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Sonata Software Ltd., India: Building Global Competitive Advantage through an International Joint Venture

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On a sultry summer afternoon in Bangalore, India, in May 2010, Sonata Software President and Managing Director B. Ramaswamy (also called BR) returned after lunch to his modern but modest administrative offices for a meeting with Mr. P. Srikar Reddy, executive vice president and chief operating officer. The fifty-six-year old BR was well-respected for leading Sonata in its quest to become a global player in the information technology (IT) services industry. As he waited for Reddy to join him, he thought about the continuing economic downturn in the major economies of the world, including the U.S. and Europe, which couldn't have come at a worse time. Even though the Indian economy had experienced a quick turnaround since 2008, Sonata's globalization strategy was affected by the economic crisis in the Western world. BR felt the situation had become urgent with the impending expiration of revenue guarantees from the German partner in its IT services joint venture (JV). Entering into this JV with TUI AG, a German tourism and shipping giant, in 2006, had been a major move in Sonata's long-term strategy to grow and develop services in the global IT industry. In light of a decline in 2008 and 2009 revenues, volatility in client budgets following the 2008 financial crisis in the U.S., and a worldwide recession, BR needed to decide soon whether to continue with the JV or prepare to exit in 2011 when revenue guarantees expired.

The Indian IT and ITES Industry

Since the 1990s, India's economic strategy focused on developing IT services and capabilities through promoting education in the IT sector. By 2007, India held a dominant position in the global IT and ITES (information technology enabled services) industry.

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From Body Shopping to Offshoring

The development of the industry in India came in two waves: the "body shopping" era, and the India-based offshoring era. "Body shopping" involved providing IT people to carry out tasks on the client's premises. The advantages for clients were that they did not need to commit large sums to hire permanent personnel and they could easily increase (or decrease) the number of staff employed in IT according to need. When Indian engineers were flown to work on assignments at overseas sites, the clients received services from qualified engineers paid Indian wages, resulting in substantial cost savings. Building trust between the client and the software provider was essential and the face-to-face contact on site, where the clients had to share confidential business information with the provider of software services, was a crucial stage in developing the credibility of Indian software companies.

By the late 1990s, clients were shifting to outsourcing IT services to outside companies and then offshoring them to companies in other countries such as India. Several factors contributed to this shift, including the increased importance of knowledge-intensive activities and the drive for reduced costs in services, new technologies reducing the need for face-to-face contact, interest in re-engineering and focusing on core competencies that might not include IT, and adoption of standardized software platforms facilitating remote data-entry, gradually evolving to include more sophisticated analytical activities. The financial crisis of 2000 accelerated the recourse to offshoring, as European and U.S. firms reduced their investment in IT and turned to Indian offshore service providers. By 2000, offshore software export revenues had risen to 58 percent of total Indian exports from 5 percent in 1991–1992.

Indian software development services providers began to use a new "dual shore" model where they provided Indian IT professionals for short-term assignments on customers' sites in the U.S., coupled with development centers of large teams working in India. By 2008, India had become a well-known, proven IT provider for about 80 percent of the world's largest 500 firms.

New Challenges for Value-Added Services

Indian software companies still faced two major challenges. The first was to avoid an over-dependence on commodity businesses like call centers and instead gain a share of high value-added business where they could provide data analysis support services and business solutions. The second challenge was to recruit and retain highly skilled professional staff.

The two challenges were linked. Software firms sought to acquire the business knowledge of their customers in order to be able to provide solutions and services for specific industries as opposed to taking care of isolated components of functional processes. Industry-specific ("vertical") solutions could be priced much higher than labor-intensive services like data entry and management. However, knowledge-intensive services also required high quality engineers and business graduates who were in short supply. Developing credibility with customers was enhanced if the customers could interface with the same project managers over the duration of the project. But with the rapid growth of IT and ITES, a shortage of IT engineers appeared as personnel tended to be highly mobile—on the lookout for better opportunities and higher compensation. The attrition rate among IT software service firms averaged around 20 percent, and it was still difficult for Indian companies to offer working conditions and salaries that rivaled what Western companies could offer.

History of Sonata Software

To a large extent, the evolution of Sonata Software over the past twenty years mirrored developments in the overall IT and ITES industry in India. In 1986, Sonata was created as the IT arm of Indian Organic Chemicals Ltd. (IOCL) which served as its major customer. IOCL wanted Sonata to act as a profit center, so the unit began to also develop software and provide services for the external market in India. The idea was to package the software along with the computer hardware sold by another IOCL division, Computer Point. By 1988, Sonata had produced twenty-five different software packages in a wide range of industries. These packages were developed primarily to perform accounting functions for smaller businesses and carry out desktop publishing functions in many of the 500 different languages of India.

Dinesh Ramachandran, head of product management and M&A, remembered that time when Sonata was learning to act like a separate business:

> We invested a lot in these packages. It was a difficult and exciting time. By 1991–1992 we were out of the woods and profitable. It was very human resource intensive work and we needed to keep the cost down. During this time we learned to develop applications for a lot of outside customers and not just our parent company. We were not at all international at this time; we served the Indian market.
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> The 1990s changed everything; the Indian economy opened up and Oracle, SAP, Microsoft, and others moved in. We had good engineers and we could help these firms set up, because we were ahead in software packaging. Microsoft was one of our first partners. We started selling Microsoft products in India in 1993; Microsoft had a vast array of products so this provided us with good learning. This helped us hone our skills in systems integration.

Sonata gradually developed expertise in partnering with major software vendors as well as selling and implementing software packages of the big international firms to Indian corporations.

From Parent Company Division to Independent Company

IOCL began showing interest in "hiving off" Sonata in 1993, and by 1995, Sonata was a completely separate company with private owners including employees. Through an IPO it became a public company in 1998. BR played a major role in the "hive off" operation. He had joined Sonata in 1986 when it was a startup division, as its marketing controller. When it was spun off in 1995, BR became president and managing director of Sonata Software Limited. BR explained that, "It was a classic case of a change of vision when a division evolves into a separate firm."

Sonata management decided the company's strength was in engineering rather than in developing software packages as it had done in the 1980s. They decided to take the path that their partnering with Microsoft and others had set them on. Their 1995 mission statement was:

> Provide technology solutions globally, enhancing competitive advantage of customers, founded on contemporary technologies and practices, innovation, empowered people and enduring relationships.

This mission statement exemplified the vision management had developed as they began to pilot Sonata as an independent firm: to move away from developing software packages to providing reseller and implementation services to product companies, and IT solutions to client firms, partnering with both using Sonata's engineering strengths. In the late 1990s, Sonata continued following the evolution in the global IT market, positioning itself to provide vertical solutions for many industries.

Sonata's Path to Internationalization

Sonata went international very early, even as it was preparing to separate from its parent company. IOCL had formed a joint venture with Offshore Digital Services Inc., (ODSI) located in Fremont, California in 1993. In 1999, Sonata bought out IOCL's 46 percent holding in ODSI and made it a 100 percent held Sonata subsidiary.

Given Sonata's logic to move away from commodity software packages just for the Indian markets and its ambition to expand into development and implementation services for major software vendors, an international presence became necessary. It needed to be present in countries where its partners and customers operated. The partnership with Microsoft led to the opening of Sonata's office in Seattle, Washington. Gradually, Sonata opened offices throughout the U.S. on both coasts, with its U.S. headquarters in Fremont, California. Most of its U.S. offices focused on marketing and sales while most engineering work was done in Bangalore and Hyderabad. See **Exhibit 1** for a list of Sonata's subsidiaries worldwide.

Exhibit 1: Sonata's Subsidiaries as of March 31, 2010

Business Segment	Legal Entity	Ownership Structure	Nature of Business
International IT Services	Sonata Software Ltd. India	Listed Indian entity	• IT Consulting & Software Services • RIM • Offshore IT Software Development
	Sonata Europe Ltd. London	100%-owned Subsidiary	• Software Services & Development
	Sonata Software GMBH Germany	100%-owned Subsidiary	• Program Management for TUI • Infrastructure Management
	Sonata FZ LLC Dubai	100%-owned Subsidiary	• Sales & Marketing • Account Management • Program Management
	Sonata Software North America	100%-owned Subsidiary	• Sales & Marketing • Account Management • Program Management • Onsite IT Services
Domestic Products and Services	Sonata Information Technologies Ltd. India		• Distribution of Packaged Software Products • Domestic IT Services
TUI Infotec	TUI Infotec GMBH Germany	50.1% subsidiary-Joint Venture	• IT Operations & IT Services Support for TUI Group Companies and other customers in Germany

Source: Sonata Software Ltd.

Before its JV with TUI AG, Sonata had been involved in two disappointing joint ventures. Its first JV had been with PacData in Fremont, California in the early 1990s. Sonata's long-term vision aimed at value-added products and services conflicted with PacData's focus on a shorter-term vision of body shopping. The two entities tried to work together effectively for three years, but ultimately the joint venture was a failure.

Sonata's second JV was with the Dutch firm, Scala Business Solutions, creating Abisko Development Ltd., registered in Cyprus. Sonata had worked with Scala since 1995 to market Scala's mid-market ERP (Enterprise Resource Planning) products in India. As part of the JV, Sonata was developing the intellectual property for the Internet version of the Scala product, while Scala was expected to contribute to marketing. The enormous losses that ensued after the dot.com bubble explosion led to the JV being dissolved.

Sonata's Coming of Age

By 2009, Sonata had come of age as a full-range IT services and consulting firm. It had a wide range of deliverables that could be packaged together as custom solutions for its customers. The main areas of service were product engineering services, travel solutions, applications development, maintenance, managed testing, business intelligence, packaged applications and infrastructure management.

With $363 million in revenue, the company was ranked tenth among India's top twenty IT companies by the Indian Council for Market Research (ICMR). For Sonata's key financial indicators, see **Exhibit 2**. Most of its business came from customers that had been with Sonata for more than five years. The company's growth was fueled by the services it offered to its established customers as well as to newer customers. The company employed more than 2,500 people and was growing. It had six development centers worldwide; four in India and two in Hanover, Germany. It was planning to build a new campus in Hyderabad, Andhra Pradesh (India) in 2011, which would house the whole staff of 2,600 people, including 700 program developers.

Sonata received a number of recognitions for its technology and performance from local authorities, the professional press, and its customers. In 2007 alone, the company received numerous awards including Oracle's Best Mid-Market Applications Vendor, BEA's Best Distributor in India, Indian *PC Magazine's* 4P's Power Brand, Oracle's Best Support Partner of the year, Deloitte's Technology Fast 50 India Program award, Deloitte's Technology Fast 500 Asia Pacific award, and the Microsoft Platinum Award.

Exhibit 2: Sonata's Key Financial Indicators

	FY '06	FY '07	FY '08	FY '09	FY '10
INCOME (SALES) (Rs in millions)					
Domestic	3360	4080	5940	6380	5010
International	1750	2250	2480	2850	2810
TUI Infotec*	–	2850	6170	6790	6110
TOTAL INCOME (SALES)	**5110**	**9180**	**14590**	**16020**	**13930**
PROFIT AFTER TAXES (Rs in millions)					
Domestic	20	30	60	90	80
International	260	340	300	540	580
TUI Infotec*	–	110	230	140	140
TOTAL PROFIT AFTER TAXES	**280**	**480**	**590**	**770**	**800**
EMPLOYEES (Number)					
Domestic	118	116	147	148	144
International	1616	1684	1928	2086	2205
TUI Infotec—Employees	–	317	413	450	441
TUI Infotec—Contractors	–	125	58	22	11
TOTAL # OF EMPLOYEES	**1734**	**2242**	**2546**	**2706**	**2801**

*Sonata's JV, TUI Infotec, was formed in September 2006. As Sonata's fiscal year ends March 31, there is no data for TUI Infotec in FY 2006.

Source: Sonata Software Ltd.

Sonata's Business in 2010

As a service firm, Sonata had a short value chain but tried to become a part of the value chain of its customers. Its suppliers were engineering and business schools or other firms that provided it with programmers or MBAs. Customers were also providers of knowledge for Sonata professionals, enabling them to become specialists for the client firms and their industries. Sonata's employees were not only sellers or offshore specialists, but also project managers for software solutions for other industry players; they installed customer solutions as part of Sonata's own systems integration projects.

The four pillars of Sonata's business were: its dual shore model for development of product and service offerings, its management of knowledge to better serve customers, its people/HR management, and its culture.

The Dual Shore Model

Sonata's dual shore model meant that some work on major projects in the U.S. and Germany was done at the customer's site. The on-site teams took responsibility for account and relationship management and worked with customers to ensure that conception and delivery were in line with expectations. New offerings and platforms were tested in India. The Indian teams worked together with teams in Western countries for projects that required training of Indian engineers in new areas. A new partnership required hiring additional staff and adding locations for new employees since most of the partnership work would be executed in India.

Knowledge Management

To meet the company's strategic goal of developing knowledge-intensive offerings, Sonata needed to ensure that new knowledge and new capabilities were diffused across the employees company wide. The firm held frequent training sessions in technology because of the constant challenges posed by new customer projects. As soon as a project was delivered and accepted by a client, the company developed forums through which Sonata employees could learn what was going well, what was not, what was new, and what required further learning. Sonata's knowledge management portal served as a centralized repository of content through which all employees could share documentation and information.

Human Resource Management

Sonata hired new graduates out of engineering and business schools as well as lateral hires (from other companies). It trained new engineering graduates in-house to work on technological infrastructure projects and technology consulting. It also hired and trained new employees for specific projects like the TUI AG JV. New MBAs who were to staff the consulting/solutions arm of the organization were hired with strong backgrounds in economics, since the engineering and MBA teams would work together to better understand market needs. Some lateral hires acted as functional specialists and focused on depicting and designing processes. Other lateral hires had domain specialization, such as travel, insurance, banking, or manufacturing.

For the presales phase of a project, different roles were required from engineering to budgeting to negotiating with corporate-level executives. Negotiating multi-million dollar sales required very different skills from the engineering abilities that IT hires were to demonstrate. Presales representatives had to be knowledgeable about specific industries and the problems customers needed resolved.

In addition to recruiting top talent, retaining quality performers was crucial for Sonata as for the rest of the global IT industry. BR emphasized that his job as President was mostly about retaining people and sharing wealth so as to deliver projects on time without having to hire and train newly recruited engineers. Sonata had a 12 percent attrition rate versus the 20 percent rate that was typical of the industry. BR was proud of the career opportunities Sonata offered:

> When we started the new company, one of the major concerns was to find ways in which to attract and retain employees in the highly mobile labor market for qualified engineers. Sonata's long-term growth strategy depended on it. We felt it was imperative to offer a substantive stock option plan. In 1993, the share was worth ten rupees but the IPO in 1998 opened at 230 rupees per share, so employees' holdings were increased substantially.
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> We offer our people a base salary, bonuses and stock options. Young people are mobile and they want to be enriched. They will stay if they see their aspirations fulfilled. We use an informal mentoring system by senior managers. We have also hired a consultant

> to perform a satisfaction survey. We want to make sure that people are happy to work at Sonata and that our women employees don't feel harassed and quit. Above all, at Sonata, we want people to feel ownership in their own career path. Thirty percent of our employees have spent more than five years with the company.

As BR put it, mobility within the company was important to ensure the continuing expansion of people's skills. Ramachandran's career was an example. In addition to heading Services Marketing, he was also responsible for mergers and acquisitions (M&A) because he sought out that opportunity.

Culture

Sonata's human resource management policies were grounded in the company's values system and culture. The company was dedicated to satisfying people's ambitions and promoting the importance of the organization and the team. As BR described it:

> We need people in our organization—particularly management team members—who adopt our vision. We look at their values and how they will conduct business. During the dot.com bubble [in 2000], other companies were laying off their employees, but Sonata opted instead to take a 10 percent reduction in salaries across the board. We want people who have integrity, who don't bribe, and who don't give away customer secrets. Another attribute we look for is teamwork. We don't need individuals who stand alone, but people who can work with others. Salespeople and technical people are obviously different, but a conflict between the two groups is not acceptable. They have to work together for the customer and be supportive of each other's efforts. They work together frequently on reviews to see if the customer's problems have been resolved. Senior people have to be particularly flexible. The idea is to work toward a common objective.

In 2008, Premnath Murthy, Assistant Vice President, Projects, said of the mission written in 1995:

> We have never had to change it since. Those values hold true. The stress is on an enduring relationship with our partners. This mission of a long-term relationship that would teach our people how to work with different stakeholders has been very positive. We wanted to empower people; our people don't just live with job descriptions. Jobs have become more complex and people are the key.

BR summarized Sonata's approach to transition from a local to a global player:

> The strategy that drives our business has led us to first, disengage from commodity services like body shopping where we were only supplying people rather than offering company-specific knowledge. Our goal is to become the partner of choice for independent software vendors in development and implementation and provide knowledge-intensive horizontal and vertical offerings as outsource providers for enterprise customers. Partnering means developing a relationship with clients and growing the number and depth of services we can provide them. Our growth relies on both organic and non-organic directions; organic in that we use account mining, develop alliances and ensure the scalability of our delivery infrastructure to match the evolution of our customers' needs; inorganic in that we seek out new sources of business. The great cost differentials between the West and India must be remembered, as salaries in India for engineers and PhDs are one third of those of the West . . . In the end, our intent is to have a global delivery model. We saw our joint venture with TUI AG as a logical outcome of that intent and a catalyst of our future.

The Road to the JV: TUI InfoTec

Although the JV with TUI AG was formalized in 2006, Sonata began its relationship with TUI AG in 2003. TUI had created its own IT arm, TUI InfoTec, to handle all the services needed for its vast travel and hotel businesses. In 2003, Sonata performed its first ERP implementation for TUI China along with TUI InfoTec. Later in the year, Sonata completed a Human Resource Management Solution (HRMS) implementation for TUI U.K. Over the next three years, Sonata began providing an increasing number of services jointly with TUI InfoTec for the TUI group of companies. Ramachandran described important steps in developing the relationship between the two firms:

> TUI people from the U.K. and Germany started to come visit our operations in Bangalore. They got a firsthand experience of our capabilities. They realized their IT was safe with us. The year 2005 was a transition period. Sonata was working on 120 applications for them serving Western and Central Europe and China, and we needed to cooperate more.
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> By the end of 2006, we decided to convert TUI InfoTec into a joint venture. We all felt the cultural issues had been ironed out and that there was little risk in pursuing a joint venture. I think the most important thing, and that which made the difference compared to our previous JVs, was that the companies had a shared vision of what the TUI InfoTec joint venture should be. We took a long-term perspective that considered growth, business development for the JV, generation of broader streams of revenue, and providing better services to our main customer, TUI AG.

In September 2006, Sonata entered into a JV with TUI AG by acquiring 50.1 percent of TUI AG's IT subsidiary, TUI InfoTec. Both partners released statements about the JV's promise. Mr. Heinz Kreuzer, Group CIO of TUI and CEO of TUI InfoTec noted:

> We are delighted to partner with Sonata Software and believe that their delivery capabilities will substantially enhance our offerings and enable us to win new business. We have been impressed by their single-minded focus on customer satisfaction. We share a similar philosophy and I am confident that TUI InfoTec will now see accelerated growth.

On the Indian side, BR stated:

> This innovative partnership combines the strengths of the two companies: Sonata's 1700 strong India development facility with a good track record and TUI InfoTec's 400+ onshore German IT professionals with extensive skills in infrastructure management and mission-critical software applications. This provides a compelling value proposition for European customers looking for a proven, low risk, cost-effective and high quality outsourcing option.

This new JV differed from Sonata's previous ones and from previous endeavors in at least four important ways:

- It provided Sonata with a partner/customer of major scope. TUI AG was an industry leader in the travel reservations industry not only in Germany but also all over Europe.
- It reinforced Sonata's position as an offshore service provider, drawing on its strategically developed skills set.
- It gave Sonata a major business presence in Europe and contributed to its brand equity.
- The JV was started with an existing customer; when founded it set out clear avenues for business development and areas of responsibility.

TUI AG, the German Partner

Sonata's German partner in the JV, TUI AG, was one of the world's largest tourist firms with subsidiaries in Germany, France, Sweden, UK, Spain, and other parts of Europe. It was a blue chip company, part of the German stock market index DAX (similar to the Dow Jones Industrial Average in the U.S.). TUI AG had 3,200 travel agencies, 237 resorts in thirty countries, and owned seventy-nine tour operators in seventeen European markets. The firm also owned airlines, cruise ships, retail travel stores, and container ships. It was listed on the London and Frankfurt exchanges and employed 68,500 people.

Mr. Sanjay Nanda, senior project manager at Sonata, stressed the importance of TUI InfoTec to the whole of TUI operations. Nanda noted that when the JV was set up, TUI InfoTec's 440 employees provided IT infrastructure management and IT services for the TUI Group companies. TUI InfoTec also provided packaged products for travel agencies, workflow solutions, and CRM (customer relationship management) in Germany through its two subsidiaries and former customers, Travel BA Sys and ACCON RVS. TUI InfoTec handled B2B (Business to Business) applications in the areas of reservations, hotel management, and aggregation of solutions in the tourism industry. It also provided B2C (Business to Customer) solutions for the airlines and rail reservation industry. TUI InfoTec had extensive experience in the travel domain and owned some of the intellectual property that propelled the operations of the TUI Group companies. For example, the web system developed and supported by TUI InfoTec took care of eight million Internet transactions a year, 200,000 searches, and 3,000 bookings per day. It was crucial for TUI AG that its IT services be reliable.

Design and Scope of the JV

Beyond the shareholding structure (50.1 percent for Sonata and 49.9 percent for TUI AG), the TUI InfoTec JV had several important design features:

- TUI InfoTec was to provide IT services to German-speaking countries as well as Poland and provide IT operations for all of the European market within the TUI group. The partners also expected that the JV would be more competitive to land contracts outside TUI AG, and planned to seek new business and enter into other European ventures together.
- In industries other than the existing tourism segments, both partners were free to seek new business, individually or in partnership.
- TUI InfoTec was designated as a preferred supplier of TUI AG and received revenue commitments until 2011.

These features guaranteed the revenue sources and the viability of the JV, which was meant to be a cost-effective provider. TUI InfoTec contributed a large number of Group clients, excellent skills in mainframe and infrastructure management, and a solid reputation. Sonata contributed its broad experience in software services, its existing alliances with independent software vendors like Microsoft that TUI InfoTec did not have, its sales and marketing infrastructure, and its international market presence.

The two firms also had synergistic objectives: TUI InfoTec aimed above all to reduce costs for IT services delivered to the TUI Group companies and concurrently wanted to expand its services to external markets. Sonata Software aimed to extend its European market presence, particularly in Germany. Sonata also sought an early mover advantage in infrastructure management by being one of the first Indian companies to enter the Western tourism market. Through this JV with TUI InfoTec, Sonata hoped to acquire recognition and longer lasting trust from Western European customers as well as the opportunity to specifically establish a partnership with the TUI Group.

A Shift in Roles

Reaching the two firms' objectives required a shift in roles, with all development work moving to India for Sonata to manage cost effectively. The German employees were now expected to focus their energies on selling, whereas before they were solely developing and managing IT for the TUI group of companies. TUI InfoTec had important assets to help in developing European business. It carried the strong brand equity of the TUI name, which was a major selling point in the German market. The partnership with Sonata enabled TUI InfoTec to make very cost-effective offers. It could also reduce the development costs of the client's software and offer better quality, faster delivery time, and better maintenance compared to working with a Western company whose engineering costs would have been at least three times as high because of the difference in salaries between German and Indian engineers.

This shift to sales would require a carefully managed transition process. In 2007, TUI InfoTec hired Mr. Jens Habler as head of sales. Previously Vice President of Sales at Lufthansa Systems Infratec GmbH, Habler came with twenty years' experience in marketing, sales, and customer relationship management in the IT industry. The management team of TUI InfoTec expanded further to include Reddy from Bangalore. In addition to his titles of EVP and COO at Sonata, Reddy assumed the role of managing director of TUI InfoTec. Mr. Vivek Desai, vice president of Sonata Software, became director–marketing, account management and alliances of TUI InfoTec.

Senior project manager Nanda described how both sides worked together to complete the transition process:

> I am from the Offshore Development Center (ODC) for the JV and I am located in India. On the German side, my counterparts are responsible for managing various aspects of the tour operator business. The transition process was carefully managed as the Germans transitioned from a technology development role to sales. InfoTec trained its people to be able to handle customer-facing roles and generate business. As a result, the Indian offshore team needed to acquire functional and technical knowledge from InfoTec technicians. That meant that at first Sonata would develop the technical aspects; but it was clear for Sonata top managers that over time Sonata would like to learn to take customer-interfacing tasks as well. The complete delivery process from taking a request for work to delivery of required software and handling post implementation support. The Indian team structure includes more layers of functional assignments based on use of technology, than the German side does; the Germans are more structured to be in line with business from the customer's perspective.
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> To make sure that both sides would learn and be capable of performing all tasks, teams on both sides were trained on the delivery process. Initially, there were barriers to acceptance of the process, but over time these concerns were reduced when both sides were able to see the benefits of understanding the roles both teams had in the project. Though the development environment is in India, to learn thoroughly, we at Sonata India have also developed a group of 440 people working for TUI InfoTec in a structure we created in Germany: Sonata Germany. It is a bit more complex and expensive to have this dual way of doing things but it is the price of fully learning about what our German customers need.

The JV Transition Process

Sonata set up a five-phase transition methodology including (1) due diligence and planning, (2) knowledge transferring, (3) developing parallel support, (4) leading to offshore support, (5) and culture change.

1. Due diligence and planning. The new JV needed to know its suite of applications, who its customers were, what the processes were, who it would be interfacing with, and any problems and their dimensions. TUI InfoTec had never been certified or assessed by external parties previously, as it had been originally the internal arm of a company that was its sole customer. It had some processes, but didn't have specifically laid-out competencies. As Nanda described it:

> We understood that for knowledge transfer to work, [TUI InfoTec] needed to implement structures, processes, and flows. We were too reliant on individuals for our knowledge of customers—and we had no documentation processes in place regarding that knowledge. We defined standards and developed a process pack that we could improve over time. We realized that we too needed more developed processes. Standardization would have beneficial effects beyond the JV, as it would provide greater marketability.

Sonata looked for commonalities between the two partner firms so it could use the same processes as much as possible. However, the processes needed a certain level of formalization. Best practices had to be defined on both sides. The templates Sonata developed would also have to make sense to customers because the customers had their own processes. All changes had to be done seamlessly to ensure a smooth transition for customers.

2. Knowledge transfer. Both parties were transferring knowledge. First, Sonata had to decide what knowledge was important for both parties to know. Personnel in Hanover and Bangalore would have to share the same knowledge even though they would be doing different things in the future. A knowledge tracker was developed to monitor the progress of the transfer for both parties. Sonata used various means of knowledge acquisition, including sessions by TUI InfoTec subject experts, demonstration of the applications' functionalities and technical design, exploration and study by the Sonata team, interactive Q&A sessions, creating documentation of the understanding gained on various applications, and an evaluation of the competencies and skills gained by the Sonata team.

Mr. D. Gnaneshwar, Sonata's head of development services business, played an instrumental role in the transition process. He previously had led the offshore development center at a major multinational firm and had extensive experience in change management programs. He pointed out how important it was for the transition objectives to be in line with the overall JV objectives, and to track the knowledge acquired:

> The JV made it so we had to be able to deliver to the end customer. Neither Sonata nor TUI InfoTec had that in place at the time. The objectives of the JV were to make sure Sonata knew how to reduce costs and get more business from existing customers and help the company gain the trust of new customers. The transition was going to require new skills and competencies. We were used to focusing on the internal aspects of the customer, trying to get more work done for him while reducing costs. But to do that, we needed to create capable teams that would work on the development, maintenance and support of all the IT applications and infrastructure. They had to learn how to remotely manage the systems and answer the incidents log and service requests on time even though they were offshore. When we started, we did not know what kinds

> of interfaces would have to be developed or what classes of incidents we would have. Now we can do that well, because we established an efficient offshore system where the people, processes, roles and responsibilities, and needed infrastructure are in place.

3. Developing parallel support. At the beginning, the Indians took on low-priority TUI projects that were not crucial to its customers in Germany. The advantage for the Indian engineers was that working side by side with the Germans raised the bar of performance for Sonata's Indian team. This process allowed Sonata personnel to notice learning gaps. The Indian personnel returned to Hyderabad and were able to transfer the knowledge they had acquired in Hanover.

The knowledge transfer process was not always smooth. People had to be replaced on the German and Indian sides. Work permits had to be obtained for Indians to work in Germany. To counter this obstacle, video conferences were arranged to ensure that the people transferring knowledge were involved when needed. There was considerable apprehension about knowledge acquisition on both sides and knowledge tracking at each stage of the project. Some people on both sides did not want to give up what they knew because ownership of that knowledge determined their value, so they left the corporation both in Germany and in India.

In February 2009, Sonata announced that it would be making a lot of changes to the way it operated the JV. The company held many internal corporate sessions to explain the changes. People at TUI InfoTec had been multitasking, but the new processes would require employees to become more specialized, dig deeper into their functions, and be more rigorous.

4. Offshore support. The company segregated activities. For instance, an architect would no longer be a project manager. The assignment of roles and tasks, and the tasks themselves, were no longer the same. Budgets were now split between Sonata and TUI InfoTec, as were accountabilities. Nanda described the importance of the changes:

> The clear partitioning of roles was essential to ensure an efficient offshoring structure. Sonata had to make sure that what was being done in India would not be "doubled up" later, i.e., repeated by TUI InfoTec in Germany. And for any new business that Sonata and TUI InfoTec might enter into together, we had to make sure that people in India and Germany were not overlapping—or overriding each other's decisions. This naturally raised the question of who would be managing whom. At TUI InfoTec, one person was doing everything and working very informally. This change process inevitably required—or imposed—a culture change.

5. Culture change. There were several challenges to overcome within the company culture, for example the issue of captive customers. At TUI InfoTec especially, it was important for the mindset to change. As Gnaneshwar, head of Development Services, saw it:

> People had been working at TUI InfoTec for ten years and had always been working with the same customer. The TUI InfoTec employees needed to understand that they were not working informally any more. They had some trouble realizing that the Indians were not going to be sitting in the same room as before, that their workmates would be across the world. Their comfort level diminished with the formalization of processes. Therefore their learning curve was probably steeper than ours at Sonata's. For us, it was more an issue of setting up checkpoints and creating documents that were commonly accessible.

Other challenges involved language, culture, etiquette, and working expertise. Many aspects of the two company cultures were very different. Travelling helped overcome many of these challenges. The Germans who came to India were reassured when they saw that there was a physical reality behind the JV. When the German team met their Indian colleagues, they sat down together and discussed their mutual expectations. The Indians also showed their employees videos about the way the Germans worked. Local magazines interviewed people on both sides, and TUI published a newsletter launching the JV. The common working language was English, but Sonata set up German language courses to help with bonding and provide cultural dissemination. Gnaneshwar recalled:

> Another challenge is distance. But IP phones and Internet make it easier. There is a lesser need for e-mail for communication. We are all encouraged to call each other as much as possible so we talk to each other as individuals and become accountable as individuals.

Joint Governance of the JV During the Transition Process

The partners had set up a governance structure to provide oversight during the transition process. At first they would shadow each other's processes to make sure that both parties were on the same page. Four committees were set up to pilot the process, two in India and two in Germany. The committees mirrored each other exactly and dealt with applications, processes, and infrastructure. While committees in general met weekly, the Transition Review Committee met every two weeks and the Transition Steering Board met once a month. Sonata had already used this committee structure in the U.K. and in the U.S. and had managed transitions for its customers, so it knew how to manage the JV transition process.

Since Sonata was listed on the Indian Stock Exchange, the company used Sonata's financial reporting methods. The new JV also put together a management team of Germans and Indians that catered to both German and Indian markets. Kreuzer emphasized:

> The JV's management team is open and makes decisions based on consensus. For important business decisions, the team gets support from and gives equal importance to the opinion of shareholders of both Sonata and TUI InfoTec. These factors have helped the JV evolve as an independent entity, instead of just being a captive of a large group.

JV Partners Take Stock

In reviewing their joint and individual experiences in 2009, both partners provided their perspectives on the venture's first three years.

The Perspective from Germany

TUI InfoTec chief executive officer Heinz Kreuzer reflected:

> Looking back, we realize that the step we took in 2006 was the right step. Honestly, we did not expect the challenges to be as big as they turned out to be. The entire relationship is not based just on contracts, but on trust and confidence. That has helped us to overcome these challenges and hurdles.

According to Michael Ohm, the managing director (from the German side) of TUI InfoTec:

> At the outset, the joint venture raised some apprehension among German-based employees. Since Sonata was an Indian shareholder in TUI Info Tec, would the work

> be moved offshore? Would jobs disappear? What would Info Tec's customers be offered in terms of delivery, timeliness, and quality? How would the joint venture affect customers' relationships with InfoTec?
>
> The culture of India was also very different from that of Germany—differences that made their presence felt in the JV as well. These differences included the organizational setup of the two companies. The Germans felt that Indian companies were more hierarchical while German companies were more challenging and open. The language barrier was also a challenge, but we overcame that barrier.
>
> Also, some major changes were made in TUI InfoTec's working methods. To ensure that the JV met its business objectives, the TUI InfoTec team had to quickly adapt to a few changes. A sales team was set up to interact with the external market. A dedicated account management team serviced the existing TUI GROUP customers. We also set up internal processes for development and reporting mechanisms. These factors helped TUI evolve to an independent entity capable of fulfilling complex IT requirements for its customers.

Certainly, challenges remained. In the current business environment, business opportunities were scarce. At the same time, customers' requirements were changing, requiring TUI InfoTec to constantly innovate and increase its services portfolio. Nevertheless, TUI InfoTec remained optimistic about its goal of establishing a global delivery model in the German market and, subsequently, in other European countries. Kreuzer summed up the German perspective:

> Faced with increasing pressures on their margins, companies in Europe were looking at making cost and quality improvements in their IT services. At TUI Info Tec, we were looking for a partner whose core business was IT to augment our ability to provide services to the external market. Over the years, Sonata has demonstrated its expertise in providing these benefits to TUI AG and other European clients through its proven offshoring model. Leveraging Sonata's technical capabilities and its remarkable footprint in the IT industry, we have become fully equipped to take our IT infrastructure management and software services to the external world.

The Perspective from India

BR felt strongly about Sonata's strategy to build the company into a global IT organization. Even though the transition process took two long and arduous years, the Germans were working with their counterparts in India and there was knowledge and trust on both sides. BR felt that Sonata had shown strong commitment to the relationship, both in the confidence it placed in TUI InfoTec's ability to address the external market as an independent entity and in the financial commitment Sonata had made to Info Tec. The TUI customers accepted the model and the transition was accomplished without interruptions to customer work. The JV also paved the way for new avenues for development. By 2008, Sonata had built new capabilities and was bidding with TUI InfoTec for work outside the TUI Group. The firm had already recorded five external wins, one with a Tier 1 auto manufacturer in Germany. It had acquired and was still increasing its knowledge of the German market.

Sonata was no longer just based in India. The company had European customers and Sonata had the opportunity to develop business opportunities in the Latin areas of Europe—France, Spain, Portugal, and Italy—on its own. The firm's reputation had been enhanced in Europe. TUI AG was also expanding through acquisition and Sonata would benefit from increased business.

The Future

BR looked down at the busy Bull Temple Road in the Nandi business district in Bangalore, where Sonata had leased a building to provide additional workspace for its ever-increasing staff of software engineers. He walked over to the meeting room window overlooking the enormous open workspace where a large number of Sonata engineers were working in their individual cubicles. He was pleased at the thought that Sonata personnel were not all crammed into a single building and that the firm had expanded into three additional development centers in Bangalore and one in Hyderabad, with plans for one additional campus in Hyderabad.

India went through a lot of changes in the years since the global financial crisis in 2008, and so did Sonata. With the expiration of TUI AG's revenue commitment in 2011, BR needed to be proactive in reviewing the contributions of its joint venture, TUI Infotec. Reddy came into BR's office with key financial data (see Exhibit 2). Two questions weighed heavily on BR's mind. Did TUI Infotec enhance Sonata's performance? Should Sonata continue its German joint venture beyond 2011 or dissolve it?