



Successful Outsourcing Strategies: What and How?

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Agenda



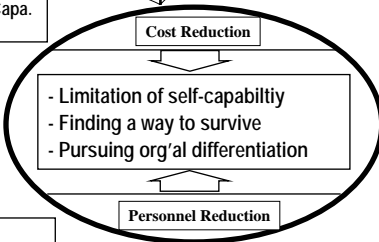
- 1. Introduction**
- 2. Part I**
 - 2.1 Dimensions of OS Strategy**
 - 2.2 Patterns of OS Strategy**
- 3. Part II**
 - 3.1 Fit between OS and Org. Strategies**
 - 3.2 Patterns between them**
- 4. Results**
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Introduction: Outsourcing Background

External Factor

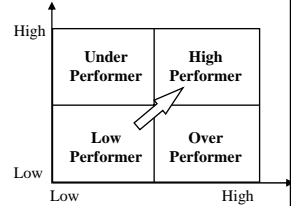
- Low Growth Rate and Economy
- High Global Competition
- Rapid Change of IT
- Increased Firm's Specialty & Capa.

Organization Environment



Internal Factor

- Profit Reduction
- Cost Increase
- Severe Fixed Costs
- Ineffective Management

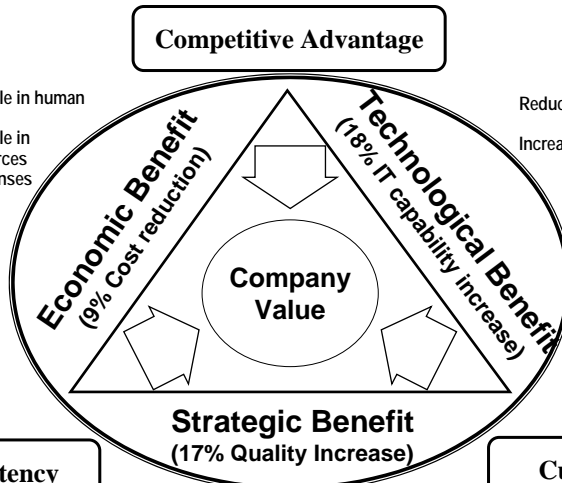


Necessity of Outsourcing

Introduction: Outsourcing Objectives

Enhance economies of scale in human resource
 Enhance economies of scale in technological resources
 Increase control of IT expenses

Reduce the risk of technological obsolescence
 Increased access to key IT

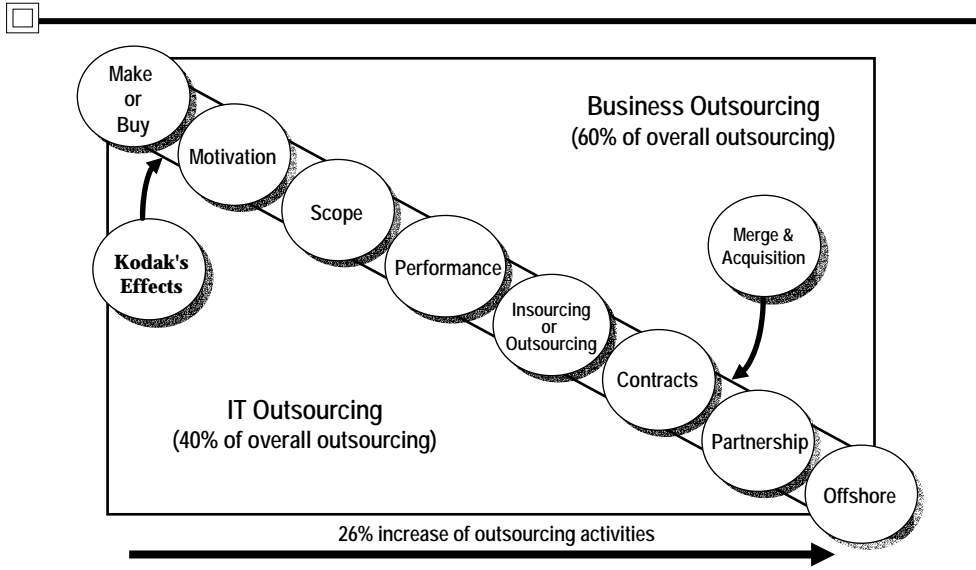


Core Competency

Customer Value

Being able to refocus on core business
 Enhance the IT competence

Introduction: Evolution of Outsourcing



Introduction: A Process Model of Outsourcing



(Lee and Kim, 1997)

Introduction: Lack of Guidelines (1)



- ❑ **Most of managers reported an unsatisfactory outcome in real outsourcing cases. Why?**
 - The complexity of outsourcing transactions because outsourcing decision involve many factors (Lacity and Hirschheim, 1993)
 - Balancing the needs of different organizational functions
 - Establishing and managing a relationship
 - Making a decision with incomplete information, etc.
 - The limited selection of models to help managers analyze outsourcing decisions and how to choose a set of outsourcing strategies (Ngwenyama and Bryson, 1999)

Introduction: Lack of Guidelines (2)



- ❑ **While some firms have achieved varying degrees of outsourcing success with any of outsourcing strategies, many have encountered significant difficulties**
- ❑ **How do managers design an effective outsourcing strategy that is the most appropriate for their firms?**
- ❑ **An incorrect outsourcing decision with insufficient thought as to strategy can result in loss of competencies and capabilities, exposure to unexpected risks, and even business failures**

- *However, adequate guidelines for organizing effective outsourcing strategies do not exist.*

Introduction: Concept and Definition (1)



□ Organizational Strategy

(Miles and Snow, 1978)

- Determination of the basic long-term goals and objectives of an enterprise, and adoption of courses of action and the allocation of resources necessary for carrying out these goals (Chandler, 1963)
- **Prospector Strategy:** to frequently add to and change its products and services *to be the first in the market*. An organization with such a strategy attempts to have innovation and flexibility to respond rapidly to changing market environment.
- **Analyzer Strategy:** attempts to maintain a relatively stable and limited line of products and services, while selectively moving into carefully selected new areas with demonstrated promise. Organizations in this category tends *to be a follower* rather than a leader in the market with making the balance between cost and efficiency.
- **Defender Strategy:** attempts to locate and maintain defined markets in a relatively stable products and services. Often this organization is not at the forefront of developments in the industry. It focuses on tight control and emphasizes operating efficiencies to lower costs.
- **Reactor Strategy:** An organization with this strategy tends to respond in only those areas where it is forced to by environmental pressures rather than to be aggressive in maintaining existing products and markets because it essentially lacks a consistent strategy.

Introduction: Concept and Definition (2)



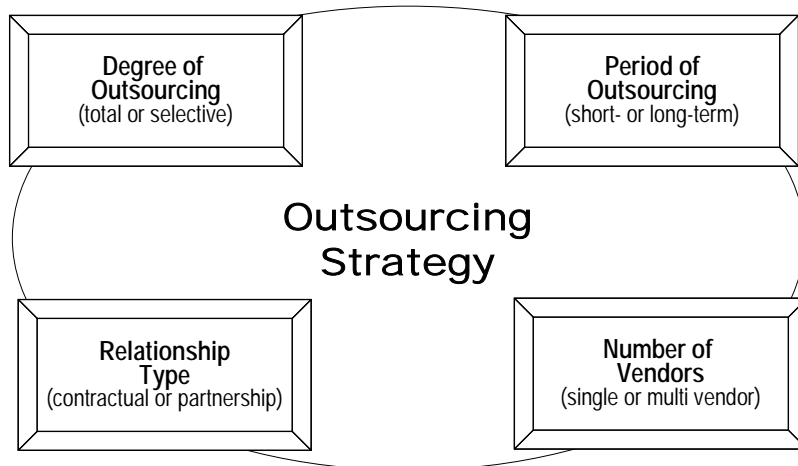
□ IT Outsourcing

- Act of subcontracting a part or all of an organization's IS work to external vendors (Altinkemer et al., 1994)
- Managing a firm's IT infrastructure through ... governance mechanisms with other firms (Loh and Venkatraman, 1992)

□ IT Outsourcing Strategy

- The logic visible in a firm's portfolio of IT outsourcing decision (Lee et al., 2004)
- *Not a single decision that is consciously made, but rather the manifestation of multiple decisions*

OS Strategy: Key Dimensions



OS Strategy: Degree of Outsourcing



□ What are the possible candidates and suitable amount of outsourcing for our organizations?

- Operations perspective (Ang and Straub, 1998)
- Functional perspective (Grover, Cheon and Teng, 1996)
- Budget perspective (Lacity, Willcock and Feeny, 1996)
- Type of Outsourcing (Loh and Venkatraman, 1991, 1992)

OS Strategy: Relationship Type



❑ What kind of outsourcing relationship is appropriate for our organization?

- Buy-in contract (Lacity and Willcocks, 1998)
- Fee-for-service contract (Saunders, Gebelt and Hu, 1997)
- Partnership (Klepper, 1994; McFarlan and Nolan, 1995)

OS Strategy: Period of Outsourcing



❑ Which one is better, long- or short-term outsourcing, for our organization?

- A long-term contract (Klepper, 1994; McFarlan and Nolan, 1995)
 - Improves financial predictability
 - Reduces the risk and uncertainties
- A short-term contract allows companies to (Lacity and Willcocks, 1998)
 - Adequately analyze the cost implications of outsourcing decision
 - Motivate vendor performance
 - Recover faster from mistakes

Part I

OS Strategy: Number of Vendor



□ Which way should we adopt, a single vendor or multi-vendor approach?

- A multi-vendor strategy (Applegate and Nontealegre, 1991)
 - high vendor performance,
 - Low switching cost and increased bargaining power
- A single vendor strategy (Ngwenyama and Bryson, 1999)
 - Develop a strong relationship with one vendor
 - Reduce the cost for communication and coordination activities

Part I

OS Strategy: A Fit Model



Buy-in Contract
Fee-for-service
Partnership

Relationship Type

Period of Outsourcing

Short-term
Mid-term
Long-term

Degree of Outsourcing

Total Outsourcing (Minimal OS)
Selective Outsourcing
Total Outsourcing

Number of Vendors

Single Vendor
Multiple Vendor

Fit

Outsourcing Success

The degree of achieving the strategic, economic, and technological benefits of outsourcing

of Possible approaches
 $= 3 * 3 * 3 * 2 = 54$

Part I

Results: Frequency of OS Patterns



Strategy Dimension	All Patterns of Outsourcing Strategies (Mean; SD); n=311					
	Dominant Patterns (All are congruent Patterns)					Minor Pattern
	1 st Pattern (Independent)	2 nd Pattern (Transition)	3 rd Pattern (Arm's-length)	4 th Pattern (Embedded)	5 th Pattern (Network)	Others (14 types)
Degree of Outsourcing	Total insourcing (8.13; 3.32)	Selective Outsourcing (45.14; 14.25)	Selective Outsourcing (55.21; 13.06)	Total Outsourcing (83.08; 5.45)	Total outsourcing (92.90; 5.77)	- (47.15; 27.54)
Relationship Type	Buy-in contract	Fee-for-Service	Fee-for-Service	Partnership	Partnership	-
Period of Outsourcing	Short-term (1.91; 0.85)	Medium-term (4.44; 0.84)	Medium-term (4.98; 0.93)	Long-term (7.79; 1.95)	Long-term (8.39; 1.95)	- (4.03; 1.53)
Number of Vendors	Single (1.00; 0.00)	Single (1.00; 0.00)	Multiple (2.50; 0.58)	Single (1.00; 0.00)	Multiple (2.57; 0.64)	- (1.29; 0.53)
Frequency; Percent	47; 15.1%	63; 20.3%	48; 15.4%	39; 12.6%	53; 17.0%	61; 19.6%

Part I

Results: Minor Patterns



Variable s	Minor Patterns (Non-Congruencies)													
	1 (n=10)	2 (n=9)	3 (n=1)	4 (n=8)	5 (n=4)	6 (n=3)	7 (n=1)	8 (n=6)	9 (n=2)	10 (n=1)	11 (n=6)	12 (n=4)	13 (n=2)	14 (n=4)
Degree of Outsourcing	Selective outsourcing	Selective outsourcing	Selective outsourcing	Selective outsourcing	Selective outsourcing	Selective outsourcing	Selective outsourcing	Selective outsourcing	Selective outsourcing	Total insourcing	Total outsourcing	Total outsourcing	Total outsourcing	Total outsourcing
Relationship Type	Buy-in contract	Buy-in contract	Buy-in contract	Fee-for-service	Fee-for-service	Partnership	Partnership	Partnership	Partnership	Fee-for-service	Fee-for-service	Fee-for-service	Fee-for-service	Partnership
Period of Outsourcing	Short-term	Medium term	Short-term	Short-term	Short-term	Short-term	Long-term	Medium term	Medium term	Short-term	Medium term	Medium term	Long-term	Medium term
Number of Vendors	Single vendor	Single vendor	Multiple vendors	Single vendor	Multiple vendor	Single vendor	Single vendor	Single vendor	Multiple vendors	Single vendor	Single vendor	Multiple vendors	Single Vendor	Multiple Vendor

Part I

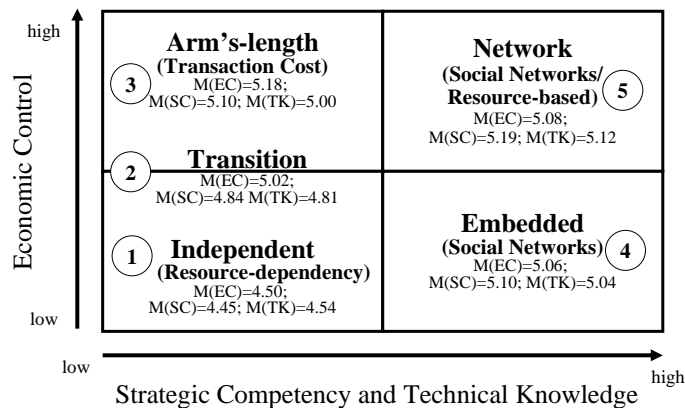
Results: OS Performance of Each Pattern



Variables (Alpha=0.946)		All Patterns; Mean (S.D)					Minor Patterns (n=61)
		Dominant Patterns					
		Pattern 1 (n=47)	Pattern 2 (n=63)	Pattern 3 (n=48)	Pattern 4 (n=39)	Pattern 5 (n=53)	
Strategic	OS Success						
	Focus on core business	4.46(0.80)	4.73 (0.99)	5.04 (0.87)	5.13 (0.86)	5.17 (0.67)	4.16 (0.80)
	IT competence	4.47(0.86)	4.92 (0.97)	5.15 (0.85)	5.13 (0.83)	5.19 (0.59)	4.24 (0.68)
Economic	Skilled personnel	4.40(0.77)	4.87 (0.94)	5.12 (0.98)	5.05 (0.89)	5.21 (0.77)	4.27 (0.77)
	Economies of scale in HR	4.62(0.79)	4.81 (1.01)	5.10 (0.97)	5.08 (1.08)	5.09 (0.74)	4.05 (0.88)
	Economies of scale in TR	4.47(0.72)	5.09 (0.89)	5.27 (0.92)	5.02 (0.93)	5.06 (0.77)	4.41 (0.80)
Technological	Control of IT expenses	4.42(0.90)	5.14 (0.84)	5.17 (0.95)	5.07 (0.93)	5.09 (0.74)	4.49 (0.80)
	Avoidance of obsolescence risk	4.53(0.74)	4.84 (0.99)	4.98 (0.96)	5.02 (0.90)	5.13 (0.90)	4.22 (0.82)
	Access to key IT	4.55(0.90)	4.78 (1.02)	5.02 (0.84)	5.05 (0.82)	5.11 (0.87)	4.27 (0.90)
	Overall satisfaction	4.47(0.78)	4.74 (0.98)	5.00 (0.77)	5.10 (0.75)	5.26 (0.74)	4.27 (0.81)
	Overall OS Success	4.49(0.71)	4.88(0.84)	5.09(0.77)	5.07(0.79)	5.15(0.60)	4.45(0.71)

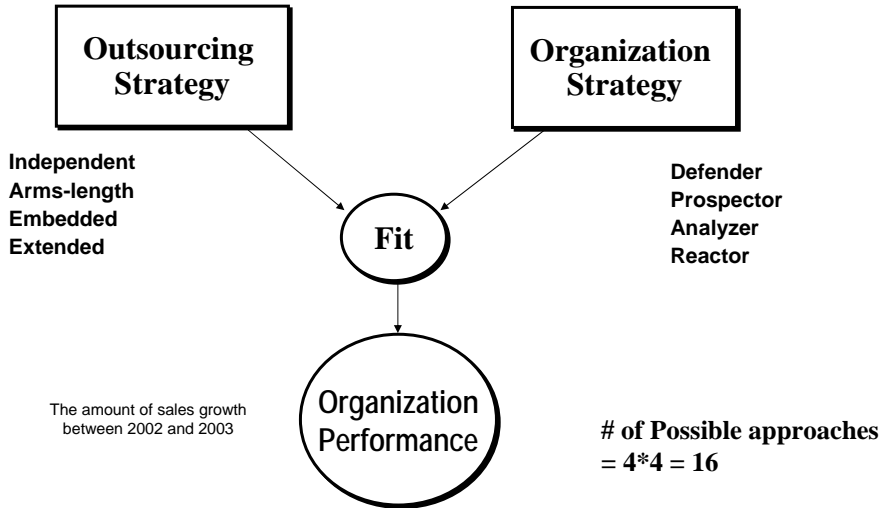
Part I

Summary: A Contingency Model



Part II

OS & Org. Strategies: A Fit Model



Part II

Results: Cross-tabulation



Organization Strategy	Outsourcing Strategies (Number; Percent); n=150				Total
	Independent (1)	Arm's-length (2)	Embedded (3)	Network (4)	
Defender (1)	28 (18.7%)	13 (8.7%)	20 (13.3%)	4 (2.7%)	65 (43.3%)
Prospector (2)	18 (12%)	10 (6.7%)	12 (8.0%)	2 (1.3%)	42 (28.0%)
Analyzer (3)	12 (8.0%)	4 (2.7%)	11 (7.3%)	4 (2.7%)	31 (20.7%)
Reactor (4)	4 (2.7%)	4 (2.7%)	2 (1.3%)	2 (1.3%)	12 (8.0%)
Total	62 (41.3%)	31 (20.7%)	45 (30.0%)	12 (8.0%)	150 (100%)

Part II

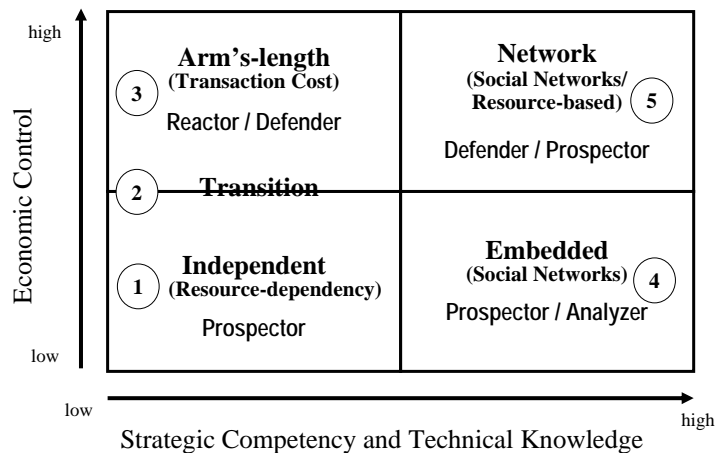
Results: Sales Growth of Each Pattern



Organization Strategy	Outsourcing Strategies (Million Won)				
	Independent (1)	Arm's-length (2)	Embedded (3)	Network (4)	Mean
Defender (1)	14,369	21,964	① -14,010	15,457	9,445
Prospector (2)	⑤ 30,855	30,762	① 289,785	15,050	91,613
Analyzer (3)	③ 5,288	20,916	③ 88,212	⑤ 12,752	31,792
Reactor (4)	④ 11,422	② 126,910	④ 65,000	② 2,000	51,333
Mean	15,483	50,138	107,246	11,314	46,045

○ Top Best Five; ○ Top Worst Five

Summary: A Contingency Model



Conclusion: Discussions



❑ Pattern five in OS strategy exhibits the highest achievement?

- Total outsourcing, partnership, long-term and multi-vendors
- Inconsistent with a recent study (Lacity and Willcocks, 1998)
 - Selective, short-term, and fee-for-service contract decisions achieved expected cost saving than other types of outsourcing strategies
- The divergent result in findings may be caused by different perspective

❑ However, it depends on organizational strategy

- Defender: arm's length, network strategies
- Prospector: embedded, independent strategies
- Analyzer: embedded strategy
- Reactor: arm's length strategy

Conclusion: Implications



- ❑ Organizations should adopt **an integrated outsourcing approach with their basic organizational directions** to have the distinctive outcomes
- ❑ The results provide **meaningful guidelines or directions** for organizations that are considering outsourcing as an effective outsourcing strategic decision model
- ❑ **Effective combinations** between outsourcing strategy and organizational strategy provide organizations with a benchmark against which they can compare their own combinations

Thank You !



Question & Answer

