

Offshoring: Research findings

Dr Hugo Velthuisen, Professor Business & IT





Introduction

Dr Hugo Velthuijsen

Introduction

- **Position**
 - Professor Business & IT
 - Leading Professor Center for Applied Research and Innovation on Entrepreneurship
- **Education**
 - M. Sc. Mathematics
 - Ph.D. Computer Science/Artificial Intelligence
- **Experience**
 - 11 yrs research & development in The netherlands and the USA
 - 3 yrs Sales @ ICT company
 - 8 yrs business management ICT company
 - 3 yrs professor @ Hanze University of Applied Science

- Based in Groningen, the Netherlands, 180,000 inhabitants
- City of Talent
- Real university city !
 - 2 universities
 - 50, 000 students
 - Students constitute over 25% of the population, youngest city in the Netherlands
 - Officially the ‘safest city’ and ‘best down-town’ in NL

- Hanze University: growing from approx. 21,000 in 2004 to nearly 25,000 students
- Divided across 19 'schools'
- Disciplines:
 - Business studies
 - Technology
 - Health
 - Social sciences
 - Education
 - Art

Focus in Research

- Hanze University has 6 Centers of Applied Research and Innovation (CARIs):

- Care Rehabilitation Education & Sport (Healthy Ageing)

- Energy

- Entrepreneurship

- Labour Market

- Area Development

- Art & Society

- Research is applied and multidisciplinary



SMEs & Offshoring

SMEs & Offshoring

Motivation

- Expected shortages of IT specialists
 - Estimates between 8800 and 16,000 in the Netherlands once the financial crisis is over*
 - Shortage equals approx 5-10% of available jobs requiring higher IT education
- Small & Medium Enterprises (SMEs) typically do not score top of the list of employers of choice
- IT specialist shortages will hit SMEs hardest
- SMEs need to look abroad for fulfilling IT need
 - Bring the work abroad (offshoring), or
 - Bring foreign IT specialists to the Netherlands
- And possibly: cost, quality & know how!

**Source: IT-Office*

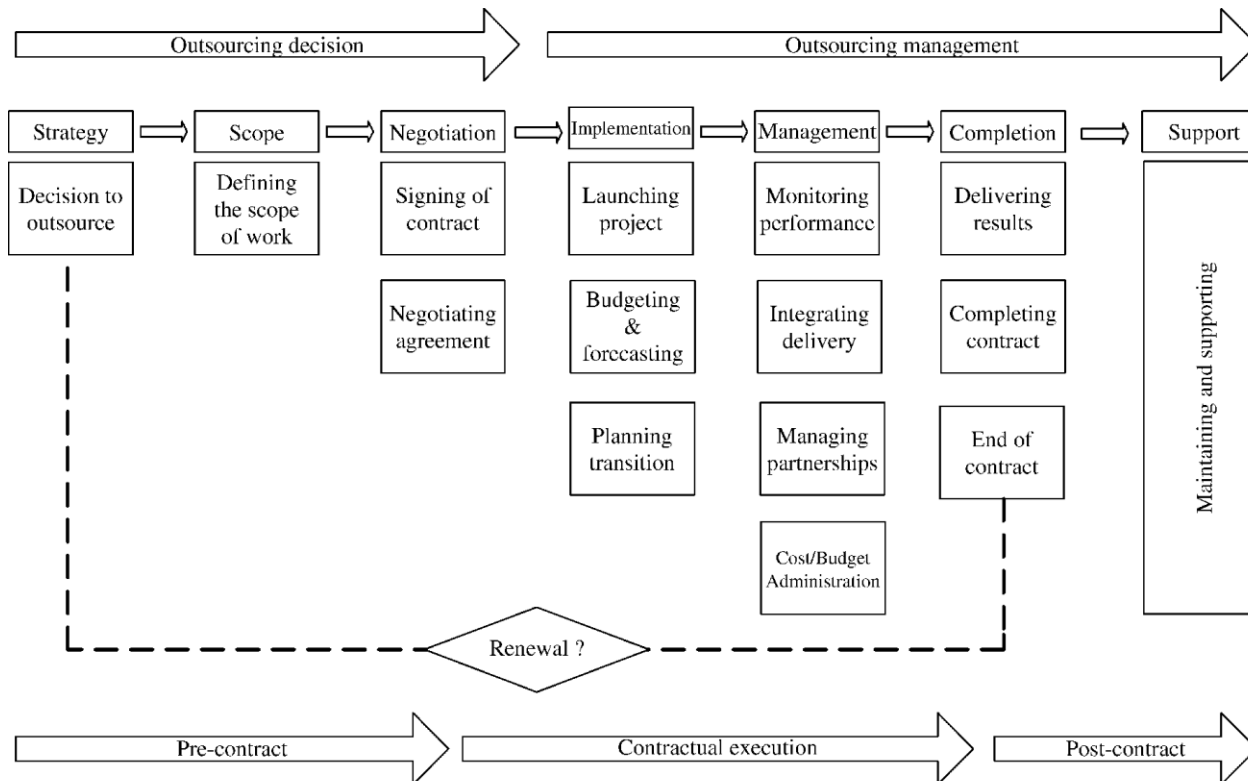


SMEs & Offshoring

But ...

- Some say: SME's too small for the business case to work (Delen, 2009)
- Offshoring is hard:
 - 85% of offshoring companies are not satisfied (research Rotterdam School of Management)
 - 'Backshoring' as a new trend
- Vision
 - In the end, backshoring solves nothing
 - Problems need to be identified and solved
 - SMEs need to embrace offshoring also.
- Cost, quality & know how may become secondary drivers for offshoring

Outsourcing process

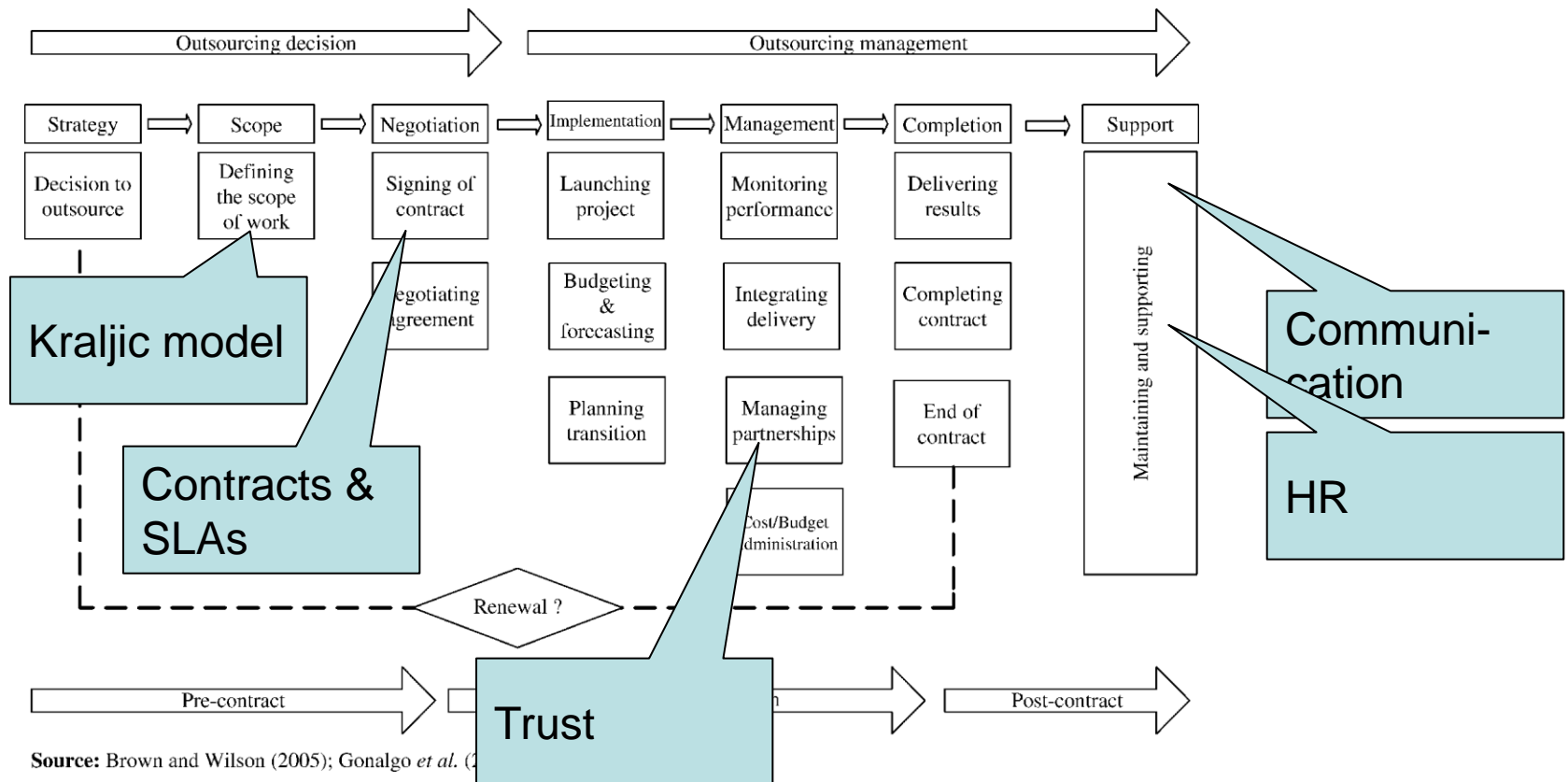


Source: Brown and Wilson (2005); Gonalgo et al. (2005)

- **Strategy**
 - What?, core business?, partners?, ...
- **Operations**
 - Tooling, interfacing, ...
- **Finance**
 - Reporting, risk management, ...
- **Organisation and human resource management**
 - Functions, competences, ...
- **Legal**
 - Intellectual property, Open Source, shaping collaboration, ...
- **Governance**

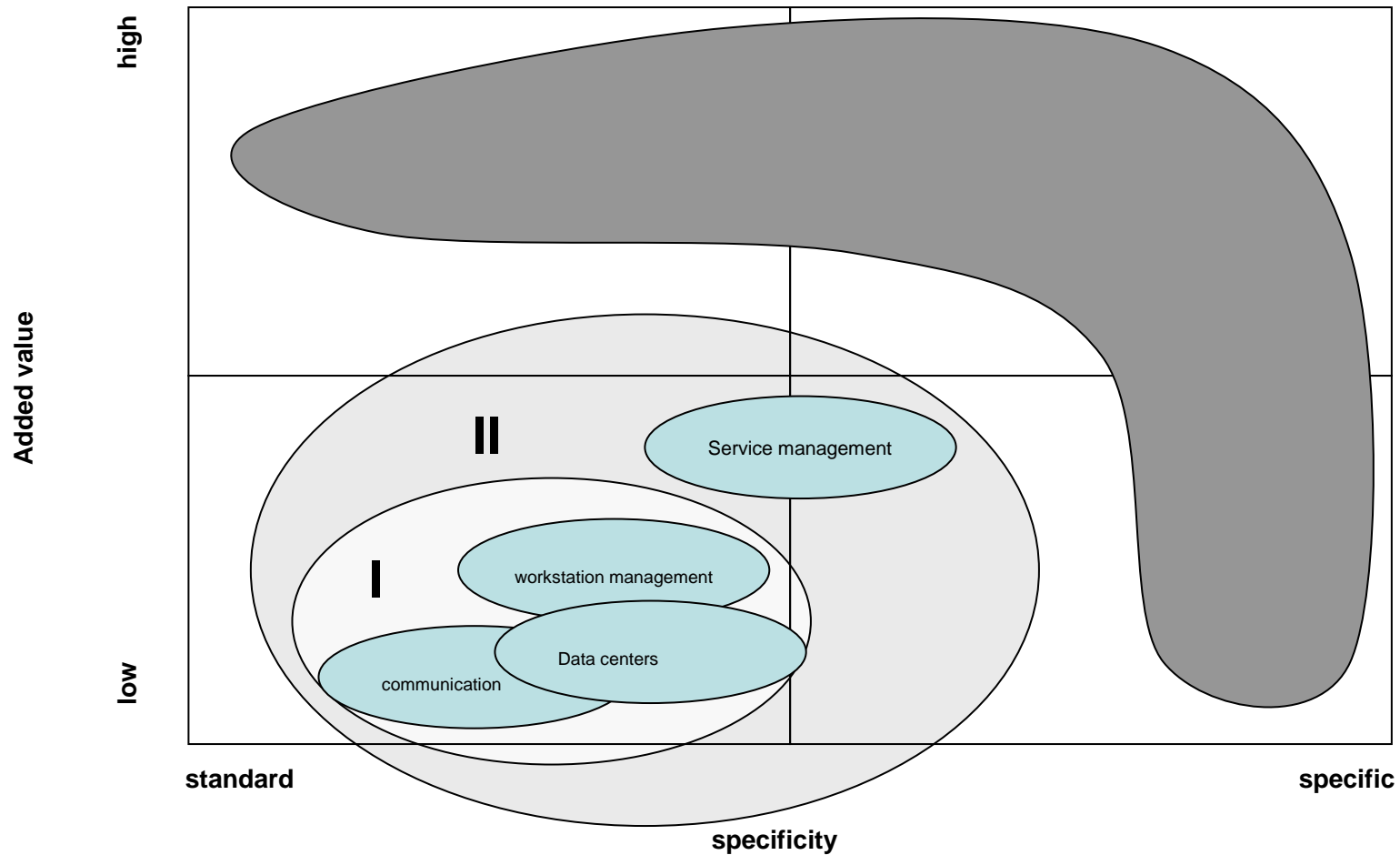
Outsourcing process

Topics



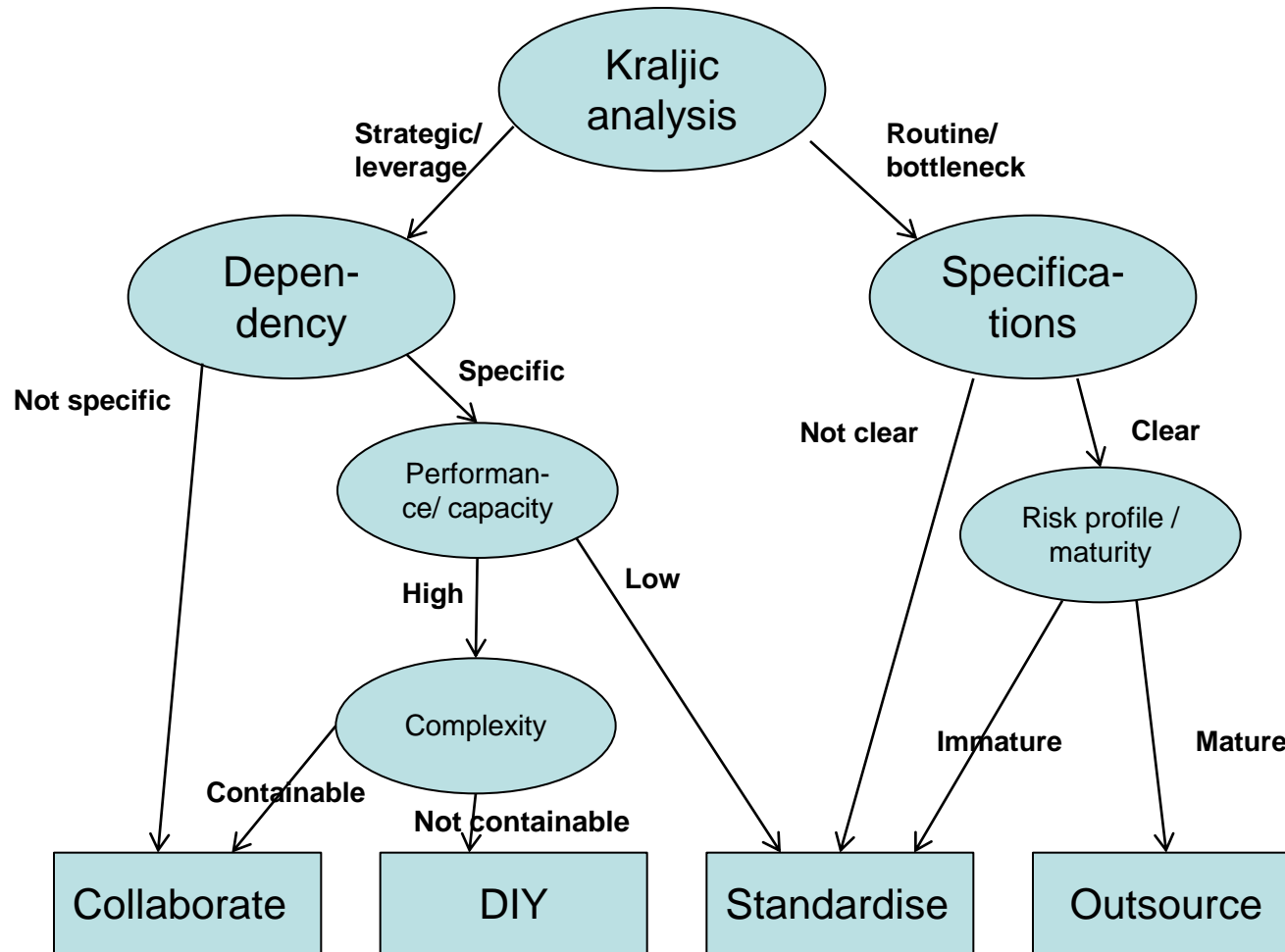
Adapted Kraljic model

Tool for classifying systems & processes



Sourcing strategy

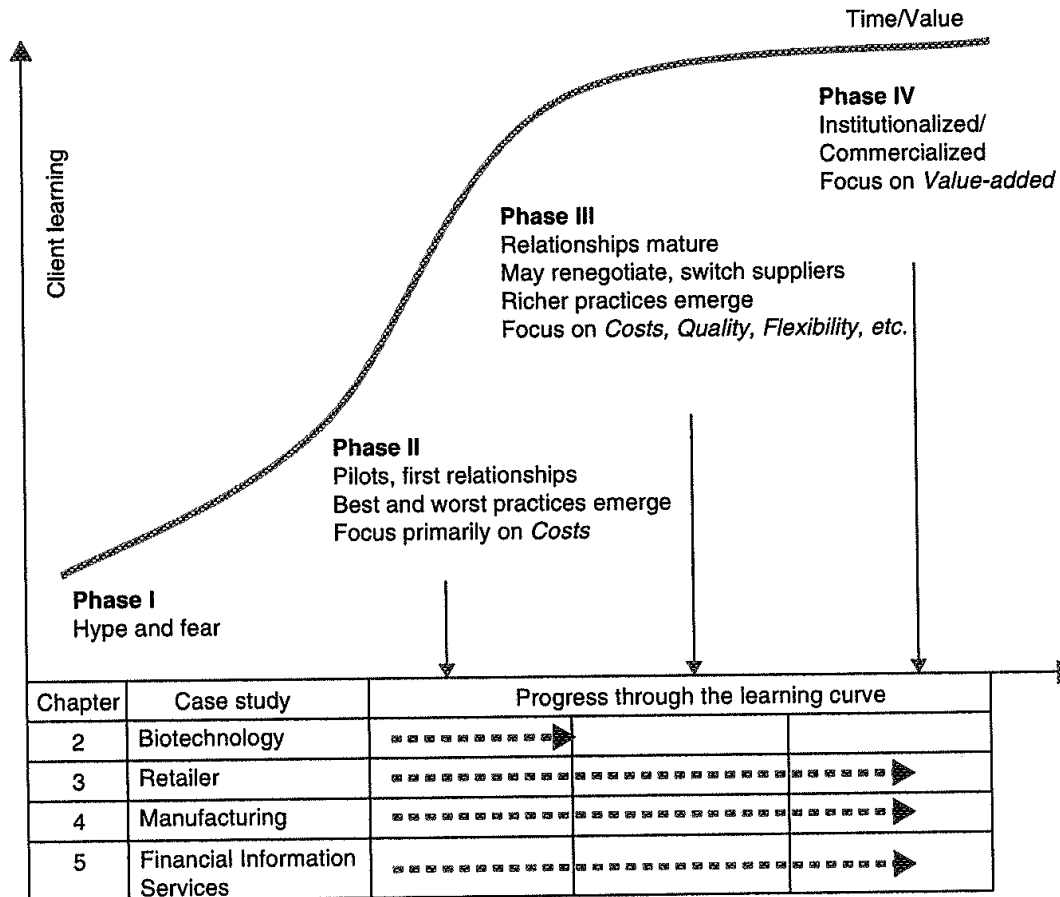
Example



Source: Confidential

Maturing offshoring relationships

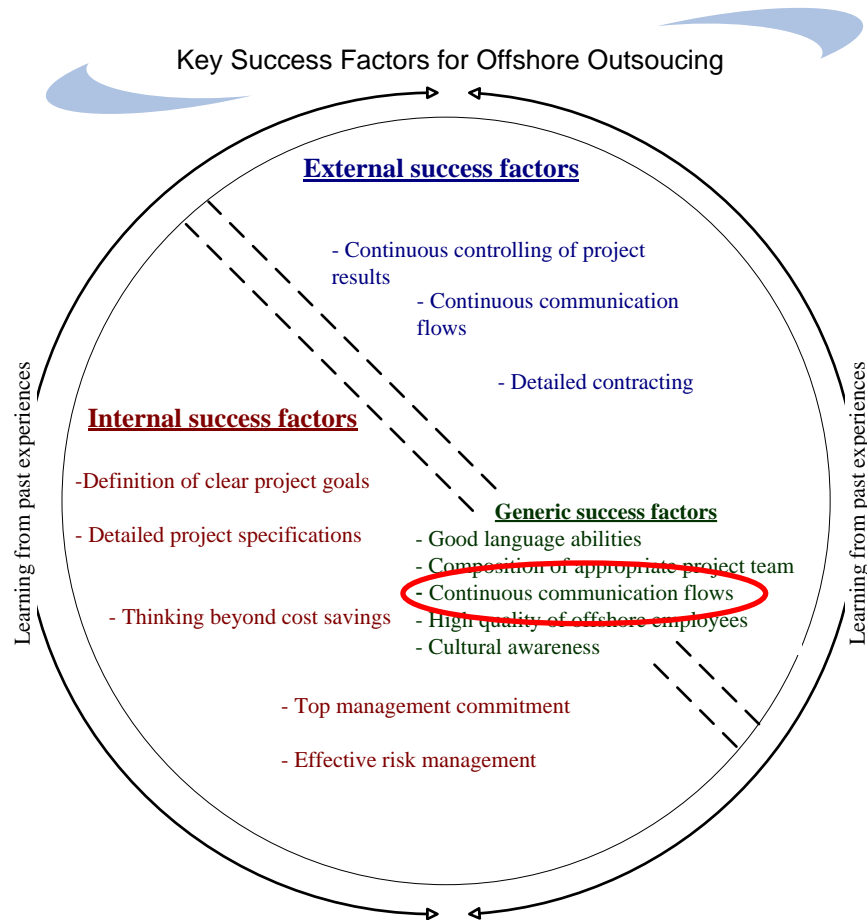
Different systems & processes may be in different phases



Source: Rottman, Lacity, *Offshore outsourcing of IT work*, Palgrave Macmillan, New York, 2008

Key success factors offshoring

Communication is a key aspect covered by our current research



NB: Cultural awareness is a separate field of study covered within our CoE, cf. theories of Hofstede and Bennett , and has strong relations with communication

Source: based on Remus, Wiener, *Critical success factors for managing offshore software development projects*, *Journal of Global Information Technology Management* 12(1), 2009 and Gupta, Raval, *Critical success factors for anchoring offshore projects*, *Information Strategy: the executive's journal*, 1999



Contracting

Different types of contract for different phases

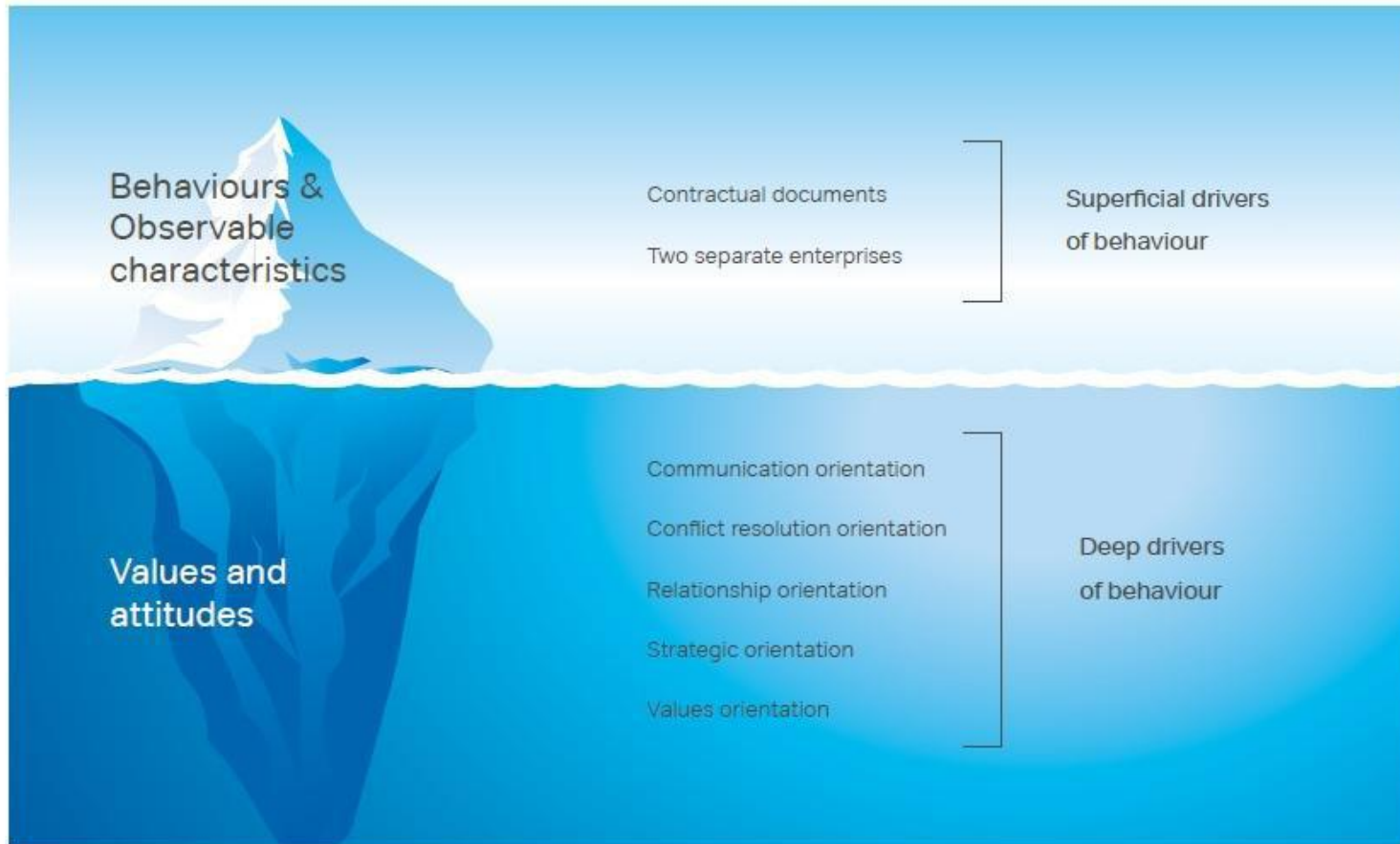
- Issues found during analyses of existing offshoring relationships:
 - No standard contracts and/or standard contract elements leading to added costs in verifying specific agreements
 - Substantial added work costs due to incomplete or ambiguous specifications
 - Processes split over multiple providers with client as SPOC leading to additional communication overhead and inaccuracies
 - Lack of mechanisms for dealing with poor or excellent performance; risks left with the customer
 - Directing on process norms instead of business KPIs leading to unaligned behaviour

Source: Confidential

Communication



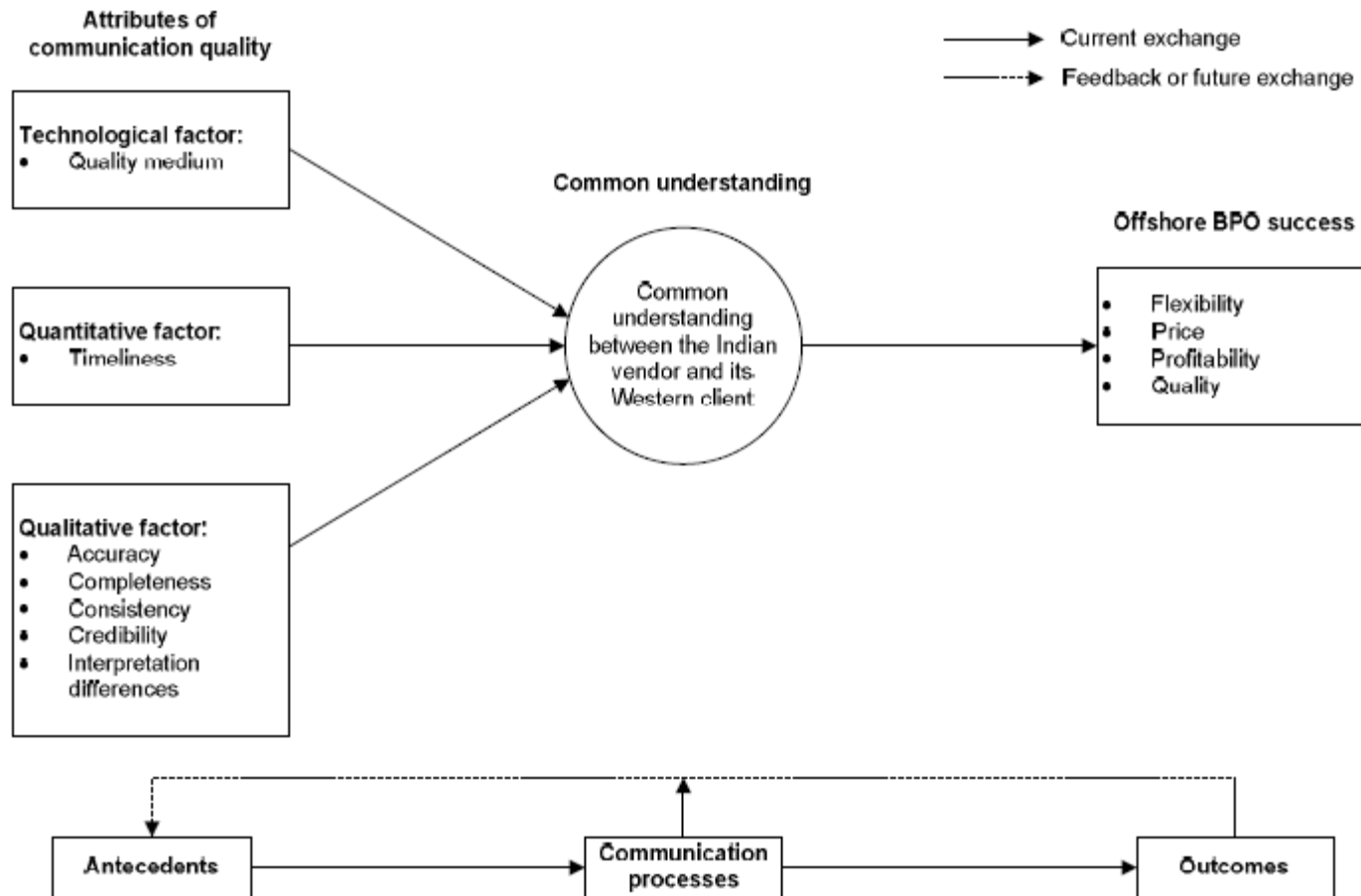
Cannot be covered by formal communication alone



Source: Willcocks, Cullen, *The outsourcing enterprise, the power of relationships*, Logica, 2010

Communication

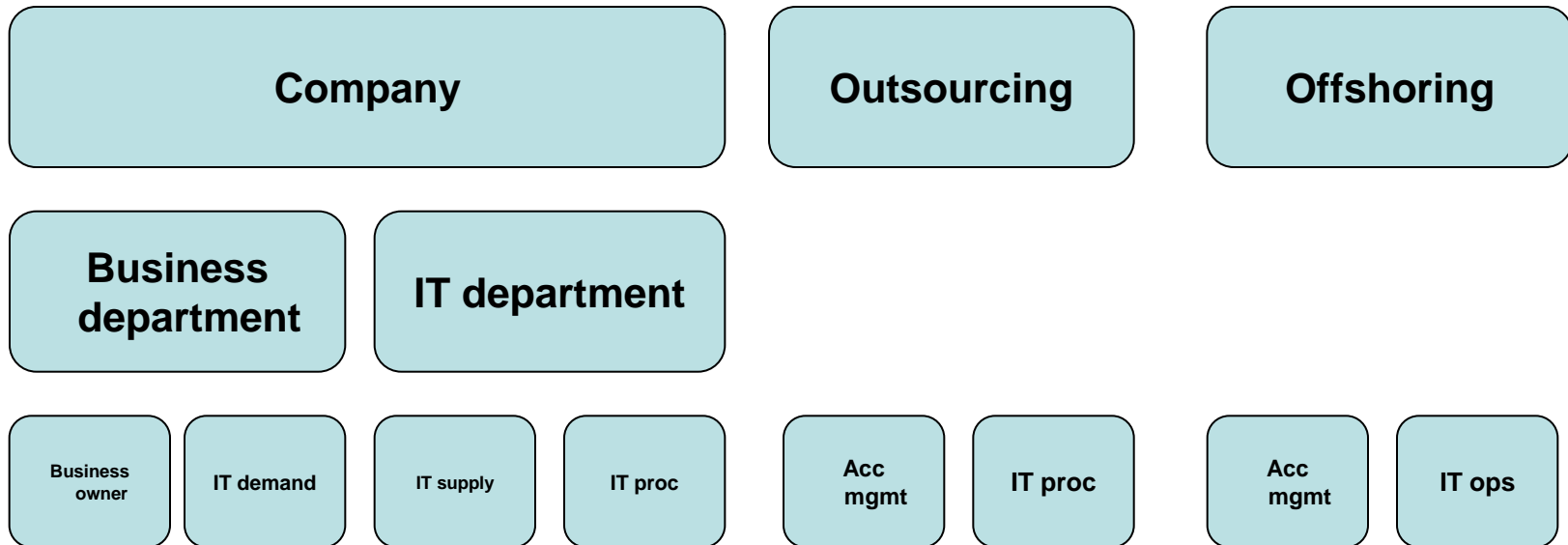
Communication attributes



Source: *Knol, A., The influence of communication quality on offshore business process outsourcing success, Master Thesis, RUG, Groningen, 2009*

Communication

Avoid intermediaries



SMEs & Offshoring



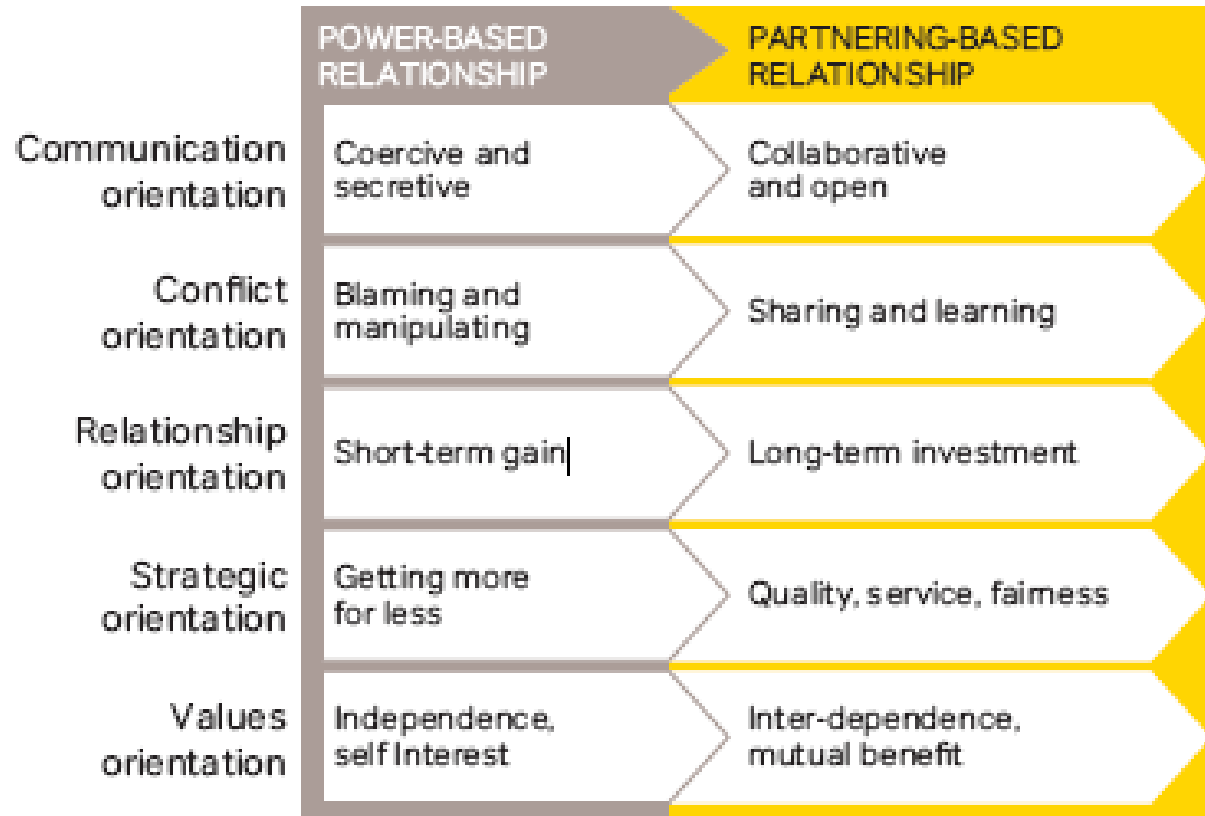
Most distinctive capabilities from an SME perspective

The most distinctive capabilities:	In practice an ability to:
Offshore readiness	<ul style="list-style-type: none">• Understand the shortage in skilled IT personnel in the .• Have the mindset to strategically consider offshore outsourcing possibilities.
Capability to define appropriate strategy	<ul style="list-style-type: none">• To build strategy to enable trustworthy relationships where external capabilities are available when necessary.• Answer the questions:<ul style="list-style-type: none">○ How can I keep the company competitive?○ How can I make use of the capabilities available in offshore locations?
Contract facilitation	<ul style="list-style-type: none">• To build transparent and cooperation based partnering contract with the supplier.
HR management	<ul style="list-style-type: none">• Recruit employees who match and complement each other's personalities and promoting effective team work.

Source: Uimonen, A., *Key capabilities in SME IT Offshoring, Bachelor Thesis, Hanze University of Applied Science, 2011*

SMEs & Offshoring

Relationship styles

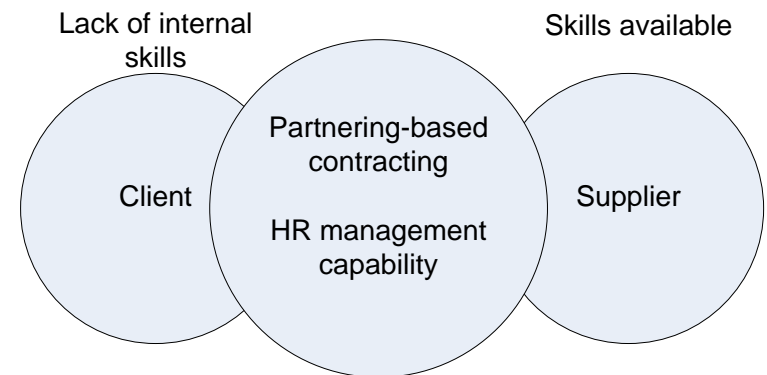


Source: Cullen and Willcocks, 2003

SMEs & Offshoring

Main conclusions multiple case study

- SMEs lack internal capabilities compared to large companies
- SMEs should use partnering-based methods of negotiating and preparation
- SMEs can benefit from the supplier's personnel by coordinated HR management to minimize consequences of lack of internal skills
- The most distinctive capabilities for SMEs are:
 - Internal offshore readiness
 - Capability to define an appropriate strategy
 - Contract facilitation
 - HR management

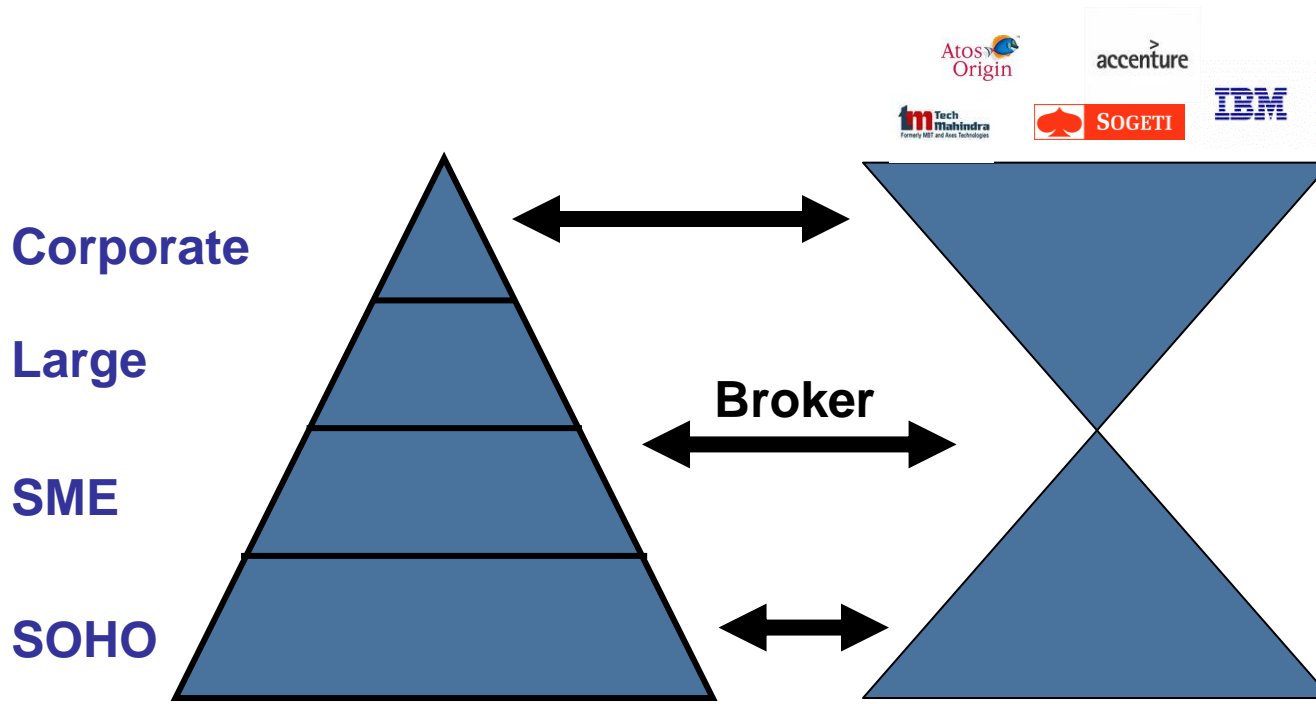


Source: Uimonen, A., *Key capabilities in SME IT Offshoring*, Bachelor Thesis, Hanze University of Applied Science, 2011



SMEs & Offshoring partnering

Finding the right (sized) partner



Potential brokers:
Industry associations



Internet Service Providers Association Bangladesh



National Association of Software and Service Companies

Experienced IT companies



A Dutch - Bangladeshi Company



TICKETING BY



Issues of Trust

General observations

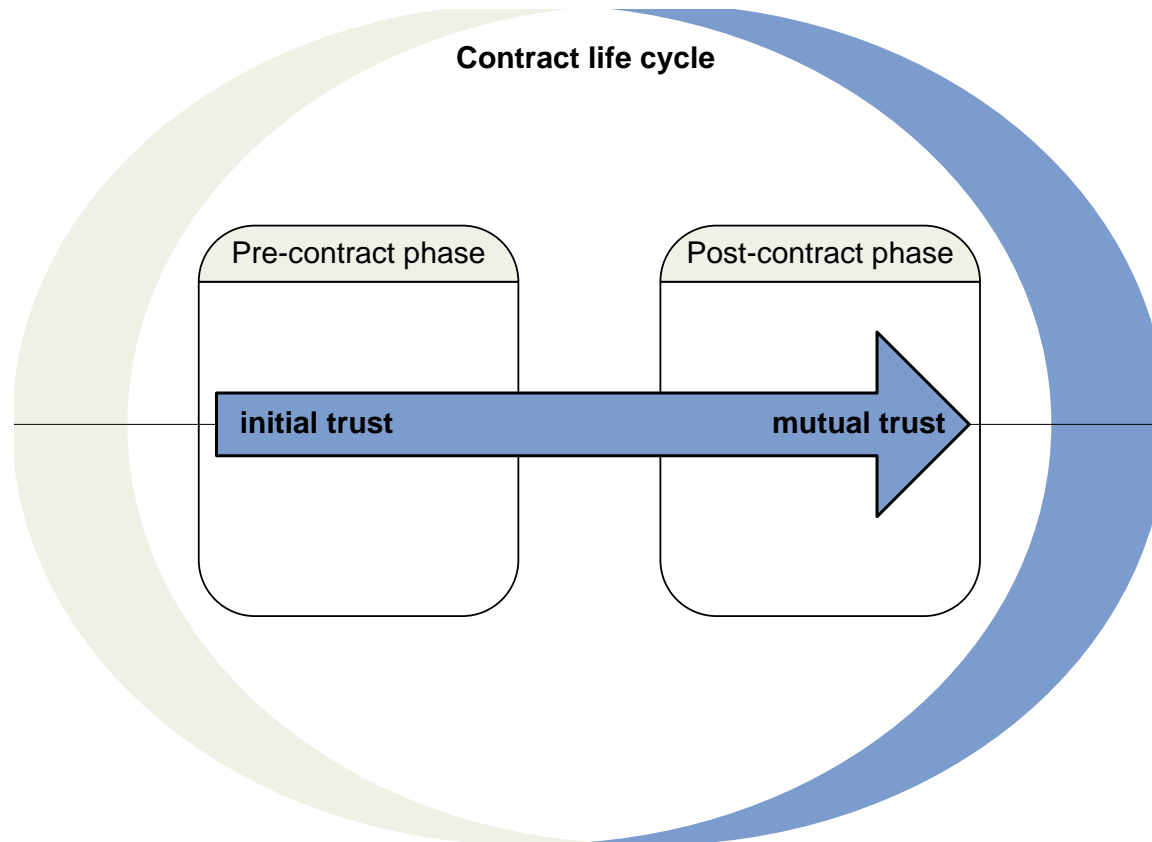
- There is a high level of quality available in offshoring countries, e.g. India:
 - Amount of students educated is staggering (>300,000 engineering graduate / yr)
 - Level of education is high (top students go to world wide top universities)
- The question is not so much can **they** do it, but rather can **we** do it (together)
- High end IT & BPO companies conform to international standards
 - CMM-I level 5
 - Native English speakers
 - Used to multi-cultural collaboration
- Clients needs to build their trust in the capabilities of their providers
- Providers need to build trust with their customers Need to invest in knowledge transfer and relationships
- Clients need to invest in the relevant domain knowledge of providers*
 - For foreign employees to understand the needs and to build better solutions
 - For own employees to exploit capabilities better
 - For managing employee turnover

* See also J. Rottman, *Successful knowledge transfer within offshore supplier networks: a case study exploring social capital in strategic alliances*, *Journal of Information Technology*, 23, 31-43, 2008

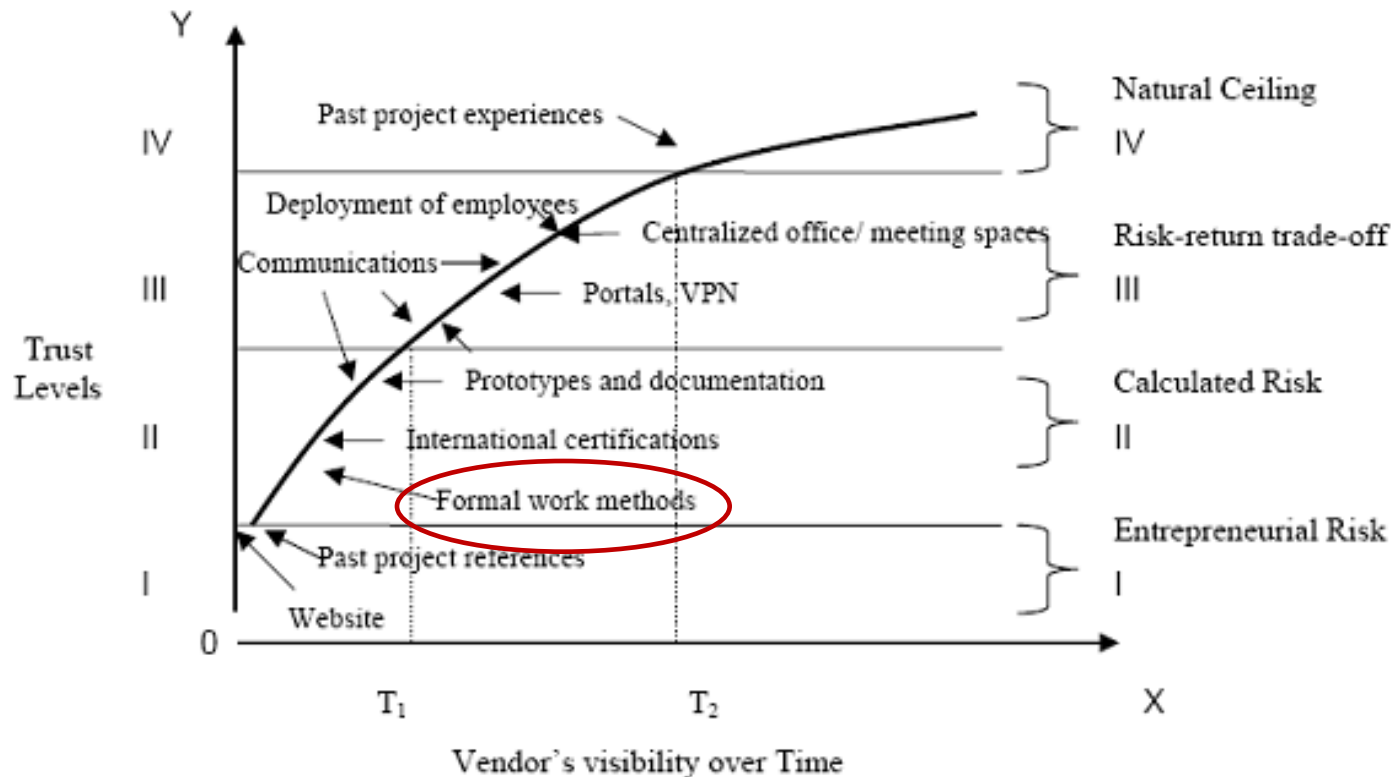
Issues of Trust

SME perspective

- When an SME partners with a similar sized provider, the provider's capabilities may be hard to establish
- When an SME has to provide extensive insight in proprietary business operations, the SME will be anxious wrt confidentiality



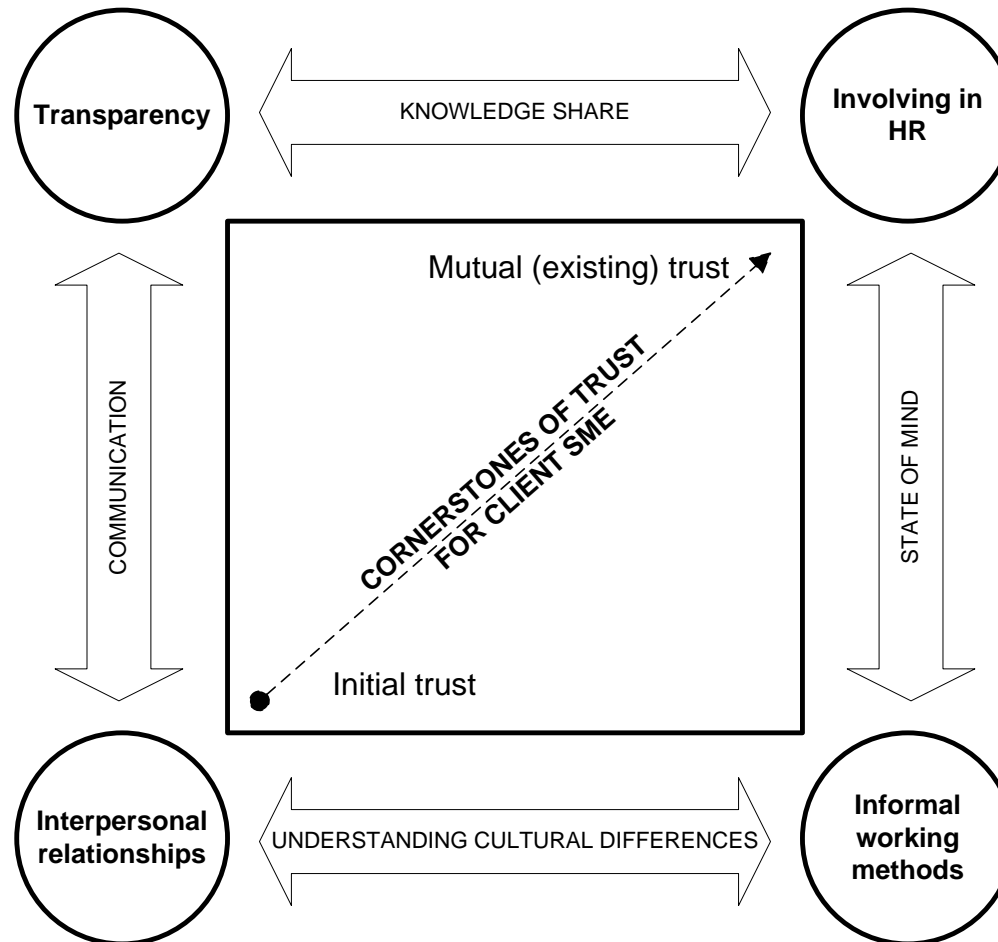
Building trust in the literature



Source: Mathrani, A., Goel, G., Parsons, D., 2007. Building Trust Across Virtual Social Spaces: the Software Vendors' Perspectives [Online] Available at: <http://aisel.aisnet.org/acis2007/17/>

Model derived for SMEs

Key difference in “informal working methods”



Source: Oksanen, A., *The cornerstone of Trust between a client SME and on offshore service provider*, Bachelor's thesis, Hanze University of Applied Science, 2011

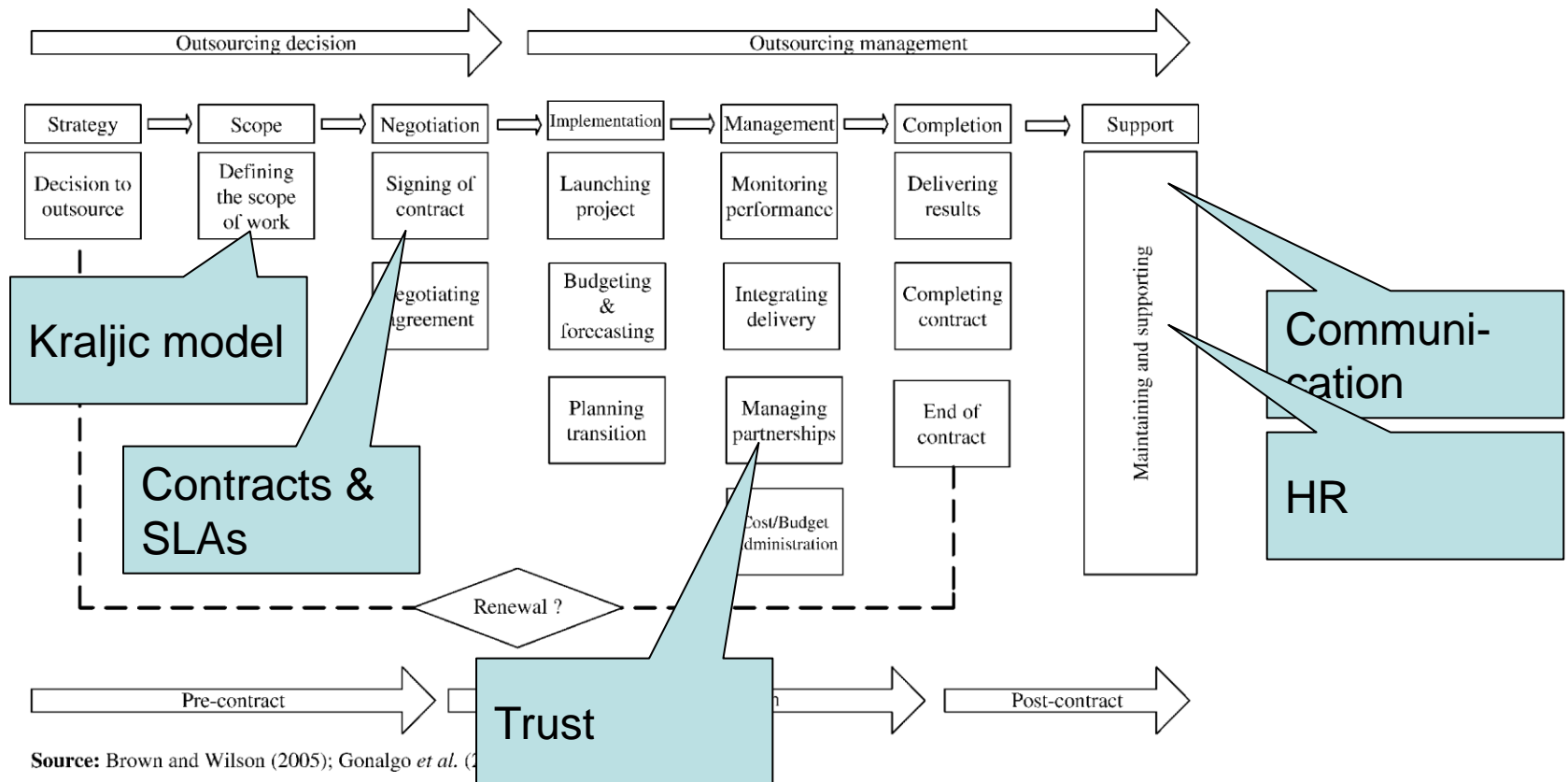
Issues of Trust: Conclusions

From a customer perspective

- Trust is one of the key elements in successful offshore outsourcing relationship between client SME and service provider
- From client SME's point of view, building a trustful relationship between the partners reduces the possibility for opportunistic behaviour by offshore service provider
- An SME can actively improve Trust in the relationship with an offshore service provider
- Informal working methods support the building of Trust and SMEs appear to be better at informal working methods than large companies

Source: Oksanen, A., *The cornerstones of trust between a client SME and an offshore service provider*, Bachelor Thesis, Hanze University of Applied Science, 2011

Conclusions



Questions?

>>> **Just Ask!**

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Thank you!

