Chapter 9
Value Co-Creation Approach for Improving Performance of Outsourced Projects

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ABSTRACT

This chapter uses value co-creation approach to improve performance of contracted projects. Without value co-creation, there are always two projects that are performed separately: one is the contractor's project, and the other one is the customer's project, which consists of all the activities for initiating, evaluating and specifying the project as well as controlling and supporting it. These activities form a project, which is often disregarded as a project. Both customer and contractor regard the other side activities as external tasks under the responsibility of their owner. In effect, the two projects are inter-related and form a unified integrated project. The chapter shows that the unified project behaves very differently than either side expects; and its critical activities are different from those of the separate projects. In addition, there are great strategic benefits that are product of the value co-creation approach and potential synergy which are discussed in the chapter.

INTRODUCTION

This chapter utilizes a value co-creation approach for improving the performance of an outsourced project.

Value co-creation approach involves both the customer and the contractor as parts of a whole system. Accordingly, we analyze the processes of an outsourced contracted project, and suggest an improved way of planning and executing it. The chapter utilizes an illustrative example for comparing the two approaches of managing an advertising campaign. The unexpected results are illustrated and discussed.

Outsourcing has increasingly become a powerful alternative to the traditional, vertically-integrated firm (Golini & Kalchschmidt, 2014; Rabinovich, Windle, Dresner, & Corsi, 1999). (Cachon & Harker,

DOI: 10.4018/978-1-5225-2084-9.ch009

2002) show that economies of scale lead to use of outsourcing, and that sometimes competing suppliers would even outsource their retailing function to mitigate price competition. Overall, some 60 per cent of Fortune 500 companies report having at least one contract with a third-party logistics provider (Lieb & Randall, 1996). The outsourcing of logistics functions to partners is also known as “third-party logistics providers” (Antonio Martins & Ramos Martins, 2012; Lieb, Millen, & Van Wassenhove, 1993). Jon Africk of consultants A.T. Kearney (Africk & Markeset, 1996) has defined them as multiple logistics services provided by a single vendor on a contractual basis (Abdur Razzaque & Chen Sheng, 1998). Outsourcing has become a necessity for most companies in today’s competitive environment, which is also evidenced by a growing interest by academics worldwide (Schoenherr, 2010).

In practice, outsourcing most often occurs as a tendering process where the customer invites proposals by publishing a request for proposal (RFP). This is a bidding or solicitation in which a company or organization announces that funding is available for a particular project or program, and companies can place bids for the project’s execution (Andersson & Norrman, 2002). The RFP outlines the bidding process and contract terms, and provides guidance on how the bid should be formatted and presented.

Outsourcing of projects has been a growing trend in the last few decades, as the complexity and scope of projects increased considerably. The development of the RFP has typical stages that include the following activities (International Association of Outsourcing Professionals, 2014): Assessing feasibility, Identifying key people, Defining environment and domain constraints, eliciting requirements, soliciting participation, identifying key problems, creating scenarios, defining purpose and scope of work, defining deliverables, and pricing. These activities are well defined in the Best Practices Procurement Manual of the US Department of Transportation (US Department of Transportation: Federal Transit Administration, 2012). Following the submissions of the responses (proposals) the customer starts with an evaluation process using various quantitative criteria (Cui & Hasija, 2012; Salimath, Cullen, & Umesh, 2008; Sia, Koh, & Tan, 2008; Watjatrakul, 2014). Customer satisfaction is an important strategic performance, which is influenced by service experience and perceived value (Chou, 2014). A study investigates the differences across and the need to consider both the client and vendor perspective in evaluating international sourcing and found that relational factors play a key role in achieving success (Haried & Ramamurthy, 2009). The customer activities must not be ignored as they are of significant importance for the project’s success, and they require time and effort if done properly. All these customer activities form a solid project, which is often overlooked.

As a response to a competitive RFP, various contractors compete through a bidding process. The competition is based on evaluating the proposals. Typically, contractors invest a lot of time and effort in developing a competitive proposal. There is a striking similarity between some of the contractor activities and the customer activities (e.g., assessing feasibility and identifying key people are done both on the customer’s side and within the contractor’s organization). Most project management literature is focused on the contractor’s side of the project, rather than the customer’s side (Kerzner, 2013; Maylor, 2008; Pinto, 2015; Shtub, Bard, & Globerson, 2004). This philosophy, defines the project boundaries of time, cost and scope, and the project success is measured against these objectives (Association for Project Management, 2012; Project Management Institute, 2013; Yao, Jiang, Young, & Talluri, 2010). Project success also depends on system approach and combination of soft and hard skills (Carvalho & Rabechini Junior, 2015; Creasy & Anantatmula, 2013; Petter & Randolph, 2009).

Following the proposal submission stage, the customer project continues with an evaluation of the competing proposals. The contractor selection requires a rigorous evaluation process, followed by a negotiation stage, and a legal wording of the binding contract.