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/Artifical 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 Groningen:

• 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
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

- 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

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

Topics

Outsourcing decision
- Strategy
  - Decision to outsource
- Scope
  - Defining the scope of work
- Negotiation
  - Signing of contract
  - Negotiating agreement
- Implementation
  - Launching project
  - Budgeting & forecasting
  - Planning transition
- Management
  - Monitoring performance
  - Integrating delivery
  - Managing partnerships
- Completion
  - Delivering results
  - Completing contract
- Support
  - End of contract
  - Post-contract

Outsourcing management

Communication

Trust
- Pre-contract
- Post-contract

Contracts & SLAs

Kraljic model

Source: Brown and Wilson (2005); Gonalgo et al. (2003)
Adapted Kraljic model

Tool for classifying systems & processes

- Added value
- Specificity

- High
- Standard
- Low
- Specific

1. Workstation management
2. Communication
3. Data centers
4. Service management
Sourcing strategy

Example

Source: Confidential
Maturing offshoring relationships
Different systems & processes may be in different phases

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Case study</th>
<th>Progress through the learning curve</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Biotechnology</td>
<td></td>
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<tr>
<td>3</td>
<td>Retailer</td>
<td></td>
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<tr>
<td>4</td>
<td>Manufacturing</td>
<td></td>
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<tr>
<td>5</td>
<td>Financial Information Services</td>
<td></td>
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</tbody>
</table>
Key success factors offshoring

Communication is a key aspect covered by our current research

Key Success Factors for Offshore Outsourcing

**External success factors**
- Continuous controlling of project results
- Continuous communication flows
- Detailed contracting

**Internal success factors**
- Definition of clear project goals
- Detailed project specifications
- Thinking beyond cost savings
- Top management commitment
- Effective risk management

**Generic success factors**
- Good language abilities
- Composition of appropriate project team
- Continuous communication flows
- High quality of offshore employees
- Cultural awareness

**Learning from past experiences**


**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.
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 attributes

Attributes of communication quality

- Technological factor:
  - Quality medium

- Quantitative factor:
  - Timeliness

- Qualitative factor:
  - Accuracy
  - Completeness
  - Consistency
  - Credibility
  - Interpretation differences

Common understanding between the Indian vendor and its Western client

Offshore BPO success
- Flexibility
- Price
- Profitability
- Quality

Antecedents

Communication processes

Outcomes

Communication

Avoid intermediaries
### SMEs & Offshoring

**Most distinctive capabilities from an SME perspective**

<table>
<thead>
<tr>
<th>The most distinctive capabilities</th>
<th>In practice an ability to:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offshore readiness</td>
<td>• Understand the shortage in skilled IT personnel in the .</td>
</tr>
<tr>
<td></td>
<td>• Have the mindset to strategically consider offshore outsourcing possibilities.</td>
</tr>
<tr>
<td>Capability to define appropriate strategy</td>
<td>• To build strategy to enable trustworthy relationships where external capabilities are available when necessary.</td>
</tr>
<tr>
<td></td>
<td>• Answer the questions:</td>
</tr>
<tr>
<td></td>
<td>o How can I keep the company competitive?</td>
</tr>
<tr>
<td></td>
<td>o How can I make use of the capabilities available in offshore locations?</td>
</tr>
<tr>
<td>Contract facilitation</td>
<td>• To build transparent and cooperation based partnering contract with the supplier.</td>
</tr>
<tr>
<td>HR management</td>
<td>• Recruit employees who match and complement each other’s personalities and promoting effective team work.</td>
</tr>
</tbody>
</table>

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

Relationship styles

![Diagram showing relationship styles between power-based and partnering-based relationship with categories such as communication orientation (coercive and secretive vs. collaborative and open), conflict orientation (blaming and manipulating vs. sharing and learning), relationship orientation (short-term gain vs. long-term investment), strategic orientation (getting more for less vs. quality, service, fairness), and values orientation (independence, self-interest vs. inter-dependence, mutual benefit). 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

SMEs & Offshoring partnering

Finding the right (sized) partner

Potential brokers:
- Industry associations
- Experienced IT companies

Corporate
Large
SME
SOHO

Broker

RentACoder

Freelancer
Real Projects. Expert Freelancers.

Projectbidz

Internet Service Providers Association Bangladesh

NASSCOM
National Association of Software and Service Companies

HawariIT
A Tech - Bangladesh Company

MMP

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There is a high level of quality available in offshoring countries, e.g. India:
- Amount of students educated is staggering (>300,000 engineering graduates per year)
- 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 need 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
Development of Trust

Contract life cycle

Pre-contract phase
initial trust

Post-contract phase
mutual trust
Building trust in the literature

Model derived for SMEs

Key difference in “informal working methods”

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.

Conclusions

Kraljic model

Contracts & SLAs

Trust

Outsourcing decision

Outsourcing management

Strategy

Scope

Negotiation

Implementation

Management

Completion

Support

Decision to outsource

Defining the scope of work

Signing of contract

Negotiating agreement

Budgeting & forecasting

Planning transition

Managing partnerships

Cost/Budget administration

Renewal?

Pre-contract

Post-contract

Communication

HR

Questions?

>>> Just Ask!

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Thank you!