Opportunities and Risks of Offshoring Strategies in India: Experience from Ten French firms

By Fabienne Fel and Eric Griette

Abstract
With India as an attractive market for western firms, which want to offshore their production, we conducted a study in order to understand the benefits and risks of offshoring production and services activities to India. Our results show that the main motive for investing in India is to access a fast growing market; whereas, the main offshoring motive for firms that buy products or services in India without investing is low production costs. In all cases, offshoring in India is fast becoming a very interesting alternative compared to offshoring in China, but it is necessary to overcome cultural differences to succeed.

Keywords
Strategy; India; emerging markets; offshoring; outsourcing; supply chain

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Introduction Since the 1980s, many western firms of all sizes have been offshoring their production, particularly toward emerging countries, in order to reduce costs and, more recently, to access new markets in fast-growing countries. But, recent papers (Kinkel and Maloca, 2009) enhance failure cases leading to back-shoring. In these cases, risks related to “long physical and mental distances” – as lack of flexibility in the supply chain or cultural differences, for instance – were underestimated. The purpose of the present paper is to focus on India and to present the different criteria taken into account for production and service offshoring decisions, as well as to analyze what makes India attractive. A study developed by two Chinese scholars (Chu-Ping Lo, Bih Jane LIU, 2009) compares the flow of foreign direct investment (FDI) toward India & China; after excluding overseas Chinese investors, and relatively to each market size, FDI can be regarded as “almost equal.”

The article is divided into three parts. After defining the concept of “offshoring,” we review both the literature dealing with the changing and challenging Indian environment (key implemented reforms, stability level of the political and financial framework, etc) and that dealing with opportunities and risks of offshoring in emerging countries, in order to understand its advantages and risks. In the second part, we define our research methodology and describe our sample. Finally, we discuss our findings and provide the conclusions of our research and present its limitations.

Literature Review

According to Jahns et al. (2006), the term “offshoring” is seldom explicitly defined in literature; in some cases, it does not include offshore purchasing. For the purpose of this paper, we will define offshoring of production capacities – as according to Kinkel and Maloca (2009) – as the “relocation of parts of production to own locations abroad as well as to foreign suppliers.” We will call “investing firms” companies that invest (totally or partially) in their own locations in India, and "purchasing firms", companies that simply outsource parts of their production to Indian suppliers.

Indian Environment

According to Goldman Sachs, the BRIC (Brazil, Russia, India, China) might account for 60% of the world economy in 2025. The market potential of India is one of the highest in the world because of its population and the rise in its standard of living (the GDP per capita has increased by 10% a year over the last ten years, and the middle-class nowadays accounts for 350 million people). Moreover, India has made huge efforts to attract foreign capital since the post-liberalization period in the 1990s (Shiralashetti, Hugar, 2009). In this post-sub prime crisis period, the Indian economy is doing better than anticipated (Kalasopatan, 2009); according to the International Monetary Fund (IMF), its growth rate should be 9.4% in 2010. The political environment is now stable, and India can be regarded as the world’s biggest democracy.

India’s legal system, inherited from the UK, seems considerably more advanced than that of China (Huang and Khanna, 2003). Property rights are not fully secured, but the protection of private ownership is certainly far stronger than in China because of a functioning independent judiciary (Lo and Liu, 2009).

Furthermore, India provides many qualified English-speaking workers at lower wages than Western countries, which is particularly attractive for Western companies (Narayanan, Bhat, 2010).

So, the specificities of the Indian economy lead us to qualify global literature regarding offshoring decisions or processes.
Potential Benefits of Offshoring

A large number of studies deal with the motives for offshoring production activities, particularly toward low-wages countries (Farell, 2004, 2005). Kinkel et al. (Kinkel et al., 2009) underline that there were two major waves in this literature: the first is quite old (Vernon, 1966; Dunning, 1980, 1988) and focuses on the differences between capital-intensive and labor-intensive activities. As differences between countries are more important for labor costs than for capital costs, these authors believe that offshoring is particularly interesting for labor-intensive companies, which may be relocated to low cost countries, whereas, there is no real interest in relocating capital-intensive activities abroad. The second wave of literature is more recent (Aron and Singh, 2005; Doh, 2005; Farell, 2004, 2005) and is related to the growing interest of firms of all sizes (including SMEs) and of all sectors for offshoring. In the past, offshoring was the concern of big industrial firms for production activities only. Nowadays, many SMEs are following the biggest firms, which relocate their non-industrial activities such as R&D. Similarly, some labor-intensive services (for instance, call centers or software production) are also relocating units abroad.

The first reason for offshoring is often the expectation of reduced costs (Chan et al., 1995), which has led to many studies. Strong differences between wages can induce important savings, particularly for labor-intensive activities, as previously stated. A Deloitte study on Global Offshoring (Abramovich, 2005) shows that the return on offshoring investments is higher when the firm investment is high, and it is necessary to have a large offshoring policy to maximize savings and profits.

Furthermore, savings are not only linked to production costs but are also, in some cases, linked to logistics costs. As the demand in emerging countries increases, local production allows logistics savings by reducing transportation distances and consequently transportation costs.

However, savings are not the only motive for offshoring; since the 1990s, because of all the new emerging markets, studies point out that offshoring leads to other important benefits (MacCarthy et al., 2003; Kinkel and Maloca, 2009). In particular, offshoring makes it easier for firms to obtain access to new markets, foreign distribution channels, and, in some cases, raw materials too.

In the past, offshoring was used for producing parts or goods, which were then re-imported into Western countries, where they were consumed. In some cases, offshoring could be the only way to obtain access to interesting markets located in “closed” countries, with which no international trade was allowed, such as in Argentina or Brazil (Lopez et al., 2009).

But nowadays, several countries have emerged, and international trade barriers have fallen (as with China or countries belonging to the Soviet bloc before the Wall’s fall, for instance). Trade is free, and emerging economies are often fast growing markets with an increasing demand for new customers, while western markets are mature and slow growing. So, western companies are interested in these countries and obtain easier access to their markets when they produce locally and use local distribution channels.

Despite these trends, Kinkel and Maloca (2009), who analyzed the motives of German firms for offshoring during the past 10 years, conclude that the following motives did not change during this period: the first is the reduction of personnel costs, and thereafter, the search for extended capacity, opening up of new markets abroad, key customers’ demands for production near their areas, and finally taxes and subsidies. So, according
to these, we phrase our first hypothesis to analyze the actual motives for offshoring:

**H1:** Despite increasing demands in emerging countries, the first motive for offshoring in India is still the reduction of production costs.

Regarding Indian specificities versus other low cost countries, literature provides many comparisons between China and India due to the similar size of the two countries and their fast economic growth since the 1990s. Even if Indian average hourly wages are slightly higher than Chinese ones, global labor costs including indirect or social costs are lower in India (Japan External Trade Organization, 2009).

According to a recent survey (Dragon Sourcing, 2009), India is becoming very attractive for western companies offshoring in Asia, whereas China’s competitive position is slightly eroding for the following several reasons:

- Labor wages are increasing in China,
- The Chinese currency has appreciated slightly against the US dollar over the past 4-5 years, and
- Europe and the US have increased some anti-dumping taxes in order to protect their economies against Chinese imports, but not in the case of Indian imports, which makes Chinese products less competitive than before.

**H2:** Offshoring in India is becoming a very attractive alternative compared to offshoring in China.

### Potential Risks of Offshoring

At the same time, studies underline the risks related to offshoring. Song et al. (Song, Platts and Bance, 2007) underline that uncertainties and risks related to offshoring may lead to unexpected costs, which offset gains from cheaper labor or even result in losses to the outsourcer. According to Farrell (2006), risks – or criteria to be analyzed before making an offshoring decision – can be divided into the following categories:

- **Costs**
  - Labor costs: Risks are those of unexpected expenses due to lower productivity abroad or quality failures (Berger, 2006), which increase the production price. Knudsen and Servais (Knudsen and Servais, 2007) identify the reduced quality of the final product as the most important risk for offshoring. According to them, Kinkel and Maloca (2009) underline that preventing risks of poor quality leads to “unexpected expenses for quality securing measures, quality control and coordination costs for foreign locations in order to guarantee the necessary product and process quality.”
  - Supply chain costs: Considering that offshoring means a longer supply chain, some studies point out risks related to disruption or delays in delivery of goods (Moatti, 2009). The length of transportation can induce stock outages in order to avoid these risks, and many firms increase their stock level, which triggers other costs. For Jahns et al. (2009), international networking leads to “massive economic damage” for the company when the supply chain is not under control.

- **Availability of qualified skilled workers** (Fillis, 2001)
- Quality of infrastructure, which is important for two reasons: first, parts or goods produced abroad have to be transported in an efficient manner and at a reasonable
cost, which is possible only when transportation infrastructure is efficient. Second, coordination needs between the holding company and its foreign factories or suppliers, lead to numerous visits by western top managers, and the localization of foreign units near international airports enables costs and time savings,

- Market potential and expected growth
- Risk profile, including natural and political risks of disruptive events, as well as intellectual-property risk
- Environment, including government support, business environment, local culture and accessibility

Considering political and economic Indian features, offshoring risks seem lower in India than in other emerging countries, particularly for service companies, and offer many opportunities. Today’s Indian infrastructure is well below the standard of Chinese infrastructure, making India more attractive for service companies of all sorts (call centers, software development, R&D activities) than for manufacturers. Infrastructure remains an obstacle, though the government encourages its modernization (The National Highways Development Programme aims at rehabilitating and widening major highways, better port facilities, and new container terminals in Mumbai at JNPT (Jawaharlal Nehru Port Trust), which will allow better access to big ships, particularly container ships).

H3: Despite improvement in Indian infrastructure, offshoring in India remains more attractive for services than for production.

Methodology and Sample

We investigated global motives, risks and opportunities for offshoring in India among both service businesses and manufacturers, in order to compare these factors for each category.

As this study is concerned with the need for a deep understanding of a complex process, we chose a qualitative approach to test our hypotheses. We conducted a study among 10 French companies (5 were offshoring production processes and 5 service processes). Data were collected through face-to-face interviews with top managers involved in these offshoring decisions. In the following description, we first focus on industrial production offshoring and then on service offshoring in India.

Industrial Production Offshoring

Home improvement retailer (HIR)

Home improvement retailer is part of an international group specializing in the distribution of do-it-yourself tools and materials. Regarding the purchasing of tools, products are sourced from many countries in the world, such as China, Brazil, Eastern Europe, India, etc. HIR chooses the location of its suppliers in order to reduce global costs of purchasing (for instance, heavy tools and workbenches are bought in Eastern Europe to avoid high transportation costs).

Products sourced from India are mainly “first price” hand tools because Indian suppliers do not make more sophisticated tools. Indian products represent only 2 million Euros as compared to 70 million Euros spent in China.
The first motive of HIR for sourcing in India is cost reduction, as all products are sold in Europe and not in the Indian market. The second motive is that Indian manufacturers control their production processes very well. Finally, HIR wants to find an alternative solution to its previous sourcing policy, which comprises buying these tools in China. On the one hand, fewer Chinese manufacturers are willing to make these sort of tools because margins are very low; on the other hand, wages and costs are increasing in China, and India is considered more competitive for “first price” products (purchasing prices are lower, transportation costs are quite similar, and import taxes in Europe are lower for Indian products than for Chinese products).

HIR works with an exclusive purchasing agent in India, to guarantee working closely with Indian suppliers. Specifications for new hand tools are defined by French engineers, and products are developed by Indian suppliers, without any specific problems, because Indian engineers have a good understanding of European needs. HIR purchasers find Indian workers very serious and believe that the quality of purchased goods is fine.

The main problems faced by HIR when sourcing from India are the length of the supply process (from 120 to 150 days) and frequent delays, which induce the necessity of increased stocks in order to avoid stock outages. Suppliers are located in the North India, very far from sea port facilities. As roads seem damaged by rains and heat in this part of India, products are carried by train to the port only once a week. But, despite additional costs of stocks, the TCO (total cost ownership) of Indian products remains lower than that of similar Chinese products, and HIR continues to develop sourcing from India.

Textile Company 1
Textile Company 1 is part of a French textile group, which owns several famous brands. As is common in this sector, offshoring is long standing, and Textile Company 1 has outsourced clothes from China and India for more than 20 years. The first motive for outsourcing from India is the search for reduced costs; the second motive is the know-how of Indian textile firms, especially in the area of embroidery, which is a manual process. All clothes are re-imported to Europe, which represents 90% of the turnover of the company.

Products made in India represent about 15% of the total purchasing spending, while Chinese imports represent about 55% of this spending. Textile Company 1 is looking for developing the Indian alternative for two main reasons: firstly, wages are increasing in China, and products are becoming too expensive. Secondly, Chinese suppliers are supplying more products to their domestic market, and, as a consequence, are less interested in supplying to foreign companies.

Textile Company 1’s purchase manager underlines that Indian suppliers are able to design beautiful clothes and to showcase them well. Also, the quality, especially that of sewing, is quite good, even if the finishing touches are not always perfect. The main problem is with delivery delays, which occur frequently for several reasons: on the one hand, India only produces clothes for the European summer market, and their production capacities are not sufficient to meet seasonal needs; on the other hand, moving goods from one state to another is time consuming because of the administrative complexity in India.

In order to work closely with its Indian suppliers, Textile Company 1 owns a purchasing office in India, employing one French manager and about 50 Indian purchasers. Textile Company 1 has worked for many years with local agents but now estimates that owning its purchasing office allows better communication with suppliers, as well as more responsive actions when a problem arises.
Textile Company 2
Textile Company 2 is a French group retailing middle-quality clothes. It decided, in 2008, to launch a chain of stores and corners in India selling low-priced clothing. The motive for this decision was the need for finding growing markets. Textile Company 2 decided to launch its stores in India because the local market was not saturated, as opposed to the Chinese market, and it anticipated a good competitive position in the former market.

As Textile Company 2 had to sell clothes at a very low price in India, it needed to buy them at a very low cost, implying that both production and logistics costs had to be kept low. So, they set up a joint venture with a famous Indian company, which already owned factories and shops all over India. Production was carried out at the partner’s factories, with a good quality level. However, there were many delays, and in the first year, sales did not reach the expected level because of stock disruptions in the stores. The project leader could not obtain faster delivery times from the plant, and the length of transportation (by road, with long stops when moving from one state to another) made the situation worse. In the second year, the project leader anticipated his orders by three months, and was able to supply his stores on time.

For the project leader, problems when working with Indian people are linked to cultural differences, which induce misunderstandings. Indian people are very proud, and do not clearly express their difficulties, which he found difficult to understand or overcome.

Cosmetic Company
Cosmetic Company is a French firm, which supplies some packaging items from India,
particularly glass jars, as these products are easy to transport when smaller than 150ml. The glass jar production process requires high capital investment because of the price of sand-kilns, but it remains a very manual process, with many decoration and completion operations; so, the price difference between Indian and European jars can reach about 25%.

Cosmetic Company started sourcing from India 5 years ago, and its initial motive was the low cost of wages. Today, it has developed its partnership with its Indian supplier not only for price reasons but also to reduce risks related to the European glass market. Since the last crisis, European glass manufacturers have not invested in new sand-kilns, and their production capacity is now not sufficient to cover market demand.

Five years ago, a very capitalistic Indian company established contact with the Cosmetic Company purchasers, who decided to order a basic jar model from this company. French purchasers and engineers went to India to visit the factory and approve this new supplier. In the first steps of production, results were disappointing because of problems with decorative quality: decorations were not well colored; so, Cosmetic Company and its supplier defined a progress plan, including a training plan and the creation of an internal “glass university.” Indian managers set a benchmark with other plants from the automotive sector in India and recruited European “senior” experts to improve their decorative process. Nowadays, the quality level of this supplier is the highest of all jar suppliers.

Cosmetic Company works closely with its Indian supplier, and particularly with the salesperson, who is located in France. Indian managers listen carefully to the client and are very responsive in the case of a problem. The purchase manager finds communication with his Indian supplier easier than communication with his Chinese suppliers because of a lower cultural gap.

Surprisingly, the global supply process from India takes no longer than from Europe, despite transportation length. Since European glass manufacturers are under capacity, they need about 5 months before producing an order, while the Indian supplier needs only 6 weeks. So, Cosmetic Company did not increase its stock level.

**Materials Company**

Materials Company is part of an international group that makes materials for different sectors, such as construction or automotive. It owns many factories all over the world and is a world leader in some products.

Materials Company decided to build its first “non-European” factory in India at the end of the 1990s, at the beginning of the Indian market’s opening. Its motive was the need to find growing markets: products are very heavy and uneasy to transport, so Materials Company had to produce in India in order to supply to the Indian market. At the same time, it decided to invest in Brazil too, for the same reasons. Surprisingly, it did not invest in China at this time: the reason was that many competitors already had plants in this country, whereas there were very few similar factories in India, so the market’s potential was higher in this country.

Materials Company’s managers faced some problems when beginning the production in India. These were linked to the poor level of road infrastructure, which made transportation operations very difficult and expensive. They did not face specific problems with Indian employees, who had a good education and were self-sufficient. Top managers were French, but all other managers were Indian. After the ramp-up of the first production line, the French managers went progressively back to France, and all the top managers in the Material Company’s factories are now Indian.
Material Company regards its Indian experience as a success: production costs are low in India, productivity is above international standards, quality level is high, and the infrastructure level has improved over 10 years; so, they are building a third factory in India, which will commence operations in 2012.

Service Offshoring

ITSC

ITSC is an international information technology services company. It designs and delivers software applications for many sectors such as automotive, electronics, chemicals, etc. In 2005, a French client from the automotive sector demanded the development of a very sophisticated application at a very low cost, which required that part of the IT development be offshored to a low cost country. India was naturally chosen as the offshoring country because of the reputation and skills of Indian software engineers.

The French branch of ITSC had never offshored any development to India before this project, despite the fact that the Indian branch of the firm employed more than 5,000 people, most working for other Western branches of the company (US, UK, Canada). The French project manager decided to conduct the functional analysis in France and all the development tasks in India. So, about 10 Indian engineers were recruited by the Indian branch and based in local offices of the company. The project team was made up of these 10 engineers, including 2 engineers in France and the project leader.

The project faced problems during the first year: in the beginning, according to the French client's requirements, specifications were written in French and had to be translated into English. The translation carried out in India was of poor quality because of cultural differences. French specifications were written with lots of words, while Indian engineers were used to working with very precise and concise specifications. Hence, translated specifications seemed very imprecise to the Indian team members, who did not understand them well, and they did not clearly express their misunderstanding.

As a consequence, partial IT applications sent to France by the Indian team were considered very disappointing by the project leader. Deliverables were sent on time every 2 weeks but were incomplete and did not run very well (and not at all, in some cases).

At the end of the first year, the 2 French engineers were sent to India for two weeks, in order to analyze the reasons for dysfunction. They discussed and worked in the field with
Indian engineers; the project leader became aware that the Indian engineers had had problems in understanding the translated specifications but were embarrassed to admit it. So, he tried to develop a relationship based on confidence with them, making sure that requirements were understood and encouraging them to ask questions if they were unsure of the requirements.

This was a very long process, which lasted for about 6 months during their stay in India. Progressively, confidence increased through day-to-day communication, and they were able to finish the project in an improved fashion. Even though the final IT application was delivered late to the client, and at a higher than expected cost for ITSC, the project was still considered profitable.

Beyond these problems of communication, ITSC experienced few other problems apart from the lack of experience of Indian the engineers, who were very young. Qualified engineers are in great demand in India, and owing to numerous better opportunities, they don’t stay very long in the company.

In order to allow ITSC to conduct further projects in a more efficient way, the leader of this first Indian project was interviewed by the organization service, and “best practices” were defined. Today, ITSC conducts many projects that are offshored in India. Indian engineers are now involved earlier in the process with the defining of project specifications.

Viadeo
Viadeo is a small company (200 employees) that develops professional networks under national brands (for instance Viadeo in France and Apnacircle in India). As part of their strategy, they develop networks that look like national networks, even if all of them run on the same platform (except for the Chinese network, which runs on a different platform to avoid jamming).

Viadeo launched its network in India for strategic reasons, as it is trying to establish itself in all countries with an interesting market. French engineers usually develop all foreign
networks. But, the development of the Indian site was considered too specific, from a cultural point of view, to be conducted by non-Indians. For instance, collaborative work, as well as alumni relationships with their schools seem to be very different in India compared to European countries. So, Viadeo decided to invest and bought the Indian networks leader. After the acquisition, and dealing with all the financial and legal points of the operation, the French engineers went to India to study technical features with Indian engineers. As 90% of the networks’ functionalities were similar, they decided to merge the two platforms and defined with Indian engineers all the specificities to be integrated into the platform. The development of the Indian network was made in France, with frequent communications with the Indian branch. At the beginning, some difficulties appeared, related to cultural differences, with a different understanding of specifications by Indian and French engineers. Viadeo sent an engineer to India for 3 months, in order to work with local teams and to understand the reasons for problems. It appeared that, even if the French specifications were not clear, Indian engineers did not dare to say so. Viadeo’s French engineer tried to develop a relationship based on confidence with them, and the collaborative work became easier. The project was conducted ultimately with success: productivity and quality levels were good, and the project was delivered on time. Indian engineers had a real know-how regarding networks development and efficiently managed the risks related to the employment market (engineers with qualified skills are in demand, and don’t stay very long in the same company).

Today, there is only one French engineer in India; the Indian engineers are involved at an early stage in new developments, and the Indian experience is considered a success.

Pharmaceuticals Company
Pharmaceuticals Company is a French firm that owns pharmaceutical factories all over the world, in Europe, Latin American countries and Asia. It uses an ERP system to manage the production process in all plants. Two years ago, Pharmaceuticals Company decided to offshore IT support for cost saving. India was chosen without many questions being asked because of the high number of IT firms in this country, providing highly qualified skills. After defining specifications – including the need for a representative located in France – preselecting suppliers and requesting quotations, Pharmaceuticals Company signed a contract for support. During the transition phase (support was still being made in France), the Indian engineers went to France for three weeks to train in product specifications, although they already knew the product standards. Then, support tasks moved to India, and an Indian engineer stayed in France for 6 months. Today, support tasks are made in India for all factories around the world; only the French IT manager and the Indian representative of the supplier are still based in France.

The French IT manager emphasized that Indian engineers are very skilled from a technical point of view but that he had faced some problems related to cultural differences during the first months of transition. As Indian engineers have more respect for hierarchy than Europeans, it is more difficult for them to take individual initiatives. Just
like the other respondents in our sample, the IT manager underlines the necessity to develop a relationship based on confidence with Indian engineers, who seldom clearly express their difficulties when a problem occurs.

Problems related to cultural differences are not completely settled today: ERP users in foreign factories have not learned to work with Indian engineers, unlike the French IT manager. As misunderstandings often appear when foreign users need technical support from the supplier, this manager has to address the problems in order to solve them.

Software Industry
The software company core activity mainly concerns middleware, linking software to various applications or components. Other activities also include data operating systems, counseling and information technology. Today, 16,000 employees work for the group including 600 people in India, 500 in Romania and 100 in Morocco.

Two main motives account here for the offshoring strategy in India: the potential of this country as well as the requirements of the firm’s clients. Clients consider it easier for them to increase their market share in emerging countries if their own suppliers have offshored part of their activities. Seeking low costs is not a motive for the firm. Obviously, hiring an engineer costs 330 Euros in France versus the 40 Euros in India, but when operations take place in India, reliable teams have to be set up. It requires expatriates to coordinate between the Indian and French teams, necessitating high extra costs. The software company’s CIO visibly has many difficulties when working with the Indian team: these are linked to cultural differences, which he has yet to overcome.

Materials Engineering
The construction materials company, which already owned two factories in India, decided in 2007 to expand its engineering team, which was under capacity. For industrial property reasons, the Materials Company did not want to outsource tasks related to engineering to external agents, and, as a consequence, decided to recruit more engineers. This team was originally located in France, but in order to lower costs, the company decided to recruit Indian engineers working on the Indian production site. Moreover, this decision was consistent with the internationalization strategy of the group, which nowadays builds factories all over the world. Already operating two plants in India, it was quite easy to use them as local support to recruit the new Indian engineers. It took no more than one year to make the team operational. In 2009, after the ramp-up phase, the Indian production became very large.

However, cultural misunderstandings occurred during the ramp-up phase: on the one hand, French engineers feared a possible offshoring of the whole service, and on the other hand, they had to learn to work with Indian engineers who did not dare to express their difficulties, a contrast from the French culture. Fortunately, the Indian engineering manager had been working for 12 years in the Materials Company plant and was used to working with French people, so communication became easier. The French manager was open-minded and took cultural Indian specificities into account, in particular by involving the Indian manager in all important decisions. The firm trusts its Indian collaborators. The Indian culture demands that collaborators take part in the decision process; making decisions from which they have been excluded would never work in India.

Today, the engineering manager does not consider the Indian team as an “offshore office,” but as a real part of the global engineering team. Indian engineers are somewhat less productive than European engineers, but they are very well qualified and very serious.
The main problem remains the labor market: the engineering team faces a high turnover. Skilled engineers are in demand, and high wages are offered all over the country. But, with the firm reluctant to catch up, there is a need to constantly recruit new engineers, entirely managed by Indian staff.

Findings and Discussions

Motives for offshoring
Hypothesis 1 stated that "despite increasing demands in emerging countries, the first motive for offshoring in India is still the reduction of production costs." Our results support this hypothesis, as 6 companies in our sample say that they are mainly looking for reduced costs when offshoring in India. However, the search for reduced costs is not the single motive for these 6 firms: 4 underline that India provides qualified skills (in IT area) or a very good know-how in some production processes, such as in textile.

The second motive for offshoring in India is the need to get access to this fast growing market to enhance the company’s growth: Textile Company 2 and Materials Company sell the local production on the Indian market, Viadeo has developed ApnaCircle for Indian professionals, and Software Company provides its services to western firms located in India.

So, even if our results confirm Hypothesis 1, we cannot ignore that the search for growth is also a strong motive for offshoring in India.

Our results show no strong difference between service business and manufacturers: 3 firms are looking for reduced costs and 2 for growth in each category. We found stronger differences between investing firms and purchasing firms: on the one hand, no purchasing firm sells its products in the Indian market, and, quite logically, all purchasing firms in our sample are only interested in reduced costs. On the other hand, 4 investing companies declare that their first motive is the search for growth, which led them to invest in plants (Materials Company), in shops (Textile Company 2) or in other companies (Viadeo). The cases of the two investing firms searching for reduced costs need a closer look: Materials Engineering has located a part of its team in India for costs reasons, but internationalization is part of the group’s global strategy, and its second motive is actually growth. So, ITSC is the only firm in our sample that has really invested in India for costs savings reasons.

In conclusion, our results show that purchasing firms are mainly attracted by low cost wages in India, while investing firms are mainly interested in the potential Indian market.

Offshoring in India: An Alternative to Offshoring in China?
Hypothesis 2 stated that "Offshoring in India is becoming a very attractive alternative compared to offshoring in China."

In order to test this hypothesis, we only used 9 answers, because Materials Engineering was not concerned with this question. Since its factories are located in India and not in China, the company could not plan on recruiting Chinese Engineers.

Among the 9 answers, only Viadeo is looking for developing its business both with India and China, without any distinction, as both countries are large emergent markets. All the other firms in our sample consider offshoring in India to be more interesting than offshoring in China, which strongly supports our hypothesis.

Not surprisingly, IT firms point out that India provides many qualified engineers and
that India is “the” country for IT offshoring. Software Company and Pharmaceuticals Company do not offshore in China; ITSC employs 500 people in China, working for the local market, while its Indian branch employs 5,000 people, working for branches all over the world.

Among the companies that offshore a production process, Materials Company and Textile Company 2 made the choice of offshoring in India, and not yet in China, because the Indian market is less saturated, so they can expect higher market shares and higher margins. The last 3 firms in our sample, although still purchasing a larger number of products in China than in India, are looking for a better balance for cost reasons. As said before, Chinese wages are increasing, and European taxes are higher against Chinese products than against Indian products. Furthermore, it has become more difficult than before to find suppliers in China that want to work with foreign companies, especially for the production of medium-size batches, as they are turning to their domestic market. But, the weakness of the Indian industry in some market segments (all industrial products are not available in India) limits the potential growth of Indian imports to Europe.

So, it seems that India can take advantage both of its advancement in the IT area and of its lower industrial development, which paradoxically offers greater opportunities, as the domestic market is less saturated than in China.

Experience from French firms’ Offshoring in India

Hypothesis 3 stated that “Despite improvement in Indian infrastructure, offshoring in India remains more attractive for services than for production.”

As Software Company is the only firm in our sample that does not regard its Indian experience of offshoring a success, we cannot conclude that services businesses have better results than manufacturers, so our hypothesis is infirmed.

On the one hand, most companies that offshore manufactured products in India underline difficulties: the poor transportation infrastructure and the Indian administrative complexity when moving products from one state to another. However, two companies (Textile Company 1 and Materials Company) point out that the quality of infrastructure has considerably improved in the past 10 years, and transportation is no longer a real problem. On the other hand, (Textile Company 2, HIR and Cosmetics Company), the length of supply cycle is taken into account by anticipating the orders and by increasing the stock level; even if the increase of stocks leads to costs, the TCO (total cost of ownership) of Indian products remains lower than the TCO of similar Chinese products.

All French managers in our sample faced, at the beginning of their offshoring experience, communication problems with Indian people, related to strong cultural differences: all of them told us that Indians are very proud, never say “no” even when specifications are not clear, or when they do not understand what French people are expecting. Nevertheless, most of our respondents have overcome this problem by setting up relationships based on confidence with their Indian contacts and by involving them earlier in the projects.

This is coherent with Hofstede’s findings (2007), which underline that patriotism and national pride are one of the five relatively most important perceived goals (out of 15) ascribed to successful business leaders in India. So, French managers who did not take this fact into account faced more problems when working with Indian people than others.

Widely, G. Hofstede (1980, 2001) proposed a classification of national cultures using five dimensions:
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According to Hofstede (2007), “the most evident difference between Asian countries on the one side and Western, European, and Anglo countries on the other relates to the dimension of Individualism versus collectivism.” France scores above average on individualism (67), while India’s score is about 45. A second dimension on which Asian and Western cultures are opposed, is power distance (large versus small), defined as “the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally.”

Hofstede (2007) also calls Large Power Distance cultures “respect cultures.” So, as India has a larger power distance than France, Indians show more respect for the hierarchy than French people and take less individual initiatives; this cultural difference between French and Indian managers explains some initial difficulties faced by our respondents; but all the companies that took these cultural differences into account have now set up relationships based on confidence with their Indian partners, and now work very closely with them.

Conclusions

Surprisingly, our study shows stronger differences between investing firms and purchasing firms, rather than between production and services companies.

The main motive for investing firms, should they be manufacturers (e.g. Materials company or Textile Company) or service companies (e.g. Viadeo or Software Company), is to access a fast growing market. On the opposite side, the main offshoring motive for purchasing firms is low production costs, even if they think that India provides different opportunities. Nevertheless, all firms express deep interest for India.

Our study confirms that India is fast becoming an interesting alternative to offshoring than compared to China. On the one hand, industrial purchasing firms buy products in India with a lower TCO than similar products in China, even if they have to increase their stock level because of a longer supply cycle. In addition, China does not provide qualified suppliers to companies that buy IT services. On the other hand, investing firms are much more interested in the Indian market, which looks less saturated than the Chinese market.

Our results do not show a strong difference between production and service offshoring decisions. In some cases, production offshoring suffers from poor transportation infrastructure, but, in other cases, depending on the localization of the factories, transportation infrastructure does not appear as a problem anymore. Service offshoring suffers in some cases from specificities of the Indian labor market, where qualified skills are required, leading to an important turnover. But, in all cases, our respondents now consider their offshoring decisions to India as successes after overcoming communication problems related to cultural differences.

The limitations of our study are linked to our research methodology: by choosing a qualitative approach, we are not able to generalize our findings. Future research must be conducted on the basis of a quantitative study.
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