

# The need for an offshore business plan



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Nowadays the term offshore business is getting more and more business attentions. This term covers a wide range of information technology and other business related services offered by companies in developing countries to the companies in developed countries . The off shoring business is mainly started as a business to do cheap software development, and then it is expended to other areas which can be called ITES, IT enabled services like call centres and support centres . The term Business Process outsourcing (BPO) refers to the transfer of a companies business which are not the core process but the which are critical to the functioning to an external vendor in other country . These external vendors uses IT based delivery. By doing such kind of offshoring , the firms are able to focus on the their core areas , making cost benefits and the non core areas will be handled by experts . This will help the parent firm's shareholder value to increase because it is all about the performance in the market . (Roy, Sharma and Bhushan, 2006)

During the last one decade India has been developing as the most attractive location for offshore businesses . Companies and Global corporate from all over the world have already moved to Indian to take the advantages of the benefits of this country provides. The number of fortune 500 companies who has already set up their captive offshore business centre in India is not small . Thus India is emerging as the largest offshore hub in the world. The Information technology (IT) Outsourcing and Business Process Outsourcing (BPO) market in India has been showing an unbelievable growth. According to the estimates of NASSCOM, the National Association of Software and Services Companies (NASSCOM), Indian offshore business (bothe IT and BP0) market is worth around seventeen billion USD, which is nearly forty four

percent of the total global off shoring market (about USD 40 billion). (Tutorial reports, 2009)

This report proceeds as follows . The first part will give the SWOT analysis of Indian offshore industry . The second chapter will explain about the benefits of off shoring to India . The third part will give an idea about various challenges that has to be faces in Indian offshore business. The final part will explain about the implication of development to the Indian companies .

### **SWOT analysis**

In this section , a SWOT analysis of Indian offshore business sector is given . The tables below is very brief . Most of the things mentioned in this SWOT table will be covered in the coming sections.

## **Strengths**

**Rich and wide talent pool. English speaking graduates and Engineering graduates.**

**Attrition rate is low compared to developed countries.**

**Technological competency is high**

**Benefits due to geographical location and time difference.**

**Economical benefits . Reduced labour and infrastructure cost .**

## **Weaknesses**

**The infrastructure is feeble.**

**Diversity in culture .**

## **Legal issues**

**Data protection and privacy issues**

## **Opportunities**

Availability of manpower .

High quality of information technology

The market potential is high

Growing economy .

Educated young generation

## **Threats**

### **Anti outsourcing bill in US**

**Competition from other countries like china, Ireland, Philippines and eastern European countries.**

**The billing rates are growing high**

### **Off shoring to India -Benefits**

#### **Cost Benefits :**

One of the basic reason for doing offshore business in India is the direct saving of the cost. This cost benefits are calculated as a difference from the wages in India and wages in western countries for doing the same kind of skilled jobs. Even though the difference is decreasing due to the rise of wage in IT professionals in India, there will be significant cost benefits gained from outsourcing to India. The corporations around the world are not only outsourcing India for the end process tasks but also for the Knowledge Process outsourcing.( Robinson and Kalakota (2004) . The clinical trial outsourcing is an example . The clinical trials that can be done in India would give a cost saving of 40-50% compared to that being done in America. It also gives cost benefit in terms of capital benefits . The global corporate need not invest money on infrastructure and recruitment in the country where it is operating . The capital investments may be much cheaper in India. According to World Outsourcing Summit conducted in 2004, cost benefits are cited as the primary motive towards offshoring business services to India (Corbett, 2004).

“ In the airline industry, Delta Air Lines offshore-outsourced some of its worldwide reservation services to India-based Wipro Spectramind. This third-  
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party vendor manages Delta's reservations from its Mumbai call center; a move that Delta expects will save \$26 million in 2003 alone ." Robinson and Kalakota (2004)

### **Access to the pool of Talent**

Offshore business is one way of accessing the talent from overseas for certain occupations. India has got a very big pool of people with rich talent . India has got several technology enabled centres (Green, 2007). These centres has got the ability to attract the highly talented people . The speed of the recruitment and availability of the talent is much higher when compared to the western countries and US. This why India still remains in the no. 1 position in offshore business centres. Another advantage is the availability of English speaking people with high-IQ. ( Kripalani, M., Engardio, P , 2003).

### **Speedy and reduced cost Recruitment**

In US and western counties, the speed of the recruitment is comparatively less . It can take weeks or months to hire a person and fill the gap especially for a technically skilled position. Due to the large pool of candidates with high talent in Indian , the recruitment process is much faster than that of US . The cost of recruitment in US is much much higher than the cost of recruitment in India. This gives an advantage in offshore operations in India. (Green, 2007).

### **Fast Turn around time**

The time difference between US and India is 12 hours . This will allow the Indian part of the company to do processing at night time US . This

difference in the zonal time gives a 24 hours work environment in the companies which does offshore business. So the processing tasks will be done without the backlogs. This gives a big benefits to the companies who wishes to operate 24 hrs and do some offshore business in India.

The IT teams who work both in client site and Indian offshore locations has got very big advantage . The team who are in US work with the client during the day time in US and hands over the work to Indian team before they go to bed. The other part of the team who are in india will take over the work and do the work during the day time in India . This will significantly reduce the turnaround time .(Chithlen, 2004)

One of the main motive behind Nortel networks, an IT firm from Canada to start offshore business in India was the benefit of turnaround time. They took the advantage of the time difference between Canada and India.

### **Other Benefits:-**

Since it is not possible to explain all the benefits in details , some of the benefits are listed here .

India has got people with information technology skills that are recognized by US companies .

Indian government offers some tax exemption to the IT companies .

Indian work practices, mainly in IT companies ly comply with the standards of ISO and SEI CMM s. More than eighty percentage of SEI-CMM 5 companies worldwide are located in India.

The quality standards are approved by the leading companies from developed nations . The number of countries to which India exports software is 95..

The political factors are favouring the IT industry and it is stable

The satellite and submarine connectivity is very good and which makes the broadband connectivity one of the best in the world .

## **Offshoring to India -Challenges**

Even though India is the no. 1 attractive location for offshore business, there are many challenges that has to be faces by the firms to make a successful offshore business. In this section, the possible challenges will be explained briefly.

### **Cultural Issues**

The culture in India is far different from the other countries where the offshore business jobs are coming from. The way of getting the work done and the conflict resolution methods in India are different . Even the words used in different contexts can have different meanings in Indian culture. These words may have slightly different meaning in European or Indian culture. The companies who would like to set up offshore business in India have to have a well aware of the Indian culture and they have to set their challenges and goals. According to Geert Hofstede , India's power distance index is very high compared to US or European countries. Higher power distance means, the inequality in the hierarchical levels is high . India's power distance index is 77 . But the power distance of US where most of the



offshore businesses are coming from is 40. The other dimensional indexes also are different. (Hoftsed, 1980).

This can be illustrated by so many examples, In the call centres or other Business Process outsourced industries, the Indian teams have cultural problems in working with American colleagues. In American, the team members are expected to be taking responsibility and ownership . This is much less in Indian teams . In Indian culture is decision making is much more top-down where it tend to be less in American culture . In Indian culture the style of meeting deadlines, commitment, attitude towards the process and mindset about the different hierarchical levels are very different . These are all challenges that has to be faced while setting up offshore business in India. (Schomer, 2010)

## **Infrastructure Challenges**

The infrastructure challenges are one of the big challenges of those who are keen to do offshore business in India. The firms from US and UK are keen to lease offices in Indian offshore location. The demand for the office spaces in key business locations is so high. So the companies have to book the places even before the construction is finished . Another problem is the future expansions. Companies have to look for office spaces if different location which makes the coordination difficult . For example the company HP has got 20 rented offices spaces in different parts of the Bangalore and they are running out of space . This challenges will lead the companies to get involved in developing their own campus or get involved in real estate business. (Butler, 2003)

## **Recruitment Challenges**

The pool of candidates in India is really huge . Nearly 260, 000 engineering graduates come out of the campus every year . Finding the real best talent out of this pool is becoming a real challenge in these years. For example, the company called Infosys does the interview view for 67, 000 candidates which are selected from nearly a million application . But only 260000 people are hired. So the effort and money put for these recruitment is not negligible. The companies from US/EU have to define a well structured recruitment process to find the best talent.

Another additional challenge is the retention of employees. The attrition rate in India is higher that that of US/EU . As the number of vacancy is high, the candidates have got more opportunities and the other recruiter from other company will approach the candidate . So the retention policy in US or EU will not be applicable in a country like India.(Kottoli, 2006).

## **Training Challenges**

The work force should be trained to be more productive . This demands an organized training program. It can be seen that employees in India may have good english written skills, the offshore business demands more skills in verbal communication. The BPO employees should be trained in verbal communication which is more of accent training .(Brodsky and Vance, 2009)

In order for the employee to interact with the US/UK side of the business , the training should be tailored to include the cultural issues. The one who conducts the training should be aware of cultural issues of both parent and Indian organization.

There is requirement that the hires should be trained in some technical specific tools This is to make them more productive in the real work environment. There are some training in specialized tools (eg. SIMMS, Kramer and Chronology etc.) Which are not available in India. This requires the overseas travelling of trainers of employees

## **Challenges in team coordination**

In the offshore business teams working in different geographic locations. So there will be difference in the time zones. And the cultural differences will also be a problem for the team integrations. So coordination issues are one of the challenges to the offshore business. Rather than focusing on job, team will take time to do 'storming'. It's the job of management to take care of the trust problems in the team and the communication gaps. This will help to minimize work stress among the members of team . The challenges of coordinating teams with different culture are little bit complex and cannot be easily solved with company policies. The companies may require consultants who can handle the cross-cultural issues.(Fabriek, 2007)

## **Security in Data**

When selecting a technology provider organization for offshore jobs, companies should take care of the fact that they should have proper procedure for infrastructure security and comprehensive data security. There are different specific areas to be included such as compliance, communications and systems management, system development, and classification controls of assets. This can become a challenge while offshoring to India

The procedures and policies are intended to cover “business as usual” activities such as restore and backup, assessment of information risk and change of control guidelines. Also the disaster recovery plans and business continuity policies could be well established.

Capgemini was selected to work with the Ministry of Defense of a major European country to implement an ERP system using SAP. However, the ministry was constrained by severe budgetary restrictions and therefore wanted to use offshore competencies and rates without compromising security. Following a stringent security audit, Capgemini India was awarded security clearance to develop and test the ministry’s ERP solutions offshore (Dhodia-Capgemini, 2006).

### **Quality of service –**

The quality of service is another challenge. The quality can bring the real cost savings. Otherwise it may bring losses instead of savings. For example, after receiving many complaints about the service from customers, Dell was forced to close one of its support centres. So a keen monitoring of the quality of the work and place where it is outsourced is very much required for the offshore jobs. (Green, 2007)

### **Off shoring India -Development of Indian Companies**

The offshore business in India has contributed significantly to the economic and market growth of India. These offshore businesses have caused the rise of many companies which are global players. Since year 2006, Indian offshore business providers have made at least thirteen acquisitions abroad in North American and European Markets. (Fitzgerald, 2009). A big competition is

going in the top players in Indian offshore industry (Hillary, 2004) . A brief explanation of the top players in Indian offshore business will give n insight into the development happened to the Indian companies.

## **INFOSYS**

Infosys is started in 1981 with an initial investment of INR 1000. It has started its full scale operation in 1993 . The US investment banker Morgan Stanley has bought 13% of equity at the offer price of Rs. 95 per share .. By the year 1999, the share price has gone above eight thousand Indian rupees. At the end of year 2000, the share price of this company went well above 15 thousand Indian rupees. (India Today , 1999) . As of march 2010, the revenue of Infosys is 4. 8 billion US dollars and it employees more than 113 thousand people .(Garia, 2010)

Since it is listed in the Bombay stock exchange , the sales and earnings growth rate of Infosys was more than seventy percentage .(Forbes, 200) . During a speech , the former president of US complimented India for its achievement in technology by citing the company name Infosys .(Indian express , 2000). The number of applications it receives is more than one million which makes Infosys a very well know and branded company among the jobseekers in India .

## **WIPRO**

Wipro is another giant information technology organization which is benifited from offshore business . According to th2008-2009 financial year report , Wipro is one of the largest information technology services company which employees more than 108 thousand people all over the world .(Wipro quarter

results, 2009) Even though , it has other business areas other than information technology , its main revenue is from offshore IT services . When IBM was asked to leave Indian information technology sector , Wipro entered into the information technology . As of march 2010, its net revenue is 6. 03 billion US dollars(Wipro, 2010).

Acquisitions, : Over the last few years Wipro was very successful in acquiring companies . Wipro's focus in the information technology sector is mainly on SOA, BPO and consulting. Wipro is interested in big deals . Wipro has acquired a company called Infocrossing which makes Wipro as a very well player in infrastructure management deals. Wipro has got collaborative deals with Nokia Siemens in the area os radio acces research and development . Also it has signed contracts with Cisco to step into the networking area. Wipro is continuing to grow as a global player in the off shoring busineses.

### **Tata Consultancy Services (TCS).**

Tata Consultancy Services is a strong player in Indian software industry which focuses on software services and consulting . It was founded in 1968 . TCS is listed in National Stock exchange and Bombay Stock exchange .(ICMR, 2004) . In 2010 , the revenue of this company reached 6. 33 billion USD and it employees more than 160 thousand people .

Strong Revenue Growth: It is reported that TCS has got strong 27% growth in revenues . The net income growth is at a rate of 26%. TCS does offshore business with eighteen clients billing more than 50 million USD and six clients above 100 million USD. The growth rate of TCS in Middle east , Asia and APAC countries is incredible. TCS was able to stepped up into the

Telecom and manufacturing services and it is growing. Recently , non-ADM services of TCS has contributed more than 50% of overall TCS revenues. Its BPO services also show good growth rate which is in the order of double digit. . TCS is the first Indian IT company which employed more than 100, 000 employees.

These are the development of major players in the Indian offshore business . There are hundreds of companies who are benefited from the offshore business ..