Outsourcing bag gardinerne

IT Projektleder ERFA, Teknologisk Institut, Aarhus
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Agenda

- Brief about Per
- Project Management and theories
- Enterprise Systems Outsourcing “Behind the Curtain”
  - Introduction
  - Two complementing theories: Transaction Cost Theory & Institutional Theory
  - The case study
  - Discussion about practical implications
- Q+A
Brief about Per

› **Educations & Certification**
  › PhD in Enterprise Systems
  › M.Sc. in IT (Cand.it), Aarhus University
  › B.Sc. in Engineering, Engineering College of Aarhus
  › Certified Senior Project Manager (IPMA level B)

› **Experience**
  › Aarhus School of Business since 2007
  › Partner ProConsulting A/S since 1995
  › Digital A/S 1986-1992
  › Pasilac Electronics A/S 1983-1986
  › *About 25 years experience in project management and information systems development*

› **Teaching Aarhus School of Business, Aarhus University (ASB) & University of Southern Denmark (SDU)**
  › Project Management
  › Change Management
  › IS Research and Practice
  › Information Systems Development

› **Research Areas**
  › Project management of complex IS/IT projects
  › Virtual Project Management
  › Outsourcing
  › Enterprise Systems Research
  › Institutional theory in IS research
  › ES implementation and use with technical and organizational aspects
  › Managing IT-enabled change
## Table 2. A Taxonomy of Theory Types in Information Systems Research

<table>
<thead>
<tr>
<th>Theory Type</th>
<th>Distinguishing Attributes</th>
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<tbody>
<tr>
<td>I. Analysis</td>
<td>Says what is. The theory does not extend beyond analysis and description. No causal relationships among phenomena are specified and no predictions are made.</td>
</tr>
<tr>
<td>II. Explanation</td>
<td>Says what is, how, why, when, and where. The theory provides explanations but does not aim to predict with any precision. There are no testable propositions.</td>
</tr>
<tr>
<td>III. Prediction</td>
<td>Says what is and what will be. The theory provides predictions and has testable propositions but does not have well-developed justificatory causal explanations.</td>
</tr>
<tr>
<td>IV. Explanation and prediction (EP)</td>
<td>Says what is, how, why, when, where, and what will be. Provides predictions and has both testable propositions and causal explanations.</td>
</tr>
<tr>
<td>V. Design and action</td>
<td>Says how to do something. The theory gives explicit prescriptions (e.g., methods, techniques, principles of form and function) for constructing an artifact.</td>
</tr>
</tbody>
</table>

(Gregor 2006: 620)
Enterprise Systems Outsourcing

“Behind the Curtain”:
A Case Study Showing How Rational and Institutional Explanations Coexist and Complement Each Other
Introduction

- Outsourcing of ES is becoming more and more important in today’s global business environment to gain cost savings (Olson, 2007)
- The reasons why organizations outsource are dominated by rational explanations…where cost savings seem to be a prevailing explanation repeated in literature!
- However, though a majority of extant literature finds mainly rational explanations for engaging in ES/IS outsourcing (e.g. Dibbern et al., 2004), our own experience from many companies and from many outsourcing arrangements made us speculate whether there was more to it
- Could it be that there were both “front stage” rational explanations as well as other different “back stage” explanations “behind the curtain”? - to use a theater metaphor
- To address this curiosity we set out to study ES outsourcing in a large Scandinavian high-tech organization, SCANDI…our research question being:
- Why does SCANDI engage in very complex ES/IS outsourcing arrangements?
Conceptual framework combining rational and institutional factors

One perspective: Seeing rational explanation(s)

Another perspective: Seeing institutional explanation(s)

We are outsourcing because…
Transaction Cost Theory (TCT)
Definitions & Concepts

> Transaction has been defined as “when a good or service is transferred across a technologically separable interface” (Williamson, 1981: 552)

> Transaction costs are defined as the costs of negotiating, monitoring, and governing exchanges between people
> TCT seeks to minimize the costs of exchanging resources internal or external
> TCT links economics and organization theory
Transaction Cost Theory (TCT) and Outsourcing Decisions

- **Cost** = Transaction Cost + Production Cost
- **Bounded rationality** is the idea that in decision making, rationality of individuals is limited by the information they have
- **Transaction Type**
  - Frequency
  - Assets Specificity
- **Opportunism**: People are not only bounded rational, but also sometimes opportunistic, which means that they act on “self-interest seeking with guile” where people (and hence organizations) are not trustworthy and honest, they even lie, cheat and steel
- **Uncertainty**

(Lacity and Hirschheim, 1993; Scott and Davis, 2007; Simon 1957; Williamson 1981, 1991)
Transaction Cost Theory (TCT) 
Outsourcing Cost Curves

Outsourcing Cost Curves

Outsourcing option
I(K) In sourcing option
O(K)

Governance Costs

K_{FX} K_i K_{I+X} Asset Specificity

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(Vitharana et al. 2007: 353)
Institutional Theory
Concepts and definitions

- **Institutional theory** attempts to describe the deeper and more resilient aspects of how institutions are created, maintained, changed and dissolved (Scott, 2004, Scott, 2008).

- **Institutions** are multi-faceted, durable, resilient social structures, made up of symbolic elements, social activities, and material resources (Currie, 2009, Scott, 2001: 48-50).

- Examples of institutions are human rights, societies, enterprise systems, families, handshakes and belief systems like Buddhism.

- Game analogy: **Institutions are the rules of the game, and organizations are the players** (North 1990: 4-5).

- Organizational institutionalism addresses the overall question: What does the institutional perspective tell us about organizational behavior? (Greenwood et al. 2008a: 1).
Institutional Pressures (1 of 2)
Example: PhD Defense = Institution

- Regulative pressures
- Normative pressures
- Mimetic pressures
Institutional pressures (2 of 2)

- Institutional pressures from the organizational field (society) leads to isomorphism (structural similarity) among organizations

(DiMaggio and Powell 1983, 1991)
Rationalized Myths

Examples

- The un-customized enterprise System as the most efficient system
- The old legacy system was deinstitutionalized by creating a story of "performance crisis", and a myth-making process took place "constructing the new ERP system as an integrated system" (Alvarez 2002)

(Meyer and Rowan 1977)
The Interdependence of Rational and Institutional Factors
## Research Methodology

› Interpretive research, longitudinal case study

<table>
<thead>
<tr>
<th>Data Collection Methods</th>
<th>SCANDI Project Group</th>
<th>SCANDI Finance Dept.</th>
<th>SCANDI Purchasing Dept.</th>
<th>SCANDI Supply Chain Requester</th>
<th>Oracle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Semi-structured Interviews</td>
<td>5 interviews</td>
<td>7 interviews</td>
<td>10 interviews</td>
<td>5 interviews</td>
<td>3 interviews</td>
</tr>
<tr>
<td>Short unstructured phone interviews</td>
<td>3 interviews</td>
<td>8 interviews</td>
<td>9 interviews</td>
<td>9 interviews</td>
<td></td>
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<tr>
<td>Focus group interviews</td>
<td>1 interview</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Participant observations</td>
<td>18 meetings</td>
<td>1 meeting</td>
<td>2 meetings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Document analysis</td>
<td>Unpublished documents: plans, reports, minutes and presentations; press releases from SCANDI; Oracle information (e.g. <a href="http://www.oracle.com">www.oracle.com</a>) news articles; magazine reports etc.</td>
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The SCANDI Case Study
About SCANDI

› Large Scandinavian organization with representation in Denmark
› 10,000+ employees
› Produces and sells high tech services
› Started in 1996 to implement Standard Enterprise System Package
Milestone 1 – January 1996: Financial System implemented

Milestone 2 – January 2001: Supply Chain System project initiated

Milestone 3 – Spring 2004: Major conversion of legacy system complete

Milestone 4 – Summer 2007: Re-implementation started

Milestone 5 – January 2009: Go Live

Outsourcing event #1
Outsourcing event #2
Outsourcing event #3
Outsourcing event #4
Outsourcing event #5

The SCANDI Story 1
The SCANDI Story 2

2005
Outsourcing Event O1
Summer 2005
IT Development outsourced

2006
Outsourcing Event O2
Spring 2007
IT Operation outsourced

2007

2008
Outsourcing Event O5
December 2008
Develop. Outs. Vendor Changed

Outsourcing Event O4
Summer 2008
Proj. Mgmt. Outs. Vendor Changed

Outsourcing Event O3
Spring 2008
IT Project Mgmt. outsourced

IT Development
SCANDI
Vendor A
Off-shore India
Vendor C

IT Operation
SCANDI
Vendor B

IT Project Mgmt.
SCANDI
B
Vendor C

Other Project Tasks
SCANDI
Vendor B

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Said about outsourcing

> “I think...that it gives prestige to undertake outsourcings...the people who got promoted at SCANDI, are the people who have carried through several outsourcings and cut down the number of employees”

Supply Chain Manager

> He [specific top-level manager] created an extreme large power base and position, by virtue of good outsourcing deals for SCANDI...

> and I am quite sure that the “outsourcing silver bullet” from the purchasing department also characterizes the governance of the IT department

Consultant
# Summary of Explanations for ES Outsourcing

<table>
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<tr>
<th>Rational Explanations</th>
<th>“Behind the Curtain” Institutional Explanations</th>
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<tbody>
<tr>
<td><strong>Economic Explanations</strong></td>
<td>Management consultants “bring” in benchmark numbers from other companies to SCANDI. They “travel in best practices”.</td>
</tr>
<tr>
<td>Cost savings in order to elicit a healthy and attractive company for shareholders – to make SCANDI saleable.</td>
<td>Agreement with trade union about the maximum number of dismissals per year.</td>
</tr>
<tr>
<td>Financial incentive for the management team to outsource (fulfilling the balanced scorecard).</td>
<td></td>
</tr>
<tr>
<td><strong>Technical Explanations</strong></td>
<td>Outsourcing becomes an institutionalized practice i.e. a habitual choice.</td>
</tr>
<tr>
<td>The ERP-area is not business critical and therefore suitable for outsourcing.</td>
<td></td>
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<tr>
<td>The ERP area is in control internally, so outsourcing does not pose a big risk.</td>
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<tr>
<td>New competencies enabling further improvement of the quality of IS.</td>
<td></td>
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<tr>
<td>Outsourcing enables SCANDI to further modernize and consolidate its applications to deliver the capabilities that business requires.</td>
<td></td>
</tr>
<tr>
<td><strong>Symbolic-Interpretive Explanations</strong></td>
<td>Outsourcing is seen as prestigious in SCANDI. Employees are promoted if they have mastered outsourcing.</td>
</tr>
<tr>
<td>Outsourcing appears to be a way to force a cultural change from a “highly institutionalized culture of dissimilarity” to a “more agile and streamlined company”.</td>
<td>Outsourcing is a silver bullet – a recipe for success.</td>
</tr>
</tbody>
</table>
Practical implications:
Two by two discussion

› What can be learned from the case?
› How can you as project manager utilize the two theories?
References “IS Outsourcing behind the curtain” (1 of 2)

References “IS Outsourcing behind the curtain”(2 of 2)