CHAPTER 1:  INTRODUCTION

The three trends that seem certain to dominate the world, for some time to come, are globalization, technological advances and deregulation. They combine to make geographical dispersion an area of low concern in the planning of business strategy; as enterprises increasingly look for leveraging the cost or differentiation advantages available across the globe forging partnerships to create a value chain with the aim of accomplishing the most with the least. It is in this scenario that business process outsourcing (‘bpo’) has emerged as a key business strategy etching a global supply-chain of information and expertise.

In 1989 when CIO Katherine Hudson outsourced the management of Kodak’s entire data centre to DEC-IBM she introduced a whole new paradigm in business administration that would soon transcend borders, go global and create havoc among the then existing ethics of business and exchange. The Kodak-IBM deal changed the rules of the management game irreversibly. If a large Fortune 500 company such as this could do it to save costs and protect its core competency, would others allow themselves to lag behind?

Close to two decades later, the world, today, has moved onto outsourcing practically every business process to third party vendors. “The question is no longer whether to outsource a capability or activity but rather how to source
every single activity in the value chain” (Gottfredson et al, 2005, emphasis in original).

The greatest challenge in business process outsourcing, however, is one of ‘control’. Managers are accustomed to having direct control over the resources to deliver the results for which they’re accountable. In business process outsourcing, these controls are in the hands of the provider. How the control issue is handled can mean the difference between adequate results and high performing outsourcing that delivers beyond expectations. As Gottfredson et al, (2005) state “it’s no longer a company’s ownership of capabilities that matters but rather its ability to control .... critical capabilities, whether or not they reside on the company’s balance sheet”.

In this dissertation, this issue of control in business process outsourcing has been discussed— how it is enforced, why is it enforced the way it is and its effect on the quality of the relationship and consequently on outsourcing success.

1.1. **Rationale for the Study**

The burgeoning impact of business process outsourcing coupled with the paucity of theoretical understanding on control in this sector has provided the rationale for this research. The motivating factors may be summarized as:
i. Ubiquity of business process outsourcing

ii. Recognition of the importance of control in outsourcing

iii. Paucity of research in this area

1.1.1. THE UBIQUITY OF BUSINESS PROCESS OUTSOURCING

The IT and business process outsourcing industry is currently estimated at US$ 4010 billion by Infosys Technologies Ltd. The overall Indian IT-BPO revenue aggregate is expected to grow by over 33 per cent and reach USD 64 billion by the end of the current fiscal year (FY2008). Export revenues for BPO services are expected to cross USD 10.9 billion, a growth of 30 per cent in FY2008 (ref: Nasscom Strategic Review 2008).

1.1.2. IMPORTANCE OF ‘CONTROL’ IN OUTSOURCING

Studies in the area of outsourcing have suggested a natural link between how an outsourcing arrangement is structured and managed, and the subsequent outcomes (Dibbern et al., 2004). As Clark et al. state “....the truly critical success factors associated with successful outsourcing are those associated with vendor governance” (Clark et al., 1998). The practitioner literature has also noted the critical role that control plays in effective outsourcing management (Linder and Sawyer, 2003).
As Aron et al., (2005) state: inexpensive labor, highly skilled and in adequate supply, is not a recent development in India. Thus, these factors alone cannot be the cause of the recent dramatic increase in offshore BPO. Since the ability to get the work done more cheaply, the reward portion of the risk–reward trade-off, has not changed, one must look to the risk side to understand the sudden increase in outsourcing. Thus, it is useful to examine the mechanisms available for clients and vendors to control outsourcing risks.

1.1.3. PAUCITY OF RESEARCH IN THIS AREA

The increasing pervasiveness of outsourcing, the competitiveness and diversity of the market resulted in the growing interest among researchers on various outsourcing issues especially in the area of IT/IS outsourcing. Research specific to business process outsourcing has, however, for the most part been driven by the practitioner community. Academics, largely, have demonstrated relatively lesser interest in researching this phenomenon leading to “a virtual absence of academic publications on the topic” (Rouse and Corbitt, 2004). Other researchers such as Gewald et al (2006) and Whitaker et al. (2006) have also noted this lacuna.

Further, there has been only limited attention to the form of control systems that are suited to strategic alliances, with calls to extend the domain of organizational control to cover inter-firm relationships (Otley, 1994; Hopwood, 1996; Speklé, 2001). Research that considers explicitly the design of control in
outsourcing relationships has, however, begun to appear (van der Meer-Kooistra and Vosselman, 2000; Mouritsen et al., 2001; Chua and Mahama, 2002). This research aims to add to this field of academic research.

Thus, an attempt to understand critical outsourcing control issues and provide an integrative theoretical perspective to add new insights in the direction and focus of future outsourcing research was the underlying rationale for this study.

1.2. Objectives of the Study

The objective of this research was to study the control practices followed by the key providers (vendors) of the business process outsourcing sector in India.

Thus, the first research objective was to explore the mechanisms that constitute the portfolios of control in business process outsourcing relationships. The next step, then, was to describe these control portfolios in terms of their elementary composition and to match these in a discriminating way with the control needs that are associated with particular activities.

This study then attempted to study empirically the dynamics of the interaction between control and partnership quality and the consequent impact on outsourcing success. To summarize therefore the objective of this study was to
investigate the antecedents of success in business process outsourcing from a control theory perspective.

The sub-objectives which flow out of this objective are:

1. Identification of mechanisms used by the stakeholders in business process outsourcing relationships to govern the progress of the relationship
   a. Review of literature to identify control mechanisms used in outsourcing and other inter-organizational relationships
   b. Conduct a case-based study of control portfolios existing in practice
      i. Defining the research question
      ii. Selecting cases
      iii. Preparing an interview protocol reflecting research question defined
      iv. Fieldwork – data collection
      v. Analyzing the data – within case analysis and cross case pattern search
      vi. Comparison with similar and conflicting literature
   c. Reaching closure through an attempt at theorizing

2. Examine the antecedent conditions impacting the structure of control portfolios in business process outsourcing relationships
   a. operationalization of
      i. control mechanisms
ii. control antecedents viz. characteristics of the task

iii. concepts of partnership quality and outsourcing success

b. collection and analysis of data on the relationship between

i. transaction attributes and degree of control

ii. degree of control and partnership quality on outsourcing success.

3. Study empirically the interaction of control and partnership variables and their consequent impact on outsourcing success.

4. Analyze and compare the control portfolios of the key players of the Indian business process outsourcing sector

This study was carried out as a three step process. In the first stage a survey of outsourcing literature was conducted to examine the factors that have been noted in prior research as antecedents of either outsourcing success or control in an outsourcing arrangement. As a second stage an in-depth study of four business process outsourcing relationships were conducted to provide a basis for understanding how control is operationalized in practice. Thereafter a survey based study of the relationships between antecedent conditions, control practices, relational governance practices and success of the relationship was conducted.
The model in this study examined the impact of transactional dimensions consisting of task programmability, asset specificity and output measurability on the structure of the control portfolio and then investigated the impact of the interaction between degree of control and partnership quality on outsourcing success.

1.3. **SCOPE OF THE STUDY**

This study was limited geographically to outsourcing relationships being executed in India. The study studied mechanisms of control as implemented at the vendor site of an outsourcing relationship.

This study focuses on control in a behavioral sense, that is, as the organization's attempt to increase the probability that people will behave in ways that lead to the attainment of organizational goals (Flamholtz et al., 1985) and thus includes a range of mechanisms to monitor and execute operations. As Tannenbaum (1962) states _it is the function of control to bring about conformance to organizational requirements and achievement of the ultimate goals of the organization_. This perspective views control as existing at multiple levels in the organization including at the individual and group levels (Flamholtz, 1983; Flamholtz et al., 1985).
1.4. **EXPECTED CONTRIBUTIONS**

While there are existing theories and frameworks of control, for several reasons it is not clear how well they explain control in the business process outsourcing context. Most of them focus on how a supervisor controls a subordinate (for example see Henderson and Lee 1992, Snell 1992). Control in such relationships is exercised within the boundaries of the power and influence dynamics associated with superior-subordinate exchanges. In contrast, the exercise of control in outsourcing does not always occur within the vertical channel. Further, in outsourcing, it is not just a particular supervisor-subordinate relationship that is paramount, but any number of controller-controllee pairs. The critical relationships may not be dyadic at, but instead may take the form of a network of peers whose behaviors might not be amenable to influence through traditional control modes. Thus, this research expects to shed some insight on a situation of multiple controllers, multiple controllees, and multiple control modes.

Secondly, this study contributes to the debate on the relation between partnership and control in the management of inter-organizational relations. Academic research has generally viewed partnership attributes and control structures as substitutes—the presence of one obviating the need for the other (Larson, 1992; Gulati, 1995b; Dyer and Singh, 1998; Macaulay, 1963). In particular, trust reduces transaction costs by ‘replacing contracts with
handshakes' (Adler, 2001). Still other scholars suggest formal controls may actually undermine the formation of partnership. Ghoshal and Moran (1996) argue that the use of rational, formal control has a pernicious effect on cooperation. Evidence however, suggests that individually both partnership (Lee and Kim 1999) and control structures (Rustagi 2004) positively influence outsourcing success. Thus, while there have been studies on the substitutability and complementarities of these concepts they offer little insight into the dynamic interaction between the two. This research expects to contribute to closing this gap in the understanding of the control-partnership equation.

1.4. **Organization of the Dissertation**

This dissertation document is composed of five chapters. The first chapter introduces the research concept and defines the research objectives while providing an overview of the research design, constraints and expected contributions of the study. The second chapter explores and synthesizes the academic literature relevant to control in the business process outsourcing context. The three major streams explored here are (1) previous academic research on outsourcing especially in the areas of IT and IT-enabled outsourcing (2) control literature with particular emphasis on control in an inter-organization setting and (3) the transaction cost theory which is the most widely used theoretical basis for understanding the imperatives and management of outsourcing relationships.
Chapter 3, presents the methodological elements, the research design and the operationalization of the variables of the study. The first section in this chapter discusses the unit of analysis. The case study process is addressed in the second section. The third section presents the research model for the empirical component of the study; the research hypotheses developed and discusses the data collection method. Chapter 4 presents the tools and techniques used to organize, validate and analyze the data. The first section presents the findings from the case study along with steps taken to address the quality of research. In the second section, statistical analysis of the data collected in the survey conducted is provided along with the support, or lack thereof, for each of the hypothesis.

The last chapter discusses the major findings of the study. The contribution of the study to the academic and practitioner community is discussed and the potential for future research is outlined. Finally, the study is concluded with a brief summarization of the work.

Citations of works of earlier researchers referred to in this work are included in the bibliography following which the survey instruments (questionnaires) used in the research are appended.
This chapter introduced the research study. The ubiquity of business process outsourcing along with the importance of outsourcing control as revealed by earlier studies and the paucity of research in this area provided the rationale for the study. Next the objective was identified as the study of control practices followed by the key providers (vendors) of the business process outsourcing sector in India. Further constraints of the study especially the stringent data security norms were discussed and the expected contributions specifically an understanding of control practices in new inter-organizational forms were presented.