

# **Impact Sourcing in India: Managing People, Clients and Growth at ServImpact**

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## **The Founder of ServImpact**

Salt Lake, Kolkata (India). It was one of those warm and humid evenings during monsoon season in August 2014 when Sidhartha Basu, the founder of ServImpact, sat together with his friends in his favorite café. He remembered how he had a conversation at the same place with a local youth back in 2005 that would change his life.

In 2005, Sidhartha worked for an IT company in Silicon Valley in a senior leadership role. Like many India-born software engineers, Sidhartha had moved to Silicon Valley in the early-1990s to seek abundant job and career opportunities in this IT cluster. Over the years, he worked with some of the major technology companies and also became co-founder of a company that served as a technology alliance partner of the world's largest developmental agencies. Known to both the technology and development community in Silicon Valley, it was not by chance that he was once approached by a research team from Stanford University to join an ethnographic study together with a leading international aid agency. More specifically, this study aimed at surveying the rural poor in the Ganges Delta region of West Bengal in order to better understand their living and working conditions. In fact, Sidhartha was a firm believer, from his own experience, in the potential of collaboration and technology in humanitarian missions worldwide. Plus, being born and raised in West Bengal, Sidhartha knew about unemployment and poverty in this region. His help promised to greatly benefit the Stanford study team. Sidhartha therefore happily agreed to participate in this study.

Like other India-born professionals in Silicon Valley, Sidhartha was at a point in his life where he could imagine to either grow his career in the United States, or move back to India with his wife Jyoti Basu, who he had met in California. Getting involved in the development study rather unintentionally gave Sidhartha the direction he was looking for. In particular one conversation with a local youth opened his eyes. "We don't have any jobs here except farming and fishing", Sidhartha remembered the Bengali man say. That was a time when the global outsourcing industry was booming in India's urban centers, such as Bangalore, Hyderabad and Chennai. Yet, the majority of India's youth, especially in rural areas, had no possibility of participating in and benefiting from this trend. Sensing an opportunity here to make a positive social impact, he finally decided to return to India.

Together with his wife and a number of local NGOs, Sidhartha established Better Life Foundation in 2006 whose main goal was to provide market aligned skills training (MAST)<sup>1</sup> for youth in this area. Skills training would cover areas such as workplace IT, call center and business process outsourcing training, general communication, workplace readiness etc. The main target group were 18 to 30 year old men and women. Soon Sidhartha realized, however, that a training center by itself would not change much for local youth without job opportunities. Sidhartha thus started an IT services center in 2010. The center mainly employed youth who underwent IT training under the aegis of Better Life Foundation. In turn, Sidhartha was confident that he could benefit from his professional network in trying to acquire clients mainly based out of the U.S. In fact, many returning Indian entrepreneurs, like Sidhartha, utilize their contacts abroad to start and embed their own businesses in so-called ‘global production networks’, which connect suppliers, mainly in developing countries, with global buyers, mostly in advanced economies. In 2012, Sidhartha decided, after seeing the success of his pilot project, to turn the delivery center into a for-profit venture. This was also a way for him to enter the increasingly crowded Indian outsourcing industry which has been serving U.S. and European clients for many years. With the help of a grant from Omidyar Network Foundation, Sidhartha and Jyoti eventually founded ServImpact (short for: ‘Service with Impact’) – today one of the most successful local Impact Sourcing Service Providers operating out of India.

## **The Impact Sourcing Model of ServImpact**

Impact sourcing (IS) is a relatively new trend. In general, IS refers to the provision of employment and training opportunities in the outsourcing sector for disadvantaged groups in society. Global outsourcing, in general, is one of the highest growth sectors of our time. Facilitated by increasing digitalization and commoditization of business processes, and driven by the opportunity to drive down cost, increase speed of service delivery, and get access to globally dispersed talent Western firms across industries increasingly outsource business processes to specialized service providers operating across the world, but mainly in emerging economies. India has been one of the most important outsourcing destinations, and Indian outsourcing firms, such as Wipro, Infosys and Genpact, are among the largest and most successful service providers worldwide. Their main selling point is their ability to provide various business services, from IT services and tech support to payroll, call centers and other

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<sup>1</sup> MAST is a proven training methodology of the American India Foundation (AIF) that is implemented by leading skill development organizations across India.

business processes, but also software testing and engineering support, for relatively low costs at high quality standards to global clients across industries. They thereby utilize growing pools of technical talent in India, but also other developing countries, who many global clients do not have easy direct access to.

Many developing countries, including India, have thus regarded global outsourcing as an important lever for employment and economic development. However, one of the limitations of the global outsourcing sector has been that it has mainly provided jobs and training for the young and educated urban elite, whereas the vast majority of people in developing countries, such as youth in slums and rural areas and people with physical handicaps, would not have access to these opportunities. That is why a number of foundations across the world, including the Rockefeller Foundation in the U.S., NASSCOM Foundation in India and a number of smaller local organizations around the world started around 2011 to actively support and fund what would become known as ‘impact sourcing’.<sup>2</sup> So-called impact sourcing service providers (ISSPs) adopt IS models by recruiting and training people from disadvantaged backgrounds for global outsourcing jobs. ServImpact is one of these organizations.

ISSPs like ServImpact can be called ‘hybrid organizations’ because they have developed processes and capabilities that allow them to effectively create both economic and social value. They thereby operate within a complex network of partners and stakeholders (see Figure 1) – global and domestic clients, funding organizations, and local NGOs linking them to local communities. Managing these different relationships effectively allows them to operate and compete as hybrid organizations within global production networks.

*First*, in order to pursue their business objectives, ISSPs either seek to establish service delivery contracts directly with global clients, or they prefer to work as subcontractors for larger mainstream service providers. ServImpact has its own business development team that works with clients from North America, Europe etc. *Second*, to support their social mission, ISSPs typically rely on funding from local or foreign organizations. In the case of ServImpact, the initial funding was provided by Omidyar Network, one of the world’s largest philanthropic investment firms. Further investments from organizations like Dell Foundation have aided their expansion plans. *Third*, ISSPs often enter alliances with local NGOs and training organizations to organize recruitment and training of their employees and to strengthen ties with the local community. In addition to its collaboration with Better Life Foundation as the main local

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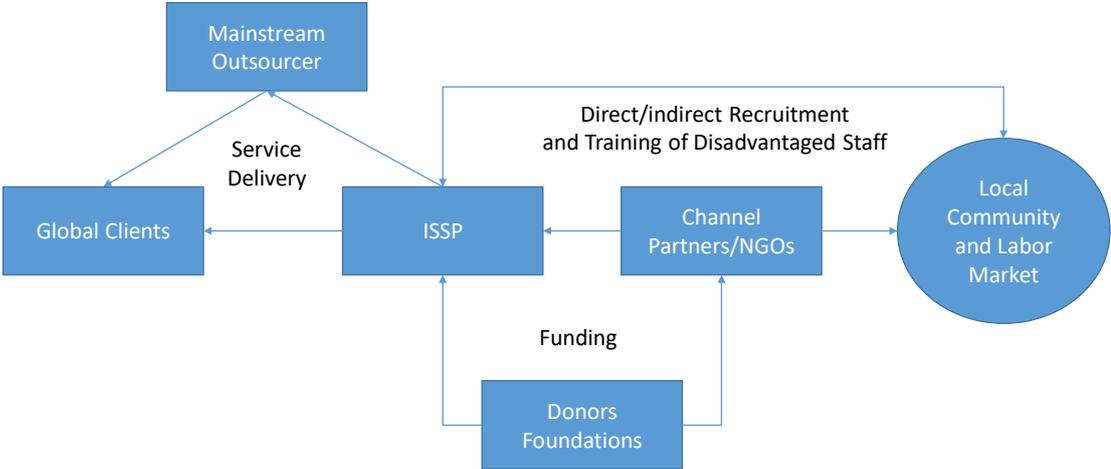
<sup>2</sup> The mission of Rockefeller Foundation is to promote well-being of humanity and more inclusive economic development worldwide. NASSCOM Foundation has collaborated with Rockefeller as the social arm of the India-based industry association NASSCOM (National Association of Software and Service Companies).

training institution, ServImpact has worked closely with organizations such as American India Foundation for training partnerships and curriculum design for its employees. We discuss in particular the collaboration with Better Life in more detail below.

Another critical capability of ISSPs is their internal organization of tasks and processes. Most ISSPs structure their service offerings into modular work packages, which can be aligned with different skill sets. Unlike the typical employee at mainstream service providers, staff at ISSPs often lack higher education and sophisticated technical skills. Therefore they are often provided with so-called ‘microwork’ which refers to highly standardized tasks that require little training and can be performed as part of larger work packages without direct contact with external clients. Examples include data entry, IT helpdesk tasks, and transcription services. ServImpact has adopted a similar model and provides data management, digital publishing, global service desk and custom services to its clients.

Next, we discuss these various collaborative and internal capabilities in greater detail. We thereby focus on three critical challenges ServImpact needs to master in order to pursue its hybrid business model over time: managing recruitment, training and career paths; attracting global clients; and managing future growth.

**Exhibit 1:** The Impact Sourcing Model



**Managing Recruitment, Training and Career Paths**

In total, over 300 people are employed at ServImpact. More than 100 people work in the Salt Lake Center. Most employees are high school graduates who are recruited from rural impoverished areas. However, rather than being recruited directly, future ServImpact staff first go through a technical training at Better Life or a similar non-profit local training center. These centers are thus critical alliance partners ServImpact depends on for recruitment and training. Better Life, for example, trains 6,000 youth every year. Their curriculum was developed with the help of American-India Foundation. It includes IT skills, business process outsourcing training, customer relationships and sales, desktop publishing, image processing, and entrepreneurship development etc. ServImpact along with other clients benefit from these skills as they add value to the rather limited formal education most IS staff have received in life.

After graduating from Better Life, recruits are selected based on their technical skills as well as their aptitude to perform tasks. Better Life helps with placing qualified personnel, and over 70% of the people who undertook the skills training program have found employment at ServImpact or other local businesses requiring IT skills. Typically, however, new recruits are not yet qualified to be assigned to client projects. Further internal training is needed. “We cannot tell the clients that these people have no project experience”, Sidhartha explains. To become more ‘employable’, new staff goes through an internal English language training and a ‘work space readiness’ program. This program in particular is aimed at teaching how to write

emails, how to work in an organized “9-to-5 environment” and how to work in teams and interact with clients. On average, this paid on-the-job training takes one month before new staff can be assigned to client projects. In addition, employees are given training in new processes and technologies when they move across client projects.

Also, ServImpact has developed a three-tier recruitment and career development system. The different tiers correspond to the skill level of the employees, the complexity of the task, and the nature of interfaces with clients. Employees with no prior experience join the organization in Tier 1 where they perform simple back office tasks that require no client interaction. As they gain technical and process expertise in work related to business process outsourcing, they move on to Tier 2. Once they have gained sufficient expertise in interacting directly with clients, they are placed in Tier 3 and take up roles like operators for global help desk and contact centers for clients. Currently, there are a total of 20-25 staff in the last tier. This 3 tiered system provides employees with a career ladder that balances clients’ needs and employees’ different qualifications and aspirations. On the one hand, it matches ServImpact’s social mission as it provides career opportunities for initially disadvantaged staff beyond any particular job. On the other hand, it helps ServImpact customize its client interfaces – with more skilful and experienced employees directly facing the clients (e.g. IT help desks) while less experienced employees take up other tasks (e.g. photo tagging).

Though internal training and career development of employees have been quite a challenge, these efforts have also paid off. Turnover rate at ServImpact is relatively low, compared to service providers based in urban areas. By offering staff a genuine opportunity to build their careers, ServImpact has ensured more sustainable workforce planning for most of their client engagements. Low staff turnover means that project and customer knowledge stay longer resulting in higher productivity. Yet, even if some employees may not stay forever, Sidhartha is convinced, “our employees have a career now. They will be able to find a job tomorrow! We don’t want them to rely on ServImpact alone. We want them to have used ServImpact to develop their own skills and talents – that is our social impact.”

## **The Challenge of Attracting Global Clients**

Another big challenge ServImpact has been facing is marketing their services to global clients. ServImpact is targeting in particular U.S. clients: “We look at customers in the U.S. that pay a little better, pay on time and most importantly have a higher billing rate.” Yet, Sidhartha is fully

aware that global clients look primarily at cost and service quality. “We therefore want the U.S. customers to consider us seriously because we can provide them with one of the best options of service delivery”. In fact, Sidhartha has been very careful not to present ServImpact to potential clients as a social enterprise. “Our goal is to look like a professional organization that happens to be working in rural communities.” Being up to client standards is key to securing a contract and to potentially renewing deals for longer-term relationships. Sidhartha adds: “only after a successful delivery we mention, oh by the way check our website, a lot of the people we work with are from impoverished backgrounds from rural West Bengal.”

Sidhartha strongly believes that professionalism towards clients is key. In turn, focusing too much on their social mission might give the impression that ServImpact delivers below-standard services. Studies conducted by Accenture<sup>3</sup> and other organizations on client awareness of IS seem to support Sidhartha’s worries. Most Western clients have not heard of IS, and it is highly questionable that they will select ISSPs even if they knew about their social mission. Many Western clients still mainly care about cost objectives and service quality standards when outsourcing tasks. Meeting social responsibility objectives may be a bonus, but it will not affect provider selection decisions.

Against this background, Sidhartha has thought about ways to join social and client-seeking objectives. In particular, he is convinced that lowering operational and labor costs *through* IS will do the job. Other famous ISSPs, such as Samasource<sup>4</sup>, have successfully implemented IS models that guarantee low rates for clients. This has increased client acceptance, no matter if clients know (or care) about IS or not. For example, Samasource’s sales team based out of San Francisco manages large-scale data projects for clients like Google and Microsoft. Project managers load these big data projects into a proprietary technology platform, which then breaks them down into small digital tasks that are carried out by partner delivery centers based in developing countries. Women and youth recruited at these centers work on these manageable digital tasks (hence called microwork) that earn them a living wage. Once the tasks are completed, they go through quality checks, get aggregated back and are returned to clients over the technology platform.

But Sidhartha knows that lowering costs may depend on increasing the scale of operations and on further restructuring tasks into modular microwork. Modular means that tasks

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<sup>3</sup> Exploring the Value Proposition for Impact Sourcing, Accenture 2012

<sup>4</sup> Samasource is a San Francisco based ISSP who pioneered the microwork model and who serves global clients like Google, Cisco, eBay etc. For more details, visit [www.samasource.org](http://www.samasource.org).

from various clients would need to be broken down into standardized work packages which can be completed from anywhere without any specific client or product knowledge. While this approach will make it easier to recruit and utilize new hires with only limited skills, it might violate Sidhartha's initial goal to provide advanced training and growth opportunities to his employees. Apart from this concern, developing a more modular design for back-end operations may require, in turn, investing in technology platforms and advanced client-facing capabilities at the front-end. In fact, since most outsourcing services have become highly standardized, cost pressure and quality expectations from clients have been rising. In particular, in addition to keeping costs low, clients now expect providers to work more closely with clients to customize services, facilitate change management and promote seamless operations across tasks. To professionalize client interfaces, however, Sidhartha would need to hire highly skilled and experienced staff from the market. While this allows Sidhartha to charge higher rates, these investments might increase the divide between client-facing and back-office operations, and further limit career development opportunities for IS staff.

Another possibility is that global clients will become more aware of the social benefits of IS over time. For example, many U.S.-based ISSPs have benefited from the willingness of U.S. clients to support deprived communities in their home country. But does the same principle apply overseas? Sidhartha is very skeptical. He will therefore continue in the near future to 'hide' the social mission from global clients, and invest more in professional appearance.

## **The Challenge of Future Growth**

Sidhartha has ambitious growth plans. In particular, he is planning to not only grow their U.S. client base, but also to set up subsidiaries in the U.S. to better attract clients and coordinate client projects. Major Indian providers, such as Infosys and Wipro, have implemented similar strategies, not least in order to better compete with their U.S.-based rivals. One option ServImpact is considering is to open a business development office in New York City, run by Fellows of the American India Foundation, to attract global clients.

But Sidhartha wonders: What will happen to his social mission? What will happen to his alliance with the local partner Better Life, while he is building new contract relationships with global clients? Will the proportion of 'regular staff' from the market increase vs. IS staff? At the moment, he is convinced that growth aspirations should be given highest priorities. "ServImpact is a company with core values of helping local communities, but that does not

sacrifice our growth potential as a business.“ With hindsight, Sidhartha goes even further: “Our growth platform doesn’t say anything about being social. We want to reach \$10 Million in the next three years in annual revenue, with about 3,000 employees in another five years.” This implies an aggressive growth plan with a probability of expanding to other states and urban areas. One supporting recruitment strategy would be to directly hire employees with industry experience to increase the share of revenue from service desk jobs (Tier 3).

ServImpact’s growth aspiration, however, do not necessarily imply that the initial social mission of training and recruiting rural youth needs to be sacrificed. Some companies, such as Samasource, have shown that being socially responsible does not need to conflict with growth. To accommodate growing global operations, Samasource has implemented a model that relies on numerous alliances with local community organizations that manage IS recruitment and training on behalf of Samasource in different locations. But ServImpact is not Samasource. Unlike Samasource, which started in the U.S. and has hence enjoyed the trust and shared social responsibility of major U.S. clients right from the start, ServImpact has yet to establish itself in the U.S. market. In order to do so, further professionalizing their service offerings is of major importance. In turn, Sidhartha feels that ServImpact cannot afford to lose new clients on account of the perceived lack of experience of many of its employees. Maybe this will change longer-term though. Sidhartha explains: “This industry is only going to work if companies in the U.S. acknowledge the social value along with the business value of using ISSPs”. Being closer to clients in the U.S. may help build this awareness over time.

Yet, another related challenge for Sidhartha is to assuage the concern of some of the investors and donors. ServImpact has been dependent on social funds and impact investors, mainly for funding the employee training programs. Such investors provide low cost risk capital for mission oriented entrepreneurs to innovate market oriented solutions that also address poverty. Moving away from the social mission of the organization would challenge the current funding model and would further expose ServImpact to the already intense client competition for cost and quality in global business services.

## **Basic case study questions**

1. What are the main similarities and differences between IS and regular outsourcing?
2. Why did Sidhartha start ServImpact as an ISSP rather than a regular outsourcing company?
3. Why does ServImpact partly rely on local NGOs and institutes for training its employees? Yet why does ServImpact also provide some training in-house? What are the advantages of external training, in-house training and mixed solutions as part of IS?
4. Why is Sidhartha so concerned about ‘professionalism’ vis-à-vis global clients? How does Sidhartha manage to promote ‘professionalism’? To what extent does ‘professionalism’ conflict with the social mission and why?
5. Why is Sidhartha leaning towards abandoning its social mission in the future? What could be an alternative solution? Please discuss the pros and cons of each strategy!

## **Advanced case study questions**

6. To what extent could ISSPs, such as ServImpact, benefit from becoming a subcontractor to larger domestic mainstream service providers as an alternative to trying to serve global clients directly? In turn, to what extent could mainstream service providers, such as Infosys or Accenture, benefit from subcontracting with an ISSP?
7. Who are the main stakeholders of ServImpact? What can we learn from this case in terms of how hybrid organizations manage organizational identities over time within complex stakeholder constellations?
8. To what extent is ServImpact’s community engagement an example of “creating shared value” (CSV) vs. conventional corporate social responsibility (CSR) (Porter & Kramer, 2011)? How might ServImpact’s CSV vs. CSR orientation change over time?

## **Annotated additional readings**

Doh, J.P. 2005. "Offshore Outsourcing: Implications for International Business and Strategic Management Theory and Practice." *Journal of Management Studies* 42 (3): 695-704.

This essay discusses some of the implications of the debate on offshoring from an international business perspective. It thereby looks at the importance of capability development in global production networks.

Gino, F. and Staats B.R. 2012. "The Microwork Solution." *Harvard Business Review* 90 (12): 92.

This article provides more information on the microwork model of the Impact Sourcing Service Provider Samasource. More generally, it explores sources of sustainable competitive advantage in the domain of impact sourcing.

Haigh, N. and Hoffman A.J. 2012. "Hybrid Organizations: The Next Chapter of Sustainable Business." *Organizational Dynamics* 41 (2): 126-134.

This article demonstrates how hybrid organizations can not only compete on the quality of goods and services, but also develop the ability to promote social and environmental change and thus make business more sustainable.

Manning, S., Massini, S., Lewin, A.Y. 2008. "A Dynamic Perspective on Next-Generation Offshoring: The Global Sourcing of Science and Engineering Talent"; *Academy of Management Perspectives*, 22 (3), 35-54.

This paper examines the recent dynamics of global sourcing of knowledge work. It focuses on the interplay between global demand for low-cost talent, growing capabilities and talent pools in emerging economies, and commoditization of knowledge work.

Porter, M.E. and Kramer, M.R. 2011. "Creating Shared Value: How to reinvent capitalism – and unleash a wave of innovation and growth". *Harvard Business Review*, Jan-Feb, 1-17.

This article discusses the notion of 'creating shared value' (CSV) in terms of the possibility of generating positive social impact through a profitable business model. It thereby compares CSV with conventional corporate social responsibility (CSR).

Saxenian, A.L. 2002. "Transnational communities and the evolution of global production networks: The Cases of Taiwan, China and India". *Industry and Innovation* 9 (3), 183-202.

This article explores diaspora dynamics, the emergence of transnational professional communities, and their effects on global production networks, which connect suppliers in developing countries with clients in typically more advanced economies.