Ronan McIvor

Global Services Outsourcing

GLOBAL SERVICES
OUTSOURCING

Ronan McIvor

CAMBRIDGE
UNIVERSITY PRESS

Global Services Outsourcing

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).

Acknowledgements

I would like to thank the many people who have helped in the writing of this book. A significant part of the book is based on in-depth analysis of services outsourcing in a range of organisations. This analysis involved carrying out interviews with a range of individuals in these organisations. I would like to thank the individuals in these organisations who facilitated the interviews and who participated in the interview process. These interviews were an important influence on the structure and analysis presented in the book. I would also like to thank a number of colleagues who contributed support to the book. In particular, I would like to thank Paul Humphreys, Alan McKittrick and Tony Wall for their contribution to the collection and analysis of data in the financial services organisation presented in Chapter 7. Martina Gerbl provided valuable feedback on the structure and content of certain chapters of the book. I would also like to thank the following colleagues for providing both direct and indirect support throughout the writing process: Paul Humphreys, Marie McHugh, Jim Bell and Liam Maguire. I would like to thank those academics and researchers whose work I have cited. Students at the University of Ulster provided valuable feedback on various ideas and concepts in the book, and also contributed to its development. Also, Paula Parish at Cambridge University Press provided helpful advice on the structure of the book, and useful comments at various stages in the writing process. The three anonymous reviewers of the proposal for the book provided valuable guidance and suggestions for improvement. Finally, I would like to thank my family, in particular Deirdre and Nathan, who contributed support and encouragement throughout the preparation of this book.

Contents

Figures

Tables

Illustrations

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