Chapter XV

A Goal Programming Model for Evaluating Outsourcing Partners on a Global Scale

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Abstract

A critical concern for firms that decide to outsource their information technology (IT) functions (or other operational functions for that matter) is the evaluation on a global scale of potential outsourcing partners. In order for outsourcing to be successful, corporations must identify outsourcing partners that offer a good fit with the firm’s overall outsourcing strategy. Unfortunately, little has been written to aid corporations in making complex decisions involving the evaluation of potential outsourcing partners. This chapter presents a goal programming model that combines the concepts of global outsourcing, the management science technique of goal programming, and microcomputer technology to provide managers...
with a more effective and efficient method for evaluating potential IT outsourcing partners. The chapter extends the existing literature on outsourcing by applying a computer optimization model to outsourcing partner selection in a way that has not been done before.

Introduction

Management of information technology (IT) has been, and continues to be, a complex task. Prior economics-based literature has focused primarily on understanding how IT can help business units generate value. This arises naturally from the need to justify, to senior managers, the large amounts spent on IT. However, by now we have moved beyond the productivity paradox and firmly believe that IT does generate value (Brynjolfsson & Hitt, 1998). In fact, a fundamental transformation of IT’s place in the firm has occurred. Fueled by tremendous investment in the 1980s and 1990s, IT has become a business unit in need of management. Researchers need to recognize that the organization of IT work has important economic impacts on the ability of IT units to provide service (Bresnahan, Brynjolfsson & Hitt, 2002).

The ability to manage interorganizational relationships is one of the most valuable capabilities of a firm (Achrol, 1997; Bensaou, 1999; Dyer & Singh, 1998). Firms must not only execute tasks at a frenetic pace, they must also execute a greater number and variety of electronically enabled tasks. This obliges their IT infrastructure to be both highly reliable and extremely flexible. Success, and even survival, in such an environment, requires the ability to manage relationships between an organization and its partners. According to by Michael F. Corbett and associates, executives spend fully one-third of their budgets on the management of external relationships (Anonymous, 2005). This tremendous need to coordinate with outside entities prompted Frank Casale, CEO of the Outsourcing Institute, to propose a new executive officer — the chief relationship officer — whose sole job is to manage relationships with these outside entities (Mayor, 2001). As firms move away from simply outsourcing the development of software into multifaceted electronic business infrastructure projects, the nature of relationships become more complex. New outsourcing relationships include implementations of enterprise packages, such as SAP or PeopleSoft and exploitation of application service providers, such as Interelate (www.interelate.com) and SMS (www.sms.com). However, while popular opinion holds that outsourcing is an advantageous way to manage IT functions, the evidence on the value of outsourcing is far from equivocal (see Clemons, Reddi, & Row, 1993 for a moderating viewpoint). Many relationships end as
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