

Infusion of social innovation in outsourcing for developing countries: A case in Nepal

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Abstract

Outsourcing has been a buzzword in the business world for the last several decades. Information Technology Outsourcing (ITO) and Business Process Outsourcing (BPO) have been dominating the outsourcing jobs to developing countries. Recently, a new shift of outsourcing to impact sourcing have emerged through which digitally-enabled jobs are given to marginalised individuals so that their material conditions would be improved.

The aim of this paper is to design research to analyse effects from impact sourcing service providers (ISSPs) on the local communities. First, major stakeholders such as the providers, employees (the communities) and the clients (companies using impact sourcing), have been analysed. Theoretical framework is prepared to show their motivations to be part of the impact sourcing. Altruistic hearts and intents of both the providers and the clients could be a base to promote this impact sourcing model to the next level.

Keywords outsourcing, ITOs, BPOs, impact sourcing, social innovation, employment.

1 Introduction

Outsourcing has been a buzz word in business world and usually defined as “the transfer of activities and processes previously conducted internally to an external party” (Ellram & Billington 2001). Mostly companies outsource to reduce costs, access resources so that they can utilise their time on strategic work. Along came the concept of outsourcing with the growth of modern business enterprises in the latter half of the 19th century (Gonzales et al. 2004). Outsourcing could be done nationally or outside countries, which is referred as offshoring. The first trend of offshore outsourcing impacted blue-collar jobs in US as high-tech manufacturing companies such as computers and electronics, moved to East Asian countries between 1987 and 1997 (Bardhan & Kroll 2003). Gradually, the demand for white-collar jobs dealing with Business process/service outsourcing (BPO/BSO) such as finance and accounting, human resource management, procurement, legal, etc. increased and started to gain momentum (Hatonen & Eriksoon 2009). Advancement in the IT industry in the mid-1980s with the enhancement of personal and networked computers created a substantial demand for customised software development and outsourced to India as they had the skill, the language to communicate in English and the lower wages (Bhattacharjee and Chakrabarti 2015). The growth of IT outsourcing (ITO) and BPO was not limited to India but spread to Philippines, Malaysia, China and others (Bardhan & Kroll 2003). However, India remained the top destination for outsourcing by inducing quality manpower and enhancement in productivity through innovation, thus crossed US\$200 billion in 2012 (Bhattacharjee and Chakrabarti 2015).

Recently, the concept of ‘social innovation’ evolved in outsourcing to make positive impact to disadvantaged communities in the world, hence called ‘impact sourcing’ by focusing on people of developing countries (Burgess et al. 2015). To promote the concept to improve the lives of the poor and vulnerable worldwide (Accenture 2012), Rockefeller foundation endorsed and supported ‘impact sourcing’ as they have similar goals in their initiatives like Poverty Reduction through Information and Digital Employment (PRIDE). Possible outcomes from impact sourcing have inspired this foundation and therefore, have committed to support by providing funding some African projects (Troup 2014). These initiatives have been creating social values and global opportunities in those communities, as some described as base-of-the-pyramid (BOP) (comprising approximately four billion people with poor socioeconomic status) and determined to continue the good work.

Since impact sourcing is relatively new concept, not much research has been done, except few researchers (Sandeep & Ravinshanker 2015, Bugess et al. 2015, Carmel et al. 2014, Heeks 2013, Lacity et al. 2012) who mainly focused on the providers of impact sourcing. It is still considered a new area for research and not much work has been done to analyse the impacts of workers/employees of the providers and there is a need for study on the impacts on the employees and this study is set out to do that analysis. At this stage, it has focussed only in one developing country, Nepal. Impact sourcing has recently been introduced in this country and the practice has been carried out in urban area rather than rural area. This study aims to evaluate criteria of impact sourcing in developing countries.

Among several companies, Cloud Factory has so far employed 6,738 members of community in developing countries like Kenya and Nepal since 2012. Cloud Factory, one of the pioneer impact sourcing service providers in Nepal, is taken as a case study to examine the effect of impact sourcing in developing countries. Our goal of this research is to study and analyse socio-economical profile of employees and analyse the changes that impact sourcing model has made in their lives. Initially, we have analysed the information publicly available. We have also looked at the employment situation of the country where the majority of the young people strive to go to foreign countries such as Malaysia, Korea, Middle Eastern countries and others, as migrant workers.

At later stage, we plan to conduct online surveys and organise interviews with some of the employees working with the Cloud Factory. A different set of interviews will be conducted with the founder and management executives of the company. This study will analyse the impact from the impact sourcing model in the communities. Initial investigation have shown that flexibility to work from any place such as their own home or internet cafes on flexible hours have attracted college students and other unemployed youth to this impact sourcing model of Cloud Factory in Nepal. A model will be drawn based on the way the company has been impacting the communities.

This research-in-progress paper is organised as follows. In an attempt to analyse the effects from impact sourcing in communities, growth of BPO is briefly discussed in the next section. It is then followed by discussion in the linking of social innovation with impact sourcing, new wave of outsourcing. Some major impact sourcing service providers are introduced in this section. Next, a brief description of Nepal to relate to the context of impact sourcing, is discussed. The role of Cloud Factory and its impacts are discussed. Finally a conclusion is drawn with clear future direction this study is taking.

2 Growth of BPOs

Not only specific IT skills such as coding, database, support, network management and others, which is referred as ITO but also non-IT skills such as general back office business processes or activities for example, data entry, answering phones, telemarketing, transcribing medical prescriptions, invoices, insurance claims etc. are outsourced (Lacity et al. 2012) and they are referred as BPO. So, BPO is defined as allocation of simple business processes which are relatively easy to execute to external service providers (Alkali et al. 2016). They have also mentioned that BPOs are further classified to 3 different service provisions a) front office processing (customer service or technical support), b) middle office processing (banking and insurance) and c) back office processing (finance and accounting).

Due to pervasive advancement in technology, BPOs have been growing significantly, as supported by IT enabled services (ITES). Figure 1 below shows BPO market growth /trajectory from 2004 to 2019, provided by Everest group in 2015. Although the growth was impacted by the financial crisis during 2008/09, other segments accelerated the growth steadily and projected to grow further.

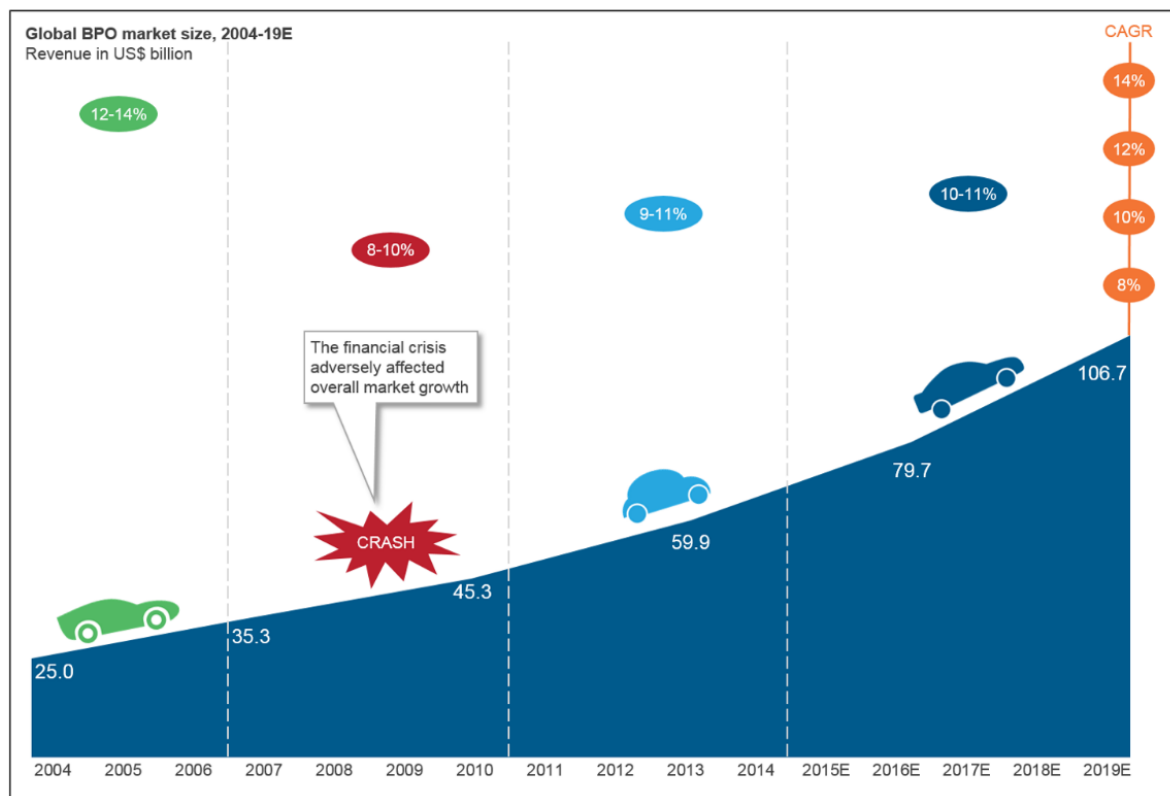


Figure 1. Global BPO Market Trajectory (2004 – 2019) (Source: Everest Group 2014)

Major countries who are able to get BPO work are India, China, Philippines, Malaysia, South Africa, Romania, Russia, Brazil, etc. Apparently, some countries are doing better than others to attract offshoring outsourcing and they are evaluated based on certain factors such as labour costs, skills, environment (which includes government policies, ethics, accessibility), quality of infrastructure, risk profile (by looking at political unrest, disruptive events etc.) and market potential (Alkali et al. 2016). According to the latest report released, 2016 A.T. Kearney Global Services Location index, India remains the top country for outsourcing, as they have a strong skill base and financial attractions. China and Malaysia came second and third attractive countries respectively (consultancy.uk 2016).

2.1 BPO in Nepal

In comparison to its neighbouring countries, Nepal does not have a long history of outsourcing and the market is small. Shrestha and Sharma (2013), however, quoted that local Computer Association of Nepal estimated more than 6,000 BPO companies in Nepal but only 256 of them are legally registered. It is unclear what the reason behind it, perhaps the cost. Few of them have been able to compete well in the global arena, mainly due to lower wages and good English language skills from new generation of college graduates.

3 Social innovation and Impact sourcing

Impact sourcing is defined as “a practice of hiring and training marginalised individuals to provide information technology, business process, or other digitally enabled services who normally would have few opportunities for good employment” (Malik et al. 2013). So this model of outsourcing is dedicated to create employment for people at BOP (aka bottom of the pyramid) level whose average income level is less than \$2.50 per person per day (Heeks 2014). Thus, impact sourcing offers services offered by traditional BPOs plus social value creation to disadvantaged communities in developing countries by providing work and necessary training to marginalized individuals. This motto is resonated with mission statement of one of the philanthropic organisations, the Rockefeller Foundation “*To promote the well-being of humanity throughout the world*” (Rockefeller Foundation). Employment is one of key social issues at developing countries and the impact sourcing model determines to address that problem. Rockefeller Foundation has been backing up the impact sourcing model by dedicating \$100 million to Digital Jobs Africa initiative (Troup 2014). It is also aligned with Rockefeller foundation’s ‘Poverty Reduction through Information and Digital Employment (PRIDE) initiative.

On the other hand, massive growth of BPO to the country like India, faced with human resource challenges (Kuruvilla & Ranganathan 2010). Most common challenges are: managing new generation of employees (college graduates), supply of skilled labour, retaining employees, job hopping etc. Alternative solution to this rising problem, in conjunction with possible social impacts to poor and vulnerable, the outsourcing moved to rural area of the country in some cases. Thus a company called Ruralshores began in 2008. More on the company is described in the next sub-section. It has been noticed that people in rural area are more reliable (Burgess et al. 2015) and not necessary face the same human resource challenges as did at urban area. Level of skills is the main issue but as long as simple tasks are considered, they outperformed and hence impact sourcing can be proud to state the following value propositions (as shown in Figure 2 below):

- Low costs
- Proven, reliable service delivery
- Large and untapped talent pool
- Stable and engaged workforce
- Social impact

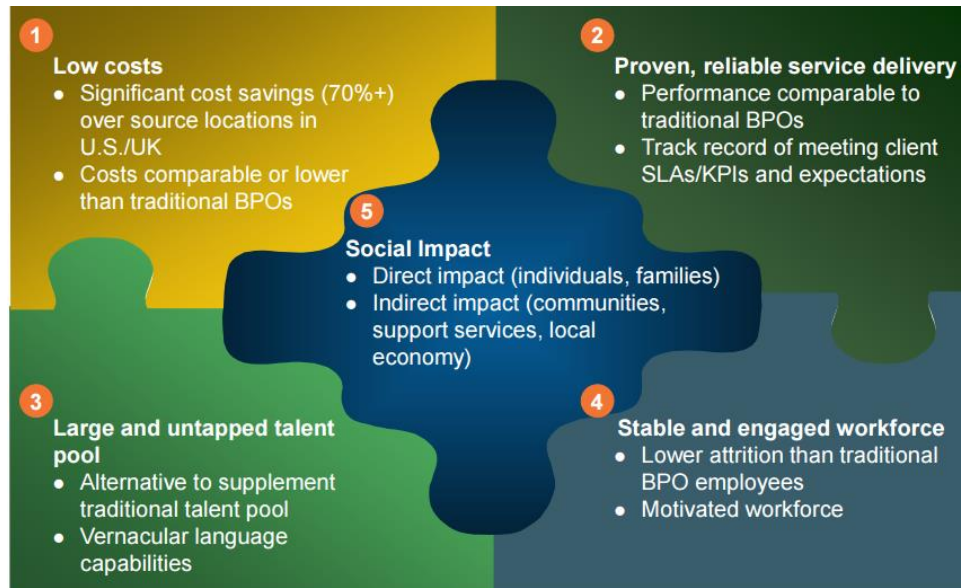


Figure 2. Impact Sourcing Value proposition (Source: Everest Group 2014)

Thus, impact sourcing has become easier to market to the clients who are sensible to their corporate social responsibilities (CSR).

3.1 Major Impact Sourcing Service Providers (ISSPs)

A phenomenon of ‘social innovation’ in outsourcing evolved and created social value to some disadvantaged communities, who otherwise are not able to receive any facilities or local employment. It has made tremendous impact to employees in rural area. Some of the impact sourcing service providers are listed in the Figure 3 below with a link to the countries they are operating in.



Figure 3. Impact Sourcing Service Providers (Source: Cloud Factory)

A list of countries and targeted marginalised individuals for some of the companies are given in Table 1 below.

ISSP	Targeted marginalised individuals	Location
Cloud Factory	Unemployed population	Nepal and Kenya
Ruralshores	Disadvantaged populations	India
Samasource	Bottom of the Pyramid	India, Kenya, Uganda, Ghana
TechnoBrain	Poor and vulnerable populations	India, Ghana, Uganda, Malawi
Digital Divide Data (DDD)	Unemployed high school graduates ready for work / study program	Cambodia, Laos, Kenya

Table 1. Some of ISSPs with targeted individuals and location (source Lacity et al. 2014)

3.1.1 Cloud Factory

This company is founded by Mark Sears in 2010 as he was impressed by skills of local people in Nepal. Core focus of this company is not to make profit only but to grow the company and make the social impact by giving more opportunities to talented people who will otherwise not have that opportunities. Types of jobs carried on by Cloud Factory are; transcribing bills, restaurant menus, categorise images, tag images, face detection, virtual assistant training, ChaBot training etc. (CloudFactory.com 2016).

4 Proposed Framework

United Nation's Millennium Development Goals (MDGs), global agencies such as World Bank, UNDP and one of the biggest private charitable foundations, Rockefeller Foundation, all share one common sustainable development goals to end poverty in the world. In the figure below, the phenomena is described as 'Global Vision', as it stands from those charitable and international agencies. With the rapid advancement of ICTs, rural communities of developing countries have been gradually reached by some social enterprises such as ISSPs and NGOs. It is referred as 'social entrepreneurship' which can be described as a process to impact to society by creating social values. In some cases, government bodies are investing and playing a major role to develop local development. Impact sourcing has been a great phenomenon to influence and expand the work to rural areas of developing countries and help marginalised communities. Thus, ISSPs are working with NGOs and government bodies to create social

value by providing disadvantaged and poor people required trainings of computers and English Language and ultimately gainful employments. Thus, ISSPs are contributing to build communities and raise local economy by lifting up literacy rate and socio-economic status through this process.

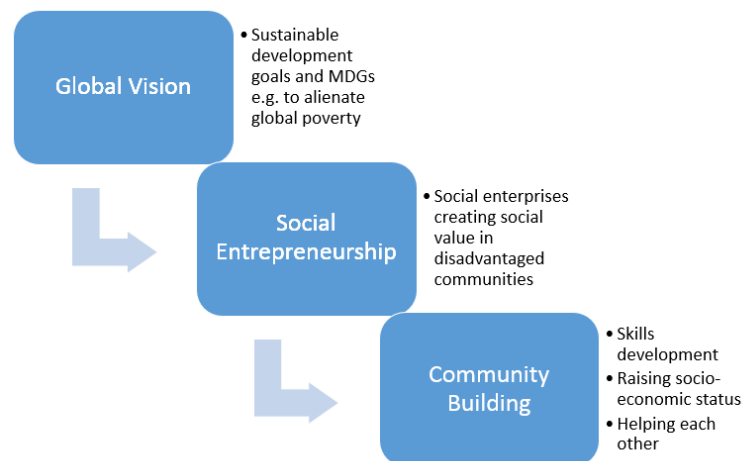


Figure 4. Theoretical framework of motivation in impact sourcing

5 Context of impact sourcing to Nepal

Nepal, a landlocked South Asian country, sandwiched in between two top countries in terms of attracting the highest number of BPO services. Although it is a small country, there is a big potential for outsourcing work with this new trend of impact sourcing. A significant number of Nepalese youth (2,226,152 between 2008/09 and 2013/14) goes to foreign countries such as Middle Eastern countries, Israel, Malaysia, Korea etc. for basic employment (Government of Nepal 2015). Most of these young people are from rural parts of the country where there is a scarcity of the employment. They are departing for foreign jobs because there is no employment available in the local areas for them. Therefore, we strongly believe and recommend that the concept of impact sourcing will be more effective in rural area of Nepal. This way, local rural skills can be tapped in and keep the good work impact sourcing is delivering worldwide.

6 Discussion

Our goal of this research is to study and analyse socio-economical profile of employees (changes that impact sourcing model has made in their lives). In the first instance, we have analysed the information publicly available in different sources. Cloud Factory has published that 59% of the employees are currently enrolled in college and hence they are working part time. It proudly presented that 47% of its employees gained new management skills and 30% gained leadership skills. It has clearly demonstrated that majority of earnings by the employees (62%) is spent for their personal expenses and 22% of the earnings was used to support their families. The most important figure is happy index for employees, reporting 92% of the employees agreed that they are happier because they are working at the Cloud Factory and what they learnt there.

The company is operating from the capital of the country, Kathmandu (metropolitan city) in Nepal. Most of the employees are people residing in the capital and its periphery. Further investigations are required to verify whether limited urban coverage of employees is according to core mission of impact sourcing, which is to provide gainful employments to improve their social status in rural areas.

7 Conclusion

The new trend of impact sourcing in the space of outsourcing has been gradually evolving and achieving social innovation in disadvantaged communities of developing world. With the increased awareness of social responsibilities and inclusive business, businesses are more likely to use the service provided by impact sourcing service provider than traditional outsourcers. The reliability of employees and their commitment to either their family or themselves makes the impact sourcing model very attractive to the clients of impact service providers.

In the context of Nepal where growing youth departing the country to find basic employment in foreign countries, expanding impact sourcing to reach rural parts of the country makes a perfect sense. This study analyses the impacts of employees and recommends company like Cloud Factory to expand to rural parts of country. In the future, this study will be expanded to analyse and compare the 'before and after' condition of the employees working with the provider for several groups of employees. It is apparent that an expansion of the company such as Cloud Factory to people of rural area by involving wider communities will be valuable to the societies such as Nepal.

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