Information Management and
Knowledge Management (IMKM)

IT Sourcing and IT Off-Shoring

Case GlobalSports

Exercise 7 - Group 41

IT Sourcing Strategies

IT Outsourcing Strategies

A successful IT outsourcing strategy enables a firm to find ways to access:

- External Resources
- Specialized Knowledge
- Industry based practices
- Learning opportunities

→ Thereby achieving economic and strategic benefits from IT outsourcing

IT Outsourcing: Theoretical Background

Transaction Cost Economics Theory (TCET)

Response Dependency Theory (RDT)

Social Exchange Theory (SET)

→ All theories consist of different combinations of the IOR factors:

1. Degree of IT outsourcing
2. Relationship type
3. Period of the IT outsourcing contract
4. Number of outsourcing vendors

4 Key interorganizational relationship (IOR) elements

1 - Degree of IT outsourcing

Percentage of the total IT budget spent for outsourcing

- Minimal outsourcing
- Selective outsourcing
- Total outsourcing

2 - Relationship Type

- Fee-for-Service Contract
- Partnership
- Buy-in-Contract

3 - Period of the IT sourcing contract

- Short-term
- Medium-term
- Long-term

4 - Number of outsourcing vendors

Actual Number of external vendors involved in IT outsourcing project

Transaction Cost Economics Theory (TCET)

Concentrates primarily on a strategy that yields economic benefits through reductions in transaction (also called communication costs) and production costs

1 - Degree of IT outsourcing

Opinion 1: Selective outsourcing

Opinion 2: Total outsourcing outperforms selective outsourcing

Opinion 3: Degree of outsourcing is of no importance

2 - Relationship Type

Vendors cannot be strategic partners due to conflict of goal interest and opportunism

→ Fee-for-service contract/ buy-in contract

3 - Period of the IT-Sourcing Contract

Avoid long-term contracts to precisely analyze the cost implications of their outsourcing decisions, recover fast from mistakes, and easily switch vendors

→ short-term

4 - Number of Outsourcing Vendors

Opinion 1: Single vendor contract (to reduce coordination complexity of outsourcing activities)

Opinion 2: Multi vendor contract (lower switching costs)

Resource Dependency Theory (RDT)

Assumes that IT outsourcing strategy is a means by which firms acquire critical resources from external vendors while minimizing their dependency on vendors for sustainable competitive advantage

1 - Degree of IT outsourcing

Opinion 1: Selective outsourcing (increase strategic advantage by minimizing resource dependency on others)

Opinion 2: Total outsourcing

2 - Relationship Type

Opinion 1: Buy-in-Contract

Opinion 2: Partnership (to maintain power and control over critical resources)

3 - Period of the IT-Sourcing Contract

Opinion 1: Short-term

Opinion 2: Long-term

4 - Number of Outsourcing Vendors

No information given

Social Exchange Theory (SET)

Dwells on interfirm relationships as a dynamic process involving specific interactions in which a client and its vendors cooperate in carrying out key, outsource-related activities.
→ Most important determinants of success: trust, commitment, sharing of risks and reward, shared values

1 - Degree of IT outsourcing
No information given

2 - Relationship Type
Partnerships → to manage complex outsourcing relationships by sharing risks and benefits

3 - Period of the IT-Sourcing Contract
Long-term

4 - Number of Outsourcing Vendors
No information given

GlobalSports Problem:
IT Single Sourcing

"….we ***didn't have any leverage at all.****"*

INDIA1

"They simply ***refused to negotiate with us on cost****"*

GlobalSports Solution:
IT Multi Sourcing

INDIA2 (tier-2 vendor)
Highly competitive in price
Competitive in keep systems running

INDIA1 (tier-1 vendor)

BELARUS (tier-2 vendor)
High levels of innovativeness
Competitive in project-related business

High Levels of **Vendor Competition** AND **Cooperation**

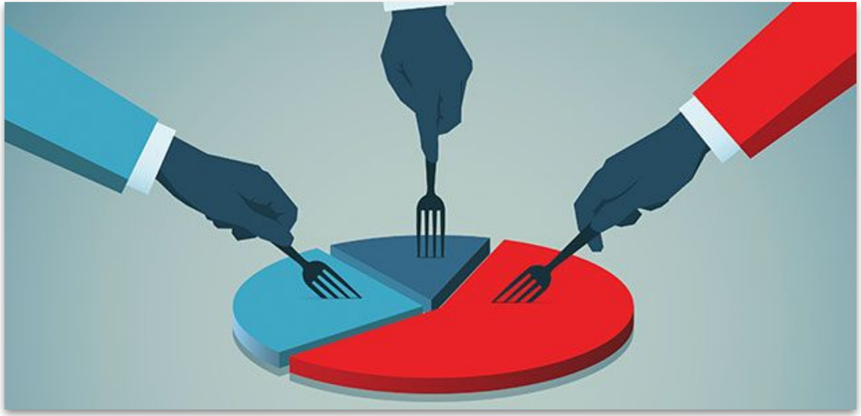
Strategy of <u>Forced</u> Coopetition

High Level of Competition

Makes client less vulnerable as not dependent on single vendor any more and thus can make them compete on price (RDT)

Wide overlap in vendor skills and areas** and **no pre-assigned vendor areas

Level Playing Field



Important for building trust of the vendors in this three vendor model (SET)

High frequency in vendor bidding** (short contract durations and contract volumes): **Many opportunities for vendors to compete

Risk of higher transaction / coordination cost (TCET)

Direct interaction** with each of them. **Treat them as equals

High Level of *Forced* Cooperation

Make it clear that ***"they need to arrange themselves with the competition"*** *if they want to stay a* ***long term partner of GlobalSports.***

intangible factors, such as trust and commitment emphasized as the most important determinants of success (SET)

Assigning vendors to the same or highly interdependent tasks

Client uses various methods to "force" the building of a good relationship between the vendors(SET)

Transition clause *in all vendor contracts (document earlier activities and train staff)*

Mixed software support systems *(high level by original developer, lower levels by other vendors)*

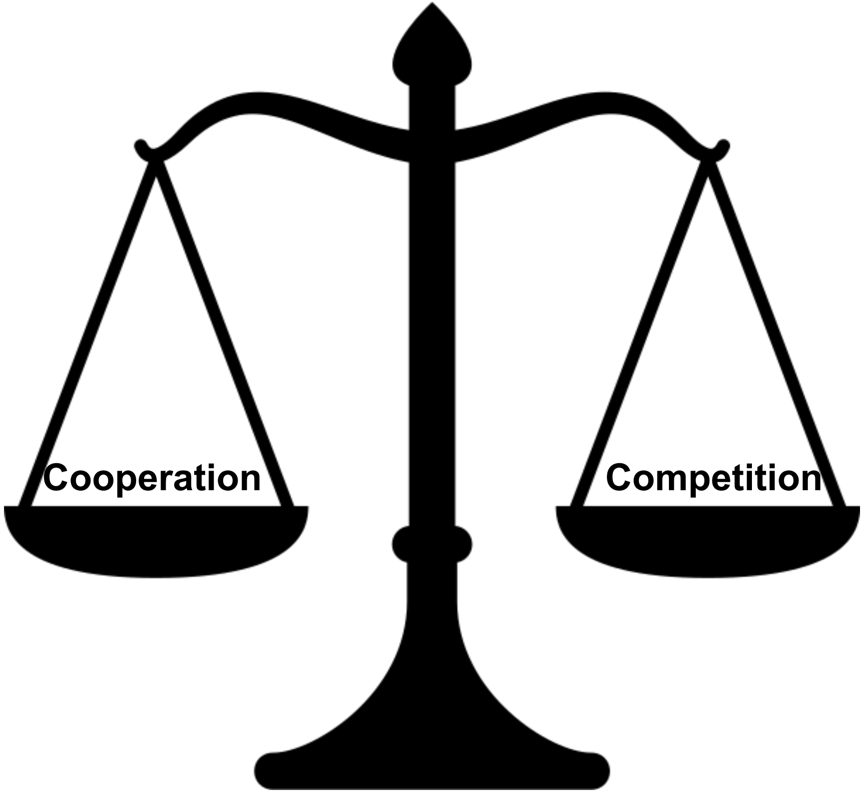
Benefits of this Multisourcing Model

- **Reduced dependency** on a single vendor
- Increased **ability to find the vendor(s) that fit** for a specific IT project or service
- **Simplified RfP Process as client managers could easily reach out** to the three competing vendors.
- **Lower prices** while **also increasing quality**

Risks of this Multisourcing Model

- Risk of increasing the **client management overhead (transaction cost)**
    - Coordination of vendor taks
    - Accountability issues
- Risk of **decreased vendor commitments to invest in client relationship**
- **Risk of too much cooperation (price fixing) and thus disconnection from the market**

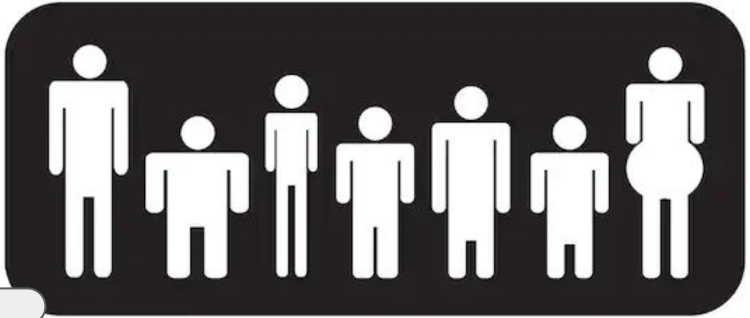
To mitigate risks **balance** is important



Balance Number and **Size** of Vendors

Three is minimum to get the ***expected high competition*** *BUT* ***keep management overhead low***

Important to keep the increased coordination / transaction costs in check(TCET)



Sometimes bring in other IT vendors for benchmarking *to ensure vendor ecosystem remains "connected" to market (prevent price fixing)*

Balance ***between Tier-1 and Tier-2 Vendors*** *(**Small so willing to cooperate to get a good client** but **large enough to have stability and quality**)*

Onboarding of new vendors

*Ensuring that **new vendors have sufficient scale of work to keep them motivated** and **convince them that they could establish a profitable, long-term relationship***

Client wants to become of the most important customers for these vendors (RDT)

*Manage expectations and frustrations so that **'losing' an RfP is perceived by the new vendors as being part of the 'game'**, and thus **have no negative effect on their continued commitment to invest into the relationship***

Managing the long term relationship is one of the most important parts of outsourcing(SET)

Offering business growth opportunities for all involved vendors

Original Vendor India should not feel betrayed and thus its importance to not cut his part of the pie (SET)

Reduce the outsourcing contracts to (domestic) vendors other than the strategic offshore vendors.

Steadily decrease its onshore-offshore ratio

Increase the offshoring pie *instead of cutting the size of one vendor and giving the piece to another vendor* ***allows to maintain trustful, long-term partnership with the original vendor***

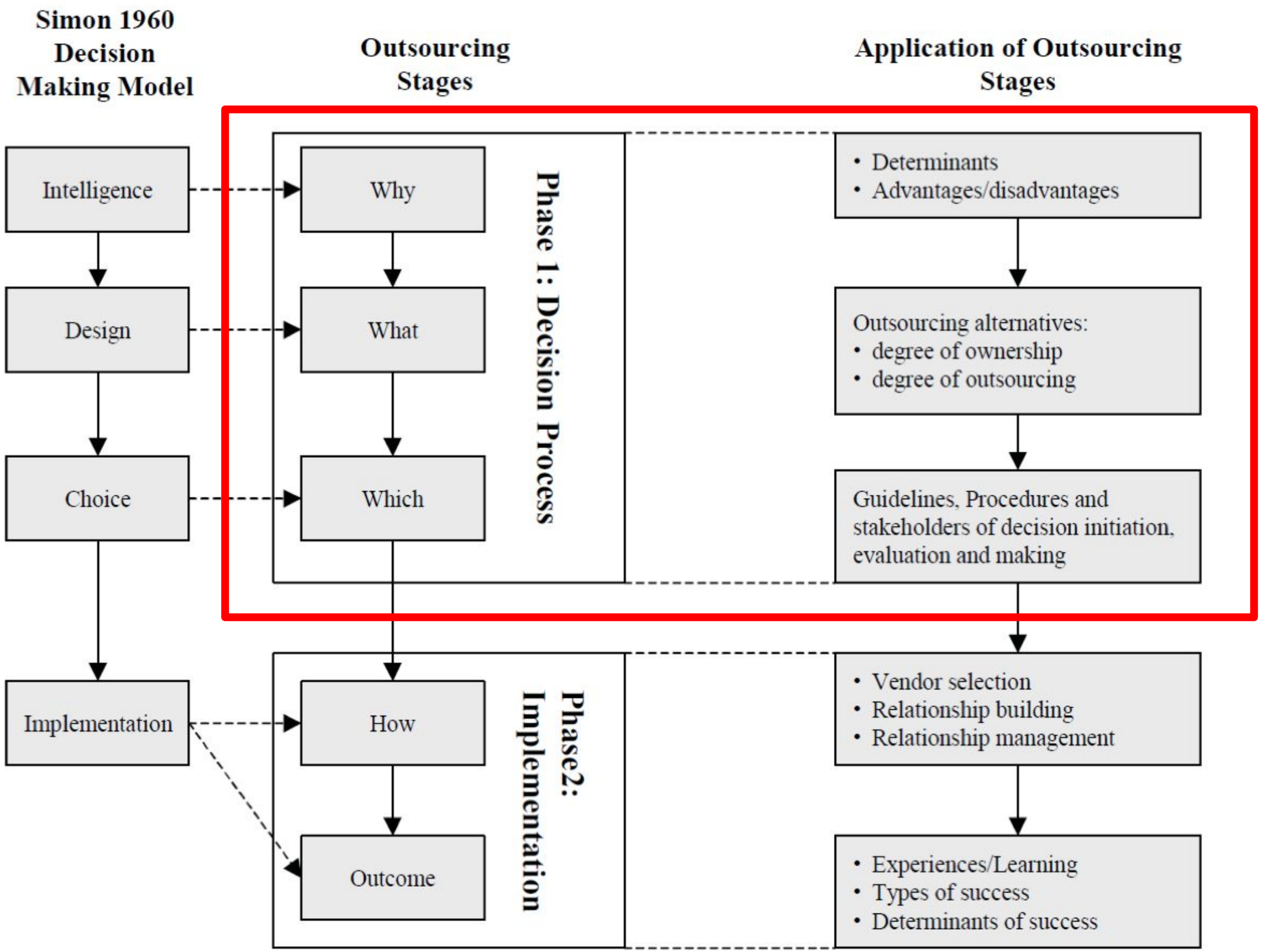
Offer Opportunities for vendor learning

Subsidize learning of tier-2 vendors** (paying for learning on the job as they transitioned into new services) to enabled them to **quickly gain a deep understanding of the client's business domain and IT landscape

Lowering the Transaction Costs for new the vendors (TCET)

Vendors share knowledge during project cooperation

Stage Model of IS Outsourcing – Client Perspective


Simon 1960 Decision Making Model
Outsourcing Stages
Application of Outsourcing Stages
Intelligence
Design
Choice
Implementation
Why
What
Which
How
Outcome
Phase 1: Decision Process
Phase2: Implementation
• Determinants
• Advantages/disadvantages
Outsourcing alternatives:
• degree of ownership
• degree of outsourcing
Guidelines, Procedures and stakeholders of decision initiation, evaluation and making
• Vendor selection
• Relationship building
• Relationship management
• Experiences/Learning
• Types of success
• Determinants of success

Decision Process: Why

Risks

Category	vs. Single Sourcing	Risks of Outsourcing – Client Perspective	Forced Cooptition
Cost	higher	Expected cost reduction does not occur	Coordination overhead (many vendors on same project task & delivery)
Knowledge	lower	Competitive advantage transferred to competitors	Transition clause in vendor contracts (knowledge sharing between vendors)
Technology	higher	Danger of standardization	Decreasing vendor commitments to invest in the client relationship
Technology	lower	Fixed to vendor´s technology (can not choose)	Reducing the strategic risk of being dependent on a single vendor

Decision Process: Why

Reasons

Category	**Reason of Outsourcing – Client Perspective**	**Forced Cooptition**
Cost	Reduced cost	Competition among the vendors
Cost	Improve transparency	Reduced opportunistic rent cost and quality benchmarks
Risk	Risk of dynamics	Flexibility in adapting to changing market conditions
Risk	Transfer risk to the vendor	Reduce risk of supply-chain breakdown
Knowledge	Access to specialised knowledge	Improved quality through “best-of-breed services”

Decision Process: What

Alternative:

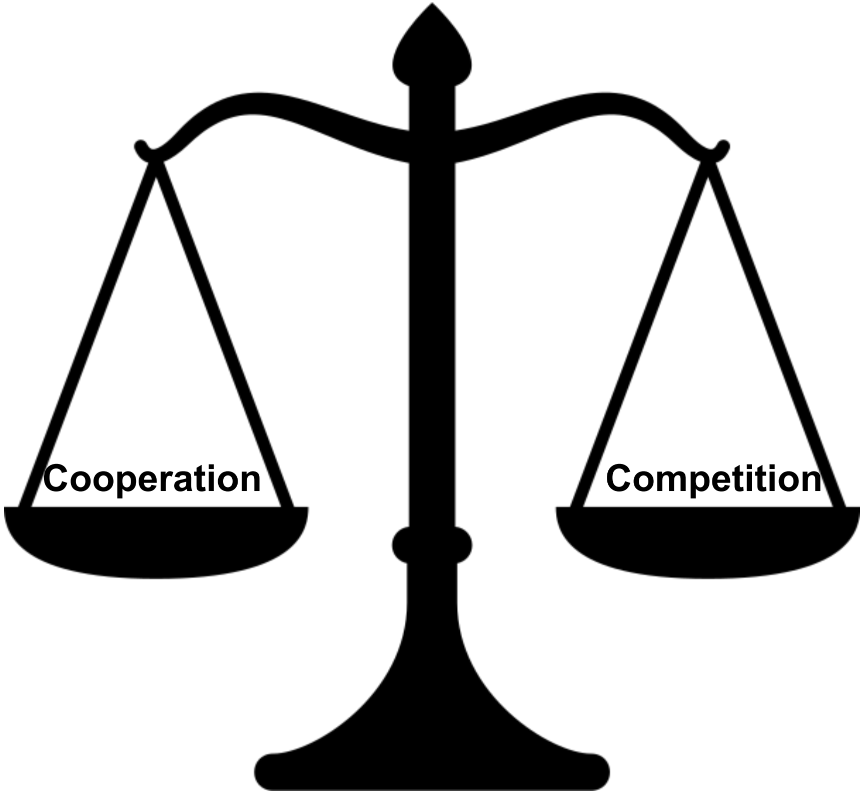
Critical enabler: Number and size of vendors
Goal: high degree of cooperation and competition

As few as possible for coordination (overhead)

Vs.

As much as possible for competition (price)

Decision Process: What



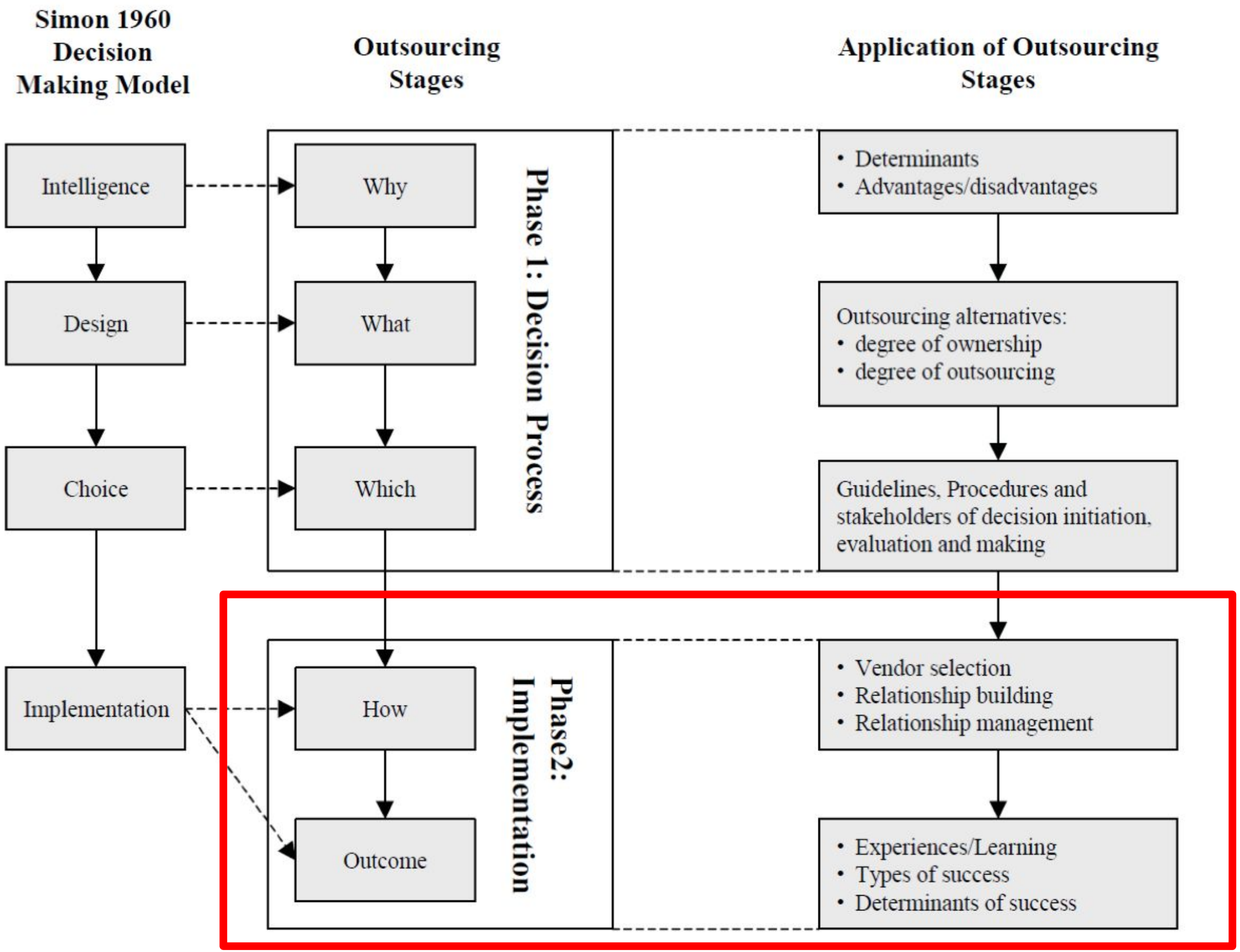
Decision Process: Which

Guidelines to select a vendor

Goal: Balanced mix in vendor set

Candidate criterias

- Vendor culture (quality: who will challenge you and ask questions)
- Additional skills (often there is an overlap)
- Competitive in price
- Competitive in innovativeness
- Size of the company to enable stability, quality and internal educational training process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Implementation Process: How

Vendor selection

Goal: Forster competition (step by step)

1. Balanced mix in vendor set
   a. Add one more (to wake up the first vendor)
   b. Choose one with competitive price to challenge the others
   c. Choose one vendor competition in project-related business

2. With overlapping skill set (fight for everything)

3. High frequency in vendor bidding: smaller chunks of work and regular bidding

Implementation Process: How

Relationship Building

Goal: Forster cooperation

- Assignment of interdependent vendor tasks
  - Overlap of skills
  - Assistance between vendors

- Transition clause in vendor contracts
  - Project switch from vendor 1 to vendor 2
  - Obligated to document communicate and train earlier activities

- Long-term vendor partnerships:
  - “protected space”: not replace but cooperate

Implementation Process: How

Relationship Management (critical enablers)

- Onboarding of new vendors
  - overcome their ‘newcomer disadvantage
  - sufficient scale of work: push RfPs
- Growth in vendor business volumes
  - higher IT budget means higher growth potential for vendors
- Opportunities for vendor learning
  - competition improve internal process of vendors “Thanks for the challenge”

Implementation Process: Outcome

Constant cost and quality benchmarks

- Contributing to a further increase in transparency and competition among the vendors

Dynamic vs. Operational Capabilities

Dynamic vs. Operational Capabilities

Operational capability:

- Activities performed on an ongoing basis
- More or less the same techniques
- Existing products and services
- Same customer population
- Maintaining status-quo

Dynamic capability:

- Ability to alter its current living
- Large amounts of change in a short amount of time

Dynamic vs. Operational Capabilities

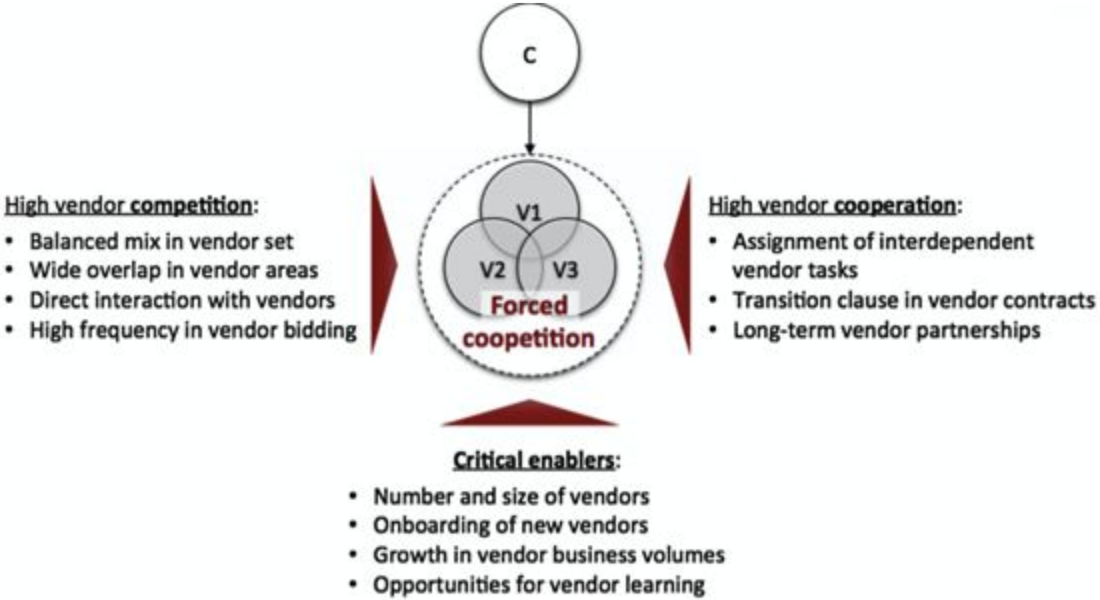
“The line between dynamic and operational capabilities is unavoidably blurry.” (Helfat&Winter)

- Change is always happening to some extent
- Radical versus non-radical change and new versus existing businesses
- Dual-purpose and multiple variant capabilities

Dynamic capabilities:

- Economically significant change
- Not restricted to new-to- the-world businesses or fast-paced environments
- Perspective and biases

GlobalSports Case



Does GlobalSports’ IT sourcing concept enhance their dynamic capabilities?

- Cost efficiency
- Less time consuming RfPs
- Vendor learning opportunities
- Growth in vendor business volumes

Q & A

- Do you see any value in the force coopetition strategy?
- Can you easily adapt the forced coopetition strategy to other companies?
- Do you know other companies practicing forced coopetition?
- Do you see ways to overcome the risks associated with forced coopetition?

Thank you!