Research Paper   Management

A Framework for Enhancing Level of Innovation in Outsourced Projects

Sunil Patil	SITM, Constituent of SIU
Aditi Khutwad	SITM, Constituent of SIU
Dr. T. Paranjothi	VAMNICOM
Chaitanya Pande	SITM, Constituent of SIU
Prasad Rane	SITM, Constituent of SIU

ABSTRACT   *Organisations are under sustained pressure in the face of stiff competition, rapid change and economic uncertainty. Hence organisations are on constant look out for ways of reducing operational and capital cost.Organizations are increasingly outsourcing business critical activities as well as non-critical activities to service providers for reducing cost.*

Outsourcing is a long-term strategic alliance governed by contract. However, it has been observed after undertaking an extensive literature survey that contracts focus primarilyon SLAs. There is not adequate focus on enhancing the level of innovations in outsourced products/services.

The research presented in this paper aims at determining the outsourcing process between a client and supplier(s) and proposing a framework for increasing level of innovation in outsourced contracts. Researchers have proposed an indicative set of parameters for designing a framework for creating innovations by collaborating between client and vendors. The analysis also tries to gain insights into management of client supplier relationship for success of outsourcedprojects.

KEYWORDS : Strategic Outsourcing,Innovations,ICTIndustry,Relationship Model, Collaborative Approach

1. Introduction

Owing to stiff competition, organisations are finding it difficult to develop and maintain level of expertise and skills they need to compete effectively. Hence organisations are on constant look out for ways of reducing costs for sustenance of their businesses. This process includes analysis of importance of activities and determining if the organisation is capable enough to carry them with reduced cost.

Initially organizations outsourced non-strategic activities but increasingly many companies are outsourcing business critical processes and activities.Early outsourcing contracts were often focused primarily on cost reduction (A. Hoecht*, P. Trott, 2006). Whilst cost reduction is still a key focus, organizations are seeking strategic and operational performance improvements of business critical resources and activities through outsourcing to specialist suppliers.

Outsourcing is a long-term strategic alliance governed by contract. As such, contract formulation is very important in outsourcing deals. However, it has been observed that these contracts focus only on meeting SLAs with very less stress on bringing in innovations to create a win-win situation for parties to contract.

The research presented in this paper aims at determining the outsourcing process between a client and supplier(s) and proposes a framework to create or enhance the level of innovations in such outsourcedproducts and services. Further, the analysis also tries to gain insights into management of client supplier relationship for success of outsourcing deals.

2. Literature Review

Published research material has discussed savings in cost as the prime focus for outsourcing decisions. However, over the years, outsourcing practice has matured hence key drivers have changed to access to niche skills, risk sharing, flexibility in control, and for improving companies capacities to stay current and innovate by interacting with "Best in World" knowledge sources(Quinn,1999). The literature review clearly indicates that the level of innovation in outsourced contracts is much lower. Over the past two decades the phenomenon

of outsourcing of activities and resources has emerged as an important trend in a wide range of organizations across the globe (McIvor, 2005).

VytautasBoguslauskas and GodaKvedaravičienė (2008) havestressed on companies treating outsourcing as de facto solution, without careful evaluation and understanding thetrue strategic rationale for pursuing it. The paper examines strategic outsourcing from the perspective that it will help to grow business instead of focusing only on cost cutting, aside consideration long term business implications (A. Hoecht*, P. Trott,2006). It also discusses the importance of aligning business strategy with outsourcing strategy.

Peter Baloh, SanjeevJha, YukikaAwazu, (2008) have focused on strategic partnership with a vendor for inculcating culture for innovation and new ideas. Researchers observed that companies have realized that their existing set up has not delivered desired results when it comes to innovations hence the best strategy is to partner with a vendor.

Leslie Willcocks, (2010),emphasised on need of outsourcing IT enabled services as a strategic agenda by CEOs. Few of the reasons include outsourcing as tool to increase market values, outsourcing plays a positive, strategic role and outsourcing has become pervasive now a days.

Research conducted by Detmar Straub & Peter Weill & Kathy S. Schwaig (2008), analyzes how organizations control their information technology resources to improve organizational performance. It states, organizations must manage their dependency on external organizations and limit external dependencies when resources are considered critical.

Siew K. Sia, Christine Koh, and Cheng X Tan (2008) explored how outsourcing is now a strategic option that few organizations can afford to ignore. It outlines the nature of outsourcing and specifies how it has grown increasingly complex, with many organizations parcelling out even highly mission-critical business processes, tapping on external

parties to fill gaps in strategic resources and capabilities, and offshoring to leverage on global cost and talent advantage.

3. Methodology
The methodology adopted for this research consists of an extensive literature review followed by primary data collection. The primary data is collected by conducting one on one interview of select professionals working on outsourced projects and also collecting opinions by conducting a survey. The questionnaire for the survey was designed based on the review of the secondary data and the information obtained from interviews.

The Likert scale is used with 5 options for each question. Some questions are intentionally framed in such a way that the respondent has an opportunity to express his/her opinion in detail.

4.Present Outsourcing Scenario
Outsourcing is currently transforming from the existing service provider-client model to a productive partnership model which brings in industry expertise, process excellence, and strong delivery capability leading to organization's overall growth (Edgar A. Whitley, Leslie Willcocks, 2011). While cost saving is an allied factor with outsourcing, it is no more the dominant factor. The outsourcing industry is now getting more matured where service providers and clients are aiming to establish a long term relationship in business.

The trends in outsourcing are changing gradually. The traditional model of outsourcing is now replaced with a global sourcing model where quality resources matching organizations specific objectives are selectively sourced from global destinations.

Another emerging trend in outsourcing industry is 'collaborative outsourcing' to bring about collaborative innovation (Edgar A. Whitley, Leslie Willcocks, 2011) where the outsourced centre acts as a natural extension of the in-house environment. Outsourcing has gone far ahead from movement of non-core services.

Earlier companies outsourced to single vendor and signed long term contract. This has changed to multisourcing and short duration contracts. There are several reasons for that such as exploiting special niche competencies, pricing competitively, enhanced collaboration, and sharing risks. In a multisource environment, collaborative working is the key for success. On the client side, performance measurement becomes a key issue. This paradigm shift is giving birth to new trends of closely working with vendors.

Traditional Outsourcing	Collaborative Approach
Cost Reduction	Revenue Generation
Lower Cost	Cost Leadership
Technical Expertise	Technical Leadership
Maintenance	New Development

Table1: Shift from traditional outsourcing to collaborative approach

At the start of this century, when a large number of organizations entered into second and third-generation outsourcing contracts, a growing number started to investigate how they could better ensure innovation, or even how outsourcing could drive transformation.

The success of outsourcing lies in finding the right outsourcing partner who can support with extensive investment in technology, methodology and resources. Organizations are realizing the significance of outsourcing in business transformation. The trend in outsourcing will continue to change. The ability to quickly respond to market changes and keeping in pace with it determines the success for the company.

Innovation is now more important than ever to survive the challenging dynamics in most markets. And if an organization has innovation firmly rooted within an outsourcing contract, an organisation doesn't only reduce business risks – it will also be better able to drive sustainable cost improvements.

Innovation needs extensive efforts, development of expertise and many times huge investment. Hence embedding innovation in outsourced contracts is more viable option. Business organisations can select an area to innovate, then shortlist appropriate vendor for it and form detailed contract. Another option will be formulating outsourcing contracts in a way which will contain some measures, so that vendor will innovate. The degree of innovation will differ which can be decided while contract formulation

5. Innovation Categories
Innovation is probably one of the most misunderstood terms as to some people it may mean designing something that is totally new, a concept, an idea, a product or a service. Innovation could be incremental in the given product or service or innovation could bring a paradigm shift. Most clients expect at least an incremental innovation from vendors over the contract life. There are number of factors involved in ensuring that client and vendor(s) collaborate closely for innovative solutions. Some of these factors are formulation of contract, allocation of funding, awareness for creation of IP among employees, and recognition for innovation.

Figure 1: InnovationCategories

Operational and Incremental
These bring operational innovative changes that do not impact the client's specific business processes, rather improve operational tasks and cost efficiency.Usually these offer the on-going maintenance of business applications and services.

Operational and Radical
Consolidation and harmonisation of back-office processes, functions and platforms .Often involves the de-duplication of current internal and external provision where the objective is to drive out internal efficiencies and secure financial gain.

Strategic and Incremental
Innovations to the client's business process and change the way the client business operates in some way.This is often seen as an upgrade or enhancement of business functions to maintain market dominance.

Strategic and Radical
These innovations significantly enhance the clients' product/service offerings.Often requires a complete change of business architectures, systems, information and processes.

6. Innovation Driven Supply Market
It has been observed that most contracts are about meeting SLAs. Efforts on the part of vendors are limited to meeting terms and conditions mentioned in the contract since there are no rewards or recognition from the client for going extra mile. Also the way contract are formulated can impact performance of all the vendors. Clear dif-

ferentiation in multisourced case is critical.

Figure 2: Strategic Partnership Modelbetween Client and Vendor

From Figure 2, in single sourced environment, or case of few vendors, each with its own level of expertise can lead to competition amongst themselves. Hence it may lead to failure on part of vendors to deliver to the expectations of the client.

Against these, innovations in outsourcing can be expected when the contract is multisourced and each vendor is highly skilled in certain domains. This implies that each vendor will have to collaborate. Clients do expect innovations across various processes from vendors so that chances of renewal of contracts are high. Co Innovation is what will drive the outsourcing contracts. Only then each vendor would be able to harness different skills along with best practices.

7. Data Collection
In order to understand the process of outsourcing and scope of innovations researchers collected data from the professionals working in industry. Data was collected through various modes of data collection methods.

7.1 Primary Data Collection
Primary data was collected by conducting a survey, by using a questionnaire. It was divided into three sections; two sections had questions framed such that respondents could answer using one of the five options while last section had open ended questions. The researchers also conducted semi-structured interviews and held discussions with experts, including CIOs, Head of Business and VPs from leading multinationals serving in ICT domain.

7.2 Secondary Data Collection
Researchers undertook an extensive literature review which included research papers, white papers, books, etc. Since there is hardly any discussion regarding innovations in outsourced contracts, only few of them are mentioned in this paper. As noted, the discussion is still focused on cost reduction as the key driver for outsourcing.

8.0 Data Analysis
The primary data collected by interviewing experts from the industry and also by conducting a survey is presented in following sections.

8.1 Experts Opinion on Innovations in Outsourced Contracts
Among the respondents of the questionnaire, all echoed the view that although time has moved on; organisations today decide on outsourcing to save cost and focus on core competency. Many of them agreed that as a client, they expect their service providers to meet SLA's and deliver what is expected of them.

Telco1,a top telecom service provider in India, viewed outsourcing as a strategic partnership where innovations are least considered. The respondent however saw vendor innovativeness as major crite-

ria in coming years. Further, being a part of telecom ecosystem, the respondent agreed that contract should have incentive criteria for innovations by service provider. This helps the firm to stay ahead in competition.

Another respondent from renowned global MNC IT firm, IT1, is of the view that innovation can never be realised in isolations. Innovations must be a part of contract formulation. Innovation can be as simple as improvement in existing processes and practices or could be radical shift in 'as is' situation. At the strategic level, the respondent said, innovation is must for continuous improvements.

Telco2, a senior executive from global telecom company, considered outsourcing as a means of gaining competitive advantage. The respondent also negated when asked where outsourcing core processes is acceptable to the organisation from where the respondent comes from.Open innovations eco system will evolve over a period of time across different clients and industries.

As discussed with VAS1, outsourcing was an outcome of the dot com recession. At that time many companies were focusing on reducing costs henceforth they went in to outsourcing their wings which were less performing.The respondent was of the view that collaborative working is what will drive the outsourcing contracts and deals. As both client and vendor are equally impacted by the work, neither can sit back and dependent on other.

Various other responses from industry experts failed to talk about innovations in outsourcing. Each of the respondents opined that though cost is still major factor driving outsourcing deals, a due diligence is needed while driving innovative outsourcing. Though innovations may lead to increased cost, at the same time, give organisations an advantage going towards next phase of outsourcing era.

8.2SurveyResults
The questionnaire was mailed to number of telecom operators and companies in the ecosystem.
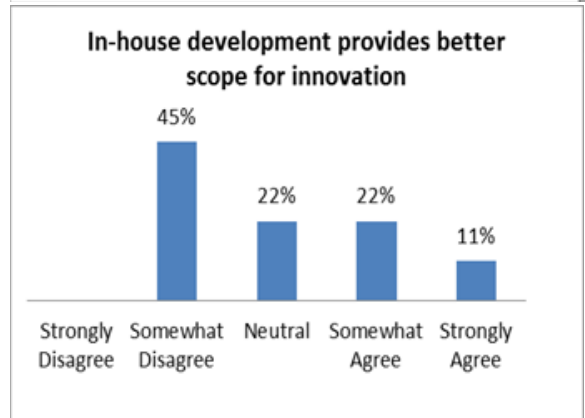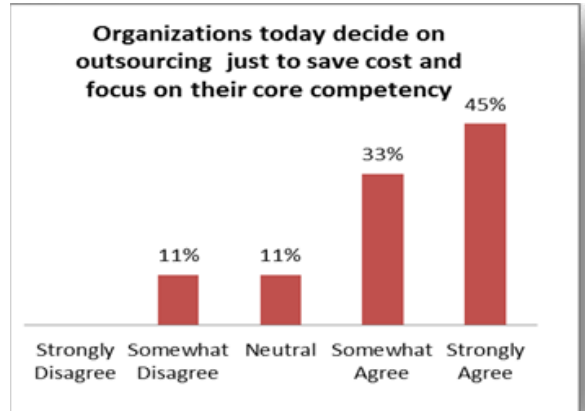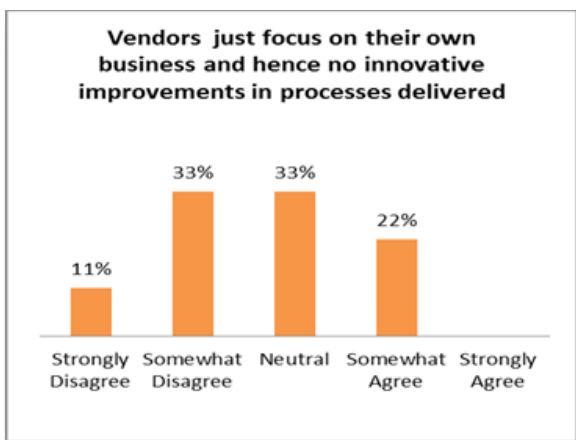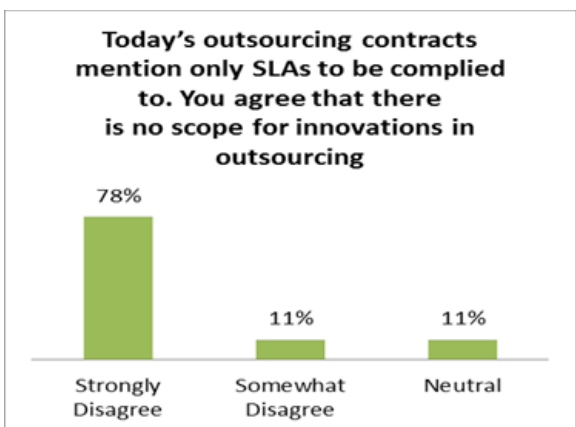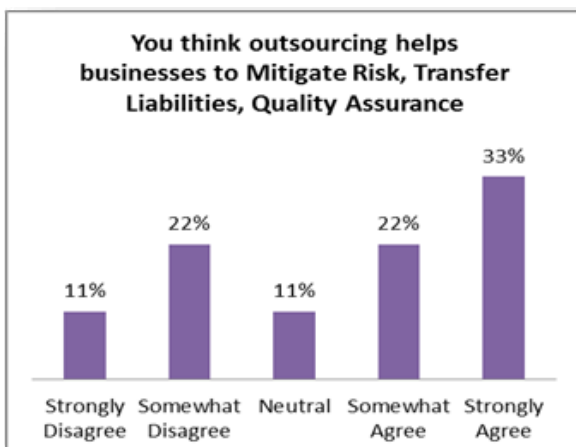
Figure 3: Survey Results

It is obvious from the above data in Figure 3 that most respondents agreed that organizations outsource activities to reduce cost and focus on core business. Almost all the respondents agreed that contract formulation has extremely limited scope for creating innovations in outsourced contracts. Clients do expect vendors to be innovative and create innovative solutions in products or services that are outsourced.

9. Proposed Framework for Promoting Innovations in Outsourced Contracts

Based on the extensive research conducted, framework for promoting innovations in outsourced contracts is proposed. The framework consists of steps that can help organisationsembedinnovation in outsourcing.
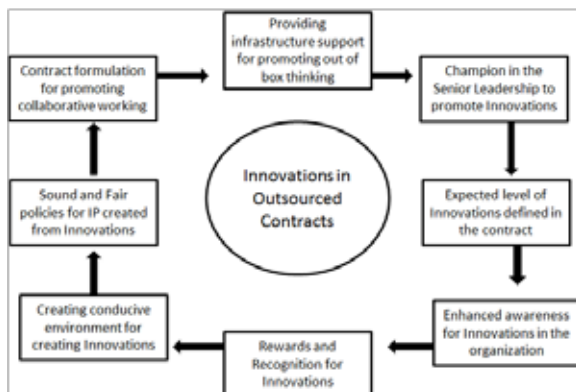

Figure 4: A Framework for Collaborative Innovation

Figure 4 above shows the framework that is required to be implemented by any client who is planning or has outsourced products or services to external vendors. It is obvious that the first thing that is critical in this framework is that the entire process of innovation needs to be driven from the senior management. Unless top executives believe in this and champion it, rest of the organization and vendors will not implement it. There are number of key functions and processes that must be implemented on both sides, client and vendor' for promoting innovations. Following are the steps:

Champion in the Senior Leadership to promote Innovations

Innovations in outsourcing must be driven from strategic level in both the organisations to outsourcing contracts. A careful thought is a must while formulating outsourcing agreement from executives at top level including the CIO's and CEO's. At this stage, the executives from client side should mention the kind of innovations expected out of vendors.

Expected level of Innovations defined in the contract

As discussed above innovations do not necessarily have to be something that will create paradigm shift. Innovations could be incremental in the existing products or services or processes which will provide value add to the client and also to the end users. If multiple vendors are working in a collaborative environment, innovations could be created in end to end processes as each vendor brings special expertise on the certain part of the process outsourced to individual vendor.

Enhanced awareness about innovations in an organization

It is observed that most of the members on either side are engaged in 'fire fighting' every day. As important as it is, employees have no time to think of novel ways of doing things for creating innovations. They are always in the reactive mode. Biggest obstacle in adapting to innovative ideas internally is to adjust traditional performance measures to reward implementation (Quinn, 2000). It is imperative on the part of management to increase awareness about innovations and importance of doing things differently in the interest of the customer. It is likely that these innovations may provide additional cost savings and higher productivity and efficiency. Employees must undergo training programs to enhance awareness about intellectual property (IP) creation.

Rewards and Recognition Programs

The HR organization must work closely with business units for formulating rewards and recognition program for employees. At the same time vendor management also must think of the same. For out of box for innovative solutions, employee efforts must be rewarded. Rewards cannot be always in terms of monetary benefits but there are many other ways such as promotions, increased level of responsibility, advanced trainings, patents on the name of the employee, etc. Recognition also must be between the client and the vendor in the form of IP ownership, additional contracts, revenue sharing, etc.

Creating conducive environment for innovations

The environment simply does not mean world class infrastructure or excellent pantry area or salary structure. For employees to think

innovatively an organization must have free hours when employees can get together in huddle rooms and simply brainstorm ideas. The management must conduct innovation fair every quarter within the company and recognize top three innovations having maximum business impact. At the same time management must not discard or throw away any idea else many innovations in the world would not have happened. The organization must set up proper procedures for capitalizing on innovations or new ideas by filing for patents and employees must be trained for it.

Sound and Fair policies for IP created from innovations
This is a critical issue that needs to be discussed and needs to be properly documented as a part of contract. If client and vendor staff members collaborate and create innovations then the issue is who owns the IP. One could argue that since funding is coming from the client then the IP ownership must be with the client while the vendor has required skills and competencies hence the IP must be with the vendor. In this case it is a no win situation and it needs to be sorted out with a novel and fair approach on both sides. The issue that also needs to be discussed is about impact on revenue enhancement due to innovations and who benefits maximum and does the vendor even gets a share of it.

Contract formulation for promoting collaborative working
Contract formulation is one of the most key steps in outsourced contracts. In multisourced environment every vendor must have clearly defined deliverables. The client could have multiple vendors delivering pieces of the same process depending on the specialities and skills available with each vendor.   All the vendors have to work collaboratively to deliver end to end process without any tendency of passing the blame. Since each vendor has special skills and competencies, collaborative environment is expected to create new useful ideas.

Providing infrastructure support for promoting out of box thinking
Infrastructure support does not mean brick and mortar but it is all about computing facility, access to knowledge base, access to information, availability hardware and software platforms, access to experts in the company, flexibility in working hours, logistical support, etc. It could not be the case that simply writing clauses in the contract and innovations would start across the company. Innovations is most misunderstood and at the same time most easily tossed around term without due understanding of what does it take to create innovations. Hence infrastructure support is equally important as knowledge and competencies are.

10. Conclusion
Cost considerations will continue to dominate outsourcing contracts. Given the level of competition and business dynamics every company strives to maintain competitive advantage. As companies continue to outsource increased number of functions and processes, it is expected that vendors providing services to outsourcing companies to be creative and innovative.

A collaborative approach in either single source or multisource arrangement is the most preferred approach. Clients will expect end to end delivery of functions from multiple vendors each working in a specific domain.

The framework as discussed above to increase the level of innovations in outsourced contracts needs to be implemented by both the clients and the vendors. Then only synergies could be pulled together for a common goal of enhanced level of innovations. The key driver for this will be the formulation of contract terms and conditions. Hence the contract being simply SLA based could have sections dedicated for expected innovations, funding, freedom for collaborative brainstorming, recognition of accomplishments, etc.

Further research could be undertaken to investigate impact of culture and communication for creating a collaborative environment for enhancing level of innovation. This issue has a special significance as technology has narrowed the distance and global vendors are working together for the same client at different locations.

REFERENCES   1. A.Hoecht*, P. Trott(2006), "Innovation risks of strategic outsourcing" sciencedirectTechnovation 26 (2006) 672–681 | | 2. Ali Yakhlef, (2009),"Outsourcing as a mode of organizational learning", Strategic Outsourcing: AnInternational Journal, Vol. 2 Iss 1 pp. 37-53 http://dx.doi.org/10.1108/17538290910935882 | | | 3. Arijit Mukherjee, Achintya Ray (2007), "Strategic Outsourcing and R&D in A Vertical Structure", The Manchester School Vol 75 No. 3 June 2007 | | 4. Catherine C. De Fontenay and Joshua S. Gans (2008), "A Bargaining Perspective On Strategic Outsourcing And Supply Competition", Strategic Management Journal :Strat. Mgmt. J., 29: 819–839 (2008) | | | 5. Detmar Straub & Peter Weill & Kathy S. Schwaig (2008), "Strategic dependence on the IT resource and outsourcing: A test of the strategic control model", InfSyst Front (2008) 10:195–210 | | 6. Edgar A. Whitley, Leslie Willcocks, (2011), "Achieving Step-Change in Outsourcing Maturity: Toward Collaborative Innovation" MIS Quarterly Executive Vol. 10 No. 3 / Sep 2011 | | | 7. James Brian Quinn(2000), "Outsourcing Innovation: The New Engine of Growth" Sloan Management Review; Summer 2000; 41, 4; ABI/INFORM Global pg. 13 | | 8. Jane C. LinderMartin I. ColeAlvin L. Jacobson, (2002),"Business transformation through outsourcing", Strategy & Leadership,Vol. 30 Iss 4 pp. 23 – 28 | | | 9. Jane C. LinderMartin I. ColeAlvin L. Jacobson, (2002),"Business transformation through outsourcing", Strategy & Leadership, Vol. 30 Iss 4 pp. 23 – 28 | | 10. John Maxymuk, (2000),"Outsourcing", The Bottom Line, Vol. 13 Iss 3 pp. - http://dx.doi.org/10.1108/ bl.2000.17013cag.001 | | 11. Kate Vitasek Karl Manrodt, (2012),"Vested outsourcing: a flexible framework for collaborative outsourcing", Strategic Outsourcing: An International Journal, Vol. 5 Iss 1 pp. 4 – 14 | | 12. Leslie Willcocks, (2010),"The next step for the CEO: Moving IT-enabled services outsourcing to the strategic agenda", Strategic Outsourcing: An International Journal, Vol. 3 Iss: 1 pp. 62 – 6 | | 13. Oliver Gassmann, (2006), "Opening up the innovation process: towards an agenda" Volume 36, Issue 3, pages 223–228 | | 14. Peter Baloh, SanjeevJha, YukikaAwazu, (2008),"Building strategic partnerships for managing innovation outsourcing", Strategic Outsourcing: An International Journal, Vol. 1 Iss: 2 pp. 100 – 121 | | | 15. Sameer Kumar, Edgardo C. Aquino and Elizabeth Anderson (2007), "Application of a process methodology and a strategic decision model for business process outsourcing", Information Knowledge Systems Management 6 (2007) 323–342 | 16. Siew K. Sia,ChristineKoh, and Cheng X. Tan (2008), "Strategic Maneuvers for Outsourcing Flexibility: An Empirical Assessment", Decision Sciences, Volume 39 Number 3 August 2008 | | 17. VytautasBoguslauskas, GodaKvedaravičienė (2008), "Strategic Outsourcing Plan and the Structure of Outsourcing Process", ISSN 1392-2785 ENGINEERING ECONOMICS. 2008. No 3 (58) | | | 18. VytautasBoguslauskas, GodaKvedaraviciene (2009), "Difficulties in identifying Company's Core Competencies and Core Processes", ISSN 1392-2785 InzinerineEkonomika-Engineering Economics (2). 2009 | | 19. James Brian Quinn(1999), "Strategic outsourcing: leveraging knowledge capabilities", ISSN 0019-848X, Vol. 40, N°. 4, 1999 , págs. 9-21. 1999 |