

## OFFSHORING EXEMPLIFIED BY THE INDIAN COMPANY TATA CONSULTANCY SERVICES (TCS)

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### **Abstract:**

More and more companies are committed to passing some departments services to an external service provider. Often this involves the transfer of services across the company's home country, where both benefits and new strategies giving to the company a new competitive edge are met. Transferring these activities from developed countries to countries with lower production costs is possible due to improving the quality and reducing the cost of communication, enhanced information technology and new standards in telephony, as well as the creation of better business opportunities for foreign investors in many countries. Offshoring of services is associated with financial benefits and the quality and efficiency of services provided. The purpose of this article is to review the basic theories of offshoring, to present a working model in the Indian company and the source of the effective use of offshoring by offshoring companies.

*Keywords: offshoring, ITO, BPO, strategy*

## 1. INTRODUCTION

Modern company management is based on the continuous changes that involve both opportunities and threats. Two trends impact the market: globalization of the economy and economic management. Market systems are changed by yet another phenomenon - de-industrialization of the economy.

In recent years the growing significance of globalization of services in the world economy could be noticed. It is a relatively new phenomenon. It is a collection of processes that lead to ever greater interdependence and integration of states, societies, economies and cultures. One can notice free flow of products, services, knowledge, ideas and capital across national borders. Bigger competition in the global market means, that companies must look for new solutions.

The phenomenon of de-industrialization of the economy causes two things: a decrease in the importance of manufacturing industry and growing importance of services in creating GDP and employment. Technology is another important direction of changes in the business surrounding. It influences the life span of products, making it shorter, and accelerates the development of IT. Telecommunications and information technologies allow the immediate transfer of information all over the world (.A. Ocampo, 2002).

More and more companies are committed to passing some departments services to an external service provider. Often this involves the transfer of services across the company's home country, where both benefits and new strategies giving to the company a new competitive edge are met. Offshoring of services is associated with financial benefits and the quality and efficiency of services provided.

Currently the most revolutionary in the international market is offshoring of web services technologies (ICT) and business process offshoring. Offshoring is the transfer of additional business to foreign branches or putting passing the services to another company that will do it more efficiently. Transferring these activities from developed countries to countries with lower production costs is possible due to improving the quality and reducing the cost of communication, enhanced information technology and new standards in telephony, as well as the creation of better business opportunities for foreign investors in many countries. Therefore, the importance of offshoring of business services is increased. The use of modern communication technologies (eg the Internet) affects this, too. A good example is the development of the Indian software industry (D. Brown and S. Wilson, 2005).

The purpose of this article is to review the basic theories of offshoring, to present a working model in the Indian company and the source of the effective use of offshoring by offshoring companies. The study was based on a detailed analysis of the literature on the topic. The article includes a case study of the Indian offshoring company. The analysis and juxtaposition of qualitative and quantitative data (financial and economic indicators) was prepared. The article stated that the reason for the success is the strategy of offshoring is the systematic creation of employee competencies and intellectual capital. The example of Indian companies shows that with the lack of proper infrastructure and adequate government support, the dynamic development is still possible.

## 2. THE ISSUE OF OFFSHORING

Technological advances in communication and reduced barriers to trade and investment have facilitated the globalization of services. Technological changes that have occurred in the production and communication in recent years have allowed companies to ration out production processes throughout the world. It allows them to take advantage of differences in the costs of factor production without losing the benefits of specialization (G. Sethupathy, 2013). Enterprises are increasingly willing to minimize costs and benefit from related separation of ancillary activities and doing it by themselves in their foreign branches or return such services to another company which will do it more efficiently. This phenomenon is known as offshoring.

Offshoring raises a lot of controversy. It can help businesses to improve their profitability and results in the formation of new job positions in the countries, where the offshoring companies are located. On the other hand, it can have negative macroeconomic effects for the home countries, that is for so-called importers of offshored inputs. Offshoring can contribute to increase productivity, improve skills,

and increase the purchasing power of consumers through lower import prices and the reduction of currency fluctuations for exporters (C. Cheung and J. Rossiter, 2008).

In the literature, the concept of offshoring and offshore outsourcing can be found. Offshore outsourcing means that first of all, the location of business is transferred to another country, and that the functions are charged to specialized providers (J. Hätönen 2009).

In contrast, offshoring constitutes a transfer of business functions from the home country to other countries, but within the same company. This strategy is considered to be a new management practice and its origin was firstly reported in the late seventies. Although the advantages of location in terms of cost minimizing are important for the company, they also look for talents and technology resources to be developed by offshoring (M. Roza et al., 2011). If the organization uses offshoring, it may affect the increase of its efficiency. Thus, the savings obtained from offshoring may be invested in research and innovation, which can lead to long-term increase in productivity. The offshore outsourcing phenomenon has become one of the pillars of various research disciplines, including international business, strategic management, supply chain management and information systems.

### 3. ADVANTAGES AND DISADVANTAGES OF OFFSHORING

The company should perform a cost analysis to justify the purpose of offshoring. In some cases, costs may be higher and the implementation of actions on their own is more profitable. Cheap labour in other countries, lower costs of communication and coordination are favourable to offshoring as economic alternative. In general, offshoring increases the flexibility of the company and gives the access to the latest products and processes. The risk of obsolescence of technology falls on the shoulders of offshoring company. In the case of offshoring, the investments in resources needed for the production of the product or the service are much lower. There is a possibility to invest the saved money in other investments or to improve innovation and quality. The possibility of reducing transaction costs motivates companies to use offshoring within the organization, which may lead to an increased added value. Its use by the company enables to increase the competitiveness of the organization in the international market (A. Sharma et al., 2009). Summary of the advantages and disadvantages of offshoring is presented in Table 1.

**Table 1:** Summary of the advantages and disadvantages of offshoring

Advantages	Disadvantages
Low labour costs	Possibility to lose control over the company
Low cost of communication and coordination	Higher costs than originally expected
Improving the investment in innovation and quality	The risk of losing confidential data
Provides flexibility and the ability to quick adaptation to changing conditions	Poor quality of services
The organization can focus on core business	The increase in the exchange rate, which may lead to an increase in the costs of offshoring
Transfer of responsibility to the external supplier	Problems with communication and coordination of cooperation
	The risk of selecting the inappropriate supplier

Source: Own study.

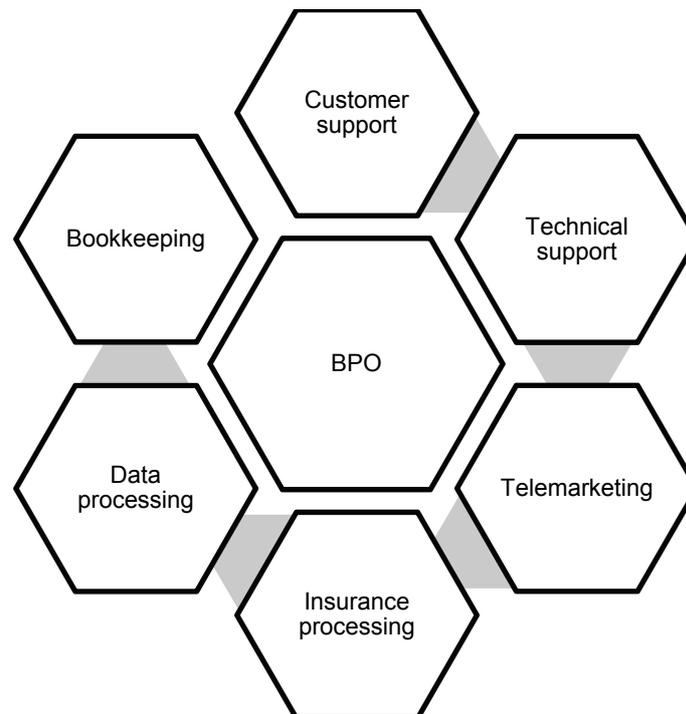
Offshoring has also several negative sides. The disadvantages of this strategy lay both on the side of the company that gives part of their tasks for the outside company and on the side of external company as well. For example, too much desire to reduce costs, on the one hand it is the benefit of offshoring, but too much emphasis on their reduction may lead contractor to operate on the borderline profitability, which will certainly affect the quality of the project. Sometimes, the companies which offer their services are without content-related preparation, lacking of appropriately qualified personnel or with no practical experience in developing the projects in their offer (L. Bengtsson et al., 2008).

Companies which decide for the offshoring may lose important skills and technologies that are a part of their core competencies. Therefore, companies often oppose such threats, holding control over the most important design projects and operations, trying to investigate customers' expectations in terms of meeting the needs as well (C. Bozarth et al., 2007).

#### 4. OFFSHORING IN THE WORLD

The strategy of offshoring is associated mainly with the availability of skilled workers, low labour costs and low costs of running a business. In recent years, rapid development of ITO and BPO industry in India has been noticeable. Many international companies consider India as an ideal destination for outsourcing services in the field of information technology and business services due to the high qualifications of employees and not just only for cost reasons. Many U.S. and European companies have their suppliers in India in the provision of technical services, such as software or web service platform. Figure 1 shows the most common services offered by Indian companies in the BPO industry. Increasingly, customers are looking for suppliers who deal with among others, development and support for critical business applications. Therefore, Indian companies set up a company of higher value, it particularly refers to research and development and Knowledge Process Outsourcing (G. Kannabiran and K. Sankaran, 2011).

**Picture 1:** Services which are the most frequently offered by Indian companies in the BPO industry



Source: Own study.

The criterion for the choice of location is one of the main challenges that businesses face when making decisions on outsourcing and offshoring. Such a decision is primarily based on the investment attractiveness of the place. However, not in all situations entrepreneur is guided by the attractiveness of the location, the choice can often be associated with the fact that the supplier is bound by a specific location (e.g. TCS in India). The customer will be aware of the major advantages of such solution than in the home country of the offshoring company (Offshore outsourcing to India, 2014).

The main reason for choosing India for offshoring location is the supply of qualified personnel, low labour costs, investment in infrastructure, appropriate business, economic and political climate. A large number of Indian offshoring companies has gained a lot of knowledge and experience and has built good relations with customers from the U.S., which had contributed to the increase in the prices for the offered services (N. Kshetri and N. Dholakia, 2009).

Countries such as India, China, Brazil and Russia are starting to feel the pressure on wage growth. One may notice a war for talents in each of these countries, which made these locations attractive for outsourcing. Many Indian and Chinese companies find more favourable position for their companies in other countries. For example, major Indian companies (TCS) move their centres of deliveries to China, because the increased supply of skills and improved knowledge of English in China have been observed in recent years (India is no longer the automatic choice for IT services and back-office work,

2014).

## 5. EXAMPLE OF TATA CONSULTANCY SERVICES

Indian IT industry can serve as an example of the opportunities that are offered by the development of offshoring services. Over 90's, local software producers increased their scale of activity, which led to the phenomenon that India is one of the most popular locations for IT services among clients.

This article focuses on the determinants of company management in term of offshoring services. The leaders of offshoring market in India are companies such as Tata Consultancy Services (TCS), Wipro Technologies, Infosys Technologies and Satyam Computers. They compete successfully with global giants such as IBM, EDS and Fujitsu. The analysis of Tata Consultancy Services (TCS) has been performed. This is an Indian company which deals with information technology (IT), business processes and consulting. It was founded in 1968 as a division of Tata Sons Limited, operating in Mumbai, Maharashtra.

The company has a diverse labour force, in 2013 the company employed about 276 thousands of employees, who represent 118 nationalities in 55 countries. The policy of the company in the field of human resources has evolved due to demographic changes, the organizational efficiency was increased while taking into account changes in regulation aspects in India. The company has been working closely with key academic institutions worldwide.

Mature HR processes enable the company to react quickly to changes in the global market and keep the relevant customers. Thanks to good HR systems, the company is able to manage despite the large geographical coverage and the size of its branches, in accordance with the legal requirements in the countries in which it operates.

**Table 2:** Indicators of intellectual capital of Tata Consultancy Services

	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013
Expenditure on B&R (mln \$)	0.34	0.52	0.52	0.54	0.63	1.25	4.54	6.53	12.52
Expenditure on B&R as % of the income	0.26	0.28	0.28	0.22	0.20	0.33	0.75	0.83	1.23
Expenditure on books and specialized magazines (mln \$)	0.12	0.12	0.27	0.18	0.23	0.24	0.43	0.81	0.81
Number of employees	5 714	66 480	89 419	111 407	143 761	160 429	198 614	238 583	276 196
Average age of employees	26.14	26.14	25.67	26.60	26.60	26.00	26.00	26.00	26.00
Average education of employees (1-basic, 2-secondary, 3-higher)	2.80	2.84	2.90	2.89	2.90	2.85	2.70	2.79	2.79
The average cost of employees (mln \$)	70.67	98.51	145.09	183.93	233.45	242.84	303.12	397.86	514.54

Source: Annual report of Tata Consultancy Services.

TCS Company catching up with technology in relation to U.S. IT corporations has invested in the development of knowledge resources. Expenditure on research and development during the analysed period has increased. Companies offering services often resign form R & D investment, which negatively affects the development of the competencies of employee and development of their own solutions and methods, which in the future may facilitate the implementation of projects for clients. TCS also kept separate funds for the purchase of books, periodicals and software supporting the

delivery of services. The dynamic growth of the computer industry is associated with a continuous updating of knowledge about new technologies and methods of its use. A valuable source is the access to the latest literature and the exchange of experiences with other practitioners. This indicates that the company provides the opportunity for the development and learning for their employees.

Between 2004-2013, the number of employees in Tata Consultancy Services increased nearly fiftyfold. The average age of employees remained at the same level - about 26 years. Strong competition of other Indian companies affected the fact that TCS focuses on recruitment and development of young, inexperienced employees. The company has run an training program for students from 616 academic institutions in India and 288 institutes in other countries. The company increases its recruitment efforts with universities in the USA, Canada, China, Uruguay and Hungary.

TCS in the U.S. recruited students for trainings from 40 universities and seven business schools. The company supports the initiative of the Academic interface program (AIP), whose goal is to develop the faculty of research institutes, increase the employment among students and participating in the development of syllabus in accordance with the requirements of the industry. Thanks to the initiative of NASSCOM, TCS has designed training modules for different branches of engineering. About 620 institutes in India and about 290 foreign institutes benefited from workshops for academic teachers, students, awards, research. The company supports 111 PhD students in 31 institutions in India as a part of the scholarship program (Annual Report of Tata Consultancy Services).

Between 2004-2013, the average annual cost of the employment has increased more than sevenfold, which corresponds to the general trend in the Indian labour market for professionals. Hourly rates in 2011 for advanced services in India were lower by 40 % as compared to the United States, however these differences in the cost of wages have gradually decreased (Narayanan S., JM Swaminathan, 2007). The increase in labour costs in 2013 as compared to 2012 was associated with the need for the employment of staff with expertise in branches outside India. The company conducts research and development initiatives that promote innovation and inventions. In 2012-2013, the company submitted applications for 425 patents and 9 were adopted. Intellectual assets of the company enable significant savings, they have been deployed within the organization and project for clients.

The company has developed human resources strategy that allowed for the collection, integration, development and keeping the best employees who affect economic growth. Human resources management strategy has been adapted to optimally meet the needs of organizations, deliver a high level of utilization and keep labour costs in the desired dimension. The company invests in enhancing human capital by building the skills and competencies of their staff. Interactive classrooms are created, video based training and social media enabled social learning (Annual Report of Tata Consultancy Services).

## 6. SUMMARY

Continuous creation of employee competencies and intellectual capital is the source of success in offshoring activities. An example of TCS Company shows the benefits of investment in human resources. An important element of the human capital strategy development is the participation in the AIP training program. Most trainees from universities are adapted to work. Indian companies have developed an innovative model of offshoring, it differs from the Irish version, which is based on direct foreign investments. Both models can complement each other in the economic policy of governments. The experience of Indian offshoring companies shows the possibility of dynamic growth even in the absence of the support from adequate infrastructure or government institutions.

Based on the article, one can claim that companies should build employee competencies which meet the expectations of foreign customers. This is important even in the case of relatively simple, repetitive actions – an importance of it grows in terms of ambitious, innovative and knowledge-based projects such as Knowledge Process Outsourcing. In India, popular initiatives aimed at standardization and process management services are popular. Collaboration with educational and research institutions as well as business associations that can represent their interests and together with the public administration are essential to work out strategic plans for development of the industry. The most important challenge is to build the company's strategy of offshoring. In India, indigenous entrepreneurship and local companies which have evolved over the years tended from subcontracting to self-reliance and active participation in the international market.

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