Developing IS Enabled Capabilities for a BPO Vendor: A Case Study

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ABSTRACT

The outsourcing literature has offered a plethora of perspectives and models for understanding decision determinants and outcomes of outsourcing of business processes. While past studies have contributed significantly to scholarly research in this area, there are an insufficient number of studies that explore how information systems can be used to facilitate service provisioning. Consequently, there is a need to understand how vendors develop IS enabled capabilities that allow them to address a core challenge: to achieve scalable growth by developing standardized offerings that can be sufficiently customized to meet the unique demands of individual customers. This in-depth case study leverages an organizational sensemaking framework to explore IS enabled capability development in one of the largest business process outsourcing (BPO) vendors in the world.

Keywords: IS-enabled capabilities, enterprise architecture, sensemaking

INTRODUCTION

IS enabled capabilities are needed to allow BPO vendors to meet the heterogeneous requests of many unique customers simultaneously. Nevertheless, the consensus from managers and management researchers is that many outsourcing partnerships simply do not result in the anticipated strategic advantages (Rai et al., 1996, Nam et al., 1996). A 2004 study by Deloitte found that since 1996, 38 of 50 randomly selected outsourcing deals went bad, totaling more than $25 billion. Despite these gloomy findings, many firms continue to pursue outsourcing (Halvey and Melby, 2007). Increasingly, executives are left wondering whether or not vendors can truly reap benefits that outweigh the costs and risks inherent in outsourcing (Levina and Ross, 2003).

There is a need for research that explores how BPO vendors pursue the development of IS enabled capabilities that allow them to meet competing objectives. The objective of this research is, therefore, to conduct an in-depth case study of a BPO vendor as it seeks to develop IS enabled capabilities that will allow it to achieve scalable growth—resulting in production cost advantages that are crucial to sustain the viability of the outsourcing model. To develop insight into the factors that impact the development of this necessary IS enabled organizational capability, we use organizational sensemaking (Weick, 1995) to investigate the socio-cognitive factors that exacerbate coordination complexity during capability creation. Hence, the presented case study seeks contributions to the stream of research that focuses on issues associated with IS enabled capability development and outsourcing efficacy (Levina and Ross, 2003).

The paper is organized as follows. First, we develop a research framework for investigating the scalable growth problem from the perspective of a BPO vendor firm. We then describe our research methodology for collecting and analyzing data. Next, we present an overview of the case, followed by a detailed analysis of the data in the results section. Finally, we discuss the contributions this paper makes to theory and practice along with the study’s limitations.
RESEARCH FRAMEWORK

IS-Enabled BPO Service Provisioning

BPO refers to an outsourcing relationship where a third party provider is responsible for performing an entire business function (such as HR, procurement, logistics, etc.) for the client firm (Dibbern et al., 2004). Most definitions of BPO emphasize two key elements: the importance of IT as a support mechanism for enabling BPO service provisioning, and that control and management of processes is handed over to another entity—the vendor (Rouse and Corbitt, 2006). Despite the growth of BPO, academic research on this specialized form of outsourcing is still in its infancy (Rouse and Corbitt, 2006). Consequently, prior research on IT outsourcing provides a useful source to draw upon for studying BPO (Dibbern et al., 2004).

Despite the vastness of existing outsourcing research, a large gap exists; it is almost always explored from the clients’ perspective (Levina and Ross, 2003). According to Dibbern et. al (2004), prior outsourcing research has focused almost exclusively on questions of why to outsource (Loh and Venkatraman’s, (1992), what to outsource (Grover et al.’s 1994), how to manage outsourcing relationships (Klepper, 1995), and how to evaluate outsourcing performance (Aubert et al., 1998). Despite the important role the vendor plays in determining outsourcing performance, researchers have only recently begun to explore outsourcing from the vendors perspective (Dibbern et al., 2004; Levina and Ross, 2003; Hirschheim et al., 2002). Accordingly, we are not aware of any studies that have explored, qualitatively, how vendors develop the necessary IS enabled capabilities to address the complex task of provisioning services to many unique customers simultaneously.

Vendor’s Challenge for Scalable Growth

The prolific movement towards outsourcing signifies a new competitive dynamic in which client firms trade the benefits of internal control for the advantages of reduced operating costs, acquisition of best practices, increased scalability, transfer of risk, access to high caliber labor, and increased focus on their own core competencies (Landis, 2005). From a client perspective, such advantages occur if the benefits resulting from outsourcing outweigh the costs and risks associated with managing relationships with vendors. Prior research suggests that after developing such outsourcing relationships, clients only enhanced their competitive position if the alliance moved away from developing the attributes characteristic of traditional market relationships (Dyer and Singh, 1998). Thus, clients must transition from an exclusive and continual focus on increasing transactional efficiencies to leveraging relationships for sharing information and creating knowledge to respond more effectively to dynamic markets (Malhotra et al., 2004). Incidentally, clients have begun to adjust their strategies for managing outsourcing relationships, transitioning from transaction to more strategic-oriented relationships (Grover et al., 1996, Klepper, 1995).

Such a transition may be provoked when a client seeks a partnership to leverage the vendors’ capability to develop customized IS enabled solutions that are unique to the clients business. Yet, such a transition has challenged vendors, as the shift towards more strategic orientations has not necessarily reduced the clients desire to improve transactional efficiency (i.e. reduce costs). As a result, vendor’s face an inherent tension between providing customized IS enabled services at increasingly commoditized (or standardized) prices. Yet, for BPO to be a legitimate strategy, vendors must possess production cost advantages over their clients (Levina and Ross, 2003). That is, vendors must develop the requisite capabilities to achieve the economic benefits of standardization, while enabling sufficient customization within individual relationships.

Organizational Sensemaking

Sensemaking is a useful framework for investigating organizing processes as it sheds light on “how” an organization develops the strategies, structures, technologies, and processes that define it (Weick, 1995). In doing so, we are able to explore the patterns of collective action that enable and constrain an organization as they develop capabilities to develop a sustainable competitive advantage. Weick’s organizational sensemaking framework consists of seven core properties (these properties will be presented in the results section), which combine to create an especially useful paradigm for research aimed at developing deep contextual descriptions of organizational phenomenon.

Sensemaking is an ongoing process, which results from organizational actors seeking to interpret and control their environment (Weick, 1993). Interpretation is often used synonymously with sensemaking (Weick 1995). According to Weick, “Such synonymous usage is not a blunder, but it does blur some distinctions that seem crucial if one wishes to understand the subtleties of sensemaking in organizational settings” (p.6). Weick differentiates the two by arguing that interpretation is a component of sensemaking and typically occurs after the creation of a social artifact or structure (e.g., text, social rule, IT system). In contrast, sensemaking addresses the creation of the social artifact as well as how it is subsequently interpreted. Thus, sensemaking is about authoring as well as reading (Weick 1995). It is this aspect of sensemaking that...
makes it useful for the study presented in this paper. In pursuing scalable growth, individuals within vendor firms are in a constant process of authoring and reading. That is, they ‘shape’ and are ‘shaped’ by the strategies, structures, and technologies they develop as part of their organizational initiatives to achieve scalable growth.

Summary

Figure 1: Research Framework

Figure 1 summarizes the research framework guiding this study. As BPO vendors seek to provision unique services to many different customers, they need to manage the tension between standardization and customization of services. We therefore investigate how a vendor develops an IS enabled capability to balance this tension, through the lens of organizational sensemaking. This approach allows us to uncover the specific socio-cognitive factors that enable and constrain a vendors’ ability to develop IS enabled capabilities. Hence, based on Weick’s sensemaking framework (1993, 1995, 2001), we consider the following research question:

How does a BPO vendor develop IS enabled capabilities to balance the tension between standardization and customization?

RESEARCH METHOD

Research Design

We conducted a single case study (a BPO vendor) with embedded units of analysis (business units within vendor) to investigate our research question. Due to the nature of our research question (“how” and “why”questions), our focus on a contemporary phenomenon, and the degree of control we had over behavioral events, our study meets the criteria for case study research set forth by Yin (1994). Moreover, the case study method is particularly useful in business research when it is important to study the subject matter in its real life context (Myers, 2008). In particular, we carried out an exploratory case study (Yin 2003), which allowed us to move back and forth between our research framework (see Figure 1) and the empirical evidence obtained to explore our research question.

Data Collection

Since our objective was to explore how a BPO vendor pursues IS enabled capability development, we needed to gain access to a BPO vendor. We also needed access to key individuals who grappled with the tension between standardization and customization, and that were part of IS enabled capability development. By finding such a firm, this case was considered revelatory, as it presented a unique opportunity to observe and analyze a phenomenon that is characteristically inaccessible by a particular research community (Yin, 2003). Though replicating our study across multiple vendors would be ideal, having access to one of the largest BPO vendors in the world was considered particularly rare. After identifying the vendor, MoveQuick1, we pursued multiple sources of data. We conducted seventeen in depth interviews with individuals representing major functional units within the vendor, collected a large amount of archival data related to enterprise initiatives and individual customer relationships over time, conducted direct observations of work processes throughout the organization, and even leveraged participant observation to gain a firsthand account of the experiences faced by the vendors employees.

1 Name concealed to protect confidentiality
Data Analysis

First, all interview files were professionally transcribed. We then followed a hybrid analytic approach for data analysis where we incorporated inductive and deductive coding and thematic development techniques (Fereday and Cochrane, 2006; Chiasson et al., 2008). This technique was beneficial as it allowed us to begin the analytical process by working from the data. Doing so allowed us to move from specific cases to more general conclusions (Schwandt, 2001). However, by complementing the inductive analysis with a deductive one we were able to utilize the sensemaking framework to develop richer interpretations of our initial data driven findings. This approach was suitable for answering the research question guiding this investigation as it allowed the sensemaking framework to drive deductive analysis while at the same time ensuring that themes emerged direct from the data through inductive coding.

RESULTS

The results of the study relate to how MoveQuick pursues the development of IS enabled capabilities to balance the tension between standardization and customization. We apply four properties of sensemaking (identity, retrospect, social, and ongoing) to analyze and interpret the data.

Identity

MoveQuick is a large vendor of supply chain outsourcing services and is comprised of two distinct business units: MoveQuick-Operations (focused primarily on package delivery) and MoveQuick-Solutions (focused on value added supply chain services). Our findings suggest that there was a distinct difference between the consensual identities of each business unit, which led to integration challenges between firms. When touring one of MoveQuick-Operations’ distribution facilities to observe a midnight sort, a military boot camp best describes the situation. In the dungeons of the sorting facility, presort meetings were held—shift managers and high school age sorters convened to discuss the outcomes of previous shifts and the goals for the upcoming shift. In one of the meetings observed, the shift manager passed out spreadsheet-style reports with detailed performance metrics related to the prior sort. These reports detailed how efficient and effective MoveQuick-Operations employees were in sorting the more than 140,000 packages that had entered and exited the facility during the previous sort. During the observed meeting, the shift managers meticulously scrutinized each error, one by one, and made it clear through a certain degree of yelling and screaming that perfection was the goal.

In contrast, MoveQuick-Solutions demonstrated a distinctly different identity. MoveQuick-Solutions had an entrepreneurial spirit that reflected its youth and its mission to be a growth engine for the parent organization. Instead of a century of operations, MoveQuick-Solutions began in the early 1990’s. A simple walk through the corporate headquarters at MoveQuick-Solutions highlights a small but telling distinction between the two business units. Gone are the mandated stiff suits and conservative ties worn at the headquarters of MoveQuick-Operations, replaced by today’s comfortable, casual business attire that reflects creativity and free will. This of course had its benefits, but MoveQuick-Solutions created its own set of challenges—it was caught in a trap of living up to its self-made identity of solutions provider, building what seemed to be newly customized offerings for each customer. As one executive in the information systems department of MoveQuick-Solutions said:

We went to the customer and in our desire to be responsive, we allowed anything and everything to drive us in a technology direction. If you didn’t like Manhattan, we would throw you something else. If you didn’t like that, then we’d throw some other thing.

Since beliefs about an organization’s identity are a crucial part of managers’ mental models (Weick, 1995), the conflicting belief structures about standardized excellence versus ongoing customization corresponded to very different world views for MoveQuick-Operations and MoveQuick-Solutions employees. These contrasting consensual identities made the coordination of operational processes and the alignment of business unit strategies a challenge, thereby inhibiting system integration across these major business functions.

Retrospective

The tendency to edit out the complex nature of reality during retrospection was evident as MoveQuick-Solutions managers pursued a strategy of repeatability. By developing services that could be replicated across customers, MoveQuick-Solutions tried to develop the economies of scale needed to operate profitably. When first conceived, the idea of developing

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2 We have chosen to present four of the seven properties to meet the AMCIS maximum word count.
standardized offerings that could be repeated across many customers seemed reasonable, but managers quickly discovered that initial segmentation strategies failed due to one main reason: they were too simple as they did not sufficiently account for heterogeneous requirements of individual customers. For example, within one particular vertical, the systems needed across customer accounts simply varied too much to be reduced to a single generic system. Despite continuous efforts, they could not segment their way out of the complex reality they faced — each customer was so different. One MoveQuick-Solutions employee commented on two separate customers that had systems that were the same, yet so different:

Print Solutions (a MoveQuick customer that was running an application termed EXE) wanted this kind of information, and they wanted the orders to come to this place, and they wanted something else set up another certain way. So I can say we have EXE in both places (used in two customer relationships), but the fact is I’m not so sure that an employee working for the Photoshoot account can walk over to the Print Solutions system and recognize it.

The excerpt above is just one of many that speak to the differences between individual customer accounts. As we toured the MoveQuick-Solutions warehousing facilities, conversations with employees largely reflected the one above, focusing mainly on the unique aspects of individual accounts. Thus, despite their best efforts, it was clearly evident that no two customer systems and processes were the same.

Social

The social property of sensemaking speaks to communication, inter-subjective interaction, and collaboration as a means to coordinate collective action (Weick, 1995). MoveQuick-Solutions began to adjust their business strategy after realizing their ongoing segmentation strategies were largely ineffective. Its newfound approach centered on the development of a modularized IS enabled services architecture that would encapsulate service offerings into reusable business components. Individual customers could “mix and match” service modules to develop a robust solution that was unique to their business needs. For example, a customer in the high-tech industry might choose MoveQuick-Solutions extensive warehouse management system and combine it with custom brokerage and ground delivery services (a service of MoveQuick-Operations) to meet its idiosyncratic business needs.

To combine these service offerings into an enterprise-wide solution, MoveQuick-Solutions employees had to collaborate with individuals residing in different subunits within their own organization as well as with individuals residing in MoveQuick-Operations. Doing so, allowed MoveQuick-Solutions to develop the necessary system interfaces between individual service components so they could be easily combined. Collaboration would also help MoveQuick employees to develop a broader, more holistic understanding of each customer’s needs, and to deliver more enterprise wide solutions. Nevertheless, despite good intentions it was evident that MoveQuick-Solutions continued to be challenged in these pursuits. When talking about a recent conversation with a new employee, one MoveQuick-Solutions manager said:

We talked about the company for about 20 minutes, and I finally said, what do you do? He said, I’m a solutions guy. So as I drove home that night, I’m thinking…so here’s this sharp young engineer that really knows his stuff, but he has no idea what the strategy is for this company because he’s sitting in a cubicle working out one piece of the solution as part of the bigger picture. That’s not connected. He has no idea that the account he is working on [a MoveQuick-Solutions account] is actually a $70 million customer with MoveQuick-Operations.

It was evident that MoveQuick-Solutions continued to suffer breakdowns in its ability to collaborate across the enterprise, which led to poor coordination and disintegrated IS solutions. Sensemaking is about common language, social interaction, and subjectively shared meanings (Weick, 1995). As our evidence suggests, sensemaking is not an individual activity (Weick, 1995). Instead, it requires intensive social interaction in formal and informal ways. The advent of their new modularization strategy within MoveQuick-Solutions heightened their internal need to collaborate, as they needed to develop individual IS enabled service components with standardized interfaces so they could be easily combined. However, the lack of social interaction inhibited understanding of the system and process interfaces and challenged their ability to create a modular infrastructure.

Ongoing

By applying the sensemaking lens we found that MoveQuick-Solutions faced ongoing challenges. For instance, in an ongoing pursuit to help each customer develop a supply chain that created a competitive advantage in their respective industries, MoveQuick-Solutions was forced to adapt and adjust their own systems and processes to meet their customers idiosyncratic business needs. As a result, the ongoing pressures within individual customer relationships turned preferred platforms that
were meant to be leveraged across customer accounts into one off solutions once again. In regard to developing a standardized offering, one MoveQuick-Solutions employee said:

To me it’s very important. It just doesn’t happen to the degree that it needs to because there’s so many solutions, so many customers, so many different ways we have to produce something; to be productive. Each solution ends up becoming so customized that an application [even if it started out the same] is almost always different. When you saw Photoshoot [while observing operations in building C], you saw the EXE application being used to support their business processes. If you went over to Print Solutions in the other building, you would see the EXE application once again. But there it is different. They are set up totally different.

MoveQuick-Solutions employees were not sitting still looking towards a static environment. Instead, they faced their own pressures to not only meet the unique needs of individual customers, but also to continuously grow the revenue for each account. So, despite the importance of developing preferred platforms and standardized offerings to improve operational efficiencies across accounts, MoveQuick-Solutions faced an ongoing dilemma within individual customer relationships that too often forced them away from developing, and using, standardized IS enabled capabilities. This ongoing challenge once again exacerbated internal complexity and inhibited the development of a services infrastructure that would assist them in managing the tension they faced.

DISCUSSION

This study has contributed to prior research by pointing out some of the challenges vendors have as they seek to create IS enabled capabilities that will enable them to address a well known tension. Through our analysis we have identified three core components of MoveQuick’s enterprise strategy for developing the necessary IS enabled capabilities. These components relate to enterprise design, process design, and technology design.

Enterprise Design

To remain competitive, vendors such as MoveQuick have been forced to realign their organizational structure, marketing strategy, and resource capabilities to account for the market’s interest in the attainment of higher value added business process services (Halvey and Melby, 2000). Yet, even with realigned organizational structures, there is no guarantee that vendors will possess production cost advantages over customer firms simply because of the volume of services they are forced to provision (Levina and Ross, 2003). As we saw from our investigation, MoveQuick was in a constant state of change as they attempted to adjust and redesign their enterprise to respond to the challenges they faced. As our findings suggest, MoveQuick’s initial attempt to deal with the tension was to develop two separate organizations. Realizing they needed to pursue new opportunities by providing higher value added services, they set out to create MoveQuick-Solutions some fifteen years ago. Rather than do this within the boundaries of MoveQuick-Operations, they created a separate organization. However, the identities within both firms were noticeably distinct, challenging integration across the firm.

Process Design

Process designs that focus on transactional efficiency are shaped by structures that contain clearly defined cues. These cues are then easily extracted by members embedded in the process. Such cues might be extracted from a computer generated label that is placed on a package and directs a sorter to the exact location to which they should place a package on a delivery truck. Cues of this type offer little means of encouraging further search and instead help direct attention towards the localized task and clearly defined routines that connect individuals in nets of collective action. However, such directed attention becomes problematic when predefined routines do not align well to new or changing business contexts. For instance, when the same package sorter follows a similar sorting protocol but is asked to place the packages on a new vehicle, predefined routines may not match up to the new vehicle specifications. At this point, individuals are forced to reconcile the tension between the predefined cues that are already directing their attention and the cues that are being generated because of the misalignment. Process design philosophies that help individuals and organizations resolve this tension efficiently will likely help meet the dual objectives of standardization and customization. It is important to note that Weick would argue strongly that more information is not necessarily what is needed. This is not just a problem of information processing, but equivocality. Instead, Weick would argue that what people need are values, priorities, and clarity about preferences to help them be clear about what really matters (Weick, 1995).

Technology Design

Technical capability has been identified as an influential factor in shaping the development of outsourcing relationships (Willcocks and Kern, 2001). While technology certainly plays a crucial role in enabling vendors to address the tension
between standardization and customization, our findings suggest that leveraging its obvious benefits does not come unchallenged. As we have seen, the nature of IT intensive services has put great pressure on a variety of enterprise designs, largely because of the increased speed with which change must now occur and the increased ambiguity resulting from information overload (Weick, 1995). The movement toward modularized enterprise architecture (Ross et al., 2006) was the next step MoveQuick took in an attempt to address the tension they face. However, by applying the sensemaking lens to this initiative we see the importance of social interaction within and between functional units if service providers pursue such an IS enabled enterprise capability. Without ongoing interaction and effective collaboration between the business units, they will be unable to develop the necessary standardized process interfaces that allow service modules to communicate, and then to be easily combined into an enterprise solution.

LIMITATIONS

We should not present our contributions without also considering the limitations of this study. Our study has two notable limitations. First, despite the deep insight sensemaking provided, there were areas of insight from our inductive analysis that were not sufficiently emphasized by the sensemaking framework, such as the importance of emotion and power in understanding collective action. Second, despite its obvious benefits, single case research can lead researchers away from focusing on general trends and concepts, focusing their attention instead on events and conditions that are distinctive to a particular situation (Markus et al., 2006; Brady and Collier, 2004).

CONCLUSION

This study adopted a socio-cognitive perspective to provide deep insight into how a BPO vendor develops IS enabled capabilities. The study provides three key contributions to existing research. First, it provides a vendor perspective and identifies sociocognitive underpinnings that challenge the development of IS enabled capabilities. Second, it presents evidence through sociocognitive analysis that economies of scale may actually be replaced by diseconomies of scale in vendor firms, as growth in size and complexity may contribute to problems with control and coordination as the scale of operations increases. Third, the study provides a multi-level perspective to show how socio-cognitive constraints can manifest at the firm level, thereby inhibiting the coordination necessary to develop IS enabled capabilities for a BPO vendor. Our findings suggest that social interaction is crucial for developing IS enabled capabilities, that process architectures need to integrate explicit cues with values, priorities, and preferential clarity to compliment the IS infrastructure, and that the technical system must never be decoupled from the social system in which it’s embedded.
REFERENCES

