

## Offshore Setup model: An overview

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## 1.0 Introduction

Companies such as Texas Instruments and Motorola initiated the IT industry in India by starting their own subsidiaries in India. Later the IT industry growth was dominated by India based IT vendors providing IT, BPO and R&D services. In the recent past, reasons such as higher cost savings, increased confidence in global operations, Intellectual property concerns, need to use India operations for core competency activities are increasingly making the western enterprises look at the option of setting up a development center.

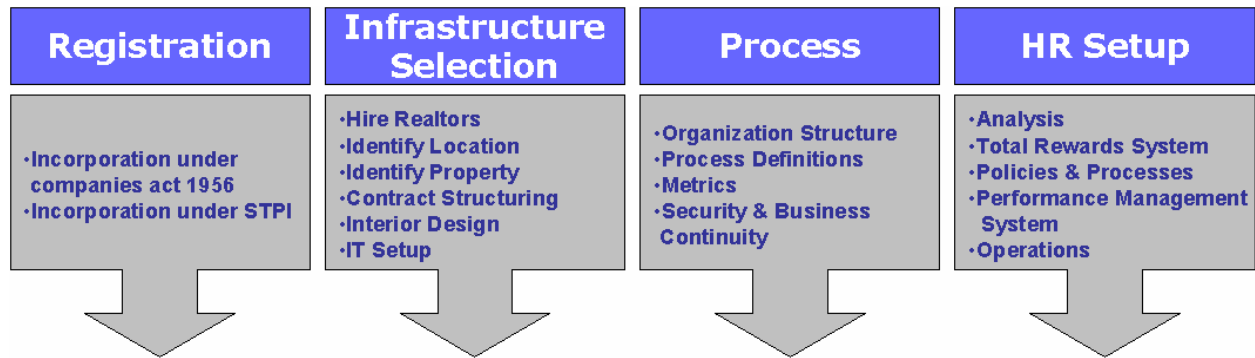
Often companies underestimate the process involved in setting up and managing a development center. Lot of multinational companies who had started the development centers in India in the last few years are not reconsidering their decision due to the issues they have at the development center related to Human resources and cost control. Recently an IT vendor based in India acquired the subsidiaries of 2 US companies.

After a long research on the challenges faced by the subsidiaries in India, we developed a model for setting up the development center that will reduce the time, cost and risks involved in the setup of the subsidiary in India. This paper discusses the need for a detailed setup methodology and the broad issues or steps to be considered while setting up a centre.

## 2.0 Need for a setup model

- Companies don't understand the different cost components for setting up and running a development center. This often results in inaccurate budget projections for the Indian subsidiary.
- Companies underestimate the commitment requirement from the different departments such as Finance, Legal, Human Resources, IT department to ensure the setup of the subsidiary.
- Companies don't understand the selection criteria for subsidiary's captive center.
- Companies underestimate the dynamics involved in the hiring process and take a long time to hire the core team.
- Companies don't understand the complexities involved in the HR policies of the development center.
- Even though the legal and statutory regulations have greatly reduced in India, still companies make a mistake of not planning in advance for the various clearances. This often becomes a bottleneck for the subsidiary setup.
- Companies underestimate the planning and execution effort involved in the infrastructure setup including real estate, hardware/software acquisition and IT setup.
- Companies don't often understand the dependencies of the various subsidiary setup tasks. This increases the time and cost involved in the subsidiary setup process.

### 3.0 Setup model overview



### 3.1 Registration

#### 3.1.1 Incorporation under Companies Act 1956

The process of registering a corporate entity in India involves a set of legal and other related issues which can be estimated to take 2-3 weeks. The multinational organizations have to comply with the specifications of the Companies act of 1958 to establish their operations in India. For meeting the relevant legal compliance they have to submit certain specific set of documents and forms to the Registrar of Companies (ROC) the approval.

#### 3.1.2 Key documents for Registration

Some among the major documents and forms to be submitted to the Registrar of Companies are mentioned below.

- Form 1A to be submitted for registering the name of the organization ,proposed objectives minimum paid up capital etc
- The Memorandum of Association and the Articles of Association
- The power of attorney from the investing companies duly notarized by the Indian Embassy

The Registrar of Companies will provide with the Certificate of Incorporation on due filing of the above mentioned documents. The certificate of Incorporation licenses the organization to start its operations in India.

#### 3.1.3 Incorporation under STPI

The organizations which plan to setup their operations in India always have the choice to register with the STPI (Software Technology Parks India). Although the registration is not mandatory, this registration provides them with benefits like relaxation in Fringe Benefit Tax (FBT) and other tax related concessions.

### 3.1.4 Key documents for STPI registration

The STPI registration requires certain specific details and documents for the processing of the application. Some among the important documents are

- Clear statement of the project
- Sources of Finance
- Business plan with the detailed marketing strategy
- Financial Plan with five year projections

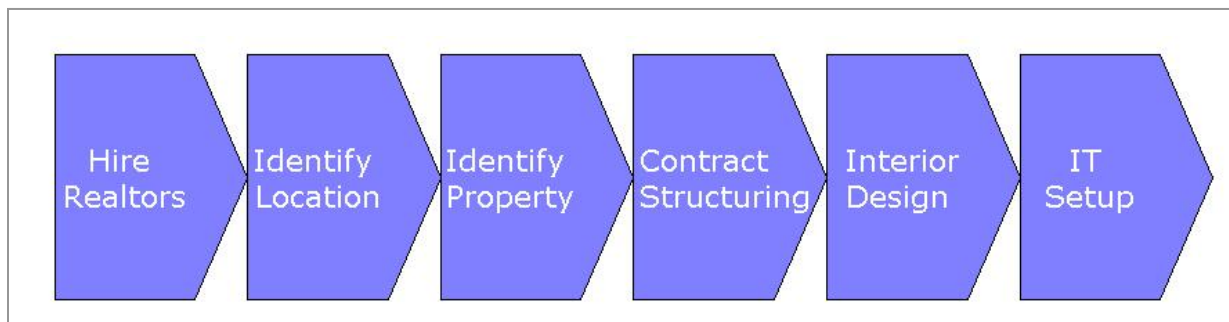
The approval for the organization happens in three stages. In the first stage, the application will be screened by the authorities followed by the validation of the documents. In the stage 2, the CEO of the organizations makes a presentation with the STPI director and the Head of the New Application Processing Committee. The last phase is the approval phase with the following documents being drafted between the STPI and the organization along with the approval letter.

- A legal agreement with the STPI and the organization specifying the terms and conditions.
- Registration cum Membership Certificate, Green Card.
- Application for Customs Bonded Warehouse license.

If all the processes are performed and documents been submitted in time, the license for a period of five years can get issued within duration of 2 weeks.

## 3.2 Infrastructure Selection and Setup

The selection of infrastructure and the setup is a collection of individual processes which are simple but delicate in nature. The process of infrastructure selection can be represented into the following broad steps



### 3.2.1 Hire Realtor

The initial stage of the Infrastructure selection and setup is the identification of a professional realtor. The realtor can provide information on the availability of suitable properties in various locations within a short span of time. This can save significant cost and time overheads.

### 3.2.2 Identify Location

The information on the availability of the various properties helps the organizations to choose their desired location. The finalizing of a desired location can be dependent on various factors from transportation facilities to proximity to residential and other public amenities.

### 3.2.3 Identify Property

The decision of the organization on the location initiates the processes of evaluating a suitable available property. The properties are evaluated based on various factors ranging from date of availability to the facilities like gymnasium etc.

### 3.2.4 Contract Structuring and Finalizing of the property

The suitable property identified will be finalized by the management of the organization. After the finalization of the property a legal contract is executed. The legal contract in most cases will be a lease agreement. Depending on the nature of the property and the preference of the parties the lease agreement can be different.

### 3.2.5 Interior Design

The property acquired by the organization will be handed over to suitable interior decorators. The interior decorators make the bare property into a facility which reflects the preference and culture of the organization.

### 3.2.6 IT Setup

The IT setup is initiated along with the interior setup in most of the cases. It is this stage of the Infrastructure setup; the communication and other IT connectivity are established.

The Infrastructure selection and setup processes can be performed within a period of 20 weeks.

## 3.3 Process

The successful multinational organizations have a remarkable set of successful processes to ensure its efficiency in delivering various services. Hence the replication of the exact processes is critical when the organizations setup their offshore operations. Hence the completion of the infrastructure setup along with the ongoing HR activities will initiate the setup of necessary processes.

The implementation of the processes involves the following details to be discussed to the minute level

### 3.3.1 Organization Structure

The organization structure should be clearly defined from initial stages and communicated to all the stakeholders. One of the main contentions is on the reporting structure for the various support functions. The various functions like Finance, Accounting, HR, IT should have a well defined delegation in authorities. In many organizations, they report directly to the US office with only a dotted reporting structure to the India operations head. But in some organizations, the entire India operations report into the India center head. Both models have their advantages and disadvantages. The organization should carefully analyze the pros and cons before deciding on the organization structure.

### 3.3.2 Process definitions

Organizations usually mirror the processes followed in other global offices to India as well. However, it is important to assess the existing processes and make the necessary modifications to suit the India context. For example: due to the time zone difference, it is not often possible for engineers from US have phone conversations with their teams in India. So it is critical to have well-defined communication process which would include: Structured email communications, Documentation and use of VOIP technologies such as Skype.

### 3.3.3 Metrics

It is critical to develop a set of metrics that will allow the parent organization to continually measure the effectiveness and efficiency of the India operations. An iterative metrics program needs to be defined. It should include the following steps

- Definition of the goals of the metrics program
- Define metrics that will create high impact and can be collected using existing data
- Use the collected metrics to improve operational efficiency and buy in from stakeholders
- Use the collected metrics to improve operational efficiency and buy in from stakeholders
- Follow an iterative process to define metrics, data sources and operational efficiency based on the metrics.

### 3.3.4 Security and Business Continuity

Security and Business continuity are 2 process areas that need particular attention especially after a series of Data thefts reported in the BPO industry and man-made and natural disasters that had affected various cities around the world.

## 3.4 HR Setup

Due to the increased demand for organizational competencies and capabilities it is imperative for organizations to implement the HR practices at the set up stage itself.

### 3.4.1 Industry Analysis

Compensation & benefits benchmarking study will help organizations analyze the prevailing market trends and standards among comparator organizations and ensure that the Total Rewards System being developed is in par with the Industry.

### 3.4.2 Total Rewards System

A successful pay structure needs to link a pay or remuneration plan to a well-developed people strategy; the essence of pay strategy is dynamic and should both support and form part of the organizational compensation philosophy. The strategy will ensure that problems around equal pay do not arise or are progressively eliminated

While developing the Total Rewards Systems Organizations need to ensure model distribution of base pay and total cash to ensure the proper mix

### 3.4.3 Policies & processes

The link between organizational purpose and people substantially comes through the human processes at work. Policies & processes helps standardization as each individual relates to the system through a set of laid down processes that establish guidelines and accountability in organizational practices.

### 3.4.4 Performance Management System

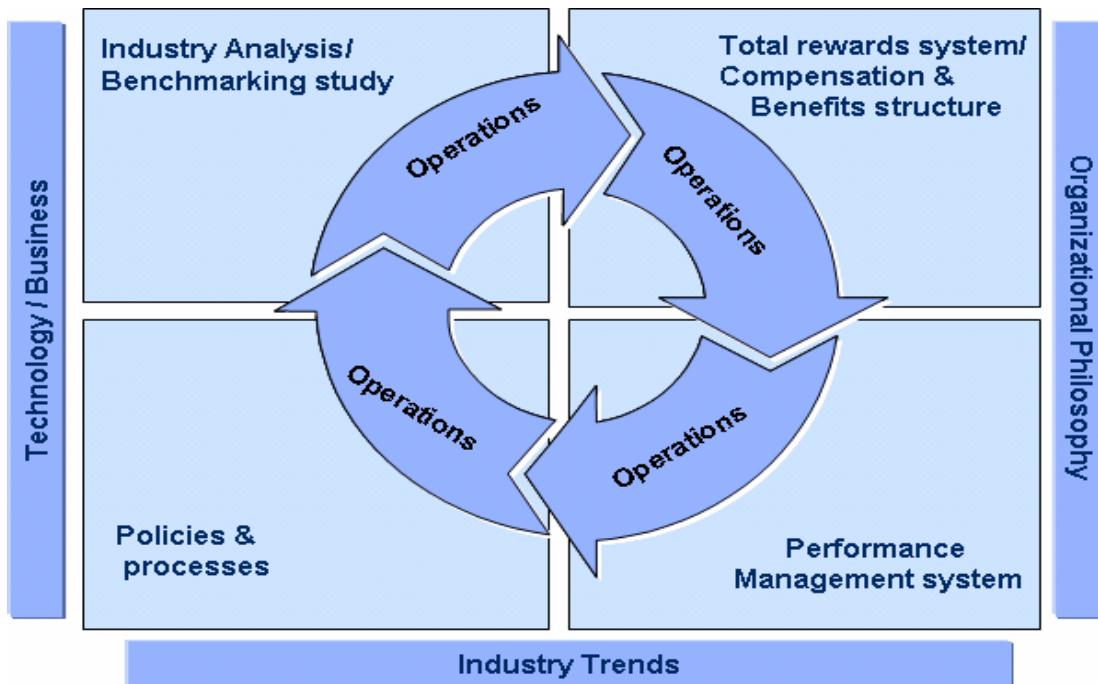
An effective performance management system assists the organization and employees

- In meeting their goals and objectives by providing a systematic process designed to articulate organizational, Business, individual objectives & expectations,
- As a tool for measuring performance and consistency in performance feedback across the organization
- Aligning the entire organization by providing clarity in direction and objectivity to each individual
- Reach their performance potential in their current position and prepare them to progress their career field.
- Align to rewards, recognition, career plans and training & skills development

### 3.4.5 Operations

Operations go hand in hand with all the activities in the setup phase to ensure that all systems and processes are statutory compliant and provide a comfortable working environment for employees.

Organizations should not ignore the fact that operational efficiency is the stabilizing factor for any HR practice



## 4.0 Timeline for the Setup Model

The setup model mentioned above can be represented with the duration in the following timeline diagram.

	Activity	Month 1				Month 2				Month 3				Month 4				Month 5			
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Registration	Incorporation	■	■	■																	
	STPI Registration									■	■	■	■								
Infrastructure	Hire Realtors	■	■	■																	
	Identify Location		■																		
	Identify Property			■	■	■	■														
	Contract Structuring						■	■	■												
	Interior Design							■	■	■	■										
	Office Setup										■	■	■	■	■	■	■	■	■	■	■
	IT Setup																	■	■	■	■
Process	Organization Structure	■	■	■																	
	Process Definitions			■	■	■	■	■													
	Metrics							■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Business Continuity															■	■	■	■	■	■
HR Setup	Industry Analysis	■	■	■	■																
	Reward System					■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Policies and Processes					■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Performance Management					■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Operations					■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■

## 5.0 Conclusion

The various processes in the setup model are based on the important insights derived from each offshore center setup. Although a general set of processes are outlined, the approach and treatment of each stage can differ from client to client.



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For additional information, visit <http://www.zinnov.com> or send mail to [info@zinnov.com](mailto:info@zinnov.com)

## Zinnov Locations

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29/4, 3rd floor, H M Strafford  
7th cross, Vasanth Nagar  
Bangalore 560025  
India  
Phone: +91-80- 51127925/6

575 N Pastoria Ave  
Sunnyvale  
CA - 94085

Phone: 408-716-8432

138, South Queenscliff Cir  
The Woodlands  
TX-77382

Phone: 832-326-3854

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