

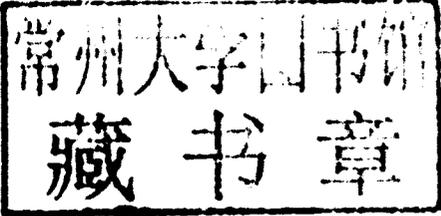
RONAN McIVOR

# Global Services Outsourcing

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Ronan McIvor



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## Global Services Outsourcing

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Services outsourcing is an increasingly attractive option for firms seeking to reduce costs and achieve service improvements. Many organisations now choose to transfer responsibility for entire functions such as human resources, finance and information technology services to both local and global vendors. Yet outsourcing such functions is a complex process, one that is driven by factors that transcend cost considerations alone. Issues such as service design, unbundling processes, managing work across different cultures and time zones, and business process redesign have all become important elements of managing services outsourcing arrangements. This book uses tools and techniques from a variety of disciplines to show how to plan, implement and manage services outsourcing arrangements successfully. Based on in-depth analysis of large-scale outsourcing arrangements across a wide range of sectors, this is an excellent resource for both academics and practitioners who wish to understand more about this complex phenomenon.

RONAN MCIVOR is Professor of Operations Management at the University of Ulster. He has carried out extensive research in the area of outsourcing and supply chain management. He is the author of a number of books, including *The Outsourcing Process: Strategies for Evaluation and Management* (Cambridge University Press, 2005).

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# Contents

List of figures	<i>page</i> viii
List of tables	ix
List of illustrations	xi
Acknowledgements	xiii

<b>1</b>	<b>Introduction</b>	1
<b>2</b>	<b>Global services outsourcing overview</b>	7
	2.1 Introduction	7
	2.2 The services revolution	7
	2.3 Services outsourcing	10
	2.4 Types of services outsourcing arrangements	13
	2.5 Stages in the services outsourcing process	16
	2.6 Drivers of services outsourcing	17
	2.7 The arguments for services outsourcing	28
	2.8 The arguments against services outsourcing	30
	2.9 Influences on the mobility of service processes	31
	2.10 How service characteristics create outsourcing challenges	36
	2.11 Summary implications	40
<b>3</b>	<b>Making the services outsourcing decision</b>	45
	3.1 Introduction	45
	3.2 Transaction cost economics and the resource-based view	46
	3.3 The logic of integrating transaction cost economics and the resource-based view	48
	3.4 An overview of the outsourcing methodology	48
	3.5 The sourcing strategies	56
	3.6 The outsourcing relationship	66
	3.7 Summary implications	76

<b>4</b>	<b>Location and sourcing model choice in global services outsourcing</b>	79
	4.1 Introduction	79
	4.2 Location choice	80
	4.3 Sourcing model choice	92
	4.4 How service attributes influence sourcing model choice	98
	4.5 Strategies for disaggregating services	104
	4.6 Summary implications	109
<b>5</b>	<b>Managing global services outsourcing arrangements</b>	114
	5.1 Introduction	114
	5.2 Software development outsourcing	115
	5.3 Strategies for managing global software development outsourcing projects	117
	5.4 Pre-contractual strategies	119
	5.5 Post-contractual strategies	125
	5.6 Summary implications	145
<b>6</b>	<b>Creating shared services arrangements</b>	149
	6.1 Introduction	149
	6.2 Structured project management approach	154
	6.3 Business case development	156
	6.4 Vendor engagement	159
	6.5 Contracting	161
	6.6 Change management	167
	6.7 Stakeholder management	169
	6.8 Business process redesign	175
	6.9 Strategic partnership development	177
	6.10 Summary implications	178
<b>7</b>	<b>Services outsourcing and performance management</b>	182
	7.1 Introduction	182
	7.2 Services outsourcing and performance management	183
	7.3 Integrating performance management into the outsourcing process	186

	7.4 Challenges and benefits of performance management in the outsourcing process	209
	7.5 Summary implications	210
<b>8</b>	<b>Services outsourcing and the spin-off arrangement</b>	214
	8.1 Introduction	214
	8.2 Background to the spin-off	218
	8.3 Motives for establishing the spin-off arrangement	219
	8.4 The structure of the spin-off arrangement	220
	8.5 The development of the spin-off arrangement	222
	8.6 Difficulties in the spin-off arrangement	224
	8.7 Relationship difficulties	226
	8.8 The turnaround strategy	227
	8.9 Summary implications	234
<b>9</b>	<b>Learning from failure and strategies for recovery in business process outsourcing</b>	239
	9.1 Introduction	239
	9.2 Business process outsourcing: a case of failure	240
	9.3 Strategies for recovery	248
	9.4 Effective sourcing strategy	248
	9.5 Business process analysis and redesign	253
	9.6 Knowledge management	255
	9.7 Employing contracting and collaboration as complements	261
	9.8 Summary implications	263
<b>10</b>	<b>Conclusion</b>	267
	10.1 Introduction	267
	10.2 Challenges of services outsourcing	267
	10.3 Key aspects of effective services outsourcing	270
	Glossary	276
	Index	281

# Figures

2.1	Categories of business services	<i>page 8</i>
2.2	The relationship between competitive advantage and increasing vendor capabilities in BPO	11
2.3	Typology of sourcing configurations	14
2.4	Shared services arrangement	15
2.5	Cross-functional process examples	20
2.6	How ICTs drive outsourcing in radiology services	22
2.7	Influences on the mobility of service processes	35
3.1	How capability attributes influence outsourcing	47
3.2	The sourcing strategies	49
3.3	Complementary and contradictory prescriptions of transaction cost economics and the resource-based view in outsourcing decisions	75
4.1	Summary of sourcing models	92
4.2	Knowledge intensity spectrum for financial services	104
4.3	Contacts in equity analysis	108
5.1	Software development outsourcing phases	115
5.2	The funnel interface structure	126
5.3	The mirrored design interface structure	127
6.1	Stages in creating outsourced shared services arrangements	154
6.2	Structure of the new HR arrangement	166
6.3	Stakeholder power/interest matrix	171
6.4	Key stakeholder category communication approach	175
7.1	Integrating performance management into the outsourcing process	187
7.2	Sample workflow chart for the mortgages process	194
7.3	Mortgage processing analysis summary	196
7.4	Benchmarking at the strategic, operational and sub-process levels	198
9.1	Structure of the BPO arrangement	241
9.2	Poorly understood and informal interdependencies	242
9.3	Sample order entry workflow map	254
9.4	Knowledge management strategy	258

# Tables

2.1	Examples of process deficiencies	<i>page 9</i>
2.2	Typical outsourced service processes	19
2.3	The impact of product and service characteristics on outsourcing	38
3.1	Contribution to competitive advantage factors	50
3.2	Relative capability position factors	53
3.3	Opportunism potential factors	55
3.4	Indicators of difficulties of replicating a superior performance position	63
3.5	Transaction cost variables and the outsourcing relationships	71
3.6	How location factors impact transaction costs	72
4.1	Summary of location factors	82
4.2	The relationship between culture, language and geographic distance and the location distance option	86
4.3	Sources and impacts of political risk	88
4.4	Sample of knowledge-intensive processes	103
4.5	Impact of information technology on disaggregating service processes	110
5.1	Risk factors in offshore software development outsourcing	118
5.2	Key elements of global contracts	124
5.3	Key activities in the CMM	129
5.4	Communication media and global software teams	131
5.5	Activities for supporting socialisation	134
5.6	Strategies for overcoming the challenges of time zone differences	145
6.1	Technical and organisational motivations	152
6.2	Business issues and performance impacts	157
6.3	Project objectives	158
6.4	Key benefits messages to line managers	174
7.1	Mortgage processing cost analysis	190
7.2	Key performance indicators for debit in-clearing sub-process	204

8.1	Departments and staff breakdowns	221
9.1	How problems in the BPO arrangement impacted transaction costs	244
9.2	Twelve vendor capabilities	251
9.3	How continuous improvement tools can reduce transaction costs in BPO	265

# Illustrations

2.1	A brief historical perspective on outsourcing	<i>page</i> 11
2.2	The business process perspective	19
2.3	Economic arguments for and against global services outsourcing	23
2.4	Specialisation and the vendor advantage	28
2.5	The mobility of information technology services in the global economy	36
3.1	Process improvement at an insurance company	57
3.2	How outsourcing improves internal performance	59
3.3	Protecting and building knowledge through insourcing	60
3.4	Reducing opportunism potential via process redesign	64
3.5	Fundamentals of contracting	66
3.6	Relational contracting in logistics services outsourcing	69
3.7	Critical aspects of transaction cost economics and the resource-based view in outsourcing decisions	73
4.1	Leveraging the innovation potential of a location	90
4.2	Theoretical perspectives on global services outsourcing	96
4.3	Legal services offshoring	101
4.4	The limits of modularity in equity analysis in financial services outsourcing	107
5.1	The Capability Maturity Model	128
5.2	Creating socialisation in global software development projects	132
5.3	How Tata Consultancy Services manages knowledge	136
5.4	How Indian software vendors compete on capabilities	142
6.1	Enterprise systems	151
6.2	Service level agreements and outsourcing	161
6.3	Stakeholder management	170
7.1	Cost analysis in outsourcing	188
7.2	Process analysis in outsourcing	193
7.3	Benchmarking and outsourcing	197
7.4	Performance management and outsourcing implementation	202

7.5	Performance management and managing the outsourcing relationship	207
8.1	Transforming back-office performance through spin-off arrangements	216
8.2	Six Sigma	229
8.3	Theoretical perspectives on outsourcing and the spin-off arrangement	232
9.1	The influence of process interdependence and complexity in BPO	242
9.2	Causes of outsourcing failure	245
9.3	Vendor capability analysis in BPO	250
9.4	Transitioning in BPO	255
9.5	Knowledge management and outsourcing	259

# Introduction

Outsourcing has become a strategic imperative as organisations seek to reduce costs and specialise in a limited number of core areas. Increasingly, organisations are looking beyond the traditional boundaries of the firm to reduce costs and achieve performance improvements. Services outsourcing has grown as organisations have been transferring responsibility for entire functions such as human resources, finance and information technology services to both local and global vendors. Business services are services provided by businesses to other businesses and include legal services, consultancy, customer contact, human resource services, and research and development. The growth of services outsourcing has generated considerable debate among economists and policymakers. Much of this debate has focused on issues such as labour costs, tax incentives and location advantages. However, while this debate has continued, practitioners have had to get on with the job of implementing services outsourcing arrangements. Services outsourcing is often a complex phenomenon, which is driven by factors that transcend cost considerations alone. Issues such as service design, unbundling processes, managing work across different cultures and time zones, and business process redesign have become important elements of managing services outsourcing arrangements.

The analysis presented in this book focuses on the implications of planning, implementing and managing services outsourcing arrangements. Services outsourcing arrangements encompass a range of areas including continuous improvement, change management, stakeholder management, knowledge management, information technology, contracting and performance management. These areas are integrated into the book by providing insights into their application in outsourcing arrangements in practice. The author has undertaken in-depth, longitudinal case-study analysis of a number of large-scale outsourcing arrangements across a range of sectors including utility services, financial services, human resource management, research and development and information technology. In-depth interviews were carried out with senior and middle managers to understand how organisations approached the outsourcing process. This involved

exploring different sourcing strategies, and identifying the benefits and risks of particular sourcing strategies. This analysis forms a central part of the book.

Particular attention is given to the global dimension, and the impact upon services outsourcing. A comprehensive discussion of the key factors involved in selecting the location and sourcing model for global services outsourcing arrangements is provided (Chapter 4). Challenges such as those of intellectual property rights, legal issues, security, language, culture, quality, politics, time zones and company reputation are considered. Particular attention is given to the issues involved in managing global services arrangements (Chapter 5). Significant emphasis is placed on how strategies can be employed to achieve the benefits and reduce the risks of global services outsourcing. It is shown how emerging economies such as India's are developing their competitiveness to increase their attractiveness as locations for a range of business services including customer contact, legal services and information technology. The book also intersperses global issues throughout a number of the chapters. Insights are provided into the factors that influence the mobility of service processes in the global economy, and how the distinctive characteristics of services create challenges in services outsourcing (Chapter 2).

The book synthesises and integrates contemporary research and practice in services outsourcing and related disciplines in a way that is readily accessible to students. Each chapter includes illustrations developed both from empirical research undertaken by the author and contemporary research in the area. The writing style of the book is suitable for both business/economics students and those from other disciplines such as engineering and information technology. Theoretical frameworks are introduced in a way that is accessible to students from these disciplines. These theories include transaction cost economics, the resource-based view, eclectic theory, social exchange theory and organisation behaviour theory. Contemporary management techniques being employed in services outsourcing such as Six Sigma, process analysis, workflow mapping, knowledge management and project management are introduced. Summaries are included at the end of each chapter, outlining the implications of the analysis presented. A 'Recommended key reading' section is included at the end of each chapter, identifying key sources and useful additional reading in the relevant subject area. A glossary is included at the end of the book, defining and explaining key terms associated with services outsourcing.

This book is intended for readers in the academic market who require an up-to-date understanding of the issues involved in global services

outsourcing. It will be of interest to students on postgraduate (MBA, MA and MSc) programmes studying the subject of services outsourcing, and can be used as a supplementary text on modules such as business strategy, international business, global sourcing, management information systems, operations management and services management where significant attention is given to outsourcing. The book is also of value to students who are researching the area of outsourcing. Theoretical models are introduced throughout to explain particular aspects of services outsourcing.

The book is of value to practitioners who are involved in or considering outsourcing business services. It is based on contemporary research, which has focused on examining the challenges, risks and benefits of planning and implementing business services outsourcing arrangements. Insights are provided into tools and techniques employed by organisations to manage business services outsourcing arrangements. Although the analysis presented employs a number of the theoretical models, these are particularly valuable for strategic decision-making. Theoretical models are presented in a manner that can be easily understood by practitioners. In addition, integrating contemporary practice with theory assists in stimulating a deeper understanding of the key issues associated with services outsourcing. The book alerts practitioners to the key issues that should be addressed if they are approaching the problem themselves.

The book is timely because of the growing trend towards global outsourcing of business services. Through extensive research and teaching in this area, I have found that there is no single text that adequately addresses the topic of services outsourcing. Many texts in this area are focused on the global outsourcing of information technology services. A number of books focus only on a single business service area such as human resource management or research and development. This book considers business services outsourcing in a number of areas, including financial services, utility services, order processing, customer contact, legal services, information technology and human resource services. It has been made as interesting as possible through the use of illustrations and empirical research. The illustrations in each chapter are intended to enrich the content and provide support for the analysis and insights outlined. The book is strengthened through reference to contemporary research in the area of outsourcing in a range of leading international journals. It is structured as follows.

*Chapter 2: Global services outsourcing overview* – presents an overview of services outsourcing, which includes the types of services outsourcing arrangement, stages in the outsourcing process, drivers of services

outsourcing, and the arguments for and against services outsourcing. The influence of service design principles on services outsourcing is examined, which involves considering the influences on the mobility of service processes and the distinctive challenges of outsourcing service processes.

*Chapter 3: Making the services outsourcing decision* – presents a framework that identifies suitable outsourcing strategies for service processes. The framework provides a mechanism for understanding which processes should be kept internal and which should be outsourced based on both organisational capability and opportunism considerations. The framework outlines a number of potential outsourcing relationships and the key aspects of each. The logic of the framework and the sourcing strategies is illustrated through providing real case illustrations both in a local and global context.

*Chapter 4: Location and sourcing model choice in global services outsourcing* – provides a structured approach for understanding the issues involved in selecting the location and sourcing model. Making the location decision involves consideration of a range of factors including culture, language and geographical distance, infrastructure, political risk, legal matters, government policy and labour issues. Selecting the appropriate sourcing model is closely linked to the location choice. The influences on sourcing model choice are the characteristics of the service process and include process interdependencies, performance measurement, risk and knowledge intensity.

*Chapter 5: Managing global services outsourcing arrangements* – focuses on the area of software development to illustrate the issues involved in managing global services outsourcing arrangements. Software development is one of the most challenging areas of global outsourcing, and provides an illustration of the complexity of managing such arrangements. This is a well-developed area in practice where companies have been adopting innovative and novel practices to obtain the potential benefits and mitigate the risks. An overview of the key issues involved in effectively managing global software development outsourcing projects is provided. Throughout this analysis, illustrations of how clients and vendors manage the challenges of global software development outsourcing are introduced.

*Chapter 6: Creating shared services arrangements* – focuses on the planning and implementation phases of a major outsourced shared services arrangement in the public sector. A detailed overview of the key tasks involved in planning and implementing outsourced shared services