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Chapter VIII

Eliminating the Weakest Link: Leveraging Human Capital with Strategic Alliances in IT Outsourcing Supply Chains

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Abstract

As organizations shift from tactical to strategic approaches with IT outsourcing, their human capital portfolios of knowledge, skills, competencies, and organizational capabilities need to be reconfigured accordingly. This chapter outlines a model for constructing human capital portfolios that enable firms to strategically leverage IT outsourcing. Two organizational capabilities—rational strategic management process and connective capabilities—provide the integrating mechanisms for

competencies from three sub-units that are human resource information systems (HRIS), the IS function, and supply chain management. Knowledge and skills at the individual and sub-unit level enable the development of competencies that are integrated by organizational capabilities. Given the dynamic nature of competitive contexts, managers have to reconfigure their organizations' human capital portfolio to align their firms with the external environment. In sum, creating human capital portfolios for strategic IT outsourcing supply chains requires a multi-level and multi-disciplinary approach to identify and strengthen the weakest links.

Introduction

Effective strategic IT outsourcing enables firms to operate on the cutting edge compared to too many on the bleeding edge. The trend for IT outsourcing is growing. The IT outsourcing market in North America is expected to grow from \$101 billion in 2000 to \$160 billion by 2005 (Gartner Inc., cited in Kaplan, 2002). The global dimension of outsourcing is even more dynamic with 3.3 million U.S. business-processing jobs predicted to move abroad by 2015 at an accelerating rate of 30-40% per year for the next five years (Agrawal & Farrell, 2003). Although outsourcing is a growing trend, not all firms experience success with it.

The purpose of this chapter is to develop a model for creating human capital portfolios to strategically leverage IT outsourcing, which systematically eliminates the weakest link of the supply chain. The model addresses multiple organizational levels because creating human capital portfolios for strategic IT outsourcing depends on interrelated knowledge, skills, competencies, and capabilities from individuals to organizational systems. At the firm level, two important organizational capabilities—rational and connective—integrate competencies from organizational sub-units. Three significant sub-units—the IS function, HRIS, and supply chain management—encompass knowledge and skills from individuals to create competencies within organizational sub-units. The model for creating human capital portfolio provides a means for managers to analyze, evaluate, and align the requisite human capital portfolio to strategically engage in IT outsourcing.

Human capital portfolios should address a range of problems that weaken connections between client firms, vendors, and contracting employees. Nu-

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