entrepreneurs governed closely by national governments, many sectors did see light of day. Export-orientation (in much Europe and South East Asia) or Import-substitution (in much of erstwhile closed economies like India, Latin America) did pave the way for benevolent dictatorships on the one end, and government largesse (through unfettered democratic endeavors) bestowed on a chosen few, without any care for competencies, competitiveness or continued capability enhancements. Supported by extensive barriers (trade and tariffs in the pre-GATT/WTO days) to more cultural and localization barriers in the past two decades, national growth was fueled by a chosen few organizations that thrived in controlled environments. Remained hidden were the skeletons in the closet – a huge number of them – that didn't enable wealth creation or distribution, leaving much of the citizenry in these developing nations (not emerging anymore – they hate the term more than the reality associated with it unfortunately) bereft of either the opportunity to participate, or the ability to do so even if entrepreneurial spirit ran high in their local cultures. In retrospect such pseudo-growth continued to dilute the one core component that could sustain it – competencies of citizens. Fast-forward to today's day and age, economics is given short-shrift on the one end, while the very same economic growth is touted as the reason for putting money and muscle behind the sourcing industry and larger ICT sector. Do you not find this counterintuitive?

MATRYZEL

ELUSIVE GROWTH

Here I would like to quote Raghuram Rajan, the famous economist for the clarity with which he has articulated the current global tryst with growth[1]. He talks about how the elusive search for growth is evident from the slow and steady pace of 1.3% to 1.8% growth – built over at least a century – that nations like Australia, USA (termed early developers) have seen, and how nations like Chile, South Korea, Taiwan (termed late developers) that joined the ranks of wealthier nations only recently grew at multiples of these rates in a much shorter period - just a few decades. The fastest growing nations of Japan, South Korea, Malaysia, Taiwan and now China, India, Brazil show excessive paces of growth. So the question he addresses is the reason for this dramatic shift, and whether it is sustainable. Pursuit of physical capital was indicative of the best way then to get out of the rut of continued poverty. Thus initiatives and policies were pushed because it was assumed that physical capital would increase income, and consequently higher incomes would make everyone a lot more productive. Interestingly enough, the assumptions that increased capital in developing (or should I say willing and poor) markets would show significantly higher returns on investments didn't necessarily translate into reality, other than creating a temporary spur with movement of capital. Principal reason for this disappointment was that the attendant surrounding factors necessary to sustain such growth (and new industries where the capital is invested into) were minimal at best, resulting in much lower returns that was anticipated. The assumption is that - not accounting for differences between the rich and the poor - capital should still be far more productive in countries with poor citizens. Unfortunately it is quite plain for everyone to see that more capital invested in education, infrastructure etc has done little to make a great difference to growth or sustainability, which I think is far more crucial.

Rajan's key question we need to consider is this: what is the element that seems to be missing in poor countries that keeps machines and educated people from maximizing their productivity and the countries from growing rich? He goes on to explain the endeavors adopted by many nations in their quest therefore to build organizational capital, and attendant factors required to sustain and enhance productivity. Cultural distinctions notwithstanding (read savings mindset vs. consumerism) supported by national policies around "equitable" wealth distribution vs. "managed capitalism"[2], organizational capital today seems to have become a more diluted version of what was really necessary – structural and systemic realignment of attendant elements that would not only permit, but support a thriving and highly productive citizenry.

In the context of the ICT sector generally speaking (and the global sourcing sector in particular), the above needs to be distilled clearly so as to underscore not just the successes but also the avoidance stance adopted by many – or should I say selective development initiatives – that are beginning to show serious ramifications within domestic economies, and putting a spanner in the works of globalization.

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[1] *In his book titled **Fault Lines**, Raghuram Rajan (the Eric J. Gleacher Distinguished Service Professor of Finance at the University of Chicago Booth School of Business and former Chief Economist at the International Monetary Fund) provides a clear and extensive assessment of the pursuit of growth many economies adopted in the past 3-4 decades, causing much of the confusion (and attendant economic crises) we see in the world today.*

[2] *"Managed Capitalism" is the more professional term used for Crony Capitalism.*

QUEST FOR QUICK WINS

At various points in time service providers from developing nations have – taking a leaf off the India success story – paraded their wares as (at times) the next best alternative to India, to the current rhetoric that they were the best at serving the needs of the private sector from industrialized economies. Again, the need to ensure that all attendant elements existed within the nation to support and deliver upon such claims of competencies translated into nothing more than physical infrastructure, and dedicated fiscal incentives that allowed for a story of attractiveness to be crafted, packaged and sold. The model that China has adopted – build and they will come – seems to be visible everywhere, the only difference being that in the context of global sourcing, tech parks were perceived as sufficient to lure organizations to do business in these locations with "emerging and half-baked" providers within. The alternative to outsourcing was to offer "base camps" to set up captive/ shared service centers through deploying an FDI model. Replacing the term "goods/ products" with "services" was the only change made to national government pursuits at attracting competencies. The age-old discussions and clarity with technology/ competence-transfers etc was whittled down to nothing more than jobs – a seemingly mindless pursuit for short-term political gains that seemed to have a story talking about economics. In reality this talk only contributed to fast-paced and random "citizen-value devoid" adoption of modern technologies just to be seen as "fast-growing". Consequently, policy changes that have been – and continue to be – made within these nations hinge on one factor alone, that of quick wins to showcase their modernity worldwide. Being a witness to such "largesse" funded either from internal coffers (read rich fast-growing nations who leverage traditional industry sectors) or from developmental institutions (read IMF, World Bank etc), I have come to accept the fact that the least important aspect seems to be about wealth creation and equitable distribution.

Policy Impacts: Random policy developments - to satisfy needs of a few individual organizations looking for a global footprint - has become a cabinet/ parliamentary goal for many, resulting in quick creation/ replication/ modified adoption of policies from the industrialized nations. Putting the cart before the horse is what I see today – instead of market realities governing policy changes, replicating and quickly instituting policies and guidelines from other nations has become the norm. At the level of inter-corporate engagements, such policies more often than not fail to deliver. In such instances, reason would dictate a thorough review of the efficacy of such policies (and related longer-term impacts to the economies in the context of multiple sectors contributing to economic growth). Unfortunately however, policies within the ICT sector have been bereft of domestic and regional realities, thereby severely limiting the nation's (and its private sector's) ability to sustain and grow in a competitive marketplace. The "last nail in the coffin" seems to be the knee-jerk responses to discrete needs of a few, over the greater good of the larger citizen groups. Jobs and national income have become "emotional" rather than "practical" levers, resulting in randomized investments of hard-earned tax-payer dollars. While this may not be an issue for organizations looking to expand their footprint, their emphasis on longevity with operations in a particular location is – as everyone knows – a function of continuity and consistency with economic and political environments. The resultant view such organizations have begun to take is to remain on the fringe of development pursuits of emerging nations, instead of contributing to it. On the other end, such nations who have hoped (and invested in) that such global organizations would contribute to their national growth are disappointed. Local industry has begun to see through this dichotomy and is demanding soft barriers to be instituted (given that most are unable to put up hard-barriers anymore thanks to WTO and other FTAs) so as to remain relevant. The melee caused by randomized policy development to satisfy immediate needs of a few has begun to put entire nations and their pursuit at creating “intelligent, knowledge driven” economies in jeopardy.

Emotion with Socio-Economics: For many developing nations, uplifting the poor has been, and continues to be both a political and economic goal. The inadvertence of bundling poverty alleviation with creating new-age industries has resulted in a huge gap – the capability conundrum. This is true of most economies and not just the developing ones. Interim measures at selective adoption of policies to ensure avoidance of upheavals within economies has resulted in pursuing the “easy” as opposed to the “important” goals. Many conversations around the need for including social goals into economic / commercial goals are entertained only within formal congregations. Appreciation of such perspectives doesn’t necessarily indicate acceptance of facts. Moreover, uplifting the poor as a core goal seems counter-intuitive to corporate goals surrounding shareholder value and maximizing profits. Nations and economic development agencies may be concerned with such aspects, but rallying the industry within has always been a challenge for all, and a failure for many developing nations. In such contexts, how wise is it to seek the support and enlistment of organizations from industrialized nations, who themselves are struggling with costs, relevance and competitive pressures? In simple words – it’s not my problem. While I understand, I have better things to do.

While I commit to addressing the entire opportunity presented with over 2 billion people at the Bottom of the Pyramid in a more comprehensive manner, what saddens me the most is that many developing nations, having faced failure in presenting their value as compelling locations to do business with, are realigning their positioning and posturing by talking about how their poor can be uplifted. Since they couldn’t attract investments in the global sourcing marketplace by talking labor arbitrage and skills, they are now adopting an “emotional” stance while pursuing the very same goals. While I don’t necessarily disagree, what perplexes me is that such endeavors are “exclusive” in the manner in which they are pursued. Policy levers are quickly altered to suit an immediate potential opportunity, without thought for the longer-term impacts. Again, not being an advocate of unfettered capitalism, appealing to the broader sense of human greed needs more than just emoting. The resultant confusion is plain for all to see, since any nation that’s appealing to the larger global marketplace with conversations around their sectors creating “social and equitable growth” is being scoffed at. The adage – clean your house first – is coming back to bite at everyone.

IN CONCLUSION

National endeavors at economic growth cannot be separated from commercial endeavors driven by industries/ entrepreneurs. While the latter may find it both unimportant and confusing to indulge in economic conversations, the very fact that industry contributes to economic development (and consequently wealth creation, distribution and the greater good for all with higher incomes) is crucial to understand and contribute to. If governments want to play the role of enablers only, then private sector has to take on the responsibility for its own competencies, capabilities and work with governments in creating “all” the enabling environments. Private sector cannot sit on the sidelines and rake in profits alone. It has to work hand-in-glove with governments in realizing citizen value. Fixing the blame is easy. Agreed, governments in most developing economies are selective, acting as benevolent dictators some of the time, endorsers, mute observers or drivers at other times. Regardless of the continued face changes of governments, industry cannot relinquish its role – that of both the torch-bearer and beholder of wealth creation. I find it interesting to observe that some key development components are missing. While I have addressed three of them in this series so far, I shall continue the series and touch upon two other components in my next paper, namely (a) Human Capital Development, and (b) Inter-Sector Collaborations.

So please watch this space!

About The Author

Bobby is one of the top 25 most powerful leaders in the global sourcing space, and the [founding] **Chairman & CEO** of **Matryzel Consulting Inc,** a strategy consulting, sourcing advisory and management firm headquartered in New York. Matryzel advises corporations and governments worldwide adopt concerted strategies aimed at enhancing competitiveness while focusing on their core competencies. He advises federal governments across four continents on ICT sector development with particular emphasis on policy development, industry-government partnerships aimed at creating GDP growth and enabling positive economic impacts. Bobby has advised Fortune 500 customer organizations on Strategic Planning, Mergers & Acquisitions, JVs, Private Capital Investment Evaluations, Process Reengineering, Pricing Strategies, Sourcing Relationships, Business & Financial Modeling et al, contributing immensely to global sourcing for clients. He is a sought-after speaker in conferences and round-tables worldwide where he moderates panels and presents content on thought leadership. He has been quoted and published in Forbes, fDi, Economist, The Outsourcing, ZDNet, CIO Africa, Brazil Exportati, Times of India, Business Week, New Straits Times, Malaysian Business, Technology Inquirer, Logicall Worldpress etc.