

## Outsourcing Giant Finds It Must Be Client, Too

The New York Times | November 30, 2011

By VIKAS BAJAJ

NEW DELHI - Every three months, India's prime minister, Manmohan Singh, meets with a special panel assigned the ambitious task of figuring out how to produce 500 million skilled workers over the next two decades.

The panel is a cross section of India's power elite, including many of the usual figures like the education minister, the finance minister and the former chief executive of the country's biggest software outsourcing company. Then there is a more curious choice: Manish Sabharwal.

Mr. Sabharwal runs TeamLease, a Bangalore-based agency that has created thousands of jobs by fielding temporary workers for companies in India that want to expand their work force while skirting India's stringent labor laws, which businesses say discourage the hiring of permanent employees. Many labor leaders and left-leaning politicians accuse him of running the nation's largest illegal business.

He does not completely disagree.

"We should not exist," Mr. Sabharwal, a 40-year-old graduate of the Wharton School of the University of Pennsylvania, said about his company, which has 60,000 employees. "The genius of India is to allow us to exist."

What Mr. Sabharwal calls "genius" others would call dysfunction, or at the very least, an elaborate workaround, or temporary fix.

India is known the world over as a prime innovator of outsourcing for foreign companies, which take advantage of its cheap, English-speaking labor force. Less well known is the extent to which Indian companies outsource their own jobs within their own country.

Walk into any of India's shining new shopping malls that sell expensive brands, like Gucci and Satya Paul, and many of the store clerks, janitors and security guards will be on the payrolls of outsourcing companies, not those of the owners of the mall or stores in it, executives say.

The practice highlights a fundamental tension between India's socialist past and a new freewheeling, private sector that is increasingly powering the economy while chafing at what many companies say are laws so protective of workers that they blunt hiring and stifle growth.

Mr. Sabharwal provides a backdoor way around the old system in a manner that is not without controversy. He fills thousands of jobs at a cost that allows many companies to continue to function, and even helps retrain India's large population of young job seekers - half of Indians are 25 or younger - who are undereducated and ill prepared to enter the labor force.

In that highly competitive environment for jobs, Mr. Sabharwal supplies workers who are paid as little as half of what permanent employees earn and who usually receive few benefits. Though technically temporary, many of them keep their status at the same companies for years. In India's nascent industrial hubs near New Delhi, autoworkers are increasingly protesting the use and treatment of the kind of contract workers Mr. Sabharwal supplies, who lack job security.

But the reason Mr. Sabharwal has thrived, he and others say, is because India needs him. The nation's complex web of federal and state labor laws intended to protect permanent workers are so onerous that few employers want to hire them, they say.

Those laws cover virtually every aspect of employment - how workers are hired, what they are paid, how many hours they can work and whether they can be fired. Factories employing 100 or more workers are not allowed to lay off employees without the government's permission.

The laws are unevenly enforced, but many businesses still consider them so cumbersome that they find it worthwhile to have somebody else manage the "compliance issues," which is why TeamLease also employs about 60 people in its regulatory division who do so.

"India, compared to even European countries, has more restrictive labor laws," said Sean Dougherty, a senior adviser at the Organization for Economic Cooperation and Development who has studied India's labor market.

Mr. Sabharwal has provided a way around what many see as those daunting obstacles to growth, at least for now. But even he argues that his workaround business model is not sufficient for India to bolster manufacturing - still just 16 percent of the economy - and to create new jobs for the 12 million people who enter the labor force every year.

He is among the first to acknowledge that many workers suffer because the workaround model does not itself create enough good jobs. But it is offering an opportunity for growth where the old model does not.

"For business, labor laws are a thorn in the side, not a dagger in the heart," Mr. Sabharwal said. "People who are hurt the most are people who need to get off farms, labor market outsiders, people from small towns, the less educated, the less skilled."

### **An Unlikely Entrepreneur**

TeamLease is not the business Mr. Sabharwal set out to open.

During the 1970s, when he and his family spent four years in Washington, a question kept nagging him: "Americans weren't really smarter than us, but why were they richer than us?"

It was a timely question because India's economy then was turning increasingly socialist and state-directed. Policy makers nationalized large banks, raised the highest tax rate to 97.5 percent and required factories with 300 or more workers to get government permission before layoffs, a threshold later reduced.

Mr. Sabharwal's family of civil servants and teachers believed in India's socialist policies. His father, who worked for a time at the Indian Embassy in Washington, was a solid member of the establishment.

"We had arguments about government versus private sector, growth versus facilities in the government," his father, Mahendra, said. The younger Mr. Sabharwal defended the private sector, which he argued was more effective than the government and the reason for America's greater riches. He became convinced that he could have a bigger impact on India as an entrepreneur than by joining the civil service as his father had done.

He wanted to start a business. But first, he said, he had to learn how a free-market economy worked. So, with his grandparents paying the tuition bill, he went to the Wharton School. "I wanted to go out and understand how business was done without regulatory connections," he said.

At Wharton, professors and friends say, he worked with single-minded focus on a business plan - not for TeamLease, but for a private insurance company, India Life, which he hoped would take on the state monopoly. But back in India, policy makers were not yet willing to introduce competition in the insurance industry. He hit a brick wall.

Then one day an Indian manager at Siemens, the German company, complained to him about the tedium of processing payroll and benefits paperwork. Mr. Sabharwal decided to turn India Life into an outsourcing company to do that work.

In 2001, Hewitt, an American company, acquired India Life. A year later, Mr. Sabharwal and his partner, Ashok Reddy, started TeamLease to solve another frequent problem clients complained about: hiring and managing employees in the thicket of India's complex labor laws.

## **Work in the New Economy**

Today, one of TeamLease's biggest clients is Whirlpool, the American appliance maker. In 1997, a few years after Whirlpool arrived in India, it hired hundreds of salesmen and sent them to independent retail stores to sell washing machines, refrigerators and air-conditioners to middle-class Indians who had never bought such appliances before. But soon executives were overwhelmed trying to keep abreast of changes in labor laws and various minimum-wage rules in India's 28 states.

So Whirlpool began outsourcing its sales staff, which has since grown to 1,850 people - first to a staffing agency called Adecco and later to TeamLease. Excluding 250 people who work at the company's own stores, most of its sales workers are employed by TeamLease, which handles their wages, commissions, health care and retirement savings.

Indian executives at Whirlpool, which sells appliances in 130 countries, said India was perhaps one of only a few places where an outside company managed its sales staff.

"Having a guy on your payroll comes with a lot of responsibility," said Hardesh Chojher, general manager of marketing at Whirlpool in India. "For example, each state has its minimum wage, which is revised every three months."

Many employers in India rely on contract hiring agencies like TeamLease, though many are reluctant to say so publicly. Indeed, foreign companies that come to India often hire law firms and staffing agencies before hiring anyone else.

Nearly one-quarter of India's industrial laborers worked on contracts in 2007, up from just 16 percent in 2000, according to government data. The share of temporary workers in India's large services sector is believed to be even higher, though the government does not collect that data. Even government agencies increasingly rely on temporary employees.

Unlike in the United States, where temporary workers are rotated between job sites, in India contract workers often stay in some jobs for years. Arun Gour, 25, joined Whirlpool's sales team as a contract worker about four years ago in Yamunanagar, a town 120 miles north of New Delhi. After smashing sales records, he was promoted this year to a job at Whirlpool's Indian headquarters in Gurgaon, a booming city just south of New Delhi, where he collects and processes sales data from around the country.

Mr. Gour makes about 18,000 rupees, or \$345, a month, a good salary by Indian standards, and he has access to a government-run retirement-savings plan and health insurance. He said he hoped one day to be promoted onto Whirlpool's payroll so he could earn more money and receive better benefits.

"I am very proud that I am providing for my family," Mr. Gour said, speaking of his wife and mother, who still live in Yamunanagar. "I have friends from college who are looking for work. Some of them have master's degrees and they are earning 6,000 or 7,000 a month," or about \$115 to \$134.

## **A Flawed System**

Not everyone is as happy. About 30 miles south of New Delhi along the dusty highway to Jaipur lies Manesar, one of India's new industrial boomtowns. There, more than 100,000 workers - about 30 percent of them on contracts - toil in the factories of Indian and multinational companies like Maruti Suzuki, Videocon, Mitsubishi and Honda.

While the factories have been profitable and have provided new jobs, both labor and management are frustrated. Workers complain about the expanding ranks of contract workers who are paid a fraction of what regular employees earn and receive few benefits, and they say that there are not enough jobs to begin with.

Corporate executives say that India's restrictive labor laws force them to hire and train contract workers who feel no loyalty to them, and that finding skilled workers is difficult.

In early October, these frustrations boiled over when 2,000 workers at Maruti Suzuki, India's largest car company, went on strike and shut down a plant that produced as many as 1,200 cars a day. The spark for the

strike was that the company had not immediately taken back 1,200 contract workers who supported 1,000 regular employees during a previous dispute, underscoring the vulnerability of the temporary hires.

"Everyone aspires to become a permanent employee," Rajbir, a 23-year-old contract worker who only uses one name, said while he camped with other striking workers outside the factory gates. He said he worked on a contract basis because he needed the money and had few other options. "Wherever we go, there will be similar problems," he said.

The chairman of Maruti Suzuki, R. C. Bhargava, disputed the workers' allegations, but he acknowledged that Indian companies hired too many contract workers. He said policy makers should give companies more flexibility in laying off workers and, in exchange, force them to offer workers generous unemployment insurance. "This conflict situation doesn't help anybody," Mr. Bhargava said.

In October, the Indian government proposed letting ailing factories lay off workers if they offered unemployment insurance. But the provision would apply only to companies in a few new manufacturing zones. Analysts say policy makers are unlikely to consider broader reforms in the next few years because there is a deadlock between advocates for change like Prime Minister Singh and lawmakers who believe that any weakening of laws would hurt workers.

In the meantime, many economists assert that India's labor laws will continue to restrict the country's job growth, at least in the formal sector. While that is bad news for India, it is a circumstance that continues to allow Mr. Sabharwal's business to thrive. Last year it grew by 10,000 employees.

His company had \$160 million in revenue last year and is growing about 20 percent a year, executives said. Last year, it acquired the Indian Institute of Job Training, which runs 120 centers that provide courses in English, bookkeeping, computer applications and other subjects. TeamLease also plans to build 22 community colleges in the western state of Gujarat.

Mr. Sabharwal said his business could grow even faster if the government changed the labor laws because that would create more jobs and increase demand for job training. But he is not letting government inaction hold him back.

"If you wait for all the lights to be green in India," he said, "you will never leave home."

*Sruthi Gottipati contributed reporting from Manesar, India, and Neha Thirani from Mumbai, India.*