

Feed randd - or farm it out? – case analysis



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Feed R&D- or Farm It Out?--Case Analysis

Review the Strategic Issues presented in the Case

Many Strategic issues are presented in the Case “ Feed R&D-or Farm it Out” which are all interwoven.

This case discusses the RLK media and the managerial problems it is facing. The major discussion in this case is the outsourcing decision and its impact on different departments like R&D, HR, marketing and overall process of the decision making.

- The external environment of the company it changed and it is affecting its internal structures and the processes. The competition with its competitors has tremendously increased.
- A major portion of the management thinks that outsourcing is the perfect need of the time and it will be useful for managing time and the cost. The rest of the managerial portion suggests that the manpower should be increased and strengthened in the research and management section.
- It has been noted that there is a decrease in the margins of profits and sales and competition is greatly increasing. This issue is also of an important strategic concern.
- The market value of brand is good. All the stakeholders and investors contacts the RLK with superior quality and high profiled design. But just a high brand equity is not enough to inspire the customers to make purchases.

- The decrease in sales is one of the major issues for the Chairman of the company, and for the CEO innovation is the only strategic tool.
- Different companies are making a trend to outsource different services for many operations of the company. Outsourcing gives an opening to reduce the cost by cutting operational costs and fixed costs. Most of the competitors prefer to outsource their R & D services from different companies in Asia. As it will be more costly if celebrity engineers are hired from America. Though Lars doesn't prefer the idea of outsourcing, but the conditions and present scenarios, like limited time and finance and force from the Chairman of the firm, has compelled him to think of outsourcing. (Outsource Or In Source R&D, 2011)
- Lars has put himself into a very hard situation. The survival of RLK depends on the success of their single product and they do not have adequate skills to develop that, it appears.
- The two main issues that need to be taken proper care of are, Organization's behavior and its Marketing. In the current situation, the company is in a critical situation and any wrong decision can end in a disaster.
- Inside the company, there are noticeable variances between employees in top managerial positions. These dissimilarities are outcomes of lack of similar goals and communication gaps.
- There are questions about customer behavior, organizational culture, and cultural dissimilarities of the two organizations that are of concern. Also, there is a difference in culture of nations.
- And encouraging the employees to work for similar goals or interest is an issue.

- There is another major issue to hold the talent and skills in the company.

The Chief Executive Officer of RLK media, is fronting one such crossways. The profits which are earned from the current products are not being sustained to R&D by RLK media. The company will not have broad scope, and it has to slender its scope if the CEO is not able to develop a business strategy that helps internal improvement, production, innovation and the sales

The internal environment of the firm is being strongly influenced by the external situations which have extremely changed from the past. Absent contact with the customers who are buying their products. And there is only one significant product which seems to be in the pipelines.

There is an increase in competition. The companies like Japanese giants are competing with the company. And the competitors are offering quite reasonable and good prices for similar products. (Nohria N. , 2005)

There are numerous further strategic problems which are presented in the case such as:

1. There should be more investments in the R&D department in RLK
 1. If the CEO is deciding to capitalize approx. \$6 million additional in the R&D department, it will be very much risky because the survival of the company is mainly dependent on the successful launch of its new product.
 2. Most of the customers think that RLK is having association with high end video design, so pushing money into Research and

Development will increase the brand equity and also the expectations of the customers of highly innovative products will be met.

3. Yet, the competitors of RLK are laying off and outsourcing Research and Development and exploiting on the cost benefits. If the company thinks of investing more money in Research and Development and launch the new product they can be in a danger of falling bankrupt.

2. To work on a new product, collaboration with Inova

1. The software skills needed from Inova for the production of the iVid can be produced by the company for $1/5^{\text{th}}$ of the cost they need if they do it in the States. There will be a huge cost saving and it would be quite beneficial for RLK.

2. Ray can be a possible hurdle in outsourcing who has always repelled outside participation in Research and Development. He may not be happy with ideas, coming from an external source, which are competing with his ideas and hence decline to work with Inova.

3. Organizational culture of both the companies is quite different. It will not be easy to cooperate because of huge cultural difference. Moreover, the difference in time zones and huge distance will also be a problem.

3. Investment in the marketing division for building a brand image and brand equity and to satisfy the needs of the consumers.

1. It is suggested by Keith that there should be more investment in the marketing to know more about the customers and to know

more about customers' needs and wants. Though, it's not the main problem and the issues would not be just resolved by marketing.

2. The issue is whether the brand value of RLK should be exploited, because it is known for its creativity and innovations. However, it should also be taken into consideration that outsourcing is not the only solution. They must look for more possibilities. (Nohria N. , 2005)

Discuss the key issues management needs to consider in deciding whether to support an in-house R&D function or outsource all Research & Development.

The CEO of the RLK Company, Lars Inman thinks that innovation is a way to recovery for the company. The Chairman thinks that satisfying consumer's needs may be the possible solution. In their context, both are right. In place of asking a question like, " To get a competitive advantage do we need to outsource to get iVid?" Lars is in a need to think that, " What are the actual needs of our customers, what do they desire, and what are our competitive strengths.

Eventually, the strategy of Lars must be able to attach what's the need of the time with what's possible in the time. Definitely, the brand equity should be exploited by the company as a trend setter and innovator. And the capabilities, is possessed, to innovate should be utilized. But the thing is Lars should give up, completely, the concept that what is possible in the time can be delivered by the scientist Ray, whether they outsource or not.

The world should be invited in by starting the innovation process of the company. The ideas should be implord aggressively where ever there is any need. In an inventor's laboratory, the future offerings of RLK may exist in a shape of prototypes, they could be having a meeting with a VC in Silicon Valley, or they could be with a competitor.

For a firm like RLK, going out in this pattern may appear like a tall order, but it must be seen how it worked for P&G.

Most of the Western executives face many risks when they estimate offshore outsourcing choices and Lars dangers, dipping into such trap. Mostly, they do not think broadly of outsourcing as a method to do cost savings and other such operating results. In its place, they must calculate this choice from a strategic point of view: Lars must evaluate this thing that whether outsourcing R&D will assist the company to speed up the building of its own unique competencies. (Nohria N. , 2005)

And it should be determined by him whether mutually both the parties will succeed in mounting deeper abilities, if the association finishes once this project is completed, then they would have had they selected other associates or not at all worked together. An incentive is created by the aptitude of great joint benefit to continue a relationship. And this decision on mutual benefit also reduces exit costs.

So it's the time Lars should decide where there will be a competitive edge for RLK in the future and he should make an outsourcing relationship with all these things in mind.

For gaining the competitive advantage in product innovation, focusing on the product design and seeking high-class abilities in a software engineering form outside, can be one option.

Developing a unique ability in software design can be another option in which Lars finally would want to introduce the talent of software engineering. In both of these options there are many good reasons for outsourcing to a software firm. Like the firm such as Inova for the project of iVid.

An outsourced relation will help RLK in many ways. It will give RLK an understanding about different software abilities needed. RLK will also involve in collective learning by outsourcing. It is not a smooth process, but it has a large potential and productivity.

A careful and proper management is needed to change a destructive friction into a force that eventually gives rise to innovation. Several attributes are shared when different well-managed teams working together with high level of creative friction. Attributes like a common and clear goal, aggressive performance. Actions are taken to resolve the disagreements.

When teams work together, there is a common basis for problem solving and communication. There is relevant, proper, adequate and equivalent skill set. And mutual respect among members arises.

In the partnership between Inova and RLK, many components for the creative friction seem to be in place. The teams will be helped by the iVid prototype in design negotiations and engineering. With the deadline for launching the product there is a distinct goal and also the implied action

points are clear. Both the teams have the necessary skills and an equal level of skill-though the CEO of RLK will be wanting to do more because of attentiveness related to the capabilities of Inova, as he'll require to be very convincing in selling them to his own Research and Development team. Whether the mutual respect required by the productive friction can be gathered by these dissimilar teams, is uncertain. The Inova team calls this relationship as a give and take relation, and this thing is encouraging. But if the same approach is adopted by RLK, even then they will get productive friction.

Though, the two teams are possessing skill sets that are world class, but the nature of skills is different. Also the national cultures, work styles and environment is different. And they are located at a wide geographic distance. The geographic distance can be minimized by latest technologies, but the rest of the issues stay as they are. A common ground and trust are needed for continuing this partnership and Lars should make sure that both the teams spend enough time together to build the trust. Even the schedule seems to be aggressive, both the teams need to remain slow at the outset. And this will help them go much faster in the coming future.

Because of the challenges and risks of this partnership and to bring both the teams together, the CEO and the senior members of his Research and Development team need to have a plan to give much time travelling to India, especially in the starting of the project. (Oshri & Kotlarsky, 2010)

Discuss the implications of outsourcing R&D for middle managers.

1. To be prosperous in the business, RLK needs to take care of its innovative abilities and brand value. Farming out, united with the resources of Inova and RLK, will be beneficial for the competitive advantage of RLK. As there are cultural difference, it is a need of the firm to put the gigantic changes, for supporting the farming out, in the mindset of:
 - Corporates
 - Leadership
 - Execution
2. RLK must build a mindset of its employees to be flexible enough to accept external ideas. And they should be open to innovation. Middle managers have a very important role in ensuring this thing. (Middle Level Management, 2009)
3. Moreover, the managers of RLK should make processes to involve a collective learning.
4. Management needs to connect and modify with the outsourced expertise.
5. Middle managers should be focusing on visible leadership and proper execution of orders and commands.
6. The management needs to modify the performance metrics, like rewarding people not for being innovative but for giving a success to RLK products in the market.

7. For the sustainability of Research and development of RLK, just outsourcing will not be helpful, but the mindset of the employees will also contribute to it.
8. Same is the case with long term strategies, they require the contribution of middle managers.
9. This is not only a relation of strategic alliance, but also RLK will face changes in operations and structures. And for this, the employees need to be more open minded.
10. Hence, the decision to farm out should be taken seriously in giving the company and the managers a new direction. It must not be just considered as a cost saving short-term strategy. (Ramanathan, 2009)
11. To make outsourcing successful, middle management has a vital role. In the global business partnership like this, middle management acts as a glue that holds the firms together.
12. In the companies that are making such relation, the middle managers are very important because they are the one who are responsible for dealing with the suppliers and customers externally, and with the senior managers internally.
13. The middle managers need to have a decent mix of skills. They should be able to make virtual teams, for RLK and Inova, across the boundaries of RLK, country and culture.
14. They require a high level of experience in order to perform their duties well. And they must execute as required.
15. A good middle managers are need of outsourcing to deliver proper business services and to fulfil the requirements of RLK.

16. The middle managers of RLK should be kept informed so that they are able to communicate properly to Inova. (Overby, Outsourcing Problems? Middle Management May Be to Blame, 2010)

There are six positive attributes that RLK's middle managers must have in order to show good results in outsourcing its R&D. These attributes are:

- **Watching and Shielding:** To manage the risks and agreements comprehensively.
- **Simplification and Problem Solving:** To make sure that things are happening properly and to simplify the hurdles.
- **Shaping by Planning Procedures:** To maintain the proper records, to audit the trials.
- **Bond Development:** To give respect, facilitate the interpersonal relation and build trust.
- **Entrepreneurship:** To be innovative, to find better ways of getting things done and influencing long term potential.
- **Looking over:** To be well connected. (Overby, Outsourcing Problems? Middle Management May Be to Blame, 2010)

Recommendations: I recommend that Lars needs to hire some more software engineers to give strength to the Research and Development of RLK and meanwhile, hand over some of his leaders in Research and Development to Gurgaon to get trained in Inova. Lars should suggest Ray a two-way Research and Development model that should be acceptable so that he comes to an agreement to make partnership with Inova. Once this is done, both RLK and Inova will be able to get cost advantages for RLK by working collectively. And also to launch its new product i. e. iVid.

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