Outsourcing Project Management Services: Making It Work for IT or Digitally Outsourced Projects

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The purpose of this study is to understand the motives behind outsourcing as it is becoming inevitable for reasons like cost reduction, operational efficiencies, etc. Further, the study investigates the pitfalls of outsourcing as well. The information for this investigation includes a few specific cases of various companies that are outsourcing their project management services. The information is collected from various papers, annual reports and relevant journals. The reasons motivating organizations to outsource are also changing permanently, with companies increasingly outsourcing to achieve customer-centricity and unlock new technological capabilities, rather than simply to cut costs. This study analyzes factors that are expected to make outsourcing market more competitive and collaborative as both buyers and service providers are heavily in favor of basing contracts on outcomes rather than outputs, choosing to share risk to reap greater rewards.

Introduction

Outsourcing has become a straightforward and price-effective technique that is employed widely in today's digitization world. The developed countries always prefer outsourcing their business processes to developing countries like India, China, etc.

Outsourcing is a method in which firms and organizations give work to the outside vendor. Any work process which can be handled from the outside location of the organization is outsourced. This method is also known as offshore outsourcing. Offshore outsourcing permits the organization to get top quality services at cheap operational cost.

There are three broad classes of offshore outsourcing:

1. Business Process Outsourcing (BPO): It deals with the back workplace and front workplace outsourcing.
2. Infrastructure and Technology Outsourcing: It deals with networking and technology services.
3. Software Outsourcing: It deals with the phenomenon of software services.

Outsourcing can be done for processes like customer care support, surveillance and security management, inventory management, payroll and so on. A lot of call centers also outsource their work. Content writing, data entry, editing services, typing work, image manipulation services, transcription, and data conversion services are some popular services for outsourcing.

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India provides efficient offshore outsourcing services to its clients; it provides outsourcing services in almost all the areas of outsourcing. Apart from India, other countries that are efficiently working in the field of offshore outsourcing services are China, Russia, Egypt and others.

IT Services Outsourcing

Digital outsourcing or Information Technology Outsourcing (ITO) is an undeniably across the board practice among organizations. Given that the degree and multifaceted nature of Information Technology (IT) is always expanding, a few organizations are less inclined to worry about the concern of Information Systems (IS) internal development, and are considering outsourcing to make a more effective use of resources and expand IT value. Hence, the significance of knowing which aspects may impact successful relations between the client entity and the digital or ITO service provider. IT outsourcing is all about hiring a third party to handle an entity's IT activities as per the terms and conditions fixed between the parties. Many entities have been worried with regard to the complexities of executing and implementing contracts (Quinn and Hilmer, 1994).

Outsourcing is developing, advancing and maturing to deliver worth well beyond cost savings. Some of the present trends: the expansion of multi-sourcing, the emergence of new stakeholders, changes in customer-supplier relationships and new governance models are gaining trend. It is the standard path of a maturing business strategy and a manifestation of an increasingly global atmosphere that leaders are concerned about. Company's top management believes that innovative partnering leads to growth and performance does not deter them from opting for outsourcing.

As the examples of Apple and Airtel illustrate, the complexities of innovative partnering yield the advantages of growth and performance. Outsourcing is now as mixed as the business itself, differing by country, sector, and company strategy. It is characterized by smarter suppliers, improved automation and better-informed buyers driving toward long-term, sustainable outsourcing arrangements. Firms that effectively master the new complexities of outsourcing—and also the diverse business model innovations they create—stand to reap the advantages and lead the way to the rise of collaborative partnering.

1. Apple designs the iPod in its Cupertino, California offices, but it outsources the manufacturing to select Chinese firms—not just because they can build it cheaply but also because of their unique and distinct intellectual property in materials science and packaging technology. Additionally, it also outsources, in a manner of speaking, content creation service: to an open community of suppliers from multi-billion dollar music publishers to amateur podcasters. A third major theme is a strategic benefit—freeing up one's resources, gaining access to capital, access to new markets, improving flexibility or changing the rules of competition in an industry.

2. In 2003, Bharti Airtel, an Indian mobile phone company, lacked the capital to respond to a massive growth opportunity in its domestic market. It cut an end-to-

end IT outsourcing agreement with IBM. Much of IBM's earnings in this deal depended on Airtel's market growth. Airtel made other shared risk/reward agreements with equipment suppliers Ericsson, Nokia, and Siemens. Today, Airtel has some 40 million customers and is the country's market leader.

Apple and Airtel must manage complexity every day. Their business webs—which are described small corners—are varied and demanding. Every organization should attain an optimal balance of collaborative partnering and top-down management in dealings with channel marketers, suppliers, companies selling complementary services and customers. The uniquely right kind of collaborative partnering business model makes possible the squaring of many circles: speed as well as quality, cost savings with growth, and organizational cohesion plus awareness and innovation.

Cost savings can be an important driver of outsourcing an IT services project. Every company—indeed, each outsourcing initiative within any one company—has a mix of other drivers, prioritized differently in each case. Beyond cost savings, a second major theme is access to capabilities—whether human talent, process excellence, or sheer physical resources. Now, everybody uses outsourcing today and for a variety of strategic reasons that extend well beyond cost savings. The factors that support business growth, like access to talent and capabilities—and maximizing business model flexibility—are key drivers (Ketler and Walstrom, 1993).

Customers of outsourcing are gaining maturity and have huge growth plans. But success and growth are not without their challenges. Customers continue to be held back by cost-benefit justification (i.e., the challenge of creating a business case where benefits are measured and delivered) and their lack of experience—among others. Initially, the costs might decline due to consolidation like in the case of Fidelity (Moad, 1993). Nearly all feel challenged by one or more aspects of the outsourcing lifecycle and their first incline is to blame service providers when projects fail. IT service suppliers assume the main reason for failure because of poor collaboration with customers or lack of clarity regarding the outsourcing contract (Powers, 1990).

Cost-saving was the primary motive of the early offshoring growth in the IT outsourcing industry. However, despite this astonishing amount of cost savings, not all of the multinational companies are considering the cost-saving strategy as a golden opportunity to outsource. Other reasons are better-talented staff (Schwartz, 1992), sharing of risk and entities can focus on core activities only (Ketler and Walstrom, 1993).

Benefits of Outsourcing

The firm can specialize on its main object of activity, which ensures the highest profit, flexibility in meeting the needs of services, forwarding the companies' resources to core activities, continuity and risk management, lower costs, access to skilled resources, faster and better services (Dinu, 2015). Further, outsourcing makes sense for HR decision makers who want to commit more time to core business issues (Laabs, 1993).

Aalders (2002) discussed the following benefits:

1. Improved Business Processes: Outsourcers encourage business managed budget development and business controlled project expenditure. Appropriate information and reports are supplied at required timelines that ensure expenditure; progress and issues are visible and controllable.
2. Quality of Service: The outsourcer is a separate legal entity with profit at risk. The service provider strives to provide quality of work in output as well as in the budgeting and planning process.
3. Keeps Pace with the Competition: An outsourcer is in a better position to provide essential resources so that new business systems can be acquired at reasonable cost, thereby strengthening the business process and product quality (Mani *et al.*, 2010; and Mehta *et al.*, 2011).
4. Cultural Change: Outsourcing can prove to be a powerful way of achieving cultural change and to bring an improved team back in the house.
5. Access to Management Qualities: Outsourcing is known to bring better formal methodologies, rigor and discipline in the management of entities.
6. Access to Specialist Skills and Knowledge: Required skills are available to you when needed as the professional service company has ready availability of talented individuals. It further improves the company's efficiency due to the use of skilled and specialized labor (Gonzalez *et al.*, 2010).

Patel (2017), in one of his papers in *Forbes,* has discussed that outsourcing helps in saving the cost of training and inducting a new employee. It further provides access to better talent and the professional pool is available locally as well as internationally.

Entities with limited finance sources to acquire new technology can get access to sophisticated technology without investing heavy capital, thereby helping the company in gaining efficiencies in business processes and operations (Rahman, 2011). Frequent and consistent interactions are the key to a successful outsourcing venture (Kim, 2010).

These pros have made outsourcing a popular tool for diverse businesses around the world. This study attempts to understand the motives behind outsourcing as it is becoming inevitable for various reasons.

Literature Review

A researcher needs to review the related literature to have a clear knowledge about the topic and understand the research gap to draw the scope for the study. The literature review has been conducted to bring precious information into analysis and discussion. Three views are mentioned that are cited extensively in the literature related to outsourcing.

Outsourcing has been in business literature for several years and it has been discovered that companies are outsourcing to leverage production to attain economies of scale and lower the price, for example, 30-40% of Nokia mobile production has been outsourced (Shy and Stenbacka, 2005).

Outsourcing decision is variable to the type of the business entity and the structure of the corporate, but the cost factor has been dominating and overall lower global cost benefits cannot be neglected (Kakumanu and Portanova, 2006). According to Narayanan (2009), there are four strategic reasons to outsourcing – improved cash flow, improved control of payment, scalable staffing and to improve overall business performance.

The importance of outsourcing can be understood by taking into consideration the example of Procter & Gamble (P&G), pilot case study, when the company outsourced its Java Programming to Manila, the Philippines, and Poland. It leads to saving of about $28 mn in terms of cost saving resulting in profit maximization (Corbett, 2004).

Pahirathan (2017) analyzed that outsourcing is one of the quickest spreading forms of international exchange in a globalization era. Despite the benefit that organizations have derived from outsourcing, some risks are associated with it. As compared to large businesses, small businesses dominate the use of outsourcing currently. The literature suggests that a need exists to objectively determine the extent to which current functions/operations may be efficiently and effectively outsourced. For instance, food service, bookstore sales, and housekeeping/janitorial services have been outsourced successfully for years. Another candidate for outsourcing comprises human resource management, financial aid, billing and collection, legal services, endowment fund management, and payroll.

Outsourcing may be outlined as turning over all or part of an organizational activity to an outdoor supplier (Barthelemy, 2003). The term outsourcing covers many areas, manufacturing as well as services. It can involve the transfer of some activities to an outside party while some remain in-house. Any value chain that produces products for a customer can be seen as a bundle of activities. These activities are either performed internally or externally. For every individual activity, a choice must be made and the sum of all the choices determines a firm's overall level of outsourcing, which will differ for every individual firm (Kotabe and Mol, 2009).

According to Lyson and Farrington (2006), outsourcing has been defined as a management strategy by which major non-core functions are transferred to specialist, efficient, external providers. It is strategic in the sense that it involves top management of an organization and is a long-term decision, which affects the whole organization over a considerable period. Outsourcing happens when an organization buys products or services from an outside provider, as opposed to playing out a similar work inside its offices, to cleave down expenses or accomplish adequacy. The decision to outsource could be a major strategic one for many organizations since it involves weighing the potential cost savings against the implications of a loss in control over the goods or services. Successful outsourcing needs a powerful understanding of the organization's capabilities and future direction. Decisions relating to outsourcing vital functions are among the foremost strategic that can be created by an organization because they address the essential organizational alternative of the functions for which internal experience is developed and nurtured and people for whom such expertise is purchased. These are basic decisions regarding organizational design. According to Domberger (1998), 'outsourcing', additionally alluded to as contracting, is the way of looking for and appointment of providers or suppliers for the arrangement of goods and services and the execution of the legal contractual relations needed to support such activities.

Theoretical Perspective on Outsourcing Trends

There are three types of views: Transaction Cost View, Competence-Based View, and Relational View (Mehta *et al.*, 2006).

1. Transaction-Cost View: This view supports the cost factors of outsourcing strategies in the organization. The services or products can only be outsourced if the strategy brings about cost benefits for the organization.
2. Competence-Based View: At the introductory stage of Business Process Outsourcing (BPO), the companies outsourced their non-core business activities to focus on the business core competencies. The general tendency was to outsource only non-core business processes to an outside vendor, but this phenomenon has changed and now companies are also outsourcing their core business processes to gain and maintain competitive advantage (Mehta *et al.*, 2006).
3. Relational View: The success of outsourcing lies in the happiness of both client-vendor relationships. The relationship and the terms of the contract should be mutually understood and accepted by both the client and the vendor (Webb and Labourde, 2005). Both the client and the vendor need to identify the areas of conflicts before a project and a contract can be documented and the relationship should be an enabler to achieve mutual benefits by creating a synergistic opportunity that can last longer (Friedman and Giber, 2007). Despite the number of success stories of outsourcing, there is an astonishing number of contracts that failed over the past few years.

Effect of Outsourcing on Cost Efficiency

Cost Reduction: Some authors found that the main motivation for outsourcing is found to be cost reduction (Altinkemer *et al.*, 1994; and Gilley and Rasheed, 2000). This is because paying for outsourcing usually costs less than having equivalent services in-house. Successful implementation of an outsourcing strategy has been attributable to helping to cut down prices. An outside provider's cost structure and economy of scale can allow a firm to be more efficient. Likewise in the concern of converting fixed costs into variable costs.

According to Malhotra (1995), factors that affect outsourcing decisions are a reduction in operating costs, cost predictability due to fixed contract, sharing risk on technology investments, access to specialized expertise, and perception of efficiency. The literature articulates numerous reasons for outsourcing: reduced costs, higher quality, increased capacity, etc. In the sense of labor cost, according to Abraham and Taylor (1996), outsourcing may provide a viable strategy if firms aim to save on labor costs. In support, they also emphasized that outsourcing can be used to save on production cost, particularly by substituting in-house production with the buying-in of components. They additionally contended that organizations that do everything themselves have a lot higher research, improvement, showcasing and dissemination costs, which must all be passed on to clients.

Kotabe argued that cost-cutting may not be the only reason to outsource but it is certainly a major factor. Outsourcing converts mounted expenses into variable expenses, discharges capital for investment somewhere else in your business and grants you to maintain a strategic distance from enormous uses in the initial periods of your business. Outsourcing can even build your firm more enticing to investors since you can pump more capital directly into revenue-producing activities. Considering the cost efficiency relating to human resources, Linder argued that most small firms simply cannot afford to match the in-house support services that larger companies maintain.

Outsourcing can facilitate small companies to act big by giving them access to similar economies of scale, efficiency, and experience the giant corporations relish. Top management often finds outside firms to be more cost-effective (Muweesi, 2011). While middle managers often claim, they can hire a person to do it cheaper, upper management looks at things differently.

Cost Efficiency: Firms should go for outsourcing only when it is considered that certain support functions can be completed faster, more economical, or better by an outside firm (Barthelemy and Adsit, 2003). Cost efficiency remains an essential component for the improvement of outsourcing services. Firms assess outsourcing to determine if prevailing operation costs can be reduced and if saved resources can be reinvested more competitively. Many researchers contend that an important source to minimize the cost is the outsourcing firm's access to economies of scale and the unique expertise that a large outsourcing firm can give. It further results in boosting organizational performance.

Quality Outsourcing

The term quality refers to the totality of characteristics of goods and materials that satisfy the intended need at the lowest cost. Providing high-quality service may be a major concern for nearly any business. Quality of service is a serious issue when customers decide which business to use to solve their needs. Customers have certain expectations about the level of satisfaction they will get from businesses they are participating and it is difficult to improve your quality of service if you do not have any input from your customers regarding how we can improve. Thus, gathering customer feedback and using it to check service quality ought to be a major part of nearly any business's game plan.

Outsourcing could facilitate your business to shift its focus from peripheral activities toward work that serves the client, and it will facilitate managers to set their priorities more clearly.

According to Muweesi (2011), successful implementation of an outsourcing strategy has been credited with helping to increase capacity, improve capacity, and improve quality. Personnel expenses were the primary reason for outsourcing. However, it also improves operating efficiency.

Offshore Outsourcing: A Changing Scenario

In outsourcing decision, the crucial and focal point is what to outsource and the extent to which the outsourcing could be carried out to gain and maintain control over the vendor and business activities. Multinational companies are outsourcing contact centers, data entry, finance and accounting, human resource services and everything else that involves little attention and management involvement. Barthélemy (2003) mentions that the outsourcing decision can be made by taking into consideration the business core competencies and only the less important work is worth outsourcing to focus on the core business. The satisfaction of the customers is an outcome of outsourcing besides price benefits.

For instance, a vendor's ability to deliver services on time and safely is of utmost importance for the success of an outsourcing venture. Failure to execute shall not only lead to loss of clients but goodwill also. However, Park and Wu (2009) argued that core competencies, if they do not contribute the expected return on investment, can be outsourced.

Outsourcing: Controlling and Security Issues

According to Schwartz (2004), security and privacy, the risk is greater when offshoring takes place and companies send most sensitive customer information to the vendor. The supplier's inability to maintain confidentiality is a question mark for outsourcing notably to an offshore destination. Sparrow (2005) stated that outsourced projects pose a serious security threat especially in the case of customer's data protection and the firm's other confidential matters.

For example, the Satyam accounting scandal in India left future investors scratching their heads for the time being. In the case of the UK Metropolitan Police, when it decided to outsource IT and communications systems, the contract was not awarded to any of the offshore service providers for security and system requirements reasons.

Critical Success Factors of Offshore Outsourcing

According to Venables (2006), many blue-chip manufacturing contracts have failed because of the mismatch between the expectations of the client and vendors' capabilities. Offshore projects are more likely to fail because of miscommunication, fewer users' involvement and lack of understanding of the business environment by the offshore team (Iacovou and Nakatsu, 2008). For many firms, globalization has created an immense challenge scenario by competing for not only the local firms but also firms from the emerging economies. The management gurus and business pundits always trail the best business practices to minimize the cost and increase profitability by staying in the competition.

Outsourcing has become inevitable and virtually many of the multinationals are outsourcing to utilize scarce in-house resources (Pai and Basu, 2007). "Outsourcing, traditionally known as a 'make-or-buy' decision, is the act of contracting internal business activities to outside (either domestic or offshore) suppliers" (Park and Wu, 2009).

The outsourcing decision of the firms is influenced by cost reduction motives and a number of MNCs outsourced their business processes to an offshore location to achieve operational efficiency (Kakabadse and Kakabadse, 2005).

Issues in IT Outsourcing

The most obvious reason to outsource is the cost-saving which has become more prevalent owing to the cost-cutting measures of the company (Fitzgerald and Willcocks, 1994). It further helps entities in achieving economies of scale by focusing on core business activities only.

It has been observed with complete outsourcing; financial ratios tend to improve as the investments in assets decrease, leading to an increase in return on equity ratio. Hidden costs in the form of transferred or laid off employees also need to be taken care of. Non-observance might lead to increase in a cost higher than expected (Schwartz, 1992).

Apart from economic, a few issues related to human resources like the sudden requirement of technical staff due to excessive demand and inability to justify the need for full-time technical manpower also need to be catered to (Ketler and Walstrom, 1993). The requirement for skilled staff might fluctuate during peak seasons of contract delivery (Fitzgerald, 1994). Thus, specialized vendors are more equipped to handle such adverse scenarios. Further, it might lead to a feeling of fear and resistance among internal technical staff leading to fall in productivity and efficiency (Huber, 1993). In case of layoffs, the company might have to suffer lawsuits by internal staff members.

Failure of internal systems also leads to switching to outsourcing by an entity. Entities see outsourcing as a remedy to the poor performance of an in-house IT department (McFarlan and Nolan, 1995). Updated and advanced infrastructure is utmost essential for the success of an IT department. It is seen that outsourcing entities provide an easy access to technological advances to the company (Fitzgerald, 1994). Since the life of any technological advancement is short term, outsourcing cuts down the cost of technological obsolescence (Grover *et al.*, 1994).

Concerns have been raised whether outsourcing is beneficial or not. Fitzgerald and Willcocks (1994) conducted a survey with an objective of understanding the satisfaction levels of the companies. Despite positive findings, a few issues were also reported like lack of clarity in contract (Lacity and Hirschheim, 1993), lack of flexibility, changing requirements of companies, etc.

The literature suggests the lack of cohesive relationship between the vendor and the client followed by contractual issues that have been highlighted as the primary issues leading to failure of an outsourcing contract. Though there are lots of hidden elements that need to be addressed and understood for a successful outsourcing venture. It is important to understand that the benefits of outsourcing go beyond the cost factor. The paper tries to unfold these hidden opportunities and risks and how companies can use them for their own benefit.

Objective

The objectives of the study are as follows:

1. To analyze the outsourcing post the year 2000 and to understand the motives behind outsourcing.

2. To understand the strategic and operational reasons for the success and failure of digitally or IT outsourced projects.

Methodology

The information for this investigation includes a few specific cases of various companies that are outsourcing their project management services. The information is collected from various papers, annual reports and relevant journals.

Historical success and failure cases of outsourcing have been taken to understand the factors that might turn an outsourcing venture into a disaster or a successful venture.

Outsourcing in Practice

Some of the top outsourcing disasters (Table 1) indicate that a large number of outsourcing deals collapse before the contract ends, citing rising prices and mistrust between service

Table 1: Failed Digital Outsourcing Examples

Outsourcing	IT Vendor	Outsourcing Disaster	Lessons Learned
Royal Bank of Scotland	Not disclosed	Due to a failed software update in June 2012, millions of both commercial and non-commercial account holders were unable to withdraw funds from their bank accounts or do any banking activity. It further created a backlog of payments that took several days to clear up.	Lack of backup plan for meeting such emergent situations or contingencies was not placed.
Virgin Airlines	Navitaire	The online reservation, check-in, boarding and other critical systems abruptly crashed due to failed disk drive for the second time in three months. Instead of switching to back-up hardware, the IT company attempted to repair the bad unit leaving 50,000 passengers stranded and frustrated for 24 h.	Efficient use of time and resources can lead to faster resolution of the problem.
US Navy	Electronic Data Systems (EDS)	Non-fulfilment of obligation led to a loss of $500 mn to EDS. Though the reason for loss was the Navy's indecision and miscommunication to EDS regarding replacing thousands of legacy applications.	Loose contract language can lead to some costly and unforeseen contingencies.

Table 1 (Cont.)

Outsourcing	IT Vendor	Outsourcing Disaster	Lessons Learned
J P Morgan	IBM	A $5 bn contract was cancelled by J P Morgan in 2004 due to non-fulfilment of obligations. J P Morgan decided to acquire Bank One to establish its own IT department and spent millions of dollars.	The decision to cancel the outsourcing agreement and assembling own IT infrastructure proved very expensive and time-consuming.
Queensland's Health Department	IBM	A sudden surge in project cost from $6 mn to $27 mn for making an application to administer payroll for Queensland's health department followed by non-functioning of the payroll platform lead to this mega-disaster.	It is not important that a famous vendor would always lead to perfect execution and good results.

suppliers and customers, and implying saving money is not a sound reason to outsource. Some business analysts and media pundits further translate the findings into painful trade-off cost. The entities providing outsourcing services supply a level of strategic and operational flexibility to their clients, thereby contributing significantly to the growth of the organization unattainable through any other means.

Outsourcing is a deeply established, entrenched business strategy maturing and evolving to deliver value beyond just cost savings (Table 2). Collaboration with suppliers

Table 2: Successful Digital Outsourcing Examples

Outsourcing	IT Vendor	Outsourcing Disaster	Lessons Learned
WhatsApp	Russian Outsourcing agency (Not disclosed)	To keep their operating costs lower, the company outsourced tech and development work and all the internal employees used to handle the operations and customer support.	Hiring the right engineers can prove vital to the success of the venture.
Slack	MetaLab	The company hired MetaLab to test its beta version thereby receiving valuable feedback. By May 2018, large companies like Oracle, BBC, IBM were using Slack on a daily basis.	True feedback can help a company in designing the right tool.

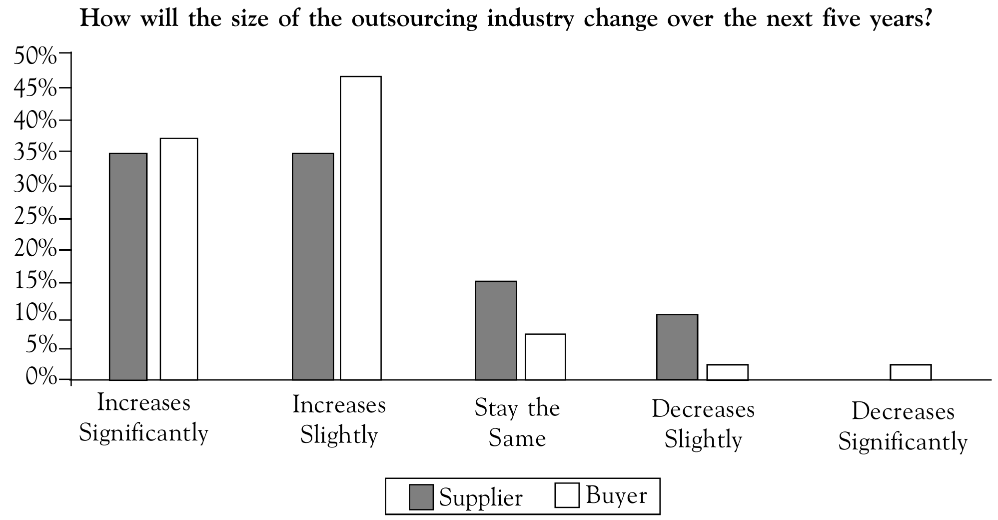
Table 2 (Cont.)

Outsourcing	IT Vendor	Outsourcing Disaster	Lessons Learned
Citigroup	TCS, Wipro etc.	The Group started outsourcing its tech operations from 1992 across India, the Philippines, and Poland.	Good relationship with outsourcing companies can go a long way for successful outsourcing venture.
TransferWise	Ukrainian Engineers	The development team of the company is located across Ukraine and Estonia for developing their global money transfer service.	Engineering education and quick technical wit of technicians is extremely important for a successful IT outsourcing.
Klout	Custom Team of Engineers from Singapore	An original influencer ranking platform went to Singapore, stayed and worked closely with developers to build the product rather than depending on part-time employees.	Relying on part-time engineers may not be the right decision for a successful venture.

and specialist service providers reduces complexity, reduces transaction costs, and increases competitive advantage. Full benefits often remain unrealized and the outsourcing process itself—in its relentless move toward specialization, innovation, and new models—is not easy.

Outsourcing in 2020 is an industry-wide campaign that aims to discover how outsourcing will change as a practice in the upcoming years. As Figure 1 shows, the NOA surveyed 134

Figure 1: Change in Outsourcing Trends

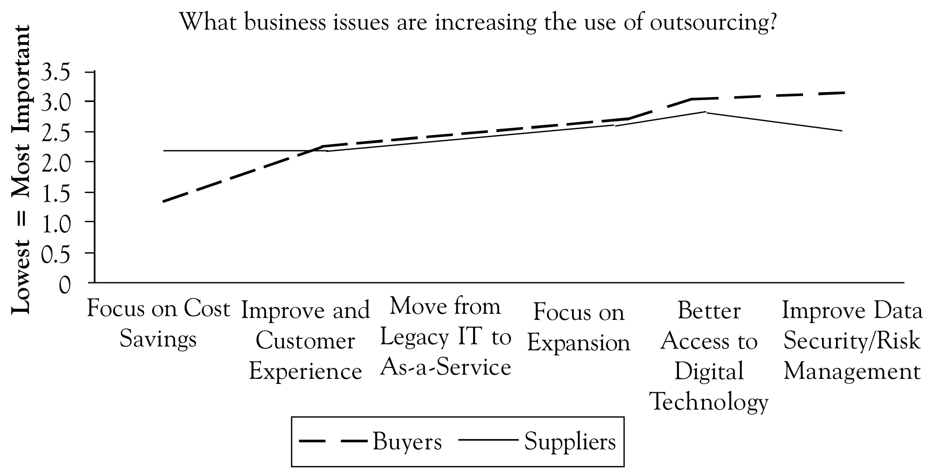


Source: National Outsourcing Association, 2016 organizations (one-third of buyers, one-third service providers, one-third support organizations), asking them to share their expert opinions on the future trends and technologies that are expected to disrupt outsourcing between now and the next decade.

- 70% of buyers surveyed said they expect to increase their use of outsourcing, with 35% planning to do so significantly.
- Meanwhile, 84% of service providers expect the outsourcing industry to grow, 37% believe it will do so significantly.
- With 80% of all respondents expecting themselves or their clients to increase the scope of their outsourcing, there is a strong belief that outsourcing is set to become more popular as a business practice over the next five years.

While buyers were asked what business issues motivate them to outsource, service providers were asked the same regarding their clients (see Figure 2).

Figure 2: Issues Faced by Business



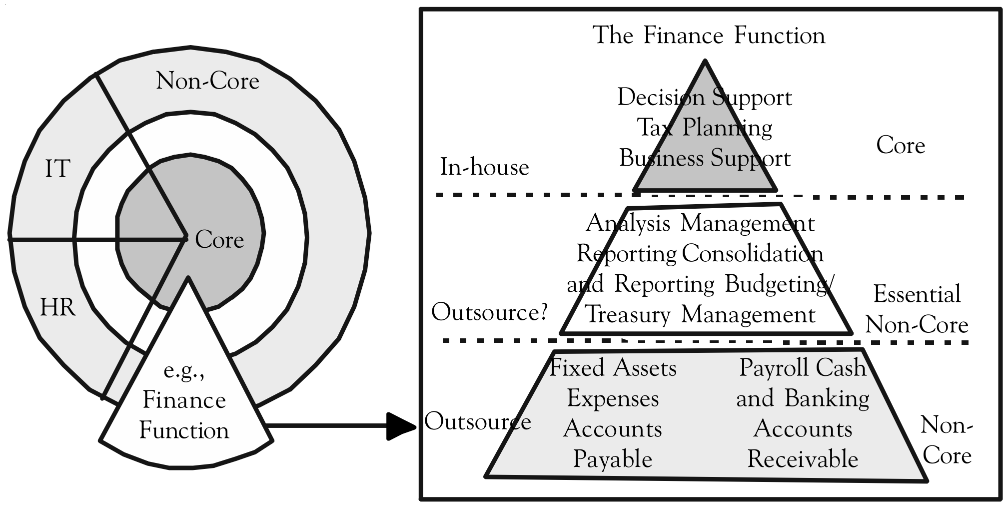
Source: National Outsourcing Association, 2016

Overall:

- 35% of respondents chose to achieve cost savings as the number one reason to outsource.
- 23% chose improving customer experience, followed by 17% who chose to move to as-a-service.

There are various reasons why organizations outsource: increasing operational flexibility, gaining access to new skills and, of course, cutting prices. For the first time, some of these drivers became less dominant, creating a route for higher priorities like customer-centricity and technological excellence. As 2020 approaches, expectations are to see an increasing number of organizations outsourcing primarily for service improvements and other value-adding benefits (see Figure 3).

Figure 3: Core Versus Non-Core in the Finance Function



Source: Pricewaterhouse Coopers

Information technology services remain the foremost widely outsourced activity, reported by 57% of respondents (Figure 4). But overall, 70% outsource one or more inherently strategic activities:

- 53% outsource production or delivery of core products or services.
- 33% outsource sales and marketing (including third party distribution channels).
- 32% outsource innovation/R&D.

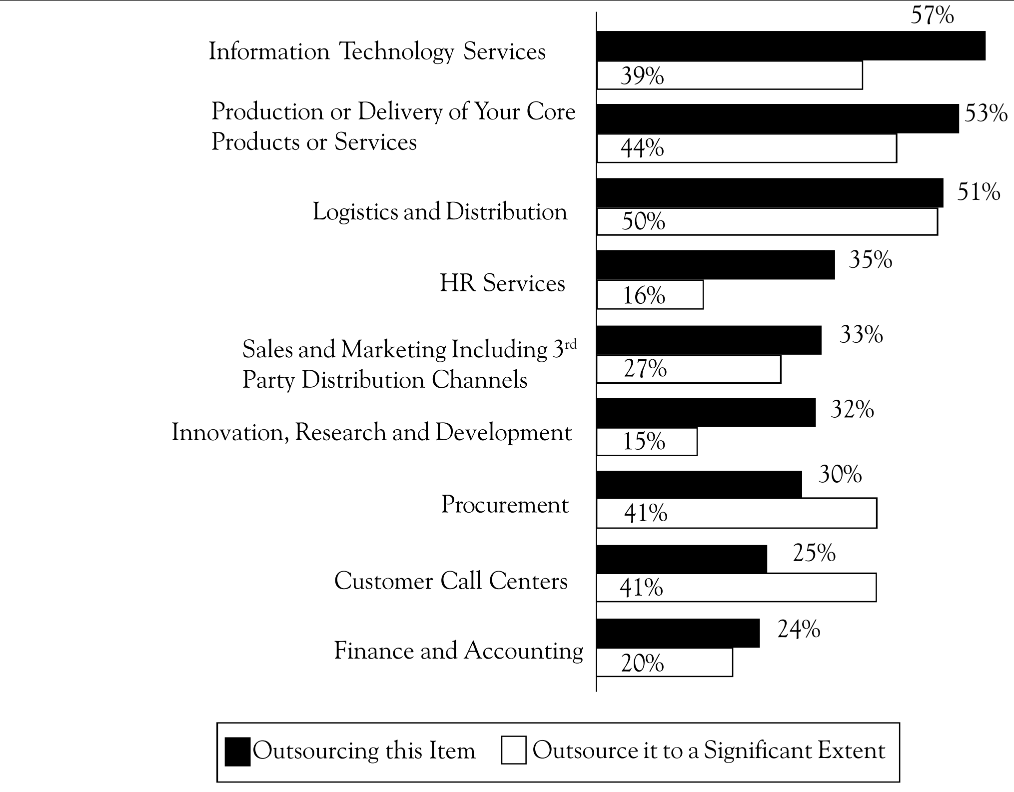
Key markets are embracing core outsourcing. Financial services firms, at 40%, are especially likely to outsource sales and marketing (e.g., to insurance brokers and financial planners). Because many are in media/infrastructure businesses, telecommunications/IT companies are less inclined to outsource core work. But even then, 39% of these companies do it. And nearly 40% of firms in rising markets are likely to outsource innovation/R&D. Firms in medium mature markets (Canada, Australia, and New Zealand) are especially aggressive at outsourcing strategic functions. 71% of them outsource core services/products and 48% outsource sales and marketing (versus 53% and 33%, respectively for the total sample). Growing companies based in these countries have small domestic markets; this may create pressure to go outside the company for strategic capabilities that facilitate growth.

Outsourcing Is Expanding into Areas Like Innovation/R&D

Outsourcing is expanding rapidly now into areas like Innovation/Research and Development:

- The first wave of IT and business process outsourcing depended on the long run, exclusive one-on-one contracts. These were largely zero-sum games between client

Figure 4: Outsourcing is Intensifying



Source: PricewaterhouseCoopers

and supplier; certainly, the customer was locked in, and in many respects so was the service provider.

- Today, as we tend to move in the second wave of outsourcing, with several IT contracts coming to maturity, customers recognize that new approaches present a rich array of opportunities if done right.
- Today, tight, disciplined management must be seasoned with the structure, culture and processes of collaborative partnering—and an openness to business model innovation.

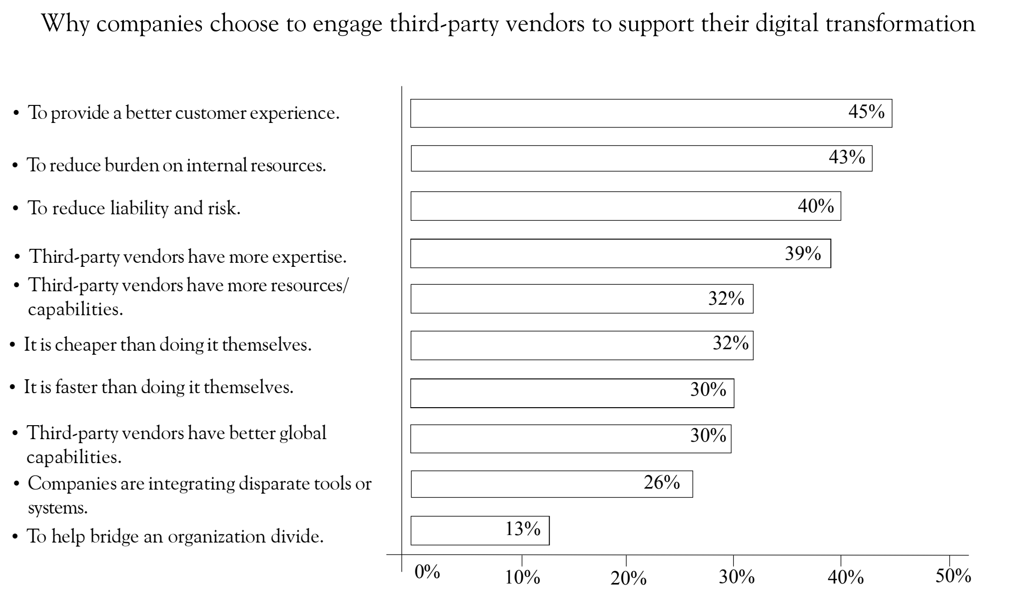
These become even more important as customers start to look at other types of 'second wave' outsourcing of other functions, many of which are in the process of being streamlined within shared service centers, such as HR and finance and accounting functions. Depending on the business function, anywhere from 27% to 55% of respondents intend to expand their current outsourcing over the next five years. There is still growth to come in information technology (where 55% of current customers plan to expand) and what we called 'core products or services', 42% will expand. A smaller number of companies currently outsource innovation/ R&D and customer call centers. In these areas, over 40% of current outsourcing customers plan to expand (Figure 4).

Companies Choose to Outsource Digital Transformation Projects

To undertake the digitization of a business, first of all, there is a need to leverage strategic digital technologies. The data indicates that implementing key digital technologies is cited by 57% of the survey respondents as the most critical factor in enabling digital business. To achieve the ultimate goal of successfully achieving business digitization, enterprises outsource digital transformation projects and thus provide enhanced, more advanced and digitally-driven user experiences. Performing the job in the most time and cost-efficient manner, outsourcing serves as the aid, thus liberating overhead costs and sharing risks eventually, and offering exclusive capabilities to plug the gap.

Provision of improved customer experience is the main reason for outsourcing digital transformation projects by most respondents (approximately 45%) (Figure 5).

Figure 5: Engagement of Third-Party Vendor to Support Their Digital Transformation Project



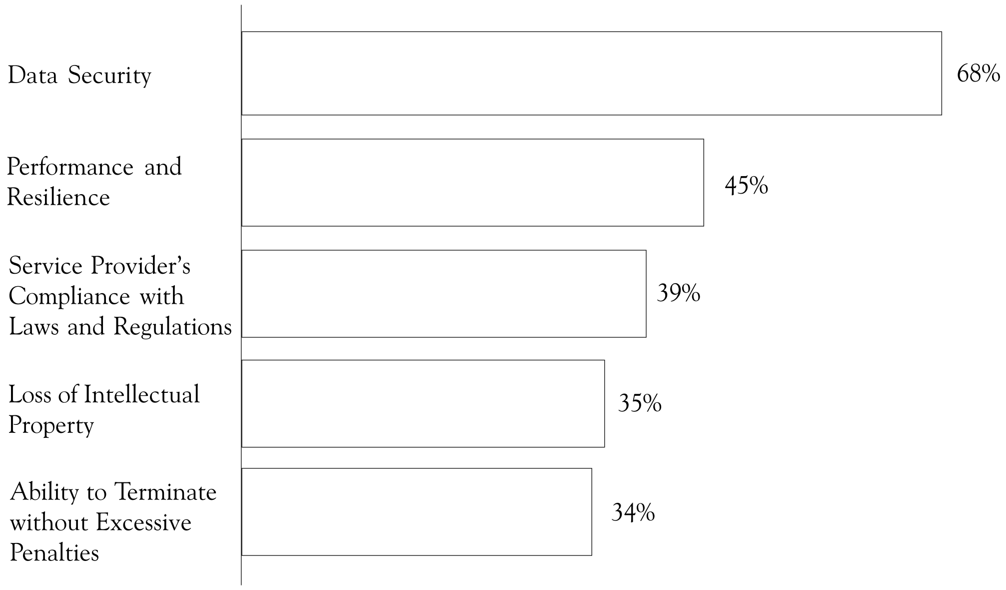
Source: Accenture

Key Trends in Outsourcing

In the coming years (2019-20), there will be several challenges in terms of data migration, security requirements, application optimization, organizational resistance, highly fragmented processes, and regulatory compliance (Figure 6).

Disruptive outsourcing followed by cloud and automation as factors will transform the traditional outsourcing in 2019. Three key trends emerged from the Deloitte's outsourcing survey:

Figure 6: Concerns with Cloud Services Contracting

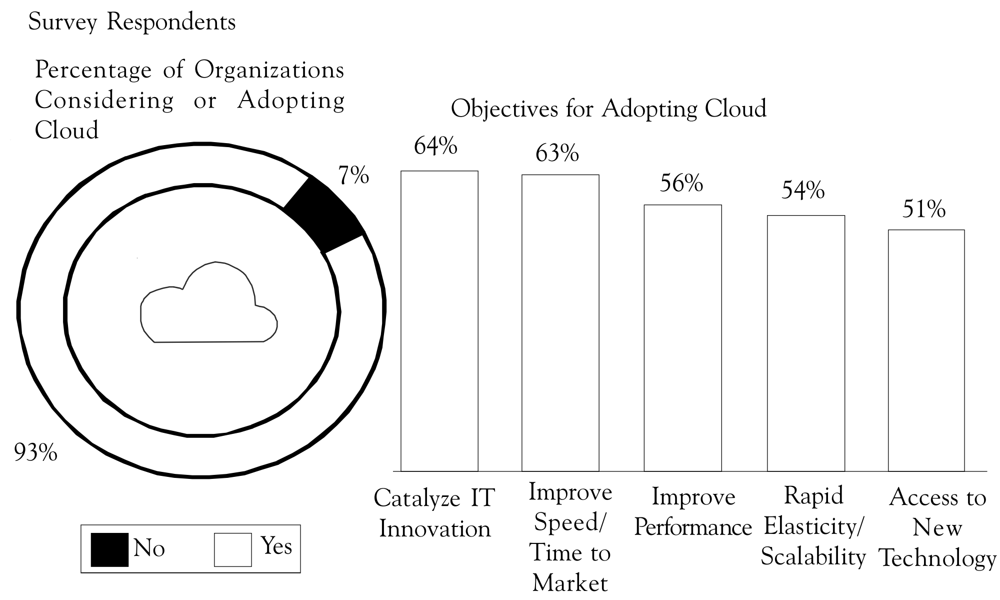


Source: Deloitte Global Outsourcing Survey, 2018

- Disruptive Outsourcing Is Enabling Competitive Advantage: Among 2019s trends, disruptive outsourcing, when executed well, will deliver a competitive advantage by transforming the way organizations operate, making them more agile, efficient, and effective.
- Organizations Are Embracing Disruptive Outsourcing Technologies such as Cloud and Robotic Process Automation (RPA): Cloud and Robotic Process Automation will increase in 2019. 93% of organizations are considering or adopting cloud solutions, and 72% are considering the advantages of adopting RPA solutions. Also, 70% of respondents believe that their service providers have opportunities and abilities to implement disruptive solutions.
- Disruptive Solutions Will Lead to Additional Challenges in 2019: Security requirements, data migration, and application optimization/change are a few examples of challenges related to cloud adoption. Highly fragmented processes, organizational resistance, and regulatory restraints remain common challenges with RPA adoption. Disruptive outsourcing solutions will challenge more traditional methods and drive competitive advantage to those that adopt it.

Disruptive outsourcing will enable organizations to reimagine and transform their business. It is called challenging traditional outsourcing and driving competitive advantage. More than half of the organizations surveyed are adopting, or considering adopting, improve speed to market, disruptive solutions to drive performance, and increase innovation (Figure 7).

Figure 7: Percentage of Organizations Adopting Cloud



Source: Deloitte Global Outsourcing Survey, 2018

In 2020, companies will have to change their outsourcing strategy. Their next steps will determine how they can construct an incentives structure that motivates them to innovate, how they can change solutions, which partners will generate increased revenue, and how to implement and manage new outsourcing paradigms.

Strategies for a Long-Lasting Relationship with Outsourcing Partners

These are the strategies that will ensure the development of a long-lasting relationship with outsourcing partners:

- Decide Whether to Make or Buy: Whether to insource or outsource, the decision has to be made on the basis of cost, benchmarking and considerable evaluation.
- Screening Potential Outsourcing Partners: Domberger (1998) mentioned three different ways like open tender which is open to all, selective tender offered to entities meeting qualifying criteria and negotiated contracts, where potential partners as shortlisted are contacted.
- Evaluating the Candidate: Terms and conditions for potential relationship have to be discussed and argued. Multiple rounds of negotiation and bargaining process might take place (Ring and Van de Ven, 1994).
- Consider the Impact on Employees: The impact of outsourcing needs to be considered carefully as the outsourcing might prove to be destructive due to possible

disintegration of an organization's culture (Kakabadse and Kakabadse, 2000; and Zhu *et al*., 2001).

- Set an Outsourcing Timeline: Detailed and aggressive communication along with planned timeline helps in the proper implementation of the project (Zhu *et al*., 2001).
- Invest and Think About the Future of Relationship: A strong commitment to the relationship is required so that the other party does not suffer economic and financial issues (Kern and Willcocks, 2000).

Discussion

The study shows that outsourcing is growing fast and delivering results. More organizations than ever are outsourcing. An analysis of the surveys shows that outsourcing has matured beyond cost reduction to become a way for organizations to better access talent and capabilities, gain more flexibility, reinvent their business model and drive innovation. Successful outsourcing no longer simply entails a supplier and buyer—it needs partners. Many buyers feel their outsourcing efforts fail because they lack skills to achieve the benefits and experience envisaged in the original business case.

For a successful joint venture, entities need to decide matters of mutual interest jointly, have effective joint governance structures and share risks and rewards. Buyers progressively look to outsource core products and services, and suppliers adapt to present circumstances and challenge to convey the skills and capabilities required, another model of outsourcing is required.

- The Reasons for outsourcing are different: Cost savings, improving the customer experience; transitioning from legacy IT to as-a-service models are few of the cited reasons. This differs from the traditional primary reasons why companies outsource: increasing operational flexibility, accessing new skills, cost savings.
- Outsourcing is quickening forward and the above examination shows that the market for outsourced services will probably proceed with its fast adaption to meet—and by and large to foresee—the requests of the client.

Conclusion

In the past, organizations typically used outsourcing to improve back office operations through performance improvement and cost reduction. Today, disruptive outsourcing solutions are enabling competitive advantage by accelerating changes within those organizations that have the audacity and skill to leap over the technology. The focus has shifted from traditional work transfer to automation and upfront transformation. Organizations are recognizing that disruptive solutions can revolutionize the way they do business, and that 'buying' capabilities in the marketplace is generally faster and more scalable than developing capabilities internally. Emerging solutions incorporating cloud and automation are empowering organizations to work smarter, scale faster, reach new markets, increase productivity and, ultimately, to gain competitive advantage.

In today's scenario, disruptive outsourcing is concerned with collaborating with partners within the marketplace to integrate services that organizations cannot build on their own to grow, innovate, transform, and revamp their competitors. Outsourcing-led transformations can address both IT and business challenges. They have the potential to bring about a dramatic change to the outsourcing businesses like never before. This will result in cost reductions, though many organizations expect to invest some of those savings into business investments, particularly when doing so can eradicate costs elsewhere. With disruptive outsourcing, the only limit is imagination.

To move forward effectively and efficiently, organizations must be responsive and proactive in every step of their outsourcing evolution, whether in choosing service providers, managing cybersecurity, negotiating flexible agreements or implementing a strong governance program. Most of the firms understand that now is the time to capitalize and get ahead of the competition, and disruptive outsourcing is the method to take.

Talking about the digital transformation projects, businesses nowadays encounter the threat of getting disrupted by competitors and face an urgent need for digital transformation to prevent that from happening. On their way to digital maturity, companies need partners to aid them in leveraging innovations and undertaking digital transformation projects. The benefits are numerous: a large talent pool, proficiency in many verticals, efficiency, flexibility, and the ability to deliver complex solutions. There may be some inconveniences, such as less managerial control and language barriers. However, the problems will be easily solved if we see the vendor's services as a seamless extension to in-house expertise and the approach should be to work in a partnership.

Limitations: One of the major limitations of this study is that it is based on secondary data. The project was more focused on theoretical discussion on cost and benefit analysis of outsourcing the project management services, reasons to outsource, current scenario (key trends) of outsourcing and why the company opts for digital transformation projects. Until recently, many companies outsourced to cut cost. However, future research can be carried out on the political issues of outsourcing, government regulations to discourage offshore outsourcing and moreover how we can cut down the cost of implementation of digital transformation projects and the threat of getting disrupted by competitors. And, also it will be worth researching the influence of clients marketing strategies on the vendor's business. Security concern in outsourcing and offshoring services is another interesting area which needs to be explored more.

Recommendations: The future is brimming with opportunities for some service providers who will be overjoyed to hear that buyers intend to increase the scope of their outsourcing, as this means more available business. However, there is a slight change, the only providers set to benefit are those that fully understand how the industry is changing and what the modern client is looking for. That means best-of-breed partners who know how to provide customer centricity, the latest technology to good use, providers who are apt at mining data, refining it and keeping it secure on the client's behalf shall be able to reap the benefits of outsourcing.These are the companies that will prosper in 2020. Some big outsourcing names will disappear if they fail to adapt to the change before the next decade. ✪

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