Process and Structural Implications for IT-Enabled Outsourcing

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ABSTRACT

Recent research examined the non-traditional, but increasingly common case of the use of IT to facilitate theoretically inconsistent outsourcing decisions involving (strategic) core firm resources and asset-specific capabilities. It further illustrated how IT can enable such outsourcing decisions and how performance advantages may ensue. However, the process and structural implications of such practices remain unexamined. This paper extends this area of research by proposing three distinct approaches to IT-enabled business process outsourcing (BPO). The authors differentiate these approaches by the timing of when the outsourcing vendor takes ownership of the activity, and when and where any transformation of the activity takes place. The authors label these processes by the order of the initial activities that lead the outsourcing process, (e.g., transformation, transition, or a transfer of an organizational activity). The authors illustrate and discuss the implications of the propositions through several real-world case examples.

Keywords: *Business Process Outsourcing (BPO), Knowledge Process Outsourcing (KPO), Information Technology (IT), Organizational Change Process, Organizational Structure*

INTRODUCTION

Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) are widespread and growing trends (Graf & Mudambi, 2005; Sen & Shiel, 2006). Such trends are not surprising given the strong potential for knowledge-based performance (Willcocks, Hindle, Feeny, & Lacity, 2004) and competitive advantage gains (Drnevich, Brush, & Shanley, 2010; Willcocks, 2010). Firms generally make strategic outsourcing decisions (Holcomb & Hitt, 2007) using the predictive logics of the resource-based view (RBV) (Barney, 1991; Mahoney & Pandian, 1992) and/or transaction cost economics (TCE) (Williamson, 1975, 1991). These outsourcing decisions rely on the notions of ‘strategic resources’ from RBV and ‘asset specificity’ & ‘uncertainty’ from TCE as drivers of the sourcing decisions. However, recent research (Drnevich et al., 2010) examined the non-traditional, but increasingly common

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case of the use of IT to facilitate theoretically inconsistent outsourcing decisions involving (strategic) core firm resources and asset-specific capabilities (Henley, 2006), and offered extensions to prior theory to explain how IT can enable such outsourcing decisions and how performance advantages may ensue. However, the process and structural implications of such practices remain unexamined. Therefore, in this study, we review the process and structural implications of such outsourcing decisions and offer propositions for their performance implications. We do so to attempt to address some of the major under addressed research questions in this area: 1) What are the structures of IT-enabled outsourcing? and 2) How do firms realize performance benefits from these types of sourcing arrangements?

In this paper, we address these issues by focusing on this apparent new type of outsourcing, often enabled by IT (Drnevich & McIntyre 2010), which allows for the separate provisioning of elements of strategic knowledge resources and unique asset-specific capabilities between an organization and its service providers (Drnevich et al., 2010). Our contribution is to theorize and propose that process and structure of such outsourcing practices hold significant performance implications for the firm. We organize this paper as follows: 1) In the next section, we review and extend theory to develop propositions for the implications of the process and organizational structure of IT-enabled outsourcing, 2) We conclude by illustrating and discussing the implications of our propositions through several real-world case examples.

THEORY DEVELOPMENT

In this section, we illustrate three distinct approaches to IT-enabled BPO and KPO (Graf & Mudambi, 2005; Sen & Shiel, 2006) which appear to conflict with current theoretical arguments for outsourcing. We differentiate these approaches by the timing of when the outsourcing vendor takes ownership or responsibility for the activity associated with the knowledge resource or capabilities, and when and where any transformation of the activity takes place. We label these processes by the order of the initial activities that lead the outsourcing process, (e.g., transformation, transition, or a transfer of an organizational activity). Borrowing from commonly accepted consulting terminology, we term these three outsourcing processes as transform-transition, transition-transform, and transfer, based on the order and combination of outsourcing activities.

Transform-Transition Outsourcing Processes

In a *transform-and-then-transition* approach, the outsourcing vendor does not take responsibility for the knowledge content and knowledge administration components of the activity until they are first reengineered into "best practice" processes with measurable benefits. Such a transform-then-transition reengineering and outsourcing process is perhaps the most traditional and prevalent, and is reminiscent of the accepted organizational change and system integration consulting paradigms commonly observed in organizations over the past several decades. In this approach, the organization continues to conduct the activities internally, while simultaneously working with the outsourcing vendor to transform the activities first. Once reengineered to a mutually agreeable future-state, the organization transitions the responsibility for the organizational knowledge capability to the outsourcing vendor.

Transforming the knowledge and capability prior to the transition to the outsourcing vendor ensures that the output of the transformed process conforms to the specific needs of the client (versus the specific needs of the outsourcing vendor) while also facilitating an easier transition process (through restructuring and pre-alignment towards the outsourcing vendor's infrastructure). This approach facilitates fairly rapid benefits realization for the client organization, while ensuring the delivery of a consistent and specific product from the vendor.

However, because the organization continues to be responsible for both knowledge content and administration activities throughout the transformation period, they delay the benefits related to retiring or transferring assets associated with the knowledge and capability from their balance sheet. Further, as the transformation occurs at the client's location, with their participation, the process is likely more costly than if the vendor conducted the transformation at their location, with their personnel, in the absence of extensive client interference.

Whether the transformation of the activities occurs prior to or following the transition of the activities to the outsourcer can have significant implications for the client. We proposed previously that the client should maintain control of strategic and proprietary knowledge content within the organization, while administration activities could be outsourced. Given this premise, we similarly suggest that for strategic (and likely proprietary) knowledge resources and capabilities, organizations should seek to first transform their knowledge resources and capabilities, prior to any transition or transfer to the outsourcing vendor. This approach is necessary to ensure that the output of the transformed process conforms fully to the client's interests (as opposed to the vendor's interests), and can continue to effectively (or more effectively) support the value creating functions in the organization which they underlie. While this may result in a higher transformation cost, as well as a slower transformation, and delay benefits realization, it is of critical importance that the firms not undermine any strategic capabilities during the transformation and transition processes.

Following the transformation of the knowledge and capability, organizations should consider transferring *content and administration* components for knowledge that is *not highly strategic or proprietary,* and the *administration* components for knowledge that is *highly strategic or proprietary* to the outsourcing vendor. If the organization outsources the appropriate types of knowledge resources and capabilities through this process, benefits can include improved performance and no loss of competitive advantage. Specifically, *transforming* strategic knowledge capabilities in the organization before *transitioning* their administrative components to the outsourcing provider should positively affect overall performance for the organization. Along these lines, we offer the following proposition:

Proposition 1: Transforming capabilities in the organization that contain strategic organizational knowledge, before Transitioning their administrative components to the outsourcing vendor, will positively affect the organization's competitiveness.

Transition-Transform Outsourcing Processes

In a *transition-and-then-transform* outsourcing and reengineering process, the responsibility for the knowledge and capability transitions immediately to the outsourcing vendor. In this approach, the client organization first transitions (outsources) to the outsourcing service provider, the staff and assets that are associated with the knowledge and capability. Following this transition, the outsourcing vendor usually transforms (reengineers) the transitioned activities into "best practice" capabilities, which they then deliver to the client over the term of the contract. However, in this process, the transformation takes place outside of the client's domain of control and/or influence, and relies on the vendor as the driver of the transformation. Thus, the transformation decisions maximize the benefit for the vendor (while meeting the minimum terms of the service level agreement for the client). Therefore, this outsourcing process is disadvantageous for the client if strategic knowledge resources and capabilities are involved. This is because the vendor's transformation of the capability will not focus on maximizing the client's needs, and therefore the transformed capability will be less than optimal for the client. However, if the output of the transitioned and transformed capability is not of strategic importance to the organization, then the lower costs and the reduced time to benefits realization of this approach make it more advantageous than transforming prior to transitioning for non-strategic knowledge resources and capabilities. Given these issues, outsourcing using this approach ideally should include either the content and administration components of non-strategic and non-proprietary knowledge, or only the administration components of proprietary knowledge.

Specifically, in terms of client organization benefits, this approach should facilitate more rapid realization of benefits related to soft-dollar (SD) operational savings, as well as balance sheet benefits from the write-off of any outsourced assets. However, if this outsourcing process involves strategic knowledge resources and capabilities, then transitioning knowledge content and knowledge administration components, without first transforming them, (i.e., relying on the outsourcing vendor to restructure and transform the process), should diminish or undermine the benefits realization for the client organization. Therefore, while this approach should reduce operational expenses and improve the organization's cash flows in the short-term, if it involves strategic knowledge resources and capabilities, it is unlikely that such savings will offset the longer-term negative performance implications associated with a lack of pre-transformation of the activities, or a misalignment of the delivered services over the contract period. Thus, as long as strategic knowledge resources and capabilities are not involved, *transitioning* non-strategic capabilities to the outsourcing provider, then *transforming* them, should positively affect overall performance for the organization. Along these lines, we offer the following proposition:

Proposition 2: Transitioning capabilities to the outsourcing provider that contain non-strategic knowledge content and administration, before transforming them, will positively affect the organization's competitiveness.

Transfer Outsourcing Processes

As with a transition-then-transform approach, in the *transfer* approach to outsourcing and reengineering we observe a *Transfer*, (outsourcing) of the responsibility for the organizational knowledge resources and capabilities to the outsourcing vendor. However, this approach involves the outright sale of a set of the client organization's existing knowledge, capabilities, and related assets to the outsourcing vendor. The outsourcing vendor then absorbs and transforms the activities into its current operations, and then sells the services back to the client organization. This approach is similar to traditional sale/leaseback arrangements in concept and practice.

The advantage of the *Transfer* approach for the client organization is that they receive 'hard-dollar' cash (or other tangible) compensation for the transferred knowledge, capabilities, and related assets. In the short term, these proceeds from the sale should more than offset the benefits lost from not transforming the activities. However, given the lack of a transformation process prior to the transfer, and the inclusion of both content and administration knowledge components in this approach, if strategic or proprietary knowledge are involved, long-term performance of the client organization should be significantly more at risk than in other approaches. Therefore, *transferring* knowledge capabilities to the outsourcing provider that contain non-strategic or non-proprietary knowledge content and administration should positively impact short-term performance, while also avoiding negative long-term implications for the client organization. Therefore, based on our conceptual and theoretical expectations of this outsourcing process we offer the following proposition:

Proposition 3: Transferring capabilities to the outsourcing provider that contain non-strategic and/or non-proprietary knowledge content and administration will positively affect the organization's competitiveness.

CASE ILLUSTRATIONS OF OUTSOURCING PROCESSES AND STRUCTURES

Transform-Transition Case Illustrations

Case illustrations of the *transform-and-then-transition* outsourcing process involve two large-scale outsourcing projects. Collectively, both cases illustrate how organizations first transform knowledge resources and capabilities at the client site, and then later transition them to the outsourcing service provider. The first case involves the State of Florida contracting with outsourcing service provider, Convergys, to transform and then transition the employee services activities for the State of Florida (Stone, 2002). In this case, proprietary knowledge is involved and as we propose, only its administration components are outsourced. However, since largely only administration components were involved in this case, we would propose that this is not likely the optimal outsourcing process for this case. The second case involves American Express contracting with outsourcing service provider, Mellon Financial Corporation's HR Solutions business unit, to assist in first transforming, then transitioning their compensation and employee policies, payroll administration, learning systems, and other employee services (Adams, 2002). In this case, both strategic and proprietary knowledge are involved, but contrary to what we propose, both content and administration components are outsourced. Therefore, we would propose that outsourcing strategic and proprietary knowledge content in this case will not produce the optimal results.

State of Florida and Convergys

Convergys Corporation provides integrated customer care and billing services to companies involved with telecommunications, cable and broadband, technology, financial services and next-generation services, around the world (Datamonitor, 2008). In a project for the State of Florida, Convergys engaged in a seven-year, $280 million project to outsource the employee care services for approximately 200,000 state employees (Stone, 2002). The scope of this project includes human resources, benefits and payroll administration, recruiting, and training services for the state. The state expects the project to greatly improve service delivery, as well as provide approximately $173 million in soft dollar savings over a seven-year period, beyond the costs of the project (i.e., $350 million gross savings from the transformation and transition process) (Stone, 2002).

Convergys approached the project initially as a consulting engagement to help the state transform and consolidate their activities. Following this transformation, Convergys established employee care service centers to which they planned to transition the support activities. In doing so, Convergys' Employee Care division designed a comprehensive approach to manage employee relationships better, improve satisfaction and loyalty, and reduce overall operating costs for the State. The transformation activities included integrating web-based employee service technologies with traditional channels such as telephone, fax, mail, and interactive voice response systems. These services supported HR activities such as benefits administration, payroll administration and processing, learning administration, recruiting, and staffing activities.

This case illustrates the transformation of largely administrative components of proprietary knowledge resources and capabilities (human resource and benefits administration) at a client (State of Florida), which the client later transitions to the outsourcing service provider (Convergys). The overall project included a cost to the client of $280 million and should generate approximately $350 million in operational efficiency savings (Stone, 2002). Given that the state retained control of much of its proprietary knowledge content (i.e., confidential employee information, records, etc.), and outsourced the administration of these processes, we would not expect the outsourcing project to result in any negative consequences or risks to the state.

However, as the outsourcing process involved a lengthy and complicated transformation process at the client sites, and then a later transition to the outsourcing service provider, the project likely occurred at much higher expense to the client, than if the opposite had been the case. Specifically, given that strategic and/or proprietary content was not involved, and the output of some or all of the outsourced processes were not critical to daily operations for the state, it may have been more cost effective, for the activities to be transitioned first to the service provider, and then transformed. This approach would likely have provided a quicker time to benefits realization, and a significantly lower transformation cost to the client.

American Express and Mellon Financial

Mellon Financial is one of the world's leading financial services providers to corporations, institutions and individuals (Datamonitor, 2008). American Express is one of the world's largest financial services firms and specializes in the provision of travel services, financial advisory and international banking services worldwide (Datamonitor, 2008). In this case, American Express contracted with Mellon Financial Corporation's HR Solutions business unit to help transform their compensation and employee policies, payroll administration, learning systems, and other employee services (Adams, 2002). Mellon then transitioned the activities to its infrastructure-hosting environment. Service delivery following transformation includes a full HR services bundle, (i.e., compensation and employee policies, payroll administration, learning systems and other employee services) delivered online to American Express's offices worldwide. The delivery involves Mellon HR Solutions providing web-based employee and manager self-service applications, and call center customer service support, for comprehensive HR and payroll management services, benefit administration, and learning management services. This outsourcing arrangement enhanced employee and management satisfaction with HR services through improved quality and accessibility at reduced expense to American Express. It also ensured higher, but externally managed, data privacy and security. Benefits from the project to American Express include allowing internal HR resources to focus on core strategic activities to support growth while containing costs.

This case illustrates the transformation of both content and administrative components of strategic and proprietary knowledge resources and capabilities (human resources, benefits administration, training, operating policy, etc.) at the client (American Express) which the client later transitions to the outsourcing service provider (Mellon). The overall project includes significant (unpublished) costs to the client, but generates extensive operational efficiency savings, as well as frees up financial and human resources for redeployment to more strategic applications. In this case the client gave up ownership and control of some of its strategic and proprietary knowledge content (i.e., confidential employee information, records, broker and analyst training, operational policies, etc.), and outsourced both the content and administration of these processes. Therefore, based on our propositions, we expect this outsourcing project to result potentially in negative consequences for the client organization. This outsourcing process also involved a lengthy and complicated transformation process at the client sites, and then a later transition to the outsourcing service provider. Yet, given that strategic and proprietary knowledge content was involved in the project, based on our propositions, this transformation-and-then-transition approach was necessary in order to ensure the process re-engineering continued to support the client's needs. Specifically, given that some outsourced processes were of a strategic nature, the output of these processes was critical to daily operations for the client.

Transition-Transform Case Illustrations

Observations of the *transition-and-then-transform* approach to the outsourcing process in practice are more prevalent and involve two cases in our sample. The cases involve outsourcing service provider Exult with two of their clients, International Paper and McKesson. Both cases illustrate the *transition-and-*

then-transform approach to the outsourcing process. The first case observation of Exult and International paper involves a ten-year HR services agreement, which includes proprietary learning services for International Paper's employee base (WhatTheyThink, 2001). These services include training administration, learning services, and call center support for the training activities. This case involves the administration of proprietary knowledge, which is in line with our propositions. Therefore, we would propose that using this outsourcing process in this case should produce the optimal results for the organization. The second case observation of Exult and McKesson Corporation involves an outsourcing agreement to provide recruiting administration, learning services, and healthcare service contact centers (GlobeNewswire, 2003; HRO Today, 2008). As this case also involves proprietary knowledge administration, in line with our propositions, we also propose that using this outsourcing process, in this case, should produce the optimal results for the organization.

International Paper and Exult

Exult, Inc. was a service company that provided business process management solutions designed to help multi-national corporations manage their HR functions (Datamonitor, 2008). International Paper Company (IP) is the world's largest paper and forest products company with interests in building materials, printing, packaging, and chemical production (Datamonitor, 2008). They had a workforce of about 83,000 employees and outsourced much of its HR administration functions. This outsourcing agreement between Exult and International Paper offers an example of the *transition-then-transform* approach to the outsourcing process.

This project involved an $85 million expansion of Exult's ten-year, $600 million HR services agreement from 2001 to include learning services for 70,000 International Paper's employees (WhatTheyThink, 2001). Some of the services included in the expansion of the outsourcing contract included training administration, learning services, and call center support for the training activities. This was the second expansion of the original agreement (an initial prior expansion in 2002 added flexible staffing services). Collectively, with the expanded contract, Exult provides transactional and administrative HR processes to International Paper and allows them to focus resources and capabilities on more important competitive activities. The project began with the transitioning of administrative functions for International Paper's knowledge capabilities to Exult's multi-client infrastructure. Exult then transformed these capabilities to better align with their existing infrastructure and client services delivery model. This case illustrates our arguments and propositions in that using a *transition-and-then-transform* approach in this example, reduced costs for both International Paper and Exult by accelerating asset transition and redeployment with reduced transformation time. The project provided improved services at reduced costs to International Paper through self-service efficiencies (improving operational efficiency) and reduced costs through economies of scale and scope. In turn, this arrangement further improved International Paper's HR administrative processes and reduced their overall operating costs.

This case illustrates how the administrative components of proprietary knowledge (HR and Training administration) were first transitioned to the outsourcing service provider (Exult), and then transformed by that service provider for more efficient delivery of the service to the client (International Paper). Specifically, as strategic knowledge was not involved in this project (they outsourced only the administration of proprietary and/or the content and administration of non-strategic organizational knowledge), it appears to makes sense for International Paper to utilize this outsourcing approach. Specifically, by transitioning first, International Paper can write-off, reduce, and/or redeploy the assets associated with the outsourced capabilities, providing short-term performance benefits. Secondly, by allowing the vendor to transform the outsourced capabilities following the transition, the transformation process occurred more quickly and at lower cost, benefiting both the client and vendor. Further, as none of the outsourced capabilities were strategic (i.e., not a source of competitive advantage to the client), and by allowing the vendor to transform the outsourced capabilities, the end result is a higher quality process output, at a lower cost, for International Paper, by using this outsourcing process.

McKesson and Exult

Another Exult project utilizing this approach and the same, multi-client infrastructure involved McKesson Corporation (GlobeNewswire, 2003; HRO Today, 2008). McKesson is a health care management company, which provides supply and information management solutions through three operating segments, pharmaceutical solutions, medical-surgical solutions, and information solutions (Datamonitor, 2008). In this case, Exult signed a five-year contract in 2003 with McKesson Corporation (which was recently extended) to provide recruiting administration, learning services, and healthcare service contact centers (GlobeNewswire, 2003; HRO Today, 2008).

This outsourcing project involved McKesson first transitioning recruiting, training, and customer service operations to Exult. Exult then transformed these processes to fit its multi-client infrastructure, and then provided these services to McKesson going forward. Some of the specific processes outsourced include HR benefits and information support, recruiting services for 30,000+ new hires per year, and IT-enabled Enterprise Learning Services to provide administration and registration services for 200,000 trainees per year (GlobeNewswire, 2003; HRO Today, 2008). This outsourcing project delivers high quality healthcare services and patient care with reduced costs through streamlined processes. McKesson's upper management viewed this outsourcing arrangement as a key competitive strategy to facilitate improved services for internal clients, while enabling them to focus on more strategic aspects of their operations. This outcome relies on Exult to deliver cost effective recruiting and learning technologies to McKesson's managers and employees.

This case illustrates the transition of administrative components of proprietary knowledge resources and capabilities (e.g., recruiting activities, customer contact, relationship management, and training administration) to the outsourcing service provider (Exult), and then their transformation by the vendor for more efficient delivery to the client (McKesson). Specifically, as strategic knowledge resources and capabilities were not involved in this case (they outsourced only the administration of proprietary and/or the content and administration of non-strategic organizational knowledge), it makes sense for McKesson to utilize this outsourcing process. By transitioning the knowledge resources and capabilities first, McKesson can write-off, reduce, and/or redeploy the assets associated with the outsourced capabilities, providing short-term performance benefits. Secondly, by allowing Exult to transform the outsourced knowledge resources and capabilities following the transition, the transformation process can occur more quickly and at lower cost, benefiting both the client and vendor. Further, allowing the vendor to transform the outsourced capabilities, results in a lower cost capability for McKesson from this outsourcing process.

Transfer Case Illustrations

Observations of the transfer outsourcing process in practice include two cases. These cases involve two organizations, Avaya Communications and Procter & Gamble, and two different outsourcing service providers, Accenture and IBM. Both cases illustrate the *transfer* approach to the outsourcing process. The first involves Avaya Communications contracting with outsourcing service provider, Accenture, to deliver web-based training to Avaya employees, customers, and business partners (Whitney, 2005; Avaya, 2008). In this case, some proprietary knowledge is involved, but contrary to our propositions, both content and administration components are outsourced.

Thus, since proprietary knowledge content and administration components were involved in this case, we would propose that this approach is not likely the optimal outsourcing process for this case. The second case involves Procter & Gamble contracting with outsourcing service provider, IBM Global Services, for HR and business transformation outsourcing services (Frauenheim, 2003; IBM, 2008). In this case, strategic and proprietary knowledge appears to be involved, and contrary to our propositions, both content and administration components are outsourced (Frauenheim, 2003; IBM, 2008). Thus, since strategic and proprietary knowledge content and administration components were involved in this case, we would propose that this is also not likely the optimal outsourcing process for this case.

Avaya and Accenture

The outsourcing service provider in this case, Accenture, is a global management consulting, technology services and outsourcing company (Datamonitor, 2008). The client, Avaya, is one of the largest providers of communication systems, applications, and services and offers a wide variety of secure communications products (Datamonitor, 2008). This example of the *Transfer* approach to the outsourcing process involves an Accenture contract with Avaya, Inc (Whitney, 2005; Avaya, 2008). Through this agreement, Accenture assumed the responsibilities for the delivery of all web-based e-learning and classroom-based training to Avaya employees, customers, and business partners.

This project included transferring the staff and management of Avaya's 'University' as well as all associated learning development, delivery, and operations management functions. As part of the outsourcing arrangement, Avaya transferred more than 200 employees to Accenture. The project expanded the reach of Avaya's training offerings to a larger audience while improving delivery efficiency and quality at reduced costs. Other benefits included the ability to update content and course materials quickly, the capacity to rapidly deploy training around new and existing products, technology and services, the use of a single point of registration for global course offerings, and a significant reduction in time and money spent for travel. Avaya's objective in this arrangement was to strategically enhance its service capabilities to allow it to better focus managerial attention and organizational resources on core businesses activities to accelerate cost cutting and restructuring initiatives.

This case illustrates the transfer of content and administration components of proprietary knowledge (training content development, delivery, and administration) to the outsourcing service provider (Accenture), who then provides the services to the client (Avaya) over the term of the contract. Specifically, through using this outsourcing process, Avaya was able to sell off assets and reduce liabilities upfront, increasing their short-term performance. However, as both content and administration components of proprietary knowledge resources and capabilities were involved in the outsourcing, based on our arguments and propositions, we expect this case may result in decreased longer-term performance and competitive advantage. Specifically, loss of control of proprietary knowledge content, over time, should theoretically offset the initial and ongoing financial and operational benefits of the transfer. Thus, we would argue that a *transition-transform*, or a *transform-transition* (if any strategic knowledge was involved) process, would have been a more effective outsourcing approaches for this case.

Procter and Gamble and IBM

This case provides another example of the *Transfer* approach to outsourcing process. In this case, the outsourcing service provider, IBM Global Services, is a division of International Business Machines (IBM) that provides computer and internet related IT, professional, product support and network services (Datamonitor, 2008). The client in this case, Procter & Gamble Company (P&G), is one of the world's leading manufacturers and marketers of consumer products (Datamonitor, 2008). This arrangement between IBM and Procter & Gamble, involved a ten-year, $400 million global agreement with IBM for HR and business transformation outsourcing services (Frauenheim, 2003; IBM, 2008).

In this case, Procter & Gamble contracted with IBM to have them take over the support for approximately 100,000 Procter & Gamble employees in 80 countries (Frauenheim, 2003; IBM, 2008). Some of the services involved in the agreement include payroll processing, benefits administration, compensation planning, expatriate and relocation services, travel and expense management, and HR data management. As part of the arrangement, IBM also provides application development and management of Procter & Gamble's HR systems, including Procter & Gamble's SAP implementation and employee portal. The project involves the transfer of approximately 800 Procter & Gamble employees to IBM. As part of the project, IBM took operational responsibility for three Procter & Gamble HR shared service centers as well as all related distributed field personnel which were later integrated with IBM's existing service centers. Procter & Gamble's interest in the arrangement is in using outsourcing as a tool to drive strategic value, increase flexibility, and create dynamic capabilities through allowing its employees to focus on the organization's objectives and core competencies. Through this agreement, Procter & Gamble improved services and reduced HR costs through process transformation, IT integration, and best practices adoption, as well as improved managerial decision-making through real-time access to reporting information.

This case illustrates how the content and administration components of some strategic and proprietary knowledge resources and capabilities were transferred to the outsourcing service provider (IBM), who then provided the services, to the client (Procter & Gamble) going forward. Through using this outsourcing approach, Procter & Gamble was able to sell off the assets of the transferred capabilities to IBM and reduce its liabilities upfront, increasing short-term performance. However, as both content and administration of strategic and proprietary organizational knowledge appear to be involved in the outsourcing agreement, based on our arguments and propositions, this case should result in decreased longer-term performance and competitive advantage for Procter & Gamble. Specifically, the loss of control of strategic and proprietary organizational knowledge content, over time, will likely offset the initial and ongoing financial and operational benefits of the transfer (sale of the knowledge, capabilities, and assets). Thus, we would argue that a *transform-transition* approach might have been a more effective outsourcing approach for this case.

DISCUSSION

In this section, we discuss the performance implications of the outsourcing strategies, processes, and structures illustrated in the six case examples in the prior section. Through these cases, we observe a variety of issues and potential implications based upon the types of knowledge, the outsourcing process, and the resulting organizational structure. These implications have a strong basis in the theoretical arguments developed by Drnevich et al. (2010). These theoretical arguments suggest that organizations that outsource *strategic* and/or *proprietary* types of knowledge should likely *outsource only administration* components of the knowledge to avoid decreasing performance (Drnevich et al., 2010). If strategic knowledge content and administration components are involved, organizations should *first transform* the capabilities prior to outsourcing in order to maximize the performance benefits and minimize adverse affects on performance competitive advantage. Organizations that transfer knowledge, capabilities, and associated assets should experience increased performance in the short-term, but if the transfer involves strategic and/or proprietary knowledge content, they are likely to experience decreased organizational performance over longer time periods. Collectively, through outsourcing based upon this theorizing, organizations engaging in IT-facilitated outsourcing activities may improve their performance without diminishing their competitive advantages. A general overview of these collective propositions for outsourcing

Table 1. Overview of outsourcing proposition extensions for process and structure

Knowledge Dimension		Knowledge Component		Outsourcing Process
Strategic	→	Administration only	→	Transform first
Proprietary	→	Administration only	→	Transition first
Not Strategic or Proprietary	→	Administration & Content	→	Transfer

by knowledge type and outsourcing process is in Table 1.

To show how the six cases illustrate these propositions, we provide a synopsis of the case observations in Table 2. This overview includes the outsourcing process, the client and service provider, the types of knowledge outsourced, and the organizational benefits and costs for each of the cases. The outsourcing process refers to whether the process begins with a transformation, transition, or transfer of the client's organizational knowledge, capabilities, and assets. The knowledge dimension refers to whether strategic and/or proprietary knowledge is involved in the case. The knowledge component refers to whether the administration and/or the content of organizational knowledge are involved in the case. We list the benefits in terms of hard dollar (HD) or soft dollar (SD) savings in relation to the outsourcing approach, and the types of knowledge involved in each case example. Hard dollar savings refer to actual realized cost benefits realized by the client at the onset of the outsourcing arrangement, whereas soft dollar savings refer to expected cost benefits from reduced future expenses and/or increased benefits over the course of the outsourcing relationship. The costs, when available, refer to the cost (or projected cost) of the project in millions of U.S. dollars ($).

In proposition 1, we argued that *transforming* capabilities in the organization that contain strategic organizational knowledge, before *transitioning* them to the outsourcing provider, will positively impact the competitive advantage of the organization. Thus, the American Express / Mellon Financial case provides an example of an organization transforming capabilities that contain strategic or proprietary organizational knowledge, and then transitioning the capabilities to the service provider, which illustrates this proposition and its potential implications. Here, given that knowledge content was involved in the American Express / Mellon Financial case, the transform/transition outsourcing process appears appropriate.

In proposition 2, we argued that *transitioning* capabilities to the outsourcing provider that contain non-strategic knowledge content and administration, before *transforming* them, will positively impact the competitive advantage of the organization. Thus, the International Paper / Exult, and the McKesson / Exult cases provide examples of firms who first transition capabilities that contain only proprietary organizational knowledge to the service provider, and then transform the capabilities. These cases illustrate this proposition and its potential performance implications, as strategic knowledge content was not involved in the outsourcing process. Given that both the International Paper and McKesson cases appear to outsource only the administrative components of proprietary knowledge, the transition/transform outsourcing process appears appropriate.

In proposition 3, we argued that *transferring* capabilities to the outsourcing provider that contain non-strategic and/or non-proprietary knowledge content and administration would positively affect the competitive advantage of the organization. Thus, the Avaya / Accenture, and the Procter & Gamble / IBM cases provide counter examples of firms transferring capabilities that contain strategic or proprietary organizational knowledge to the service provider. Here, given that proprietary organizational knowledge was involved in the Avaya / Accenture case, a transition/transform outsourcing process may have been more appropriate than the transfer process they utilized. Likewise, given that strategic

Table 2. Overview of the outsourcing case observations

Outsourcing Process	Client	Service Provider	Knowledge Dimension	Knowledge Components	Benefit	Cost
Transform/Transition	State of Florida	Convergys	Proprietary	Administration	SD	$280M
Transform/Transition	AMEX	Mellon	Strategic & Proprietary	Content & Administration	SD	NA
Transition/Transform	Intl Paper	Exult	Proprietary	Administration	SD & HD	$600M
Transition/Transform	McKesson	Exult	Proprietary	Administration	SD & HD	NA
Transfer	Avaya	Accenture	Proprietary	Content & Administration	HD & SD	NA
Transfer	P&G	IBM	Strategic & Proprietary	Content & Administration	HD & SD	$400M

NA = not applicable / SD = soft dollar benefits / HD = hard dollar benefits

and proprietary organizational knowledge was involved in the Procter & Gamble / IBM case, a transform/ transition outsourcing process may have been more appropriate than the transfer process they utilized.

In regards to the observable and/or expected performance results for the six case observations, we offer an overview of the analysis of our case observations in Table 3. We list the types of knowledge outsourced in conjunction with the outsourcing process utilized. The process observed in the case is marked with an "X," whereas the expected process based on our propositions is marked with an "E" where it is different from the observation. We also show the change in revenue and operating costs (positive increase or negative decrease) for the clients between 2002 and the end of fiscal year 2004 as a means of illustrating the current performance of the clients following the implementation of the outsourcing projects.

In this section, we discussed how the process of outsourcing, and the resulting organizational structures, could hold implications for the organization. While the results of the analysis depicted in Table 3 are admittedly subjective and illustrative, they are suggestive of the fact that the implications of this type of IT-enabled outsourcing and the various processes, through which it may occur, may vary and can hold performance implications for the organizations involved. While the performance results we depict in Table 3 may not be directly statistically attributable to the variation between the outsourcing practices in our cases and our propositions, the observations are nonetheless intriguing. Thus, these observations may serve as motivation for a more rigorous empirical examination of the theory and propositions developed in this study.

CONCLUSION

In this paper, we explored the process and structural implications of the practice of outsourcing strategic resources and asset specific capabilities. We leveraged recent arguments that this type of outsourcing, in part due to advances in IT, now allows for the separation of knowledge resource content from its management, administration, and delivery capabilities, as well as traditional scale and scope efficiency benefits of reengineered and centralized capabilities (Drnevich et al., 2010). Such outsourcing practices appear to challenge traditional theoretical explanations from competence (e.g., Resource- and Knowledge- based views) and governance (TCE) perspectives for sourcing decisions. We extended theory and developed propositions for the process and structural implications of outsourcing under these conditions. Our premise is that the processes by which they can outsource, and the organizational structures through which they can outsource have changed - which can hold substantial performance implications for the organization.

We combined prior theory and research approaches by extending current competence and

Table 3. Analysis of the outsourcing case observations

Case Illustration	Knowledge Dimension	Knowledge Component	Transform	Transition	Transfer	Revenue Change	Cost Change
Florida	Proprietary	Administration	X	(E)		+	-
AMEX	Strategic and Prop	Content & Administration	X			+	-
Intl Paper	Proprietary	Administration		X		+	-
McKesson	Proprietary	Administration		X		+	+
Avaya	Proprietary	Content & Administration		(E)	X	-	+
P&G	Strategic and Prop.	Content & Administration	(E)		X	+	-

governance perspectives to explore the nature and process of outsourcing. We addressed some of the major unanswered research questions in this area including: 1) What are the structures of IT-Enabled outsourcing? and 2) How do firms realize performance benefits from these types of sourcing arrangements? Through exploring these questions, this paper contributes to our understanding of IT-enabled outsourcing decisions and offers contributions for theory, practice, and research on outsourcing strategy, structure, and processes. We hope that by doing so, our work may motivate others to continue to explore avenues in both research and practice improve the strategic role of IT-enabled services outsourcing (Willcocks, 2010).

EPILOGUE

In 2004, Hewitt announced that it was making an all-stock deal to merge with Exult. The deal created the largest BPO provider in the HR BPO space providing a range of services and technology from benefits administration to full HR outsourcing and transformation capabilities. In 2005, Mellon Financial Corporation announced the sale of the Human Resources consulting and outsourcing businesses of its Human Resources & Investor Solutions (HR&IS) sector to Affiliated Computer Services, Inc. (ACS). In 2010, Northgate/Arinso acquired the HRM division of Convergys.

In reflecting on the propositions and cases in this paper nearly a decade later as some of the dust has now settled, we observe that declining economic conditions following the 2008 financial crisis have hit the HR outsourcing (HRO) space hard. In particular, the transform-then-transition approach has fallen out of favor because it requires so much "up-front" investment to both continue current operations and fund the creation of a transformed operation in parallel. In fact, the general trend is a move away from wholesale outsourcing into more "out-tasking" which is typically focused on a single silo of the HRO or training process instead of the entire value-stream. In such out-tasking, the client retained the strategic knowledge content elements and outsourced the more tactical or administrative elements of the value-stream. This approach tends to be more akin to the transfer then the transform approaches, but again, the scope of what is transferred is far narrower than previously expected or observed in these early cases. Further, the "transform" element of the process is now more about the vendor just using their best-practices to deliver tactical rather than strategic support. Currently, it is now very rare to see a multi-process BPO such as those observed in this study. Typically, there may be only a few each year these days. Now the vast majority of outsourcing is not even a large-scale single-process BPO, but rather, more like fractional-process outsourcing focused on the tactical delivery and not the strategic/knowledge elements. Some may even refer to the current scale of BPO engagements as "project work." However, it is not project work in that the BPO provider typically still has a multi-year contract to deliver the services and is expected to bring their best-practice expertise, tools, and processes to making the outsourced scope more efficient and cost effective.

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