Strategies for business process outsourcing: An analysis of alternatives, opportunities, and risks

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Chapter 1.20

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An Analysis of Alternatives, Opportunities, and Risks

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ABSTRACT

This chapter provides a comprehensive overview of business process outsourcing (BPO) strategies and analyzes related issues. The discussions in this chapter can serve as an aid to decision makers who face the great dilemma of whether to insource or outsource a process, and additionally how to handle outsourcing to offshore locations. While business processes themselves are activities that need to be performed ef. ciently, outsourcing them is essentially a strategic decision that can ultimately impact the competitiveness of the client firm. This chapter explores the risks and opportunities associated with the numerous strategies related to outsourcing and offshoring alternatives, business process migration, contracting and alliance building, the role of the vendor, the nature of the relationship, multiclient or multivendor relationships, infusing maturity and ushering transformations in business processes, locating required expertise and quantity of workers, and also utilizing on-demand software services from application service providers.

INTRODUCTION

In *business process outsourcing* (BPO), a client's business process is performed by a vendor. Certain business processes of the client are transferred over to the vendor, and the vendor's office then becomes the "back office" for the client's outsourced business processes. The vendors are given the responsibility to manage the client's business processes, such as call centers, emergency hotlines, claims management, helpdesks, data management, document processing and storage, financial services (banks and insurance), payroll, auditing, accounting, travel management systems,

various logistics and information systems services (Millar, 1994, as cited in Lacity & Hirschheim, 1995, pp. 4-5; Sparrow, 2003, p. 11). Hence, a BPO vendor needs to have the capability to provide consistent levels of customer service spanning across a range of services and businesses.

Though BPO has inherent risks, it also provides many benefits to the client. Apart from focusing on short-term cost savings and operational efficiencies, it is important that BPO be performed with a strategic mindset, whereby decisions are based on wider business context and help in gaining competitive advantages in the tough external environment (Sparrow, 2003, p. 8). For effective BPO, an organization should segregate its business processes into two broad categories: (1) the ones where its own core competencies are strong and which have strategic significance, and (2) those that can be performed better by a vendor (Adler, 2003, p.53). In most cases, business processes that represent the client's core competencies and have high strategic stakes are best performed in-house. In order to identify its *"core competencies,"* an organization needs to be very clear about where its own strengths lie and identify the processes that truly give the organization its business value. In order to identify processes that are "strategic," the organizations need to be able to identify processes that differentiate it from its competitors in the marketplace, or processes that gives it the competitive advantage (Porter, 1996).

Importantly, the market is dynamic where the demands and competition changes overtime and, therefore, the core competencies or the strategic nature of associated business processes may accordingly change. Hence, organizations also need to have a clear vision of their goals and future strategy in the dynamic marketplace and, accordingly, identify its business processes for outsourcing. Failure to do so can make an organization overly dependent on the BPO vendors for its core or strategic business processes, and it would effectively be at the mercy of vendors. The key here is to have complete power and control

over one's core and strategic business processes, while gaining maximum advantages out of the various vendors' strengths in noncore business processes. This chapter discusses the various alternative strategies that clients should consider while pursuing BPO.

STRATEGIES: BASICS OF OUTSOURCING AND OFFSHORING

Business Process Insourcing and Outsourcing

The two basic strategies in sourcing business processes are *insourcing* and *outsourcing.* While in *business process insourcing* a firm executes business processes on its own, in *business process outsourcing* (BPO) the client firm establishes a contractual relationship and hands over the responsibility of executing the business processes to a vendor. In other words, a company "insources" from within and "outsources" to an external company, that is, *outsourcing* is the sourcing of work across organizational boundaries.

- **Insourcing:** The business processes are performed by the client itself or a client entity (such as a subsidiary or an internal department).
- **Outsourcing:** The business processes are performed by a nonclient entity (such as a vendor/supplier).

When a firm decides to insource its business processes, there are two basic strategies: (1) the "OK as is" strategy where the client feels that it is running its business processes efficiently and satisfactorily, and hence the strategy is to simply continue with the status quo, and (2) the "fix and keep in-house" strategy where the client might be a bit unsatisfied with the efficiency of its in-house business processes, but believes that insourcing

the client site and suggest the necessary changes to infuse efficiency, and (3) consider building a *strategic-alliance* with a vendor who is an expert in executing the relevant business processes. Options (2) and (3) would need the imposition of strict controls that would prevent any compromise on the strategic importance or confidentiality associated with the business processes. And finally, it is suggested that if the business processes are *not of strategic importance* but the organization has *extremely high efficiency* in executing them, then the organization should consider setting up a subsidiary or spin-off that offers its expertise to other organizations in the external market.

It should be noted that firms rarely outsource "everything," and instead adopt a cautious and sensible approach of selectively picking out the business processes that it feels can be best performed by the vendors. This is discussed in the next section.

Strategy for Selective BPO

Is it a good strategy to outsource all business processes? Or is it better if they are all retained in-house? Well, it would be nice if the answers were as simplistic as the questions posed. The outsourcing decision is rarely an all-or-nothing approach. As discussed earlier, an optimum balance is reached between the number of business processes to be outsourced and the ones to be retained in-house. *Selective BPO* is the practice of outsourcing carefully selected business processes to vendors, while retaining the others in-house (Lacity, Willcocks, & Feeny, 1996, pp. 13-14). Clients often *outsource* the business processes that they feel can be better performed by a vendor, but prefer to keep select business processes in-house based on their own strengths and capabilities. This selective approach is based on an analysis of costs and benefits, technology/infrastructure availability, and human resource availability. *Selective BPO* shuns the all-or-nothing approach in favor of a smarter way of outsourcing that involves

careful judgment and discernment, and that meets the customer's needs while minimizing risks associated with total outsourcing approaches (Lacity et al., 1996, pp. 13-14). This widely recommended selective approach capitalizes on the strengths of both the client and the vendors.

Strategy for Offshore BPO: Going Global

Offshoring and Outsourcing Classi.cations

As described earlier, the client's business processes can be executed or managed by entities that are either internal (its own department, subsidiary, or captive center) or external (a vendor). In this world where globalization is having astounding effects on the way business is conducted, where exactly is the location where the client's business processes are being executed? When the client's business processes are being executed in the same country as that of the client, it is known as *onshore sourcing, domestic sourcing,* or simply *onshoring* (Chakrabarty, 2006b). On the other hand, if the business processes are being executed in a country that is different from the client's country it is known as *offshore sourcing* or *global sourcing* (Chakrabarty, 2006b). Hence, offshoring is the transfer of work across geographical boundaries. But then, the question arises whether the business processes are being executed by a client entity (such as a subsidiary or department) or a nonclient entity (a vendor)? Hence, the following possibilities arise (see figure-1):

- **Onshore-insourcing of business processes:** When both the client and the client-entity that executes the business processes (such as its own subsidiary or internal department) are located in the same country it is known as *onshore BPI* (business process insourcing) or *domestic BPI.*

Figure 1. Outsourcing and offshoring
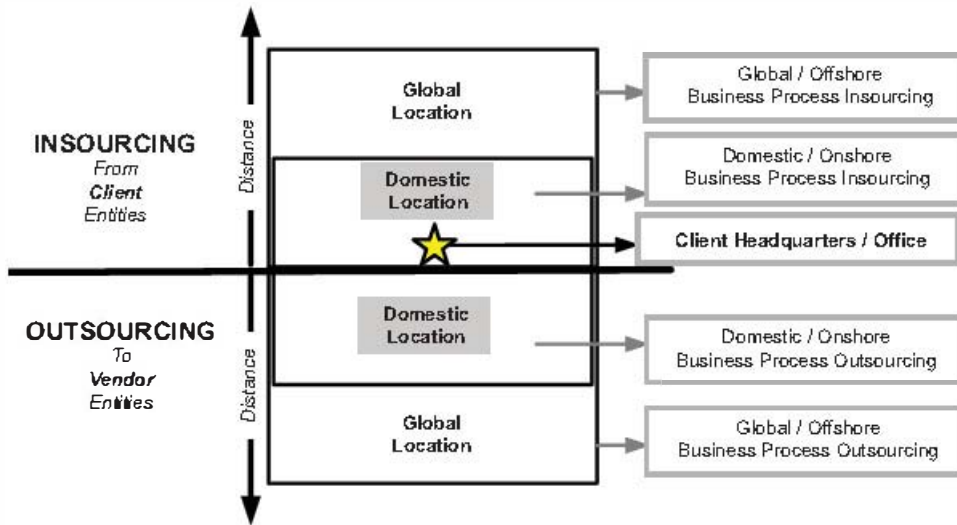
- **Offshore-insourcing of business processes:** When the client entity (such as a subsidiary, department, or captive center) that executes the business processes is located in a country that is different from the client's country it is known as *offshore BPI* or *global BPI*.
- **Onshore-outsourcing of business processes:** When both the client and the vendor that is executing the client's business processes are located in the same country it is known as *onshore BPO* (business process outsourcing) or *domestic BPO*.
- **Offshore-outsourcing of business processes:** When the vendor that is executing the client's business processes is located in a country that is different from the client's country it is known as *offshore BPO* or *global BPO*.

Why offshore Outsourcing is Gaining Prevalence

There are many reasons that are attributed to the growth of offshore BPO, and the major ones can be summarized as follows:

1. **Business processes can be executed round the clock:** By distributing the work globally across multiple time zones, business processes can be run 24×7. This can lead to a faster execution time in completing any business process cycle (Apte & Mason, 1995, p. 1252; Sinha & Terdiman, 2002) and also allow 24×7 management and supervising that is crucial for business processes. 24×7 services can be a competitive strategy for any client in today's global market.

2. **Cost savings due to high availability of cheap skilled labor:** The predominant cause for the offshoring trend is certainly the cost advantage derived out of the lower pay scales of skilled professionals and the lower cost of living in some developing countries such as India and China. The high supply of skilled labor in such countries boosts the low-cost advantage (Apte & Mason, 1995,

Table 1. BPO services

TCS (http://www.tcs.com/bpo/offerings.htm)	Infosys (Progeon) (http://www.infosys.com/bpo/services.asp, http://www.progeon.com/)	Wipro (http://www.wipro.com/bpo/index.htm)
Banking and Financial Services Payment Processing, Loans Processing, Securities Back-office Processing **Telecom** Revenue Assurance, Order Management, Digitization of Network Data, Network Service Provisioning **Healthcare** Clinical Data Management, Statistical Analysis **Travel and Hospitality** Revenue Accounting and Fare Audit, Fare Filing and Distribution, Ticketing & Reservation, Loyalty Program Administration **Insurance** New Business Acquisition support, Policy servicing, Claims Management, Distribution Administration	**Banking** Credit cards, retail lending, mortgage processing, retail banking and account management, cash management, trade services, lease and loan processing, investment banking **Securities Industry** Custody and Fund Administration, Brokerage, Asset Management, Investment Research **Insurance** Life & Pensions, General **Enterprise Services** Accounts payable, accounts receivable, GL and fixed asset accounting, Financial reporting, Sales order management and administration, Procurement Services, HR services **Telecom** Billing, Service Provisioning **Knowledge Services** Equity Research, Credit Analysis, Fixed Income Research, Bond Analysis, Economic Analysis, Industry analysis and Company analysis	**Customer Interaction Services** Customer Services, Telemarketing Services, Technical Support Services, IT Help Desk Services **Industry Administration Services** Insurance Processing, Mortgage Processing **Business Optimization Services** HR Processing Services, Finance & Accounting Solutions, Procurement Solutions **Knowledge Services**

The vendor's offices, where the client's businessprocessesare executed, are located worldwide (based on various factors such as availability of skilled manpower at low costs), and there is comprehensive networking with the latest telecommunications and collaborative technologies that allow seamless integration of business processes delivered from multiple locations and thereby providing economies of scale and scope. Hence,

the "*global delivery model*" is an offshore BPO model that takes advantage of the global talent pool to give the best value to the client in terms of cost and quality.

This section focused exclusively on offshore BPO. However, the strategies discussed throughout the remaining chapter apply to both domestic/onshore BPO and global/offshore BPO.

STRATEGIES FOR BUSINESS PROCESS MIGRATION

Strategy for Migration of Business Processes from Client to Vendor Site

It is interesting to note how some of the vendors are trying to convince the clients to take up the risk of BPO, and it also shows how very confident the vendors are in their ability to execute third-party business processes from a far-off location. For example, the Wipro Web site (http://www.wipro.com/bpo/methodology.htm) tries very hard to market the importance it lays on the smooth transfer of business processes from the client site to the vendor site:

For BPO projects, we follow the Wipro Service Delivery Model, which is a robustly defined framework to manage the complete BPO process migration and transition management and has been developed based on the experience gained from migrating more than 400 remote business processes to India over the past ten years. This proven service transfer platform is designed to ensure process integrity and minimize inherent migration risks. The model includes a tried and tested Transition Toolkit to support transition management by ensuring that there is a documented methodology with formats, tools, guidelines and past learnings in place to aid the transition team in de-risking the transition of a customer's processes and reducing the pain of migration as much as possible. A coordinated project management system captures critical client documentation and incorporates an extensive knowledge base that assists the transition management team in understanding, duplicating, and migrating mission-critical business processes.

The Infosys Web site (http://www.infosys.com/bpo/methodology.asp) gives a good overview of the steps and planning that goes into BPO from the vendor perspective. They provide the following step-by-step approach for BPO execution:

Step 1: "*Assessment – Build the case and ready the client organization for BPO.*"

Step 2: "*Transition – Migrate the processes after mapping processes, creating technology infrastructure and training resources.*"

Step 3: "*Parallel run – Phase out the process at the client (site) and put in place measures for ongoing tracking and monitoring.*"

Step 4: "*Steady State – Manage the process in the steady state – ensure continuity, and continuous quality and process improvement.*"

If a client chooses a vendor that has already been involved in a lot of BPO deals, then the vendor would already be aware of the better ways to migrate the business processes from the client site to the vendor site. However, most business processes are interlinked to other business processes, and (before outsourcing) all these business processes harmonize with each other like parts of a well-oiled machine. BPO is equivalent to dismantling some parts of this well-oiled machine, and then reassembling the removed parts back together in a different fashion. The risk here is that the client cannot afford to trust the vendor completely, and should remain alert on the approaches the vendor takes in transferring the business processes. The outsourced business process may be highly integrated with other business processes at the client site, and efforts must be made by the client to ensure that the *interfacing* between the in-house business processes and the outsourced business processes is satisfactory.

There is something more for the client to ponder about. The vendor takes proactive initiatives to make sure that the client is comfortable with BPO and that the transfer or migration of business processes occurs smoothly. But if someday the client decides to get these business processes back in-house, then would the vendor be as cooperative

in ensuring the effective and smooth transfer of the business processes back to the client site?

Strategy for Getting the Business Process Back In-House

What does an organization do when its wants to bring back in-house the business processes that it had previously outsourced? The term *"backsourcing"* was coined for this strategy (Hirschheim & Lacity, 1998). But why would an organization want to bring back business processes that it had previously decided to outsource? There can be a variety of reasons (Hirschheim & Lacity, 1998). On a positive side, it might be something that was actually planned during the initial outsourcing decision itself. For example, it is possible that the organization was going through a major transformation (Sparrow, 2003, p. 10), or needed a major realignment of processes, labor, or work allocation, and had therefore decided that some of its business processes could be temporarily outsourced during that period. On the other hand, the *backsourcing* may be an unplanned compulsion, such as the result of dissatisfaction from BPO experiences (for example, poor customer feedback, high overhead costs, breach of contracts or trust, or simply too many conflicts with the vendor), or as a result of certain business processes turning out to be more strategic and closely associated with the client's core competence than previously thought (irrespective of the performance of the vendor).

The process of bringing back previously outsourced business processes has its own risks and is a challenge for any organization (Hirschheim & Lacity, 1998). During the time the processes were outsourced, the client organization might have lost key resources (such as employees with relevant expertise, infrastructure, and tacit knowledge). Setting up the business processes again and integrating them back into the organization

would require significant investments of time, money, and effort.

STRATEGIES FOR CONTRACTING AND ALLIANCE BUILDING

Strategy of Linking Realization of Bene.ts from BPO to Payments

How can a client ensure that it would, in fact, receive the benefits from BPO being promised by the vendor's marketing team? What if the client does not receive the benefits being promised? One way to get over the dilemma is to contractually link the realization of the promised benefits from BPO to the payments. The contract would attempt to clearly define the specific expectations of the client organization from BPO, and the client would pay the vendor in proportion to the realized benefits. This has been termed as *business benefit contracting* (Millar, 1994, as cited in Lacity & Hirschheim, 1995, pp. 4-5), and it enables the sharing of risks by linking a client's costs to the realization of the expected benefits from BPO. Hence, well-defined client expectations can be embedded in the contract, and detailed evaluations of whether and how much the vendor actually contributed towards the client's performance would have to be carried out (Willcocks & Lacity, 1998, p. 26, pp. 30-31).

However, the major risk lies in not being able to come to mutually agreeable interpretations of the specific benefits or benchmarks that are linked to the payments. For example, the client may put across a pessimistic view of the benefits actually gained from BPO in order to reduce the amount of payments due to the vendor, while the vendor may put across an overly rosy scenario of the benefits gained by the client in order to get the highest possible payments from the client. With the vendor's revenue/profits from its clients

being linked to benchmarks, problematic disagreements on the benchmarks may emerge, and hence, due to the difficulties associated with the related measurements and negotiations "business benefit contracting" is difficult to adopt (Lacity & Hirschheim, 1995).

Strategy of Getting the Best BPO Deals with Innovative Contracts

In order to be competitive clients need to get the best out of their outsourcing relationships in terms of costs and value addition. For many of business processes that can be possibly outsourced, there are a plethora of vendors willing to bid for the contracts. It is important for clients to recognize that its bargaining power is probably the highest at the point of drafting and signing the contracts. Hence, the client should always be on the lookout for the best deals to satisfy its needs, and adopting the attitude of a hard bargainer or tough shopper in the contract formulation stage might be the right thing to do. Willcocks and Lacity (1998, pp. 32-33), for example, have discussed "creative contracting," which has ingenious practices, such as short term contracts, flexible pricing, competitive bidding for extra or value-added services, and so forth. By using short-term contracts (even if the intention is to have long-term relationships) the vendor can keep the vendor on its toes, and also renegotiate better terms every time a contract is renewed based on past experiences and future expectations. The risk here is that the vendor may be hesitant in making long-term investments (into manpower or infrastructure) for the outsourced business processes since it would be unsure about the renewal of the short-term contracts.

The client may also ask the prospective vendors the question: "what more can you give us apart from meeting our basic requirements?" In other words what would be the vendor's value addition? What can the vendor do to beat the client's expectations? Hence, the client can induce a competitive spirit among the prospective vendors to gain maximum value from BPO. Moreover, the client may also insist on pricing mechanisms that are flexible and that bring in the possibilities of rewarding the vendor for exceptional performances and penalize the vendor for below expectation performances.

Strategies for Sharing Ownership

Business benefit contracting, which was discussed earlier, is a method of sharing benefits and risks. However, its major deficiency lies in the difficulties involved in defining and measuring the specific benefits or benchmarks in the contract. Sharing of ownership might be a much more effective BPO strategy, and would eventually lead to risk sharing (see Figure 3).

A *strategic alliance or partnership* between a client and a vendor that ensures sharing of risks and rewards may be implemented in the following three forms: (1) contracts that specify clauses on sharing of risks and rewards, (2) creating a joint venture company that would perform the outsourced business processes, and (3) both the client and vendor hold shares or equity in each other (Currie & Willcocks, 1998, p. 124; Sparrow, 2003, p. 12; Willcocks & Lacity, 1998, p. 26, pp. 27-28). As discussed earlier, "business benefit contracting" is an effective risk sharing mechanism based on a contractual agreement linking realization of expected benefits to payments, and "creative contracting" can have pricing mechanisms that reward exceptional performances and penalize poor performances. However, given the difficulties in measuring specific benefits in a mutually agreeable manner, the *sharing of ownership* strategies through *joint ventures* or *share/equity holding* may be better alternatives.

When a client and vendor invest to form a *joint venture*, it truly honors their commitment and dedication towards the success of the BPO endeavor. If the joint venture fails to meet expecta-

Figure 3. Strategies for sharing ownership
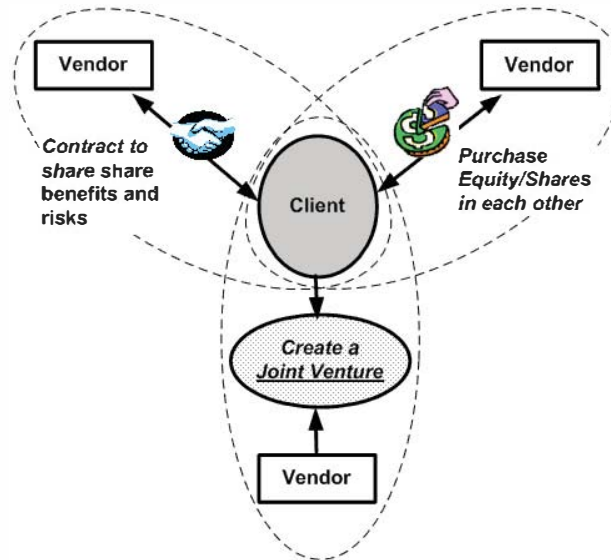
tions, it is a loss for both the client and the vendor. And similarly, when the joint venture performs well, it is a win-win situation for both the client and vendor. The resources (such as manpower, infrastructure, knowledge, etc.) for the *joint venture* organization can be provided by both the parties. This enables the client to gain access to the vendor's capabilities and skills, to reorganize and induce efficiency into business processes, and to gain new sources of revenue by offering the joint venture's services to the external market (Sparrow, 2003, p. 12). The client does not lose total control of the outsourced business processes since it would have invested in the joint venture, and at the same time it will be assured that the vendor would use its best expertise to bring in operational efficiencies (Currie & Willcocks, 1998). The vendor, on the other hand, would feel more secure and will be willing to invest more time and effort into the venture, since a joint venture is essentially a long-term relationship. However,

joint ventures can also fail due to various factors (Reuer, Zollo & Singh, 2002), and the client might have outsourced large amounts of business process work to the failed joint venture. Hence, the risk here is that the outsourced business processes and their contribution to the client's competitiveness would be at the mercy of the success or failure of the joint venture.

If the amount of business processes that need to be outsourced (or some other factor) does not justify the viability of a joint venture, can the ownership still be shared? An *equity holding* deal is the answer. In a share/equity holding deal, the client can purchase substantial equity in the vendor, thereby giving the client greater power and control in its relationship with the vendor.

The vendor may also take an equity position in the client, and that would ensure that both the client and vendor keep each other's interests in mind, thereby leading to a situation where risks and rewards are effectively shared through

ownership (Willcocks & Lacity, 1998, p. 26, pp. 27-28).

STRATEGIES ON THE ROLE OF THE VENDOR AND NATURE OF THE RELATIONSHIP

Strategy for BPO That Demands Client-Vendor Cooperation

What does an organization do when all the functions related to a particular business process cannot be outsourced? For example, though an organization may outsource its call-center or help-desk activities, it may still need to retain the technical staff that actually fixes the problems reported. There would need to be effective cooperation between the outsourced call centers/help desk and the in-house technical staff to address customer complaints. Hence, to a certain extent, the execution of such business processes would be done jointly by the client and the vendor, and it is known as *cooperative sourcing* (Millar, 1994, as cited in Lacity & Hirschheim, 1995, pp. 4-5). The risk lies in not being able to lay down effective protocols that would ensure high cooperation and easy conflict resolution. For example, in addition to the frequent meetings needed for building cooperation, it is also important to actually document the communications/decisions/schedules/plans made, and enable easy and quick access to such documentation whenever the need arises. Of course, tacit or intangible factors such as trust or personal relationships are very important in ensuring cooperation (Chakrabarty, 2006a). However, such formalization or protocols in the relationship encourages accountability and fixes responsibility, which can lead to better cooperation in executing the business processes.

Strategies for the Number of Clients and Vendors in BPO Relationships

A client may not be able to find a vendor with the capability to perform a wide array of business processes all by itself. In such a scenario, the client may decide to opt for specialized vendors, and the different business processes would be outsourced to the respective specialist vendors (Chakrabarty, 2006c). This is known *multivendor outsourcing* (Gallivan & Oh, 1999, pp. 1-6) or *multisupplier outsourcing* (Currie & Willcocks, 1998) or simply *multisourcing* (Willcocks & Lacity, 1998). Such a one-to-many outsourcing arrangement (one-client-to-many-vendors) would allow a client to engage multiple vendors for various business processes. Let us first discuss the case where *interdependent* business processes need to be outsourced to multiple vendors. For example, though the HR functions and payroll processes may be interdependent, the client may outsource HR-specific processes to one vendor and payroll processes to another vendor. Similarly, there might be other interdependent business processes that are outsourced. Since the processes are interdependent, the division of work and related contracts would be *jointly* negotiated, understood, and agreed upon by the client and *all* the involved vendors (Gallivan & Oh, 1999, pp. 1-6). This form of multivendor outsourcing, where the outsourced business processes are interdependent, would require *all* the vendors and client to cooperate and work together (Chakrabarty, 2006c). The risks would arise out of the difficulties in cooperation, and the need for timely and accurate exchange of information amongst the various vendors and the client. The client would have to take the lead in ensuring and verifying that there is proper coordination between the vendors and that the interdependent business processes are being executed harmoniously. On the other hand, the task probably becomes easier when the business

processes outsourced to multiple vendors are independent (that is, they are not interdependent). Such an example would be the outsourcing of financial services (banks and insurance) to one vendor, and travel/transportation management to another vendor. Here the client would not have to worry about coordination between the respective vendors.

Importantly, clients can sometimes take advantage of multiple vendors, competing in the marketplace, that provide services for the same business process. For example, there are multiple vendors that offer call center services. In such a scenario, the client can distribute chunks of the same business process to multiple vendors to safeguard against being overly dependent on a single vendor, and thereby negate the possibility of any vendor gaining complete power and control over the client's business process. The client can encourage competition among the vendors to provide the same business process at the best possible value and quality by using "short-term contracts" that are not necessarily liable for renewal with the same vendor. Hence, if a client engages two or more vendors for the same business process, it yields cost advantages due to intervendor competition, and also prevents the risk of a client firm being held hostage by a monopolistic vendor (Klotz & Chatterjee, 1995, p. 1317). Additionally, if the perceived risks associated with any business process are high, then the client can share the risks with the multiple vendors through various ownership sharing mechanisms (such as business benefit contracting, joint ventures, strategic alliances, and equity holding deals, which were discussed earlier).

Just like a single client can engage multiple vendors in a one-to-many relationship, multiple clients can also engage a single vendor in a many-to-one relationship (see Figure 4). In such a *multiclient* outsourcing relationship, multiple clients can pool their requirements and resources to form an alliance, and contract with a single vendor for joint delivery of certain generic business processes. For example, multiple clients can get together and jointly negotiate and bargain for the best possible deal from prospective vendors for all their payroll services. Hence, this leads to buyer economies of scale, increased client bargaining power, and risk sharing. Examples of such relationships have been found in information systems outsourcing, co-marketing, and R&D consortia (Gallivan & Oh, 1999, pp. 1-6).

Lastly, relationships can get even more complex with many-to-many relationships, aptly termed as "complex sourcing" (Gallivan & Oh,

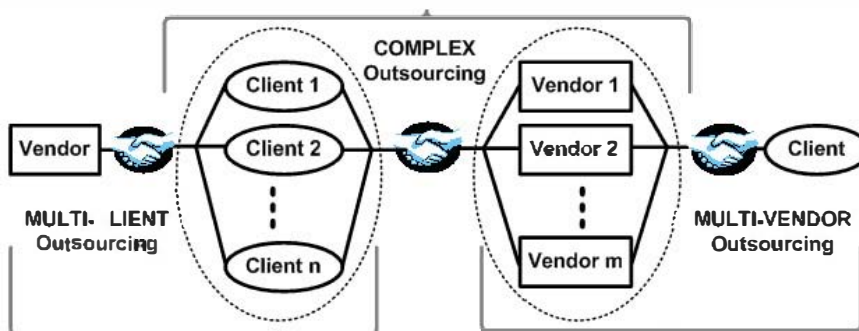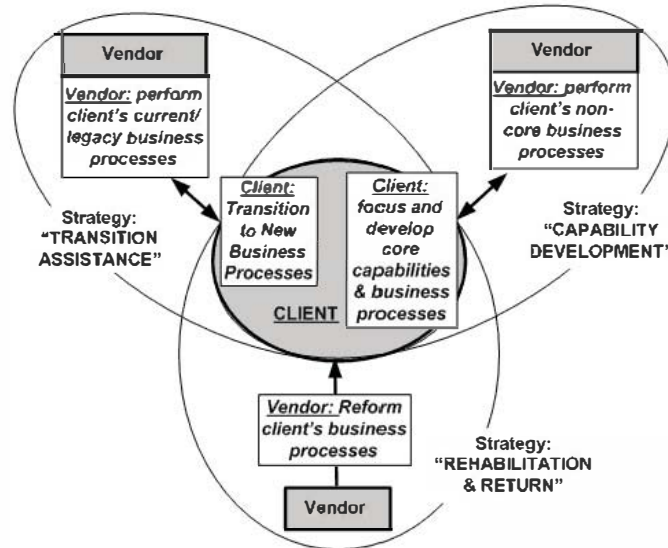*Figure 4. Number of clients and vendors in outsourcing*

Figure 5. Utilizing vendors while infusing maturity and ushering transformations


by making suitable recommendations and even implementing them, but it may not match the vendor's own efficiency levels.

In the second strategy of "transition assistance," the client attempts to transition to a newer set of business processes, and uses the assistance of a vendor in various ways during this transition. Here, the client's existing business processes are in good enough shape, but a decision might have been made to changeover to a newer set of business processes. For example, business processes with newer technologies are continually adopted in response to the changing market dynamics. Such a situation demands that while the newer processes are being adopted by the client personnel, the current processes cannot be completely discarded, and need to be kept running during the transition period. Hence, while the client personnel adopt, learn, and transition to the new business processes, the vendor personnel would take the responsibility of keeping the current processes running. Once the client successfully transitions to the newer businesses processes, both the current business processes and the vendor's services would be discontinued. There are two major risks here: (1) the vendor fails to successfully carry out the client's current business processes and hence hurts the client's prospects in the market, and (2) the client fails to transition to the newer system successfully or decides to fall back on the current system. Similar to the "transition assistance" concept, Sparrow (2003, p. 10) speaks about *transformational outsourcing*, where certain activities are outsourced to the vendor while the client transforms by comprehensive reorganization and optimization of its business processes, and Millar (1994, as cited in Lacity & Hirschheim, 1995, pp. 4-5) speaks about *transitional outsourcing*, where clients usher in a major transition or changeover involving three

Figure 6. Business process tasks, expertise, and quantity (Source: Aron & Singh, n.d.)
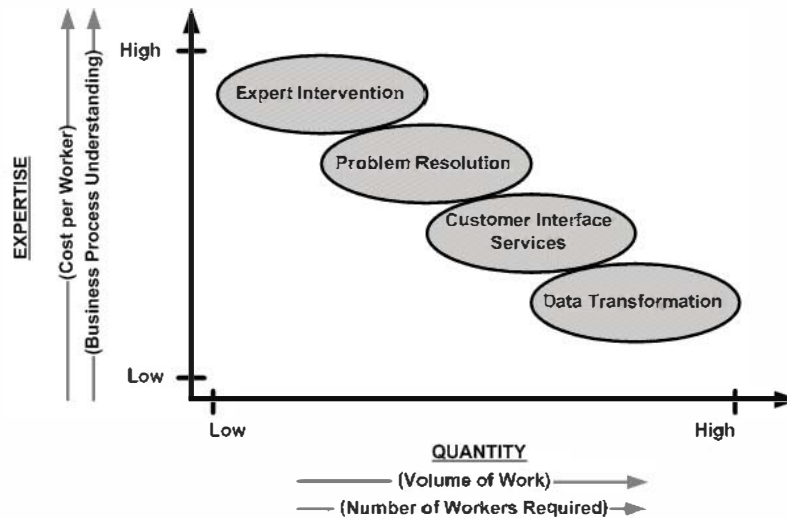
THE IT STRATEGY

IT (information technology) applications or software are often very tightly integrated into business processes, and personnel access and use these IT applications to execute or manage the business processes effectively. For example, the personnel managing the payroll or accounting-related business processes would certainly make use of IT applications, such as spreadsheets and other software, that allow entry, manipulation, and storage of data and also generation of reports of various kinds. The IT applications are commonly off-the-shelf products or are custom developed by software service providers, and need to be purchased. Of course, the software can also be custom developed in-house, which is equivalent to purchasing software from one's own IT department. However, after the purchase, both the off-the-shelf and the custom-developed software need to be hosted on servers and maintained, and for this purpose, the company is forced to

hire additional IT staff. This chapter will not go into the aspect of purchasing software products or custom development, since a huge number of books and academic literature is already available on off-the-shelf products and custom development of software, inclusive of insourcing/outsourcing of custom software development (Chakrabarty, 2006a; Nelson et al., 1996; Poppo & Zenger, 1998). However, this chapter will touch the issue of "renting" software, which is a relatively newer and possibly path-breaking concept in the usage of IT in business process management.

### Strategy of Renting Remotely Hosted IT Applications for Business Processes (Cloud Computing)

What does an organization do when it does want to take the responsibility of hosting, managing, and maintaining software applications related to its business processes? In other words, what if the organization concerned does not want to

have anything to do with the management and technology overhead that goes into "owning" certain software applications that help it run its business processes (which are purchased as a product or custom developed)? IT is, after all, not the core competence of many businesses, and many businesses might find having an in-house IT department as an *overhead* or *cost-center*. An answer to this dilemma is the concept of what is traditionally known as application service providing (ASP), and has been more recently termed in various flavors such as "on Demand" service, "software-as-a-service" (SAAS), "real-time delivery," "application utilities" (Pring & Ambrose, 2004), or "net-sourcing" (Kern, Lacity, & Willcocks, 2002). It has gained greater significance and prominence in recent times due

to broadband and other technologies that have made Internet access faster ('cloud computing').

This strategy would involve contracting with an application service provider (ASP) whereby the client organization would have access to IT applications hosted by the ASP over a wide area network (WAN), a virtual private network (VPN), or over the Internet (Susarla, Barua, & Whinston, 2003, p. 103). In other words, the client organization would be adopting a strategy of selectively "renting" IS applications rather than "owning" IT software for its business processes (Bennett & Timbrell, 2000, p. 196). Technologically, the difference lies in where the application is hosted (Dewire, 2000, p. 14). Normally, IT applications for any business process would be hosted on the employee's/user's personal computer, or in the

Figure 7. ASPs and on-demand software services (Cloud Computing)
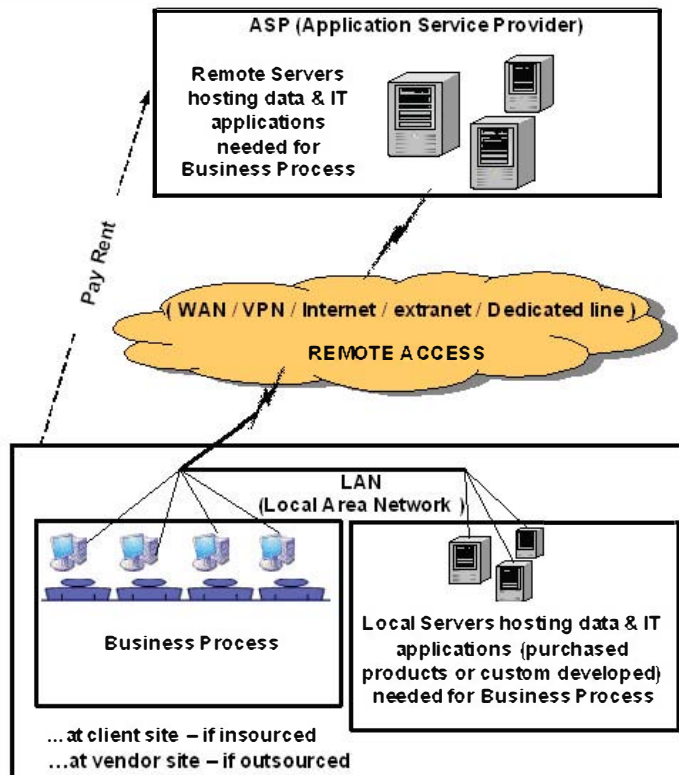
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