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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

arrangements is provided. These tasks include a structured approach to project management, business case development, vendor engagement, contracting, change management, stakeholder engagement, business process redesign and strategic partnership development. Important insights are provided on the implications of creating outsourced shared services arrangements.

Chapter 7: Services outsourcing and performance management – focuses on performance management and the outsourcing process. A framework is presented which provides an outline of the stages involved in integrating performance management into the outsourcing process. The framework integrates a number of performance management techniques into the outsourcing process including cost analysis, benchmarking, workflow mapping and continuous improvement. Illustrations from a financial services organisation are introduced throughout to demonstrate the practical implications of performance management and the outsourcing process. The challenges and benefits of performance management and outsourcing are outlined.

Chapter 8: Services outsourcing and the spin-off arrangement – provides detailed insights into the development and implementation of spin-off arrangements. The content of the chapter is enriched by integrating the experiences of a utility company that spun off a number of functions into a separate commercial business. The following issues are considered: motives for spinning off functions; assessing capabilities of internal functions prior to the spin-off; preparation strategies prior to spin-off; potential governance structures between the spin-off and the parent company; strategies for allowing the spin-off to grow; developing an entrepreneurial culture in the spin-off; and managing the outsourcing relationship between the parent company and the spin-off.

Chapter 9: Learning from failure and strategies for recovery in business process outsourcing – considers the common causes of failure in business process outsourcing (BPO) and strategies for recovery. The analysis is enriched through analysing the experiences of a global software provider in a major BPO arrangement. The experiences of the company, along with illustrations from the existing literature, are used to outline the common causes of failure in BPO. The chapter focuses on strategies for recovering failing BPO arrangements including developing an effective sourcing strategy, business process analysis and redesign, knowledge management, and employing formal contracting and collaboration as complements. Illustrations are provided on how knowledge management tools, information technology applications and continuous

improvement techniques can be employed to reduce transaction costs in BPO arrangements.

Chapter 10: Conclusion – This chapter summarises some of the key challenges of services outsourcing and outlines key aspects of effective services outsourcing based upon the analysis presented in the book.

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Global services outsourcing overview

2.1 Introduction

Services outsourcing has become an important feature of the global economy. Globalisation and advances in technology have allowed companies to transfer information technology, human resource, legal and accounting services to local and foreign vendors. Services outsourcing poses considerable challenges, and is more complex than manufacturing outsourcing. The unique features of services, such as the involvement of the customer in service delivery, service customisation and the need for physical contact, make services outsourcing extremely challenging. However, organisations have been pursuing a range of strategies to reduce the risks, and achieve the benefits that services outsourcing offers. Organisations have been redesigning business processes to retain customer contact services locally and to outsource routine, labour-intensive back-office services. This has involved adopting sourcing models with vendors to maintain control over critical outsourced processes, whilst leveraging the lower costs of vendors in emerging economies. Moreover, organisations have been increasingly looking beyond labour cost advantages and using global services outsourcing to access highly qualified staff in knowledge-intensive services.

This chapter provides an overview of the global services outsourcing phenomenon. A background to the growth in business services is outlined. An overview of services outsourcing is presented, which includes the types of outsourcing arrangement being adopted by organisations, 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. This involves considering influences on the mobility of service processes in the global economy, and how the distinctive characteristics of services create challenges in services outsourcing.

2.2 The services revolution

Developed economies such as those of the USA and UK have witnessed tremendous growth in the trading of services. These economies have

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experienced the hollowing out of their manufacturing bases, as product manufacture has been outsourced to economies such as those of China, South America and Eastern Europe. The services sectors have become a critical driving force of these developed economies. As manufacturing has contracted, productivity and employment levels have increased in the service sectors of these economies. Services can be categorised into those used by individual consumers and those used by businesses – referred to as business services. Business services can be divided into information technology (IT) services and the rapidly growing area of IT-enabled services as shown in Figure 2.1.[1] IT services include hardware and software consultancy, computer maintenance and repair, data processing and database activities. IT-enabled services include professional services (legal, accountancy, market research, technical, engineering, advertising, human resources and consultancy), research and development, recruitment agencies and call centres.

There are a number of reasons for the growing importance of services. Firstly, manufacturing companies have focused on services as product markets have become saturated, and used it as a defence against the increasing commoditisation of many products.[2] Organisations have been using
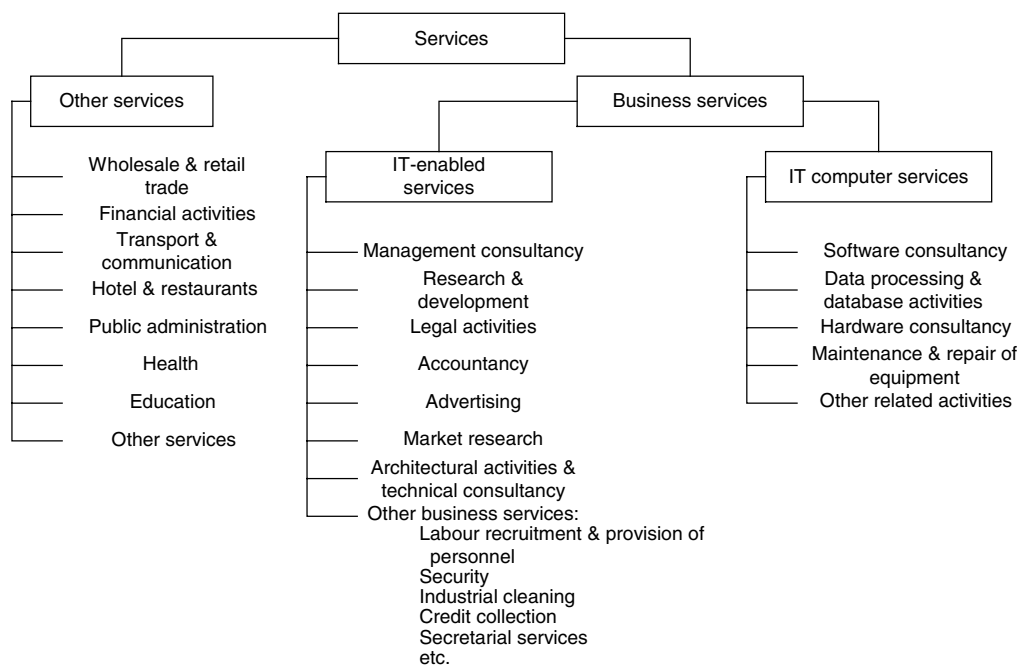

Figure 2.1   Categories of business services

services to complement their core product offerings and diversify into other service areas in order to achieve further growth. Automotive companies have been offering a range of complementary services to customers including financing, insurance and roadside assistance, whilst GE has been offering financial services to complement its existing product range, and diversify into other service markets.

Secondly, advances in information and communication technologies (ICTs) have allowed organisations to extend their reach into a range of service areas. High-street retailers now offer a range of online services such as insurance, credit and banking services. In addition, developments in ICTs have led to the offering of a range of services that previously did not exist. For example, in the field of mobile communications, specialist providers have emerged offering digitised services such as broadband access, web browsing, messaging and document management.

Thirdly, as a result of competitive pressures and more demanding consumers, organisations have been restructuring their organisations to remove highly fragmented business processes. Fragmented and widely dispersed processes have led to increased costs, duplication of resource and a lack of consumer responsiveness across a range of industry sectors as shown in Table 2.1. Organisations have been redesigning business processes and using ICTs to improve process performance and deliver services digitally. These initiatives have focused not only on better serving the needs of consumers, but also on meeting the needs of organisational employees – internal

Table 2.1 Examples of process deficiencies

Industry sector	End-to-end business process deficiencies
Automotive	Poor integration of systems and software from multiple vendors
Electronics	Challenges in move from mass production to build-to-order supply chains to achieve productivity and customer responsiveness
Health care	Fragmented processes across users, providers and hospitals
	Poor quality of patient records
	Increasing costs and slow responsiveness
Banking	Under-utilised data and functional silos
	Poor customer loyalty with deficient products and services
Retailing	Fragmented systems and under-utilised data across supply chains
Telecommunications	Incomplete view of customer as a result of fragmented systems for billing, customer care, self-service etc.

Source: Adapted from Rai, A. and Sambamurthy, V. (2006). The Growth of Interest in Services Management: Opportunities for Information Systems Scholars, *Information Systems Research*, 17(4), 327–31.

customers. Many organisations have been transforming their human resource and finance functions from purely transaction-based roles into providers of high-quality value-added services to employees.

2.3 Services outsourcing

As the services sectors of developed economies have grown in importance, the trend towards services outsourcing, both domestically and globally, has become more prominent. Services outsourcing can be either task-oriented or business-process-oriented. Task-oriented outsourcing involves the vendor completing tasks such as data entry and technical support for the client. Process-oriented outsourcing involves the vendor taking responsibility for executing a business process such as customer contact, and delivering it to the client as a service, often referred to as business process outsourcing (BPO). Organisations can pursue three different models for business process outsourcing. *Selective outsourcing* involves outsourcing a limited number of activities associated with the business process. *Transitional outsourcing* involves outsourcing the process to a vendor on a temporary basis. *Total outsourcing* involves outsourcing the entire process to a vendor.[3]

BPO often involves outsourcing the infrastructure supporting the business process, including the IT infrastructure. BPO focuses on how the overall process methodology or function is effective, from manager to end user, rather than on the technology that supports the process. Services outsourcing also includes IT outsourcing, which involves the IT component of business operations, such as data centre and desktop operations. For example, outsourcing the data centre may involve back-office support to a number of business functions such as human resources and finance and accounting. As well as outsourcing routine processes such as data entry and transaction processing to reduce costs, organisations have increasingly been outsourcing processes that impact competitive advantage. Organisations have been outsourcing more complex processes, as vendors have upgraded their initial capabilities in cost reduction, to offering specialist knowledge and continuous improvement capabilities to transform process performance for clients (Figure 2.2).

Organisations have been outsourcing services to both local and foreign locations. Local outsourcing involves transferring a process previously carried out internally to a vendor located in the same country of operation. This can involve an organisation transferring parts of the process including staff, equipment and other assets to the vendor. Local outsourcing can also involve redeploying staff in the outsourcing organisation or redundancies. However, the negative effects of this type of outsourcing are mitigated,