BUSINESS MANAGERS IN DIFFERENT ENVIRONMENTS: STRATEGY FOR SURVIVAL OF OUTSOURCING THE COMPANY MANUFACTURING AND SERVICES TO LOW-COST LABOUR MARKET

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Abstract

This study defines views of outsourcing from Finland to India. The conventional benefits and disadvantages of outsourcing are reviewed through the multinational Company Nokia moving its manufacturing to India.   Particular aim is to address the cultural dimensions relating to outsourcing. Hofstede's cultural dimensions are used to address this issue, where his study results for Finland and India are used for comparison. In addition, the study draws ethical issues into consideration when a company decides upon outsourcing. Finally, successful strategy on cultural basis is constructed to draw attention on how to return on investment calculations. In whole, the discussion analyses how culture affects outsourcing, the implications and solutions.

Case Study: Outsourcing in India

As the world becomes more integrated, global competition for lower-priced products and services become the main focus for many multinational Companies (MNCs). The fierce competition forces many companies to locate their operations where it can be most efficiently conducted[i] and for many the answer lies in outsourcing. Outsourcing is the strategy in which the company makes the agreement with another company to do particular jobs concerning products and services[ii,iii]. Therefore, outsourcing provides the benefits by creating the opportunities to achieve economies of scale which then enables the company to lower the costs and prices of the products /services.

Recently, India has gained popularity for outsourcing in service sector, but it is also emerging as a destination for designing and production. Nokia has outsourced parts of its mobile phone manufacturing as well as research and development to India[iv]. India has a distinctive advantage because of their good supply of educated, highly skilled and cheap labour[v]. Another factor that drives many MNCs to select India is because of its good infrastructure and enabling government policies.

The labour costs in India are comparatively much lower than Finland.   The cost of manufacturing a mobile phone in India is only a fraction of what it is in Finland. Moreover, forecast have for long indicated that the future markets for mobile phone subscribers are in emerging regions like India. Moreover, India has the third highest number of mobile phone users. Therefore, it is important for Nokia to manufacture products for India their specific needs and also have access to local help for entering such an environment. [vi].

In this paper, we focus on Nokia that uses outsourcing as one of their competitive strategies to utilize the benefits as mentioned in the above. It can be understood that outsourcing is the appropriate strategy for a company like Nokia to be able to compete in the mobile phone

industry that is highly price driven and worldwide product. Yet they need to consider the structure, control and organizational culture that have to fit into their strategy of outsourcing. Nokia is the leading mobile phone manufacturer in the world, with its headquarters located in Finland[vii]. Nokia is currently utilising the horizontal sourcing model that involves using a contract manufacturer for production[viii]. This company's major focus is being placed on its production network, which is being allocated to the country that is able to produce most efficiently. Recently, their focus on manufacturing has been diversified into Research and Development. They are transferring large parts of both these processes into India in order to cut cost and get their product faster to market[ix].

However, Nokia is not only concerned about their specific-location strategies, but they are also more sensitive about how they can achieve sustainability in the area where they operate. Nokia is also dedicated into their social responsibility activities such as, recycling of their electronic waste which is done to lower the public scrutiny in regard with the Nokia's operation. Their environmental responsibility in regard with their company waste can be seen from diagram below[x]:

Nokia strives to reduce the possible harmfull environmental impact of its products, services, and operations over the entire product life cycle.

Another important aspect in regard with their outsourcing strategy is how effective and efficient communication can be created. We should note that outsourcing strategies sometimes create an issue of its level of controllability by the headquarters, which sometimes create the major conflict with the outsourcer. Co-ordination between different outsourcing units is crucial to keep the control over the production activities in India. For example, Nokia required full declaration on the substance that the outsourcing units used for their operation, which should be consistent with the specification given by the head office[xi], as well as control over the quality and supply chain of the outsourcer[xii]. This is being done to reduce unethical conduct by outsourcer in order to reduce their cost.

Disadvantages of Outsourcing

However, any aspect of business life is not without its drawbacks. These disadvantages sometimes result in activist demonstrations on outsourcing operations, which bring about detrimental impact on company's reputation. Firstly, many workers in the country of origin lose their jobs due to companies exporting jobs to countries such as India[xiii]. This is true especially for developed countries where the minimum standard wages are high. It creates the incentive for MNCs to outsource the work to a low labour cost country in order to gain competitive advantage through price.

Secondly, outsourcing is increasing competition in the employment sector of the manufacturing process of the country of origin, as jobs are being moved to India. This will then result in lower wages for services sector within the country of origin.

Ethics and Outsourcing

Ethics

Ethics can be defined as an individual's personal beliefs about whether a decision, behavior or action is right or wrong.[xiv] Although ethics are defined in the context of an individual's belief, the concept of ethical behavior usually refers to behavior that conforms to generally accepted social norms. Therefore, unethical behavior can be said as behavior that does not conform to generally accepted social norms.

Finland's Business Ethics

Finland has not been a country where there has been extensive discussion on business ethics. Aaltonen and Junkkari (1999) even claim that Finland lies far behind Sweden, the United Kingdom, the USA, Canada and Australia, who are at the forefront of ethical questions in business life.[xv] Furthermore, the Finnish character tends not to be moralistic/domineering and Finns do not pretend that they know how issues should be resolved in other parts of the world. Some Finnish companies do care about societal as well as moral values and that these somehow try to operate in a tough business culture, but with more or less official ethical principles of value.

India's Business Ethics

In many cases of business in India, decisions are made by the person at the top, not in a participatory way and there is what is called a caste system by education.[xvi] In terms of government rules and regulations, in India, the government acts as a gatekeeper rather than

an enabler, with slow approval, a complex bureaucracy and corruption. Enforcement is also lax.

Many Indian companies too have recognized the importance of integrity, transparency, and open communications. They believe that the goodwill resulting from adopting and successfully implementing a code of business ethics will, in the long run, translate into economic gains.

Ethical Analysis

There are several ways of analyzing the practice of outsourcing from an ethical perspective. The most common approach is to apply utilitarian ethics, which is the ethical system used by the vast majority of economists. Utilitarian ethics has several variations, but the main thrust of any argument based on utilitarian ethics is the greatest good for the greatest number. An ethical issue that we can study in the outsourcing between Finland and India is about labour cost. In fact, salary cost and related items are 60 – 70% lower in India than in Finland.[xvii] Finnish companies, such as Nokia, choose to outsource the making of products or the providing of services to India, because it is economical to do so. They can save money and thereby cut costs, making their company more competitive or, in some cases, enhancing the probability that they will not go bankrupt.

What is seen is the loss of Finnish jobs, but what is not seen is at least equally as important which is explained in the following example. If the Finnish company had to pay Finnish workers $20 an hour to perform some task and if the workers in India can perform the same task for $12 an hour, it makes economic sense to fire the Finnish workers and hire the Indian workers, all the other things being equal. Domestic jobs in that industry are thus destroyed, but other jobs are created, not only in foreign countries but in the domestic economy as well. From the utilitarian perspective, it seems ethical, because the aim is to attain maximum benefit for both parties from whatever vantage point that is taken. On the other hand, it seems to be violating rights when the Finnish have less opportunity to get the job. To a pure utilitarian, violating someone's rights is perfectly acceptable, provided the outcome results in a positive sum game. This is because utilitarianism focuses only on the outcome, not the process which in one way is beneficial.[xviii]

Cultural Dimensions and Outsourcing

Hofstede conducted comprehensive study of how values in the workplace are influenced by culture. Cultural dimensions make a society unique. [xix]

Source: http://www.geert-hofstede.com
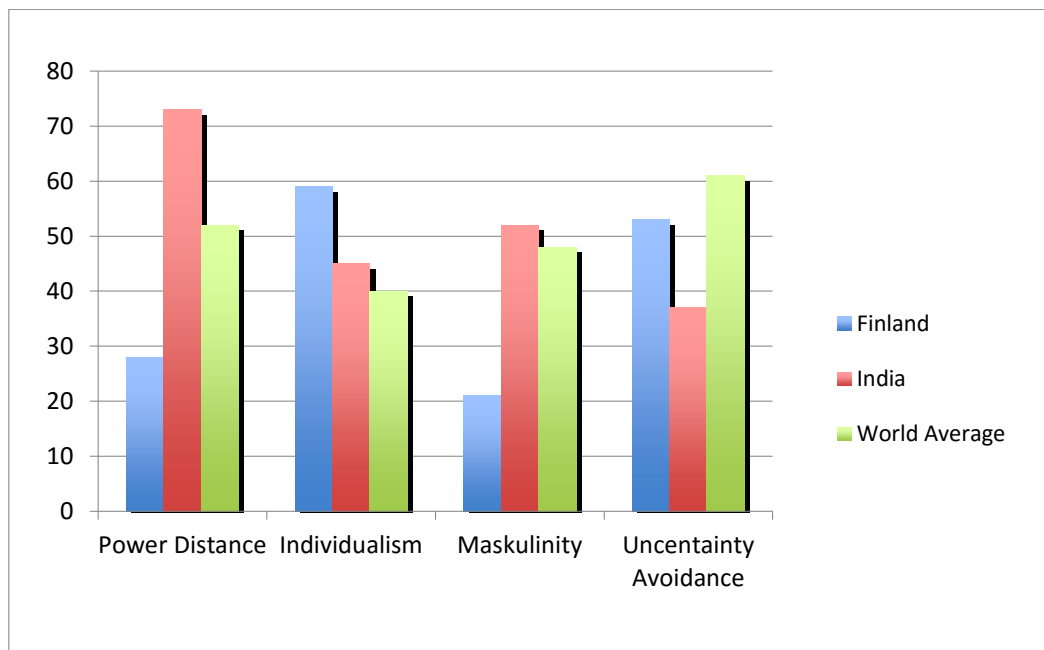
Hofstede's cultural dimensions indicate clear differences between Finland and India which will have effect on core workplace values influenced by the national cultures: [xx]

- India has very high power distance resulting in centralized structure and autocratic leadership. In Finland, the ranks tend to fade away and mutual respect prevails. Thus autocratic management style of India may not fit well the organizational culture of Nokia.

- India is a collectivist society where group's opinion, trust and loyalty are sought. Yet, in Finland is seen as more individualistic country where independent decisions and goals prevail. The implications are that Indian group decision-making can be difficult for Finnish managers to understand and manage.

- India is highly masculine country where gender roles are very visible. Finnish society's femininity is quite contrary to the Indian. This can result in great misunderstanding as Finnish managers find roles more flexible to their Indian managers.

- India with low uncertainty avoidance is more comfortable with the unknown and can tolerate risks more readily. Finland however tries to avoid such risks by more control and have distrust in others. Thus the managers might have greater concern to maintain strong control over the outsourcing outcomes.

When Nokia outsources its operations to India it must be aware of the great cultural differences between Finland and India. [xxi] Reluctance to acknowledge these dimensions in the outsourcing strategy would most certainly lead to unsuccessful results. Thus, the whole point of reducing cost by outsourcing would disappear. Nokia should seek for balance between their strong organizational culture that derives from the Finnish culture and the Indian culture that they outsource to, and from which they aim to benefit from.

The solution to find this balance for Nokia to overcome the cultural differences is in staffing strategy. It should not practise ethnocentric staffing where Finnish managers are sent over to take the key positions. Such strategy would directly face Nokia with hard cultural clashes and would lead to non-functioning operations. In addition, it could result in lack of key staff in the department that sends off the skilled managers.   Polycentric staffing where local managers are hired could also be catastrophic to the strategy because it could lead to difficulty to perform accordingly   to   the   outsourcing   strategy   of   the   parentcompany.[xxii]

To avoid the negative implications of the either centric approach Nokia should practise global staffing strategy where, the most suitable managers are recruited regardless of their nationality. The results are a greater mix of employees with cultural flexibility and adaptability. Yet, Nokia cannot seek only people that suit India's cultural environment, as it must ensure its strong organisational culture is preserved, but to choose managers and employees that are able to interact well with national and organizational culture. [xxiii]

Successful Strategy of Outsourcing between Distinct Cultures

India is rising as an important hub for outsourcing/offshoring due to many reasons namely the availability of large talent pool, presence of quality infrastructure, positive government policies as well as the prediction that the Indian population will fall between 15 and 59 years of age in 2020[xxiv]. This particular process of outsourcing is also making India the market for the future and this is why Nokia wants to move parts of its manufacturing and R & D facilities to this country. Therefore, it is imperative that the Nokia understand the cultural differences between both the countries for success in the host country[xxv].

Changes in the business process or tactics can be made based on this understanding such as the procedures can be made semi-formal, so that it suits both Indian employees (formal) as well as Finnish employees (informal). As mentioned earlier, the most appropriate staffing strategy would be the global method which means having a diverse mix of employees from different backgrounds and nationalities. It is also important to have Indian employees as they

can help in understanding the local business culture as well as the business environment. Ignorance of this fact can lead to failure as seen in the case of Ansett Australia when they were taken over by Air New Zealand. The unit in India should also have Finnish employees who can help in preserving the organisational culture. Considering India's more masculine nature, it would be more apt to recruit more female employees for the company as they are more capable of easily acclimatising to the feminine nature of Finnish business enterprises[xxviii],[xxix].

Prior training is important even if the individual is a manager or any other employee. The local employees (Indians) can be trained in Finland so that can adjust to the culture; likewise, the Finnish employees can be trained in India. The training can be modified according the culture of the respective countries. The Indians usually like to be taught by an instructor because of their Hierarchical system back home whereas the Finnish like cross-cultural workshops which involve a lot dialogue and information-sharing between participants. The training can be started as per one's own culture but it should be slowly changed to the culture type of the other country for example, the Indians can be trained with an instructor initially but later they should be encouraged by the instructor to interact and cross-communicate. This allows the employees to understand the different culture they are going to be exposed to more easily[xxx]. The understanding of culture is not restricted to the employees or managers alone but it expands all the way to the organization as a whole. It is important for the organization to understand the cultural differences of the environment which includes the economic, ethical, political differences as well. Since the cultural differences between the two countries are quite different, it will take longer times for the company to adopt the cultural differences in India. A company like Nokia should understand that it is beneficial to align oneself with the government who is capable of regulating the policies as and when required. It is important for the organization to show its social side by carrying out something that is beneficial to the society or community. This gives the host country (India has a collective attitude) the impression that the company is concerned about the welfare of the country. The hierarchical system can be in place in the Indian unit but with more flexibility so as to suit the employees from the western worlds. These suggestions based on research shows how the understanding of the cultural differences can be used as an advantage for the survival of the company[xxxi].

Conclusion

The study suggest that for Nokia to behave ethically in its outsourcing strategy it should acknowledge all the implications of the strategy in both ends, Finland and India, and not only seek the cost-savings in manufacturing and R & D.   A great deal of ethical behaviour for Nokia is to recognize the cultural differences between the two distinct countries in its

outsourcing strategy. Nokia cannot change the cultures, but it can benefit from the differences. Global staffing strategy along with extensive training and adaptation programs for managers and employees should allow better functioning of the different cultures within Nokia's distinct organizational culture, that seeks long-term benefits from multi-dimensional India.

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