

From the Desk of...

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India: a sea of over a billion people yet business faces a drought of talent. Adit Jain, CEO of consulting firm IMA-India and respected India advisor to business leaders around the world, talks about the irony of India's people shortage.

Business enterprises in India have fought with each other for decades over several issues. Initially there were battles for industrial licences and government-allocated privileges. Then, with the opening up of India's markets, followed the battles for market share, battles for funds, and now, finally, it's the battle for people. Salary increases have greatly exceeded productivity growth in recent years and retention strategies have suddenly come to forefront of corporate innovation. Increasingly, a substantial amount of CEOs' time is spent on the human resource development function.

The splurge in demand for people is a combination of several factors; firstly, there has been an exponential growth in investment – of the sort that requires university-qualified talent, not merely 'hands and feet'. This investment has been across the board – in the services sector (the Business Process Outsourcing (BPO) and the off-shoring segments) and also in manufacturing industry. The fact is that BPO businesses do not necessarily compete with each other within India as they do with their counterparts overseas. They work with a distinct cost advantage when compared with US and European companies, yet despite the massive increase in salaries that have taken place over the years, they continue to enjoy a perceptible arbitrage on the wages bill. Manufacturing companies, on the other hand, have had to continuously increase salaries across the executive functions largely to keep pace and attract talent, in competition with BPOs. They have been able to do this because, historically, the wages bill has been a small fraction of total input cost. For a long time, savings in procurement bills and through manufacturing and supply chain efficiencies helped to keep total costs under control. Obviously this could not continue endlessly.

Interestingly, the impact of BPOs on the salary and recruitment issue has not been limited to the traditional finance function – where the trend first

began. Even industrial companies are finding it difficult to hire engineers; upon graduation they are absorbed by engineering design BPOs that are able to pay much higher salaries. Business school graduates, many of whom seek careers in consulting companies, are attracted to Knowledge Process Outsourcing companies (KPOs) where, again, for a lower skill set they are paid much larger sums – and fixed-hour work-days to boot!

Exponential growth in investment, mismatch between graduate skills and business needs and unhelpful government policies are all to blame

The second reason for the mismatch between demand and availability is the quality of students being produced by India's colleges. There has been tremendous growth in the number of colleges over the years, but the fact is that most of these are unregulated, privately-sponsored institutions. They have limited access to resources and are often conceived more for quick financial returns than for a long term commitment to furthering education. Many of them have little regard for the required standards in their curriculum and as a result the students they churn-out are often below the calibre that potential employers would expect, in terms of both knowledge and skill sets. Hence, companies continue to compete for the few that fit the bill – and this aggravates an already-acute, demand-supply mismatch.

Thirdly, government policies, specifically those relating to quotas and reservations, threaten to further undermine the resource base. Increasingly, young students from upper-middle-class families migrate to the US, Europe, Australia and New Zealand for education. They rarely return. This phenomenon has grown to proportions when the issue is now serious. This year for instance, over 150,000 students are estimated to have migrated for

both undergraduate and graduate studies, yet only a small fraction grudgingly return. In fact this figure is growing by about 15-20% per annum, a rate that will only increase as wealth escalates amongst India's middle classes and as local university admissions become progressively more constrained.

The challenge facing industry, therefore, is to create appropriate strategies that can mitigate the people risk. Many companies have taken recourse to downgrading the qualifications and knowledge specifications that they demand from new recruits. For instance, amongst engineering companies, often diploma holders are hired for jobs traditionally performed by graduate engineers. In the finance function, Master of Commerce graduates take the place of qualified accountants or MBAs, and so on.

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But how can this work effectively, until the organisation has put in place effective internal training programmes to bring people up to speed with what their responsibilities entail? Some companies are now even turning to the regional colleges in order to upgrade their curriculum to meet the standards that industry expects. This is a longer term process but considered imperative if the supply lines are to be sustained.

Finally, companies are closely monitoring productivity levels of their employees – and ineffective executives are being served the pink slip, without the usual fuss or emotional dilemma. In a competitive environment, this is a fact of life.

Yet, concerns remain – and they stem really from the fact that the wages bill cannot be endlessly allowed to grow higher than productivity or profit increases. An increasing number of companies are being trapped in a vicious cycle wherein wage costs are rising faster than profits/cost savings, and yet they

cannot curtail the former, for the fear that they will impact the latter.

In the longer term, though, this dilemma needs examination from the point of view of the laws of economics – which work in cycles. Presently the employers are the ones at the receiving end. Eventually the cycle will turn and bargaining power will shift hands. This is inevitable. The challenge however, is to be able to survive effectively until this happens.

About Adit Jain

Mr. Jain is the founder and Chief Executive of IMA India. He has over 20 years' experience observing and advising about the India market as an independent commentator on India's economic and political development and business environment.

Based in New Delhi, he is a contributing writer/editor to various international and Indian publications as well as regular features in international TV and press. He regularly addresses international conferences, client meetings and conducts briefings for the CEOs of some of the world's major companies.

IMA is an independent company which has over 230 member corporations of the India CEO Forum and the India CFO Forum, which Mr. Jain chairs. These programmes make up a unique business advisory service helping foreign companies who are investing and managing operations in India. These forums are held in New Delhi, Mumbai, Bangalore and Chennai.

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