

Sample project report



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Project Report: Corporate Overview: HB InfoTech (HB) is a global IT company. HB offers clients business solutions that leverage all aspects of the software life cycle. These span consulting, design, development, re-engineering, maintenance, systems integration, and package evaluation and implementation. HB also offers software solutions aimed specifically at the banking industry. HB leverages its global client base and its professional workforce through its Global Delivery Model.

The company divides projects into components, which it executes simultaneously in several different locations: at the client's site and at HB development centers in US and worldwide. In order to expand its product and solutions offerings, the company is looking to build its expertise in emerging trends, new technologies, specific industries and business issues, enabling it to meet client needs as they arise. HB also seeks to boost its share of new clients and new geographic markets, including focusing on India, China and Australia. It seeks to pursue alliances and acquisitions that enhance its brand value in the market.

As the part of future expansion and to explore new geographic horizons, HB is keen to start its offshore operation in India. This move will not only result in cost-savings but also result in reduction of company's burn rate. This project report will give an insight of HB's future venture in India. It will also highlight some of the related strategies, its challenges and future prospects. Why INDIA? India is now one of the biggest IT capitals in the modern world. Over the past decade or so, India has emerged as an attractive destination for offshore outsourcing.

Companies all over the world are off shoring many different processes to India to harness the benefits offered by the country. Businesses in the U. S. and other parts of the world continue to move a portion of their development, support and other operations offshore to India, primarily for cost-saving reasons. Availability of a large pool of talented and motivated professionals, India has a large pool of young talented professionals. India's edge over other competing nations in the IT outsourcing business is significant and based on the country's decade old experience in this area, fluency in the English language, supportive

Government policy infrastructure, and high quality offerings. Significant cost advantage One of the biggest advantages of off shoring to India is cost savings. HB would able to save about 30 to 40 percent for most services by outsourcing processes to India. Cost savings in India can be accounted for by savings in the following three heads: 1. Labor: Indian professionals work at wages much lower than that in the US and Europe. 2. Capital: Infrastructure costs in India are lower thus saving significantly on capital. 3. Labor management: The number of employees required during a project is not same throughout the course of the project.

Hence, when a business process is carried out in-house, companies have to pay the employees and maintain office space for them, even if these employees are not working on any project. Outsourcing would enable HB to do-away with the expenditure on bench labor, as the outsourcing vendor allocates the bench employees to projects for other clients or bears the cost of inefficiency. Effect of off shoring to India: | Pre-off shoring| Post-off shoring| Effect| Sales| 100| 100| | Labor| 60| 45| 25 percent decrease|

Materials| 20| 20| | SG; A| 10| 10| | EBITDA| 10| 25| 150 percent increase|

EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization)

After Off shoring, HB would be able to save 25 % on labor cost. This will lead to an increase of 150 % in the Earnings Before Interest, Taxes, Depreciation and Amortization (EBITA). There is a vast difference in the labor costs in US and India in the IT industry as well. An IT professional with 1-2 years of experience in the US charges USD 50, 000 to 70, 000 per year. On the other hand, a professional with same experience level costs about USD 8, 000 per year in India, about 11 to 16 percent of that in the US.

Fast turnaround time In India, clinical trials are conducted in 30 percent less time, while there has been a backlog reduction of 50 percent in transcription processing. Also, India and the US have a zonal time difference of about 12 hours, thus effectively giving companies a 24 hours work environment. Most of the processing functions are performed during the day time in India, when it is night time in the developed countries. As a result of this zonal time difference, there would no or little backlog in the front end and processing tasks.

The advantage of this zonal time difference would more prominent in IT outsourcing. Projects will have onsite and offsite teams. The onsite team would during the day at the US client site and hands over the work to the Indian team before retiring to bed. The offsite team then will work on the same project as it is day time in India. When the Indian team retires to bed, the onsite team takes over the work, thus significantly reducing the project turnaround time. The Indian government also offers tax holidays under

Section 10A and 10B of Income-tax Act on various IT enabled products and services.

These services include back-office operations, call centers, payroll, data processing, geographic information system, human resource and training, insurance claim processing, legal services, medical transcription, engineering and design, accounting, administration and support, and content development. Structure and Location: HB Tech would be the wholly-owned subsidiary of HB Info Tech with 100% direct investment permitted under FDI (Foreign Direct Investment) policy. HB would set up its campus in Bangalore in the state of Karnataka (INDIA).

Bangalore is considered as the Silicon Valley of India because of its skilled workforce, communication infrastructure and business friendly environment. R ; D in India: The Indian subsidiary would be a major hub of Research and Development (R; D) in South East Asia. Its primary focus would be on providing better and cost effective business solutions and also to increase the dominance of HB Info Tech across South East Asia. The Parent company will collaborate directly with the subsidiary company and will also monitor its development. There would be a written agreement regarding R; D and transfer of Technology. Hiring of Local Service Provider HB Info Tech will hire a accountant, lawyer or other service provider in India to establish the subsidiary and complete the necessary administrative and legal requirements, such as applying for name availability, preparing the memorandum and articles of association, and tax and labor registrations. HB is in negotiation with a local third party service provider for Bangalore city. Some of basic services offered by this third party includes payroll, benefits

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and human resources support similar to what TriNet or Administaff provides in the U. S.

HB Info Tech will be in legal written agreement with the service provider.

Incorporation Task: The below table contains the list of actions and estimated time schedule involved in the incorporation process. According to research the cost for establishing an Indian subsidiary through a local service provider ranges from approximately U. S. \$7, 500 to U. S. \$20, 000, including incorporation, registration and service fees, but excludes initial capitalization provided to the subsidiary by HB Info Tech. A number of the tasks can be done in parallel after incorporation occurs. -----

Acting in parallel will keep the total time as short as possible. Incorporation, including: Start - 30 days ; Engage service provider to complete incorporation process ; Enter into agreement between HB Info Tech , service provider and initial Indian directors and shareholders ; Checking of name availability and name reservation ; Prepare and file charter documents (Memorandum of Association and Articles of Association), with registration fee and stamp duty ; Appointment of initial directors ; Issuance of shares to initial shareholders Print share certificates and prepare minute book ----- ; Register Company and pay registration and filing fees ----- Open bank account within 15-30 days of start Tax Registrations, including application for ----- Permanent account number and tax Within 45 days of start deduction number Registrations under professional tax, sales tax and ----- Shops and Establishment laws Within 30 days of start ----- Register with

Software Technology Park (STP) Within 45 to 90 days of start Approval of Customs Dept. for bond and facility ----- License, and import/export codes Within 60-90 days of start Transfer of shares held by initial Indian shareholders ----- to the parent company/nominees Within 45 days of start Total Time = 60-90 days

Corporate Structure: Initial Directors and Shareholders: As per the India Company Act, a private limited company must have at least two directors and two shareholders. While it is not legally required that such directors and shareholders be residents of India, but still HB Info Tech will initially have at least one local director and two local shareholders in order to efficiently complete the incorporation process.

This structure would avoid administrative time-delays, such as requirements that non-India residents have incorporation documents notarized in an Indian consulate in the United States, and would enable HB Info Tech to establish the subsidiary more quickly. Initial Shareholders: ¶ For administrative efficiency reasons, the subsidiary will initially have two local Indian nominal shareholders. These persons would be nominal shareholders for an initial designated time period for purposes of establishing the subsidiary, and such shares should be subject to the right of purchase by the Parent Company HB Info Tech. HB Info Tec will also be issued shares from the subsidiary once governmental approvals are obtained. The parent company would consult with the service provider to ensure there will be sufficient authorized share capital of the subsidiary for the parent company to capitalize the subsidiary. ¶ The service provider would agree to not issue any other shares or ownership rights in the subsidiary except as approved in

writing by the parent company. | The initial local Indian shareholders would also agree to comply with all written instructions and budgetary guidelines provided by the parent company.

Managing Director: Selection of the managing director is an important business decision. The Companies Act of India provides that the Board may appoint one of the directors as the managing director of the subsidiary. The managing director will be a full-time director and would delegated powers similar to that of a President and CEO of the parent company. The managing director will be the operational head of the subsidiary and will be responsible for the day-to-day affairs. Managing Director will be appointed from the initial shareholders and company directors.

Appointment of a local managing director will reduce complications related to administrations and work culture. But still, other options would be taken into considerations. **Board of Directors:** HB Tech would initially authorize at least three directors. One of the three directors will be a local Indian resident to serve for an initial designated time period for purposes of establishing the subsidiary and/or as the managing director of the subsidiary. All other directors will be representatives designated by the parent company HB Info Tech. The directors designated by the HB Info Tech will be executive officers of the parent company. | The agreement between the parent company, the local service provider and the initial local director would require the local director to comply with all budgetary guidelines and other written instructions provided by the HB Info Tech and not make any expenditures inconsistent with such guidelines or incur any other obligations without the

prior written approval of HB Info Tech. Corporate Control of Subsidiary Funding of Subsidiary and Budgetary Guidelines

One of the most effective means to maintain financial oversight is to fund the subsidiary on a monthly basis based on written budgetary guidelines approved by the parent company. Funding the subsidiary within such monthly guidelines will ensure the subsidiary acts within the parent company's expectations when building out its infrastructure and otherwise. Chief Finance Officer (CFO) of the parent company will be responsible for opening communication channels with the subsidiary, such as having weekly telephone calls with the managing director or finance officer of the subsidiary, to monitor the subsidiary's expenses.

Limit of Delegation of Authority The Parent company may also limit the amount of authority that is delegated to the local managing director of the India subsidiary. For example, certain types of decisions may be required to be made by the full board of directors, such as any material expenditures or agreements with third parties that bind the subsidiary. Operational

Implications and Related issues: The India subsidiary is a separate legal entity from the U. S. Company. Therefore, operational relationship would be carefully documented and monitored in order to maintain the separate legal status of each company.

There will be intercompany and other agreements between both entities in order to have the intended effect for tax, isolation of liability and other business purposes. One of the major issues would be of currency exchange restrictions. The government of India regulates the movement of funds out of

India and approval may be required before cash may be transferred out of India. Intellectual Property Infrastructure Intellectual property protection is implemented in India both by statutory compliance and by written agreement.

Copyright and patent protections are the primary types of statutory protection. Trademark and service mark statutory protections also exist. Statutory protection is important because it provides certain protection even if there is no agreement in place so long as statutory requirements are met. Trade secret protection is implemented by agreement. Patent protection is the strongest intellectual property protection because independent development is not a defense to a claim of infringement. Intellectual property protection is available for the U. S. company's work in India to the extent an Indian national's work would be protected. Copyright protection requires no action for implementation but patent protection requires a patent to be issued. Copyright protection for software is available in India but patent protection for software is uncertain there. Enforcement of statutory and contractual intellectual property protection is a practical problem both in the U. S. and India. Therefore, practical means of protection may be important such as appointing trusted management, keeping certain components of the core technology in the U.

S. , careful management of the development environment in India, software fingerprints, watermarks and other measures. Labor and Employment challenge: Indian labor and employment laws, similar to laws in the U. S. , are legislated at both a state and federal level. India, like America, is a federation of states with a constitution that delineates various powers to

both the national or central government and the state governments. One of the most significant and fundamental differences between Indian employment law and the law in the U. S. is that Indian employment relationships are essentially contractual and the concept of “ employment at will” is generally not applied in Indian legislation and its case law. While written employment contracts between an employer and an employee are generally not specifically required, the employment relationship will nevertheless be considered contractual in nature. Certain tax provisions in India also affect the compensation arrangements provided to employees. For example, employers (as opposed to employees) can find themselves taxed on certain benefits such as stock options.

Culture Difference: Sending IT jobs to Indian offshore entity won't deliver the cost-saving results to American companies want if U. S. -trained managers ignore inherent cultural differences between the two workforces. The working styles of Indian corporate differ widely from their American counterparts. One of the biggest drawbacks of Indian working style is the lack of time management. Where on one hand Americans are sticklers for punctuality and time management, this important characteristic doesn't rank high on the priority list of Indians.

The tremendous growth of IT sector has lead to implementation of the American working style in many offices. But the problem is that such reforms are confined to large corporate and multinationals only. Smaller and mediocre companies still lack facilities like training programs for employees, motivational meetings, teleconferencing. Constructive criticism, employee bonding etc are unheard of and are still considered alien and set aside for

the American working style. In the United States of America, efficiency, adhering to deadlines and a host of other similar habits are considered normal and are expected.

But when it comes to India, one needs to understand that one is dealing with people from a different cultural background that think and interact differently. As a result, what is considered to be reasonable and feasible in America may not work so in India and vice-versa. Aggressiveness can often be interpreted as a sign of disrespect. This may lead to a complete lack of communication and motivation on the part of the Indians. One needs to take the time to get to know them as individuals in order to develop professional trust.

As India is a land of contrasts and each person you meet will be unique blend of Indian/Western values. People from different socio-economic strata, educational backgrounds, class and religion may behave very differently. Stock Options for Employees in India: As an incentive to attract and retain employees, HB Info Tech will grant stock options to key employees of the subsidiary to purchase common stock of the U. S. Company. Indian employees are familiar with this type of compensation and at least higher level employees view it favorably. Lower level employees may prefer cash.

Generally, these stock options will be granted to the Indian employees from the equity incentive plan of the HB Info Tech. If the plan complies with certain guidelines promulgated by the government of India then this options will have the same beneficial tax treatment as federal tax treatment of incentive stock options in the United States. in India. India's currency

exchange controls applicable to stock option exercises by employees have been liberalized and there is presently no limit on the amount that employees are allowed to remit for this purpose.