Multi-Sourcing Strategies for Corporate Computing and social capital: A Global Perspective

Alternate Titles

IT Governance for Multisourcing and Corporate Social Capital Strategies: A Global Perspective
or
IT Governance in a Networked World

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The outsourcing of Information Technology (IT) services has been with us now for well over a decade. The outsourcing phenomena was launched through a number of outsourcing “mega-deals” with significant organisations like the UK Inland Revenue, the South Australian Government, Campbell Soup, Dupont, British Steel and Lucent Technologies. Many of these deals were for periods of up to 10 years for contract amounts in the billions of dollars. The advent of multi-sourcing has been with us from virtually the start, with organisations like Dupont and British Petroleum purposefully undertaking multi-sourcing strategies from the beginning. The growth in the adoption of multi-sourcing strategies and shorter contract terms however is a direct result of the disenchantment in sole sourced outsourcing deals (Gedda, 2007). The fast pace of technology change in the IT sector and the perceived inflexibility of arrangements and lack of innovation with single vendors have combined to work against the continuance of the practice of long term single vendor outsourcing contracts. A recent global study by IBM of 765 CEOs revealed that 75% were looking to partner outside of their organisations to create innovation, yet only 50% of organisations are currently achieving this (IBM, 2006). Consequently the drive for increased innovation will also fuel the drive for increased levels of multisourcing.

It can therefore be argued that movement toward “best of breed” multi-sourcing strategies has been more as a result of the failure of sole source arrangements, than a purposeful business enhancement strategy. Outsourcing researchers and commentators have been united in identifying the client / vendor relationship as being a most critical element in a successful outsourcing arrangement (Deloitte, 2005; Kern & Willcocks, 2001; Willcocks & Cullen, 2006). Willcocks & Cullen (2006) have stated that:

“In our study of organisations seeking IT cost savings via outsourcing, we found that good relationship management made a 40 per cent difference in cost savings. Another study of 235 client organisations identified good relationships as one of the most

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important factors contributing to effective delivery and successful contract management.”

The increased complexity in the required governance arrangements, together with the organisational change management aspects of the outsourcing arrangements have been identified as the two most reported problem areas for outsourcing clients (Deloitte, 2005). Moving from a single supplier situation to a multiple supplier would therefore appear to only exacerbate the relationship and governance problem. This leaves us with an interesting contradiction. Organisations are now embarking on multi-sourcing strategies, which in turn can only increase the risk of failure, by increasing the complexity in the identified largest problem area from outsourcing experiences to date, being governing the outsourcing relationship.

Coincident with the trend to outsourcing and now multi-sourcing are changes in the business landscape in general. Firstly, the increasing importance of intangibles and intangible assets are occupying an increasing proportion of firm share market valuations, much of this attributed to the growing services sectors (Hall, 1992; Lev, 2001; Lev & Zarowin, 1999; Low & Kalafut, 2002). Secondly, the growth in alliances as a business growth vehicle continues to grow inexorably at a rate of 25% a year despite a failure rate of between 60% and 70% (Hughes & Weiss, 2007). We therefore now have a situation where market place interconnectedness is accelerating at unprecedented rates, as organisations race to build new alliance partnerships, develop outsourcing relationships with multiple suppliers and aim to leverage intangible assets to build shareholder value. It is no longer possible to view suppliers as independent entities. They too will be participating in their own alliance arrangements with other suppliers which can and will change the nature of their service offerings. Client businesses will also be changing dynamically where mergers, acquisitions and alliances will also change the nature of the business requirements for IT services provision. The above business trends along with failure rate experiences in excess of 50% for IT outsourcing and alliances is the platform on which this book has been written.
This book is focused on governance of the business relationship. However, unlike many of the excellent texts and reports that have been produced to address the client/supplier outsourcing or selective sourcing arrangements (Cullen & Willcocks, 2003; Kern & Willcocks, 2000; Lacity & Willcocks, 2001) or those extending such frameworks to multiple suppliers (Cohen & Young, 2006), it is not about contracts and contract management, business processes, tendering and tender evaluation or life cycle management frameworks (Cullen, Seddon, & Willcocks, 2005). Similarly the current guidance literature on IT governance has focused on allocating decision rights to appropriate roles within an organisation, with the intent of encouraging desirable behaviours (Broadbent, 2002; Weill, 2004). However, allocating accountabilities is only part of the answer. The relationships held between the identified roles will go a long way to determining a successful governance arrangement or not. These texts do an excellent job of synthesizing management frameworks from both management theory and analysis of case study experiences. The treatment of relationship management however is largely limited to identifying the structural elements for governance bodies and the creation of charters for developing behavioural norms or codes of conducts for the relationship. As valuable as these are for addressing a single relationship there is reasonable doubt as to whether these techniques will be sufficient to succeed in a highly networked and interdependent market place. Cohen & Young, (2006) acknowledge among their four key themes for multisourcing that “Multisourcing is built on a network of relationships – not transactions” and proceed to extend the code of conduct approach by defining a useful “Confidence Index” for monitoring confidence in relationships. However, it falls short of appreciating the network effects identified in their key theme which can undermine a “one size fits all” use of index measures.

In order to provide a greater insight into operating successfully in a networked market place this book draws heavily from the fields of sociology and social networks and intellectual capital and intangible asset management. Building from a theoretical basis underpinning a social capital theory of the firm, the book will initially take the reader
through a treatise of interdisciplinary research on the above topics. This will be followed by the reporting on recent research conducted on linking a firm’s Corporate Social Capital (CSC) to its overall performance. From this research base a series of techniques and practices, that can be applied at both the personal and organisational level, for successfully managing multisourced relationships, are developed. The following schematic places this book in the context of current treatments of outsourcing and multisourcing and IT governance:

Existing treatments of IT governance, outsourcing and multisourcing have been classified above as a “business process view”. Essentially these treatments have been concerned with the business process flow from developing outsourcing strategies, architecting a desired IT environment, tendering and selection of suppliers, transitioning the business and then finally installing the governance arrangements through allocating decision rights. The treatment of the critical relationship aspects has been largely from a business process management viewpoint i.e. what instruments can be designed and installed to “manage or govern” the relationship.
This book targets the sourcing relationship and amplifies its treatment through the introduction of a perspective from the discipline areas of Intangible Asset Management (also called Intellectual Capital Management) (Hand & Lev, 2003; Holland, 2001; Low & Kalafut, 2002; Zambon et al., 2003) and Social Networks (Borgatti, Jones, & Everett, 1998; Burt, 2000; Cross & Parker, 2004; Inkpen & Tsang, 2005; Knoke, 1999; Tsai & Ghoshal, 1998). Both these discipline areas bring an additional richness to the understanding of how to work with and improve business relationships for the overall benefit of organisations. The intersections between the business process view and the intangible asset and social network views are explored through the analytical techniques of Value Network Analysis (VNA) and Organisational Network Analysis (ONA).

Alternative techniques arising from these disciplines are introduced for assisting with the governance of multisourcing relationships. Firstly, the ONA technique is derived from a mature technique called social network analysis (SNA), originally used by sociologists to study personal relationship patterns (Cross, Borgatti, & Parker, 2002; Scott, 2000; Wasserman & Faust, 1994). SNA applied to organisations at the personal, organisational and inter-organisational levels is often referred to as ONA. ONA can provide insight into how the network of individual actors in multisourcing arrangements relate to each other and how designed interventions can impact on the behaviour of the network. VNA (Allee, 2000, 2003, 2008) derives from the Intangible Asset Management field as a complementary technique for business process mapping by including intangible value flows into the business analysis. VNA is an important tool for designing or evaluating organisational structures around a relationship network, identifying the key roles and how both tangible and intangible value flows between them. VNA has been recently endorsed by the ITIL best practice organisation as a leading IT strategy development practice (ITIL, 2007).

The audience for this book will range from the scholar or student looking to better understand the governance mechanisms in a networked business environment, through to the IT executive who is struggling with complex business relationships issues for which there is currently minimal guidance. While the issues of governance are addressed in an
IT context, much of the underlying theories identified and practices developed may be equally applicable to other non-IT service industries. It will draw equally from the client and supplier sides of the IT marketplace. Traditionally the literature on outsourcing is either polarized around advice for clients undertaking outsourcing activities or the shorter term market research supporting the supplier market place. By focusing on the relationship between client and supplier, between supplier and supplier and also potentially client and client, this book will be equally valuable to both client and supplier firms.

The book is structured as follows:

**Part I – Introducing IT governance in a networked world**

**Chapter 1 Introduction**

The introduction positions the book around multi-sourcing strategies and a firm’s social capital embodied in its relationship networks in the IT marketplace. Data is provided to show the growth in multi-sourcing arrangements and the increased interconnectedness of the IT services marketplace.

**Chapter 2 Multi-sourcing Networks**

This chapter addresses the issues for multisourcing by taking a networking view of multi-sourcing arrangements. Business evolution is traced from the industrial era, through to supply chain management and now value networks. The traditional view of the “firm” is challenged in this chapter.

**Part II – Research Foundations**

**Chapter 3 Foundations of Corporate Social Capital, Social Network Analysis and Intellectual Capital**
This chapter will reference the foundation literature in social network analysis and intangible asset management, separately at first. The two fields will then be synthesised through the author’s own research into corporate social capital and its application to the IT industry. The linkage between multi-sourcing strategies and corporate social capital will be reinforced.

Chapter 4 Research Methods for Assessing Performance in IT Marketplace Networks

The IT services sector is characterised by high levels of vendors’ alliances and partnerships. Even dominant vendors like IBM and Hewlett Packard support a long list of alliances with other vendors, either component suppliers or as value added sellers of their products or services. It is not uncommon for vendors to be both partnering and competing at the same time. This chapter describes the author’s research methods in untangling the relationship complexities through the use of information content analysis and organizational network analysis techniques.

Chapter 5 Research Results Linking Corporate Social Capital to Firm Performance

In this chapter research results linking a firm’s Corporate Social Capital (CSC) and its overall performance are presented. A network representation of the global IT outsourcing market will be provided, using methods described in the previous chapter. Hypotheses test results are presented showing how the sub-elements of CSC influence firm performance measures.

Part III – Understanding “Levels of Networking”

Chapter 6 Personal Network Competencies

This chapter will explore the maturation of the IT industry and the growing importance of relationship skills for IT professionals. Relationships between IT
providers and their business clients, or peer relationships with alliance partners, are requiring IT professionals to move beyond the comfort of a technical discipline and into the soft skills areas of networking cultures and reciprocity.

Chapter 7 Intra-Organizational Networks

Inside organisations the IT function is often viewed as a “support” or “staff” function, providing services to the core lines of business. Business alignment or business integration of the IT function has been in the top 3 IT success criteria for decades. With organizational structures evolving towards greater use of matrix and network management, how IT positions itself within the network of the other lines of business will become critical. This chapter explores some different models of IT/Business alignment based on the network paradigm.

Chapter 8 ITIL and Value Networks

The Information Technology Infrastructure Library (ITIL) is fast becoming the IT industry’s de facto best practice guide for the provision of IT services. The latest version of ITIL has acknowledged the evolution of value chains into value networks. This chapter provides a detailed description of how value networks can be applied to IT services provision. The chapter will draw from the value network practitioner’s own “best practice” guides.

Chapter 9 The Global IT Outsourcing Market – A Network Perspective

The evolution of the global IT outsourcing market is analysed from a networks perspective. This will be accompanied by some commentary identifying the growth in multi-sourcing networks and who the main global players are in this evolution. In this chapter the innovation question is addressed from a multisourcing and network perspective, hoping to shed some light on the innovation dilemma.
Part IV – The Future: Moving Forward

Chapter 10 Technology, Web 2.0 and Beyond

The impact of emerging technologies on IT governance is addressed in this chapter. In particular, the emergence of the suite of Web 2.0 technologies will provide fuel to the networking fire by putting advanced communications tools in the hands of individuals within the business. The current suite of social software tools like blogs, wikis and discussion lists are finding their way from the public domain to inside organizations. This chapter looks at the issues and opportunities afforded by Web 2.0 and the current net mining research, which promises to be the next generation of business intelligence.

Chapter 11 Guidelines for IT Governance and Multisourcing in the networked Economy

The previous chapters were rich in terms of research, case studies, technologies and methods for working with business networks in the IT discipline. In this chapter the threads will be synthesised into a suite of guidelines as to what individuals, IT executive and business executives can do to improve their collective performance in a networked economy, where multi-sourcing has become the norm.


This book addresses relationship challenges in a world that is becoming increasingly networked, offering useful frameworks and practices for IT governance. Topics Covered. The many academic areas covered in this publication include, but are not limited to