

Your Tax Dollars At Work...Offshore: How Foreign Outsourcing Firms Are Capturing State Government Contracts

prepared for WashTech

by

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Executive Summary

This report is the first systematic national analysis of offshore outsourcing of state government work, focusing on information technology and food-stamp call centers. While “offshoring” by the private sector – especially high-tech companies – has received extensive media attention, a growing number of offshore contractors are also gearing up to capture contract work from state governments. We find that:

- Offshoring is going on to some degree in just about every state government.
- At least 18 firms that specialize in offshore outsourcing are positioning themselves in no fewer than 30 states to capture a larger share of the state government market, especially in information technology services.
- The 18 firms have already captured at least \$75 million worth of work and are seeking more by gaining access to qualified-contractor lists, hiring former government officials from the “revolving door,” and even making state electoral campaign contributions.
- The total amount or value of state contract offshoring cannot be estimated, because most state governments do not know where their contracted-out service work is performed. State officials know whether work is done onsite at the offices of the agency that commissioned it or offsite, but “offsite” could mean the other side of town or the other side of the world.
- Because subcontracting is so common, states are often unaware of the exact identity and location of the company that is ultimately performing the work. States award contracts to U.S. firms and assume the work will be done domestically, but then the company subcontracts to an offshore firm.
- Companies that appear to be domestic sometimes are not. States may think they are dealing with a U.S. firm because it has a domestic mailing address, but sometimes that address is just a marketing office for a company that is based offshore; other firms are technically headquartered in the U.S. but do all or most of their work in offshore facilities.

In summary, we find that foreign information-technology contractors are aggressively poised to capture more state government work. State policymakers are not well-positioned to respond, since they often lack the most basic information necessary to determine who is actually doing contracted work and where.

The lack of adequate state data required us to perform a very labor-intensive, indirect investigation. We first had to cobble together a list of more than 300 firms, mostly foreign-based, that are known to specialize in offshore outsourcing. Then we had to assemble, from each state individually, lists of firms that have received contracts as well as lists of firms that have registered and/or qualified as vendors. We then matched the two lists. As a result of this matching, we identified 18 offshore outsourcing firms, mostly from India, that are involved in the state government market.

This methodology is very conservative and clearly misses a great deal of offshore outsourcing. It does not include the use of offshore subcontractors by U.S. firms or cases in which a U.S. contractor has some offshore facilities but still retains a significant domestic presence. Certainly, many of the large U.S. companies that outsource some of their work offshore are also major contractors to state governments.

We also carried out the first comprehensive investigation into the use of offshore outsourcing by the food-stamp call centers that states have set up as part of the federally-mandated replacement of paper food stamps with electronic benefit transfer (EBT) systems. The discovery that some of these telephone help desks were operating out of India and Mexico sparked the controversy over state government offshoring more than a year ago. Outraged that a social safety-net program for unemployed and working-poor Americans was creating jobs offshore, many state legislators reacted to the revelations by introducing bills aimed at restricting offshore outsourcing.

Interviews with EBT officials in every state and the District of Columbia reveal that:

- Before the offshoring controversy began, the call centers for 42 states and the District of Columbia were operating offshore. In most cases, this occurred because the states gave EBT contracts to Citibank Electronic Financial Services, which in turn subcontracted the call center work to an Indian firm called MsourceE. (In 2003 Citibank sold the business to J.P. Morgan Chase, which continued to use MsourceE.) A smaller number of states ended up with offshore call centers through their EBT contracts with eFunds Corporation or Affiliated Computer Services Inc.
- As a result of the controversy, one state (New Jersey) has brought its call center back to the United States, and five states (Arizona, Kansas, North Carolina, Oregon and Wisconsin) are planning to do the same.
- Eight states (Illinois, Iowa, Maine, Mississippi, Montana, Ohio, Texas, and Wyoming) avoided the use of offshore call centers because they hired EBT contractors that used domestic facilities.

- Apart from the handful of states that are arranging to bring the call center work back to the United States, the remaining state customers of J.P. Morgan, eFunds and Affiliated Computer Services have agreed to let their call centers remain offshore.
- It is not possible to accurately estimate how much of the approximately \$250 million the states spend on the EBT program goes to the offshore call centers, because the vendors refuse to give states an itemization of costs.

Between the food stamp call centers and other contract awards, we were able to document involvement by nearly every state in offshore outsourcing of government work. Given the data limitations discussed above, it's likely that the remaining states do some offshoring as well.

In our policy conclusion, we argue that states need to pay more careful attention to offshore outsourcing. At the very least, states should follow the lead of Minnesota and Missouri in creating requirements for contractors to disclose where they plan to perform the work. Such disclosure should apply to existing as well as future contracts, so that state officials can do meaningful audits of current work. In the course of implementing these changes, states should also make sure they have a complete picture of the contracts that have been awarded by individual agencies. To summarize:

- Each state should require all contract bidders to certify where the work on the project will be performed;
- Each state should require all contract bidders to disclose the name and headquarters location of their parent company;
- Each state should require existing contract holders to provide the previous two pieces of information; and
- Each state should create a comprehensive centralized database of contract awards by all state agencies.

Once in possession of this information, state officials will be able to see the full extent to which offshoring is contributing to the export of jobs, which in turn may prompt more states to follow in the footsteps of Arizona in prohibiting the practice.

The time to adopt public policies to address this issue is now—while government offshoring is still somewhat limited—not when it has already become a pervasive and entrenched practice.

Introduction

Over the past year, Americans have become increasingly aware of a new threat to their livelihood: the rise of offshore outsourcing of white-collar digital work. U.S. employers are taking advantage of the internet and high-speed telecommunications to tap into large pools of educated workers in countries such as India and Russia where prevailing wage levels are far below those in the domestic labor market.

Apologists for offshore outsourcing—also known as offshoring—claim that the phenomenon is limited and that it mainly affects relatively low-skilled activities such as data entry or call center operations. The United States, it is said, can live without such jobs. Free trade, we are assured, will create better employment opportunities for Americans. In any event, the apologists claim, nothing can be done to stop the tendency of multinational corporations to scour the world for the cheapest possible labor.

Much of the debate on offshoring is framed in terms of free-market dynamics, yet the practice of exporting jobs is not limited to the private sector. As this report documents, the public sector, particularly state government, is also making use of offshore labor. As infuriating as it may be when a company such as IBM or General Electric exports jobs, it is even more scandalous when taxpayer dollars are involved. Government is supposed to act in the best interest of the people, not imitate the relentless cost-cutting practices of for-profit corporations.

The fact that state work was being done offshore first came to light in 2002 in connection with the call centers set up by contractors to handle inquiries from food stamp participants about the new electronic benefit transfer (EBT) system. First in New Jersey and then in numerous other states, it was discovered that that these EBT calls were being fielded by operators located in India and Mexico.

The revelation that a program designed to help unemployed and low-income Americans was making use of overseas workers generated an uproar around the country. It prompted numerous state legislators to introduce bills that would restrict the use of offshore contractors in public procurement and that in some cases also tried to restrict the practice in the private sector. It also prompted several governors to issue executive orders on the issue.

These government initiatives were, for the most part, based on very limited information on the extent to which state work apart from the call centers was being done offshore. The aim of this report is to expand that knowledge. It does so by looking at actual offshoring of state work as well as the potential for more offshoring in the future. We address this in four parts:

- In the first section we examine evidence suggesting that firms engaged in offshoring are positioning themselves to get more state work by becoming qualified/approved vendors, or simply by registering as vendors interested in doing business with the public sector. We found that 18 offshore firms—including several billion-dollar companies based in India— have signed up with a total of at least 30 states (some states won't disclose their vendor lists). We also look at the steps, such as making campaign contributions and hiring former government officials, that are being taken by offshore firms to develop political influence and thus increase their chances of receiving more contract awards. Based on these indicators, we warn that the offshorers could capture a huge portion of state government work unless legislative or administrative steps are taken to prevent it.
- In the second section we look at examples of state work already being done by offshore vendors. We focus on the area of information technology (IT) services, since activities such as computer programming and website design can most easily be done in remote locations. Given the limitations of disclosure practices, it is impossible to arrive at a definitive total, but we document cases involving an aggregate of about \$75 million in taxpayer funds. Some of these contracts have not turned out well, indicating that offshoring is not as efficient a process as its defenders claim.
- In the third section we provide the first comprehensive state-by-state look at the controversial offshore food stamp call centers. We provide a description of the contracting arrangements each state has made in this area, including the total dollars involved. We also report on the current status of those contracts, including the fact that in most cases the call center work will continue to be performed offshore.
- In the final section we briefly profile the 18 offshore vendors that we found are doing work for state governments, or are at least seeking to do such work.

We began this project with the hope that we could determine the extent to which state government work was being done offshore by simply asking the states. That expectation turned out to be hopelessly unrealistic. We were shocked to learn that, when it comes to digital work such as computer programming, website design and other IT services, most state governments have no idea where their contracted-out work is actually performed. At best, a state would know whether the work was being done onsite at the offices of the agency that commissioned the work or offsite, but “offsite” could mean the other side of town or the other side of the world.

We thus had to take another approach; i.e., determining the extent to which states had awarded IT service contracts to firms that are known to operate primarily offshore. A wide range of corporations send work offshore, either in their own overseas operations or through the use of foreign subcontractors. We took a conservative approach, limiting our examination to companies that are themselves based offshore or that have most of their production facilities (or development centers, as the IT industry calls them) overseas. This excluded large U.S.-based firms such as IBM and Electronic Data Systems (and quasi-U.S. firms such as Accenture) that engage in offshore outsourcing but also retain a large domestic workforce and infrastructure. The approach also could not capture most cases in which the offshoring was done through subcontractors.

Instead, we looked at state work being given directly to firms that have been set up precisely to provide offshore outsourcing services. To do this we had to create our own working list of such firms. We assembled a spreadsheet with the names of more than 300 offshore operators, ranging from relatively small businesses to the huge outsourcing firms that have arisen in India.¹

Our hope was to be able to match the names of those 300 offshoring firms with a master list of contracts awarded by state government. However, no such master list of state contracts exists. Each state has its own separate system for recording contract awards. Many states do not even have centralized lists of their own contracts, since individual agencies are allowed to contract directly for services such as information technology.

We consulted the available information—whether on a state’s website or from lists sent to us by procurement officials—to see which of the 300 companies on our spreadsheet were doing business (or seeking to do business) with state governments.² Through this process, we identified 18 firms:

- Auriga Inc.
- HCL Technologies (Mass.) Inc.
- HTC Global Services Inc.
- ICICI Infotech
- I-flex Solutions
- Infosys Technologies Ltd.
- Intelligroup Inc.
- Larsen & Toubro Infotech
- Luxoft
- Mascon Information Technologies
- Patni Computer Systems Ltd.

- R Systems Inc.
- Satyam Computer Services Ltd.
- SSI Ltd. (including SSI North America, SSI Technologies and SSIT)
- Surya Technologies
- Syntel Inc.
- Tata Group (including Tata America International, Tata Consultancy Services, TCS America and Tata Infotech)
- Wipro Ltd. (including Wipro Infotech and Wipro Technologies)

Eleven of these firms are headquartered in India, and two in Russia. The other five claim to be based in the United States, but most of their development facilities are located in India. They range from small, privately held companies to \$1 billion offshoring behemoths. See Appendix A for profiles of each of the firms, including the names of the private sector clients (where available) that make up the bulk of their business.

In the course of our research, we found that some of these 18 firms and others involved in offshore outsourcing are being bankrolled by U.S. venture capital firms, whose investors often include U.S. pension funds. In other words, the retirement funds of American workers as well as their tax dollars are being used to help ship jobs overseas.³

The question that naturally arises is whether the states realize they are doing business with offshore operators. In the case of the larger firms such as the Tata Group, state officials might be expected to know that they are dealing with a foreign company. Yet Tata and the rest of the 18 companies present themselves as domestic firms, by using the address of their U.S. representative office when registering as a vendor or signing a contract. (Tata alone has more than 50 such offices in North America.) We found only one instance to the contrary: an entry in the Georgia list of registered vendors for I-flex Solutions with an address in India; the company also registered with a New York City address.⁴

Most misleading are the companies—such as HCL Technologies and ICICI Infotech—that say they are headquartered in the United States but are actually units of larger companies in India. In between are companies such as Intelligroup and Syntel, which are somewhat more American in character (in the sense that they are not units of foreign corporations) but do most of their work in India. Given the rate at which many U.S.-based IT service providers are moving work offshore, the category represented by Syntel and Intelligroup is bound to grow much larger.

Also complicating the situation is that most of these 18 companies do some of their state government work onshore. Many projects have both onshore and offshore

components. To some extent, this is a matter of logistics, but it also helps these firms obscure the extent to which they are mainly in the business of doing work at their low-wage facilities abroad.

In light of the complex identities of many of these companies, state officials can probably be forgiven for not being aware that they are dealing with an offshore operator. We hope that, by reading this report, state officials as well as other interested parties will become better informed about the firms that are vying to do business with government agencies.

I. The Potential Capture of State Work by Offshore Vendors

One of the first steps that a company takes when it is interested in selling to state government is to register as a vendor. Most states have such registries, and many require vendors to take this step before being allowed to bid on contracts. The registration process provides state officials with basic information about the firm, including a list of the particular goods and services it has to offer. In registering, a company is signaling that it is serious about selling to public agencies.

About 15 states make their vendor registries available to the public on the internet. We searched all of those and also contacted other state procurement offices to ask if they could check our list of 18 offshore firms against their internal vendor lists. A majority complied, but about a dozen states declined to do so, saying the information was private. A handful of states do not maintain vendor registries.

Apart from searching general vendor registries, we also sought information specifically on IT vendors. Many states have set up special Information Technology Offices that negotiate statewide IT contracts that can be used by individual agencies. These contracts typically include a list of qualified or approved vendors that have been vetted by the state and that have agreed to work under the terms of the standard contract. We matched these vendor lists against the names of the 18 offshore firms.

Combining the results from all the vendor lists, we found entries for one or more of the 18 offshore firms in the registries of 30 states. Some states had only one or two of the offshore vendors on their list, but others had as many as 11. The following table, displayed alphabetically and in rank order, show how many of the 18 firms showed up on each state's list:

Alphabetical

Arizona (5)
California (11)
Colorado (4)
Connecticut (11)
Florida (5)
Georgia (9)
Indiana (3)
Iowa (1)
Kansas (2)
Kentucky (6)
Louisiana (5)
Maine (1)
Massachusetts (7)
Michigan (2)
Minnesota (10)

Missouri (9)
Montana (5)
Nebraska (2)
Nevada (1)
New Hampshire (3)
New Mexico (2)
New York (3)
North Carolina (9)
Oregon (8)
Pennsylvania (4)
South Carolina (8)
Texas (6)
Virginia (7)
Washington (1)
Wisconsin (1)

Rank

California (11)
Connecticut (11)
Minnesota (10)
Georgia (9)
Missouri (9)
North Carolina (9)
Oregon (8)
South Carolina (8)
Massachusetts (7)
Virginia (7)
Kentucky (6)
Texas (6)
Arizona (5)
Florida (5)
Louisiana (5)

Montana (5)
Colorado (4)
Pennsylvania (4)
Indiana (3)
New Hampshire (3)
New York (3)
Kansas (2)
Michigan (2)
Nebraska (2)
New Mexico (2)
Iowa (1)
Maine (1)
Nevada (1)
Washington (1)
Wisconsin (1)

Of these, the matches for the following states involved approved or qualified vendors: California (6 of 11), Maine, Nevada, New York and Pennsylvania.

Looked at from the perspective of the companies, individual firms appeared in the registries of as many as 24 different states. The following list shows the number of state registries on which each of the 18 firms appears:

- Auriga Inc. (9)
- HCL Technologies (Mass.) Inc. (18)
- HTC Global Services Inc. (20)
- ICICI Infotech (8)
- I-flex Solutions (4)
- Infosys Technologies Ltd. (4)
- Intelligroup Inc. (5)
- Larsen & Toubro Infotech (6)
- Luxoft (6)
- Mascon Information Technologies (4)
- Patni Computer Systems Ltd. (2)
- R Systems Inc. (8)
- Satyam Computer Services Ltd. (16)
- SSI Ltd. (5)
- Surya Technologies (1)
- Syntel Inc. (6)
- Tata Group (24)
- Wipro Ltd. (5)

The companies that appeared on lists of qualified or approved vendors were: HCL Technologies (3 states), HTC Global Services (2), ICICI Infotech (1), Infosys Technologies (1), Larsen & Toubro Infotech (1), Mascon Information Technologies (1), R Systems (2), Tata Group (3) and Wipro (1).

A complete listing by state and by company can be found in Appendix B.

Making Friends and Buying Influence

Another indication that the offshorers are serious about doing business with state governments is that they are beginning to participate in the political process—by making campaign contributions to politicians in both of the major parties. These include direct contributions by the corporation (which are legal in many states) or contributions made by company executives. We searched the database of state campaign contributions maintained by the Institute on Money in State Politics and came up with examples such as the following⁵:

- Tata America International Corp. gave \$1,000 to New York Governor George Pataki (a Republican) in 2002.
- Bharat Desai, Chief Executive of Syntel Inc., gave \$20,000 to the Michigan Republican Party in 2000.
- Desai also gave \$1,000 to Michigan Governor Jennifer Granholm (a Democrat) in 2002.
- Syntel Inc. gave \$5,000 to Bobby Jindal, an Indian-American who was an unsuccessful Republican candidate for governor of Louisiana, in 2003.

Offshorers are also beginning to employ another device for building relationships with the public sector: taking advantage of the revolving door between government and the corporate world. For example, Infosys Technologies brought Larry Pressler, a former Republican Congressman and Senator from South Dakota, onto its board of directors.

In 2003 Tata Consultancy Services hired Andrew Keyser to be its director of government business development. Keyser had previously been the Chief Information Officer of the Pennsylvania Department of Corrections at a time when Tata Consultancy was doing work for the agency.⁶

Some of the offshorers are also building ties with politicians by publicizing the limited investments they are making in the United States. The website of Tata Consultancy Services contains a March 10, 2003 press release with a photograph of New York Sen. Hillary Clinton at an event marking the opening of a company facility in Buffalo, NY. Clinton is quoted as saying: “When I learned of Tata Consultancy Services’ intentions to expand its company, I thought immediately of Buffalo and dedicated myself to showing the company all that the region had to offer.”⁷ A later press release from Tata indicated that the number of local jobs to be created at the facility was all of 20.⁸

This year Infosys Technologies announced a somewhat more significant investment in California. It plans to hire 500 U.S. workers over the next three years as part of an effort to compete with higher-end consulting firms. However, to put that in perspective, Infosys employs a total of 25,000 people, most of them in India.

Between the efforts of the offshorers to enroll as vendors and their forays into the world of politics, the message is clear: Some offshore outsourcers—including very large ones—are aggressively targeting state governments in the United States as a market for their services. Unless state governments take steps to prevent it, these offshorers could capture a great deal of additional business from the public sector.

II. State Work Already Captured by Offshore Vendors

In our research on state procurement, we looked not only at potential capture of contracts by offshore vendors, but also cases in which those firms have already been awarded contracts. We did this by looking, first, at whatever lists of contract awards we could find on the websites of state procurement agencies. Most states put at least some contract award data on the web, though it is far from complete, especially for IT services. Where possible, we supplemented the web information with additional contract lists obtained directly from procurement officials and information technology offices. For many states, these lists were incomplete, given the absence of centralized recordkeeping for information technology contracting by individual agencies.

When we identified a match between our list of known offshore vendors and the state contract lists, we tracked down the public official responsible for overseeing the project. These contract managers gave us more information on the nature of the work and the value of the contract. In some cases, they told us that the work was actually done onsite at the agency or that they knew the work was done offsite but at a domestic facility. In those cases we eliminated the contract from our report. On the other hand, when the contract manager did not know where an offsite contract was being performed, we assumed it was offshore. In some contracts, there were mixtures of onsite work, offsite but onshore work, and offshore work.

We did not end up with a large number of actual contracts being performed offshore, which is no doubt a reflection of the incompleteness of the available data. It is also a result of the conservative approach we took. There is undoubtedly much more offshoring taking place on the part of contractors who do not meet our criteria for inclusion; i.e., being headquartered overseas in a low-wage country or having most of its production facilities in such a country.

On the other hand, what we did find was not trivial. The examples cited in the rest of this chapter have an aggregate value of about \$75 million in offshore work, beginning with the following:

California Department of Justice

R Systems Inc.; some portion of about \$675,000

In 2002 R Systems completed work on a \$175,000 project for the state Department of Justice involving the development of a web-based intranet by which local law enforcement agencies are given updated information on released sex offenders—a system created by what is known as Megan’s Law. The intranet replaced an older system involving the distribution of CD-ROMs. R Systems had previously done about \$500,000 of other programming work for the Department of Justice involving sex

offender data. Mike Broderick, the state official who oversaw the projects, said that in both cases R Systems did some work onsite and some offsite. He did not know where the offsite work was performed.

According to an review of contract records performed for us by the California Department of General Services, R Systems has done work totaling about \$2.5 million for other state agencies during the past few years. These agencies include the Department of Aging, the Department of Child Support Services, the Department of Corrections, the Department of Mental Health and the Integrated Waste Management Board.

Georgia Department of Revenue

HCL Technologies; \$638,000

In May 2003 HCL Technologies was awarded a \$638,000 contract to “obtain an integrated solution to the development of a web-based statewide case tracking system to assist in suspected fraud investigations.” State officials say they don’t know where the work is being performed.

Massachusetts Department of Education

Auriga Inc.; some portion of about \$2 million

In December 2002 Auriga Inc., a software firm that does most of its work in Russia, put out a press release announcing that it served as a subcontractor for the development of the Educator Licensure and Recruitment (ELAR) project in Massachusetts. The prime contractor for ELAR, an online resource for teachers and aspiring teachers, was Deloitte & Touche, which was paid about \$2 million. Maureen Chew, director of the ELAR project, said she dealt only with Deloitte, so she is unaware of where Auriga performed its portion of the work.

Massachusetts Operational Services Division

SSI North America and Tata Infotech; about \$2.1 million

The Operational Services Division (OSD) establishes blanket contracts under which goods and services are sold to state agencies. One of these contracts, ITS07, covers the provision of information technology services. According to Marjorie MacEvitt of the OSD, SSI has received about \$1.48 million in business under ITS07 during the past two years, and Tata Infotech has received about \$630,000 during the past three years. MacEvitt said that vendors do not need to report where the work is performed.

Massachusetts Teachers' Retirement Board

Tata Infotech; \$3 million

In November 2002, the Board, which administers the pension fund for public school teachers in the state, awarded Tata Infotech a \$3 million contract to develop a web-based management information system. A press release issued by Tata Infotech at the time stated that “a core team of consultants will work on-site in sync with a larger offshore team” located in India. Erika Glaster, Deputy Executive Director of the Board, confirmed that work was being done offshore but said she could not quantify it. She also mentioned that the project is currently six months behind schedule, which she attributed in part to communications problems relating to the use of offshore labor.

Minnesota Department of Human Services

SSI North America; about \$1 million

In June 2003 the Department of Human Services awarded a \$13 million contract to SSI North America to create HealthMatch, a software application designed to automate eligibility determination for public healthcare services. According to an analysis from the Department of Human Services provided to us by State Senator Thomas M. Bakk, the value of the work being done offshore is 8 percent of the total contract, or about \$1 million.

Montana Information Technology Services Division

Tata Consultancy Services; about \$5 million

The Information Technology Services Division (ITSD) serves all agencies of Montana's state government. There are currently about 33 approved vendors associated with ITSD's Management Information Services Contract. Among those is Tata Consultancy Services (TCS). According to Brett Boutin, the contract manager, TCS has been on the list of approved vendors for the past five years and has received substantial business from state agencies, primarily for programming work. Boutin says TCS has received about \$1 million in revenues for each of the past five years. He said TCS “does a lot of work offshore, which is fine with us, because the costs are lower.” Boutin said that TCS was asked to do one project, which involved tax records, onshore. Boutin also noted that another qualified vendor, Western Computer Services, subcontracts some of its work to offshore firms. Western Computer has been doing about \$2.3 million a year of business with ITSD. Boutin was unable to estimate the amount being paid to Western's offshore subcontractors.

New Mexico Department of Labor

Tata Consultancy Services; offshore portion estimated at \$5 million

In 2001 the Department of Labor awarded a contract to Tata Consultancy Services (TCS) to design, develop and implement a new system through which jobless state residents could apply for unemployment insurance. Along with subsequent amendments, the total value of the contract rose to \$11 million. In a November 2002 press release, TCS said that 80 “consultants” at its facilities in India were working on the project, along with 25 employees onsite at the agency. Taking into account lower costs in India, we estimate the offshore portion of the contract at \$5 million. According to Department of Labor Public Information Officer Carlos Castenada, the project ran into technical and administrative problems. TCS has been removed from the project, and the Department is currently withholding \$500,000 in payments to the company.

New York Office of General Services

ICICI Infotech; \$8.2 million

The Office of General Services (OGS) negotiates a blanket contract under which public agencies throughout the state can obtain IT services. Under that contract, ICICI Infotech has done seven contracts worth about \$8.2 million since 2001, according to information provided to us by Sylvia Casper of OGS. Most of the work has involved systems integration. The main users of the services have been two of the local agencies that participate in the master contract: the New York City Police Department (about \$5.6 million of the total) and the New York City Fire Department (about \$2.5 million).

North Carolina Department of State Treasurer

I-flex Solutions; a substantial portion of \$2.5 million

Over the past two years, the State Treasurer’s office has paid I-flex about \$2.5 million to develop and install new centralized banking software to help manage the flow of funds into and out of state agencies. Keane Inc. also participated in the installation, but its share of the contract was not available. I-flex is also being paid to handle maintenance on the system.

Pennsylvania - various agencies

Tata Consultancy Services; approximately \$7.7 million

The Pennsylvania Department of the Treasury provided us with a printout listing more than 200 purchase orders that have been submitted by various state agencies for services rendered by Tata Consultancy Services (TCS). The total value of the orders is about \$12.8 million. Subtracting the ones that are described as onsite work, the total is about \$7.7 million. The agency accounting for the largest portion of the latter total is the Department of Corrections, with \$2.5 million. The other agencies with the largest totals are: the Department of Education (\$1.7 million), the Department of Labor and Industry (\$643,000), the Department of General Services (\$600,000) and the Department of State (\$566,000). One purchase order from the Department of State refers explicitly to an “offshore programmer” being used for the “conversion and enhancement of the uniform commercial code database and application system and the corporate records database.”

Tennessee Department of Labor & Workforce Development

HCL Technologies (Mass.) Inc.; about \$1 million

HCL Technologies has done two major contracts for the Department of Labor & Workforce Development in recent years. It just completed a \$3.5 million project involving the creation of a case management tracking system. It previously did \$1.8 million of work on the development of an electronic workers compensation information system. Robert W. Ingram, Director of Information Systems Management at the Department, estimates that about 20 percent of the projects involved offshore programming work done in India.

Washington Department of Ecology

Covansys Corp.; roughly \$1 million

Covansys, a leading outsourcer of state government work, did not end up on our list of 18 offshore firms, since a majority of its work is done in the United States rather than offshore. We include this example because it was highlighted in a report on offshore outsourcing prepared by Washington State.

Covansys has done a series of projects for the Department of Ecology dealing with water rights tracking systems, some of which involved offshore work. Laura Lowe, the Department’s Contracts Administrator, believes that most of the work on two contracts, for which Covansys received a total of about \$875,000 since 2002, was done offshore. She is not sure about the location of the work on two other contracts, which

brought the company a total of about \$890,000 more. The total revenue Covansys has received for offshore work on these contracts can be estimated at about \$1 million.

Washington Health Care Authority

Satyam Computer Services, as subcontractor to Healthaxis Inc.; amount unknown

In 2002 the Health Care Authority (HCA), which administers medical insurance programs for state employees and for about 100,000 low-income residents, awarded a \$3 million contract to Healthaxis Inc. to develop an integrated web-based system for handling enrollment applications and eligibility determination. According to Dave Wasser, HCA's Communication's Director, the agency knew from the start that Healthaxis—an Irving, Texas-based company whose motto is “OutThink. OutSource. OutPerform”—planned to subcontract the programming work to Satyam Computer Services, an IT firm based in India. This helped to explain, Wasser said, how Healthaxis was able to submit a bid far below any of its competitors. Wasser said HCA did not see any problem with the offshoring arrangement: “Our mission was to do the work at the lowest possible cost, not to create domestic jobs.” Wasser noted that the low cost did not make up for the problems that arose in the contract, including late delivery and poor quality. Recently, HCA terminated its contract with Healthaxis and negotiated a settlement by which the company agreed to refund about one-third of the \$900,000 it had received under the contract. HCA does not know how much Healthaxis paid to Satyam, nor did Healthaxis reveal that information in its Securities and Exchange Commission filing on the matter.

Wyoming Department of Family Services

SSI North America; potentially worth \$25.7 million over four years

In February 2002 the Wyoming Department of Family Services awarded a contract with an initial value of \$20 million to Albion International to build the Wyoming Family Assistance Management Information System. Albion is a subsidiary of SSI North America, the U.S. arm of the Indian IT firm SSI Ltd. In addition to the development and implementation of the system, which covers programs such as Medicaid and food stamps, SSI could receive up to \$5.7 million for consulting and maintenance services. Terry Williams, Contract Manager for the Department of Family Services, said he knew nothing about offshore work and did not regard the issue as a concern. He said the state is mainly concerned about federal quality review mandates.

State Surveys

In the course of our research we learned that at least five states have completed inventories of their contracts to estimate how much work was being done offshore.

Washington. The most significant results were found in Washington State. In addition to the Covansys work for the Department of Ecology and the Satyam Computer Services work for the Health Care Authority, the review found several other contract situations that could be regarded as offshoring. These included software development work for the State Board for Community and Technical Colleges that is being performed at a Hewlett Packard subsidiary in India (worth about \$3.7 million) and programming work for the Department of Corrections that IBM Global Services is performing in part outside the United States (the offshore portion is worth about \$3.6 million).

Michigan. Sean Carlson, Director of Acquisition Services, told us that his office conducted an informal survey of its IT vendors; only a handful reported doing work offshore. Among these were several small projects carried out by Unisys and a \$2.76 million “business process” project that Covansys did in India.

Minnesota. According to Kent Allin, director of the state’s Materials Management Division, an inventory performed in his state found only a few instances of offshoring. The most significant of these were the HealthMatch project described above and the food stamp call center described later in this report.

Missouri. James Miluski, Director of Purchasing, said his office has reviewed existing contracts and found only three that were being performed abroad: one for the food stamp call center (described below), one for laboratory services with a firm in Canada, and one for a bar code system with a firm in Spain.

Pennsylvania. Jeffrey Marrazzo of the Governor’s Office of Management and Productivity said that a review of current contracts by 31 state agencies found only five that were being performed offshore (one of which was the food stamp call center). He declined to identify the current contracts but noted that in 2001 the state contracted with BearingPoint Inc. to do systems integration work. BearingPoint subcontracted the work to IBM, which in turn subcontracted to Intelligroup, which took the work offshore. Also in 2001, the State Police gave a contract to Unisys, which subcontracted to Caritor Inc., which took \$1 million of the work offshore.

Given that these audits were performed amid intense controversy over offshoring, it is possible that the agency heads who were surveyed may have tended to understate the extent to which contract work was being done abroad. Moreover, it is difficult to

regard these surveys as definitive, given the very limited knowledge that most state officials have of where contract work is actually performed. Finally, it is unclear that these surveys always made a clear distinction between the location of the contractor and the location of the work. As we noted above, offshore outsourcers often present themselves as U.S. firms and thus their contracts may have been overlooked in the state surveys.

Until all states do careful audits of their contracts, it is not possible to come up with a reliable estimate of the extent of public sector offshoring. A recent article in a computer trade journal quoted James Krouse, an analyst at INPUT (a market research firm focusing on IT government contracting), as saying that less than five percent of all public-sector IT work (which is worth about \$46 billion a year) has an offshore component to it.⁹ This appeared to be more of a guess than an estimate, but if it turns out to be accurate, it means that as much as \$2 billion in public sector IT work could be going offshore.

That is a huge amount of taxpayer money to be spent in a way that takes jobs away from U.S. residents and transfers them to low-wage havens abroad. Moreover, whatever is the current volume of state offshoring, the 18 companies on our list (and others that may decide to join them) no doubt have designs on a much larger portion of the government market.

That will probably include work at the local as well as the state level. For example, three cities in Arizona—Tempe, Peoria and Chandler—have awarded contracts worth a total of about \$2.8 million to India's Tata Infotech to develop and install software for their municipal sales tax systems. City officials need to join their state counterparts in reconsidering the advisability of sending public work offshore.

III. The Facts Behind the Food Stamp Call Center Controversy

As mentioned above, the controversy over offshore outsourcing by state governments began with the revelation that food stamp call centers were being operated outside the United States. Although this issue has often been cited by public officials in the debate over offshoring, no one, to our knowledge, had attempted to piece together a complete national picture of what has been going on with regard to these call centers.¹⁰ In this section we provide that fuller picture.

As part of the 1996 Welfare Reform Act, Congress mandated that all states implement an electronic benefit transfer (EBT) system to replace traditional paper food stamps. Many states also use the system (which allows participants to access their funds through debit-type cards) for other social safety-net programs such as Temporary Assistance to Needy Families.

All states and the District of Columbia have contracted out all or part of the implementation and ongoing operation of their EBT system to one of six contractors. By far the leading contractor, handling 32 states, is J.P. Morgan Chase, which acquired the business from Citibank Electronic Financial Services last year. It is followed by eFunds Corporation with nine contracts and Affiliated Computer Services Inc. (ACS) with six.

One of the functions performed by the contractors is the operation of call centers that handle inquiries from program participants about their remaining balance and other matters. Most of the calls are handled by automated voice systems, but some (such as requests for replacement of stolen cards) require human involvement.

J.P. Morgan, eFunds and ACS located most of their call centers in India; in Morgan's case, the work is handled by an Indian subcontractor called Msource. Morgan and ACS also have call centers in Mexico for Spanish-speaking callers.*

The other EBT contractors—Northrop-Grumman Corporation, G-Tech Corporation and Stored Value Systems—which together handle only a handful of states, operate their call centers in the United States. Some of these companies subcontract the EBT work to each other (see table below). To summarize:

- Before the offshoring controversy began, the call centers for 42 states and the District of Columbia were operating offshore.

* ACS provides domestic call center service for Iowa, Mississippi and Maine, the latter through subcontractor G-Tech. J.P. Morgan subcontracts the Ohio call center work to Stored Value Systems, which handles it domestically.

- Eight states (Illinois, Iowa, Maine, Mississippi, Montana, Ohio, Texas, and Wyoming) avoided the use of offshore call centers because their EBT contractors used domestic facilities.

Determining the total dollar value of the offshore call center work is made impossible by the fact that the contractors usually decline to provide the states with an itemization of costs. We did learn from interviewing each state's EBT director that the aggregate amount they spend on overall EBT functions is about \$250 million a year. These officials said that the portion spent on offshore calls center is small, but they are unable to quantify it. Also complicating the calculation is that some states handle only a portion of their live calls offshore.

Although only a limited amount of money may be involved, several states have taken steps to bring their call center functions back onshore. New Jersey led the way in this regard, paying \$190,000 to establish an in-state EBT call center plus about \$768,000 a year to operate the facility, which is being staffed by participants in the state's Welfare-to-Work program. They are paid \$12 per hour.

North Carolina will take over its call center function from eFunds in August 2004. Arizona will assume the responsibility from J.P. Morgan in October 2004. Both states will combine the function with existing service help desks to save on costs. Complying with a legislative mandate, Kansas is paying an additional \$55,000 a year to eFunds to have the state's call center brought back onshore. Wisconsin amended its contract with J.P. Morgan to have its call center brought back to the United States, but relocation costs have not yet been determined. Oregon recently decided that it, too, will bring its call center back to the United States (probably by mid-September). It will pay eFunds an additional \$300,000 a year to bring this about.

Apart from these few states, it appears that the call centers currently located offshore will remain there. Most EBT directors are betting that the furor over offshoring is over, so they think there is no compelling reason to make changes that would increase costs.

The table on the following page summarizes the status of each state's EBT program:

Profile of State EBT Contracts

| State | Contractor | Call Center Location | Contract Expiration | Annual EBT Costs |
|-------------------|----------------------------|----------------------|---------------------|------------------|
| Alabama | eFunds | Offshore | February 2009 | \$3.0 million |
| Alaska | J.P. Morgan Chase | Offshore | March 2011 | \$543,000 |
| Arizona | J.P. Morgan Chase | Offshore until 10/04 | September 2011 | \$4.3 million |
| Arkansas | ACS | Offshore | March 2010 | \$3.6 million |
| California | J.P. Morgan Chase | Offshore | August 2010 | \$38.0 million |
| Colorado | J.P. Morgan Chase | Offshore | January 2006 | \$2.8 million |
| Connecticut | J.P. Morgan Chase | Offshore | April 2005 | \$2.0 million |
| Delaware | eFunds | Offshore | August 2011 | \$1.1 million |
| Dist. of Columbia | ACS | Offshore | September 2004 | \$2.2 million |
| Florida | J.P. Morgan Chase | Offshore | July 2011 | \$12.8 million |
| Georgia | J.P. Morgan Chase | Offshore | June 2011 | \$8.0 million |
| Hawaii | J.P. Morgan Chase | Offshore | June 2010 | \$2.0 million |
| Idaho | J.P. Morgan Chase | Offshore | June 2010 | \$1.2 million |
| Illinois | Northrop (subs to G-Tech) | Domestic | January 2013 | \$11.7 million |
| Indiana | J.P. Morgan Chase | Offshore | March 2008 | \$4.2 million |
| Iowa | ACS | Domestic | August 2010 | \$2.7 million |
| Kansas | eFunds | Offshore until 12/04 | January 2013 | \$2.0 million |
| Kentucky | J.P. Morgan Chase | Offshore | November 2009 | \$4.0 million |
| Louisiana | J.P. Morgan Chase | Offshore | June 2008 | \$7.6 million |
| Maine | ACS (subs to G-Tech) | Domestic | April 2008 | \$2.4 million |
| Maryland | J.P. Morgan Chase | Offshore | September 2006 | \$5.5 million |
| Massachusetts | J.P. Morgan Chase | Offshore | not available | not available |
| Michigan | J.P. Morgan Chase | Offshore | May 2006 | \$6.6 million |
| Minnesota | eFunds | Offshore | December 2005 | \$4.0 million |
| Mississippi | ACS | Domestic | May 2008 | not available |
| Missouri | eFunds | Offshore | March 2007 | \$4.1 million |
| Montana | Northrop-Grumman | Domestic | June 2010 | \$1.0 million |
| Nebraska | J.P. Morgan Chase | Offshore | March 2009 | \$1.7 million |
| Nevada | J.P. Morgan Chase | Offshore | June 2011 | \$2.0 million |
| New Hampshire | J.P. Morgan Chase | Offshore | August 2005 | \$528,000 |
| New Jersey | eFunds | Domestic since 5/03 | Under bid | \$5.3 million |
| New Mexico | J.P. Morgan Chase | Offshore | April 2006 | \$3.0 million |
| New York | J.P. Morgan Chase | Offshore | August 2005 | \$21.6 million |
| North Carolina | eFunds | Offshore until 8/04 | June 2007 | \$6.3 million |
| North Dakota | J.P. Morgan Chase | Offshore | June 2007 | \$600,000 |
| Ohio | Morgan (sub: Stored Value) | Domestic | June 2006 | \$22.8 million |
| Oklahoma | ACS (subs to JP Morgan) | Offshore | March 2006 | \$4.3 million |
| Oregon | eFunds | Offshore until 9/04 | January 2006 | \$2.7 million |
| Pennsylvania | J.P. Morgan Chase | Offshore | September 2004 | not available |
| Rhode Island | J.P. Morgan Chase | Offshore | February 2006 | \$840,000 |
| South Carolina | J.P. Morgan Chase | Offshore | January 2008 | \$5.4 million |
| South Dakota | J.P. Morgan Chase | Offshore | June 2007 | \$697,000 |
| Tennessee | J.P. Morgan Chase | Offshore | March 2005 | \$6.7 million |
| Texas | G-Tech | Domestic | December 2012 | \$5.6 million |
| Utah | eFunds | Offshore | January 2010 | \$1.6 million |
| Vermont | J.P. Morgan Chase | Offshore | January 2007 | \$403,177 |
| Virginia | J.P. Morgan Chase | Offshore | September 2006 | \$6.2 million |
| Washington | J.P. Morgan Chase | Offshore | January 2006 | \$3.6 million |
| West Virginia | J.P. Morgan Chase | Offshore | August 2008 | \$4.3 million |
| Wisconsin | J.P. Morgan Chase | Offshore until 11/04 | October 2007 | \$3.0 million |
| Wyoming | Stored Value Systems | Domestic | September 2006 | \$300,000 |

IV. Conclusion

In 2003 and early 2004, the outcry over the offshoring of state functions became increasingly loud. In the wake of New Jersey's decision to bring its EBT call center back home, the governor of Indiana cancelled a contract that had been awarded to Tata Consultancy Services by the state's Department of Workforce Development.

The legislative sessions that opened in early 2004 saw a flurry of bills intended to restrict offshoring of state work—and in some cases, private sector work as well. Only a few of these bills—including one in Tennessee and one in Maryland—have been approved by the full legislature. The Maryland bill, which would have required state agencies to consider where a prospective bidder intended to perform the work, was vetoed by the governor. The Tennessee bill, which allows state procurement officials to give preference to vendors that do not engage in offshoring, was signed by the governor and put into effect. In several states, legislators are still actively debating the issue. For example, as of this writing in early July, the California Senate is preparing to take up a bill prohibiting offshoring on state contracts that was approved by the Assembly in May.

Governors in a handful of states circumvented the legislature and addressed the offshoring issue through executive action. Gov. Jennifer Granholm of Michigan issued an executive directive that requires state agencies to give preference to in-state job providers in the awarding of contracts. It also requires state procurement officials to take into account a vendor's offshoring plans when reviewing contract bids. Gov. Tim Pawlenty of Minnesota and Gov. Bob Holden of Missouri issued executive orders requiring contract bidders to disclose where the work will be performed. Arizona Gov. Janet Napolitano went further, ordering state agencies to deny contracts to offshore vendors.

Gov. Napolitano's bold action is not, so far, being widely imitated. Many governors are apparently hoping that the storm over state offshoring has died down and that they can go back to the status quo. In numerous states, legislative initiatives to restrict offshoring have been defeated by an intensive lobbying effort mounted by corporate interests.

We are now at a turning point on this issue. Recently, the Boston Consulting Group issued a report exhorting U.S. companies to accelerate their transfer of work—including high-level functions such as research & development—to countries such as India and China.¹¹ If the business lobby has its way, state governments will follow that same path. The offshore vendors could capture not only isolated contracts, but also entire functions.

Already, there are signs that the domestic information technology sector in the United States is starting to shrink. Veteran programmers and analysts are being forced out of the field, while college students are avoiding computer science on the assumption that it has no domestic future. Offshore outsourcing by state agencies exacerbates these trends and moves us closer to a situation in which only foreign vendors have the capability to perform certain functions.

Clearly, now is not the time to abandon the efforts to control the spread of offshoring. At the very least, states should follow the lead of Minnesota and Missouri in creating requirements for contractors to disclose where they plan to perform the work. Such disclosure should apply to existing as well as future contracts, so that state officials can do meaningful audits of current work. In the course of implementing these changes, states should also make sure they have a complete picture of the contracts that have been awarded by individual agencies. To summarize:

- Each state should require all contract bidders to certify where the work on the project will be performed;
- Each state should require all contract bidders to disclose the name and headquarters location of their parent company;
- Each state should require existing contract holders to provide the previous two pieces of information; and
- Each state should create a comprehensive centralized database of contract awards by all state agencies.

Once in possession of this information, state officials will be able to see the full extent to which offshoring is contributing to the export of jobs, which in turn may prompt more states to follow in the footsteps of Arizona in prohibiting the practice.

The time to adopt public policies to address this issue is now—while government offshoring is still somewhat limited—not when it has already become a pervasive and entrenched practice.

Appendix A: Offshore Outsourcers that are Targeting the State Government Market in the United States

Note: Private-sector client lists are taken from company websites and press releases. We have listed the client names as they appear in these sources, even when company names have changed.

Auriga Inc.

www.auriga.com

- main businesses: software development, IT services
- headquarters: Moscow, Russia and Amherst, NH
- location of main development centers: Russia
- privately held
- revenues: approximately \$4 million
- employees: 130
- U.S. marketing offices: Amherst, NH
- U.S. private sector clients: Bell Atlantic, BroadVision, Ecora Software, Fidelity Investments, Hewlett Packard, Motorola Computer Group, Pilot Software, Polaroid, Putnam Investments.

HCL Technologies (Mass.) Inc.

www.hcltmass.com

- main businesses: providing IT services and software development to government agencies
- headquarters: Quincy, MA
- location of main development centers: India
- a division of India-based HCL Technologies Ltd., which is publicly traded in India
- revenues: \$388 million (total for parent company)
- employees: approximately 15,000 (total for parent company)
- U.S. marketing offices: Tallahassee, FL; Atlanta, GA; Quincy, MA; Vienna, VA
- U.S. private sector clients (including those of the parent company): Arbella Insurance, AT&T, Cigna, Cisco, Citigroup, Computer Sciences Corp., Concord Insurance, Convergys, Enterprise Rent-a-Car, First Chicago Trust, General Electric, General Motors, Hewlett Packard, Johnson & Johnson, Motorola, Priceline.com, Sun Microsystems, Washington Mutual, World Bank.
- Note: In 2002 HCL Technologies acquired Gulf Computers, which was already doing outsourcing for state governments.

HTC Global Services Inc.

www.htcinc.com

- main business: IT services
- headquarters: Troy, MI
- location of main development centers: India
- privately held
- revenues: \$65 million (Dun & Bradstreet estimate)
- employees: 592 (Dun & Bradstreet estimate)
- U.S. marketing offices: Troy, MI and Eden Prairie, MN

- U.S. private sector clients: none disclosed
- Note: In December 2002 HTC was given a \$7.2 million tax credit from the Michigan Economic Development Corporation as an inducement for the company to keep its headquarters in the state.¹²

ICICI Infotech

www.icici-infotech.com

- main businesses: IT services, business process outsourcing
- headquarters: Edison, NJ
- location of main development centers: India
- a member of the ICICI Group, which includes ICICI Bank Ltd. (publicly traded in India and in the U.S.; NYSE: IBN).
- revenues: approximately \$45 million
- employees: approximately 300
- U.S. marketing offices: Farmington, CT and Edison, NJ
- U.S. private sector clients: American International Group, Dow Jones

I-flex Solutions

www.iflexsolutions.com

- main businesses: IT services
- headquarters: Mumbai, India
- location of main development centers: India
- stock is publicly traded in India
- revenues: \$185 million
- employees: approximately 3,000
- U.S. marketing offices: Boston, MA and New York, NY
- U.S. private sector clients: none disclosed
- Note: In November 2003 I-flex formed a global strategic alliance with IBM to provide IT products to the financial services industry.

Infosys Technologies Ltd.

www.infy.com

- main businesses: IT services
- headquarters: Bangalore, India
- location of main development centers: India, but is reportedly planning to expand in North America
- publicly traded in India and in the United States (NASDAQ: INFY)
- revenues: \$1.06 billion
- employees: 25,000
- U.S. marketing offices: Phoenix, AZ; Fremont, CA (main U.S. office); Lake Forest, CA; Atlanta, GA; Lisle, IL; Quincy, MA; Rochester, MI; Charlotte, NC; Berkeley Heights, NJ; Dallas, TX; Reston, VA; Bellevue, WA.
- U.S. private sector clients: Aetna, Apple Computer, Boeing, Burlington Northern, Cisco Systems, Dell Computer, Dynergy, Eastman Chemicals, Eckerd, First USA, Franklin Templeton, Frito-Lay, Greenpoint Mortgage, Hallmark, Hannaford Bros., J.C. Penney, JDS

Uniphase, Johnson Controls, Kansas City Southern, Lear Corporation, Lexis-Nexis, Lucent, McCain Foods, Microsoft, Monsanto, New York Life, Nordstrom, Northwestern Mutual, Pier 1, SunAmerica, Sysco, The Gap, Toys R Us, Trader Joe's, Visa International, Visteon, Williams Sonoma.

- Note: Infosys recently announced that it will build what it claims will be the largest corporate training facility in the world, with a capacity of 4,000 people at a time.¹³

Intelligroup Inc.

www.intelligroup.com

- main businesses: IT services and business process outsourcing
- headquarters: Edison, NJ
- location of main development centers: India
- publicly traded in the United States (NASDAQ: ITIG)
- revenues: \$118 million
- employees: 1,353
- U.S. marketing offices: Costa Mesa, CA; Pleasanton, CA; Atlanta, GA; Warrenville, IL; Edison, NJ.
- U.S. private sector clients: Armstrong World Industries, Bristol-Myers Squibb, Centocor (Johnson & Johnson), Colgate-Palmolive, Daily News LP, Dan River, Eastman Chemical, Eli Lilly, General Electric, Harcourt, Hercules, Hewlett Packard, Kodak, Lockheed Martin, LSI Logic, Mead Johnson Nutritionals, Museum of Modern Art, OfficeMax, Procter & Gamble, Schering Plough, Scientific Atlanta, Stanley Works, Steelcase, Timken Steel, United Technologies, Valero Energy, Waterpik, Whirlpool, Wyeth, Xerox, 3Com.

Larsen & Toubro Infotech

www.lntinfotech.com

- main businesses: IT services, software development
- headquarters: Mumbai, India
- location of main development centers: India
- subsidiary of Larsen & Toubro Ltd., a leading Indian engineering and construction firm; parent company stock is publicly traded in India
- revenues: \$56 million (parent company: \$2 billion)
- employees: 2,200
- U.S. marketing offices: San Jose, CA; Atlanta, GA; Schaumburg, IL; Detroit, MI; Fort Lee, NJ; Dallas, TX; Houston, TX.
- U.S. private sector clients: Ford Motor, John Deere

Luxoft

www.luxoft.com

- main businesses: IT services, software development
- headquarters: Moscow, Russia
- location of main development centers: Russia
- privately held; a member of Russia's IBS Group
- revenues: approximately \$25 million
- employees: approximately 700

- U.S. marketing offices: Washington, DC; Roswell, GA; Montvale, NJ; Bellevue, WA
- U.S. private sector clients: Boeing, Citibank, Computer Associates, Dell Computer, Google, IBM, Intel.
- Note: Luxoft has received funding from the U.S. Department of Energy to retrain former weapons scientists in Russia.¹⁴

Mascon Information Technologies/ Mascon IT Limited

www.masconit.com

- main businesses: IT services, software development
- headquarters: Chennai, India
- location of main development centers: India
- subsidiary of Mascon Global Limited; parent company stock is publicly traded in India and Luxembourg
- revenues: \$12 million (parent company total about \$50 million)
- employees: approximately 1,000 (parent company total)
- U.S. marketing offices: Atlanta, GA; Schaumburg, IL (main U.S. office); Princeton, NJ.
- U.S. private sector clients: 3Com, Abbott Laboratories, Cigna, Citigroup, Dell Computer, DuPont, General Electric, Kodak, Lucent, MasterCard, Medco, Miller Beer, Motorola, TRW, Walgreens, Wal-Mart.

Patni Computer Systems Ltd.

www.patni.com

- main businesses: IT services, business process outsourcing
- headquarters: Mumbai, India
- location of main development centers: India
- stock is publicly traded in India
- revenues: \$251 million
- employees: 7,126
- U.S. marketing offices: Costa Mesa, CA; Fremont, CA; Norwalk, CT; Atlanta, GA; Oakbrook, IL; Cambridge, MA (main U.S. office); Woburn, MA; Southfield, MI; Minneapolis, MN; Princeton, NJ; New York, NY; Cincinnati, OH; Irving, TX; Bellevue, WA.
- U.S. private sector clients: AFLAC, AMD, Ann Taylor Retail, Inc., Atlanta Gas Light Company, Bendix, Best Western, Carrier, Cendant, Coca-Cola, CompuCredit, Conesco, Eclipsys, EMC Corporation, Emerson Electric, Employers Reinsurance, General Electric, Gillette, Guardian Life Insurance, Hewlett Packard, Home Depot, Lockheed Martin, MetLife, New Market International, Oracle, Parametric Technologies, Pitney Bowes, Putnam Investments, Rockwell Automation, Sara Lee Corporation, Sheraton, Southern California Edison, Starwood Hotels, State Street Global Advisors, Stride Rite, Telelogic, Timberland Company, VF Corporation, Westin, Weyerhaeuser, Xerox.
- Notes: Founder Narendra Patni, an MIT graduate, claims to have started outsourcing data processing work from the U.S. to India in the early 1970s.¹⁵ MIT Professor Michael A. Cusumano is on Patni's board of directors. Venture capital firm General Atlantic Partners was a major investor in Patni. General Electric reportedly accounts for nearly half of Patni's revenues.

R Systems Inc.

www.rsystems.com; www.rsys.com

- main business: software development
- headquarters: Noida, India
- location of main development centers: India
- privately held; investors include Intel Capital and GE Capital
- revenues: \$17 million (Dun & Bradstreet estimate)
- employees: approximately 1,000
- U.S. marketing office: El Dorado Hills, CA
- U.S. private sector clients: AltaVista, American Airlines, Bechtel, Boston Scientific, Cisco Systems, Compaq, Deloitte, Dress Barn, eBay, First Health, Flextronics, GE Consumer Finance, Genentech, General Motors, Intel, Kaiser Aluminum, Keyspan Energy, Lycos, MasterCard, Microsoft, MSNBC, Nextel, Robertson Stephens, Rockwell Automation, Voice Stream, Wells Fargo.

Satyam Computer Services Ltd.

www.satyam.com

- main business: IT services
- headquarters: Hyderabad, India
- location of main development centers: primarily India, but the company has announced that it is opening centers in North America, the United Kingdom, Dubai, Singapore, Malaysia, Japan and Australia.
- stock is publicly traded in India and in the United States (NYSE: SAY)
- revenues: \$459 million
- employees: 9,838
- U.S. marketing offices: Santa Clara, CA; Alpharetta, GA; Parsippany, NJ; Vienna, VA.
- U.S. private sector clients: Collins & Aikman, Ford Motor, Merrill Lynch, PeopleSoft, Texas Instruments, TRW, Yahoo.
- Note: Internal Microsoft documents recently obtained by WashTech indicated that the U.S. company was outsourcing high-level software jobs to offshore companies such as Satyam.¹⁶

SSI Ltd.

www.ssiworldwide.com

- main business: IT services
- headquarters: Chennai, India
- location of main development centers:
- publicly traded in India and on the London Stock Exchange
- revenues: approximately \$68 million
- employees: 460
- U.S. marketing offices (SSI North America or SSI Technologies or SSIT): Foster City, CA; Atlanta, GA; Chicago, IL; Minneapolis, MN.
- U.S. private sector clients: Cargill, Florida Light & Power, Gateway, General Mills, Jostens, J.P. Morgan, Kraft, Lehman Brothers, Minnesota Life, Nasdaq.

Surya Technologies

www.suryatechnologies.com

- main business: IT services
- headquarters: Bangalore, India
- location of main development center: India
- privately held
- revenues: not available
- employees: not available
- U.S. marketing office: Raleigh, NC
- U.S. private sector clients: none disclosed

Syntel Inc.

www.syntelinc.com

- main businesses: business process outsourcing, software development
- headquarters: Troy, MI
- location of main development centers: India
- publicly traded in the United States (NASDAQ: SYNT)
- revenues: \$180 million
- employees: 3,861
- U.S. marketing offices: Phoenix, AZ; Irvine, CA; Santa Clara, CA; Schaumburg, IL; Natick, MA; Troy, MI; Minneapolis, MN; Cary, NC; Santa Fe, NM; New York, NY; Dublin, OH; Nashville, TN; Dallas, TX.
- U.S. private sector clients: AFLAC, American International Group, Borders, Cendant, CNA, DaimlerChrysler, Dell Computer, Detroit Edison, FedEx, First Data, Fleet, Ford Motor, GE Capital, General Motors, HCA, Human, J.P. Morgan Chase, Kemper, McKesson, PacifiCorp, Sears, Target, Verizon, Wellpoint, Westfield Group.

Tata Group

(does business in the United States under various names, including Tata Consultancy Services, TCS America, Tata Infotech, Tata America International)

www.tata.com; www.tcs.com; www.tatainfotech.com; www.tcs-america.com

- main businesses: systems integration, IT services
- headquarters: Mumbai, India
- location of main development centers: India, but Tata is expanding in North America
- Tata Infotech trades publicly in India; numerous other units of the \$11 billion Tata Group industrial conglomerate also trade publicly in India. Tata Consultancy is planning to go public.
- revenues: total Tata IT revenues are about \$1.5 billion
- employees: total Tata IT workforce is about 28,000
- U.S. marketing offices: *Tata Consultancy Services/TCS America/Tata America International* : Phoenix, AZ; Los Angeles, CA; San Diego, CA; San Francisco, CA; Santa Clara, CA; Woodland Hills, CA; Denver, CO; Hartford, CT; Boynton Beach, FL; Tampa, FL; Atlanta, GA; Chicago, IL; Naperville, IL; Indianapolis, IN; Overland Park, KS; Boston, MA; Rockville, MD; Detroit, MI; Eden Prairie, MN; Minneapolis, MN; Missoula, MT; Raleigh, NC; Iselin, NJ; Short Hills, NJ; Buffalo, NY; New York, NY (U.S. headquarters); Cleveland, OH; Harrisburg, PA; Philadelphia, PA; Pittsburgh, PA; Dallas, TX; Houston, TX; Seattle, WA; Milwaukee, WI. *Tata Infotech*: San Jose, CA; Schaumburg, IL (U.S.

headquarters); Burlington, MA; Bloomington, MN; New York, NY; Plymouth Meeting, PA; McLean, VA.

- U.S. private sector clients: American Express, AIG, Amoco, AT&T, Best Buy, Boeing, ChevronTexaco, Citibank, Compaq, CSFB, Cummins, Dell Computer, Eaton, Ford Motor, General Electric, General Motors, Hewlett Packard, IBM, JC Penney, Johnson & Johnson, Kellogg's, Lucent, Microsoft, McGraw-Hill, NASD, Nike, Northwest Airlines, Ohio Casualty Group, Prudential, Qwest, Rockwell, SBC, Southern Co., Target, Texas Instruments, Unocal, Verizon, Westpac Financial Services.

Wipro Technologies

www.wipro.com

- main business: IT services and business process outsourcing
- headquarters: Bangalore, India
- location of main development centers: India, but Wipro is expanding in North America
- a division of Wipro Ltd., which trades publicly in India and in the U.S. (NYSE: WIT)
- revenues: parent company total is about \$1 billion
- employees: parent company total is 23,000
- U.S. marketing offices: Mountain View, CA; Manchester, CT; Chicago, IL; Detroit, MI; Bloomington, MN; Piscataway, NJ; New York, NY; Beaverton, OR; Addison, TX; Reston, VA; Bellevue, WA.
- U.S. private sector clients: Best Buy, Cisco, Compaq, Delta Airlines, Epson, Franklin Templeton, General Motors, Gillette, Hewlett Packard, Home Depot, J.P. Morgan Chase, Lucent, Microsoft, Morgan Stanley, Otis Elevator, PacifiCorp, Southern Co., Sun Microsystems, Weyerhaeuser, Xerox.

Appendix B: Details on the Appearance of Offshore Firms on State Vendor Lists

ARRANGED BY STATE

ARIZONA

HCL Technologies (Mass.) Inc.
HTC Global Services
R Systems
Satyam Computer Services
Tata Group

CALIFORNIA

HCL Technologies (Mass.) Inc.
(qualified IT vendor)
HTC Global Services
Infosys Technologies
(qualified IT vendor)
Larsen & Toubro Infotech
(qualified IT vendor)
Luxoft
Mascon Information Technologies
R Systems (qualified IT vendor)
Satyam Computer Services
SSI North America
Tata Group (qualified IT vendor)
Wipro Technologies (qualified IT vendor)

COLORADO

Auriga Inc.
HTC Global Services
R Systems
Tata Group

CONNECTICUT

Auriga Inc.
HCL Technologies (Mass.) Inc.
HTC Global Services
ICICI Infotech
Infosys Technologies
Larsen & Toubro Infotech
Patni Computer Systems
Satyam Computer Services
SSI North America
Tata Group
Wipro Technologies

FLORIDA

Auriga Inc.
HCL Technologies (Mass.) Inc.
HTC Global Services
Luxoft
Tata Group

GEORGIA

Auriga Inc.
HCL Technologies (Mass.) Inc.
HTC Global Services
I-flex Solutions
Infosys Technologies
Intelligroup Inc.
Luxoft
Satyam Computer Services
Tata Group

INDIANA

R Systems
Satyam Computer Services
Tata Group

IOWA

Tata Group

KANSAS

Larsen & Toubro Infotech
Tata Group

KENTUCKY

HCL Technologies (Mass.) Inc.
HTC Global Services
ICICI Infotech
Satyam Computer Services
Syntel Inc.
Tata Group

LOUISIANA

HCL Technologies (Mass.) Inc.
HTC Global Services
Satyam Computer Services
Syntel Inc
Tata Group

MAINE

HTC Global Services (pre-approved IT vendor)

MASSACHUSETTS

Auriga Inc.
HCL Technologies (Mass.) Inc.
ICICI Infotech
Patni Computer Services
SSI North America (SSIT)
Tata Group
Wipro Technologies

MICHIGAN

HTC Global Services
Satyam Computer Services

MINNESOTA

HCL Technologies (Mass.) Inc.
HTC Global Services
ICICI Infotech
Infosys Technologies
Larsen & Toubro
Luxoft
Satyam Computer Services
Syntel
Tata Group
Wipro Technologies

MISSOURI

HCL Technologies (Mass.) Inc.
HTC Global Services
I-flex Solutions
Larsen & Toubro Infotech
R Systems
Satyam Computer Services
Syntel
Tata Group
Wipro Technologies

MONTANA

HCL Technologies (Mass.) Inc.

HTC Global Services
I-flex Solutions
Intelligroup
SSI North America

NEBRASKA

HTC Global Services
Satyam Computer Services

NEVADA (qualified IT vendors)

HTC Global Services

NEW HAMPSHIRE

Auriga Inc.
HCL Technologies (Mass.) Inc.
HTC Global Services

NEW MEXICO

R Systems
Tata Group

NEW YORK

(pre-qualified IT services contractors)

HCL Technologies (Mass.) Inc.
ICICI Infotech
Tata Group

NORTH CAROLINA

Auriga Inc.
HTC Global Services
I-flex Solutions
Intelligroup
Larsen & Toubro Infotech
Luxoft
Satyam Computer Services
Surya Technologies
Tata Group

OREGON

HCL Technologies (Mass.) Inc.
ICICI Infotech
Mascon Information Technologies
R Systems
Satyam Computer Services
SSI North America
Syntel
Tata Group

PENNSYLVANIA

(approved vendors)

HCL Technologies (Mass.) Inc.
Mascon IT
R Systems
Tata Group

SOUTH CAROLINA

Auriga Inc.
HCL Technologies (Mass.) Inc.
HTC Global Services
ICICI Infotech
Intelligroup Inc.
Luxoft
Satyam Computer Services
Tata Group

TEXAS

HCL Technologies (Mass.) Inc.
HTC Global Services

Intelligroup Inc.
Mascon Information Technologies
Satyam Computer Services
Tata Group

VIRGINIA

Auriga Inc.
HCL Technologies (Mass.) Inc.
HTC Global Services
ICICI Infotech
Satyam Computer Services
Syntel Inc.
Tata Group

WASHINGTON

Tata Group

WISCONSIN

Tata Group

ARRANGED BY CONTRACTOR

AURIGA INC.

Colorado
Connecticut
Florida
Georgia
Massachusetts
New Hampshire
North Carolina
South Carolina
Virginia

HCL TECHNOLOGIES (MASS.) INC.

Arizona
California
Connecticut
Florida
Georgia
Kentucky
Louisiana
Massachusetts
Minnesota
Missouri

Montana
New Hampshire
New York
Oregon
Pennsylvania
South Carolina
Texas
Virginia

HTC GLOBAL SERVICES

Arizona
California
Colorado
Connecticut
Florida
Georgia
Kentucky
Louisiana
Maine
Michigan
Minnesota
Missouri
Montana

Nebraska
Nevada
New Hampshire
North Carolina
South Carolina
Texas
Virginia

ICICI INFOTECH

Connecticut
Kentucky
Massachusetts
Minnesota
New York
Oregon
South Carolina
Virginia

I-FLEX SOLUTIONS LTD.

Georgia
Missouri
Montana
North Carolina

INFOSYS TECHNOLOGIES

California
Connecticut
Georgia
Minnesota

INTELLIGROUP INC.

Georgia
Montana
North Carolina
South Carolina
Texas

LARSEN & TOUBRO INFOTECH

California
Connecticut
Kansas
Minnesota
Missouri
North Carolina

LUXOFT

California
Florida
Georgia

Minnesota
North Carolina
South Carolina

MASCON INFORMATION TECHNOLOGIES

California
Oregon
Pennsylvania
Texas

PATNI COMPUTER SERVICES

Connecticut
Massachusetts

R SYSTEMS

Arizona
California
Colorado
Indiana
Missouri
New Mexico
Oregon
Pennsylvania

SATYAM COMPUTER SERVICES

Arizona
California
Connecticut
Georgia
Indiana
Kentucky
Louisiana
Michigan
Minnesota
Missouri
Nebraska
North Carolina
Oregon
South Carolina
Texas
Virginia

SSI NORTH AMERICA
(SSI Technologies/SSIT)

California
Connecticut
Massachusetts
Montana
Oregon

SURYA TECHNOLOGIES

North Carolina

SYNTEL INC.

Kentucky

Louisiana

Minnesota

Missouri

Oregon

Virginia

TATA GROUP

**(Tata Consultancy Services,
TCS America, Tata America
International, Tata Infotech, etc.)**

Arizona

California

Colorado

Connecticut

Florida

Georgia

Indiana

Iowa

Kansas

Kentucky

Louisiana

Massachusetts

Minnesota

Missouri

New Mexico

New York

North Carolina

Oregon

Pennsylvania

South Carolina

Texas

Virginia

Washington

Wisconsin

WIPRO TECHNOLOGIES

(also called Wipro Infotech)

California

Connecticut

Massachusetts

Minnesota

Missouri

Endnotes

1. We compiled the list by consulting a variety of sources, including a directory published by the National Association of Software and Service Companies (the trade association of Indian IT firms): NASSCOM, *Indian ITES-BPO Service Providers: Directory 2004*, New Delhi, 2004. We also looked at websites such as BPOIndia.org and the Outsourcing Center <www.outsourcing-suppliers.com>, a list assembled by WashTech, and numerous articles in the international business press.
2. Our initial plan was to focus on the 25 largest states (ranked by expenditures). Thus, we were more systematic in seeking contract information on those states. Those states are Alabama, Arizona, California, Connecticut, Florida, Georgia, Illinois, Indiana, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, Washington and Wisconsin.
3. For more venture capital firms and offshoring, see Philip Mattera, "Capital Flight: How U.S. Investment Funds are Bankrolling Offshore Outsourcing," *Corporate Research E-Letter*, No. 46, April 2004; available online at <www.corp-research.org/apr04.htm>.
4. The search page for the Georgia Vendor Registration System can be found at: <<https://venderreg.doas.state.ga.us/VendorDB/home.do>>. The I-flex entries were found in a search done 6/23/2004.
5. The Institute's database can be found at <www.followthemoney.org>.
6. See "People on the Move," *Government Computer News*, March 24, 2003; available online at <www.gcn.com/22_6/community/21476-1.html> and Mary Hayes and Eric Chabrow, "Foreign Policy—Should Government Pursue Offshore Outsourcing If It Means U.S. Jobs?" *InformationWeek*, March 17, 2003, p.20
7. <www.tcs.com/0_media_room/releases/200303mar/20030310_buffalo.htm>.
8. <www.tcs-america.com/news/012204.html>.
9. Jeffrey Schwartz, "Should State CIOs Go Offshore," *VARBusiness*, May 25, 2004; available online at <<http://vb.channelsupersearch.com/news/var/50391.asp>>. The figure on the total volume of state IT contracting is from: "INPUT Expects Recover in State & Local IT Spending," January 27, 2004; available online at <www.input.com/index_v1_about.cfm?page=include_v1_article_detail&article_id=890>.
10. The best journalistic account was: Stella M. Hopkins, "States' Contracts Ship Work to India," *Charlotte Observer*, August 10, 2003, p.1A.
11. Paul Blustein, "Implored to 'Offshore' More," *Washington Post*, July 2, 2004, p.E1.
12. R.J. King, "Five Firms Plan Mich. Expansions," *Detroit News*, December 18, 2002.
13. "Infy's Mysore Training Arm Will Best MNCs," *India Business Insight*, June 18, 2004.
14. Jason Straziuso, "New Business Ventures Aim to Employ Former Russian Weapons Workers," Associated Press, November 5, 2003.
15. See Stan Gibson, "Patni: Back to the Future," *eWeek*, May 10, 2004 and Robert Weisman, "At the Center of a Culture Shift," *Boston Globe*, May 25, 2004.
16. Todd Bishop, "Microsoft Outsourcing High-End Jobs" *Seattle Post-Intelligencer*, June 16, 2004, p.D1.