

Understanding Outsourcing Risk Factors Based on Modularity: The BSKYB Case

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ABSTRACT

The outsourcing of Information Systems development and maintenance to external and specialized partners is a frequent practice among contemporary organizations. However, outsourcing projects have been proven to be prone for failure. As a result, practitioners and scholars have suggested a variety of outsourcing risk factors which may lead to unsuccessful project outcomes, as well as possible remedies to mitigate them. Empirical studies nevertheless continue to report frequent failures in outsourcing projects. In this paper, the concept of modularity is used as an alternative perspective to analyze risks related to outsourcing projects. Such approach might help in supplementing existing outsourcing risk analyses with new, additional or more profound insights on this topic. It might also serve as an additional basis to list a more exhaustive enumeration of required mitigating actions, which in turn could lead to more succesful outsourcing projects. This alternative perspective is illustrated by a reanalysis of a failed outsourcing case which is documented in literature and available court proceedings: the BSKyB case. It is shown in a specific way how poorly designed modular structures at the technical and project communication and project management level could have been identified ex-ante. This identification may explain the manifestation of ex-post outsourcing risk factors such as 'lack of required skills', 'managing user expectation', 'communication problems', 'project management' and 'significant integration requirements'.

Keywords: *Information Systems, Outsourcing, Outsourcing Projects, Outsourcing Risk Factors, Project Management, Significant Integration Requirements*

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1. PROBLEM STATEMENT

In the contemporary volatile global business environment, it is difficult for many organizations to adapt to the rapid pace of technological change, manage its complexity and (at the same time) achieve economies of scale. Consequently, many organizations seek external and specialized partners to hand over (i.e., outsource) some of their non-core, though highly complex tasks (Miozzo & Grimshaw, 2005), including the outsourcing of their Information Systems (hereafter IS) development and maintenance. Many motivations and perceived benefits for this IS outsourcing have been identified, including increased flexibility, benefit from vendors' economies of scale, specialization in core business activities, reduced risk, and access to technical expertise (Tiwana & Bush, 2007).

An outsourcing project constitutes a complex undertaking, and an astonishing high number of IS outsourcing projects fail to achieve their intended targets. For instance, a study of Gay and Essinger (Gay, 2000), which examined 29 major outsourcing engagements over a period of eight years, concluded that more than 35 per cent of the engagements failed. Scholars and practitioners suggested many mitigation actions (e.g., a high quality service level agreement) that may, without any doubt, help in reducing the failure rate. Nevertheless, a large number and variety of failures continues to occur. This might indicate that sometimes, not all relevant mitigating actions to address outsourcing risks were taken, due to the fact that not all risks could be clearly identified ex-ante.

2. RESEARCH QUESTION

Building on the problem statement as discussed in previous section, this paper proposes an alternative approach, based on the concept of modularity, to identify outsourcing risks ex-ante. The modularity concept states that a system can be decomposed into several inter-related subsystems (i.e., modules). This concept, originating from systems theory, turned out to

be a successful means for controlling complex systems in several domains, including product design, software design, etcetera (Baldwin & Clark, 2000). Because outsourcing projects are generally conceived as being complex, especially in dynamic environments, it seems reasonable to explore the possibilities of using the modularity concept in addressing outsourcing complexities. As a matter of fact, several scholars have recently suggested a possible link between the general concepts of 'modularity' and 'outsourcing' (see e.g., (Campagnolo & Camuffo, 2010; Tiwana, 2008)). More specifically, various authors link modularity to the explanation of outsourcing failures (Hecker & Kohleick, 2006; Zirpoli & Becker, n.d.). However, many of these scholars only identify this link while the call for more in-depth case analyses remains unresolved.

Given this lack of in-depth research, it seems plausible that such an alternative perspective can help in complementing existing outsourcing risk analyses with new and deeper insights, as such providing a more complete basis to define a more exhaustive list of mitigating actions. The research question of this paper can therefore be formulated as follows: *How can the concept of modularity help in obtaining a better ex-ante understanding of outsourcing risks?* To answer this question, this paper analyzes the BSKyB outsourcing case: a failed outsourcing project between EDS (the vendor) and BSKyB (the client), of which extensive and objective case details are publicly available in the form of court proceedings. Even though this outsourcing case has already been scrutinized by some scholars (Verner & Abdullah, 2012), to the best of our knowledge no profound case analysis has discussed this case in relation to the modularity concept.

3. METHODOLOGY AND CASE INTRODUCTION

The study relied on case study methodology because this qualitative methodology is particularly suited to investigate a phenomenon (here:

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