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Outsourcing as a Fad - The Rational Agent versus Structural Imposition

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Abstract

Over recent years there has been a worldwide trend towards smaller government - government departments being under increased pressure to privatise or outsource parts of their operation and to move towards a more independent corporatised model. The corporatised model is seen to involve the organisation moving away from being a direct arm of the government, acting more as a business entity in their own right. In many cases this operation has been preceded by an examination of business processes and subsequent re-engineering. This paper examines the change process and presents some of the issues faced by the IT Department of a local governmental organisation as it moves through this difficult and complex process. The paper suggests that consideration of both internal and external social structures needs to play an important part in the examination of the change process.

Keywords:
Critical Realism, Structure, Agency, Outsourcing
1. Introduction

The literature on IT outsourcing can be seen to adopt a positive and a negative stance on the sensibility of outsourcing the IT function. In a negative vein Lacity and Hirschheim (1993) present some of the myths associated with popular outsourcing claims. They argue that a part of the outsourcing trend reflects a "bandwagon" effect resultant from an unrealistic expectation of success prompted by highly publicised successes such as that of Kodak (Loh and Venkatraman 1992). Martinsons (1993) discusses some of the risks associated with long term planning under IT Outsourcing. Earl (1996) lists 11 risk factors for the outsourcer and suggests the use of selective outsourcing, as does Meyer (1994). King (1994) suggests careful consideration of alternatives before making the decision to outsource. Lacity and Hirschheim (1995) discuss the benefits of insourcing IT in preference to outsourcing. In a similar vein Hirschheim and Lacity (2000) suggest that the benefits to be achieved through outsourcing are not as clear cut as suggested by newspaper reports and initial promoters - costs can be reduced but often service suffers.

This negative view on outsourcing is in contrast to reports such as that of Quinn (2000) who presents the benefits of outsourcing innovation - exemplars being presented of leading companies which have lowered their innovation costs and risks by 60% to 90% by the strategic outsourcing of innovation. Quinn and Hilmer (1994) also discusses the benefits of strategic outsourcing. Hayes (2000) argues that outsourcing is "an idea whose time has come". Lacity, Willocoks and Feeny (1996) present a positive outlook on outsourcing discussing a number of successful case studies of selective outsourcing. Gupta and Gupta (1992) highlight the best situations for organisational outsourcing of IT.

The different perspectives on outsourcing can be seen to reflect differing fundamental beliefs as to the role of the manager in business. The outsourcing fad or bandwagon effect can be seen to reflect the view that managers are more affected by popular perceptions rather than making decisions based on rational careful thought - the manager is seen as a social agent reacting in a passive accepting role in their decision to outsource. An alternative view gives the manager a more active agency role in that the manager is seen to react rationally to outside stimuli in ways that make sense to them at the time - these outside stimuli can be seen to be pre-existing social "structures" (for example, the popular outsourcing "movement") - these pre-existing social structures impacting their decision making. This paper proposes a model based on this alternative perspective - the model basically reflects a critical realist perspective making explicit the importance of structure and agency in examining the organisational outsourcing situation. A case study is presented to illustrate the new model.

2. Diffusion of Innovative Practices

Outsourcing can be seen as an innovative practice and the adoption of outsourcing can be examined in terms of the diffusion of innovative practice. Abrahamson (1991) examines the diffusion of technological innovation and argues that much of the business literature demonstrates a pro-innovation bias in its implied assumption that all innovation is good. This pro-innovation bias is demonstrated through an often implied assumption that adoption of innovation is important (e.g. critical success factors for successful adoption, factors that affect early adoption, factors that affect innovation diffusion etc). He suggests that a more sceptical view on innovation diffusion and acceptance would be useful and develops a model based around the question "When and by what process are technically inefficient innovations diffused or efficient innovations rejected?" (p. 587).
To answer this question, Abrahamson (1991) suggests two fundamental views on organisational decision making - an "efficient-choice perspective" which assumes that technology adopters make independent, rational choices guided by organisationally measurable goals of technical efficiency. The second perspective sees organisations as having unclear goals and high uncertainty regarding the efficiency of technological innovations. This perspective assumes that in conditions of uncertainty organisations will imitate other organisation/s (the fad or fashion perspective).

3. Structure and Agency

It is useful to examine Abrahamson's (1991) model from a structure/agency perspective. It can be argued that the model implicitly recognises the importance of social structures through the recognition of impacting internal and external "influences". The first perspective - the efficient-choice perspective - assumes that technology adopters make independent, rational choices guided by organisationally measurable goals of technical efficiency - it assumes that organisations are relatively certain about their goals and their assessments of how efficient technologies will be in attaining those goals. This perspective elevates the role of the agent and minimise the role of impacting structures. It emphasises the rationality and power of the "doing" agent by suggesting that it is the agents sole choice to accept or reject the technology. This perspective does, however, ignore the potential for outside structures to impact the acceptance of the innovative technology.

Figure 1: Theoretical perspectives to explain the diffusion of technologies (Abrahamson (1991, p. 591)
The second perspective - the fad perspective - sees organisations as operating in conditions of uncertainty about organisational goals and imitating other organisations by adopting new technologies ("fads"). As Abrahamson (1991) argues this adoption can be for a number of reasons such as:

a) knowledge dissemination from the "fad adopted" organisation allows them to feel safe in adopting the new fad

b) a desire for the legitimacy provided by following the emergent norm

c) a desire to avoid the adopting organisation achieving a strategic advantage through early adoption

The fad perspective encourages considerations as to agency and structure, emphasising the role of the active agent in the decision to adopt an unproven fad, but suggesting that only internal structures (such as associations with the fad adopting firm) impact agent's decision, external structures being neglected.

Along with the fad perspective, the fashion perspective assumes a high degree of uncertainty about organisational goals and sees organisations as primarily imitating other organisations external to the business area (such as management consulting firms) rather than making rational independent decision. This perspective relegates the role of the agent in that it argues that the organisational role of fashion follower will predominate over individual actor decision.

The final perspective presented is the forced selection perspective. According to this perspective organisations outside the adopting organisation may use their power to affect the diffusion of innovations; rational decision making is present but ignored as powerful external influences predominate.

4. Innovation Diffusion presented as Structure versus Agency

Abrahamson's model (Figure 1) implicitly suggests that structural factors are most important in the examination of innovation diffusion - the vertical axis suggests that structures are always important in the decision to accept innovative practices ("influences" are either internal or external) whereas the horizontal axis suggests that agency decisions are less important in some situations (where imitation pre-dominates). Modifying Abrahamson's model slightly makes this agency/structure perspective explicit (see Figure 2) and allows one to view the role of impacting social structures on organisational decision making. The new model makes explicit Abrahamson's assumptions regarding agency and structure and is basically in line with the critical realist who argues that both structure and agency must be considered in the social analysis of organisational situations.

Smith (1998) from a critical realist perspective defines social structures as involving "relations and patterns of behaviour which have become so well established across time and space that they provide the (largely unquestioned) conditions for human action and thought". (p. 27). Critical realism is termed "depth realism" by Collier (1994) in its recognition of deeply stratified layers of structure. Structures refer to actual forms of social organisations, as "real entities with their own powers, tendencies and potentials" (Archer 1995, p. 106).

Such structures cannot be perceived and thus cannot be identified except through examination of their effects. Social systems depend on the relations between and within a plurality of structures, such relations having their own independent causal properties. The resulting
system founded on the various relations has emergent properties which may affect agents acting within the system.

5. Impacting Structural Properties

The case study referred to in this paper involved a longitudinal study of a large public organisation over a period of five years and coincided with the outsourcing of the IT division. A number of senior IT staff as well as the Business Planning Manager were interviewed individually on several occasions, and staff were interviewed both pre and post outsourcing. The case study draws upon organisational reports and documents in addition to the interview transcripts. The interview transcripts have been analysed for key themes and the quotes used are representative of these.

The case study involves the study of a public organisation and thus it is relevant to examine some of the structural differences between public and private organisations. Thong et al (2000, p. 247-248) suggest the following differences:

1. Environmental Factors: Less market exposure (and therefore more reliance on appropriations), resulting in less incentive for productivity and effectiveness, lower allocational efficiency, and lower availability of market information; more legal and formal constraints; and higher political influences, including impacts of interest groups and the need for support of constituencies.
2. Organisation-Environment Transactions: More mandatory actions due to the unique sanctions and coercive powers of government; wider scope of concern and significance of actions in the public interest; higher level of scrutiny of public officials; and greater expectation that public officials act fairly, responsively, accountably, and honestly.

3. Internal Structure and Processes: More complex criteria (e.g., multiple, conflicting, and intangible); managers with less decision-making autonomy, less authority over subordinates, greater reluctance to delegate, and a more political role for top managers; more frequent turnover of top managers due to elections and political appointments; difficulties in devising incentives for individual performance; and lower work satisfaction and organisational commitment.

The categories suggested by Thong et al are similar to Abrahamson's division of impacting influences as external (environmental factors) and internal (Organisation-Environment Transactions and Internal Structure and Processes). The impacting structures and structural properties identified by Thong et al provide a useful guide for examining the structural impacts as the organisation under study moved towards outsourcing.

6. The Move towards Outsourcing

The organisation under study was traditionally an engineering organisation being heavily involved in capital works development. The organisation saw the IT department as providing a service function:

The Organisation in those days saw IT as a necessary evil. They were focused on one of two things, engineering or financial considerations and IT was something they had to have, but they didn't really want to spend any money on it and all the money they had spent, was too much - "where was the return on the investment?" - that was the continual question. (pre-outsourcing IT Manager).

The IT Manager at the time was intent on improving the status and recognition for IT - he had worked hard towards achieving this recognition and had reached agreement that for planning purposes the Information Business should be treated at the same level as the other major business areas - money, assets and people. The development of the first Information Business Plan was a major achievement in an engineering focussed organisation. Yet there was a degree of opposition to this idea as a later IT manager points out:

The prevailing view of executives at the time that it was completely inappropriate to describe the information thing as a business. That caused quite a bit of grief and controversy - it is merely a process. No way is it a core business, it is just a support process or function. (post-outsourcing - IT Manager)

Even with this level of opposition the IT Manager was leading the process modelling exercise within the organisation. The process modelling was seen by IT as an opportunity to understand organisational processes and to document the important role that the information function played in the organisation.

The modelling work was stopped as the uncertainty engendered by decisions regarding outsourcing hampered the modelling process:
We didn't do anything more on process modelling and subsequently the outsourcing of many, many other areas of the organisation were announced and everybody stopped modelling because you can only do this sort of work where there's a harmonious attitude, people must want to do it and they need to see the benefits of doing it, as soon as you put this sort of turmoil and distrust and stress on people - how long do I have a job or where am I going to go to next? what's the organisation done to me? These sort of things just don't work. You can't do it in this sort of environment and so the whole thing disappears. (pre-outsourcing IT Manager).

The move towards outsourcing was a result of worldwide governmental trends towards smaller government and the need to privatisate or outsource non-core functions. Much of the initial focus for the move was contained in the commonly called McCarrey Report - a report following from an independent commission set up to review state government finances. A part of their recommendation was the commercial activities undertaken by departments should be assumed by ‘semi-autonomous business units within their parent agency’ (McCarrey, 1993: 23).

As detailed in a discussion document prepared for public review (Commission on Government 1995) in April 1995, the Western Australian Government signed intergovernmental agreements to introduce a National Competition Policy. This policy was based on the reforms recommended by the National Competition Policy Review Committee (1993, The Hilmer Committee) to enhance competition in the delivery of public services. These two reports - The McCarrey Report and the Hilmer Committee report were important in defining the movement towards smaller government. The reports embodied the idea that the core business of government was ultimately to facilitate and to regulate - the provision of non "social-justice" services being better fulfilled by private bodies. In 1993 the McCarrey Report suggested that the corporatisation reform process had commenced but was proceeding slowly.

Over the period 1993-1995 the IT Manager developed the Information Business Plan and continued work on process modelling and investigations into outsourcing of non-core processes:

On the practical side of delivering a service we were starting to shine, we were winning TQM awards, in the water Organisation, we were benchmarking, the quality of our service was very good, we were getting accolades in the press, the cost of our service was benchmarked internationally in the top six in the world. So things were going very, very well. (pre-outsourcing IT Manager).

This seemingly efficient operation did not stop the move towards the outsourcing of the entire IT operation:

The rationale I understand was that the Organisation was running one of the best IT shops and also was one of the biggest and therefore the most expensive. [The argument was that] "If we can successfully outsource the Organisation's IT services and beat a lot of those battles then the other ones won't have a leg to stand on". Now that's why it moved quickly, basically from the moment the decision to look at outsourcing seriously was announced everything stopped on the information business planning. (pre-outsourcing IT Manager)
The IT Manager had a good relationship with the Managing Director at the time and felt that he was basically a supporter of information services:

*He [the MD] had a very good understanding of business process reengineering and championed it - he had a good understanding of the concepts we were putting together, of managing by information, he created the term "management through information" within the organisation. He actually championed it, which was fantastic for me. He was not overtly an IT supporter, though he knew where I was coming from and he could see where we were going...* (pre-outsourcing IT Manager).

Unfortunately for the IT Department the MD was replaced in 1995 - the general consensus for the change being that the pace of privatisation reforms were not moving fast enough.

In the view of the then IT Manager much of the outsourcing was not based on economic rationale:

*[the MD] would’ve fought tooth and nail to continue the business process reengineering to improve the organisation not just for the sake of outsourcing. It cost [him] his job, he didn’t move fast enough ...the agenda was “to outsource, period” - not to outsource only if it made sense. There were many areas and IT was one of them, where [the MD] said this doesn’t make sense, it’s not a logical decision and a board of a private company would not do this. This support virtually cost him his position (pre-outsourcing IT Manager).*

The new MD was less supportive of IT and the IT Manager commented that in the year between the appointment of the new MD and the IT Manager's departure they had only one meeting - *"He never came to IT ever"*. The outsourcing process proceeded quickly.

7. Discussion

It is clear from the above case study detail that much of the day to day interaction and decision making was determined by forces outside the control of the participating personnel. Structural imposition or a forced selection perspective is most useful in explaining the move towards outsourcing. As Reed (1997, p. 24) a postmodernist situationally focussed examination of the situation would have difficulty in explaining the outsourcing outcome:

*For them, social analysis focuses on a highly fragmented, disordered and contingent reality. The latter can only be understood on the basis of the linguistic, analytical and cultural resources that researchers must rely on in constructing a highly partial and selective account of its constituents and their interrelationships.*

From a critical realist perspective transcendental questions such as "What conditions make it possible for an efficient IT Department to be outsourced?" opens the examination to consideration of impacting structural impositions. Only by considering the governmental impact can one properly explain the demise of an IT Manager and his department even when the IT manager had agreement to their first information business plan and had a supportive champion in the MD role.

Reed (1997) from a critical realist perspective argues for a recognition of pre-existing social structures within organisational studies. He denigrates postmodernist approaches that emphasise single level process based theories where:
Structure is denied any kind of ontological status or explanatory power as a relatively enduring entity that takes on stable institutional and organisational forms generating scarce resources that actors, both individual and collective, have to draw on in a selective and constrained manner before they can 'move on' and 'make a difference'. We are left with an entirely process-driven conception of organisation in which any, even residual, sense of social structures possessing properties which can be understood to be relatively independent of the agents whose behaviour is subject to their influence' (Layder 1990: 23) dissolves away in the analytical fascination with the local, contingent and indeterminate.

However, as Brown (1999) argues there is considerable difficulty in determining all of the important social relations and their interaction:

A number of authors have commented that it is inherently very difficult to interconnect the many social structures, conceived in critical realist terms, implicated in social life (Jones (1997), Jessop (1995), Joseph (1999)). ...Problems are compounded given that such work must also incorporate the role of agency. Critical realism tells the social scientist that agents reproduce and transform structures but just what structures are being reproduced, and how, are entirely matters for substantive work (Bhaskar 1986, p. 124; Lawson (1997), Part IV).

Identifying impacting social structures in organisational decision making is a difficult process, however, for the critical realist their importance cannot be denied.

As Thong et al (2000) identify one of the most important issues to consider is the role of higher political influence - an external structure. In the early stages of the outsourcing investigation internal structures, such as the friendly relationship between the current MD and the IT Manager may well have avoided the move towards outsourcing. Even with the external structural imposition from government the decision to outsource may not have succeeded without the strong fashion element supporting governmental outsourcing of "non-core" activities.

From this case it is clear that governmental forced selection of the outsourcing option was critical. Abrahamson's fashion perspective is also useful in explaining the enthusiastic acceptance of outsourcing as an option without real investigation and consideration. Certainly a rational choice model does not seem to apply in this situation.

The investigation of information systems change involves the investigation of a sociotechnical system. The use of social theory as provided for by critical realism therefore must have some benefit. This paper uses some of the basic arguments of critical realism to help explain a complex social situation. Mingers (2000) argues that critical realism can be useful as an underpinning philosophy for the Management Sciences/OR. This paper argues that it can also provide a basis for examining the social aspects of information systems in general (see also Dobson 2001).

8. References


