Managing E-Collaboration Risks in Business Process Outsourcing

Anne C. Rouse
Deakin University, Australia

INTRODUCTION

A marked development in the last decade has been the growth of "virtual organizations" (or "extended enterprises"), where a network of service supplier and vendor firms cooperates to create customer value. One form of cooperation is described as business process outsourcing (BPO). A business process involves several interrelated activities performed with the goal of generating customer value. Because of the growth in e-collaboration tools, it is now possible for firms to outsource even core business processes to external vendors. Examples of processes typically outsourced include logistics, customer support, human resources, and back-office accounting functions. BPO and the value networks created by vendors and purchasers hold the promise of substantial business benefits associated with specialization and scale. These include reduced costs, greater business flexibility, and higher service quality. According to the Gartner Group, the world market for BPO services is likely to increase from $100 billion in 2002 to $173 billion by 2007 (Gartner, 2004).

E-collaboration is a core aspect of BPO, as vendor and purchaser are physically separated, and without this collaboration, the level of integration needed between vendor and client would be impossible. Maturing IT capabilities, and in particular e-collaboration tools, were important drivers of the large growth in outsourcing witnessed since 1989. Yet the e-collaboration that enables BPO also introduces new corporate risks, particularly those associated with sharing of data, and with the change from face-to-face interactions based on propinquity to computer-mediated interactions. Drawing on a series of focus groups, this paper summarizes the promises e-collaboration holds for BPO, but also highlights risks that need to be managed. These risks have increased with recent legislative demands like the US Sarbanes-Oxley and EU privacy legislation.

The findings reported here are based on ten focus groups and individual interviews with practitioners involved in outsourcing IT/IS or BPO services. These were conducted between 1999 and 2004. In all, 46 informants were interviewed in the focus groups, and a further five informants were interviewed individually. While most informants were from purchaser organizations, one focus group involved informants from outsourcing vendors. Services supplied within these outsourcing arrangements included back-end bank processing, scientific data collection, call centre operations, delivery of ongoing mainframe services, software development, help desk operations, and desktop support. Details are reported in Rouse (2002) and Rouse and Corbitt (2004).

BACKGROUND

There are three major classes of outsourcing: (1) outsourcing of IT/IS services, or "ITO" (where the services to be supplied involve the development and delivery of technology and information systems), (2) BPO, where relatively complex, IT-supported businesses services are involved, and (3) simple outsourcing (such as cleaning) where no IT support is involved. This paper is concerned with the first two forms, BPO and IT/IS outsourcing, which can be considered a particular form of BPO. Both involve complex business processes supported by IT, and the handing over of sensitive data resources to a third party. It is the complexity, business impact, and the integral role of IT that distinguishes these from other, simpler forms of outsourcing.

In practice, BPO involves the delivery of a service, rather than a physical product (manufacturing). Consequently, the service delivery (or production) process has several characteristics: these include intangibility, variability, and the fact that the output is perishable—if not delivered at the right time it has no value (Langford & Cosenza, 1998). Another important characteristic of services is labeled "inseparability"—in other words, the service is created by the coordinated (and so inseparable) activities of the deliverer and receiver.

Because outsourcing involves industrial services, a large number of vendor and purchaser employees can perform part of the delivery process, and for the process to work well their actions have to be articulated, communicated, and coordinated (Bitner, Faranda, Hubbert, & Zeithaml, 1997).

Complex outsourcing (like ITO and BPO) cannot exist without some form of e-collaboration to effect coordination and communication. Such outsourcing also requires fast data communications capabilities and mechanisms for easily moving data between client and vendor databases. These technologies overcome geographical distance, so BPO now often involves supply of services across national boundaries, allowing western firms to use lower cost labor from India, China, or other developing countries—described as offshore outsourcing, or "offshoring."

E-collaboration technologies are electronic technologies that enable collaboration among individuals engaged in a common task (Kock, Davison, Ocker, & Wazlawick, 2001). A range of these are used to coordinate the actions of participants in the outsourcing-based service production process. Examples include e-mail, tele-, video-, and data-conferencing, groupware, electronic meeting systems, Web-based chat and asynchronous conferencing tools, collaborative document preparation, document management technologies, and shared databases.

The nature of BPO is illustrated in Figure 1. Outsourced business processes involve transforming purchaser data, often using specialized software packages, and automated routines. With outsourcing, whenever e-collaboration tools are used this data is transmitted in digital form. "…Final products supplied to the client are available digitally via network connections, e.g. a processed payroll list, or a new inventory list…"(Gewald & Dibbern, 2005, p 2). The flows of e-collaboration data, particularly when distributed/accessed over the Internet, represent a point of vulnerability, as do the databases controlled by the vendor/subcontractor. Once data leaves the purchaser organization, strategies for protecting it (such as passwords, encryption, virtual private networks, etc.) become the responsibility of the vendor, and the value of these protections is only as good as the integrity of vendor staff and processes. The mechanisms for the purchaser to ensure protection of key data become problematic—the purchaser must rely on a contract with the vendor to guarantee security—a very different management approach.

BPO RISKS

BPO potentially results in a number of benefits to purchasers, including cost savings, flexibility, improved quality, and allowing the purchaser to concentrate on core business (Lacity & Hirschheim, 1995). However, outsourcing has also been described as "risky business" (Aubert, Patry, & Rivard, 2002) because empirical research to date has revealed that purchasers who outsource frequently fail to obtain the theoretical benefits (Rouse & Corbitt, 2003) and often encounter unexpected downsides. In practice, in deciding on whether or not to outsource decision makers must weigh up the potential benefits against the risks of negative outcomes.

Figure 1. E-collaboration between vendor and purchaser creates additional points of vulnerability