

OUTSOURCING & CAPTIVE INSOURCING: CHALLENGES IN KNOWLEDGE RETENTION

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Abstract

In the outsourcing of information technology (IT) projects, the proper selection and management of offshore service providers as well as the retention of business and technical knowledge intrinsic to the projects are critically important factors to determine the ultimate effectiveness of business process/information technology outsourcing (BPO/ITO). Based on some of the findings available in the existing research literature as well as on our own experiences in the management of outsourced projects, we examine in this paper the challenges to retain business and technical knowledge in the projects, so as to mitigate the risks of indiscriminate technology and knowledge transfer. Additionally, our research indicates that these issues take a different dimension in the case of a captive IT centre (wholly owned in-sourced centre). In this connection we also address the important scenario concerning the complexity of a mixed mode captive centre where there exists an ecosystem of outsourced partners and the captive centre.

Introduction

The IT outsourcing business over the past few years has demonstrated the importance of the fact that vendor selection and management in outsourced projects and the retention of organizational knowledge in these projects are interrelated

issues. The acquisition of knowledge (domain, technological, managerial, etc.) in a software development project undertaken by an organization is important, because it is this knowledge that helps the organization to learn, to grow and to enhance its existing business practices and procedures. However, problems arise (Kliem, 2004; Rao, 2004) when the organization, in an effort to reduce IT spending or to take advantage of skilled technical labor at a low cost, dispatches selected parts of its projects to one or more offshore BPO suppliers (Lacity et al., 1996 and Aron et al., 2005). While this practice has immediate benefits (Kliem, 2004), the retention of knowledge in outsourced endeavors is a growing concern. Based on the existing literature on global IT outsourcing as well as on our own research findings, we present, in this paper, a number of criteria for the selection and management of offshore vendors which have proven to be highly effective in retaining and also enriching organizational knowledge and learning.

Knowledge Retention

The importance of retention of business and technical knowledge in outsourced projects is an occasionally underrated aspect of ITO. There are various reasons for this deficiency: First, outsourcing clients do not normally possess the means to evaluate knowledge in an outsourced project (Willcocks et al., 2004). Second, they initially underrate the knowledge potential of outsourced projects and therefore significantly underestimate the knowledge areas of the projects (Willcocks et al., 2004). Third, clients and vendors often have insufficient background information of each other (Carlile, 2004). Fourth, they also often lack an established knowledge base of business transactions and processes. Fifth, the exchange of knowledge between the client and the vendor frequently becomes asymmetric. These shortcomings in the evaluation of knowledge often show up in the client's subsequent frustration with the gradual loss of control over the project (Cullen and Willcocks, 2003). In order to enhance the capacity and potential for the retention of knowledge in any outsourced project, the guidelines we have provided in this paper can be used to discover ways to build shared knowledge from client-vendor relationships and interactions.

The type of the outsourced project often determines how knowledge should be shared and retained it. For short-term BPO services, project knowledge can be retained by means of a complete understanding accompanied with detailed documentation of the technical innovations and values that have been added to the project by the vendors. Should subsequent in-sourcing be necessary at any time, this knowledge becomes extremely valuable. For long-term BPO services, a lasting partnership between the client and the vendors often serves extremely well to retain knowledge in outsourced projects. In this scenario it is also important that the vendors should have a clear view of the client's long-term business strategies, so that the innovations and values they add to the project can be geared towards satisfying those specific needs. Furthermore, the vendors' capability for technical and business process innovations depends on their technical, technological and business domain knowledge as well as on their capacity for scalability. The benefit of using partner vendors in a project, as suggested in the guidelines above, is that they already possess sufficient knowledge of their client's business values. Depending on previous performance records of partner vendors in outsourced projects, it may sometimes be possible to establish a common framework, whereby both the client and the vendor are able to share a common frame of knowledge. Thus, they both can participate in planning and decision making. Trust and mutual responsibility are the key to success in establishing this type of institutional partnership. For new vendors hired for long-term projects, partnership can be motivated to retain project knowledge by using the partial, mixed outsourcing strategy. In this case a division of the client company always remains knowledgeable about the technical and business resources used in the project. Knowledge is also known to remain stable within people sharing a common, or at least a similar, culture. For long-term projects it is therefore advisable to hire vendors that are culturally compatible with the client (Rao, 2004). Dealing with the intricacies of outsourced projects pertaining to culture, language, and communication then becomes considerably less problematic; a shared repository of knowledge can also be built. Furthermore, knowledge is also in need of safe preservation, especially if it lies distributed across national boundaries. Thus, if the vendor selection and management processes observe the security and legal safety measures in the transfer of technology and business knowledge discussed above, then the client's intellectual properties in

the form of business processes, source codes, prebuilt libraries, or any number of software modules that may have been handed over to offshore vendors for use in a specific outsourced project should remain relatively secure within the proprietary boundaries of the client's business domain. Knowledge is likely to be lost in projects when the relationship between the client and the vendor is limited to mere fee-for-service modes of transactions, often seen are many totally outsourced, short-term projects that exhibit a singular lack of meaningful knowledge management. This problem has been reported to frequently lead a client organization to an excessive dependency on the vendors they hire for a project, which, in view of the knowledge rendered inaccessible by the lack of careful management, often leaves no alternative for the client but to go for re-insourcing (Willcocks et al, 2004).

Captive Centre

Lately, a large number of IT user organizations are creating wholly owned offshore IT centre (Dasgupta, 2007) to leverage cost and work on the core areas on their own, to reduce dependency on the vendor, and to perform programme management of vendor projects from a close distance.

Typically, these IT user organizations are greatly dependent both on the technical knowledge as well as on the application domain knowledge of the supplier vendor. Thus, when a captive centre commences operation, it becomes the weakest entity in terms of both technical and domain aspects. The supplier exercises his or her existing relationship with the user IT organization managers to secure new projects; this delays the maturity of the captive centre. In many cases the captive centre always remains a weak counterpart and does low criticality job and vendor management. The parent organization attempts to make further monetary investments, but it does not yield immediate success. The captive centre, therefore, is viewed as the most expensive and unviable proposition. In terms of the process framework, it becomes complex, as there are more parties to be integrated and synchronized to get the same piece of work completed. From our personal experience in creating multiple successful captive centres, the following best practices methodology can be derived:

1. There must be a corporate mandate to project sponsors and the IT managers to use the captive centre; it should be part of key performance indicators (KPI) of the respective managers/groups.
2. To begin with, the captive centre should co-exist with the outsource vendors.
3. A detailed plan to prioritize the work for the captive centre should be created and implemented in multiple phases.
4. Initially, the captive centre should leverage the competency of the vendor and perform multiple joint development projects in three modes: staff augmentation from the vendor (initially, till the team is up-skilled and ramped up and then for all spiky requirements); vendor-led projects; and captive-led projects.
5. In case of projects where there is a tremendous dependency in terms of knowledge of the vendor, a plan is to be defined where the knowledge is transferred to the captive through a ramp-up of captive resources and a ramp-down of vendor resources.
6. The captive always provides huge profitability and knowledge retention, but it is achieved in phases and there is no quick and dirty solution for this enterprise.
7. There should be an appropriate budget for branding in captives so as to attract the best talents from the local market against the competition of large SI's.
8. The captive should never be treated as a "low-cost second-class citizen"; it should be empowered by a local management of local origin.

Conclusion

In this paper we have addressed the challenges of knowledge retention in case of an outsourced project or project executed at a captive in-sourcing centre. We have developed the guidelines in this paper to ensure that, if they are observed carefully in outsourced projects, sufficient knowledge from these projects can be retained within the client's organization, eventually benefitting both the client as well as her vendors and enabling them to perform better in a partnership in outsourcing. Many of these practices have been personally used by us with good results over the years in exciting outsourcing businesses.

Some of us have created wholly owned subsidiaries in the form of captive centre for both software product companies and IT user organizations and have witnessed better vendor management in terms of controlling “price” and “product”.

These best practices have been successfully applied by us at the India centre of Intec Telecom Systems Ltd (UK based telecom oss bss product company) and Target Corporation India (Second largest Retailer in US).

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