Chapter 8

Business Case Development Risks in On and Offshore IT Outsourcing:
Unpacking the Theories

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ABSTRACT

Outsourcing of IT-supported business processes (systems development; customer relationship management; helpdesk, etc.) has become increasingly common in Western economies since the late 1990s. Such outsourcing is totally dependent on the provision of inter-organizational information systems (IOSs), which act as the "glue" to link vendor(s) and client(s). Hence understanding the importance of IOSs, and conversely, the downsides or risks they embody, is a critical part of ensuring that outsourcing arrangements are successful. In this chapter the theory behind outsourcing is unpacked, and readers are alerted to sometimes-overlooked aspects of the IOSs on which outsourcing depends. These raise the risks, and reduce the benefits, of outsourcing if they are not well thought through. Decision makers are advised to explicitly include the notion of risk in their outsourcing business cases, including those risks associated with the IOSs that support outsourcing arrangements.

INTRODUCTION

An important business phenomenon of the last two decades has been the rapid growth of outsourcing. This is particularly so for complex, IT-supported business processes like systems development; IT

service delivery; customer relationship management; helpdesk, etc. Such outsourcing has become increasingly common in western economies since the late 1990s. This outsourcing is also proving to be an important source of income for developing countries such as India, China, the Philippines and the former Soviet Republic, which are able to provide services from "offshore."

This chapter will illustrate that inter-organizational systems (IOSs) are the glue which holds together these types of outsourcing arrangements. It will then argue that, given this, understanding the importance, and conversely, the downsides or risks that IOSs embody, is a critical part of ensuring that outsourcing arrangements are successful.

The chapter also identifies deficiencies in the business cases typically developed by purchasing firms when deciding to outsource. These deficiencies are even more critical if this involves offshore delivery. The chapter outlines several key IOS-related issues firms need to take into account when investigating the business case for offshore outsourcing. These include a realistic assessment of the risks associated with sending customer data to countries with limited sanctions against release of such data. This risk is inherent in all cross-national IOSs, but is heightened when data is sent to countries where high levels of corruption exist. They also include risks associated with replacing face to face organizational controls with those mediated by IOSs.

The chapter is essentially a literature review, but is informed by a series of ten focus groups conducted by the author with purchaser and vendor staff involved in outsourcing arrangements (n = 46). Services supplied within these outsourcing arrangements included back-end operations; delivery of mainframe IT services; software development; help desk operations and desktop support. Details are reported in Rouse (2002). The organization of the chapter is as follows: after providing a background to the growth of outsourcing, particularly business process outsourcing (BPO), the chapter then explores inter-organizational systems (IOSs). It then canvasses the importance of taking into account risks as well as costs and benefits when developing the business case on which the sourcing decision is made. The chapter then explores in more detail the risks associated with outsourcing, especially when it is provided offshore. It also focuses on

those risks that are associated with replacing internal, face to face direction and coordination with electronically mediated coordination. Finally the chapter provides examples of typical risks associated with this IOS mediation and suggests some implications.

BACKGROUND

The Rise of Complex, IT-Supported Outsourcing

In this section the focus is not on all types of outsourcing, but rather on complex IT-supported outsourcing. Willcocks and Lacity (1998, p 3) defined such outsourcing as the

...handing over to a third party [of the] management of IS/IT assets, resources and/or activities for required results.

This definition excludes outsourcing of simple services, such as cleaning, catering, or garbage collection, but would include delivery of IT services of all kinds, as well as what has come to be known as "business process outsourcing" or BPO. BPO involves delivery of complex IT-supported business services rather than simply IT services.

Outsourcing is essentially the business-to-business delivery of services, where the vendor, rather than the client, is responsible for determining how the service is to be performed. This differentiates it, for example, from supply of contract labor where such labor is controlled by client managers. A key defining aspect of outsourcing is that it involves delegating responsibility for "how" to produce the required results to the vendor. The client retains responsibility for defining "what" services are to be produced, and how the quality of these services is to be judged.

When services are outsourced, instead of controlling the behavior of service staff directly

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