

NIIT Technologies' Lalit Dhingra: “Outsourcing Is Going to Become More Collaborative”

Lalit Dhingra oversees the Americas operations of NIITTechnologies, an IT solutions organization, servicing customers in North America, Europe, Asia and Australia. It has more than 220 clients across 16 countries. Dhingra joined NIITTechnologies in 1990 and was responsible for building the software services division from inception. He moved to the U.S. in 1997 as vice president and, in 2006, took charge as president, operations. He is an alumnus of the Indian Institute of Technology, Delhi and Michigan School of Business. Outsourcing is growing up, he tells Knowledge@Wharton. It means more commitments from both sides.

An edited transcript of the interview follows.

Knowledge@Wharton: We want to speak today about outsourcing. Given your background in the IT industry, I would very much appreciate hearing your perspective on how outsourcing started and how it has evolved to where it is today.

Lalit Dhingra: Let me start from 20-25 years back. One of the major issues was: How do we get our products or applications to the market quickly? There were a lot of consultancy companies like IBM, Accenture and EDS competing to get the right kind of skills. They were trying to find resources that could fill the skill gaps required to execute those applications, projects or products. That happened for a few years.

In 1998-99, we were talking about the Y2K situation. All these companies wanted to get Y2K fixed quickly and at low cost. So there was the emergence of a lot of offshore companies out of India and other places. We called them low-cost centers. Then came the economic downturn because of 9/11 and the bursting of the dotcom bubble. So there was a huge upswing in offshoring work from American companies. This is what I call Outsourcing 1.0.

[But U.S. companies] wanted to get more than the labor arbitrage or the cost arbitrage from

this outsourcing. There were some different models tried: the risk-reward model — starting the offshore development centers for some of the large companies. When the 2008 downturn happened, companies started looking at other models. They were looking at how they could do work within the U.S. A lot of insourcing happened at that time because of the job situation in the country. They also wanted to get more from the outsourcing vendors beyond cost. Clients want their vendors to help increase their business, or increase customer satisfaction from outsourcing projects. That is what I call Outsourcing 2.0, which is still happening today.

There are a lot of shifts which are going to happen next year, which is the beginning of Outsourcing 3.0.

Knowledge@Wharton: Let's discuss some of the most common outsourcing models that you see today and which ones you think will survive when you look to the future, to Outsourcing 3.0?

Dhingra: In the typical model, companies have offshore development centers. I would call these outsourcing centers in low-cost cities. Then some companies wanted to set up their own captive units in low-cost countries or cities — in India for

example. We hired certain small-sized companies to get into this whole Build-Operate-Transfer (BOT) model. So BOT was prevalent for some time, not very successfully. Then some of the companies wanted to have joint ventures with other companies; this could be a better way of doing things.

The latest model, which we are pursuing with some companies, is what we call the virtual captive. This is a little more transparent than the other models. This helps the organization, which can say: "Okay, now they're really open and transparent and all the costs are very openly given to us." So that is a new model — the evolved model.

Knowledge@Wharton: Can you explain the virtual captive model and what makes it transparent?

Dhingra: The virtual captive model is like the client having their own captive. [But] it is the outsourcing company which is going to set up their development center in a particular city. It could be in the U.S. also. It could be in a different city in the U.S. Or it could be in a low-cost city in India or a low-cost city in the Philippines. The idea is that, okay, we're going to get the resources required to do the job for the customer. They have a big say in recruiting those resources or the kind of salaries to be paid to those resources. The only thing which the outsourcing company does is the human resource part, the management part and the administrative part. Everything is very transparent to the customer.

Most [client] companies have a lot of faith in the outsourcing companies. All of the costs are open and everything is on the table. They also know how much profit the outsourcing company is going to make. That's why this is a very new model. Right now not many people are pursuing it, but there are select companies that have started to go down that route.

It satisfies the cost benefits. It satisfies getting the right kind of skills for the job. It ensures that the intellectual property (IP) is protected. And also, to

a certain extent, the culture of that organization is also a big part of the development center which has been run by the outsourcing company. So I think this is going to be the future of outsourcing going forward, apart from the insourcing which is happening because of the job situation.

Knowledge@Wharton: What you said is really fascinating because we have seen in other industries — manufacturing, for example — that even though there was a long-term trend towards outsourcing and offshoring, especially to places like China, these days there is a reversal and a lot of those jobs are actually coming back and people talk about reshoring rather than offshoring. Do you see something similar in IT and IT-enabled services as well?

Dhingra: Yes. There are a lot of companies who are saying, "How do we create jobs in the U.S. itself?" So having a virtual captive within the U.S. is a fascinating thought in, let's say, the heartland of the U.S. or in a small city like Augusta or Utica in the north. So that is going to be one of the trends.

The other issue is that the clients want to participate even more with the outsourcing company, rather than saying, "Okay, here is the staff, you take it up and do it for me." It's more like, how do I participate? How do I ensure that the jobs in the U.S. are secure? How do I ensure that I get the right people? They want to be more participative with the outsourcing firm. That will be the biggest change we will see.

Also, clients will not deal with only one vendor. The tradition is to get one large company and outsource everything to that company and say, "Okay, now you take care of it." In the future, it is going to be more dependent upon the kind of skills a company brings. And they will go to multiple vendors to get the jobs done. I think these are the future trends. The outsourcing companies have to show good processes — which they already have — and good domain expertise in the business in which they want to get the projects.

This will keep everybody very honest because the customers or the companies in the U.S. are not looking for a cost arbitrage any more. They're looking for ways a vendor can increase their revenue or their business and the satisfaction of their customers. And can you think in terms of our customers rather than thinking in terms of us? So I think that's the big change.

Knowledge@Wharton: Even if companies are not strictly looking for cost arbitrage, are there greater efficiencies from an economic standpoint in some of the emerging outsourcing models?

Dhingra: Yes. There are two ways you can look at outsourcing. One is that I want to bring my product faster to the market. Hence I need the skills of people who can help me run faster. So when I'm helping somebody run faster, I am increasing his value economically.

The second depends on the value you're looking at from your outsourcing partner. If you are only looking for cost arbitrage and say, "Okay, you can squeeze the vendors to come to terms," then you will not get the quality that you are looking for. So people today are very clear about how much cost arbitrage or how much value they want to get from the outsourcing partner.

Knowledge@Wharton: It seems to me that what you are saying is that instead of thinking about how outsourcing can squeeze costs, there is more focus now on how much value you can create for your client and your clients' clients and thereby participate in growth. Is that right?

Dhingra: That is absolutely correct. This is the way things are going to go. So, for example, if Emirates (the airline) is going to outsource some IT portion to an outsourcing company like ours, then their expectation is not for us to think just about the benefits Emirates itself will incur, but instead their customers. They want us to think about the Emirates' customers, which is the passenger today. What value can I bring to the airline's passengers? What innovation can I bring to the table? What new ideas can I bring which can build more value for the Emirates?

Or take an insurance company. They want to give the job to the outsourcing company that can think about the person who's going to be insuring. As a company we have to look beyond our customer, to the customer's customer and see how we can bring ideas, bring a new way of thinking and then generate value for our customers. That is what is going to be the change going forward; that is what I call Outsourcing 3.0, which will have more collaborative efforts between a customer and a vendor.

Knowledge@Wharton: Historically there's one question that was always very challenging for many companies when they entered into some sort of outsourcing or offshoring arrangement. And that is: what kind of work do you outsource? And what kind of work do you retain within the company? So where do you draw that boundary? Do you feel that division is going to change as you evolve into Outsourcing 3.0?

Dhingra: Yes.

Knowledge@Wharton: How so?

Dhingra: It's going to be changing. Previously, they were saying, okay, let's first outsource the work that is not very critical to the company. Then do the critical work or the code work through consulting within the U.S. Now, with these new models, the virtual captive for example, the critical work can also move there. I am running my business and I'm building something for my future business. Previously, most of what I call the run part of the business was outsourced. The build part was retained by the company through their employees or through a little bit of partnership. But now, I think, the shift on the build side will also happen. You have a collaborative approach because they are not very scared of IP threats with these models. So that is a change which is going to happen.

Knowledge@Wharton: It sounds like a really huge change.

Dhingra: That's a big change.

Knowledge@Wharton: Imagine you have a crystal ball in front of you and you're looking into the future of outsourcing, three to five years out. What do you see? What's going to happen in terms of the future of outsourcing trends?

Dhingra: I think [it will be] more collaborative. Instead of my just giving the work to somebody

and saying, "Okay, do it for me and I'm just going to be reviewing it, or I'm just going to be participating a bit," it will be more participative, more collaborative, more thinking together, more getting new ideas to the table. Any company which does not bring those ideas — the values for the customers — is not going to survive.