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What does it Take to Make Outsourcing Work on a Daily Basis?

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As a part of a larger research project, which involves several companies and research organizations that work with outsourcing, we conducted a study of the literature on the topic. The study revealed that the existing literature about outsourcing focuses primarily on the strategic and also to some extent on the tactical dimensions as seen from the buyer's perspective (see, e.g., Mithas & Whitaker, 2007; Willcocks & Lacity, 2006), while there is much less emphasis on understanding the practical implications of different outsourcing strategies as they manifest themselves at an operational level, and on understanding outsourcing as concrete, daily activities that are carried out by personnel at both the buyer and the supplier companies. Thus, there is a lack of research-based knowledge about how to make outsourcing work once the strategic decisions about whether and how to outsource as well as the tactical decisions about what to outsource have been made. Together with one of the companies in the research project we therefore decided to do an in-depth case study. The case company is a major Danish financial organization that has 2½ year of operational experience with outsourcing based on an 'Offshore Development Center' (ODC) strategy. The ODC is located in India and is internally referred to as Development Center India (DCI). The chosen strategy is such that the approx. 400 Indians that currently work for the case company are employed by an Indian company and then 'rented' from the Indian company into the DCI. The Indians are considered a pool of resources that can be allocated to IT development projects and/or system management (i.e. maintenance) areas, just like other IT employees in the Danish company. However, a key difference is that many DCI resources are allocated to tasks onsite (i.e. in Denmark; at any given time approx. 20-25% of the DCI resources are onsite), whereas Danish IT employees are not assigned to tasks offshore (i.e. in India). Another characteristic of the chosen sourcing strategy is that the ODC has a 'front office' where four Danes are employed to conduct screening interviews with all candidates from the Indian company, control and follow-up on the contract with the Indian company, and process improvement.

In the case company they refer to the chosen strategy as a 'sourcing strategy', and to the daily activities as 'processes' and these are therefore also the terms we use. Thus, the purpose of the case study is to come to understand *which processes that – in this particular company, and given its chosen sourcing strategy – are the most important for making outsourcing work on an operational, day-to-day basis*.

The major part of the empirical data for the case study was collected during a three week visit in March 2009 to the offshore location in India. Interviews were first held with three Danish Liaison officers. Each of these interviews lasted approx. 2-3 hours. Moreover, interviews were conducted with 15 DCI resources allocated to development projects and/or system management areas. Each of these interviews lasted approx 1-1½ hour. Both the interviews with the Liaison officers and DCI resources were followed up by observations and collection of mentioned documents. Moreover, a three hour group interview with onsite and offshore Danes have been conducted in mid April 2009. All interviews were structured around a focus on: organization, decision-making and authority, communication and coordination, knowledge transfer, documents and IT tools, and relationship management. To analyze the data we first mapped all processes according to the mentioned themes, second we identified the processes that are key for making this particular sourcing setup work in practice, and lastly we validated the selected processes with the Danish DCI managers.

Upon entering "the field" in March 2009, we quickly discovered that even though the company has an extensive CMMI-inspired development model many different initiatives are undertaken and much effort is put into investigating, experimenting with, and learning how to make outsourcing work on a daily basis. As a consequence, many, and many different processes are at play at the same time – some of which have become fairly established, while others are just emerging as ideas to be tested out or as new lessons learnt that can guide future decisions. Thus, the case company is in the process of building 'operational sourcing capability'. An important insight from this study is therefore that one of the most important processes for making outsourcing work at the operational level is to (be willing to) use the resources to investigate, experiment, and in this way, and over time, develop practical sourcing capability.

Back at our desks, during the detailed data analysis we found that two different, and somewhat competing, discourses are in operation. One discourse is about providing the support that will put the DCI resources in a position to get the job done. The other discourse concerns management control and follow-up on if the job is getting done, on time, within budget, and with the right quality. Moreover, to understand the unique and practical implications of the chosen sourcing strategy we had to take into account that there are DCI resources onsite and offshore and that onsite resources are co-located with their Danish colleagues, while the offshore resources are collaborating with the Danish organization in a distributed manner. Based on thematic coding of the data, we suggest a framework that delineates the <u>support</u> and <u>control</u> processes that are the most important for making this particular sourcing setup work *because* there are and *when* there are DCI resources <u>onsite</u> and <u>offshore</u>.

Table 1: Key processes for making the chosen sourcing strategy work in practice

	Onsite (and co-located)	**Offshore (and distributed)**
Support	• Practical arrangements: visa, accommodation, IT, key cards, etc. • Introduction and integration • Settlement phone call process (DCI to resource) • Onsite placement of DCI resources for knowledge transfer (select phases for development projects and during start up of system mgt. areas) • Use of DCI resources as onsite coordinators • Translation of documentation to English	• Interviews with all candidates for check of 'cultural fit' • Decisions about who, when, and for how long DCI resources should go onsite • 3-week introductory training programme for all DCI resources • Formalized communication and meeting structures for development projects • Formalized process for transferring a system mgt. area to DCI • Formalized process for handling and prioritizing defects and change requests for system mgt. areas • Process improvement initiatives, e.g., for learning how to transfer knowledge and coordinate without sending too many resources onsite
Control	• Mgt. follow-up to avoid idle time and proper time registration • Individual performance measurement and oral mgt. feedback • Evaluation phone call process (DCI to Danish manager)	• Detailed follow-up on agreements with Indian company • Formalized process and meeting structure for joint estimation and mgt. follow-up on estimates • Formalized process and meeting structure for detailed mgt. follow-up on progress • Individual performance measurement and oral mgt. feedback

We explain the identified processes, and their importance, actual use, and the lessons learnt from their use by drawing on theories about organizational learning and knowledge transfer, cultural differences, and information asymmetry (e.g., Eisenhardt, 1989; Nonaka & Takeuchi, 1995; Trompenaars & Hampden-Turner, 1997).

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