Business Process Outsourcing to India

Geographical, Cultural and Institutional Influences Defined

K. Stal

August, 2010

Business Process Outsourcing to India

Geographical, Cultural and Institutional Influences Defined

Master Thesis

Department of Organization & Strategy
Faculty of Economics and Business Administration, Tilburg University

Student: Kars Stal
ANR: 44.33.95
Study Program: Logistics and Operations Management
University Supervisor: Dr. J.A.C. de Haan
University Co-Supervisor: Drs. M. Röthengatter
Date: August 20, 2010
Word Count: 14904

Preface

By writing this thesis, on business process outsourcing by western companies to their Indian counterparts, 10 years of study at Tilburg University come to an end. These 10 years of education, both from a theoretical as practical perspective, have been very valuable to my personal development.

This thesis could not have been written without the help of Job de Haan, who has acted as my primary supervisor over the last 6 months. Job has been very helpful in defining the approach and structure of this research and discussions with him have given me valuable additional insights in the topic discussed. Next to this I have always appreciated his more personal involvement on certain moment during my study. I would also like to thank Marloes Röthengatter for agreeing to be co-supervisor in finalizing this thesis.

Next to my supervisors I would also like to think the seven subject matter experts, who made time available to discuss their experiences with regard to the building blocks of the checklist, presented in this thesis.

During my studies, I have used the opportunity to be an active member and board member of different associations. Board membership of student association TOP-DOWN and acting as president of TiGeAk has been very challenging at moments, but certainly been worthwhile. Next to learning practical skills, like working in a team and organizing and coordinating events, being active at these associations has also brought me friendships I will cherish for the rest of my life.

A few of the people, I have come to know, need mentioning here as they helped me in different ways during the process of writing this thesis. Robin van Lieshout has, next to reading the thesis and being very critical in his comments, been a steady factor during several though moments over the last 10 years. Without his motivational speeches, this thesis would not have been written. Maikel Wijsbek also needs mentioning, he has read this thesis, from a language used perspective, and next to this was always available for discussions on how to approach the research and interviews. Loes de Heus also read through the thesis and her help in finding articles is very much appreciated. On a more personal level Diana van den Berg helped me through some “writer block” moments by sitting down, always accompanied by some coffee, and taking my mind of the thesis for a moment. Unfortunately this thesis does not allow naming each and every individual who have been there for me during my studies, but I really appreciate the connection we have currently and will have for years to come.

I would also like to thank my colleagues at The Hackett Group, who have given me the opportunity to write this thesis over the last 6 months. Interaction with my colleagues and the projects we do together is one of the main motivations for working at The Hackett Group.

Last, but surely not least, I would like to thank my parents and sisters. My study has not been a path without bumps. During these moments, they have always been supportive in letting me follow my own path. Knowing that there has always been and always will be a place to come home to, is one of the many aspects of family life I have valued a lot and will never take for granted.

I hope the reader of this thesis will find the insights discussed valuable to their work.

Kars Stal
August, 2010

Management Summary

Companies worldwide are increasingly outsourcing part of their business processes. India is, according to many papers, the leading destination for offshore outsourcing (Sharma et al, 2005; Mehta et al, 2006). Although business process outsourcing is increasingly considered by companies worldwide, not all initiatives to outsource business processes are successful. Kakabadse and Kakabadse (2002), state that 70% of all companies that outsource are dissatisfied with one or more aspects of their relationship with suppliers.

This thesis focuses on the question why western companies outsource their business processes to Indian companies and the related advantages and disadvantages. As a result of this thesis a checklist is developed that gives an overview of the advantages and disadvantages of business process outsourcing and country specific factors, geographical, cultural, and institutional, that can influence these (dis)advantages. This checklist can act as a guide for western companies evaluating options to outsource their business processes. By taking this checklist into account they can manage expectations and hopefully prevent current issues related to dissatisfaction with one or more aspects of their relationship with the Indian supplier.

The initial checklist and its building blocks are derived from literature review. The building blocks of the checklist were afterwards discussed with seven subject matter experts as part of the empirical research. Based on their experiences a final checklist is developed. The checklist is built from three main building blocks, the advantages and disadvantages of business process outsourcing to Indian companies, country specific factors influencing these advantages and disadvantages, and the impact of these specific factors. Below these building blocks are highlighted. However, first the definition of business process outsourcing, as used in this thesis is mentioned:

“The movement of one or more business processes from inside the organization to external service providers, which in turn own, administer, and manage the selected process(es), based upon defined and measurable performance criteria, either to be performed on-shore, near-shore, or off-shore.”

Three main advantages are mentioned to trigger the outsourcing of business processes to Indian companies. The most important advantage is the cost reduction opportunity, followed by an opportunity for outsourcing companies to focus upon their core competencies. A third advantage “access to provider’s technology and skills” was found to be only a valid reason for companies in specific situations. Most companies just assume that outsourcing providers that are able to deliver on a global scale are able to

do so taking certain service level agreements into account. Choice is made in these cases mostly solely based on costs.

Three disadvantages, resulting from both literature review and empirical research, are the risk of reputational damage, by either the provider not performing up to standards or by the perception of abuse of offshore workers by a company, hidden costs, and dependence on a supplier. The risk of becoming dependent on a supplier can be relatively easily mitigated by setting into place internal countermeasures, and is not related to offshore country characteristics.

The remaining five advantages and disadvantages are influenced by three main offshore specific characteristics, namely geographic distance, cultural differences and institutional influences. Influences from geographic distance are mostly a result from time zone differences, the setup of communication networks, and different use of English between partners in the outsourcing trajectory. Cultural differences refer to members of two distinct groups differing on one or more cultural dimensions. That is, their shared values, norms, beliefs and assumptions, they take into account while doing their work (Winkler et al, 2008). These differences can have an effect on the success of business process outsourcing. Finally institutional influences are derived from infrastructural issues, political conditions, intellectual property issues, and presence or lack of unions.

Effects of these country specific characteristics on the (dis)advantages of business process outsourcing is described in this thesis. By taking into account possible countermeasures in the outsourcing relationship (either by provider, Indian government, or outsourcing company), impact of these country specific characteristics on these (dis)advantages was also described. These combined discussions result in a final checklist, which can be found in table G on page 55 of this thesis.

The main conclusion of this thesis is that Indian companies engaged in business process outsourcing have a lot of potential and India is considered to be the preferred country of origin by many western companies desiring to outsource their business processes. India has a lot of potential, mostly due to the low wage costs, long working hours, the availability of educated resources and English speaking capabilities. However, for western companies to secure these benefits, and for Indian companies to remain the preferred choice, they should both be aware of the risks of business process outsourcing and possible geographical, cultural and institutional influences on the advantages and disadvantages of outsourcing business processes, and act upon resolution of these influences, as presented in the final checklist.

Table of Contents

Chapter 1 – Introduction

Chapter 1 introduces the topic of this thesis, business process outsourcing by western companies to Indian companies. Paragraph 1.1 describes the problem indication. Paragraph 1.2 discusses the main research question and the specific research questions, needed to answer the main research question. The next paragraph describes the relevance of this thesis from a theoretical and practical perspective. Paragraph 1.4 elaborates on the research methodology used to answer these questions. Finally, paragraph 1.5 focuses on the structure of this thesis.

1.1 – Problem Indication

Companies worldwide are increasingly outsourcing part of their business processes; 80% of companies use at least some sort of outsourcing (Wadhwa & Ravindran, 2007). Lahiri and Kedia (2009) state business process outsourcing adds a new dimension to the practice of global sourcing of services. The growing number of global contracts and alliances in this area clearly demonstrates organizations' belief in the value proposition (Mehta et al, 2006). Business process outsourcing involves delegating various processes, as opposed to standardized activities, of a firm's value chain to specialized suppliers (Lahiri & Kedia, 2009), and is increasingly mentioned as a strategic choice for companies looking to focus on their core business, while achieving cost reductions, improving their service quality, and increasing shareholder value (Sharma & Saxena & Aanand, 2005). Research by Lacity, Willcocks, and Rottman (2008) indicates that the global market for business process outsourcing will be about 350 billion dollar in 2010. In 2005 the value of this market was only 140 billion dollar. An annual growth rate of 10 - 20 percent is to be expected for years to come.

India is, according to many papers, the leading destination for offshore outsourcing (Sharma et al, 2005; Mehta et al, 2006). Business process outsourcing is mentioned as the next big opportunity for India, with revenues over 2008 of about 40 billion dollars (KPMG, 2009). Global providers as IBM, Accenture, and Genpact employ close to two million people in India. The NASSCOM 2010 strategic review describes low cost delivery, high caliber talent pool, language skills, infrastructure, and focus on sustainable growth as the main reasons for companies to outsource their business processes to India.

Although business process outsourcing is increasingly considered by companies worldwide, not all initiatives to outsource business processes are successful. According to Roussev and Akella (2006) many organizations are bringing key projects back in house, because outsourcing contracts have failed to meet expectations. Kakabadse and

Kakabadse (2002) furthermore state that 70% of all companies that outsource are dissatisfied with one or more aspects of their relationship with suppliers.

Most of the scientific articles reviewed, focus on the opportunities of business process outsourcing to India. Mehta et al (2006) however, see some challenges, which could prevent India from maintaining a leading role in business process outsourcing in years to come. These challenges include cultural differences, rising operational costs, competition of other countries, and personnel issues.

This thesis focuses on why western companies are still increasingly outsourcing their business processes, although papers recognize that business process outsourcing is not always successful. As India is mentioned, by many papers, as the leading destination in this context, this thesis focuses on business process outsourcing to Indian companies.

1.2 – Research Question

Based on the above problem indication the following research question can be formulated:

"Why do western companies outsource their business processes to Indian companies and what are the related advantages and disadvantages?"

The main research question can be divided in the following more specific research questions:

1. What are the general advantages and disadvantages of business process outsourcing?
2. To what extent do these advantages and disadvantages differ when western companies outsource their business processes to Indian companies?
3. To what extent do the general advantages and disadvantages of business process outsourcing, as experienced in practice, differ from those described in theoretical literature?
4. Which specific differences in advantages and disadvantages of outsourcing business processes by western companies to Indian companies can be defined, when comparing practice to theoretical literature?

1.3 – Research objective

1.3.1 – Theoretical Relevance

Business process outsourcing has been described in several recent articles. Most articles however, focus on describing the reasons for business process outsourcing in general (amongst others Kakabadse & Kakabadse, 2002; Yang et al, 2006; Mehta et al, 2006; Lacity et al, 2008). This thesis adds the dimension why western companies decide to outsource their activities internationally and more specifically to India. Furthermore, this thesis focuses on describing geographical, cultural, and institutional influences on the advantages and disadvantages of business process outsourcing. Gridharadas (2007) and Appelbaum and Samaha (2008) briefly describe the impact of cultural differences and institutional influence on outsourcing, but more research is needed with regard to this aspect of offshore business process outsourcing.

1.3.2 – Practical Relevance

This thesis focuses on the question why companies outsource their business processes and defines the advantages and disadvantages of business process outsourcing by western companies to Indian companies. Based on literature review a checklist will be defined, containing the advantages and disadvantages of business process outsourcing in general and the influence of country specific characteristics of India on these advantages and disadvantages. This checklist will be discussed with several subject matter experts to verify the, by literature review determined, advantages and disadvantages in practice. The outcome of this discussion on the checklist can act as a guideline for western companies on what to take into account, when deciding upon business process outsourcing to Indian based companies.

1.4 – Research Methodology

To answer the research question, literature review and empirical research is conducted. The first two specific research questions are answered by means of literature review. Literature review is defined by Sekaran (2000) as the documentation of a comprehensive review of the published and unpublished work from secondary sources of data in an area of specific interest. As noted by Verschuuren and Doorewaard (2005), literature can be used as a source of knowledge.

The literature used is mainly derived from literature on international production, (business process) outsourcing, and social studies on cultural and institutional influences. Steps taken, to search and select relevant literature, are discussed below.

Different sources within the library of Tilburg University are used to derive the needed literature. The following search engines are used in the initial quest for literature; ABI/Inform, JSTOR, Online Contents Book Chapters UvT, Online Contents Journal Articles UvT, Online Contents National, Research Papers in Economics, Theses (bachelor and master), and Google scholar. A first selection of papers is made from these search engines by using (combinations of) the following key words; Business process(es), outsourcing, offshoring, developing countries, India, culture, institutional, and globalization. By afterwards browsing through the titles and further key words of these articles, a first selection of sources worth of further investigation on relevance is made (Sekaran, 2000).

Relevance of articles, chapters of books, and online sources, found as a result of this first selection, is afterwards judged by reading at least the abstract and beginning of the conclusion of these papers. This is found to be an effective way of making a first selection from the listings gathered from the online system (Sekaran, 2000). Furthermore this thesis mostly refers to literature which is recent, published after 2000, as business process outsourcing has only emerged over the last decade (Lahiri & Kedia, 2009).

If the article, chapter of a book, or online source is found to be relevant from this first analysis, and has passed the additional aspect of being recent, it is read completely. If still useful, the article is used as a source of knowledge, as described by Verschuuren and Doorewaard (2005), and, by going through the attached reference lists, as an additional way of gathering relevant papers. Literature, selected from the reference lists of these initial papers, is again judged on relevance, by letting them pass the discussed steps.

The empirical part of this research consists of seven interviews with subject matter experts in the field of business process outsourcing to discuss a, from literature review defined, checklist on advantages and disadvantages of business process outsourcing in general, and more specifically for western companies outsourcing their business processes to Indian companies. Research methodology with regard to the empirical part of this research is discussed in detail in chapter five of this thesis.

1.5 – Structure of this Research

Chapter two of this thesis starts by defining business process outsourcing. Afterwards it describes the general advantages and disadvantages of business process outsourcing, and focuses on answering specific research question one.

Chapter three discusses country specific characteristics for India, which can influence the success of offshore business process outsourcing projects. Three country specific characteristics are discussed, namely geographic distance, cultural differences, and institutional influence.

Chapter four discusses the influence of country specific characteristics for India, discussed in chapter three, on the general advantages and disadvantages of business process outsourcing, as discussed in chapter two. As a result of this discussion a checklist is presented.

Chapter five describes the research methodology used to test the checklist, presented in chapter four, empirically.

Chapter six discusses the specific research questions three and four, based upon empirical research. The checklist, as developed from literature review, is discussed in interviews with subject matter experts. The findings from these interviews are included and explained in more detail in this chapter.

Finally, chapter seven describes the conclusions of this research. Limitations of this research and recommendations for future research are also discussed.

Chapter 2 – Business Process Outsourcing in General

2.1 – Introduction

This chapter discusses the specific research question “What are the general advantages and disadvantages of business process outsourcing”. First, a definition of business process outsourcing, as used in the remainder of this thesis, is presented. Afterwards, the general advantages (paragraph 2.3) and disadvantages (paragraph 2.4), as described in theoretical literature, are discussed. Finally some concluding remarks are made as a result of literature review described in the other sections of this chapter.

2.2 – Business Process Outsourcing defined

Definitions of business process outsourcing are described by several researchers and are mostly alike. Click and Duening (2005) define business process outsourcing simply as the movement of business processes from inside the organization to external service providers. Meenakshi and Vani (2008) refer to business process outsourcing as the operation of letting out the task of performing certain functions of an enterprise to another enterprise, often a third party, and in some cases, a subsidiary of its own. Yang et al (2007) see business process outsourcing as the delegation of one or more IT-intensive business processes to an external provider, which in turn owns, administers, and manages the selected process, based upon defined and measurable performance criteria. According to Chanda (2008) business process outsourcing can be defined as the delegation of service activities to a third party, either to be performed on-shore, near-shore, or off-shore. Mehta et al (2006) suggest that, in business process outsourcing, the operational ownership of one or more of the firm’s business processes is transferred to an external provider that, in turn, manages the processes according to some predefined metrics.

For the purpose of this thesis, a combination of the above definitions of business process outsourcing is used, which results in the below definition;

“The movement of one or more business processes from inside the organization to external service providers, which in turn own, administer, and manage the selected process(es), based upon defined and measurable performance criteria, either to be performed on-shore, near-shore, or off-shore.”

This definition is used in the remainder of this thesis as it contains all the below criteria;

- *Business processes* are defined by Symons (2004) as the complete and dynamically coordinated sets of collaborative and transactional activities in a commercial enterprise or public organization directed to the achievement of a specific goal.
- Turning over, administering, and managing the selected processes is mentioned as a key distinctive characteristic of business process outsourcing, compared to outsourcing (Yang et al, 2007).
- Measurable performance criteria are needed to determine whether the external service provider has executed the process better, than when it was performed in-house (McIvor, 2008).
- According to Chanda (2008) three types of business process outsourcing can be distinguished. *On-shore* can be seen as an enterprise outsourcing its activities to another company located in the same country, *near-shore* as outsourcing activities to a nearby country, and *off-shore* as outsourcing to a remote or far-off country (Meenakshi & Vani, 2008).

This thesis focuses on outsourcing of business processes, supported intensively by technology, such as human resources, finance and accounting, procurement, supply chain management, and customer care, as Indian companies are mostly focused on this specific part of business process outsourcing (Bloch & Spang, 2003). The distinction between IT-outsourcing and business process outsourcing in this context is important to make. IT-outsourcing is about outsourcing of infrastructure and application support, where business process outsourcing vendors will take over primary management of IT-supported business processes of clients (Shi, 2007).

2.3 – Advantages of Business Process Outsourcing

Theoretical literature mentions several advantages of business process outsourcing. These can be roughly divided into three categories, namely cost reduction, focus upon core competence, and access to provider's technology and skills (Kakabadse & Kakabadse, 2002; Yang et al, 2007; Mehta et al, 2009). This paragraph describes these advantages in more detail.

2.3.1 – Cost Reduction and Restructuring

Traditionally, outsourcing was a means of lowering cost of production and processes (Kakabadse & Kakabadse, 2005). Customers being more cost-conscious is causing a major shift in business process outsourcing adaptation and quickly increasing spend on business process outsourcing by companies worldwide (Yang et al, 2007). In general, companies can profit from cost reduction and restructuring for the following reasons:

- Cost reductions by outsourcing business processes to lower wage countries (Doh, 2005; Alon & Herbert & Munoz, 2007).
- Outsourcing of business processes to obtain economies of scale (Kakabadse & Kakabadse, 2002; Conklin, 2005; Mehta et al, 2006; Wadhwa & Ravindran, 2007). Economies of scale can be obtained when a supplier is able to standardize tasks, by using their own technology, and offer the service to more clients, while reducing the number of employees needed to handle specific activities (Kakabadse and Kakabadse, 2002). Companies should however take into account that consolidating tasks of multiple clients and using vendor's technology is not always in the company's best interest as they might benefit greatly from greater accuracy, reduced cycle time, or a tighter security level than initially offered by vendor (King, 2007).
- The possibility to transform fixed costs into variable costs (Alexander & Young, 1996). Companies are looking for ways to cope with demand and cost fluctuations. Outsourcing business processes should allow companies to cope better with demand fluctuation, because of economies of scale and related consolidation of work from several clients, more flexible management or work practices, and alternative use of spare capacity (Alexander & Young, 1996).
- Additional advantages in the cost restructuring category are capital cost reduction (Kakabadse & Kakabadse, 2002), and increased measurability of costs (Quélin & Duhamel, 2003).

2.3.2 – Focus upon Core Competencies

Many articles mention an increased focus on the organization's core competencies as important benefit of business process outsourcing (Zhu & Hsu & Lillie, 2001; Quélin & Duhamel, 2003; Hollcomb & Hitt, 2007; McIvor, 2008). Outsourcing non-core activities will allow a firm to increase managerial attention and resource allocation to those tasks it does best (Gilley & Rasheed, 2000). Focusing on the core competencies, and finding more qualified partners to provide other functions, will allow companies to enhance the core capabilities that drive competitive advantage in their respective industry (Gottfredson & Puryear & Philips, 2005).

Organization's core competencies can be characterized by three elements, according to Prahalad and Hamel (1990), and Arnold (2000);

- Customers perceive their characteristics to be relevant. Core competencies should make a significant contribution to the perceived customer benefits of the end product.

- Core competencies should be difficult for competitors to imitate in order to deliver a sustainable competitive advantage.
- Core competencies should be useable for multiple purposes and should provide potential access to a wide variety of markets.

2.3.3 – Access to Provider's Technology and Skills

Access to provider's technology and skills is another advantage of business process outsourcing (Kakabadse & Kakabadse, 2002). Companies can obtain access to specialized technology and operational platforms they would otherwise not have access to or cannot develop on their own (Wadhwa & Ravindran, 2007). Expected results of access to provider's technology and skills include; coping better with rapid technological change, improvement of services (Zhu & Hsu & Lillie, 2001), and enhancing existing competencies and creating new ones by establishing long term relationships between client and vendor (Mehta et al, 2006).

Business process outsourcing for this reason, according to Baden-Fuller, Targett and Hunt (2000), is sensible to do when a company is under threat in one of the below four circumstances;

- *Catch-up* – Despite a slow moving environment the firm has fallen behind its competitors.
- *Changing Value Chains* – The firm must respond to changing customer needs.
- *Technology Shifts* – The firm's core is outdated because of new technology.
- *Emerging Markets* – New markets are available to the firm because of rapid changes in technology and customer demand.

2.4 – Disadvantages of Business Process Outsourcing

Although business process outsourcing offers a lot of advantages, outsourcing will continue to be a high risk practice, accompanied by disadvantages (Lacity et al, 2008). This paragraph focuses on these general disadvantages.

2.4.1 – Hidden Costs

One of the advantages of business process outsourcing is the cost reduction possibility. However, there are hidden costs associated with outsourcing. Hidden costs are costs, which occur before initiating the project and during the project life time, but are often neglected or underestimated when it comes to business process outsourcing (Dibbern & Winkler & Heinzl, 2008).

The two types of hidden costs from outsourcing are vendor search and contracting costs, and vendor management costs. Searching costs are defined as the costs of gathering information in identifying and assessing suitable vendors. Contracting costs are defined as the costs of negotiating and writing the outsourcing contract (Barthélemy, 2003). Three different outsourcing vendor management type costs, as defined by Barthélemy (2003), can be distinguished; costs in monitoring the agreement to ensure vendors fulfillment of contractual obligations, costs of bargaining with vendors and sanctioning, and negotiating changes to the contract in case of unforeseen circumstances.

According to Duening and Click (2005) companies should take into account, when deciding upon business process outsourcing, total cost management. Total cost management in this context refers to the process of identifying and developing a strategy to manage the costs, associated with initiating and managing a business process outsourcing project during its' life cycle.

2.4.2 – Dependence on supplier

Dependence on a supplier does, although contractual by nature, express companies' fear of not having a safety net, if the vendor fails to deliver the expected service in a timely manner (Quélin & Duhamel, 2003). This is a result of the difficulty of changing vendors or bringing the activity back in-house if the vendor fails to deliver, or the contract is terminated. Dependence on a supplier can result in an unnoticed shift of price, scope, and quantity of work (Shi, 2007).

The following factors add to dependence on a supplier;

- *Knowledge retention*; Lacity et al (2008) mention the risk of knowledge retention dramatically eroding through attrition. While all companies deal with turnover, companies that extensively outsource have a smaller pool of talent to retain and develop. Furthermore, companies which engage in outsourcing projects will be at higher risk of key personnel leaving the company, as these companies risk people having a lower morale due to the reorganizations, which usually are a result of outsourcing initiatives (Yang et al, 2007).
- *Knowledge transfer*; although knowledge transfer is vital to the success of each business process outsourcing project, it also adds to the risk of becoming too dependent upon the supplier and losing control over key information and crucial knowledge (Axelrod & Haldar, 2009).

2.4.3 – Reputational Damage

The risk of reputational damage as a result of interacting with a third party supplier, often in developing countries, is a result of two issues. Firstly, the supplier not performing up to standards can result in considerable reputational damage as clients experience service loss. Providers should be able to adapt their service offerings both geographically and technically to the companies' standards, but are not always able to do so. The perception of the risk that service providers lack these capabilities may cause top management to dismiss the outsourcing choice altogether (Quélin & Duhamel, 2003).

Secondly, business process outsourcing often involves handling of activities in developing countries. There has been sharp criticism by governments, international organizations, and public in recent years in relation to the activities of multinational companies, whose sourcing practices in developing countries have been alleged to exploit low-wage offshore outsourcing workers, take advantage of (the lack of) environmental and workplace standards, and otherwise contribute to social and economic degradation (Doh, 2005).

2.5 – Conclusion

Outsourcing business processes, supported intensively by technology, and handing over primary management of these business processes, is seen as a value-adding strategic decision. The above mentioned advantages and disadvantages can be discussed in this perspective.

- Three types of outsourcing literature can be distinguished, namely literature based on transaction cost view, competence-based view, and relational view (Mehta et al, 2006). Literature on basic IT-outsourcing is mostly based upon the transaction cost view, where literature on business process outsourcing is mostly focused on the competence-based view.
- Strategies for business process outsourcing are mostly based on the desire to focus on fewer, more manageable core activities, and secondly on additional benefits from outsourcing non-core activities to specialist providers (Harland et al, 2005).
- Cost reduction and restructuring still is an important benefit, as customers remain cost-conscious.
- Access to provider's technology and skills is mentioned as a positive side-effect of business process outsourcing. This advantage is however mostly important for companies under threat in one of the mentioned circumstances, catch-up, changing value chains, technology shifts, or emerging markets.
- It is crucial for a company to retain sufficient knowledge and experience in the organization to guide and review the supplier (Symons & Ingen & Hoogeveen, 2005), needed to prevent dependence on supplier and reputational damage as a

result of non-performing vendor. This will however partly limit a company's ability to focus on its' core competencies.

- Possible reputational damage is seen as the most important disadvantage of business process outsourcing. This is mostly caused by the fact that the rewards of having a good reputation are high, including being able to attract motivated workers, and customers having a favorable opinion on a companies' products (Devine & Halpern, 2001).
- Although cost reduction is not the most important motivation for business process outsourcing it is seen as an important advantage. Hidden costs can influence the original assumption of cost reduction opportunities, and can thus put a pressure on the original business case.
- Articles describing business process outsourcing mostly focus on the advantages. Studies of the disadvantages are rare as companies, unsuccessful in business process outsourcing, are mostly not willing to admit to a poor choice (Rouse & Corbitt, 2004).

Table A gives, based upon above reasoning, an overview of the general advantages and disadvantages of business process outsourcing ranked by decreasing order of importance for companies, considering outsourcing their business processes, and the main references used in this thesis to discuss these (dis)advantages.

Advantages	**Main References**
Focus on core competencies	Arnold, 2000; Gilley & Rasheed, 2000; Gottfredson et al, 2005; Prahalad & Hamel, 1990
Cost reduction and restructuring	Alexander & Young, 1996; Kakabadse & Kakabadse, 2002; King, 2007; Quélin & Duhamel, 2003
Access to provider's technology & skills	Baden-Fuller et al, 2000; Mehta et al, 2006; Wadhwa & Ravindran, 2007; Zhu et al, 2001
Disadvantages	
Possible reputational damage	Quélin & Duhamel, 2003; Doh, 2005
Possible dependence on supplier	Axelrod & Haldar, 2009; Quélin & Duhamel, 2003; Shi, 2007; Yang et al, 2007
Risk of hidden costs	Barthélemy, 2003; Duening & Click, 2005

Table A – General advantages and disadvantages of business process outsourcing

Chapter 3 – Country Specific Characteristics for India

3.1 – Introduction

Winkler, Dibbern and Heinzl (2008) mention offshore country characteristics to influence the general advantages and disadvantages of offshore business process outsourcing. They divided these characteristics into three groups: geographic distance, cultural differences and institutional influences. This chapter will discuss these three groups of characteristics from the perspective of offshoring to Indian companies.

3.2 – Geographic Distance

Geographic distance is mentioned by several articles as one of the major drawbacks of offshore business process outsourcing (Carmel & Agarwal, 2002; Rao, 2004; Dibbern et al, 2008). Geographic distance influences knowledge transfer, coordination and monitoring (Dibbern et al, 2008). With regard to outsourcing to Indian companies these different aspects are all influenced by three issues, namely time zone differences, an unreliable communications network and the English-speaking skills of both Indian and western workers.

Time Zone Differences

Time zone differences are a natural outgrowth of large geographical distance separating collaborating teams (Rao, 2004). Time zone differences have been mentioned by authors as an advantage for IT outsourcing projects, as it can result in round the clock services (Sharma et al, 2005; Chanda, 2008; Dibbern et al, 2008). Knowledge transfer, coordination and monitoring sessions are however more important in business process outsourcing, due to the strategic and knowledge-intensive character of these projects. Time zone differences interfere with the possibilities of having these sessions.

Communications network

The ability to transfer knowledge and to coordinate and monitor the project, when involved parties are separated by thousands of miles, depends heavily on the quality and reliability of a country's communications network (Rao, 2004). The global competitiveness report for 2009-2010 ranks India 103rd out of 133 countries with regard to the quality and availability of telephone lines. India is, however, making dramatic efforts over the last few years in improving the bandwidth situation and the reliability and costs of telecommunications (Sharma et al, 2005). India has privatized its telecom industry, which is leading to a growth in offer of this service of about 20% a year, reduced tariffs, and improved quality (Chanda, 2008). Furthermore, it has build submarine cable networks to improve bandwidth available for business process outsourcing vendors in India (Sharma et al, 2005).

English Language Skills

Communication in business process outsourcing projects will mostly be done in English, due to the fact that client and vendor are based in different countries and mostly have different native languages. There is some misperception with regard to the English-speaking capabilities of Indian workers, which, if not taken into account, can cause the outsourcing project to not have the expected outcomes. Meenakshi and Vani (2008) mention that although India has a large number of graduates who supposedly possess good English language skills, this skill level is not always up to mark.

Client employees will also mostly not be native English speakers. Difference in language skills and language use can cause difficulties in communication and misunderstandings (Winkler et al, 2008) in knowledge transfer, coordination and monitoring phases. Even if the client and vendor do both possess native English skills, the dialects used in India and for example the US differ, causing key points to become distorted in the interpretation (Power & Bonifazi & Desouza, 2004).

3.3 – Cultural Differences

Gupta et al (2002) provide an in-depth understanding of the culture of countries in the southern Asian cluster, including India. It is important to take into account Indian culture, when deciding upon business process outsourcing, as cultural differences need to be recognized and discussed before entering into a relationship with a vendor. The outsourcer will risk vendor's view of time management, organizational structure, business approaches, decision-making processes, long term cooperation and teamwork to differ from their own, leading to conflicts and undesired results (Power et al, 2004). Cultural differences refer to members of two distinct groups differing on one or more cultural dimensions. That is, their shared values, norms, beliefs and assumptions, they take into account while doing their work (Winkler et al, 2008).

The cultural differences between workers based in western countries and Indian countries are discussed below, using the four cultural dimensions as defined by Hofstede (1984).

Power Distance (PDI)

Power distance, defined as the extent to which the less powerful person in a society accepts inequality in power and considers it to be normal, is found to be 77 in India, and thus relatively high compared to the score of western countries (Hofstede, 2009), as stated in table B. Appelbaum and Samaha (2008) have found India's high power distance to cause employee frustration at the outsourcing party. If the less hierarchical western client, not used to the Indian organizations' rigid hierarchies, does not take this into account, this will lead to conflicts in the business process outsourcing project (Winkler et al, 2008). The most mentioned issues are;

- Indian workers are very much relying on guidance and orders from superiors and clients (Winkler et al, 2008).
- Indian employees dare not ask questions, even if this is required to not frustrate the process (Appelbaum & Samaha, 2008).
- Lower-level managers will avoid decision making and are reluctant to take on responsibility (Sebastian & Parameswaran & Yahya, 2006).

Individualism / Collectivism (IDV)

India has a relatively low score (48, according to Hofstede, 2009) on individualism, compared to scores of western countries (see below Table B). Individualistic cultures assume individuals to look primarily after their own interests and the interest of their immediate family (Hofstede, 1984). The following effects should be taken into account;

- Employees from countries with low scores on individualism tend to have high moral involvement with their companies (Crutchfield & Roach, 2006). This will result in them working more hours and harder to deliver the needed results. Apart from the positive effect of getting more work done, this will also bring along the risk of failure and employee turnover, due to burnouts by the lack of a social life and moments of rest.
- Indian workers tend to not communicate on the probability of missing deadlines, which results in unexpected project delays. Such behavior derives from the fact that failure to achieve a goal would bring shame on the family (Suri & Abbott, 2009).
- Indian workers are generally not able to work in an autonomous way, resulting in additional need for guidance from client side (Appelbaum & Samaha, 2008).

Masculinity (MAS)

India has a masculinity score of 56, a bit higher than the world's average of 51 (Hofstede, 2009), but lower than the scores of western countries (except for France, as noted in table B). Employees from countries with lower scores on MAS tend to focus more on problem solving. Compromise and negotiation are preferred strategies to solve problems (Crutchfield & Roach, 2006). Focusing on problem solving and compromising are important building blocks of a relationship between vendor and client. The benefits of business process outsourcing are difficult to achieve without a good client/vendor relationship (Jones, 2009).

Uncertainty Avoidance (UAI)

Uncertainty avoidance defines the extent to which people, within a culture, are made nervous by situations that they consider being unstructured, unclear or unpredictable and the extent to which they try to avoid such situations by adopting strict codes of behavior and a belief in absolute truths (Hofstede, 1984). Uncertainty avoidance in India is low with a score of 40 (Hofstede, 2009). People from such countries normally tend to have a higher tolerance for ambiguity in structures and procedures, and a belief in common sense (Crutchfield & Roach, 2006). Unfortunately, as a result of the effects of high power distance in India, Indian companies are known to have high level of rigidness and bureaucracy (Sebastian et al, 2006).

	PDI	IDV	MAS	UAI
India	77	48	56	40
France	68	71	43	86
Germany	35	67	66	65
United Kingdom	35	89	66	35
United States	40	91	62	46

Table B – Cultural dimension score overview as derived from Hofstede (2009)

3.4 – Institutional Influence

Institutional influences are deeply embedded into offshore business process outsourcing (Kshetri, 2007). This section discusses four specific factors, as mentioned by Kshetri (2007) and Dibbern et al (2008), namely infrastructure, political conditions, intellectual property issues and unions.

3.4.1 – Infrastructure

Infrastructure in India is mentioned, in the global competitiveness report 2009-2010 and the NASSCOM 2010 strategic review, as the most problematic factor in doing business. Major cities, like Mumbai and Bangalore, are nearing peak capacity in terms of infrastructure support. Additional locations will need to be developed to support major delivery locations.

Most important infrastructural items, related to business process outsourcing, are the lack of office space in major cities, and related rising rental and real estate prices, electric supply and the already mentioned availability and quality of telephone lines

(Giridharadas, 2007; Chanda, 2008). According to the global competitiveness report 2009-2010 the quality of electricity supply in India is ranked 106th.

Although government is, together with private investors, addressing the infrastructure bottlenecks, as discussed below, the implementation of these improvements is slow and challenging (Asher & Srivastava, 2003).

3.4.2 – Political Conditions

Political conditions, which influence business process outsourcing to Indian companies, can be divided into three main factors, namely government policy, education and political risk.

Government Policy

Government attitude, towards markets and freedom, is very important for a country's competitiveness. India is ranked 95th of 133 companies reviewed in global competitiveness report 2009-2010 with regard to the burden of government regulation. Bureaucracy is mentioned as the most important issue for companies doing business in India. Access to government offices, too many cumbersome forms to fill, lack of coordination between government departments in processing forms and long periods of waiting for approvals after filling forms are examples of bureaucratic issues (Sebastian et al, 2006).

However, Indian government is trying to promote business process outsourcing to Indian companies. Some of the policy measures initiated to do so are: Removal of entry barriers against foreign companies, tax incentives for companies engaging in business process outsourcing and taking measures to make faster and cheaper data communication facilities available, including permitting foreign investments in laying submarine cables (Kumar & Joseph, 2005). India also has a very active business process outsourcing industry association, namely NASSCOM. This association is in constant discussion with government and industry partners to take action to develop further policy and laws to capture the opportunities in the business process outsourcing market and mitigate future risks (NASSCOM strategic review, 2010).

Although the above policy measures are currently being initiated, the risk of these measures being discarded by a new government is present. From an historic perspective Indian government is not stable; few governments were able to serve their 5-year term over the last 30 years. As a result there has been constant change in government policy (Bureau of South and Central Asian Affairs, 2009).

Education

This thesis focuses upon outsourcing of business processes, supported intensively by technology, such as human resources, finance and accounting, procurement, supply chain management, and customer care. One of the factors, that drives global outsourcing of business processes to India, is the availability of skilled labor. According to Sharma et al (2005), it is estimated that India has about 2 million college graduates, and 0.3 million postgraduates.

These figures are impressive, but Kirkegaard (2007) mentions a potential 500,000 shortfall in qualified Indian employees by the end of 2010, if current growth rate continues. This is mostly caused by the fact that only about 25% of Indian university graduates are suitable, and geographically available, for work in a multinational environment (Kirkegaard, 2007). Workers should have the needed technological skills and content knowledge on the topic that has been outsourced. Students which graduated in finance, procurement, and IT are needed.

According to Agarwal (2007), however, there is a mismatch between the available capacity and these skill requirements. This is mainly caused by the large enrolments in liberal arts and humanities, namely about 45%. Public funded education mostly focuses on courses in languages and humanity, where courses in finance, procurement, or IT-skills are needed. Private education is focused on courses having a market demand, but unfortunately these schools are often out of reach for most of the less fortunate Indians, due to government funding restrictions (Agarwal, 2007). To ensure a supply of able workers, the educational system should be revamped and more focused on skills required in the market (Agarwal & Nisa, 2009).

Educational mismatch is resolved mostly by internal training, by Indian business process outsourcing providers. India is mentioned in the global competitiveness report 2009-2010 to be 34th out of 133 countries in the extent of staff training. Companies like IBM, Accenture, and Genpact are known for their training programs to bring workers up to speed (KPMG, 2009).

Political Risk

Risk of terrorism and war are factors that need to be taken into account when outsourcing to Indian companies. India has a long lasting conflict with Pakistan. Troops are constantly posted on the borders and are ready to start a war if needed (Bureau of South and Central Asian Affairs, 2009). The relationship between Pakistan and India, and the fact that India and Pakistan both have atomic weapons, are reasons for concern for companies doing business in this region (King, 2007). Although the relationship between Pakistan and India seems positive at the moment, the relationship remains troublesome and instable (Kronstadt, 2009).

Terrorism in India is currently not yet tied to western companies, but international tactics are being adopted by local groups, which could endanger companies operating in the region (Piazza, 2006). Especially companies situated in cities in the North of India are at risk. This is mostly due to the conflict over sovereignty of Kashmir and terrorists coming from Afghanistan (Kronstadt, 2009).

Both risks of terrorism and war have impact on business continuity. Companies will need to have a backup plan in case of terrorism or war. This is often addressed using backup sites in another country, but this involves a new layer of complexity in the overall management process (King, 2007). From a business cost of terrorism perspective India is ranked 117 out of 133 companies, number 1 having the lowest cost of terrorism, as mentioned in the global competitiveness report 2009-2010.

3.4.3 – Intellectual Property Issues

Companies are transferring a lot of sensitive and specific information to outsource knowledge-intensive processes, directly affecting operations in the areas of human resources, finance and accounting, procurement, supply chain management and customer care processes, to their Indian partners. Data security and privacy are an important concern for western clients, when dealing with Indian companies, as India does not yet have fully developed intellectual property protection and enforcement mechanisms (Bird, 2006). India is, due to international pressure, progressing towards compliance with international property protection laws, but is doing so at the slowest pace possible, while avoiding sanctions from other countries (Bird, 2006).

All matters related to confidentiality will thus need to be handled at business to business level. Mukerji (2008) notes that, due to the fact that Indian firms are extremely aware of their perceived lack of security, the leading players have set in place their own security standards, which comply with international security standards. However this is not as reassuring as appropriate acts on country level would be.

Unfortunately, even the acts that have been set into place, due to international pressure, are under threat from an enforcement perspective. India currently has a large number of acts that are not properly implemented (Meenakshi & Vani, 2008). Litigation cases are proceeding at a glacial pace through Indian courts (Bird, 2006).

3.4.4 – Unions

Worker unions are seen to endanger the liberal employment model, which accounts for the rise of Indian business process outsourcing practice growth (Sandhu, 2006). There is growing debate on the status of business process outsourcing employees, but so far all efforts to unionize these workers have failed, as workers seem not to desire to become member of a union (Sarkar, 2007).

Two of the most important reasons for workers to see unions as unnecessary are;

- Employees' perception of their work schedules and the highly modernized self-contained work islands (Sarkar, 2007).
- The threat of job security is greater from a ban on outsourcing than from being fired. A ban could, in the perception of business process outsourcing workers, be a result of unionization (Noronha & D'Cruz, 2006).

Unionization of business process outsourcing workers will, due to the above reasons, not likely happen in the near future. Two earlier attempts, to unionize these workers, have also failed for these reasons.

3.5 – Conclusion

This chapter has discussed the three country specific characteristics of offshore business process outsourcing to India, namely geographic distance, cultural differences, and institutional influences. These geographical, cultural, and institutional influences interact, as described below.

- Institutional issues can add to the geographical issues in offshoring. Issues adding to the knowledge transfer, coordination, and monitoring problems caused by geographical distance, namely the communications network, and English language skills, are again influenced by the institutional impact of Indian government policy, infrastructure and education.
- Institutional items also interact. Government policy has added to the current infrastructural and educational issues. Although Indian government is aware of these issues, a solution on short term is, also taking into account government stability and bureaucracy, not to be expected.
- Bureaucracy within Indian government is partly caused by the high power distance of Indian people. As a result, lower level workers are reluctant to take decisions and most of the decisions will need to be made at a higher level, resulting in longer throughput-time. Therefore, a solution for government bureaucracy is not probable on short term as this will include a culture change.

Below table C gives an overview of the characteristics and sub-characteristics discussed with respect to India, and the articles used to discuss these characteristics and sub-characteristics.

Characteristics	Referred Articles
Geographic Distance - Time Zone Differences - Communication Network - English Language Skills	Carmel & Agarwal, 2002; Chanda, 2008; Dibbern et al, 2008; Meenakshi & Vani, 2008; Power et al, 2004; Rao, 2004; Sharma et al, 2005; World Economic Forum, 2009
Cultural Differences - Power Distance - Individualism - Masculinity - Uncertainty Avoidance	Appelbaum & Samaha, 2008; Crutchfield & Roach, 2006; Gupta et al, 2002; Hofstede, 1984; Hofstede, 2009; Jones, 2009; Power et al, 2004; Sebastian et al, 2006; Suri & Abbott, 2009; Winkler et al, 2008
Institutional Influence - Infrastructure - Political Conditions * Government Policy * Education * Political Risks - Intellectual Property Issues - Unions	Agarwal, 2007; Agarwal & Nisa, 2009; Asher & Sen, 2005; Bird, 2006; Bureau of South & Central Asian Affairs, 2009; Chanda, 2008; Dibbern et al, 2008; Giridharadas, 2007; King, 2007; Kirkegaard, 2007; KPMG, 2009; Kronstadt, 2009; Kshetri, 2007; Kumar & Joseph, 2005; Meenakshi & Vani, 2008; Mukerji, 2008; NASSCOM Strategic Review, 2010; Noronha & D'Cruz, 2006; Piazza, 2006; Sandhu, 2006; Sarkar, 2007; Sebastian et al, 2006; Sharma et al, 2005; World Economic Forum, 2009

Table C: Offshore country characteristics and sub-characteristics.

Chapter 4 – Impact of Distance on Advantages and Disadvantages

4.1 – Introduction

This chapter discusses the influences of India country specific characteristics on the advantages and disadvantages of business process outsourcing. The advantages and disadvantages are discussed in order of decreasing importance for companies considering business process outsourcing, as mentioned in chapter 2.

4.2 – Focus upon Core Competencies

Focus upon core competencies is based on the underlying assumption that, by outsourcing non-core activities, companies can redirect more managerial attention and time of other resources to those tasks they do best (Gilley and Rasheed, 2000).

India is considered, in this respect, as a possible location, mostly based on the assumptions that India has a large pool of well-skilled workers available. Furthermore, these workers speak English, and Indian companies have well established themselves as successful IT outsourcing partners (Chanda, 2008). Although these considerations are clear, there are country influences to this advantage, which potentially have a high impact on the business case.

Geographical Distance

Focus upon core competence is based on the assumption that time spent by employees of the outsourcing company on the outsourced processes will be reduced considerably. Unfortunately, geographic distance makes it more time consuming to transfer the needed knowledge, coordinate, and monitor the project (Dibbern et al, 2008). This will have a negative effect on the time managers, and retained operational resources of the outsourcing company can spend on those tasks they do best.

Cultural Differences

Also, cultural differences decrease the time management and other resources can spend on enhancing core competencies. Indian managers are reluctant to take on responsibility (Sebastian et al, 2006) due to high power distance. Indian workers are furthermore mentioned to generally not being able to work in an autonomous way (Appelbaum & Samaha, 2008), due to the relatively low score on individualism. As a result, additional coordination and monitoring from outsourcing company's employees is needed. Client resources, which used to perform these tasks, will mostly not be available anymore as outsourcing initiatives involve reorganizations. So, the retained employees will have to rearrange their time, originally reserved to enhance core competencies, to guide the provider's employees.

Indian companies are, due to the low level of uncertainty avoidance, known for their relative high level of employee turnover. Employees are not looking for job security, but rather for the highest pay packages and opportunities for personal growth (Suri & Abbott, 2009). This will result in needed additional knowledge transfer sessions, again limiting the client employees' time to focus upon core competencies. However, Indian providers are aware of this issue and ensure additional knowledge transfer initiatives, like process descriptions and recorded knowledge transfer sessions, reducing the impact of this high turnover rate.

Institutional Influence

Although there is an educational mismatch between needed skills in the market and the skills of Indian workers, the impact of this educational mismatch is low. Companies in India are known for their on the job training, which reduces the risk of outsourcing companies having to invest additional time in getting Indian workers up to speed.

The risk of terrorism and war is relatively high in India. As a result, companies will need to think about backup scenarios. This will however add a new layer in complexity in the overall management process and hinder client personnel from focusing upon core competencies. Taking into account the risk of terrorism and the instable relationship between India and Pakistan, the impact of this influence is high.

4.3 – Possibility to Reduce Costs

Possible cost savings from business process outsourcing are interesting for companies. The underlying assumption is that companies can profit from lower labor costs, these are about 10 - 20% the amount of those of comparable US based jobs (Kumar & Joseph, 2005), and the fact that Indian workers are used to working about 12 - 15 hours a day. The large labor cost differentials permit total savings of 20 - 40%, despite needed additional investments in management costs, local adaptation to cultural items and infrastructure. Therefore, most of the influences of below mentioned factors on the possibility to reduce costs are low.

Geographical Distance

Global outsourcing of any type does impose costs that local outsourcing does not (Heeks et al, 2001). Business process outsourcing often requires the transfer of tacit knowledge. Tacit knowledge is best acquired via socialization using face-to-face meetings and intense communication via other communication channels (Dibbern et al, 2008). International communication and the need for face-to-face meetings will bring along additional costs. The introduction of low cost alternative communication means and the fact that people are more and more getting used to alternative communication means, like video-conferencing, is reducing the need for face-to-face meetings. This reduces the impact of this influence to low.

Cultural Differences

Influence of cultural differences is mostly derived from two sources. Firstly, as a result of the high score on power distance and the relatively low score on individualism, Indian workers tend to not ask questions and communicate on the probability of missing deadlines (Appelbaum & Samaha, 2008; Suri & Abbott, 2009). This will lead to process frustrations and the need for additional resources and thus costs. Secondly, the mentioned high level of employee turnover at Indian companies will lead to additional training costs.

However, the fact that additional resources are of relatively low cost and Indian companies are taking counter measures to reduce the impact of high employee turnover, leads to relatively low impact on costs for outsourcing companies.

Institutional Influence

From an institutional impact perspective, infrastructure and political conditions need to be discussed. Needed additional private investments in infrastructure reduces the opportunity for cost reductions. Examples are the necessity of an alternative source of power generation (Sharma et al, 2005) and lack of office space and subsequent rising rental cost in major cities in India (Chanda, 2008). These costs are, however, mostly one-time costs and relatively small, compared to most business process outsourcing projects, reducing the impact of these additional investments to low.

Educational issues and rising demand for skilled professionals and middle managers by Indian companies have led to rapid wage increases. Multinationals and local Indian companies have started complaining about the rising costs of this crucial group of employees (Kirkegaard, 2007). Rising wages and decreasing cost differential puts pressure on the original assumption of labor arbitrage, adding to the impact of this issue. Political risks and the associated business continuity backup plans will also bring along costs, for instance by the necessity of having backup sites in another country (King, 2007).

4.4 – Access to Provider's Technology and Skills

The advantage, access to provider's technology and skills, is only applicable to a limited group of companies and, therefore, the least important advantage. This advantage is based on the assumption that companies can, by offshoring some of their business processes to Indian companies, enhance existing competencies and create new ones by establishing long term relationships with Indian companies (Mehta et al, 2006).

Geographical Distance

Geographic distance will have an adverse effect on the intense communication, needed to establish long term relationships, for the following reasons:

- Time zone differences will limit the opportunities to communicate directly, because working hours will differ for Indian and western teams. This can be resolved by asking Indian workers to be available during western working hours. However, this will have a negative impact on work/life-balance of these workers and thereby on the level of employee turnover.
- Communication networks in India, not being up to western standards, will influence the possibility of intense communication.
- Lack of English language skills, and difference in language used, will influence the opportunity of intense communication in a negative way.

Cultural Differences

The way people from a different culture communicate, can influence the level of getting access to provider's technology and skills in a negative way. Rao (2004) mentions differences in communication styles lead to misunderstanding and thereby hamper the cooperation. For business process outsourcing initiatives to really add value, from a provider's skill perspective, communication needs to be process-driven and detail-oriented. These qualities are mostly absent in Indian work culture (Kshetri, 2007).

Institutional Influence

Electric and telecommunication issues will influence the ability to communicate in the way needed to create mutual understanding and establish long term relationships. Furthermore, the educational mismatch of Indian workers will have a negative effect on the skills of Indian workers. However this influence is reduced by the fact that Indian companies are providing additional training on relevant knowledge.

4.5 – Possible Reputational Damage

Risk of reputational damage is seen as the most important disadvantage of business process outsourcing. Risk of reputational damage is twofold. It can be a result of providers not being able to perform up to standards and resulting service loss experienced by clients. Secondly, reputational damage can result from perceived exploitation of low-wage workers.

Geographical Distance

Possibilities for knowledge transfer, coordinating, and monitoring are reduced by geographical distance. Reduced knowledge transfer increases risk of providers not being able to perform. Reduced coordination and monitoring increases the risk of outsourcing companies not being able to prevent issues, as a result from the provider not being able to perform (Rao, 2004).

Cultural Differences

Kshetri (2007) mentions the risk that customers of outsourcing organization and provider are not culturally compatible, adding to customer satisfaction and retention problems. Western customers are reporting not feeling comfortable being served by offshore firms more and more. Also Indian workers are known to work more hours and harder as their western colleagues (Crutchfield & Roach, 2006). Combined with a much lower pay, this could lead to the perception of western customers that outsourcing companies are exploiting Indian workers.

Institutional Influence

One of the reasons for business process outsourcing to Indian companies is the perceived knowledge level of Indian workers. The actual knowledge level is, however, often lower than expected, due to the mismatch with regard to knowledge caused by the educational system. Although educational mismatch is a fact, Indian companies are aware of this fact and are therefore offering extensive training on the job, thereby lowering the risk of reputational damage for companies.

Adding to the perception that Indian workers are exploited could be that Indian workers are not unionized. Although, one of the reasons for Indian workers not being unionized is that they do not see the necessity to do so, this fact is not generally known. Thus the misperception of Indian workers being exploited, as mentioned by Sarkar (2007), is not resolved.

4.6 – Dependence on Supplier

Dependence on supplier is mostly caused by factors within the outsourcing organization and is not specific for offshoring to India. Internal employee turnover, or failing to plan to retain sufficient internal knowledge to guide and review the vendor, are the main factors adding to dependence on supplier (Symons et al, 2005).

4.7 - Risk of Hidden Costs

Dibbern et al (2008) found that transaction cost increase when outsourcing offshore and depend on the characteristics of the offshore country. Together with unforeseen costs, these additional costs, known as hidden costs, endanger the initial business case (Rouse & Corbitt, 2004; Tas & Sunder, 2004).

Geographical Distance

Distance and time difference between Indian and western companies bring along the necessity for increased efforts from client's internal team on coordination, monitoring, and knowledge transfer (Dibbern et al, 2008). This brings along additional costs, especially when additional visits to India are needed, for example to do unexpected additional knowledge transfer. These costs are usually not taken into account when making the decision to outsource business processes.

Cultural Differences

The hidden costs, as a result of cultural differences, are mostly built from the costs related to the issues discussed in the section on focus on core competencies, namely the reluctance of Indian managers to take responsibility, Indian workers generally not being able to work in an autonomous way and the high turnover rate of Indian workers. Companies will have to take these issues into account and costs are involved in the additional knowledge transfer, coordination and monitoring by company employees. The impact of hidden costs is however lower than the impact of the company not being able to focus upon its core competencies.

Institutional Influence

Institutional influence on hidden costs is mainly a result from government bureaucracy. These hidden costs mostly consist out of manpower needed to prevent and create workaround plans for delays. These delays are a result of, amongst others, government departments taking long to process forms, and long time periods of waiting for approvals on critical licenses.

4.8 – Checklist

In the previous sections India country specific influences on the expected advantages and disadvantages of business process outsourcing have been discussed. Indian companies have the potential to realize the expected advantages of business process outsourcing. There are, however, country specific characteristics that influence the ability of materializing these advantages and negatively affect the disadvantages of business process outsourcing. These effects vary from an impact perspective. High impact factors on the advantages reduce the respective advantage significantly, whereas low impact factors only have a limited reducing impact. High impact factors on the disadvantages enlarge the negative effects significantly. All effects should be taken into account when companies are deciding upon outsourcing their business processes.

The result of above discussion is a checklist, presented in table D.

General Advantages	Influence of country characteristics on general advantage		Possible impact on advantage
Focus upon Core Competences - Number of well skilled workers - English speaking capabilities - Experience in IT outsourcing	Geographical	- Knowledge transfer, coordination and monitoring more time consuming	High
	Cultural	- Indian managers reluctant to take responsibility - Indian workers not able to work in an autonomous way - High turnover rate of Indian workers	High High Medium
	Institutional	- Educational mismatch - Necessity of back-up scenario resulting in additional clients effort	Low High
Cost Reduction Possibility - Low wage costs - Long working hours	Geographical	- Need for international communication and face-to-face meetings	Low
	Cultural	- Additional resource needs as a result of communication issues - Employee turnover and resulting additional training necessity	Low Low
	Institutional	- Private investments in infrastructure needed - Rising costs of skilled professionals and middle managers - Need for business continuity back-up plans	Low Medium Medium
Access to Provider's Technology and Skills	Geographical	- Time zone differences limit communication possibilities - Below par quality communication networks - Lack of English language skills	Low Low Low
	Cultural	- Lacking process-driven and detail-oriented communication skills	Low
	Institutional	- Below par quality communication and power networks - Educational mismatch in needed skills	Low Low
General Disadvantage	**Influence of country characteristics on general disadvantage**		**Possible impact on disadvantage**
Possible Reputational Damage	Geographical	- Knowledge transfer, coordination and monitoring issues	High
	Cultural	- Cultural mismatch between clients of outsourcer and vendor - Long working hours and wages seen as exploitation	High High
	Institutional	- Performance issues as result of educational mismatch - Perception of exploitation as a result of Indian workers not unionized	Medium Medium
Dependence on Supplier	Geographical	-	
	Cultural	-	
	Institutional	-	
Risk of Hidden Costs	Geographical	- Additional cost in knowledge transfer, coordination, and monitoring	Medium
	Cultural	- Indian managers reluctant to take responsibility - Indian workers not able to work in an autonomous way - High turnover rate of Indian workers	Medium Medium Low
	Institutional	- Government bureaucracy and resulting additional manpower	Medium

Table D –Possible Impact of Indian country characteristics on general (dis)advantages of business process outsourcing from theory

Chapter 5 – Research Methodology

5.1 – Introduction

The checklist, presented in chapter 4, is empirically discussed to answer specific research questions 3 and 4. This chapter describes the research methodology used, by first mentioning the setup of the empirical research. Afterwards, it discusses the validity of the chosen research methodology.

5.2 – Setup of the Empirical Research

The checklist is built from three building blocks, resulting from literature review. The checklist starts from the general advantages and disadvantages of business process outsourcing, presented in sequence of importance as derived from literature review. Secondly, it mentions some specific assumptions underlying the decision by western companies to outsource to Indian companies. Thirdly, it discusses the impact of country specific characteristics on the general advantages and disadvantages and assumptions companies make when outsourcing to India.

Qualitative research is done with regard to the checklist, by discussing the building blocks of the checklist in-depth during semi-structured interviews with seven subject matter experts on business process outsourcing. These interviews are done via phone or face-to-face, depending on the geographic distance between interviewer and interviewee. In this context it is important to discuss the following key building blocks;

- *Qualitative research* permits inquiry into the checklist building blocks in great depth, with careful attention to detail, context, and nuance (Patton, 2002).
- *Semi-structured interviews* allow the researcher to start from a predetermined list of questions. In this case, sequence of general advantages and disadvantages, underlying assumptions of outsourcing of business processes to Indian companies and possible impact of country characteristics on the advantages and disadvantages and underlying assumptions, are discussed with all subject matter experts. But, if needed, the interviewer can ask clarifying follow up questions. This allows for more in-depth questioning and reduces the risk of missing relevant information (Sekaran, 2000).
- *Subject Matter Experts* are mentioned by Verschuuren and Doorewaard (2005) as relevant sources of information. Subject matter experts chosen for this research have thorough practical knowledge as a result of experience in the field of business process outsourcing to India.

5.3 – Validity of the Empirical Research

Qualitative research typically focuses in-depth on relatively small samples, selected purposefully. Logic and power of purposeful sampling lie in selecting information-rich interviewees to conduct in-depth interviews. Studying information-rich interviewees yields insights and in-depth understanding rather than empirical generalizations (Patton, 2002).

Sample size of this interview is fairly limited, with only seven interviews conducted. However, due to the purposeful sampling the interviews generate in-depth understanding on the advantages and disadvantages of business process outsourcing to Indian companies. There are no rules for sample size in qualitative research. Validity, meaningfulness, and insights generated by qualitative research are related to information richness of the interviewees selected (Patton, 2002). To accomplish information richness, sufficient interviews were held. To avoid bias, and thus be able to generalize the findings from the interviews, some selection criteria were established:

- Interviews were only conducted with people who have had firsthand experience with outsourcing to Indian companies or are widely acknowledged as subject matter experts on business process outsourcing.
- Interviews conducted were afterwards analyzed on the amount of additional information provided from that interview. The sixth and seventh interview does only reconfirm previous findings from interviews one to five. Taking into account the sampling method it is not expected that any additional interviews will provide any additional insights.
- Interviewees should not share too much commonality with regard to their background. Table E gives an overview of key background characteristics of the interviewees. Although interviewees can share commonality with regard to one or two of the characteristics, it is important that their background differs on other characteristics to avoid information bias. This has been taken into account when selecting interviewees. For example, there are three interviewees from the same industry, but these interviewees clearly differ on other characteristics like gender, region of birth, and role within the outsourcing initiatives they have been involved in (operational, management, consulting).

Gender	Age	Region of Birth	Role	Industry
Male 6 interviewees	30 – 40 3 interviewees	Europe 3 interviewees	Operational 2 interviewees	Consulting 3 interviewees
Female 1 interviewee	40 – 50 2 interviewees	US 2 interviewees	Management role 2 interviewees	Consumer Goods 3 interviewees
	50 – 65 2 interviewees	India 2 interviewees	Consulting / Advising 3 interviewees	Editing 1 interviewee

Table D – Grouped Interviewee Characteristics

Interviews with the seven subject matter experts were not all done face-to-face. If geographic distance was high, interviews were conducted via phone. According to Davis (2005), telephone interviews are, next to being cost effective and having high speed of data collection, at least equal to other active methods of primary data collection in obtaining accurate and valid data.

Before conducting the interviews with the subject matter experts, the below agreements are discussed:

- All interviewees were asked for their permission to record the interview.
- A document explaining the set-up of the interview, building blocks, and some relevant definitions, as used in this thesis, was shared a few days before the interview. The additional information shared with the interviewees is included in appendix A. Providing relevant information in advance, enhances the validity and reliability of the interview by allowing preparation for the interview and, if needed, assemble supporting organizational documentation (Saunders & Lewis & Thornhill, 2003).
- High level interview notes are sent to the interviewee, within two working days after conducting the interview, for his/her approval. This follow-up e-mail actively asks the interviewee if they want to add additional remarks. All interviewees agreed with the minute notes, only one respondent actively shared some additional comments she regarded useful.

Chapter 6 – Empirical Results

6.1 – Introduction

To discuss the checklist, seven interviews were conducted with subject matter experts in the field of business process outsourcing to Indian companies. The results of these interviews are discussed in this chapter, by going through the remarks made by the interviewees on the different building blocks (advantages and disadvantages, country specific factors and impact of these factors on the different (dis)advantages) of the checklist. High level interview notes can be found in appendix B1 to B7.

6.2 – Advantages of Business Process Outsourcing

Contrary to what has been found from theoretical review, the cost reduction opportunity is considered by all interviewees as the most important reason for business process outsourcing. As one of the interviewees mentions: *"Main reason for business process outsourcing is costs, which leads to outsourcing to India. Main drivers are declining costs of electronic communication and the cheaper labor costs."* From literature review, focus upon core competence was recognized as the most important aspect of business process outsourcing. Focus on core competence is mentioned by six out of seven respondents as an important aspect. However, the decision to focus on core competence is, according to these respondents, mostly cost driven, as specialized providers will be able to obtain further cost reduction ranging from 10 – 15%, compared to performing supporting business processes internally.

The advantage "access to provider's technology and skills" is not recognized by six out of seven interviewees. As stated by one of the interviewees; *"Choice for an outsourcing provider is mostly made based upon a certain expected service level, global coverage, and cost level. It is expected that providers, which are able to deliver on a global basis, taking into account certain expected service levels, are mostly comparable."* This is confirming findings from literature, that only a limited group of companies, who are not able to perform certain activities internally, consider access to provider's technology and skills as a big advantage of outsourcing.

6.3 – Disadvantages of Business Process Outsourcing

Reputational damage was recognized by all interviewees as an important disadvantage of business process outsourcing. However, two remarks need to be made with regard to this aspect. Firstly, the risk of reputational damage is, according to interviewees, mostly coming from the provider not being able to deliver on the required quality, not from certain aspects of the local work environment of offshore workers. Secondly, it is noted that the risk of reputational damage is low. As several interviewees state, this is mostly due to the awareness of outsourcing providers and companies of this risk and providers putting control mechanisms in place when setting up the contract to insure quality level drops. However, the impact in case of reputational damage is very high.

As impact of reputational damage is very high, it is still considered to be the most important disadvantage of business process outsourcing. However, the risk of hidden cost is almost as important. According to an interviewee, wages in India are about 20% compared to wages in western countries. Companies are aware that they are not able to amortize the full 80% cost reduction, but still expect a cost reduction opportunity of 20 – 40%, depending on the processes outsourced. However, as mentioned by one of the interviewees, *"hidden costs are much higher than expected in first year(s) of the outsourcing arrangement, for example travel costs of all customer employees going back and forth to India, and telephone cost of on-shore Indian workers to discuss with offshore counterparts most of the day. These costs are mostly not foreseen in the original business case."* As noted above, the opportunity of cost reduction is seen as the most important advantage of business process outsourcing. The risk of hidden costs is therefore putting a pressure on original motivations for outsourcing.

Dependence on supplier is, in practice, not seen as a big issue by most of the interviewees. Lock down with a supplier is mostly circumvented by having in place more than one supplier for the same activities and keeping valuable resources on board. Additional to this, all outsourcing contracts should include a possibility to end the contract without penalty agreement, as a countermeasure against dependence. One interviewee perceives the dependence on supplier to be an issue, regardless of the fact that getting out is contractually possible. Mostly due to the fact that often internal manpower, and knowledge, left the organization as part of the outsourcing agreement. Knowledge transfer from one provider to another outsourcing partner, or new employees of outsourcing organization, will only capture 70% of the information needed. However, this is again countered by other interviewees, who mention that all providers realize that if they do not work on proper transition back to client, they will risk this being written down as a case study and this will result in reputational damage for the provider. A final remark in this respect is that several interviewees mention the risk of getting dependent on supplier adds to the risk of reputational damage by the provider not being able to deliver the needed quality. As stated by one of the interviewees: *"It is essential to retain a number of employees, and ensure sufficient knowledge of outsourced processes with these employees, to retain key knowledge in the outsourcing company. These employees should manage the contract and be able to discuss quality issues and improvements with the provider."*

6.4 – Country Specific Characteristics

Next to ranking the advantages and disadvantages, country specific characteristics were discussed. The next section discusses these characteristics, grouped into geographical, cultural, and institutional characteristics.

6.4.1 – Geographic Distance

Three influences of geographic distance were mentioned in chapter 3, namely time zone differences, communications network and English skills. Time zone differences are mentioned by interviewees to not influence knowledge transfer, coordination, and monitoring, due to the fact that, at least for European customers, time difference is relatively small and Indian workers are used to working European times. US time zones are seen as somewhat more problematic, but still Indian workers provide services by adjusting to US time zones as well. Time zone differences only possibly add to employee turnover, as discussed in section 6.4.2.

Communication networks and the English language used are seen to endanger knowledge transfer, coordination, and monitoring efforts in projects. Firstly, business English skills and use of dialects of western and Indian workers differs, creating misunderstandings. Secondly, interviewees agreed that communication by phone is not optimal as you lose non-verbal communication and getting to know each other is hard by phone. Video-conferencing is mentioned as a solution, but mostly these facilities are not available in the needed quantity at both provider and outsourcing company. However, this is not a country specific influence, but an attention point for providers and companies who decide to outsource. Finally, phone line and bandwidth issues have high impact on the perception of quality by western workers. Unfortunately it is, as noted by one of the interviewees, not considered to be of high impact by the Indian counterparts.

6.4.2 – Cultural Differences

The cultural differences, impacting success of business process outsourcing to India, are mostly confirmed by the interviews. Interviewees mentioned that Indian workers need more management attention from client side than expected for several reasons, discussed below.

Firstly, Indian workers are used to a hierarchical way of working. They will look for confirmation from the client, but also only accept orders from people they perceive to be higher in rank than they are. One of the remarks made is that *“this issue is partly resolved by empowering retained workers from client, but more often top management from client side needs to be involved to escalate issues.”*

Secondly, Indian workers tend not to communicate on deadlines and are reluctant to ask questions. This is resolved mostly from client side by micromanagement and building in buffers in deadlines on their own.

Thirdly, it is mentioned that Indian workers are extremely proud people. As a result, and because of the hierarchical blame culture, they will go through extreme lengths to prove that they were not wrong. Results of this are twofold. Indian workers will ask approvals for all subtasks to be sure that responsibility will remain at the client, where the client is expecting this responsibility to be transferred. Additional time is needed, from provider as well as client side, on administrating responsibilities and taken actions to resolve issues. As stated by an interviewee; *"A few months in the project I noticed I was giving approvals for most of the subtasks performed. If I needed to deliver certain documents on which I needed input from Indian counterparts, I made sure I communicated deadlines that were a few days in advance of the actual deadline. Most important, and not expected, was actually when things went wrong, the provider referred to my approvals for subtasks. As of that moment, most of my time went into being sure that I checked subtasks intensively…"*

Finally, Indian workers are not perceived to be very loyal and as a result of this turnover rate is very high. However, there are several reasons mentioned for the high turnover rate:

- Work / life balance not being optimal by working hours of 12 – 14 hours a day and dependent on time zone differences. However, it is also mentioned that Indian workers are used to these hours and in other companies working hours will probably be the same.
- Due to the overheated market in India, employees will get the opportunity to join other companies at a higher pay when they are more experienced.
- Business process outsourcing work is mostly standardized work done by graduates. After a period of doing this standardized work, people will be leaving to find more interesting work.
- Indian workers are looking for appreciation in their work and they not always get this appreciation from western clients, due to cultural differences in rewarding people.

Although providers standardize work and have internal training and knowledge transfer activities in place, to cope with high employee turnover, interviewees mentioned this turnover to be an issue for the success of business process outsourcing, confirming theoretical findings. As one of the interviewees mentions: *"We had to transfer knowledge* *repeatedly resulting in transition taking longer than expected, this was mainly caused by Indian workers leaving to pursue other opportunities, internal and external. The intended partnering, by stressing team building, was also not achieved due to resources leaving."*

6.4.3 – Institutional Influence

From an institutional perspective infrastructure, political conditions, intellectual property issues and unionization could impact the success of business process outsourcing to Indian companies.

Infrastructure

As mentioned in chapter 3, the infrastructural influence from business process outsourcing to Indian companies is mostly derived from the communications network. It is noted by interviewees that telecommunications and bandwidth issues impact successful knowledge transfer, coordination and monitoring efforts negatively. One of the statements made was: *"Communication by phone is not optimal as you lose non-verbal communication and getting to know each other is hard. These communication issues, together with the difference in English language used by western and Indian workers, did not add to building trust, which is needed for the project to be a success."* Next to this, the earlier mentioned lack of video-conferencing facilities is mentioned to have a negative effect on the success of outsourcing.

Besides telecommunications and bandwidth issues, lack of a steady electric supply was found from literature review to have a possible impact on success of outsourcing. Only one interviewee mentioned this as an attention point for Indian business process outsourcing providers. This interviewee also stated that the provider had alternative sources of electric supply in place and additional costs were relatively low compared to the costs of the total project.

Political Conditions

Government policy was not seen as having high impact. India is seen as a relatively stable bureaucracy, which is focused on promoting outsourcing for almost two decades already. The risk of government policy shifting was not recognized by the interviewees. One remark made was *"India is a democracy and it has shown over the last two decades that policy regarding outsourcing is mostly unchanged. This results from Indian government's desire to be recognized as thé location for business process outsourcing, as China is for production activities."* An aspect of government policy, mentioned by one of the interviewees, that negatively changed over the last decade was requesting visa. In his opinion this has become a more bureaucratic exercise. However, when the other interviewees were asked about this, they replied that indeed additional paperwork was needed, but requirements needed to apply for visa were made clearer by additional regulations, which actually reduced the time needed to get a visa.

From an educational perspective some remarks need to be made resulting from the interviews. Firstly, the supply of new workers is not seen as an issue, due to the high number of graduates with a bachelor or master degree. Secondly, it is mentioned that wages are rising for middle management and experienced business process outsourcing workers. Impact of this on the cost reduction opportunity is seen as minimal, as length of the outsourcing contract is limited to five – ten years and labor arbitrage will be in place for years to come due to starting point of wages. Thirdly, providers try to further minimize cost impact of rising wages by standardization of processes and using relatively more fresh graduates. However, these fresh graduate workers lack, regardless of training efforts by provider, needed communication and consulting skills to perform the job at the expected level. This leads to reduced service levels, or additional training efforts by client. Additionally, the further standardization of tasks will add to employee turnover, as workers are looking for challenging jobs, leading to additional needed training efforts from client side.

From a political risk perspective, results of the interviews were different. From the seven interviewees three people have been advising companies on outsourcing projects for more than ten years. They recognize the need for business continuity plans, and advise companies to include this as a critical aspect in provider choice. Provider should ensure proper business continuity and disaster recovery mechanisms have been set in place. However, according to the other four interviewees, whose experience is more related to day-to-day routines, either no business continuity plans were set in place, or business continuity plans were only set into place based on experiences and pressure of client itself.

Intellectual Property Issues

Intellectual property issues were not seen by any of the interviewees as being specific for outsourcing to India. It is known that India lacks appropriate intellectual property rights, but this was not seen as a specific issue. As one interviewee noted, the risk of onshore intellectual property issues was perceived to be of the same risk as these issues occurring offshore. Additionally, it was mentioned that business to business a lot of agreements were signed and providers had very rigid security measures in place.

Unions

One of the propositions found from literature review, was that there could be a risk of reputational damage from clients perceiving Indian workers not being unionized and working 12 – 14 hours a day as exploitation. Interviewees however, did not consider this when deciding upon outsourcing, nor did they experience these issues in practice.

6.5 - Conclusions

This chapter discusses the results of the seven interviews conducted with subject matter experts on business process outsourcing. The interviews were intended to discuss the checklist, developed from literature review. As a result of the above discussion on the conducted interviews, the following remarks need to be made with regard to this check on the set-up of the original checklist:

- The ranking of the advantages and disadvantages should be slightly altered. The cost reduction possibility is the most important advantage. From a disadvantage perspective, risk of hidden cost and dependence on supplier will trade places, as interviewees noted that cost reduction is the most important reason for business process outsourcing and hidden costs endanger these cost savings.
- While all country specific influences, as derived from literature review and mentioned in the checklist, are still valid, impact differs slightly in practice. Most important reasons being:
    - Impact of influence by country specific characteristics differs due to changed ranking of advantages and disadvantages.
    - Impact of business continuity back-up plans is set to low in all categories, since interviewees consider the necessity for back-up plans related to outsourcing not specific to offshoring. Next to that, all interviewees mention that responsibility of back-up plans remains with the provider.
    - Literature mentions time differences being an issue in knowledge transfer, coordination and monitoring. In practice, Indian workers have adjusted fully to western working hours to avoid these issues.
- The statement, educational mismatch impacting focus upon core competence and possible reputational damage, should be replaced by the fact that providers tend to use fresh graduates instead of senior people to provide services to a client, due to cost pressure. Although training mechanisms and standardization efforts are in place, this will require an additional effort in training by client, because these workers lack communication and consulting skills. Additionally, there is also a bigger risk of degrading quality and thus risk of reputational damage.
- Use of fresh graduates influences the impact of rising costs of wages for skilled professionals and middle managers. As providers are using more fresh people, cost impact of rising wages remains medium, although this is potentially a high impact item.

- As an additional item, the fact, that Indian workers are very proud and will go through extreme length to prove they were not wrong, is recognized from the interviews. This cultural influence results in additional efforts from client side and additional work done by provider. This cultural aspect has been added to influence focus upon core competence and hidden costs, as it was not derived from literature review.

The checklist has been changed to incorporate interview results and remarks made above, see table F.

General Advantages	Influence of country characteristics on general advantages		Possible impact on advantages (Theory)	Possible impact on advantages (Practice)
Cost Reduction Possibility - Low wage costs - Long working hours	Geographical	- Need for international communication and face-to-face meetings	Low	Medium
	Cultural	- Additional resource needs as a result of communication issues - Employee turnover and resulting additional training necessity	Low Low	Medium Medium
	Institutional	- Private investments in infrastructure needed - Rising costs of skilled professionals and middle managers - Need for business continuity back-up plans	Low Medium Medium	Low Medium Low
Focus upon Core Competences - Number of well skilled workers - English speaking capabilities - Experience in IT outsourcing	Geographical	- Knowledge transfer, coordination and monitoring more time consuming	High	High
	Cultural	- Indian managers reluctant to take responsibility - Indian workers not able to work in an autonomous way - High turnover rate of Indian workers - Additional actions needed due to proud Indian workers	High High Medium Not recognized	High High Medium Medium
	Institutional	- Amount of graduates used to minimize cost pressure - Necessity of back-up scenario resulting in additional clients effort	Low High	Medium Low
Access to Provider's Technology and Skills	Geographical	- Time zone differences limit communication possibilities - Below par quality communication networks - Lack of English language skills	Low Low Low	None Low Low
	Cultural	- Lacking process-driven and detail-oriented communication skills	Low	Low
	Institutional	- Below par quality communication and power networks - Educational mismatch in needed skills	Low Low	Low Low
General Disadvantages	**Influence of country characteristics on general disadvantages**		**Possible impact on disadvantages (Theory)**	**Possible impact on disadvantages (Practice)**
Possible Reputational Damage	Geographical	- Knowledge transfer, coordination and monitoring issues	High	High
	Cultural	- Cultural mismatch between clients of outsourcer and vendor - Long working hours and wages seen as exploitation	High High	High Low
	Institutional	- Performance issues as result of high amount of graduates used - Perception of exploitation as a result of Indian workers not unionized	Medium Medium	Medium Low
Risk of Hidden Costs	Geographical	- Additional cost in knowledge transfer, coordination, and monitoring	Medium	Medium
	Cultural	- Indian managers reluctant to take responsibility - Indian workers not able to work in an autonomous way - High turnover rate of Indian workers - Additional actions needed due to proud Indian workers	Medium Medium Low Not recognized	Medium Medium Low Medium
	Institutional	- Government bureaucracy and resulting additional manpower	Medium	Low
Dependence on Supplier	Geographical	-		
	Cultural	-		
	Institutional	-		

Table F - Possible Impact of Indian country characteristics on general (dis)advantages of business process outsourcing - theory versus practice

Chapter 7 – Conclusion, Limitations, and Recommendations

7.1 – Introduction

This chapter focuses on answering the main research question, based upon the literature review and empirical research presented in previous chapters. This chapter starts with the conclusions regarding the question, "why western companies outsource their business processes to Indian companies". Afterwards, the limitations of this research are discussed. Finally, some recommendations on further research are presented.

7.2 – Conclusions

As indicated, business process outsourcing is considered by a growing number of companies as an option for their non-core processes. The focus of this thesis is twofold. Firstly, this thesis focuses on the question why western companies outsource their business processes. Secondly, the thesis focuses on the factors western companies should take into account when outsourcing their business processes to India. The following main research question guides the research done:

"Why do western companies outsource their business processes to Indian companies and what are the related advantages and disadvantages?"

7.2.1 – Main Reasons for Business Process Outsourcing to Indian Companies

From literature review and, afterwards, from a discussion with the seven subject matter experts, interviewed as part of this research, three main reasons for companies to outsource their business processes were mentioned, namely cost reduction, focus upon core competencies and access to technology and skills. These advantages were ranked and translated into specific factors present within Indian companies.

The cost reduction opportunity is, in contrast to what has been found from literature review, the most important reason to consider business process outsourcing. The interviewees mentioned labor arbitrage and scalability, as the most important reason to consider Indian companies as partners in their business process outsourcing initiatives. Indian wages are about 20% of western wages, when including additional costs a final cost advantage of 20 – 40% is expected by western companies outsourcing to Indian companies. Next to this it is mentioned that Indian workers are used to long working hours, which will lead to faster (and thus cheaper) delivery.

From literature review, focus upon core competence was considered as the most important advantage of business process outsourcing. Companies strongly desire to focus on fewer, more manageable core activities and, secondly, on additional benefits from outsourcing non-core activities to specialist providers (Harland et al, 2005). Indian companies are seen to be able to deliver cost efficient services, mostly as a result of low wage costs and scalability, due to the amount of educated workers. Although this research still considers focus upon core competence to be an important reason for western companies to consider business process outsourcing to Indian companies, it is not the most important reason. Focus upon core competencies is mentioned from empirical research, to be triggered by the assumption that specialized providers can offer non-core processes more efficiently and are better able to materialize labor arbitrage effects. In this respect, India is considered to be the preferred location due to the number of well skilled workers with English speaking abilities, while companies have learned lessons from their experience in IT-outsourcing, needed for outsourcing companies to be really able to focus upon their core competencies.

The advantage “access to provider’s technology and skills” is found to be only valid for a limited group of companies, which are in specific market position, as mentioned in chapter 2. Most companies assume providers are able to deliver according to a certain service level. Provider choice is mainly based on price, instead of outsourcing to a specific outsourcer to get access to the needed technology or skills.

7.2.2 – Main Disadvantages of Business Process Outsourcing

Literature also distinguishes three major disadvantages, which are confirmed through empirical research. Companies should take these disadvantages into account. Most important disadvantage is reputational damage, quickly followed by hidden costs. The risk of reputational damage is not considered to be very high, but potential impact will be very high, as a company’s reputation is its most important asset. Reputational damage from outsourcing to Indian companies is, according to the respondents, only resulting from the risk of the outsourcing partner not providing the desired services. Risk of reputational damage, as a result of perception of exploitation, is not seen as an issue, when outsourcing business processes to India, in contrast to what could be expected from theoretical review.

Hidden costs are found to endanger the original assumptions of business process outsourcing, as most important reason for companies is the cost reduction opportunity. Last mentioned disadvantage, dependence on supplier, is found from both literature review and empirical research as a risk non-specific for offshore outsourcing.

Furthermore, the risk of dependence can be mitigated relatively simple by the outsourcing company itself.

7.2.3 – Country Specific Factors

This thesis describes the advantages and disadvantages companies experience when outsourcing their business processes to Indian companies. The research also found India country specific characteristics, geographical, cultural and institutional, to influence these (dis)advantages. These advantages and disadvantages and their influences, and impact of these influences are described in the final checklist, table G, which is a result of combined theoretical and empirical research. This section mentions the most remarkable findings from the geographical, cultural and institutional influence perspective.

Geographical Distance

Geographical influence is mostly derived from the fact that communication possibilities are limited due to distance. From a cost perspective, the necessity for more face-to-face meetings will endanger the cost reduction opportunity. From a focus upon core competencies perspective, distance results in more time needed from outsourcing company personnel, which will also lead to less control from their side and possible knowledge transfer, coordination and monitoring issues, thereby adding to the risk of reputational damage. Hidden costs mostly come from the additional phone and airline tickets costs. From a geographic distance perspective, it is interesting to see that several interviewees mentioned videoconferencing as a possible partial resolution for this, but use in practice is very limited.

Cultural Distance

From a cultural difference perspective, a few items need additional reference. One of the key assumptions underlying business process outsourcing is that the provider will take over management tasks relating to these business processes and outsourcing company's employees will only need to spend limited time on these business processes after outsourcing. One of the key results of Indian bureaucratic and hierarchic culture is that Indian workers are not taking this required responsibility and are often not able to work in an autonomous way. Interviewees engaged in business process outsourcing from an outsourcing company perspective mentioned that this really puts a pressure on the original business case and on the remaining staff members at outsourcing company. Furthermore, the high turnover rate of Indian workers is having influences the success of business process outsourcing. Carefully built up knowledge and relationships disappear when people leave to pursue other opportunities. This high turnover rate is mostly caused by the fact that Indian workers are leaving to get a better pay and job at another company in a far more frequent way than western workers. However, Indian based providers are aware of these risks and putting in place additional training on culture, try to standardize work and have knowledge transfer sessions recorded to minimize effects. Impact from an outsourcing company's perspective is, however, currently still medium to high for all related (dis)advantages.

Institutional Influence

A few remarks need to be made with regard to institutional influence. Institutional influence is mostly derived from infrastructural issues, the high amount of graduates used to compensate rising wages, need for business continuity plans and government bureaucracy. Influence of institutional aspects is, however, mostly low, with only a few having medium impact. This is mostly a result of the companies being aware of these aspects and putting in place actions to (partly) resolve these issues. For example, the effect of the high amount of graduates used to compensate rising wages is circumvented partly by providers highly standardizing processes and providing additional communication training to new joinees. Next to companies being aware of these issues, Indian government is also mentioned to be aware of government bureaucracy and working on these issues. A good example is the mentioned visa procedure for western workers, which is now clearly described and takes less time to fulfill.

7.2.4 – Final Remarks

Indian companies engaged in business process outsourcing have a lot of potential and India is considered to be the preferred country of origin by many western companies desiring to outsource their business processes. India has a lot of potential, mostly due to the low wage costs, long working hours, the availability of educated resources and English speaking capabilities. However, for western companies to secure these benefits, and for Indian companies to remain the preferred choice, they should both be aware of the risks of business process outsourcing and possible geographical, cultural and institutional influences on the advantages and disadvantages of outsourcing business processes, and act upon resolution of these influences.

The final checklist, presented in table G, is a good starting point for western companies on the one hand, who are considering business process outsourcing to Indian companies, on what to take into account during discussions with possible providers and what to set into place internally to mitigate the risks of business process outsourcing to Indian companies. On the other hand, it is a good starting point for Indian providers on what additional actions are needed from their side to make sure expectations of western companies are fulfilled.

General Advantages	Influence of country characteristics on general advantages		Possible impact on advantages (Practice)
Cost Reduction Possibility - Low wage costs - Long working hours	Geographical	- Need for international communication and face-to-face meetings	Medium
	Cultural	- Additional resource needs as a result of communication issues - Employee turnover and resulting additional training necessity	Medium Medium
	Institutional	- Private investments in infrastructure needed - Rising costs of skilled professionals and middle managers - Need for business continuity back-up plans	Low Medium Low
Focus upon Core Competences - Number of well skilled workers - English speaking capabilities - Experience in IT outsourcing	Geographical	- Knowledge transfer, coordination and monitoring more time consuming	High
	Cultural	- Indian managers reluctant to take responsibility - Indian workers not able to work in an autonomous way - High turnover rate of Indian workers - Additional actions needed due to proud Indian workers	High High Medium Medium
	Institutional	- Amount of graduates used to minimize cost pressure - Necessity of back-up scenario resulting in additional clients effort	Medium Low
Access to Provider's Technology and Skills	Geographical	- Time zone differences limit communication possibilities - Below par quality communication networks - Lack of English language skills	None Low Low
	Cultural	- Lacking process-driven and detail-oriented communication skills	Low
	Institutional	- Below par quality communication and power networks - Educational mismatch in needed skills	Low Low
General Disadvantages	**Influence of country characteristics on general disadvantages**		**Possible impact on disadvantages (Practice)**
Possible Reputational Damage	Geographical	- Knowledge transfer, coordination and monitoring issues	High
	Cultural	- Cultural mismatch between clients of outsourcer and vendor - Long working hours and wages seen as exploitation	High Low
	Institutional	- Performance issues as result of high amount of graduates used - Perception of exploitation as a result of Indian workers not unionized	Medium Low
Risk of Hidden Costs	Geographical	- Additional cost in knowledge transfer, coordination, and monitoring	Medium
	Cultural	- Indian managers reluctant to take responsibility - Indian workers not able to work in an autonomous way - High turnover rate of Indian workers - Additional actions needed due to proud Indian workers	Medium Medium Low Medium
	Institutional	- Government bureaucracy and resulting additional manpower	Low
Dependence on Supplier	Geographical	-	
	Cultural	-	
	Institutional	-	

Table G – Impact of Indian country characteristics on (dis)advantages of outsourcing business processes to Indian companies

7.3 – Limitations

This section focuses on the limitations of this research. Limitations are a result of choices made in the setup of the literature review and empirical research. This section also discusses how the setup of this research minimizes the impact of these limitations.

7.3.1 – Literature Review

Limitations of literature review can be grouped into three main limitations. Firstly, business process outsourcing is a relatively new and developing field of research. To ensure information used in this thesis is not outdated, mostly recent articles are used. Only in cases, which do not directly describe business process outsourcing, but other building blocks, for example cultural dimensions as presented in chapter 3, older relevant articles are used. Secondly, articles used to describe India specific factors derived from Indian/Asian sources could have an unintentional bias. If possible, results presented in this thesis are derived from both western as Asian sources. Thirdly, this thesis does not distinguish impact of outsourcing business processes related to different functions, e.g. finance and procurement, nor in specific industries, e.g. fast moving consumer goods and life sciences. Papers used are mostly general in setup. Assumptions are made that advantages and disadvantages, presented in other papers, can be generalized and are not industry nor function specific.

7.3.2 – Empirical Research

With regard to the empirical part of this research, there are also some valid limitations. One limitation could be that the assumption on definitions of business process outsourcing or other building blocks, as used in this thesis, differ between interviewer and interviewee. To minimize this risk, in advance a list of relevant building blocks and definitions was shared with the respondents. Other limitations caused by interviewer interviewee biases, as discussed by Saunders et al (2003), are taken into account before conducting the research. In advance, agreements on sharing of minute notes and confidentiality agreements are made, to prevent that people are inhibited to share valuable information during the interviews.

7.4 – Recommendations on further Research

From this research recommendations on further research can be made. The difference in ranking on importance of the advantages “possibility to focus upon core competencies” and “cost reduction opportunity” as a result of literature review and empirical research should be investigated further. A question that is unfortunately outside the scope of this research can be if difference in ranking of these advantages is specific for western companies outsourcing business processes to Indian companies.

More general, one of the recommendations for further research could be that this checklist is developed for more countries. By doing so, companies will be able to make a better choice on the country, which will best fit their business process outsourcing requirements. Next to this, the current checklist is not specific for different functions or industries. It could be interesting to investigate if impact or influences differ for specific functions or industries.

This thesis focuses upon describing possible advantages and disadvantages of business process outsourcing by western companies to Indian counterparts and the impact of geographical, cultural and institutional influences on these advantages and disadvantages. Research is needed on how to deal with these influences. This will help companies (both outsourcing company as well as provider) in being able to materialize the expected results from outsourcing business processes.

Literature List

Agarwal, P. (2007) Higher Education in India: Growth, Concerns and Change Agenda, Higher Education Quarterly, Vol 61, Nr 2, 197-207.

Agarwal, R. & Nisa, S. (2009) Knowledge Process Outsourcing: India's Emergence as a Global Leader, Asian Social Science, Vol 5, Nr 1, 82-92.

Alexander, M. & Young, D. (1996), Outsourcing: Where is the value?, Long Range Planning, Vol 29, Nr 5, 728-730.

Alon, I. & Herbert, T. & Munoz, J. (2007) Outsourcing to China: Opportunities, Threats, and Strategic Fit, Zagreb International Review of Economics & Business, Vol 10, Nr 1, 33-66.

Appelbaum, S. & Samaha, A. (2008) Business Process Outsourcing: Lessons From Case Studies in India, Poland and Canada, Journal of Business Case Studies, Vol 4, Nr 12, 37-54.

Arnold, U. (2000) New dimensions of outsourcing: a combination of transaction cost economics and the core competencies concept, European Journal of Purchasing & Supply Management, Vol 6, 23-29.

Asher, M. & Sen, R. (2005) India-East Asia Integration: A Win-Win for Asia, Economic and Political Weekly, Vol 40, Nr 36, 3932-3940.

Axelrod, W. & Haldar, S. (2009) Combined Impact of Outsourcing and Hard Times on BPO Risk and Security, [On-Line], Available via http://amrita.edu/.

Baden-Fuller, C. & Targett, D. & Hunt, B. (2000), Outsourcing to outmanoeuvre: Outsourcing Re-defines Competitive Strategy and Structure, European Management Journal, Vol 18, Nr 3, 285-295.

Barthélemy, J. (2003) The seven deadly sins of outsourcing, Academy of Management Executive, Vol 17, Nr 2, 87-98.

Bird, R (2006) Defending Intellectual Property Rights in the BRIC Economies, American Business Law Journal, Vol 43, Nr 2, 317-363.

Bloch, M. & Spang, S. (2003) Reaping the benefits of business-process outsourcing, McKinsey on IT, Fall, 10-17.

Bureau of South and Central Asian Affairs (2009) Background Note: India, [On-Line], Available via http://www.state.gov/.

Carmel, E. & Agarwal, R. (2002) The Maturation of Offshore Sourcing of Information Technology Work, MIS Quarterly Executive, Vol 1, Nr 2, 65-78.

Chanda, R. (2008) India and services outsourcing in Asia, The Singapore Economic Review, Vol 53, Nr 3, 419-447.

Click, R. & Duening, T. (2005) Business Process Outsourcing – The competitive advantage, New Yersey, John Wiley & Sons Inc.

Conklin, D. (2005) Risks and rewards in HR Business Process Outsourcing, Long Range Planning, Vol 38, 579-598.

Crutchfield, B. & Roach, D. (2006) Offshore Outsourcing to India by U.S. and E.U. Companies: Legal and Cross-Cultural Issues that Affect Data Privacy Regulations in Business Process Outsourcing, [On-Line], Available via http://bizlawjournal.ucdavis.edu/.

Davis, D. (2005) Business research for decision making, Belmont, CA, Thomson / Brooks / Cole.

Devine, I. & Halpern, P. (2001) Implicit Claims: The Role of Corporate Reputation in Value Creation, Corporate Reputation Review, Vol 4, Nr 1, 42-49.

Dibbern, J. & Winkler, J. & Heinzl, A. (2008) Explaining Variations in Client Extra Costs Between Software Projects Offshored to India, MIS Quarterly, Vol 32, Nr 2, 333-366.

Doh, J. (2005) Offshore outsourcing: Implications for International Business and Strategic Management Theory and Practice, Journal of Management Studies, Vol 42, Nr 3, 695-704.

Doney, P. & Cannon, J. & Mullen, M. (1998) Understanding the Influence of National Culture on the Development of Trust, The Academy of Management Review, Vol 23, Nr 3, 601-620.

Duening, T. & Click, R. (2005) Essentials of Business Process Outsourcing, New Yersey, John Wiley & Sons Inc.

Gilley, M. & Rasheed A. (2000), Making more by Doing Less: An Analysis of Outsourcing and its Effects on Firm Performance, Journal of Management, Vol 26, Nr 4, 763-790.

Giridharadas, A. (2007) India's Edge Goes Beyond Outsourcing, [On-Line via New York Times Online], Available via http://www.nytimes.com/.

Gottfredson, M. & Puryear, R. & Phillips, S. (2005) Strategic sourcing – From periphery to the source, [On-Line], Available via http://hbr.org/.

Gupta, V. & Surie, G. & Javidan, M. & Chhokar, J. (2002) Southern Asia cluster: where the old meets the new, Journal of World Business, Vol 37, 16-27.

Harland, C. & Knight, L. & Lamming, R. & Walker, H. (2005) Outsourcing; assessing the risks and benefits for organizations, sectors and nations, International Journal of Operations & Production Management, Vol 25, Nr 9/10, 831-850.

Heeks, R. & Krishna, S. & Nicholson, B. & Sahay, S. (2001) Synching or Sinking: Global Software Outsourcing Relationships, IEEE Software, Vol 18, Nr 2, 54-61.

Hofstede, G. (1984) The Cultural Relativity of the Quality of Life Concept, The Academy of Management Review, Vol 9, Nr 3, 389-398.

Hofstede, G. (2009) Cultural Dimensions, [On-Line], Available via http://www.geert-hofstede.com/.

Holcomb, T. & Hitt, M. (2007), Toward a model of strategic outsourcing, Journal of Operations Management, Vol 25, 464-481.

Jones, W. (2009) Outsourcing: The Enduring Mistakes, The journal of Applied Business and Economics, Vol 10, Nr 1, 1-14.

Kakabadse, A. & Kakabadse, N. (2002) Trend in Outsourcing: Contrasting USA and Europe, European Management Journal, Vol 20, Nr 2, 189-198.

Kakabadse, A. & Kakabadse, N. (2005) Outsourcing: Current and Future Trends, Thunderbird International Business Review, Vol 47, Nr 2, 183-204.

King, W. (2007) The IS Organization of the Future: Impacts of Global Sourcing, Information Systems Management, Vol 24, Nr 2, 121-127.

Kirkegaard, J. (2007) Offshoring, Outsourcing, and Production Relocation, Labor Market Effects in the OECD Countries and Developing Asia, Unpublished Manuscript, Peterson Institute for International Economics, Washington, DC.

KPMG (2009) Exploring Global Frontiers, [On-Line], Available via http://www.platformoutsourcing.nl/.

Kronstadt, K. (2009) India-U.S. Relations, [On-Line], Available via http://www.crs.gov/.

Kshetri, N. (2007) Institutional factors affecting offshore business process and information technology outsourcing, Journal of International Management, Vol 13, 38-56.

Kumar, N. & Joseph, K. (2005) Export of Software and Business Process Outsourcing from Developing Countries: Lessons from the Indian Experience, Asia-Pacific Trade and Investment Review, Vol 1, Nr 1, 91-110.

Lacity, M. & Willcocks, L. & Rottman, J. (2008) Global outsourcing of back office services: lessons, trends, and enduring challenges, Strategic Outsourcing: An International Journal, Vol 1, Nr 1, 13-34.

Lahiri, S. & Kedia, B. (2009), The effects of internal resources and partnership quality on firm performance: An examination of Indian BPO Providers, Journal of International Management, Vol 15, 209-224.

McIvor, R. (2008) What is the right outsourcing strategy for your process, European Management Journal, Vol 26, 24-34.

Meenakshi, R. & Vani, B. (2008) Problems and Prospects of Business Process Outsourcing Industry: A Case Study of India, [On-Line], Available via http://mpra.ub.uni-muenchen.de/.

Mehta, A. & Armenakis, A. & Mehta, N. & Irani, F. (2006) Challenges and opportunities of business process outsourcing in India, Journal of Labor Research, Vol 27, Nr 3, 323-338.

Mukerji, A. (2008) India: The World's BPO Hub, in Kobayashi – Hillary, Building a Future with BRICs: The Next Decade for Offshoring, Heidelberg: Springer, 133-145.

National Association of Software and Service Companies (NASSCOM), Strategic review 2010, [On-Line], Available via http://www.nasscom.in/.

Noronha, E. & D'Cruz, P. (2006) Organising Call Centre Agents: Emerging Issues, Economic and Political Weekly, Vol 41, Nr 21, 2115-2121.

Patton, M. (2002) Qualitative designs and data collection, in Qualitative Research and Evaluation Methods Edited by: Patton MQ, Thousand Oaks, Sage Publications, 209-335.

Piazza, P. (2006), Doing Business in Asia, Security Management, Vol 50, Nr 5, 52-60.

Power, M. & Bonifazi, C. & Desouza, K (2004) The ten outsourcing traps to avoid, The journal of business strategy, Vol 25, Nr 2, 37-42.

Prahalad & Hamel (1990) The core competence of the corporation, Harvard Business Review, Vol 68, Nr 3, 79-91.

Quélin, B. & Duhamel, F. (2003), Bringing Together Strategic Outsourcing and Corporate Strategy: Outsourcing Motives and Risks, European Management Journal, Vol 21, Nr 5, 647-661.

Rao, M. (2004) Key Issues for Global IT Sourcing: Country and Individual Factors, Information Systems Management, Vol 21, Nr 3, 16-21.

Rouse, A. & Corbitt, B.(2004) IT-supported business process outsourcing (BPO): The good, the bad, and the ugly, Paper presented on 8th Pacific Asia Conference on Information Systems, Shanghai, China.

Roussev, B. & Akella, R. (2006) Agile Outsourcing Projects: Structure and Management, International Journal of e-Collaboration, Vol 2, Nr 4, 37-52.

Sandhu, A. (2006) Why Unions Fail in Organising India's BPO-ITES Industry, Economic and Political Weekly, Vol 41, Nr 41, 4319-4321.

Sarkar, S. (2007) Individualism-collectivism as predictors of BPO employee attitudes toward union membership in India, Asia Pac J Manag, Vol 27, 93-118.

Saunders, M. & Lewis, P. & Thornhill, A. (2003) Research methods for business studies, Harlow, Financial Times / Prentice Hall.

Sebastian, R. & Parameswaran, A. & Yahya, F. (2006) Doing Business in India, New Zealand Journal of Asian Studies, Vol 8, Nr 1, 17-40.

Sekaran, U. (2000) Research Methods for Business: A skill building approach, New-York: John Wiley & Sons, Inc.

Sharma, D. & Saxena, S, & Aanand, S. (2005) BPO: The strategic alternative for India, South Asia Economic Journal, Vol 6, Nr 1, 117-129.

Shi, Y. (2007) De risico's van business process outsourcing, [On-Line], Available via http://www.kluwermanagement.nl/.

Suri, G. & Abbott, P. (2009), Cultural Enclaves: The interplay between Indian cultural values and Western ways of working in an Indian IT organisation, Paper presented at the SIG GlobDev's Second Annual Workshop, Phoenix, Arizona.

Symons, T. (2004), Business Process Outsourcing: The strategic trajectory, Unpublished Manuscript, Erasmus Universiteit Rotterdam, Rotterdam.

Symons, T. & Van Ingen, R. & Hoogeveen, D. (2005) Heeft business process outsourcing kans van slagen, [On-Line], Available via http://www.kluwermanagement.nl/.

Tas, J. & Sunder, S. (2004) Financial Services Business Process Outsourcing, Communications of the ACM, Vol 47, Nr 5, 50-52.

Verschuuren, P. & Doorewaard,H. (2005) Het ontwerpen van een onderzoek, Utrecht: Uitgeverij Lemma BV.

Wadhwa, V. & Ravindran, R. (2007) Vendor selection in outsourcing, Computers & Operations Research, Vol 34, 3725-3737.

Winkler, J. & Dibbern, J. & Heinzl, A. (2008) The impact of cultural differences in offshore outsourcing – Case study results from German-Indian application development projects, Inf Syst Front, Vol 10, 243-258.

World Economic Forum (2009), The Global Competitiveness Report 2009-2010, [On-Line], Available via http://www.weforum.org/.

Yang, D. & Kim, S. & Nam, C. & Min, J. (2007) Developing a decision model for business process outsourcing, Computers & Operations Research, Vol 34, 3769-3778.

Zhu, Z. & Hsu, K. & Lillie, J. (2001), Outsourcing – a strategic move: the process and the ingredients for success, Management Decision, Vol 39, Nr 5/6, 373-378.

Appendix A – Information send to Interviewees before Interview

The interview conducted aims at first defining the several advantages and disadvantages of business process outsourcing to Indian companies, as experienced in practice. Second it aims at defining the relative impact of India specific country characteristics on each discussed advantage and disadvantage of outsourcing business processes to Indian companies.

Interview set-up

The interview will start by asking you to rank the advantages and disadvantages of business process outsourcing to Indian companies. The following general advantages and disadvantages have already been noted, as a result of literature review. This list is however not final; please feel free to add advantages and disadvantages during the interview.

Advantages;

- Cost reduction and restructuring opportunities
- Possibility to focus upon core competencies
- Access to provider's technology and skills

Disadvantages;

- Risk of hidden costs
- Dependence on supplier
- Reputational damage

During the interview I would like to discuss your ranking of importance of the advantages and disadvantages, based upon your experience with business process outsourcing to Indian companies.

Second I would like to discuss and rank, again based upon your experience, the impact of country specific characteristics for India per each, in part 1 of the interview established, advantage and disadvantage. The characteristics can be grouped into;

- Geographic distance
- Cultural differences
- Institutional influence

Some definitions used during this interview

Business process outsourcing

"The movement of one or more business processes from inside the organization to external service providers, which in turn own, administer, and manage the selected process(es), based upon defined and measurable performance criteria, either to be performed on-shore, near-shore, or off-shore."

Some important criteria used in this definition;

- *Business processes* are defined by Symons (2004) as the complete and dynamically coordinated sets of collaborative and transactional activities in a commercial enterprise or public organization directed to the achievement of a specific goal.
- Turning over, administering, and managing the selected processes is mentioned as a key distinctive characteristic of business process outsourcing, compared to outsourcing (Yang et al, 2007).
- Measurable performance criteria are needed to determine whether the external service provider has executed the process better, than when it was performed in-house (McIvor, 2008).
- The interview will furthermore focus on outsourcing of business processed by western companies to Indian companies, and will therefore mostly discuss offshore business process outsourcing.

Cultural Differences

Cultural differences can be defined as the extent to which members of two distinct groups differ, on one or more cultural dimensions. That is, their shared values, norms, beliefs, and assumptions, they take into account while doing their work (Winkler et al, 2008).

Appendix B1 – Interview Notes 1

Minutes of interview Tom van der Zee, Business Application Manager at Sara Lee International – 1st of July, 2010

The interview started with a ranking of the advantages and disadvantages of business process outsourcing. The advantages were ranked by interviewee in the following sequence; focus upon core competencies, possibility of cost reduction, and access to provider's technology and skills. With the remark that access to provider's technology and skills and the possibility of cost reduction are considered to be of same importance.

<u>Discussion on advantages and disadvantages:</u>

Focus upon core competencies is an important advantage, but many organizations that outsource need to retain a lot of managers to coordinate and monitor the outsourcing agreement, which has an adverse effect upon the focus upon core competencies.

Cost reductions are hard to measure. Is the cost reduction coming from the outsourcing initiative (provider having access to lower wage) or from the fact that the service provider is able to solve a problem the outsourcing company is not able to solve. The cost reduction opportunity is mostly derived from the fact that organizations can not differentiate between groups of employees, when agreeing upon certain pay rises. An outsourcer can offer lower wages to a certain group of workers and thus retain the cost difference from a wages perspective.

Quality of service remains dependent upon the people employed. Also service providers have problems retaining the right people and having mechanisms in place, which should assure the service being of a certain level independent of people. This dependency on people, and the fact that a service provider actually adds to the risk of key people leaving, as perceived by the outsourcing organization, as they cannot influence these people directly into staying, adds to the fact that organizations cannot really focus upon their core competencies when outsourcing. An attention point for companies in this respect would be HR-policy, which is currently not high on the agenda of most service providers.

Disadvantages of outsourcing can be ranked as follows, reputational damage, dependence on supplier, and risk of hidden costs. However the risk of reputational damage is perceived as very low, in contrast to the risk of hidden costs, which is perceived as very likely. However if the risk of reputational damage is likely additional costs are of less interest to companies. If they can prevent reputational damage they are willing to invest the needed.

An additional disadvantage of business process outsourcing mentioned is the fact that mostly cost reductions are a result of receiving less service, compared to when the services were provided in-house. However this is not a 1-1 relationship, mostly services decline by more than the costs decline. Resulting in an overall loss for the organization, compared to doing it in-house based upon the reduced service level. Companies should evaluate if a process can be done in-house more efficient and what the expected service levels are before deciding to outsource.

The hidden costs of having additional internal manpower to monitor and coordinate with the service provider degrades the risk of becoming dependent upon the service provider, but will bring along additional cost, adding to the disadvantage of hidden costs, and degrading the advantage of focus upon core competency. Dependence on provider is mostly seen as the impossibility to make the decision to stop the outsourcing project. Most companies do not take this decision into account when deciding upon outsourcing. An additional effect of outsourcing and changing to an external provider and back again is that information is lost in the knowledge transfer twice. Most knowledge transfer initiatives only capture 70% of the information. If information is first transferred to the external provider and then back again, 70% of the information is lost twice, adding to the locked-in situation.

Discussion on geographical, cultural, and institutional influences:

Geographical distance is seen by interviewee as the difference between working with someone in another office in the Netherlands and in India. The difference as noticed is that connection problems persist due to infrastructural items, but these items can be quickly solved (additional costs) if the proper priority is given to these issues in India, but this is mostly not the case. Internet and phone lines are however seen by the customer as the lifeline of the project.

The issue of time differences is resolved by Indian workers in working with European counterparts by starting late and ending late (time difference only 3.5 – 4.5 hours). Working with the American counterparts is problematic; due to about 10 hours time difference. In this case people are only available for part of the day and the overlapping working hours are limited, adding to monitoring and coordination issues.

As an addition to this it is mentioned that the more senior people also have less overlap with their European counterparts as they are demanding a better work-life balance. Work-life balance is seen as a risk. People are known to leave the company as a result of high pressure on the project and strange hours to be worked. Indian workers are known to solve capacity problems by working more hours, but in the end they are not able to deliver this on long term.

Indian workers also find imago of a company very important. Consulting companies, mostly specialized in (business process) outsourcing, have a good imago in India and are better able to find resources than companies that are seeking to offshore a subsidiary of their own. Together with the small resource pool this forces companies to outsource to a limited group of consulting companies, instead of setting up a subsidiary of their own in India.

Resources are limited in India, due to the enormous amount of work being outsourced to India. Wages are rising with 10-15% a year. People in India are on paper better educated than we are. Mostly they are 'master'. But they lack the ability to use this knowledge. Communication and consulting skills are needed skills most Indian workers do not possess in an adequate form. Together with the rising wages the inability to deliver on the anticipated output is seen as a risk for India. Another issue related to employee retention is the cultural issue of how Indian workers negotiate wages. It is normal in India to negotiate contracts with more than one employer and sign them, and then asking a raise the day before the contract would be in effect, and end the other contracts. This adds to the rising wages in India.

Companies are threatened by the rising wages in 2 ways: A cost rise based on inflation is mostly embedded in the contract and people are leaving to pursue other challenges in a more frequent way than in Europe, due to the fact that they can earn more at other companies. To achieve the cost savings only uneducated people are working on low-cost outsourcing initiatives, which should be trained by the outsourcing company again and when they are trained they are at risk of these workers leaving or demanding higher level wages again. As a solution service providers should be sharing best practices among different projects, which is not done enough currently. Economies of scale are mostly not actively pursued.

Another issue is the fact that Indian workers are hierarchic and only listen if they get an assignment from someone who they perceive to be higher ranked. Two solutions are used in practice, empower the workers from client so that they are seen as higher in the hierarchy by the Indian counterparts or involve top management from client side more and more. The latter is mostly done, which will have a negative result on focus upon core competencies. Impact of this is high as this results in hidden costs and the fact that internal projects do not get the attention needed.

Not asking questions or communicating about deadlines results in additional costs and inefficiencies. The outsourcing partner tries to solve this by cultural and communication courses, but this does not solve the complete issue, also due to the fact that Indian managers remain to work in a very hierarchic way. The inefficiencies as a result of not asking questions results in additional costs, as additional people are needed, and additional management attention of the client.

Political situation / terrorism in India are not seen as a large business risk. Indian companies are known to have additional security measures in place, but additional business continuity plans are not in place. However the large differences between rich and poor people in India and the inability of the Indian government to work on this is seen as an enlarged risk of social unrest. This difference is mostly caused by the fact that, while Indian government works hard to get people educated and more people are getting an education, the number of people having no education, and thus being poor, is growing much harder.

From a government policy perspective the Indian government made it harder to obtain business visa for India, which made it harder to go to India and had an adverse effect on face-2-face knowledge transfer, and monitoring and coordination initiatives.

The impact of geographical issues on cost is coming mostly from the fact that phone lines to India are open most of the days. Relative impact is low due to the fact that these costs are relatively low compared to total costs. From an infrastructural perspective additional investments are needed in the setup of the server network to enable 24/7 service in India.

Phone line quality and bandwidth issues are having high impact on the perception of quality and the ability to focus upon core competencies, but are relatively easy to upgrade. However this is mostly not considered to be a high impact issue by Indian counterparts. In contrast to electric supply, where Indian providers have their own aggregates.

Cultural mismatch between Indian and western workers mostly is derived from the fact that issues should be escalated before an issue is worked upon. Where European people are used to sending an e-mail to get the issue resolved, for Indian workers the issues is only seen as priority once it is escalated to higher management. Another difference is that Indian workers tend to focus on closing an issue, instead of solving an issue. As this is the case additional efforts are needed from client side to make sure the issue is really resolved, before getting closed, and in escalating the issue to the right level, again increasing management attention needed, and thus hidden costs and decreasing focus upon core competencies.

Client relationship is seen as degrading due to the geographical distance. Companies should be aware of this and be able to build client relationships, regardless of distance. Outsourcing processes, with high client involvement, entails the risk of degrading client / company relationship due to the distance. This is ok when you are a cost leader, but less when you are perceived to be a quality A-brand provider, who builds on trust and perceived quality.

Indian working hours and not having unions is a risk with possible high impact, but currently still of low perceived chance of happening. Companies like Apple and Nike have had big customer reputational damage as a result of their outsourcing initiatives. Companies are known to have their own mechanisms and agreements in place to minimize the possibility of this risk, as they are aware of this risk, but are dependent, and thus should be aware, of local service providers working ethics and the difference with their own global business standards. During the project people are motivated to act upon instances, which negatively differ from the outsourcing party's business standards.

Reputational damage is also a risk from the fact that Indian workers tend to focus on pleasing instead of delivering the needed. Indian workers are very reluctant to communicate on missing deadlines and additional needed information. This can result in reputational damage due to missed critical deadlines.

Appendix B2 – Interview Notes 2

Minutes of interview Sheryl D'Mello, Business Process Specialist at Sara Lee International – 7th of July, 2010

Cost reduction is one of the most important reasons for multinational companies to outsource their business processes, especially if they would be requiring round the clock support in Europe and America.

Within the current project, support for North-America and EU is given by two different teams working in shifts, based on the time zone they are supporting. Work/life balance does not have an influence on the turnover rate of Indian workers. Indian workers tend to not look at the clock when working, and consider extended working hours as normal. Turnover rate is more related to remuneration and travelling time. One important issue to mention is that work breaks tend to take longer than agreed upon, more generally this is culturally acceptable -there is most often slack in the starting time of meetings or working days.

Reputational damage is not seen as a drawback of Indian workers working more hours than their western counterparts. Especially due to the fact that they are not forced to work 14 hours a day, and besides the Customer gets billed for each hour they work, not per day.

Employees leaving projects / employer do add to the fact that there is then more work needed from customer side. BPO Market in India is overstretched, it is growing too fast. Training people makes them more attractive to other BPO providers, adding to the risk of people leaving, but on the other hand the training is needed to ensure project success. Additional to the risk of people leaving triggered by offers of better salary /position is the hierarchical way of working in India. Indian employees work harder (and will stay with the company most probable) if they feel appreciated, but this is very dependent on the supervisor and if he / she is able to share the rewards of working. Also appreciation offered from Customer side – is highly appreciated by individuals. Unfortunately most westerners are not used to offering praise easily.

Business process outsourcing is a strategic decision. Cost reduction is important, but focus upon core competencies is also important. For example HR, IT, and Finance are supporting processes for a consumer goods company and can therefore be outsourced. When there is a strong business case to outsource certain processes – an organization would look for a service provider, who is able to offer support in all of these processes.

It seems like in the first months / year - employees working at the customer end – see disadvantages in the outsourced model. But over time and maturity of the relationship between service provider & customer as well, clear advantages are seen. Hidden costs are much higher in the initial months /years than probably forecast in the business case, mostly caused by all employees from the customer side who have to travel back & forth to India (some more than once) for knowledge transfers and frequent telephone calls with India from on-shore personnel, which are probably not foreseen when building the business case or during due-diligence done by the service provider.

Cultural differences also play a part in the way of working:
From the customers point of view the issue on hand is clear, if a service provider has been explained an issue & confirms that it is clear. On the other hand employees in India very rarely will say that something is unclear to them – for fear of creating a negative impression or makes them look incompetent.
Very often, employees in the front office who depend on the outsourced partner for services – would build in buffers in their time estimations to ensure deadlines are met for the end customers - instead of the service provider building in these buffers, due to the fact that Indian workers are reluctant to inform about delays & communicate in a timely manner if there is the probability of a deadline being missed. Indian workers are not used to saying NO, or saying they cannot deliver something on a given date- most often they will say – yes we are doing our best!

If due diligence is not carried out carefully before the contract is started – you run the risk of not having a good estimate on the quality of employees (FTEs) you will require to support the customer or the numbers (FTEs). This also can work negatively – meaning it burdens the customers' employees then – who are then with the additional tasks of approvals & checks being built to make sure that the service provider is able to support the customer with the right information /quality of information. One of the expectations of outsourcing – is that your internal employees then focus on value added services –rather than just day to day operational issues.

Education is not at all an issue in India; all of the workers have a bachelor degree and very many are also armed with a master's degree.
Very often service providers pick up employees fresh from university and they lack working experience. There needs to be a fair mix of employees in a team comprising of experienced & freshers. Arising issues are related to communication (customers talk in the business language & service providers talk in technical jargon). These issues are best highlighted during cultural awareness sessions, when partnering with a service

provider, but very often require close interaction between customer & providers employees, working shoulder-to-shoulder to reach a common platform of understanding.

From a customer perspective – a business backup plan is not required to be in place in case of security issues. This is the responsibility of the service provider. There is a threat of terrorism and measures are put in place to tackle this. As such none of the BPO/IT players were targeted in the past and since they have multiple locations across the country, this should not be an issue.

From a government policy visa was mentioned as an issue for westerners trying to get to India , as it was seen to have become more bureaucratic to apply for a visa. However interviewee sees it from a positive light -taking into account the economic growth India went through as well as all the security threats from external forces ,it was imperative that there was more structure & strict requirements to grant someone a visa, making it more clear to requestors, what is expected from people when they want to enter India.

In 2005 “kennismigrantwet” introduced in the Netherlands made it easier for highly skilled migrant employees that companies wanted to send on-shore – to actually be on-shore to support customers more closely in projects etc Outsourcing providers can now request a certain number of visas in advance, as long as they pay a minimum salary to these workers, while working in the EU. This is a great improvement in visa requirements for Indian workers coming here, compared to ten years ago.

In 2005 “kennismigrantweb” started, making it easier for Indian workers to come to Europe as part of a project. Outsourcing providers can now request a certain number of visas in advance, as long as they pay a minimum salary to these workers, while working in the EU. This is a great improvement in visa requirements for Indian workers coming here, compared to ten years ago.

Appendix B3 – Interview Notes 3

Minutes of interview Mike Atwood, CEO at Atwood and Associates – 7th of July, 2010

The interview started with setting a framework for the discussion on why people outsource. People hire an outsourcer, because there is an advantage of having an outsourcer doing the work, but it cannot be because they do not want to think about it. Reasons to work with an outsourcer are they can do the work better, cheaper, or both.

When discussing outsourcing related to finance, most of the work (80 – 90 %) was done based on the assumption that the outsourcee does not want to change any procedures. Main reason for outsourcing in this perspective is costs, which leads to outsourcing to India. Main drivers are declining costs of electronic communication and the cheaper labor costs. Wage difference in India continues to be in effect for the coming 10 – 30 years. Taking into account wage differences will remain an issue, but time frames are compressing.

A development in the market is that outsourcers will take on the work and shift it around the world to take advantage of wage differences. For example they are shifting work of one customer to India, China, Vietnam and Southern America.

Another reason for outsourcing is that the organization cannot drive change internally and uses the outsourcing party as a driver of change.

Sharing best practices by outsourcers is a big problem in outsourcing, but often they are not allowed to do so due to contract clauses. Next to that internal resistance against change in procedures also has major impact on sharing and implementing best practices. This would require an outsourcing champion which stands above the parties (for example an overarching CFO).

Dependence on supplier is not seen as a big issue in practice due to the following reasons;

- Every outsourcer realizes that if they do not work on the transition back to client accordingly, it can get written down as a case study and this will have adverse effects on their reputation.
- All outsourcing contracts should include a getting out without penalty agreement, next to the fact that contracts can be terminated by paying a penalty, for example the remainder of the profit.

A contract will always have ways to get out of the contract; the problem is that transitioning costs of bringing the work back in-house are very high. 80% of contracts renew. Most contracts do not go to the end as business changes as 2 years before end of the contract the outsourcee is most powerful in negotiations, due to;

- Outsourcers place a premium on renewing business
- Costs of competitive procurement are foregone

Reputational damage is mostly caused by not doing your homework, either by choosing an unqualified provider or by not being clear on your expectations of outsourcing. An example of that was the fact that English speaking skills of Indian call center workers was not of the expected level. This caused some reputational damage for companies using these workers, due to phone support being of below par level and comedians in the US were making fun of it. An example of avoiding this issue is setting up an elaborate grading center, which rates English skills of workers on a 32 point scale. Internal training however puts a pressure on the cost advantage.

Indian workers will go through extremely lengths to prove that they were not wrong; they are proud people, which sometimes intervenes with their work.

Retention rate in service industries is relative high. Companies should, to take advantage of the cost difference, have a model of workers in place with different level of experience, in which the more experienced people train the college graduates. In India however retention rates are even higher. Customers complain that they train people and then they move on (either internally or externally). There are however some ways to avoid these issues;

- More workers building a relationship with the customer and doing the work, so they can replace each other and train new people when one of the team members leave.
- Identify workers who are doing a great job and reward.
- Identify the reasons why people are leaving and acknowledge bad leadership.

Working hours in India are not seen to add to the turnover rate of Indian workers. It is probably perceived as normal working hours. A lot of Indian workers are leaving to startup companies if they leave the outsourcing companies. If you work for a startup company 15-16 hours a day is more than normal. The number of hours is not differing between companies in India.

Reduction of international communication as one of the drivers of international production, but to be able to do proper knowledge transfer, monitoring, and coordination face-to-face meetings are needed and a combination of offshore / onshore work is needed. The ratio of offshore / onshore varies between 60/40 – 90/10. Reasons for outsourcers having workers onshore are;

- Contract and relationship management
- Check quality of the work
- Make sure no errors are made due to language misunderstandings
- Guide in culture management
- Check and perform the approvals needed by offshore workers (define in contract)

Difference between the wage of Indian worker (mostly 20% of EU / US worker) and the cost reduction is build from; Starting costs, % onshore workers, facilities, overhead and profit for the outsourcer, and a partly retained organization by the outsourcee to deal with the outsourcer (differs between 3 – 8 % of contract value).

An outsourcing project normally takes about 9 months from business case / scope definition to the beginning of work by the outsourcer for the client. It can however take up to 1.5 years in situations where the client doesn't make timely decisions. During this process the most important issue is (next to building a good business case) communication with workers (retained and people who will have to go) in all the stages of the project.

Countries known for their low labor costs are mostly also the countries with higher political risks. A back-up / business continuity plan should be in place. Companies mostly deal with these issues by;

- Being able to do the work in different countries worldwide
- Actively share work in between service centers.

Terrorism is an issue in India. The India / Pakistan relationship is also seen as a treat to the outsourcing success of India, it also has potential high impact as they are both nuclear powers. Political influence is also to be taken into account (Example of Argentina). Indian government has been favorable of outsourcing, as they see it as a way of attracting foreign exchange. Although this is a good development, political change has been seen in the past in the beginning of the 80s. This is seen as a risk for companies. Globalization is however seen as a risk, you should take into account how to spread the risk.

Infrastructural items are not seen as a big issue in India (Telecommunications, Power Supply).

Appendix B4 – Interview Notes 4

Minutes of interview Jaap Schepen, CFO Reed Business Netherlands– 8th of July, 2010

Jaap was, in his capacity as director global financial services at Elsevier Science, responsible for setting up a shared service center, responsible for financial services, collections, and tax, with a global team of around 300 people located in Amsterdam, St. Louis, Singapore, and Oxford, and afterwards outsourcing these services to Genpact in India. When the internal improvements came into a maturity state Hackett was asked to do a benchmark for accounts payable and general ledger. As a result of this benchmark Elsevier decided to outsource their shared service center to be able to make an additional step in improvements and come to a cost reduction by using labor arbitrage.

From the start the outsourcing initiative to India (Calcutta) was clearly not only focused on cost reduction. It was clear that effectiveness and efficiency should go hand in hand. When looking for a partner it was clear that Elsevier was looking for a partner to enhance efficiency and effectiveness, and to be a catalyst of change. Contract negotiations will however mostly lead to negotiations, focused on cost reductions. Additional reasons to outsource were possibilities of career planning for the 200 people in shared service center in NL and US; furthermore Elsevier wanted one way of working and found it hard to finalize this within the old shared service center model.

Reasons for Elsevier not setting up an SSC on their own in India;

- Human resource management better done by BPO provider.
- Elsevier does not have a reputation in financial world, having the risk of not attracting the right level of people.
- BPO provider being a catalyst of change.
- Development of India from a third world country into a second world country, leading to higher wages and perhaps in the end to the necessity of moving to another country (In contract with Genpact possible wage rises were capped).

Disadvantages of business process outsourcing most relevant;

- Overestimation skills of BPO provider and underestimation skills own people. Finance knowledge not at expected level, needed additional efforts Elsevier.
- BPO providers originate from the cost reduction opportunity and are profit driven by customer; they did not have real innovation incentives or incentives to develop best practices.
- Dependence on supplier increases over time, leading to additional costs.

The choice was made to transition all activities at once, and eventually ramp down employee number. Unfortunately the time employees needed to stay at Elsevier was underestimated, due to;

- Mistakes made by BPO provider.
- Knowledge transfer efforts taking longer than expected. And thus people need to be retained longer, additional hidden costs.
- Underestimated level of employee knowledge as mentioned in contract (level of experience of university graduates is not comparable to people in US or NL). People were replaced as a result of this at request of Elsevier. Leading to additional knowledge transfer efforts, but also to additional costs for Genpact (for example in the end they needed more people than defined in contract).

Additional remarks related to this topic are that, one of the most important propositions is that in the end both partners need to profit from the relationship and hidden costs can be a result of outsourcing company being blamed for delays in transition period. There should be rigid management by client during the transition period.

The risk of reputational damage was taken into account by setting into place a hybrid model (see PowerPoint slides). Client satisfaction was measured by BPO provider and by Elsevier 4 times a year. Risk of reputational damage is mostly coming from two sources;

- Elsevier is an English public company and annual figures should be reported to the stock market in time. If this is not done it will have high impact on the value of the company on the stock market.
- Elsevier deals with scientists from the US, these people deliver content for magazines (royalties) and buy these magazines. In the US there are some anti-India sentiment, which should be taken into account when Indian workers will deal with the scientists. This was resolved by;
    - Registration of complaints.
    - Communication on complaints was followed up by Elsevier team.
    - Monthly communication sessions to discuss content of complaints.
    - Support by CFO.

Exploitation of workers and related reputational damage was not seen as a big issue.

Communication was seen as an issue for the following reasons;

- Business English skills of Indian and Dutch workers
- Most communication done by conference calls, creating distance
- English is not a precise language

- Indian workers tend not to communicate if they do not understand or do not see the necessity of performing activities
- Dutch workers tend to be very direct
- Workers asked to leave were, due to the crisis, not always able to find a new job, making it sometimes hard for these workers to stay positive during the transition project.

Issues were partly resolved by focusing upon team building and stressing that Elsevier and Genpact were partners in the outsourcing initiative. Next to that Genpact made sure accent neutralization trainings were in place.

Crisis did however also have a positive effect. The offer of new jobs in India was also lower than normal, adding to employees staying at the company. Next to that Elsevier decided to outsource to Calcutta, which is a developing city in terms of BPO work, thereby not having too much competition for workers of other BPO providers. Employee retention did however still have negative impact on the knowledge transfer as good people were leaving to find other opportunities (internal and external). Adding to people leaving also was the hierarchic organization of Indian teams and managers taking too much credit.

Efficiency of Indian workers is relatively low compared to US and NL workers. This is partly caused by the following;

- During knowledge transfer thousands of pages of instructions are written down, but these are usually not looked at afterwards anymore.
- Working place considered as social place as well (as people spend 15 hours a day at work). Work and family are very important for Indian workers. Social life for Indian workers is very much related to the work environment.
- Often too much focus on measurement of KPI’s (not automated) and green dashboard, instead of opportunities for improvement.
- Bureaucratic way of working, mostly caused by hierarchy.

Provider needs to cover EU and most of US time zones (except for few hours on West Coast of US), but there is a split in activities done for Elsevier. 50% is time dependent and 50% can be done at any time during the day. This does not add to employees leaving, as this is mostly accepted by Indian workers as normal. One additional point of concern is that ration male/female should be about 50/50, after outsourcing this was 90/10. Elsevier stated that they would like to strive for old ratio. However female workers are not allowed to work at night and most stop to work when they get married.

Cultural aspects of outsourcing to India:

- Hierarchic organization, communication should go through all layers of the organization to avoid that Indian manager overrules a worker (e.g. green dashboard). Additional efforts are needed through all the layers of the client organization (next to internal organization changes).
- Hierarchic organization, Indian managers sometimes tend to take too much credit for work done by Indian workers, instead of giving credits to these workers.
- Indian workers are sometimes reluctant to ask questions and if they do not understand they will not work on a solution. This was taken into account during the transition by Elsevier employees.
- Indian workers tend to please the client by estimating how they can please you, resulting in you not being aware of all issues. Elsevier stressed that they should communicate on these issues to avoid big issues later on.
- Top management tends to promise more than they can deliver. Client should be realistic in this and perform a background check before committing.

Business continuity and disaster recovery were set in place. A note made was, that Elsevier was leading in setting up these procedures, while it was expected that Genpact would have such procedures for other BPO clients as well. Going in position in setting up these procedures is that if it goes wrong the BPO provider remains responsible, Elsevier will help, but activities will not be transferred back to Elsevier. Critical processes are taken into account in the backup plan. Work can be done in Delhi, Bangalore, and they have another office in Calcutta.

Appendix B5 – Interview Notes 5

Minutes of interview Tom Bangemann, Vice-President Business Transformation at the Hackett Group – 12th of July, 2010

Discussion on reasons for outsourcing:
Outsourcing logic differs per group, but costs have been on top of the reasons to outsource their business processes. Companies would hope to achieve several advantages, but it is hard for them to rate these advantages as individuals within the company are again differing of opinions on how to rate them. Other reasons for outsourcing are additional flexibility and a possibility of working capital reduction. A change is however noticeable in the fact that nowadays cost reduction makes up half of all the reasons, the other half is made up of other reasons, while cost reduction used to be the majority of the reason to outsource.

Other reasons for outsourcing would be;

- enhanced transparency in global operations
- shared service type model has been set into place and make or buy decision is made after assessment of own capabilities
    - Poor companies – fighting for survival, working capital and cost reduction
    - Excellent companies – shared service model in place, decide to sell these services to the market or outsource to do it even better (Genpact / HP / Procter & Gamble)

Decision to outsource would differ between these two groups of companies. From focus on cost perspective only and needed as they are not able to do it internal (poor companies) or focus on another 10-15% cost reduction, but at the same time focusing and getting access to a provider's technology and skills.

Preparation is very important in outsourcing, but you will always have to deal with the issues related to outsourcing, either you do it in preparation or after the transition. Main reason for spending more or less time is if they already believe in outsourcing model;

- Yes – Jump into details very quickly and time is relatively limited
- No – Internal stakeholders need to be convinced

Discussion on reasons against outsourcing:
Benefits of outsourcing are mostly clear; setting up operations is not that difficult. Difficulty lies in how to get there from an internal change perspective as this will require

a lot of internal debate. Next to that the person who is initiating a project is also risking their own job if the initiative fails.

Disadvantages of the solution itself are very minor. Biggest disadvantages lie in transition phase and risk of transition failing and fact that this initiative competes with other initiatives which can not go through due to time limitations. Reputational risk is, as part of the large issue of change and resistance, an issue for companies.

80% of outsourcing contracts renegotiate within the contract term, due to;

- Outsourcing being a very new concept
- Conflicting targets of parties involved in outsourcing contract
- Trust issues amongst partners in outsourcing, not clear incentives

Biggest issue in outsourcing is that contract can never capture original expectations of both parties. Making changes later on to the contract / expectations is very difficult, also as a result of balance of power changing. This is contrasting with the fact that companies are looking for bigger flexibility by entering into outsourcing projects. Companies are putting models in place to reduce this shift in power balance;

- Using different BPO providers (only if scope is geographically instead of function divided and scale of outsourcing project is sufficient)
- Retain a number of employees and ensure knowledge at these employees
    - Manage contract and additional issues
    - Retain key knowledge in outsourcing company

India specific discussion:
Most important reasons for going to India are the low cost relative to quality delivered, and scalability (availability of labor pool). Many locations are able to deliver lower costs, but are not able to deliver on the needed scale by big companies. If Eastern Europe would be able to deliver on the same scale, companies would outsource to Eastern Europe instead of India and accept 5-10% less savings based on risk, gut feeling, and cultural closeness.

Wages in emerging markets, like India, will always go up, but impact on this on success of outsourcing projects is relatively low, due to;

- Labor arbitrage will not disappear in a few years, there is no example that labor arbitrage will disappear so quickly
- Paybacks of outsourcing are 2-4 year only
- Supply of new people in India is relatively large
- Educational system in India improving

Summary, labor arbitrage will be in place for years to come due to relative number of workers and starting point of wages.

Risks of outsourcing to India lie mostly in cultural mismatches between Indian and western workers. Indian workers are very creative, but need more management attention to check if the process is run in the agreed upon way. Geographic distance does not need to be a factor, but people see it as an issue. Most companies would give up 5-10% of cost savings to avoid these issues by outsourcing to a closer country from geographic and cultural distance.

BPO market is overheating in India from a supplier perspective, leading to price and quality issues. This needs to be corrected, but will probably be corrected by market itself. Also infrastructural issues need to be addressed, but this is improving. Political risks will be mostly equal for Asian countries, and is not seen as to relevant. Companies do not care too much about political risk; they go where there is a business opportunity. Production facilities have been in Asian countries for 30-40 years, so outsourcing non-critical business processes is relatively of low impact.

Retention rate of Indian workers is way too high and seen as an issue. This is a result of cultural reasons (as loyalty is lower, same as UK and Ireland) and BPO being a growth market (and thus there being a lot of opportunities for experienced, well-trained workers). However a healthy SSC model needs fluctuation rates of about 10-20 percent, where for normal business models between 0-5 percent should be targeted, due to needed flexibility. However Indian fluctuation rate is between 50-100%, putting pressure on recruitment and training efforts (and feeling at client). Providers should plan for these high retention rates, and make sure it is good at standardizing processes and describing these processes. If not, quality issues will be a result, and client will link these to constant personnel changes.

Two last mentioned issues in India are the view of time and recruiting process. Indian workers will not apologize for being late and will not always see an appointment as a necessity to show up at that moment in time. Recruiting process is not equal to western process, most applications in India will not be very valid for the function, making the selection more time consuming.

Appendix B6 – Interview Notes 6

Minutes of interview Niels van Woudenberg, Director Program Management Office Sara Lee International – 14th of July, 2010

Cost reduction was the most important objective in making the decision to outsource IT related business processes. Costs for IT department are measured as percentage of Net Sales Value. Communication to the stock market was focused upon cost reduction opportunity. A related objective for the total company would be focus upon core competencies, as HR / IT / Finance are not core competencies and could thus be outsourced (fits in total strategy of focus, for example focus on less product groups).

Decision on a certain provider was mostly made on scale and costs. On the one hand a request was made to provide a wide range of services on a global scale, reducing the number of possible providers, and second a choice was made mostly based upon price. Expectations were that these providers were about equal with regard to technology and skills.

The risk of reputational damage is seen as a result of dependence on supplier with regard to quality delivered. This can also be a result of the fact that standard services are easy to be defined, but more complex services are usually not perfectly defined from a quality perspective. Differences in expectations of quality can quickly result in a commercial discussion on terms of the contract. These differences in expectations differ from an impact perspective during the several phases of the project (from initial "honeymoon" period till steady state). As a result there is a risk of work out of scope (according to provider) needs to be done at additional costs. Work should be more focused on client satisfaction instead of SLA's.

Disadvantage of hidden costs is mostly coming from assumptions made in initial contract set-up, which in the end do not seem valid. For example as a result of the business case expectations are that provider will take over a lot of tasks, including management of these tasks, which lead to a certain retained organization at outsourcing company. If provider is not able to take over management, as workers are not of the needed level / seniority, workers in the retained organization are doing more work than expected. This puts a pressure on the original business case and/or on the relationship with the supplier if risks are by contract for the provider.

Wage differences in India are relative. Indeed wages are lower in India, but most of the differences in this perspective come from the fact that mostly workers with low experience are hired. This is caused by the following;

- BPO work is often not that attractive due to missing direct contact with client and a lot of standardized work to be done.
- Due to pressure on labor market people can move up if they have some experience (and will do so due to low loyalty of workers)
- Indian workers put high value on family. Time differences cause them to work strange times, which they do not accept as they are considered to be the new middleclass in India

Perception on labor market in India is different from practice;

- Relatively hard to find qualified people, in contrast to high quantity of people
- BPO IT workers hard to find
- University graduates would work for about a year for companies like IBM / HP as a useful addition to their CV and afterwards leave to find a job which is more in line with their interests / working hours.

Retention of workers is seen as a big issue for the success of the project. Experienced people are leaving and thus a model should be in place for knowledge to be retained and new workers to be hired if experienced people leave. Unfortunately in practice client is also involved in additional training sessions for new personnel, additional to knowledge which gets lost if people do a transition (pressure on retained organization).

Communication by phone is not optimal as you lose non-verbal communication and getting to know each other is very hard by phone. Additional to this is the accent of Indian workers and difference in English skills with western Europeans. Communication in non-native languages is resulting into communication issues, and does not add to building trust (needed for the success of BPO projects). English and US people have additional issues as they are not used to other accents. Perhaps caused by the fact that non-native workers tend to use simple English and talk slower than normal, adding to the understanding.

Additional issues come from EU / US workers do not know how to deal with Indian culture:

- Management culture more hierarchical
- Politeness of Indian workers – Inability to say no to clients (but not act accordingly), while most questions asked are aimed at an answer “yes or no”.

Could be resolved partly by training (EU and Indians), but is in practice mostly resolved by micromanagement

- Indian workers are risk avoiding (hierarchical structure) and will not commit to certain deadlines

A result of the above is that Indian workers tend to ask for approvals on all actions taken from the client, where client is expecting (and retained organization is equipped according to these expectations) management of these tasks to be done more autonomous. Going in position for business process outsourcing initiative of client was that provider would take over management of these tasks. Management of provider should be aware of that and communicate to lower level workers. This should have been set much clearer from the start of the contract.

Last some institutional aspects of outsourcing to India were discussed. Remarks made in this context;

- Video conferencing facilities are currently not used that much, due to lacking facilities. This could be partly a replacement for face-2-face meetings and furthermore act as a replacement of current non-sufficient communication via phone.
- Documentation should be a point of attention, but is not standardized currently.
- Currently no business disaster / business continuity plans in place, except for geographical spread of having offices in 2 cities (tasks done are not always done in both cities in India). This is a risk seen partly as responsibility of provider. If set in place will also add time needed by outsourcing company and provider to monitor / knowledge transfer to these locations.
- Wages are rising, but as risk (except for inflation correction) this is not seen as a big risk for current project. If wages go to the roof however this will pressurize the relationship with supplier, as supplier is then probably losing money on the relationship and will look for other ways to save money (service provided?).
- Time zone difference is not seen as a big issue for workers doing business with EU countries (mostly 3.5 – 4.5 hours), but could be an issue for workers doing business with US (about 10 – 12 hours). Possibly influencing retention rate of Indian workers.
- Not having unions is not seen as very likely adding to the risk of reputational damage. This risk has mostly been hedged by agreeing on global business practices with provider and checks by SLI personnel every now and then.

- Intellectual property was taken into account when deciding upon what to outsource, but in the end the risk of information being sold to competitors was not seen as higher than if done internally. B2B contracts with provider were set in place to make sure IP was protected.

Appendix B7 – Interview Notes 7

Minutes of interview Rupert D'Mello, Programme Director at Atos Origin – 14th of July, 2010

Background information: 14 years of experience in offshoring / outsourcing. Studied engineering in computers and afterwards did an MBA in finance. Career started in SAP / ERP. Started at Atos Origin in 1997 and went from SAP consultant to service delivery management on a global basis. From 1997 – 2007 focused on solutions, using combinations of service centers, as well offshore, onshore, as nearshore. Currently managing a global strategic programme focused to transform the company from an internal perspective.

According to Atos Origin statement there are 2 scenario's; offshore would have the future. Before the crisis the extra effort needed for offshore activities was however not required for Dutch companies due to the fact that they could afford not to do it. Due to the recession there was more competition while negotiating new rates. Players were forced to offer solutions using new offshoring model. The new model was mostly focused on cost reduction advantage. Pre-2007 there was more focus on skill set of provider.

Profit margins can be improved by reducing costs;

- Nearshore – 15 – 20% cost reductions possible
- Offshore to India / China / Brazil – further 10 – 15% cost reduction possible.

Cost reductions are mostly due to wage differences, but difference cannot be completely amortized, due to hidden cost, like communication, additional management structures needed, backups, time zone differences, and compromised quality levels (if not used 2-step approach). Context will need to be applied to market taken into account (Hema vs Shell).

Having a competence center within your organization to support core competencies is often more expensive done internal then outsourced. Therefore companies outsource their non core activities to outsourcing providers. Other advantages of outsourcing these non core competencies are;

- Investments in people are not needed / career opportunities personnel better at BPO providers.
- Providers can use offshore wages to multiply the costs effects even more.

These activities should however only be outsourced if internal organization is ready for that, because of the transformation activity and change of internal views needed.

Reputational damage is in practice not seen as a big disadvantage of outsourcing. However there are some points worth mentioning in this perspective; Providers are aware of possible reputational damage and have set safety nets into place, like specific IP protection acts within the company. There is risk in all activities, either onshore or offshore, but offshore misuse tends to be highlighted in the media. This is an additional reason why offshore centers put into place more rigid security measures (and not be dependent upon IP laws of countries where provider is located).

Being locked down with a vendor is in practice circumvented by spreading the activities to 2 – 3 vendors. Companies have 2 - 3 preferred suppliers, and 2 (or could be more) non-preferred suppliers, who also do part of the work and thereby ensuring that knowledge is present at more than one supplier.

Additional items, which should be taken into account when outsourcing to India;

- Western companies will expect Indian workers to work in a western way. People can be trained to work in a certain way, but they are not robots, they will always take into account some part of their culture.
- Follow a step-by-step approach when deciding on which activities to outsource. Ensure ownership and control mechanisms to be in place and never outsource your competencies.
- Workers of outsourcing company are not always willing to write English and there are differences in English used. This will degrade service levels and causes a lack of ownership and frustrated workers.
- Workers will move around (high turnover rate), taking with them their experiences and knowledge, due to;
    - Differences in salary
    - Opportunity to find more interesting work
    - Female workers leaving when married / move back to hometown
    - Indian workers joined companies for the opportunity to travel and when they are more senior they leave India to work in the front office of a western company.
- As a result of workers leaving, average age of Indian outsourcing workers is about 24. As a result of this, processes should be standardized to cope with high turnover. Next to that there should be mechanisms in place to plan for resources to be hired and trained.
- Work / life balance is in India not comparable to those of western workers. Indian workers do not complain about workdays of 12 – 14 hours a day (same applies to time zone differences). This is normal in all companies. Caused by the fact that

there is fierce competition for good paid jobs and Indian workers are very competitive (read and write at an age of 4).

- Wage rises are not seen as a big threat to the Indian value proposition. There are 35 – 40 million graduates currently who want jobs. Living standards are indeed rising, but due to competition and standardization (and thus use of graduates instead of senior people) the differences in wages between India and western companies will be there for years to come.
- Political risks are key in design of the RFP when outsourcing to India, due to extremists, bomb blasts and political situation, but not comparable to countries like Afghanistan, and that sort of countries. India is a democracy and it has shown since 2000 that it is able to deliver and learning effects are in place. Data centers will be available at 2 – 3 locations (adds to not being able to ensure full cost difference) to ensure that a disruption will be not for longer than 1 – 2 days.