Designing Growth Strategies for Romanian Offshore Outsourcing Vendors: Deploying Competitive Intelligence from Indian Software Industry

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The paper aims to derive growth strategies for three Romanian software developers involved in offshore outsourcing, by deploying competitive intelligence on the top offshore players from India. The paper revolves around two key assumptions. One is that Romanian companies are growing the way Indian companies did few years ago and so it would be important to analyse the strategies that they had adopted to reach their present potential. Second, there is a set of factors common to all industry players whether in India or Romania as the industry is global in nature, so it would really be important to collect information about how are these global competitors planning to mitigate the environmental threats and to take advantage of the opportunities being presented by the changes in the external environment. For the three Romanian companies whose managers accepted to be included in our study, the main strategic option they want to pursue is market penetration. Taking cue from the strategies adopted by their Indian counterparts, the study recommends growth strategies for these Romanian players.

1. Introduction

Software and Service sector is the most dynamic entrepreneurial initiative of Romania and predictions at the beginning of 2008 indicated a minimum annual growth rate of 15% over the next 5 – 10 years; as per the estimates by ANIS (the software industry association of Romania). The annual growth rate for the sector from 2002-2007 was 20%. The industry employs approximately 60000 people, 3 times more than in 2000 and there are 11000 active companies, triple the figure from 2000. The IT industry counts for approximately 1.1% of GDP.

Today, Romania is considered a secure offshore outsourcing destination with vast potential. The cultural and language barriers are the lowest in Eastern European countries as there is a large pool of skilled human resources, which have a common background among European nations. Business understanding, trust and reliability are traits belonging to Romanian programmers, which have also been recognized by the Ministry of Labour, Family and Equal Opportunities as well as representatives from management consulting firm A.T. Kearney.

Moreover, the software sector in Romania has received an infusion of 30 billion euro as non-refundable funds from EU for the period of 2007-2013, thus transforming the software outsourcing business into a national priority, in the circumstances provided by the world financial crisis. This translates into stability for the outsourcing company who offshores its internal IT affairs in Romania. However, there is still a lot of ground to cover and initiatives taken to help the industry reach its potential. As per the white paper by IDC on Romania, the major challenges for the country in its quest to become the preferred offshore location is that the country needs to raise its profile and market its capabilities better. The other challenges being the sector are also experiencing high wage inflation.

The study was undertaken to analyse the case of three Romanian companies in this sector in order to design strategies for their growth so that they are able to overcome the present challenges and reach the goals that they have set for themselves for the next five years. Two important assumptions were made in this regard. First, Romanian companies are growing today the way Indian companies did few years ago. So, it would benefit the Romanian companies to learn about the

strategies that their Indian counterparts had adopted. Second, there is a set of factors common to all industry players given the fact that the industry is global in nature. Learning from how the Indian players are mitigating the environmental risks and preparing themselves for the changes ahead, would help the Romanian players to design appropriate strategies for growing and taking advantage of opportunities.

2. Literature Review

The Software services sector is one of the most significant growth catalysts of the Indian economy and its success has surpassed the success of most of the other industry segments. The Indian IT-BPO sector expanded from a USD 8 billion in 2000 to about USD 88 billion in 2012 and employs about 11 million people directly and indirectly. As a proportion of national GDP, the sector revenues have grown from 1.2 per cent in FY1998 to an estimated 7.5 per cent in FY2012. Its share of total Indian exports (merchandise plus services) increased from less than 4 per cent in FY1998 to about 25 per cent in FY2012 (NASSCOM Strategic Review 2012).

The success of the industry has been analysed in great detail by different scholars (Athreye 2005, Arora 2008, Arunachalam, Asundi). From 1970 when Tata Consultancy Services entered the business to the late 1990s when a number of top Indian software companies issued stock and got listed on foreign exchanges, there have been few significant events that helped catapult the industry to the global league. Indian companies made the best of two important market booms - the Y2K problem and the Internet boom. The post dotcom recession in global markets affected the performance of the Indian industry but not to a large extent as it brought with itself new focus of major global companies on reducing costs. The Indian companies with their high quality software and services offered a great way of achieving cost reduction. The focus of Indian vendors on quality was so high that as per the NASSCOM report in 2002, almost 60% of the SEI CMM Level 5 certified companies in the world were in India (Krishnan and Vallabhneni, 2010).

The study makes an attempt to deploy Competitive Intelligence (CI) which is an excellent tool to accelerate business growth and discovering new markets and new customers. CI is commonly understood to comprise the action of defining, gathering, analysing and distributing intelligence about innovation, customers, competitors and any other aspects of the market environment necessary for effective decision making. We can sum CI as the analytical process that transforms scattered information about competitors and customers into relevant, accurate and usable strategic knowledge on market evolution, business opportunities and threats. CI is focused on environment and uses public sources to locate and develop information on competition and competitors (Albescu et al., 2008). There is a need for the adoption and growth of the competitive intelligence discipline in software development as such organisations appeared not to have a structured and coordinated programme for the collection and analysis of information about competitors (Thomas and Tryfonas, 2005).

The paper attempts to design strategies for the selected group of Romanian companies. There are four broad growth strategies that the companies can adopt: diversification, product development, market penetration and market development. While firms in software industry might depend on acquisitions as a prime mean to diversify into new product categories, they also need to keep up their existing businesses and defend their competitive positions (Lücking and Wagner, 2011). Product development strategy can enable software firms to be at the leading edge of technology by exploiting synergies between their service and product businesses (Krishnan and Prabhu, 2003).

A market penetration strategy involves activities such as branding and awareness building, partner recruitment, partner management, customer support, local alliance management and competitive analysis (Bech, 2012). A market development strategy is employed by a software company in view to increase its market, broaden its customer base, and ultimately sell more products.

3. Methodology

The approaches and methods employed in the study include case study, qualitative research methods like content analysis and semi-structured interviews.

The main aim of the paper was to make a comparative assessment of the current strategies of three software services firms involved in offshore outsourcing in Romania with those in India. A questionnaire was designed to list down all the threats that they perceive in their environment and how do they plan to take advantage of the opportunities in the environment. The published material and reports of the top Indian firms in similar business segment were analysed as Competitive Intelligence resources, which were used to design growth strategies for the three Romanian software firms. We studied Indian software service providers and analysed their strategies and growth plans for

the future to come up with the growth strategies for the companies in question. Published material was analysed using content analysis and primary data was collected through semi-structured interviews to arrive at the growth strategies being adopted by these firms. The eleven companies selected for content analysis are the top companies in India as per the NASSCOM report and operate in the business segments which our selected Romanian companies operate in.

For gathering competitive intelligence, the focus was on collecting the information that was useful from the point of view of decision makers of the selected firms. Hence, it focused on finding about the following issues: Opportunities perceived in the external environment; Risks/Threat perceived in the external environment; Branding exercises undertaken to market one's capabilities; Strategies adopted for business growth.

4. Findings and Discussions

We conducted a survey within three Romanian software companies, let us call them Company A, Company B and Company C, and applied a questionnaire that focused on covering the strengths and weaknesses of these companies as well as how they were building their competitive edge. Following are the results from the responses of the companies' managers.

Table 1: Internal and External Environment Analysis

Issue	Company A	Company B	Company C
Competitive capabilities	Improvement of software developers' technical skills and project managers' coordination skills in a cross-cultural context	Efficient use of the knowledge base provided by the clients	Increase of competitive capabilities due to the very demanding clients' exigencies
Value Added Proposition	Cost saving, flexibility	High volume of quality work offshore to ensure total cost savings	Developing customer relationships
Contract/ Objective setting	Structured guidelines for evaluating the partnership with clients	Alignment of goals between supplier and client in view to effectively monitor contracts in all their stages	Contracts' clauses assess both the satisfaction and success level of the specific projects
Risk Management	Risk Mitigation Policy	Yes	Yes
Knowledge Exchange	Improved skills, knowledge exchange capacity through global virtual team operations	Trust and knowledge exchange based on long term relationships	Communication is mainly focused on project and cultural knowledge transfer
Communication quality	Good, working on it	Constant and careful communication with clients	Communication with clients keeps them up to date regarding all the relevant issues related to the projects
Feedback	Constant feedback which leads to favourable project outcomes	Focused on the improvement of working methods and the saving time spent on tasks	Clients have the opportunity to give feedback on every project step.
Cross cultural skills	Constant training	Constant training, risk mitigation policy dedicated to diminish the effects of cultural gaps	No formal training
High attrition/rising salaries	No The employees feel valued for their work by means of an effective motivation strategy	Yes HR strategy focused on development of motivation policies based on non financial rewards	No Motivation strategy based on proper indexation method for the employees' salaries
Biggest risk to	Legislation, Regulation	Client-vendor	Risk mitigation policy

Issue	Company A	Company B	Company C
business		communication	implemented in what concerns IP rights
Enhancing Competitive Edge	R&D alliances, talent management	Niche player, talent management	Talent Management

Semi-structured interviews with the top managers of three companies were undertaken and the published reports of more than ten top Indian software services companies were analysed in detail to extract the various themes and perceptions of these companies with regard to their external environment. The qualitative research for competitive intelligence yielded the following insights:

Table 2: Opportunities perceived in the environment

No.	Opportunities
1	IT Industry growing at a fast rate, global IT spends at appx US$ 1.7 trillion
2	Strong Government Support
3	Corporations looking for greater efficiency and variability in their costs
4	Clients looking for transformation partners who can increase return on investment
5	Shift from traditional horizontal offerings to industry specific high value offerings
6	"Geography becomes History" with reduced telecommunications costs

Almost all the companies are very optimistic about the prospects for software services industry in the future and they all seem to focus on innovation and creating differentiated experience for the clients. Increasing the clients' efficiency and reducing the costs of doing business was one of the top most priorities.

Table 3: Threats perceived in the environment

No.	Risks/Threats
1	Uncertain Global Economic Environment
2	Commoditisation and Scalability
3	Regulatory Changes
4	Resource Availability
5	Wage Inflation
6	Currency Volatility

Most of the Indian companies mentioned the uncertainty in the environment affecting the business growth but they also appeared hopeful that such challenging times will bring new and better ways of doing business as companies across the board would look for improving their efficiencies and reducing their costs.

Table 4: Branding strategies for sustainable business development

No.	Branding
1	Quality Management System, CMMI Process Framework
2	Comprehensive set of IP based software solutions
3	Wide range of IT services to address a variety of industry verticals
4	Launching special programmes to connect with collaborate with potential recruits from academic institutions
5	Developing employee centric approach and improving employee engagement
6	Adopting robust Information Security Practices
7	Benchmarking Corporate Governance Policies

Most of the companies promoted themselves on the basis of their commitment towards quality, service offerings across industry verticals and focused on developing the best working environment for their employees.

Table 5: Strategic options for business growth in software industry

No.	Strategies for business growth
1	Building Strategic Partnerships and deepening existing client relationships
2	Differentiation at front end, standardisation at back end
3	Expanding geographic reach, industry coverage and service capabilities
4	To partner with customers and co create solutions to drive optimisation and agility across the enterprise
5	Strengthening Niche expertise where advantages of high quality and cost efficiency are enjoyed
6	Acquiring clients only from a targeted market
7	Building Next Generation Enterprise with Cloud, Social Media and Mobility
8	Adopting/Creating new business models and business solutions through continuous innovation
9	Talent Management – hiring, developing and retaining the best
10	Investing in sales and marketing

Most of the companies have adopted aggressive strategies to make the best use of opportunities being presented by the changing environment. For the big players, moving up the value chain was important whereas the others preferred to focus on their niche area of expertise.

5. Conclusions, recommendations, limitations and further research

The above results and insights were utilised and the following strategies were recommended keeping in mind the business priorities of the managers of the companies selected for the study:

1. As the companies are small in size and cannot compete with the big ones in terms of size, resources and providing full spectrum of services, they must focus on niche areas which would help them make the most of their resources, develop highly technical and focused talent pool, which will also help them in marketing themselves better.
2. They need to develop partnerships with other niche players in order to add value therefore a key skill to pick up is to execute alliances effectively.
3. They need to retain their talent by introducing some form of non-financial rewards. If possible, the employees should be given freedom and flexibility to work on the projects of their choice. Steps must be taken to increase their ownership in the projects undertaken.
4. Special metrics should be designed to track the improvement in the overall quality of communication in the organization. As relationships with the clients as well as success of the project are clearly linked to the level of quality of communication, it would benefit the vendors to measure and manage the communication metrics in their organizations.

We also recommend to the software companies' managers to take into consideration the potential benefits of growth strategies based on the use of Competitive Intelligence tools; we consider this approach as a sustainable solution to the early signalling crisis of value added outsourcing strategies.

The study was done on three Romanian companies only. But it was designed to be a case study where we wanted to test our methods further. We will explore and test if by applying these recommendations, the company management is able to improve its performance. And we will also be able to report as to what are the constraints in applying them.

Acknowledgements

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