Process and Structural Implications for IT-Enabled Outsourcing

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ABSTRACT

Recent research examined the non-traditional, but increasingly common case of the use of IT to facilitate theoretically inconsistent outsourcing decisions involving (strategic) core firm resources and asset-specific capabilities. It further illustrated how IT can enable such outsourcing decisions and how performance advantages may ensue. However, the process and structural implications of such practices remain unexamined. This paper extends this area of research by proposing three distinct approaches to IT-enabled business process outsourcing (BPO). The authors differentiate these approaches by the timing of when the outsourcing vendor takes ownership of the activity, and when and where any transformation of the activity takes place. The authors label these processes by the order of the initial activities that lead the outsourcing process, (e.g., transformation, transition, or a transfer of an organizational activity). The authors illustrate and discuss the implications of the propositions through several real-world case examples.

Keywords: Business Process Outsourcing (BPO), Knowledge Process Outsourcing (KPO), Information Technology (IT), Organizational Change Process, Organizational Structure

INTRODUCTION

Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) are widespread and growing trends (Graf & Mudambi, 2005; Sen & Shiel, 2006). Such trends are not surprising given the strong potential for knowledge-based performance (Willcocks, Hindle, Feeny, & Lacity, 2004) and competitive advantage gains (Drnevich, Brush, & Shanley, 2010; Willcocks, 2010). Firms generally make strategic outsourcing decisions (Holcomb & Hitt, 2007) using the predictive logics of the resource-based view (RBV) (Barney, 1991; Mahoney & Pandian, 1992) and/or transaction cost economics (TCE) (Williamson, 1975, 1991). These outsourcing decisions rely on the notions of ‘strategic resources’ from RBV and ‘asset specificity’ & ‘uncertainty’ from TCE as drivers of the sourcing decisions. However, recent research (Drnevich et al., 2010) examined the non-traditional, but increasingly common

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case of the use of IT to facilitate theoretically inconsistent outsourcing decisions involving (strategic) core firm resources and asset-specific capabilities (Henley, 2006), and offered extensions to prior theory to explain how IT can enable such outsourcing decisions and how performance advantages may ensue. However, the process and structural implications of such practices remain unexamined. Therefore, in this study, we review the process and structural implications of such outsourcing decisions and offer propositions for their performance implications. We do so to attempt to address some of the major under-addressed research questions in this area: 1) What are the structures of IT-enabled outsourcing? and 2) How do firms realize performance benefits from these types of sourcing arrangements?

In this paper, we address these issues by focusing on this apparent new type of outsourcing, often enabled by IT (Drnevich & McIntyre, 2010), which allows for the separate provisioning of elements of strategic knowledge resources and unique asset-specific capabilities between an organization and its service providers (Drnevich et al., 2010). Our contribution is to theorize and propose that process and structure of such outsourcing practices hold significant performance implications for the firm. We organize this paper as follows: 1) In the next section, we review and extend theory to develop propositions for the implications of the process and organizational structure of IT-enabled outsourcing. 2) We conclude by illustrating and discussing the implications of our propositions through several real-world case examples.

THEORY DEVELOPMENT

In this section, we illustrate three distinct approaches to IT-enabled BPO and KPO (Graf & Mudambi, 2005; Sen & Shiel, 2006) which appear to conflict with current theoretical arguments for outsourcing. We differentiate these approaches by the timing of when the outsourcing vendor takes ownership or responsibility for the activity associated with the knowledge resource or capabilities, and when and where any transformation of the activity takes place. We label these processes by the order of the initial activities that lead the outsourcing process, (e.g., transformation, transition, or a transfer of an organizational activity). Borrowing from commonly accepted consulting terminology, we term these three outsourcing processes as transform-transition, transition-transform, and transfer, based on the order and combination of outsourcing activities.

Transform-Transition Outsourcing Processes

In a transform-and-then-transition approach, the outsourcing vendor does not take responsibility for the knowledge content and knowledge administration components of the activity until they are first reengineered into “best practice” processes with measurable benefits. Such a transform-then-transition reengineering and outsourcing process is perhaps the most traditional and prevalent, and is reminiscent of the accepted organizational change and system integration consulting paradigms commonly observed in organizations over the past several decades. In this approach, the organization continues to conduct the activities internally, while simultaneously working with the outsourcing vendor to transform the activities first. Once reengineered to a mutually agreeable future-state, the organization transitions the responsibility for the organizational knowledge capability to the outsourcing vendor.

Transforming the knowledge and capability prior to the transition to the outsourcing vendor ensures that the output of the transformed process conforms to the specific needs of the client (versus the specific needs of the outsourcing vendor) while also facilitating an easier transition process (through restructuring and pre-alignment towards the outsourcing vendor’s infrastructure). This approach facilitates fairly rapid benefits realization for the client organization, while ensuring the delivery of a consistent and specific product from the vendor.
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