There and Back Again: Reconfiguring IT Sourcing at ProSiebenSat.1

Teaching Note

Synopsis

"There and Back Again: Reconfiguring IT Sourcing at ProSiebenSat.1" captures the case of a large media corporation and owner of several TV channels, ProSiebenSat.1 Media SE (P7S1). The case study's description of the company's IT sourcing strategy during the last ten years provides students with unique access to information on how large IT outsourcing projects are implemented in practice and the challenges that emerge along the transition from one mode of IT sourcing to another. The case's focus goes beyond providing context for the application of frameworks and instruments to create awareness of the complexity of IT sourcing projects in practice. Therefore, instead of a simplified anecdotal account of how a company makes decisions, this case is a detailed report of P7S1's top management's response to the drivers and challenges of reconfiguring IT sourcing and the company's decision-making.

The case is organized as two episodes of the corporation's efforts to reconfigure its IT sourcing. The first episode presents the company's initial rationale for outsourcing parts of its IT landscape and how to do it. The company's rationale involved cost savings and access to the innovations of a large service provider, while a detailed description of the resulting sourcing model, which was based on a close collaboration between P7S1 and IBM outlines how the company transitioned to outsourcing. The company's eventual disappointment with the performance of the resulting IT sourcing model marks the beginning of the second episode, where P7S1 reintegrates major parts of the outsourced services (backsourcing). Here, the case study reports on the long and challenging process of moving services away from a large service provider to either the corporation itself or to a number of smaller providers that were chosen through a sophisticated selection process. Thus, the case provides students with a synthesis of the information P7S1 gained during its IT sourcing journey. It includes major lessons learned regarding which services are best suited for outsourcing and how to manage IT service providers effectively.

Teaching Objectives and Position in Course

The teaching objective of the case is to **confront students with the potentials and challenges of different modes of IT sourcing for large organizations**. Media corporations like P7S1 are particularly suitable for studying IT sourcing as they increasingly move towards digital entertainment. Because digital entertainment requires provision of digital platforms, media corporations often tap into adjacent businesses that are centered around digital platforms (e.g. holiday booking or dating platforms). Against this background, these corporations enter a highly competitive digital arena that is driven by technological innovation and requires openness and flexibility from corporations that were traditionally focusing only on TV services. Hence, such large corporations often lack experience in IT sourcing and often find it difficult to manage their service providers. Therefore, corporations that increasingly enter the digital arena need to build IT sourcing competencies, similar to how P7S1 has built its competencies during the last ten years of major IT sourcing reconfigurations.

In order to take advantage of IT outsourcing opportunities, corporations have to develop a rich understanding of which services can be effectively outsourced without compromising their performance. This requires knowledge of potential pitfalls such as cultural incompatibility with the service provider or problems with the share of wallet – that is having a weak position in the relationship with a large service provider due to the joint business making only a fraction from the provider's overall business. Moreover, the companies are required to establish sophisticated provider selection processes that are based on both quantitative and, more importantly, qualitative assessment instruments.

Teaching Objectives

- Creating awareness for the complexity of large IT sourcing projects
- Describing and critically evaluating the challenges of an exemplary media corporation to exploit IT sourcing opportunities in the digital era and understanding the limits of IT outsourcing
- Developing an understanding of how IT sourcing projects are implemented in practice including activities that are performed in individual project steps
- Providing a rich context for the critical reflection on the application of theoretical knowledge and instruments to practical challenges in the IT sourcing

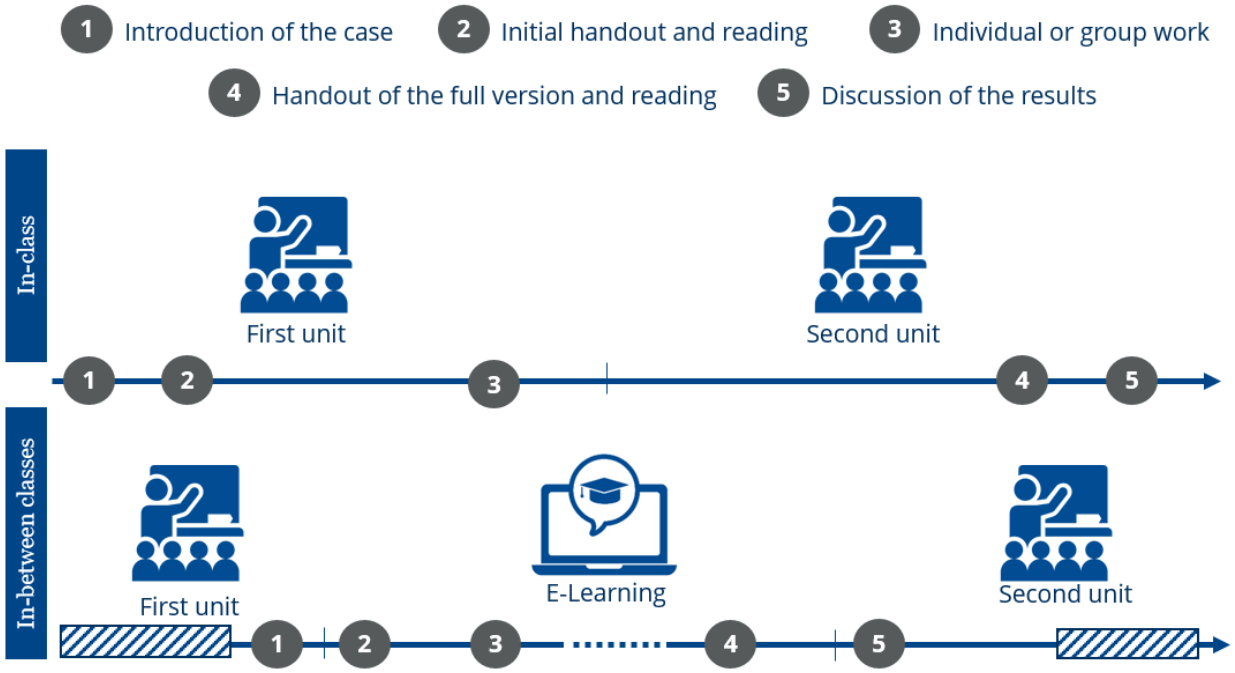
Position in Course

Because the case provides a historical account for large IT sourcing reconfigurations of a big company, it can be effectively applied at different stages of higher education including Bachelor, Master, and MBA studies in the field of Management Information Systems. It can be embedded into a discussion on business strategy, digital business, digital transformation and IT alignment. The theoretical knowledge that students have gathered during these studies can be related to the case of IT sourcing projects by P7S1 and their applicability critically discussed. Because of the case complexity, we recommend using it either in graduate programs or undergraduate program which already provided students with general understanding of IT strategic decision making, IT management, and IT architectures.

Teaching Strategies

The general idea of the teaching strategy is to give students only the first part of the P7S1 story (the outsourcing part and the associated challenges), and to ask them to propose a sourcing configuration for P7S1 that would address the emerged challenges. Once the students have developed the sourcing configuration, the lecturer can provide the second part of the P7S1 story (back- and multisourcing) and discuss students' assignments against it.

We offer two alternatives on how to integrate the case into the class (Figure 1). In both cases, the case is introduced in the class. This is followed by the handout of the initial version of the case, which is either done in class or over an e-learning platform. The students then work on the questions and assignments for the first part of the case. In case of using e-learning platform, the results can be submitted digitally. Once the students have prepared the assignments, the second part of the case is handed out. The results are discussed in class using the discussion items provided in this teaching note. We recommend e-learning alternative for larger classes and a regular lecture format. In case of smaller groups and lecture blocks, the case can be made entirely in class.



Questions, Assignments, and Discussion Items

Following the teaching strategy, there are two blocks of questions items that the lecturer can select from. The first block addresses the first part of the story and can be answered using the initial student handout. The second block contains discussion items mainly to compare the actual decision making at P7S1 with the strategies suggested by the students.

We offer a selection of questions (Q), assignments (A), and discussion items (D) for both blocks:

First Block (accompanying the initial handout)

- **Q1:** What role does IT play for the business model of P7S1?
- **Q2:** What are the two different modes of IT sourcing? In which direction can an IT sourcing mode be changed? How can location of the service provider be used to distinguish IT sourcing modes?

- **A1:** Compile a set of benefits and risks for outsourcing from a company's perspective!
- **A2:** Imagine yourself as a decision maker of P7S1 and provide a response to the challenges P7S1 was facing after outsourcing its IT to IBM in form of a possible sourcing configuration for all its IT services. Explain your choice!

Second Block (questions for the final discussion)

- **D1:** After 10 years of partnership with the IT service provider and technological giant like IBM P7S1 switched to medium-sized German service providers. Why?
- **D2:** Implementing a new sourcing strategy requires provider selection. As the P7S1 journey shows, this can be a difficult task. Why is it important to supplement quantitative evaluation of service providers by qualitative analysis? Which qualitative instrument can be used to evaluate service providers, and which criteria can be used to guide this process?
- **D3:** What are the benefits and risks for backsourcing from a company's perspective?
- **D4:** Which services are good candidates for outsourcing, and which are not? Why?
- **D5:** Which frameworks and instruments that you learned in your studies could have been applied in which stages of the P7S1 sourcing journey and would they application likely change the course of the history?

Supplementary Reading

- Broadbent, M., Weill, P., O'Brien, T., and Neo, B. S. 1996. "Firm Context and Patterns of IT Infrastructure Capability," in Proceedings of the 14th International Conference on Information Systems, J. I. DeGross, S. Jarvenpaa, and A. Srinivasan (eds.), Cleveland, OH, pp. 174-194.
- Dibbern, J., Goles, T., Hirschheim, R., Bandula, J., and Jayatilaka, B. 2004. "Information Systems Outsourcing: A Survey and Analysis of the Literature," The DATA BASE for Advances in Information Systems (35:4), pp. 6–102.
- Gonzalez, R., Gasco, J., and Llopis, J. 2006. "Information Systems Outsourcing: A Literature Analysis," Information & Management (43:7), pp. 821–834.
- Lacity, M. C., Khan, S. A., and Yan, A. 2016. "Review of the Empirical Business Services Sourcing Literature: An Update and Future Directions," Journal of Information Technology (31:3), pp. 269–328.
- Liang, H., Wang, J.-j., Xue, Y., and Cui, X. 2015. "Information & Management IT Outsourcing Research from 1992 to 2013: A Literature Review Based on Main Path Analysis," Information & Management.
- Payne, J., and Dorn, W. R. 2012. Managing Indirect Spend: Enhancing Profitability Through Strategic Sourcing, Hoboken, N.J: Wiley.
- Robinson, R., 1993. Cost-utility analysis. BMJ, 307(6908), pp.859-862.
- Westner, M., and Strahringer, S. 2010. "Determinants of Success in IS Offshoring Projects: Results from an Empirical Study of German Companies," Information & Management (47:5-6), pp. 291–299.

Teaching Plan

Introducing and Framing the P7S1 Case

Sourcing in general and IT sourcing in particular are not new topics. The students will most likely have a general understanding of the differences between IT insourcing and IT outsourcing. However, most students are likely to have a very rudimentary knowledge about the topic based on some general education and media reports. To encourage early student engagement, students can be asked in the first section about their prior knowledge of IT sourcing and about known examples for IT outsourcing and IT backsourcing. To spur the students' interest into the topic, an example of a failed IT outsourcing project can be given. A possible example is an outsourcing of the US Navy IT for voice, video, desktops, and system training to the service provider Electronic Data Systems (EDS)[1]. By 2004, EDS had written off more than $500 million in lost assets because it was unable to fulfill its obligations.

After gaining student awareness for IT sourcing, the case study should be introduced. Two aspects have to be stressed. First, many corporations like P7S1 are increasingly entering the digital arena. This is not limited to P7S1's media and entertainment domain, but has been quickly gaining in importance in nearly all economics sectors. Another example for the importance of digitalization is the automotive sector where companies increasingly capitalize on providing digital services and introducing new products (e.g. autonomous driving) that are based on the extensive use of IT. It is imperative to refrain from mentioning the history of P7S1 after outsourcing episode in order to give the students an opportunity to reconstruct the P7S1 decision making on their own.

First Block

Question 1: What role does IT play for the business model of P7S1?

Being one of Europe's leading media corporations and owner of several online platforms, P7S1 is heavily reliant on a well-functioning IT infrastructure. The company uses it to store and process thousands of TV

[1] For more details see https://www.itproportal.com/2015/12/19/five-of-the-biggest-outsourcing-failures/

shows, movies, sports events, and commercials, produce and distribute its own original content, and compile and broadcast more than 100,000 hours of TV programming a year, all stations combined. The growing importance of online as distribution and communication channel, especially for entertainment and P7S1's online business units, has even increased the pivotal role of IT for P7S1's corporate strategy. Consequently, in 2007, P7S1 employed more than 300 people in IT-related positions.

Question 2: What are the two basic models of IT sourcing? How is sourcing categorized with regard to the location in which the service is provided? And where does the term "backsourcing" fall in this conceptualization?

In IT sourcing, two basic modes of operation are discerned: *Insourcing* implies that an IT-related service is performed by the organisation itself, i.e. using internal employees and other internal resources. *Outsourcing*, on the other hand, means provision of the service by one or more external service providers.

With regard to the location of service provision, extant literature differentiates between three models: *Onshoring* means that a particular service is provided directly at the client site or within the same country. *Nearshoring* denominates the provision of a service within the same region or continent, whereas *offshoring* refers to the service being provided from a different region or continent.

Apart from describing a *state* (a mode of sourcing), the aforementioned terms can also refer to the *process of changing the mode of sourcing*. For example, *outsourcing* also denominates the process of transferring a previously insourced service into an outsourcing model of service provision. Analogously, *backsourcing* can be defined as "the transition of those assets, activities, and skills required to perform information systems (IS) operations back in-house which were previously outsourced to one or multiple IS service providers." (von Bary 2018). Figure 1 conceptualizes the various modes of sourcing as well as the processes of outsourcing and backsourcing.

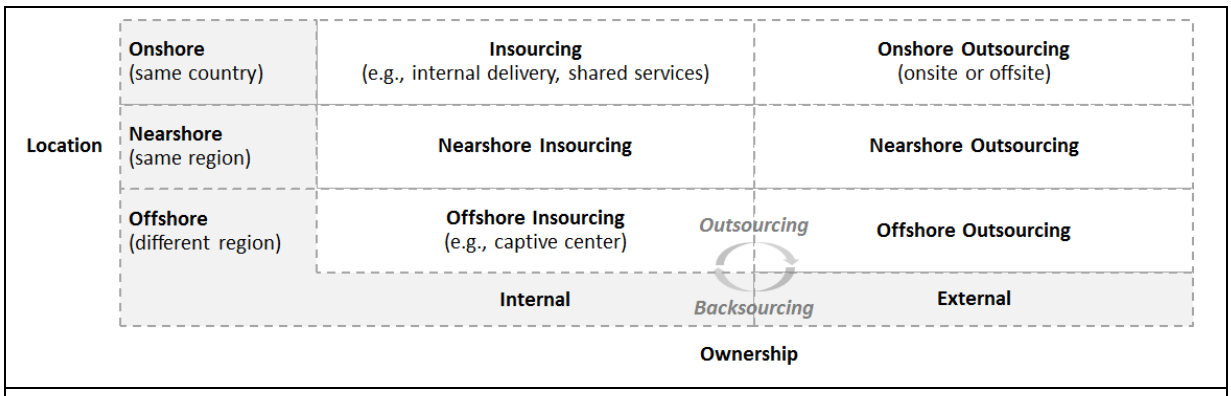


Figure 1. IT Sourcing Framework (Source: Bary 2018)

Each of the aforementioned IT sourcing modes or processes brings along a set of activities that are necessary for a successful transition or operation, respectively. For example, reintegrating a previously outsourced IT service into the set of internal services (backsourcing) brings unique challenges and requires a different approach (e.g. management of legacy services) than developing a completely new IT service that needs to be set up and be performed by the company right from the start (insourcing).

Assignment 1: Compile a set of benefits and risks for outsourcing from a company's perspective!

Table 1 summarizes expected benefits and risks of outsourcing projects.

IT sourcing project	Expected benefits	Risks

Outsourcing	• Cost reduction • Innovation effects • Access to expertise	• Cultural misfit • Insufficient control • Flawed contract design

Table 1. Selected Expected Benefits and Risks of Outsourcing and Backsourcing Projects

Cost saving (benefit). The most frequently mentioned motivator for IT outsourcing are expectations of cost reductions. Ideally running a particular service for multiple clients at once, outsourcing providers can leverage economies of scale, thereby offering services at an attractive price that is typically lower than a comparable insourced solution. This effect is even larger in offshore settings with reduced wage levels.

Innovation effects (benefit). A second frequent benefit of outsourcing are innovation effects through outsourcing. Occasionally, companies are unable to generate new ideas for their services, applications, or infrastructure solutions in-house, due to lack of talent, insufficient knowledge, or just lack of an external view. Applying a neutral, external lens, expertise from comparable settings, and the right talent pool IT outsourcing providers can help organizations innovate, as P7S1 hoped they would in their case.

Access to expertise (benefit). Closely related to innovation effects is access to expertise and talent. Given the increased need but limited availability for tech-savvy talent, companies experience difficulties in hiring sufficient amounts of IF staff. Providing clients with adequate profiles, IT outsourcing providers can help organizations overcome temporal or persistent shortages in talent and expertise.

Cultural misfit (risk). In hindsight, P7S1 obviously underestimated the importance of cultural fit for a close collaboration. Both in terms of sectoral knowledge and working culture (P7S1 as agile media player, IBM as process-driven incumbent), as well as in terms of regional culture (German company vs. offshore coding team). The academic literature agrees that cultural fit is a strong predictor for sourcing outcomes.

Insufficient control (risk). Handing over the responsibility of a particular service to an external service provider, a company is at risk of losing a significant share of control over the provision of that service. The responsible team is no longer part of the own organization, not under direct disciplinary control, or hardly reachable as it may not be on-site or onshore. For P7S1 this led to problems in the alignment between business units and IT.

Flawed contract design (risk). One means of mitigating the decrease in control lies in stipulating adequate control mechanisms, e.g., service level agreements (SLAs). Backed with effective incentive schemes or sanctions, they help in governing the client/vendor relationship. Other contract design choices include the contract length, pricing method (fixed vs. variable pricing), minimum annual commitment, or the existence of termination for convenience clauses. Learning from experience, P7S1 designed completely different contracts in 2018 than in 2007.

Assignment 2: Imagine yourself as a decision maker of P7S1 and provide a response to the challenges P7S1 was facing after outsourcing its IT to IBM in form of a possible sourcing configuration for all its IT services. Explain your choice!
This assignment is open in nature. It should allow students to formulate their ideas regarding how to address challenges P7S1 was facing after the outsourcing period. It is important that they propose solution as if they would be part of the P7S1 management team. These suggestions are the basis for the final discussion once the entire case is revealed.

Second Block

Discussion item 1: After 10 years of partnership with the IT service provider and technological giant like IBM P7S1 switched to medium-sized German service providers. Why?

P7S1 preferred highly committed, medium-sized German IT companies as their new service providers, especially due to high cultural and language proximity (cultural fit) and the relatively small volume of bid packages: Worth EUR 1-2 million each, they represent a negligibly small portion of revenue for a large tech incumbent. In consequence, the relative meaning of P7S1 to this provider was very low, resulting in low incentives for performance. This situation is different with smaller, regional providers where the P7S1 account represents a significantly larger “share of wallet” (>1% of revenues).

Discussion item 2: Implementing a new sourcing strategy requires provider selection. As the P7S1 journey shows, this can be a difficult task. Why is it important to supplement quantitative evaluation of service providers by qualitative analysis? Which qualitative instrument can be used to evaluate service providers, and which criteria can be used to guide this process?

Mainly looking at the costs as quantitative evaluation criteria and the expected innovation effects through outsourcing, P7S1 decided to implement a full outsourcing model. However, the company neglected or underestimated the importance of many qualitative criteria such as cultural fit, level of control, domain expertise, service management, or compatibility with the requests expressed in the RfP. These qualitative evaluation criteria can be included by performing a cost-utility analysis (Robinson 1993). To exemplify this analysis method, the lecturer may gather different criteria from the audience and then develop a list of criteria illustrated in Table 3. Additionally, a full cost-utility analysis may be performed assigning weighting factors to the criteria, and then evaluating providers along them. In the interest of brevity, the full cost-utility analysis is omitted from this teaching note.

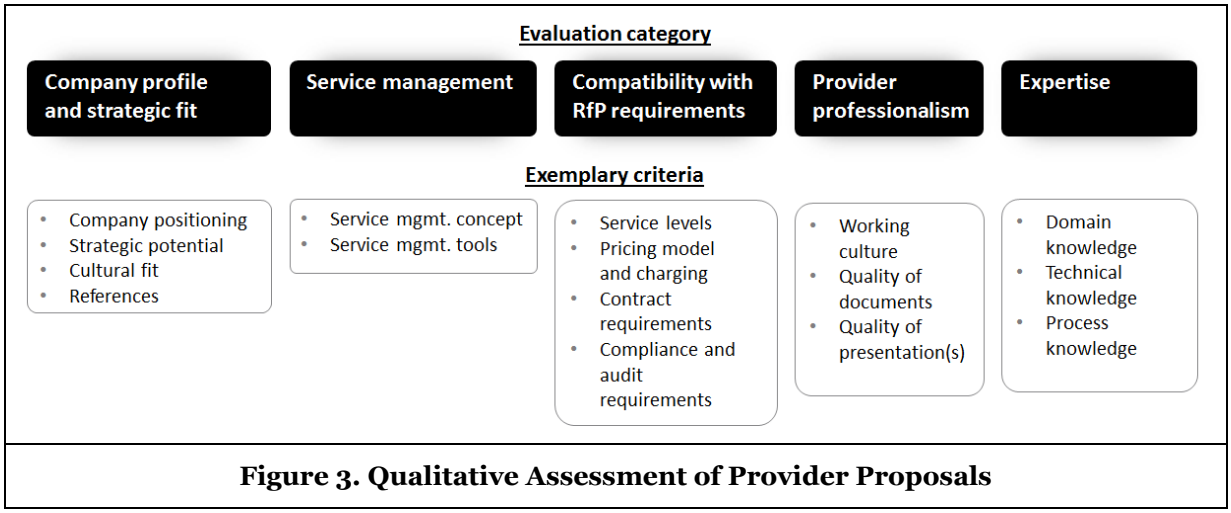


Figure 3. Qualitative Assessment of Provider Proposals

Discussion item 3: What are the benefits and risks for backsourcing from a company's perspective?

Table 2 summarizes expected benefits and risks of backsourcing IT sourcing reconfiguration projects.

IT sourcing project	Expected benefits	Risks
Backsourcing	• Better identification and quality • Better business/IT alignment • Independence from vendor	• Increased cost • Problems in talent acquisition • Limited expertise

Table 1. Selected Expected Benefits and Risks of Outsourcing and Backsourcing Projects

Better identification and quality (benefit). As the P7S1 case shows, executives were quickly of the impression that external teams for application development or IT infrastructure operations did not build up the same levels of identification with P7S1 as their internal staff had. This, together with a lack of understanding of the company's business model and the German media market, frequently led to quality issues which were only solved after backsourcing.

Better business/IT alignment (benefit). With internal instead of external employees, onshoring instead of offshoring, and a good cultural fit and domain knowledge, the alignment between business units and IT was significantly improved after P7S1's backsourcing, leading to fewer misunderstandings and higher quality of software products and infrastructure operations.

Independence from vendor (benefit). Providing services in-house means higher levels of independence from an external entity, its processes, standards, or ways of working. On the contrary, service

providers may exploit a situation where a client is highly dependent on them, e.g., by installing vendor-specific applications, hardware, or services, thus creating a vendor lock-in effect that makes it increasingly difficult for the client to terminate the relationship and transition to a different vendor.

Increased cost (risk). Contrary to the situation in IT outsourcing, backsourcing frequently entails higher cost, particularly for Western European or American companies in countries with high wage levels that backsource services to an onshore model. However, the situation may be different when the alternatives are onshore insourcing and onshore outsourcing.

Problems in talent acquisition (risk). As is apparent from the case, P7S1 faces difficulties in recruiting sufficient tech-savvy talent for its positions in IT. Access to talent/expertise is helped by contracting external service providers; when insourcing service provision, the client organization needs to take care of sufficient talent itself.

Limited expertise (risk). As discussed, external service providers bring new expertise and an external view into the organization. On the contrary, once this client/provider relationship is dissolved, this external expertise is missing and needs to be substituted by internal knowledge which may or may not be present in sufficient amounts.

Discussion Item 4: Which services are good candidates for outsourcing, and which are not? Why?

The lessons learned chapter of the paper provides a good summary for the characteristics of services that are suitable for IT outsourcing. From the P7S1 perspective, the to-be-outsourced services shall be rather a routine and shall not require fast reaction to changing technological developments and market environment, extensive business know-how, or very close collaboration between partners.

Discussion Item 5: Which frameworks and instruments that you learned in your studies could have been applied in which stages of the P7S1 Sourcing journey and would they application likely change the course of the history?

Depending on the curriculum of the class, previously discussed frameworks, instruments, and theories can be related to the case. The potential benefits and limits of the application ban be discussed with the students.