

# Chapter 5.4

## Taking Information Systems Business Process Outsourcing Offshore: The Conflict of Competition and Risk

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### ABSTRACT

As Business Process Outsourcing (BPO) moves offshore and now includes Information Systems (IS) Processes, there is a need to consider a combination of the two. This article explores the factors that a multinational organisation considered when it “offshored” its IS business processes to lower-cost destinations. It focuses on determining the driving factors and challenges faced during the offshore sourcing project. A single, in-depth interpretive case study approach was used to explore this research topic. The results of this study show that the organisation under investigation was primarily driven to offshore its IS business processes in order to become more competitive in the marketplace. This was assisted by the organisation reducing its operational costs, and

establishing a global presence in many lower-cost locations offshore. A model was developed, which illustrates the interrelationships that exist between these concepts.

### INTRODUCTION

Offshore sourcing (the purchase of services from overseas) is not a new phenomenon; it has existed for the last 2 decades in many industries, particularly in the manufacturing industry, and more recently in the financial services industry. Despite being active for a number of years, offshore sourcing only gained momentum during Y2K when there was an abundance of capable professionals offshore, more “than those available in the first world” (Dibbern, Goles, Hirschheim,

& Jayatilaka, 2004, p. 13; Hirschheim, George, & Wong, 2004, pp.12-13). Since then, the phenomenon has gained increasing popularity in many varied industries. Offshore sourcing in Information Systems is defined as the handing over of “responsibility for [the] management and delivery of information technology services” to a vendor located in another country (Pfannenstien & Tsai, 2004, p. 72; Sabherwal, 1999).

Business Process Outsourcing (BPO) is an additional outsourcing concept, which has developed in recent years. It is an outsourcing agreement “where a third party provider is responsible for performing an entire business function for the client organization” (Dibbern et al., 2004, p. 11). BPO, like offshore sourcing, is a concept familiar to both the manufacturing and financial services industries. Business processes that have typically been outsourced are IS/IT enabled business processes and not the actual IS/IT business processes themselves, making it apparent that the commonality of offshore sourcing and BPO is that the business processes and services targeted for outsourcing are those that are supported by IS/IT (Willcocks, Hindle, Feeny, & Lacity, 2004). As an example, loan approvals, debt collection, and data input are often sent offshore, but related IS/IT processes of reporting, modification of output, and database administration generally have not been. A diagrammatic representation of the evolution of these practices is included a little later in the article after some further explanation, as in Figure 2.

In recent years, there has been a significant increase in the attention paid to BPO and offshore sourcing. While the concept of offshore BPO has been given some consideration, there is little literature on the newer offshoring of IS business processes. There is, however, some research that has been conducted into the offshoring of other business processes, for example, human resources services, finance and accounting services, and customer support functions, to name a few (Whinston, 2004). The offshoring of these business processes

has typically been enabled by IS/IT (Hirschheim et al., 2004, p. 23). But, there is a further development—the offshoring of IS business processes themselves (such as customising and modelling SAP reports, changing management, and modifying work roles and tasks by sending certain components offshore). The research reported here has the aim of providing an in-depth understanding of its drivers and motivations and is based on an intensive case study of IS business processes offshoring by an Australian arm of a multinational organisation—ComputerInc (a pseudonym, as are the names of staff), a leading supplier of IT hardware, software, and services.

This study identifies both the drivers (expected benefits) and challenges of offshoring IS BPO. It is perhaps relevant that one of the sites being considered for taking on some of the work was in fact on-shore—in Australia, but removed from the main office. This was seen as significant at the time as ComputerInc had several clients who were expected to have concerns about data and data interpretation going offshore. The resulting framework grounded in empirical data contributes to better understanding of the offshoring IS business processes which may aid organisations in their decision-making surrounding offshore sourcing. It is hoped that this framework will be employed in future research to develop a more general theory into offshore BPO. The authors firmly believe that the interplay between the benefits and challenges explored here will be useful for managers considering similar decisions.

## **BACKGROUND**

### **Outsourcing**

The outsourcing phenomenon has today evolved from arrangements, which involve one client and one vendor where the vendor is responsible for providing all IS-related services to the client; to arrangements that involve multiple vendors

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