



International outsourcing -The Impact of Corruption an Emerging Issue

Ms. Dauly

Assistant Professor, College: D.G.COLLEGE, GURGAON.

ABSTRACT

There are various emerging issues which affect 'International outsourcing'. These are knowledge sharing among partners, impact of financial crisis, pricing structure, commercial drivers, and arms length. This paper focuses on the most important and critical issue of an international outsourcing firm is corruption in international outsourcing. The objective of the paper is to work on the measures to mitigate the risk aroused from corruption. When it comes to outsourcing and the risk of bribery and corruption. Some territories are attractive because of their low cost base, but this may also mean an environment where corruption is more prevalent. Anti-bribery legislations as well as general tightening of the screw by governments and law enforcement agencies around the globe, means that the businesses are under increased scrutiny and they are made accountable for corruption for their outsourced commercial activities. In this global environment businesses also need to be aware of sector specific regulations. Bribery is global, although it is more prevalent in certain countries. Each year, Transparency International, the world's leading non governmental anti corruption organisation, publishes its Corruption Perception Index. Over the past year, there have been several high profile cases of businesses facing massive for there involvement in corruption. To mitigate the risk of corruption, introduce a clearly articulated and communicated anti-bribery compliance (ABC) culture, visibly driven from the top. Documentation and evidencing of ABC on the board's agenda and the risk register. Implement policies to address conduct, ethics, hospitality and gifts, facilitation payments, commissions, monitoring and 'speak up' mechanisms, political and other lobbying, and conflicts of interest. Demonstrate accountability and responsibility, from employees to boardroom including any non-executive directors. Robust processes for the appointment, due diligence and management of all third parties such as agents/advisers/distributors and flow this down to supply chain and outsourced operations. Conduct a company-wide health check of policies and processes. All of this may sound like a lot of extra work, but actually the fact of putting in place a clear strategy and plan for dealing with bribery and corruption can lead to better business in the longer term and a competitive differentiator and advantage. And it is much cheaper than the cost of legal defence, let alone the reputation damage to a business if it is found to be involved in corruption. By enforcing some methods this problem of corruption can be tackled. This paper will answer all the questions of businesses about outsourcing contract, risk assessment process, vendor due diligence, and adequate procedure to prevent bribery.

KEYWORDS : Due diligence, Anti bribery legislations, Commercial drivers, Multi vendor sourcing.

INTRODUCTION:-

International outsourcing - a great strategy, but with greater risks of corruption. As the economy continues to play widespread destruction with the fortunes of companies- large, medium and small- outsourcing remains an attractive option for many businesses to reduce their indirect costs by moving back office manufacturing and processing to more cost effective locations. Other companies in the supply chain may be able to supply services more efficiently and cost effective, especially if direct costs, such as labour, materials and expenses are cheaper else where. There are opportunities either directly or by going through third parties, such as agents and intermediaries. Such strategies may be right for businesses, but equally they carry more inherent risk of corruption. Commonly, businesses taking the outsourcing route may rely on other companies to represent them, especially abroad where revenues can sometimes be a sizeable proportion of a company's turnover. The problem for many businesses outsourcing is a failure to plan for and manage compliance; either they choose to ignore the risks or they do not have the budgets to pay for knowledge and skills, particularly smaller companies willing to take the risk. So to reduce this risk of corruption in international outsourcing, it is essential to have an understanding of the Bribery Act and other similar legislations. When it comes to outsourcing and the risk of bribery and corruption, there are three key issues. Firstly, some businesses may be operating in geographic markets that carry higher risks of corruption. Some territories are attractive because of their low cost base, but this may also mean an environment where corruption is more prevalent and an established way of doing business. Secondly, anti-bribery legislation, such as the UK Bribery Act and US Foreign Corrupt Practices Act, as well as a general tightening of the screw by governments and law enforcement agencies around the globe, means that businesses are under increased scrutiny. Over the past year there have been several high profile cases of businesses facing massive fines for their involvement in corruption; and the number of such cases will increase as the economic cost of corruption becomes better understood. Businesses also need to be aware of sector-specific regulations, such as the International Traffic in Arms Regulations (ITAR) in the aerospace industry.

And thirdly, by its very nature, outsourcing inevitably means that businesses must conduct their commercial affairs at arms length, again raising the level of risk for any company that is unable to account for the actions of third parties. Companies can outsource their commercial activities, but they may remain directly accountable for bribery and corruption. Example of companies involved in outsourcing: HCL, INFOSYS, WIPRO, CBRE etc.

Due diligence: - Due diligence involves: The customer's investigation and analysis of those aspects of its business that it intends to outsource, which will help the customer to prepare for the request for proposal (RFP) and negotiation process and to determine if its objectives can be achieved through outsourcing; and of the service provider, in order to determine if the service provider's approach, solution and costs will meet the customer's needs. The results of the customer's due diligence of the business it plans to outsource will help form the RFP. Both parties will use the results of their due diligence efforts to determine appropriate solutions, charges, service levels, governance and other key aspects of the outsourcing transaction. Questions that a business might ask are: In placing outsourcing contracts or seeking outsourcing partners, are there agents or other intermediaries involved? These may not be simply so-called "middlemen", but local professional advisers. If so, how ethical are those intermediaries and has integrity due diligence been done to ensure you really know with whom you are doing business? Has the company conducted a formal risk assessment of both the impact of bribery and what measures it will take in relation to an outsourcing contract? Has the bribery risk been assessed by your legal advisors in respect of the containment of liabilities with an outsourcing contract? Is there a nominated executive in your company with responsibility for ensuring compliance with the Act? Does the company have adequate procedures in place to prevent bribery within the company and those with whom it is associated? Are you aware of the Ministry of Justice guidance on this? Will the company's insurers cover the costs of an investigation, and in the worst case the defence, especially in relation to the allegation arising out of an outsourcing contract

All of this may sound like a lot of extra work, but actually the fact of putting in place a clear strategy and plan for dealing with bribery and corruption can lead to better business in the longer term and a competitive differentiator and advantage. And it is much cheaper than the cost of legal defence, let alone the reputation damage to a business if it is found to be involved in corruption. **Failures in due diligence may occur where the customer or the service provider have not disclosed or discovered all material information relating to the outsourcing contract. Due diligence requires disciplined investigation..**

Due diligence of INFOSYS:- To improve the contracting efficiency and effectiveness infosys takes into consideration the following points:-

1. Establishing pre approved "fall back" clause in the form of a playbook reduces the amount of time expended by both legal and the CEO discussing revision that are recurring in nature.
2. The CEO, legal, and other internal stakeholders must have access to contracts and supporting documentation.
3. development of a self service portal which allows internal stakeholders to request a contract, view status.

Anti bribery legislations:- To remove corruption in international outsourcing many anti bribery legislations came into force like UK Bribery Act, Foreign Corrupt Practices Act, International Anti Corruption Legislations, Corruption Perception Index (CPI), etc. Each year, Transparency International, the world's leading non-governmental anti-corruption organisation, publishes its Corruption Perceptions Index (CPI). In 2011, two thirds of countries covered by the CPI were given scores of less than 5, which means they are considered significantly corrupt. The CPI scores countries from zero to 10, with zero indicating high levels of corruption and 10, low levels. The most corrupt places are those with unstable governments, often with a recent history of conflict. Afghanistan and Myanmar share second to last place with a score of 1.5, with Somalia and North Korea - measured for the first time in the CPI - coming in last with a score of 1. Peaceful countries score best with corruption least likely to occur in New Zealand, Denmark, Finland, Sweden and Singapore. Putting aside the CPI, there is still a widely held belief that it is impossible to conduct honest business in certain markets because bribery is the norm - "if we don't bribe, we don't win the contract". Few companies start out by developing an outsourcing strategy that is based on assessing the risk, determining how to manage the risk so as not to bribe. According to Corruption Perception Index

2013- India's score is 36.

2014- India's score is 38.

2015- India's score is 38.

No change in INDIA'S corruption perception index rank in 2015.

Commercial drivers:- Cost reduction is the main commercial driver for the international outsourcing. But except cost reductions there are many other commercial drivers also like- business transformation, access to new knowledge, services improvements, new business requirements, flexibility, shareholders pressure, access to specialist expertise, etc. Many of business believe outsourcing gave access to skills that were sometimes in short supply in the region. People thinking about outsourcing solely from the perspective of cost cutting miss some of the other things... the efficiency and scalability, improved cost control, consistency in reporting etc. If we rank these factors of motivation for international outsourcing than

Rank 1- Cost Reduction

Rank 2- Flexibility

Rank 3- Business transformation and access to specialist expertise.

Rank 4- Services improvement

Rank 5- Access to new technology

Rank 6- New business requirements

Rank 7- Shareholder pressure

Multi vendor sourcing:- During 1990s and early 2000s, single vendor sourcing was usually a preferred tool for the large scale organizations. But from the past few years have seen a shift towards multi-vendor sourcing. Among other reasons, single vendor failing to deliver, or at least had been perceived as doing so. Multi-vendor sourcing has the additional attraction of offering access to best-of-breed solutions, instead of getting everything from one vendor. Any organisation that is considering, or has embarked on, multi-sourcing should review, and if necessary improve, three main areas which experience shows are problematic. These are service management, integration, and governance. **Service management:-** The retained organisation needs a practical understanding of the disciplines of service delivery - disciplines which should already be embedded in any blue-chip supplier's approach. With this understanding, it becomes possible to knit multiple independently delivered services into a single seamless service to the customer or end-user. **Integration:-** To meet service and performance commitments to customers and end-users, it's necessary to negotiate the appropriate service levels and performance criteria for each individual service, and then make sure each supplier meets their commitments. This means clearly understanding the interface points between the various services that comprise the overall supply chain. The skills and capabilities required to achieve integration are typically drawn from service management and technical architecture. Since many organisations find it difficult to attract and retain such skills, it may be worth considering the use of a service integrator.

Good governance:- As a strategic resource outsourcing must be governed accordingly. It is obviously important to define the rules of engagement to be followed when working with suppliers: how and when the service is to be delivered, reported, reviewed and managed, and how exceptions and changes are handled. Many of these rules also have implications for the client side, but it is here that governance has tended to be weakest. Governance of outsourcing is the set of responsibilities, roles, objectives, interfaces and controls required to anticipate change and manage the introduction, maintenance, performance, costs and control of third-party provided services. As per infosys in governance: a central site should be developed which support the local region and sets contracting policy and standard for the company, central site to support all areas, transparency in contract selection.

It is an active process that the client and service provider must adopt to provide a common, consistent and effective approach that identifies the necessary information, relationships, controls and exchanges among many stakeholders across both parties. The best practice for governance in international outsourcing is to understand the life cycle of the outsourcing process. And the one should also focus on the areas like: - asset management, contract management, relationship management, benchmarking etc.

Conclusion:-

India has a leading edge to attract many foreign companies for outsourcing their non core activities. But because of corruption internationally today's outsourcing activities are effected. To reduce the corruption we have to be focused on the factors generating the corruption and also on the methods that will be helpful in reducing corruption. By the new acts in globally environment this issue of corruption in international outsourcing can be reduced to some extent. India has to focus more on reducing cost to be of great benefit to the outsourcing company. Competition will grow by time from other countries such as China where cost will be an influential factor. Therefore, reduction of inflation of labour cost should be new area of research for Indian Outsourcing Industry. In terms of manufacturing, the government should keep working in liberalizing its heavy industry by allowing more number of foreign investor's to pour their FDI in the country. Such a step from the government will create more jobs and opportunities to India. Further studies on the advancement made by countries such as China, South Africa, Philippines, and Malaysia should be conducted

by Indian researchers in order to maintain India's dominant position in the field of outsourcing. This CPI is a big hurdle in attracting international outsourcing. According to the Corruption Perception Index India is on 38th position in the entire world it means there is more corruption in other countries too. T

References: -

1. Kishor Sharma (2005), "Factors determining India's export performance", *Journal of Asian Economics* 14, 435–446
2. INCCM weinar, tim cummins, may 2012
3. The world fact book India. Retrieved November 9, 2006, from "The World Fact Book India"
4. Sadhana Srivastva, Rahul Sen (2004) "Competing for Global FDI: Opportunities and Challenges for the Indian Economy", *South Asia Economic Journal*, 5:2
5. Duffy, M. N. (2001). "Outsourcing a 401(K) plan". *Journal of Accountancy*, 191(5), 30–35.
6. Kakabadse, A. P. & Kakabadse, N. (2000). "Outsourcing: A paradigm shift." *Journal of Management Development*, 19(8) (Monograph), pp. 668–778.
7. Peters, T., & Waterman R. (1982). "In search of excellence". New York: Harper and Row.
8. Mullin, R. (1996). "Managing the outsourced enterprise". *Journal of Business Strategy*, 17(4), 28–32.
9. Taylor, Linda (2006, Nov 1). "2007 And Beyond -- Supply Chain Strategies For U.S. Manufacturers".
10. Mohapatra, Sushanta (2003, May). "Sustaining Economic Development: Contributions from and Challenges to India's Software Industry". Retrieved November 9, 2006,
11. IATEFL Issues 155 – "A Brief History of English Language Teaching in China", from International Association of Teachers of English as a Foreign Language
12. Pepito, Winston. (2005, March 24). "Philippines Catching up with India in the Outsourcing Industry". *EzineArticles*. Retrieved November 09, 2006,
13. Bhatnagar, Parija (2005, August 24). "India's could lose 40% BPO market share by 2007" Retrieved November 9, 2006, from CNN/Money.
14. Sharit, Bhavmik (2004). "Work in a Globalizing Economy: Reflections on Outsourcing in India". *Labour, Capital & Society*, 37(1/2), 76.
15. Mitter, Swasti and Asish Sen. 2000. "Can Calcutta Become Another Bangalore?" *Economic and Political Weekly* 35:27.
16. Heitzman, James. 2004. "Network City: Planning the Information Society in Bangalore". New Delhi: Oxford University Press.
17. Gottfredson, M.; R. Puryear; S. Phillips; "Strategic Sourcing—From Periphery to Core", *Harvard Business Review*, February 2005
18. Kern, T.; L. Willcocks; E. Van Heck; "The Winner's Curse in IT Outsourcing: Strategies for Avoiding Relational Trauma", *California Management Review*, vol. 44, no. 2, 2002
19. Kirkegaard, J.; "Outsourcing—Stains on the White Collar?", Institute for International Economics working paper, January 2004
20. Klepper, R.; W. Jones; *Outsourcing Information Technology Systems and Services*, USA, Prentice-Hall, 1997
21. The Joint Forum, 'Outsourcing in Financial Services', Basel Committee on Banking Supervision, 2004 Venner, G.; M. Bays; 'Vendor Management Best Practices for Successful IT and BPO Outsourcing', 2002,