The Untold Story of Captive Centres (or Captives 101)

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Captive Centre

A wholly owned branch office or subsidiary, used mainly for IT support, back office data processing, call centre operations, software development, R&D or business process outsourcing in an onshore, nearshore or offshore location. These services are provided only to the parent firm (Oshri 2011).

Captive shared services.
A Brief History of the Captive Sector

- It is believed that Texas Instruments’ R&D centre, set up in 1985, was the first captive centre in India;

- In late 2010 nearly 500 captive centers had been established by large multinationals in 34 countries representing an economic value of $12.3 billion and employing over 440,000 professionals;

- 58% of Fortune 250 global firms have one or more captive centres around the globe (Oshri, 2011);

- According to SSON, there are now about 4000 captives around the globe providing IT and BPO services;

- Everest Research Institute reports that captive center set-ups are rebounding, with data indicating 40 new captive announcements made in the fourth quarter of 2009 compared to 28 announcements in the third quarter of the same year.
The academic and professional literature treats the captive option as a single-dimension strategy in which the captive center is set up to provide services exclusively to the parent firm (e.g. Aron and Singh 2005; Sako 2010; Gospel and Sako 2010; Overby 2010);

However, there is growing evidence that captive centres are engaging in various strategic options;

What alternative strategies are being pursued by MNEs to improve the returns on their captive assets?

We explored captive centre strategic options via three case studies.
Case 1: Captive engages in Insourcing and Outsourcing

1998
- GlobalSoftware acquires a 70 employees Indian firm to focus on testing

2002
- Captive center grows to 500 employees shifting to software development

2004
- A decision to outsource the hosting services to a local vendor. Enhance focus on high value activities

2006
- A decision to insource staff to conduct testing while the 3000 employees focus on software development
Case 2: Captive attracts External Clients

- **2002**: ITConsulting launches a consolidation process of the procurement function: from 300 locations into 9 regional centers.
- **2004**: Further consolidation in which 9 centers become 3 shared service centers including one in Budapest.
- **2005**: Increasing scale (internal clients). Improvements of business and service processes in the Budapest center.
- **2006**: A decision to evolve the captive center into a shared model by attracting external clients.
Case 3: Captive had grown and been divested

1996
GlobalAirline sets up a basic captive center in India with 60 employees to provide passenger revenue accounting services to the parent firm.

1997
The captive center starts to provide services to external clients within the airline industry.

1998
With 1500 employees and $35 million in revenues, the captive center seeks an investment to support further expansion.

2000
The captive center reported about $400 million in revenues, 21,000 employees, and with over 200 global clients.

2002

2010
GlobalAirline rejects investment plans and consequently divests the captive to a private equity firm.

The captive center offers services to clients outside the airline industry.
What strategic options are available for parent firms and captives?

- Basic captive Center
- Hybrid Captive Center
- Shared Captive Center
- Divested Captive Center
- Terminated Captive Center
- Migrated Captive Center

Contact management
Captive Strategic Options: Implications for Theory and Practice (1)

- These captive strategies imply a change in the capability-base of the captive. Where new capabilities should reside?

“If we look at capabilities, we have maybe ten product managers as a maximum, out of four thousand people. We [were] still in the mode where the definition of the product, and to certain extent, the platform or the architecture, [was] not here.”

“Can we make sure that we benefit from the relationships and [can] we develop a relationship with the vendor? What will be our relationship two years down the line?”

Alain, GM SAP Hosting Services, Bangalore
Captive Strategic Options: Implications for Theory and Practice (2)

Growth path of the captive from a cost to a profit centre may trigger tension with the parent firm: power struggle or integrated global strategy?

“When I forwarded the five-year plan to the management director of BA, he said, ‘What are you smoking? You put forward a plan here for twelve thousand staff, which is about 30 per cent extra head count.’”

Former GM of WNS

“Of course, you can learn how to develop CRM tools, but not so many companies can leverage on the power offered by IBM (in this regard)”

GM, IBM Procurement Centre, Budapest
Migration of captives raises questions regarding how we perceive country attractiveness for offshoring. Instead of asking why MNEs invested in country A, we may want to understand why did they switch from A to B.

“We grew the capabilities and skills so much that we needed more value-added work. So we needed something, someone, some place where we could move the actual administrative work to, so we can get more value work from the country. And that’s why the satellite centres were created, to free capacity to move Budapest up the value chain.”

IBM Business Control Executive, Budapest
To learn more about Captives

Global Sourcing Workshop
(since 2007)

- Willcocks, Kotlarsky & Oshri
- Always in a ski resort around Feb or March
- Some of our outcomes:
  - Five special issues on global sourcing
  - 6 books based on the workshop material and 2 book series with Palgrave and Routledge
  - Reports on country attractiveness, bundled services, value and innovation in outsourcing, cloud computing and many others (www.outsourcingunit.org)

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Thank You