



Business Services Outsourcing as a case of Corporate Function Unbundling

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Mari Sako and Howard Gospel
Said Business School, University of Oxford
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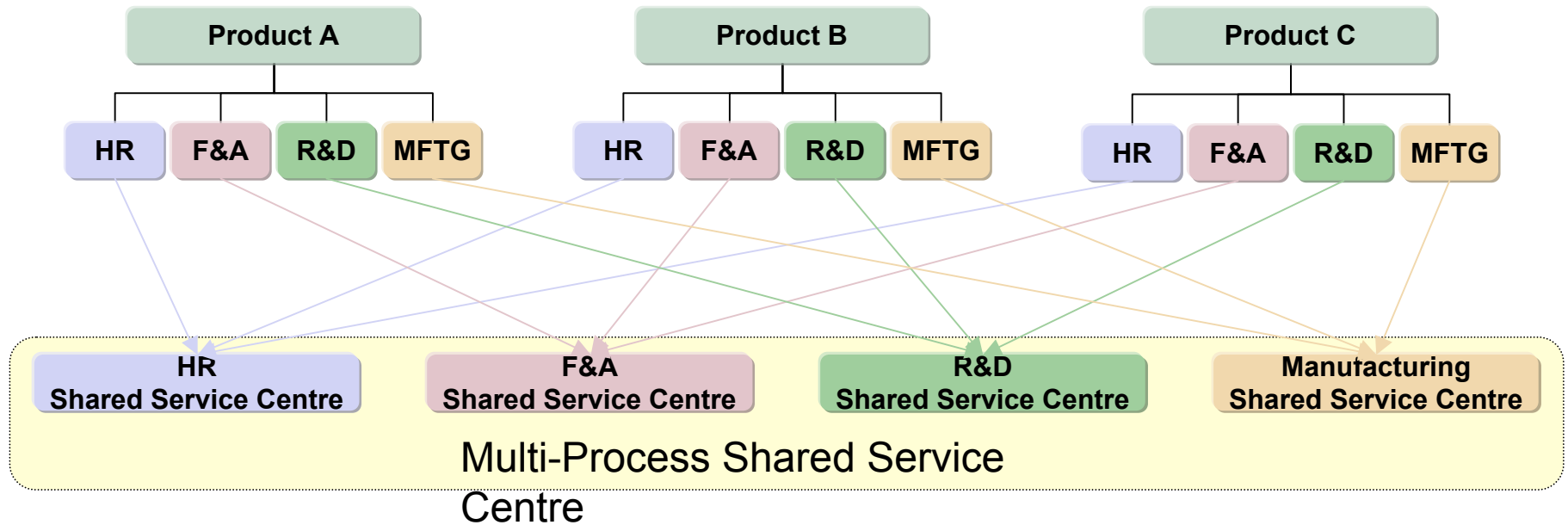


Outline

- Theoretical perspectives
- Historical correctives
- Case studies
- Comparisons of cases and functions
- Conclusions

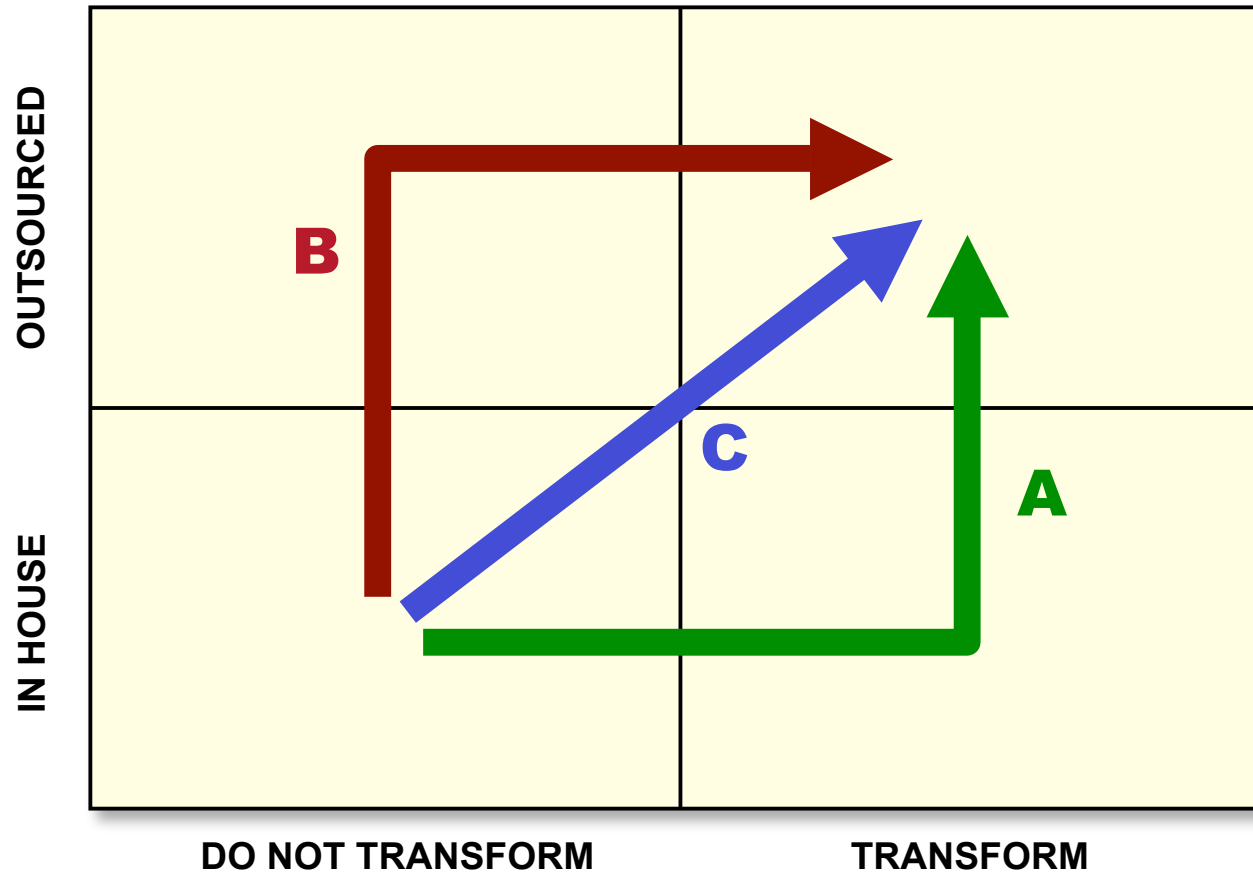
1. Conceptual and theoretical perspectives

What is business service outsourcing?



- NOT vertical dis-integration, but corporate function unbundling
- NOT just make-or-buy, but part of broader corporate restructuring
- Consistent with greater centralization AND decentralization, enabled by ICT

Three Paths to Shared Services and Outsourcing



In path A, a company makes process

In path B, a company outsources

In path C, a company undertakes to outsource and transform HR processes at once, in a 'big bang' approach

Key Propositions

1. The more multidivisional and complex a firm's structure is, the greater the scope for exploiting economies internally by creating shared services first, before outsourcing. However, the firm needs to be centralized to bring about a global solution.
2. The more capable suppliers are, the more likely the company is to outsource without creating internal SSs.
3. The chosen path to SSs and outsourcing affects the distribution of capabilities between user and supplier.

2. Historical perspectives

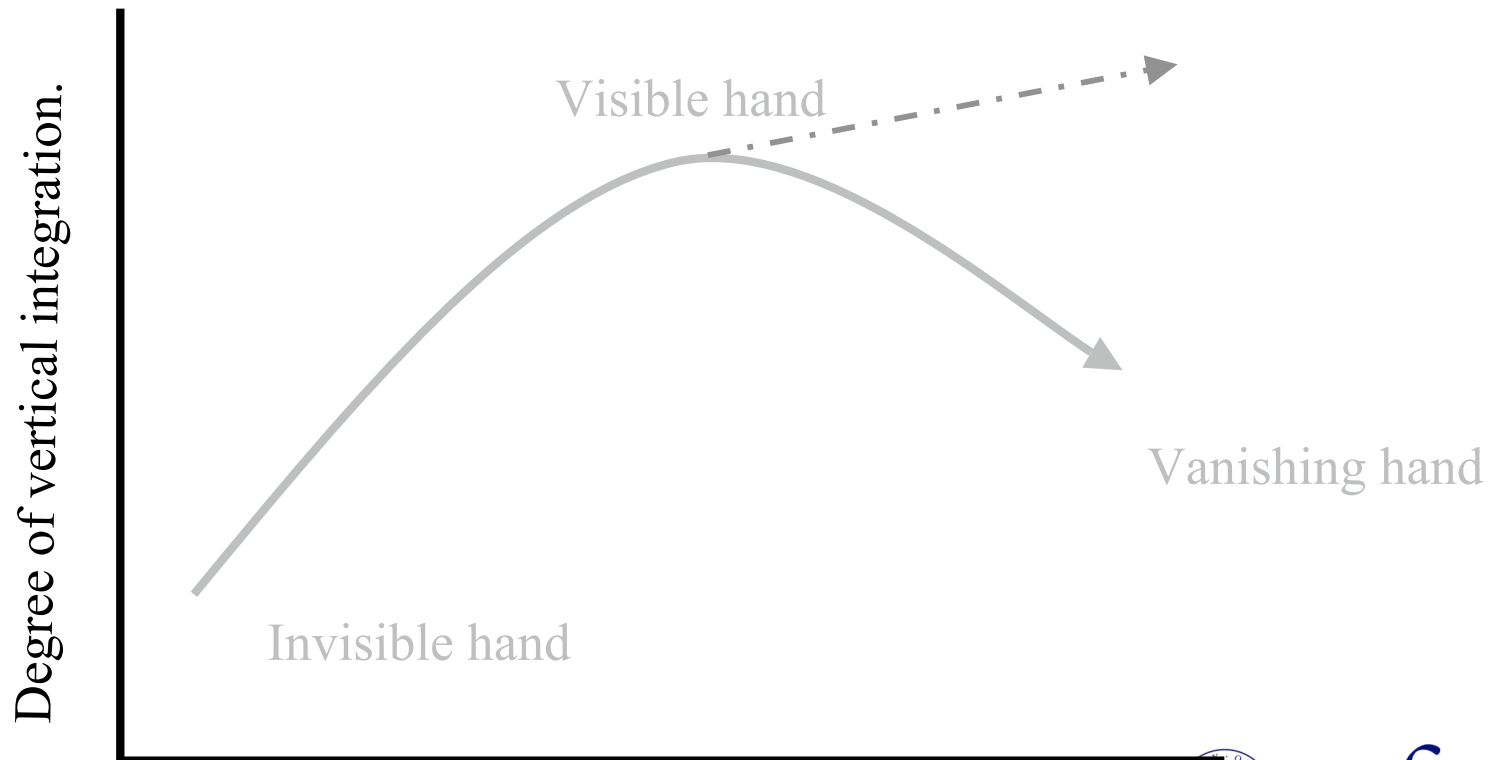
Historical perspectives

- Long tradition of putting-out, outsourcing.
- The growth of the modern firm a la Chandler
- From U-form to M-form; but some disadvantages with M-form
- Correctives
 - Big firms in industrial districts.
 - Some functions often externalized e.g. advertising
 - National differences e.g. UK internalized less.

Historical perspectives 2

- From 1980s / accelerating in 1990s,
 - De-diversification
 - Dis-integration e.g. autos
 - Outsourcing e.g. IT, facilities, F&A, HRM
- Drivers
- Trend NOT towards N-form nor heterarchical firm
- Trend towards greater centralization and decentralization, enabled by ICT

Turning point / Vanishing Hand a la Richard Langlois?



3. Case studies

Case study firms

Two case study firms, from branded packaged goods

US and UK origins

Both multinational

Over a 10-20 year period

....

Case study firm A

- Grew by internal growth and M&A.
- Multidivisional structure, but overseas loose
- Paternalistic HR, and much devolved to divisions.
- Mid 1990s moved in a more centralised direction.
- Established SSs in 3 centres to handle IT, purchasing & accounts, and HR
- From late 1990s considered outsourcing
considered one provider
finished with 3 – IT, facilities, HR

Case study firm A

- Provider takes over employees in 3 centres
 - operates self service system
 - delivers compensation, benefits, travel
 - middle level items
- Company retains
 - overall governance
 - development of strategy
 - management of senior managers
- How it operates?
- Outcomes?

Case study firm B

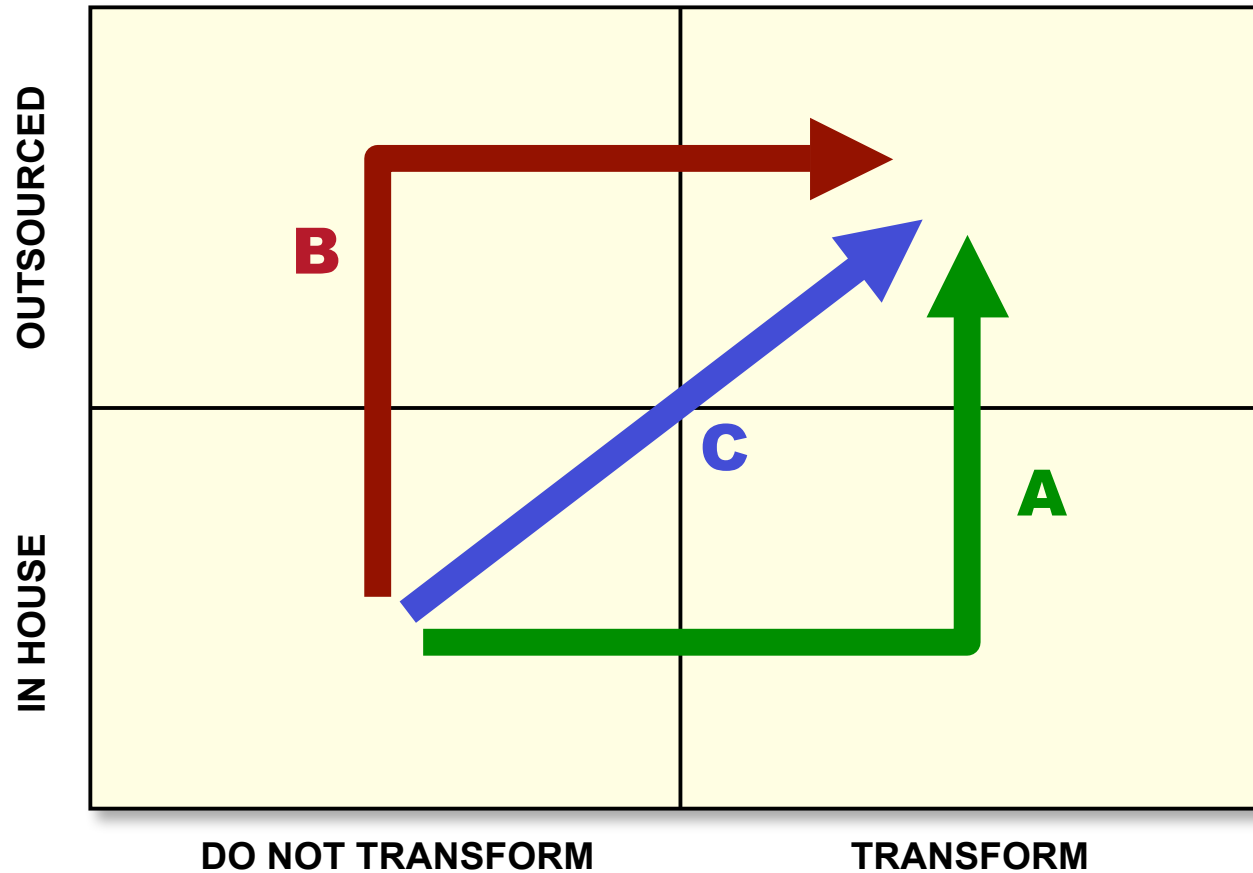
- Similar product and growth trajectory
- Slightly bigger, more diverse, more multinationalised
- Looser matrix structure.
- Both integrated more and externalised more functions.
- Paternalistic HR, but also recognised unions and used external employers' organisations.
- Mid-1990s began to reduce brands and centralise.
- Moved patchily towards SSs in late 1990s / early 2000s.
- Diverse trajectories to outsourcing

Case study firm B

- Provider takes over employees in 3 centres
 - takes over transactional (payroll, pensions)
 - covers intermediate areas
- Company retains
 - HQ manages top management
 - HQ retains overview and manages contract
 - 'Experts' handle e.g. employment law
 - 'Business partners'
- How it operates?
- Outcomes?

4. Comparisons of cases and functions

Company A chose path A, Company B chose paths B and C



1. Corporate structure and restructuring → Outsourcing path

- Company A created global SSC first before outsourcing
- Company B chose to outsource without creating global SSs first
- Why this difference?
 - Greater centralization trends at both companies
 - But Company A remains more centralized than Company B

2. Supply market → path chosen to outsource

- Company A made decisions earlier than Company B
- Company A's supplier bought its SSC assets to start its own HRO business.
- Company B's supplier was already well established by the time it offered to manage outsourced shared services for Company B.

3. Outcomes:

Distribution of capabilities

- Not a lot we can say yet!
- Potential loss of capability to suppliers greater at Company B than at Company A (learning from running its own SSC)
- ‘Business partners’ in HR may retain more know-how in-house at Company A than at Company B.

What is being outsourced?

Comparing functions (IT, HR, F&A)

- **Timing:** IT has been outsourced earlier than F&A or HRO
- **What is outsourced:** much deeper processes in HRO than in F&A
- **Global standardization:** greater in F&A than HRO due in part to national variations in regulation
- **Why?**
 - Nature of processes to be outsourced?
 - Organization politics and the relative status of CFO, CIO and CHRO?

Conclusions

- New stage in outsourcing?
 - Business services
 - Unbundling of corporate functions
- Driven by corporate restructuring
 - ICT enables simultaneous centralization and decentralization
 - Not a simple move from M-Form to N-Form
- Process, timing, trajectory are important for
 - Resulting organisation and architecture
 - Outcomes, e.g. distribution of capabilities