Governance Models in Offshore IT Outsourcing

Gábor Majdán

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IT governance is nowadays a widely used way of aligning business and IT. The growing trend of offshore IT outsourcing means that governance has to be extended to an external IT supplier. Proper governance is hard to achieve, as each partnership differs. Nevertheless, governance models have already been made in an attempt to explain how to regulate the now outsourced IT functions between client and vendor(s). Governance happens on the strategic, tactical and operational levels by joint structures, joint processes and joint roles. In this qualitative research, we are exploring different outsourcing governance models from theory and practice and give a table of the most common joint process fields on the operational level. The goal is to augment the scientific literature and provide governance managers a more detailed view on the nature of outsourcing governance frameworks. Our findings are based on interviews with field experts working in large outsourcing companies.

1.1 Introduction

Behind the IT outsourcing “hype,” there lies a business model of using an external vendor for contributing to the client organization’s IT infrastructure (Loh et al., 1992). Contrary to popular belief, offshore outsourcing is not only about cost-saving. It is increasingly about accessing new expertise, providing a better/faster service, reducing IT risks (ITGI, 2005), and increasing the level of flexibility (Klepper, 1995). It is also widely propagated that outsourcing is more about better management, the provision of services and their demand and consumption, and less about purchasing them (ITGI, 2005).

Having these new views in mind, outsourcing of IT is becoming more a strategic decision. Also, in the past decade we have seen the penetration of IT into more and more business processes, which means IT has a bigger impact on business value. Outsourcing organizations are also outsourcing complete business processes, from which an increasing number is related to their primary business processes (Brown and Scholl, 2002). It is important to understand that while the service delivery is outsourced, the client firm is still accountable for the quality and the management of risks of the final product supplied by the vendor.
By getting involved in more primary business processes, the impact of an IT outsourcing partnership is substantial. Therefore strict regulation and assistance have to be implemented for the client–vendor interfaces in order to ensure a consistent service provision. This calls for effective governance of these outsourcing partnerships, not only because well-governed organizations have shown an increase in shareholder value (Felton and Hudnut, 1996), but also, because IT outsourcing is more often considered a strategic resource (DiRomualdo and Gurbaxani, 1998). Kern and Willcocks (2001) showed that proper governance of the outsourcing partnership is vital to its success.

However, a survey of 200 IT professionals from 14 countries in 2004 showed that the needed levels of governance are not candidly extended into the relationship with the IT supplier when service provision is outsourced (ITGI, 2005).

The governance of outsourcing partnerships is about realizing the mutually defined outsourcing aims which require an actively managed relationship (Gewald and Helbig, 2006). The governance aspect – which can be translated to IT governance – is defined as the structures, processes, and relational mechanisms for the IT decision making in a company (van Grembergen et al., 2004). Governance in an outsourcing environment means that some of these processes, structures and relational mechanisms are mutually managed on strategic, functional and operational levels (Gewald et al., 2006).

There is no “one-size-fits-all” solution for governance (Nolan, McFarlan HBR). Governance structures and processes have to be customized according to the unique performance goals and objectives of the collaborating companies (Weill and Woodham, 2002 [according to my interviewee]).

Nevertheless, describing fields of joint processes and structures, and finding the most common roles and responsibilities are paramount in understanding the high-impact activity of governance of outsourcing partnerships. In our research, we focus on exploring the most commonly used joint process fields on an operational level in an offshore outsourcing partnership.

Gewald et al. (2006) proposed a comprehensive model for managing outsourcing partnerships. They have also gathered examples of joint process, but did not explain them in detail. de Jong (2009) has gathered most of the joint process fields and structures based on literature and practice, but her findings are only limited to the tactical level. Also, ample amount of literature can be found on how to approach governance from a strategic perspective (Weill and Woodham, 2002; Dahlberg and Kivijärvi, 2006).

The problem is that literature on a comprehensive collection of operational level process fields is lacking. These operational processes embody the daily activities carried out by both insourcer and outsourcer parties jointly. In the light of this we have formulated the following research question:

What are the most common joint process fields on an operational level between an IT vendor and outsourcer?