Chapter 9: Ownership Models and Partnership

Outsourcing is often the wrong term to use when describing the practice of working offshore in India. To outsource means to contract work out from your own organisation to another, however the picture is not always that simple.

Some organisations have opened their own subsidiary companies in India, so work can be contracted out to India, but it remains within the parent organisation. Some organisations are literally outsourcing by contracting work to another company. In some cases a new company is formed that is a joint venture between the client and supplier.

The question of outsourcing to a partner or setting up your own facility to create 'internal outsourcing' is one of the first that needs to be answered when considering the move offshore. This chapter explores the different ways of working offshore - and how the services can be priced - and aims to throw some light on the benefits and drawbacks of each.

Direct Investment

Direct investment in creating your own 'captive' facility is often the preferred route for foreign companies with low experience of outsourcing and a desire to maintain strong control over the operation. The term 'captive' is often used to describe when a company has its own office, infrastructure and employees, rather than the people and facilities being contracted from another organisation. Companies like GE have made an art of exporting their own high-quality management practices to India, while enjoying the benefit of a lower cost environment, though GE recently sold 60 per cent of their captive operation GECIS.

There are a number of ways to set up your own captive facility in India. The website Outsource2India.com describes the main options as[1]:

- Branch Office: A representative office can easily be opened in India, however this does not allow you to sell or market your products or services in India. This may be a possible option if you are only considering software development.
- 100% subsidiary: If you would like the facility to be locally managed or you want to sell your products in India then you need to look into this option. There are a number of very attractive options from the Indian government for foreign investors creating a subsidiary company in India including tax breaks

and import duty exemption. These incentives are usually available to firms locating themselves in a Software Technology Park or Export Processing Zone.

- Joint Venture: Working with an Indian partner to create blend of your products or services with their local expertise is a common 'toe in the water' step for foreign firms. It allows both firms to benefit from the relationship and the option to switch to a 100% subsidiary is usually agreed if certain conditions are met. The growth of the Internet and lower communications costs are encouraging joint ventures with Indian firms. In *The Death of Distance*, France Cairncross comments: "The Internet encourages alliances. Again, they were already proliferating before it began to worm its way into the corporate structure. In 1998, a quarter of the earnings of the top one thousand firms in the United States came from strategic alliances, double the share in the early 1990s."[2]
- Acquire an existing Indian company: This is a feasible option, usually through transferring shares to the investing company. It has the advantage of allowing a running start as the company and its infrastructure will be immediately in place. The Reserve Bank of India does need to be informed before a foreign investor purchases shares in an Indian company so there are some possible legal pitfalls to be wary of.

A number of major multinational companies have facilities in India now and they are not clustered in a single area. Though the technology sector often focuses on the south, this investment is spread throughout India. Major investors include General Electric, Standard Chartered, Ford Motor Company, Texas Instruments, Oracle and Microsoft.

The main benefits to a firm of creating their own captive facility in India are:

- Perceived better control: Managers unfamiliar with outsourcing as a business tool often feel that keeping the project teams as employees of the parent organisation encourages better performance - everyone works together.
- Management style and culture: The culture of the organisation and its management expertise can be exported to India, so the Indian teams adopt similar methods of working as those used elsewhere.
- Security: Sensitive information does not leave the parent organisation; it is just transferred to another office for processing. The office could be in Bangalore or Baltimore.
- Flexibility: Some managers find the fully outsourced model less flexible than retaining direct control over their offshore employees. Resources can be redirected without the requirement of working through a detailed offshore management process.