

**The Construction of Client Organisations
and Contract Structures in Outsourcing
within Dynamic Contexts: A Longitudinal
Case Study Approach**

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DECLARATION

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ABSTRACT

This explorative study investigates how bureaucratic public sector client organisations deal with information technology (ITO) and business process (BPO) outsourcing in terms of internal management. To supplement the lack of studies emphasising pre-existing client organisational structure and the contextual and internal changes intertwined with and required for outsourcing, the thesis develops theoretical underpinnings that incorporate change, time, dynamism and context. These consist of a structuration theory-informed formal organisation perspective and a processual analysis-informed multidimensional outsourcing configuration framework. This thesis primarily seeks answers to ‘why’ and ‘how’ questions such as: why bureaucratic client organisations are concerned about IT outsourcing or BPO; in consequence, how they construct or change their strategy, organisational arrangements and outsourcing contracts; and, what are the contexts and social processes that let those constructions go forward? Studied by means of a longitudinal case study approach, with elements of comparison, the two cases are the IT outsourcing of the Public Procurement Service of Korea’s e-government procurement system and the BPO of the Teachers’ Pension Scheme administration of the British Department for Children, Schools and Families.

Through contextual and micro-level analyses, the research found that client organisations appear to work at transforming outsourcing-related strategy, contract structure, and their own organisations—which are mutually interrelated—in the context of five IT governance concerns: strategic alignment, delivery of business value, performance management, risk management, and control and accountability. Institutionalised human behaviours were found to be strongly involved with these processes. The thesis provides rich data on how the organisations decomposed and recomposed existing bureaucratic structures and processes. This thesis also found three standards emerging as rationales for the strategic choices of the client organisations when they moved to outsourcing. These were: core vs. non-core perception of outsourced functions; high vs. low supplier switching costs; and high vs. low variability of business and applied IT. Against expectations, explicit distinctions such as cultural differences between two government environments and differences between ITO and BPO, did not sufficiently explain the core phenomena regarding outsourcing and client organisational change. In practice, core/non-core perception was found to be the key shaper of the outsourcing contracts and client organisation construction, though each outsourcing arrangement emerged as distinctively different in terms of relevant decisions, context, and processes. Overall, the research supports Kallinikos’s formal organisation perspective for explaining outsourcing as an enabler of organisational change, and provides an enriched and extended outsourcing configuration framework for disaggregating and studying, and for practitioners helping to manage, outsourcing arrangements in depth.

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TABLE OF CONTENTS

DECLARATION	2
ABSTRACT	3
ACKNOWLEDGEMENTS	4
TABLE OF CONTENTS	5
LIST OF TABLES	12
LIST OF FIGURES	14
LIST OF ACRONYMS	15

1 INTRODUCTION

1.1 BACKGROUND AND MOTIVATION.....	17
1.2 RESEARCH PURPOSE AND SCOPE	25
1.3 RESEARCH AND THESIS STRUCTURE	28
1.4 INTENDED CONTRIBUTION	30

2 LITERATURE REVIEW

2.1 INTRODUCTION	33
2.2 INFORMATION SYSTEMS AND IT OUTSOURCING.....	34
2.2.1 <i>IT outsourcing and client organisation change</i>	34
2.2.1.1 IT outsourcing research strand	34
2.2.1.2 IT outsourcing and contextual analyses	38
2.2.1.3 Implications of IT outsourcing literature review.....	39
2.2.2 <i>Information systems and organisation change</i>	43

2.3	ORGANISATION STUDIES AND IT OUTSOURCING.....	45
2.3.1	<i>Bureaucracy as institution</i>	45
2.3.2	<i>Public management and IT outsourcing</i>	48
2.3.2.1	Limited literature on IT outsourcing in public management.....	48
2.3.2.2	Information systems, e-governance and public management	51
2.3.2.3	Comparison of public- and private-sector IT outsourcing	56
2.4	INFORMATION SYSTEMS AND STRUCTURATION THEORY	59
2.5	CONCLUSION	62

3 RESEARCH DESIGN AND METHODOLOGY

3.1	INTRODUCTION	65
3.2	FRAMING THE RESEARCH.....	66
3.2.1	<i>Philosophical stances and research frame</i>	66
3.2.2	<i>Critical realism and interpretivism</i>	68
3.3	RESEARCH DESIGN.....	71
3.3.1	<i>Construction of research questions</i>	71
3.3.2	<i>Research strategy</i>	76
3.3.3	<i>Research methods</i>	78
3.3.3.1	Unit of analysis.....	78
3.3.3.2	Data collection method.....	80
3.3.3.3	Data analysis method	81

3.4	FIELD STUDIES	84
3.4.1	<i>PPS case</i>	84
3.4.2	<i>DCSF case</i>	86
3.5	METHODOLOGICAL APPROPRIATENESS.....	88
3.5.1	<i>Interpretive research rigour</i>	88
3.5.2	<i>Ethical issues and methodological appropriateness</i>	89
4	CONCEPTUAL FRAMEWORK	
4.1	INTRODUCTION	93
4.2	STRUCTURATION THEORY-INFORMED FORMAL ORGANISATION PERSPECTIVE	95
4.2.1	<i>Philosophical background and structuration theory in IS research</i>	95
4.2.2	<i>Formal organisation perspective informed by structuration theory</i>	99
4.3	PROCESSUAL ANALYSIS-INFORMED MULTIDIMENSIONAL IT OUTSOURCING CONFIGURATION FRAMEWORK	105
4.3.1	<i>Processual analysis and longitudinal case study</i>	105
4.3.2	<i>Relevant literature on multidimensional IT outsourcing configuration framework</i>	107
4.3.2.1	IT outsourcing configuration framework	107
4.3.2.2	Lifecycle perspective on sourcing process.....	111
4.3.2.3	IT governance.....	114
4.3.3	<i>Multidimensional IT outsourcing configuration framework informed by processual analysis</i>	119
4.4	CONCLUSION	125

5 CASI: E-GOVERNMENT PROCUREMENT SYSTEM OUTSOURCING IN KOREA

5.1	INTRODUCTION	128
5.2	BACKGROUND	129
5.2.1	<i>Case overview</i>	129
5.2.2	<i>Distinction between outsourcing and buy-in as insourcing</i>	136
5.3	STRATEGY DIMENSION	146
5.3.1	<i>Decision points and underlying context</i>	146
5.3.1.1	Commercial relationship	146
5.3.1.2	Scope grouping.....	150
5.3.1.3	Financial scale	158
5.3.1.4	Resource ownership	160
5.3.2	<i>Process of strategy building</i>	164
5.3.2.1	Regenerate phase.....	164
5.3.2.2	Architect phase.....	166
5.4	CONTRACT STRUCTURE DIMENSION.....	170
5.4.1	<i>Decision points and underlying context</i>	170
5.4.1.1	Supplier grouping.....	170
5.4.1.2	Pricing framework.....	173
5.4.1.3	Contract duration.....	177
5.4.2	<i>Process of contract structuring: engage phase</i>	179

5.5	ORGANISATION CONSTRUCTION DIMENSION	181
5.5.1	<i>Decision points and underlying context</i>	182
5.5.1.1	Organisation arrangements.....	182
5.5.1.2	Processes and activities	191
5.5.2	<i>Process of organisation construction: operation phase</i>	196
5.6	CONCLUSION	197

6 CASE II: TEACHERS' PENSION SCHEME ADMINISTRATION OUTSOURCING IN THE UK

6.1	INTRODUCTION	204
6.2	CASE OVERVIEW	206
6.3	STRATEGY DIMENSION	210
6.3.1	<i>Decision points and underlying context</i>	210
6.3.1.1	Scope grouping.....	210
6.3.1.2	Financial scale	223
6.3.1.3	Resource ownership	226
6.3.1.4	Commercial relationship	231
6.3.2	<i>Process of strategy building</i>	234
6.3.2.1	Architect phase.....	234
6.3.2.2	Regenerate phase.....	236

6.4	CONTRACT STRUCTURE DIMENSION.....	238
6.4.1	<i>Decision points and underlying context</i>	238
6.4.1.1	Supplier grouping.....	238
6.4.1.2	Pricing framework.....	241
6.4.1.3	Contract duration.....	244
6.4.2	<i>Process of contract structuring: Engage phase</i>	246
6.5	ORGANISATION CONSTRUCTION DIMENSION	248
6.5.1	<i>DCSF's organisation construction</i>	249
6.5.1.1	Organisation arrangements.....	249
6.5.1.2	Processes and activities	254
6.5.2	<i>TP's organisation construction</i>	259
6.5.2.1	Organisation arrangements.....	260
6.5.2.2	Processes and activities	263
6.5.3	<i>Process of organisation construction: Operate phase</i>	266
6.6	CONCLUSION	268

7 SYNTHESIS AND COMPARISON OF CASE STUDIES

7.1	INTRODUCTION	275
7.2	OUTCOME AND CONTENT ANALYSIS	278
7.2.1	<i>Strategic dimension</i>	278
7.2.2	<i>Contract structure dimension</i>	281
7.2.3	<i>Organisation construction dimension</i>	284

7.3	CONTEXT ANALYSIS	285
7.3.1	<i>Strategy dimension</i>	286
7.3.2	<i>Contract structure dimension</i>	288
7.3.3	<i>Organisation construction dimension</i>	291
7.4	ANALYSIS BY PROCESS.....	293
7.5	DISCUSSION AND IMPLICATIONS.....	296
7.5.1	<i>Outsourcing environment</i>	296
7.5.2	<i>Discussion and implications</i>	298
8	CONCLUSION	
8.1	THESIS OVERVIEW AND KEY FINDINGS	309
8.2	CONSTRUCTION OF CONTRIBUTION.....	315
8.2.1	<i>Practice contribution</i>	315
8.2.2	<i>Academic contribution</i>	317
8.3	LIMITATIONS AND FURTHER RESEARCH DIRECTION	321
	REFERENCES	326
	APPENDIX 1: CONSENT FORMS	344
	APPENDIX 2: REPRESENTATIVE ARGUMENTATION ANALYSIS	348
	APPENDIX 3: INTERVIEW PROCEDURE AND QUESTION SCRIPTS	353

LIST OF TABLES

Table 2-1: Results of the IT outsourcing literature investigation	37
Table 2-2: Comparison of Weberian and Virtual Bureaucracies	52
Table 2-3: Comparison between public and private sector IT outsourcing.....	56
Table 2-4: Types of structuration theory application in IS researches	62
Table 3-1: Interviewees of PPS's case study (16-20 October 2008).....	85
Table 3-2: Interviewees of DCSF's case study (9-11 February / 29-30 September 2009)	87
Table 4-1: Attributes and affiliated options of IT outsourcing configuration	108
Table 4-2: Lifecycle perspective and affiliated phases and building blocks	113
Table 4-3: Governance archetypes categorised by Weill and Woodham.....	115
Table 4-4: Elements of IT governance	118
Table 5-1: The frequency of application change in PPS e-GP system (March 2007)..	135
Table 5-2: Stages of PPS sourcing arrangements	145
Table 5-3: PPS annual budget from 2000 to 2007 (£1000).....	159
Table 5-4: Workload of application outsourcing activities during the first half of 2004	167
Table 5-5: ITIL processes description	193
Table 5-6: Framework-based PPS e-GP outsourcing transformation summary (comparison between 2004 and 2005).....	201

Table 6-1: Annual expenditure of DCSF (£ million)	223
Table 6-2: Meeting list between DCSF and TP.....	255
Table 6-3: Framework-based TPS outsourcing summary, in terms of client.....	273
Table 7-1: Comparison of strategic dimension between PPS and DCSF.....	279
Table 7-2: Comparison of contract structure dimension between PPS and DCSF	282
Table 7-3: Comparison of organisation construction dimension between PPS and DCSF	284
Table 7-4: Comparison of the context of strategy decisions between PPS and DCSF	287
Table 7-5: Comparison of the context of contract structure decisions of PPS and DCSF	289
Table 7-6: Comparison of the context of organisation construction decisions between PPS and DCSF.....	292
Table 8-1: Employed key concepts in involved philosophy and literature	311

LIST OF FIGURES

Figure 3-1: Research frame and associated intellectual elements	72
Figure 3-2: Toulmin's argumentation structure	83
Figure 4-1: Multidimensional IT outsourcing configuration and relevant literature....	121
Figure 4-2: Components involved in multidimensional configuration framework.....	124
Figure 4-3: Conceptual framework structure.....	126
Figure 5-1: Structural change in outsourcing service scope in 2005.....	153
Figure 5-2: Sub-system (business) domain-based bureaucracy (up to 2004).....	184
Figure 5-3: ITIL processes based bureaucracy (2005-2007).....	185
Figure 5-4: Re-establishment of traditional organisation form (2008)	187
Figure 6-1 : DCSF TPS organisation format	250
Figure 6-2 : Relationship map of DCSF and TP organisations	258
Figure 6-3 : Capita Hartshead TP organisation format.....	261
Figure 7-1: Distinction between PPS and DCSF outsourcing environments	298

LIST OF ACRONYMS

BI	: Business Improvement Team of TP
BPO	: Business Process Outsourcing
BPR	: Business Process Reengineering
BSM	: Business Service Management
CAB	: Change Advisory Board
CFPS	: Certified Function Point Specialist
CobiT	: Control Objectives for Information and related Technology
CRM	: Customer Relationship Management
CST	: Customer Support Team of PPS
DCSF	: Department for Children, Schools and Families
DEG	: Digital Era Governance
DfES	: Department for Education and Skills
DSG	: Dedicated School Grants
EA	: Enterprise Architecture
EDI	: Electronic Document Interchange
EDM	: Electronic Document Management
E-GP	: E-government Procurement
EPOR	: Empirical Programme of Relativism
ERP	: Enterprise Resource Planning
FP	: Function Points
FY	: Fiscal Year
IFPUG	: International Function Point Users Group
IMD	: Information Management Division of PPS

IS : Information Systems

ISO : International Organization for Standardization

ISP : Information Strategy Planning

IT : Information Technology

ITGI : IT Governance Institute

ITIL : Information Technology Infrastructure Library

ITSM : IT Service Management

KONEPS : Korea Online E-Procurement System

KPI : Key Performance Indicator

LAN : Local Area Network

NPM : New Public Management

OGC : Office of Government Commerce

PPS : Public Procurement Service

RTI : Regular Tree and Technical Issues Meeting

SA-CMM : Software Acquisition Capability Maturity Model

SCOT : Social Constructionism of Technology

SIM : Society for Information Management

SLA : Service Level Agreement

SLM : Service Level Management

SOSR : Statement of Service Requirements

TP : Teachers' Pensions

TPS : Teachers' Pensions Scheme

TUPE : Transfer of Undertakings (Protection of Employment) Regulations

CHAPTER ONE INTRODUCTION

1.1 Background and motivation

Information technology (IT) outsourcing has become routinely used by contemporary organisations that depend on large information systems (IS) to do back office work and deliver internal or external goods and services. The definition of IT outsourcing here, using that given by Lacity and Willcocks (2006a, p. 1), is as follows: “the handing over of IT-related assets, resources, activities and/or people to third party management to achieve agreed performance outcomes”.

On the other hand, business process outsourcing (BPO) is an associated business practice with IT outsourcing. BPO means the partial or entire delegation of business processes to a third party supplier. This is not a new phenomenon. External service providers have been working in areas such as facility operations, finance, accounting and legal services for a long time. However, many IS researchers pay attention to the strong IT components necessarily supporting those processes, which is commonly observed in contemporary BPO deals (e.g., Bardhan, Whitaker and Mithas 2006; Borman 2006; Gewald and Dibbern 2009; Mani, Barua and Whinston 2006; Wüllenweber et al. 2008). For example, a finance process service provider could not fulfil its contract successfully without a competitive finance system. In this respect, BPO may be regarded as the expanded form of IT outsourcing (Feeny, Willcocks and Lacity 2009a; Yang et al. 2007). The following description clarifies the distinction of BPO well (Wüllenweber and Weitzel 2007, p. 2):

BPO is the combination of application development and maintenance outsourcing, IT infrastructure outsourcing and outsourcing of business activities which are not IT supported like business process redesign.

Accordingly, the IT outsourcing investigation in this thesis is not confined to the narrow area of IS operation or maintenance contracts, but extends to IT-enabled BPO. That includes IT hardware and software, as is invariably the case in most types of BPO, for example the outsourcing of finance, human resources and procurement functions. IT does still matter in BPO because IS employed by BPO suppliers are regularly found to be key success factors (Willcocks and Lacity 2009a).

From an external services market perspective, spending on IT outsourcing and BPO is continuously rising. The global market of IT outsourcing has increased from \$9 to \$12 billion in 1989 to \$200 to \$250 billion in 2007. In terms of BPO, it was a \$140 billion market in 2005 and the figure is estimated to grow to \$350 billion in 2010 (Willcocks and Lacity 2009a). In their research, Willcocks and Lacity suggest that BPO is outpacing IT outsourcing because many organisations have no intention of investing in back office innovation and external service providers can build enough capabilities to improve the efficiency of complicated processes. This phenomenon is well summarised as follows (p. 17): “Many of the BPO deals will swallow much of the back office IT systems.”

This suggestion is intuitively acceptable as well in that most back office works are the common functions of organisations; therefore, specialised service providers can take advantage of abundant and cost-effective opportunities to acquire knowledge and develop/access powerful IS. For example, they are able to collect lessons from many

different organisations' practices and deliver those to other clients by use of the same IT platform without a significant additional cost. On this point, Lacity, Shaji and Willcocks (2009) identify that BPO is suitable for well-defined, self-contained, modular, IT-enabled and easily measurable processes.

There is plentiful evidence of the prevalence of IT/BP outsourcing practice. Even by 2000, 90% of the United States (US)'s and 77% of the United Kingdom (UK)'s large and medium organisations investigated were found to have already entered into meaningful IT outsourcing contracts (Kern and Willcocks 2001). Furthermore, and importantly for the present study of comparative cases in public sector outsourcing, IT outsourcing is more popular in specific industries, and in particular the public sector in developed economies (Dunleavy et al. 2006; Fountain 2001). Given that IT outsourcing/BPO represent a large and still growing set of business practices, this thesis will argue that the internal management of such outsourcing deserves considerable focus, despite its relative neglect, as an organisation-embedded component of the governance and management of contemporary organisations. This can be supported by the reflection of IT executives' management concerns that a global survey reveals.

Five consecutive researches on global IT leaders' concerns appear in *MIS Quarterly Executive* after 2004, which present previous years' survey results completed by the Society for Information Management (SIM) (Luftman and McLean 2004; Luftman 2005; 2006; Luftman and Kempaiah 2008; Luftman, Kempaiah and Rigoni 2009). These researches conducted consistent surveys to investigate the management concerns of IT executives. The various numbers of each survey's respondents were from 105 to 301; all participants were described as IT executives or IT managers from diverse industries. Among these IT management concerns, 'Managing outsourcing

relationships' can be referred to as a concern directly associated with IT outsourcing. The rank of this declined from 15th in 2003 and 2004, to 18th in 2005 and then 29th in 2007.¹ Does this mean that IT outsourcing became a less important issue of IT management? The answer is 'No' based on following rationale; what has happened is that outsourcing is no longer an isolatable phenomenon in management terms. Outsourcing issues must be dealt with as overall and embedded components in the management of IT.

It is worth examining the survey responses in more detail to underline this point. Although outsourcing was reported as only the twenty-ninth most important concern of IT executives in 2007, most of the other concerns seem to be recognised as being connected with IT outsourcing. As the simplest example, how can the 'Staff reduction' concerns (24th in 2005 and 21st in 2004) be addressed without a consideration of outsourcing? It is the same with the concerns about 'Offshoring' (21st in 2005, 20th in 2004 and 19th in 2003) and 'IT asset management' (22nd in 2005, 17th in 2004 and 14th in 2003). 'Offshoring' is a choice of diverse options of IT outsourcing; and 'IT asset management' should be decided based on an organisation's IT strategy regarding IT outsourcing. Along with these simple examples, broader discussion is required to fully understand the comprehensiveness of IT outsourcing-related concerns which this thesis argues. As was emphasised by the researchers, three of the top ten management concerns in 2008 are related to IT human resources, as follows: 'Build business skills' in 2nd, 'Attracting new IT professionals' in 4th and 'Retaining IT professionals' in 9th (Luftman, Kempaiah and Rigoni 2009). It is acceptable to assume that IT executives must decide first whether they will outsource such expertise or not when they are

¹ Only the top ten management concerns were announced in the result of the 2008 survey.

concerned about IT human resources. It is also an issue as to what their skills must be, as internal employees, in the light of outsourcing as a highly prevalent business practice. It is also an issue as to how outsourcing can provide human resource capability, and if so which skills in what numbers—as exemplified by the growing contemporary practice of offshoring not just for costs but for resources.

In terms of the third most important concern of ‘IT strategic planning’, the authors found that senior managers are trying to identify strategic opportunities to leverage IT for cost reduction and efficiency enhancement under the economic downturn during the research period. According to them, one of the mainstream strategies to do this is to negotiate new outsourcing contracts with vendors. Similarly, ‘Reduce the cost of doing business’ (7th), ‘Improve IT quality’ (8th) and ‘Security and privacy’ (10th) concerns could be resolved only by having good relationships and contractual arrangements with outsourcing suppliers who run and develop relevant IS. The final relevant management concern is ‘IT and business alignment’ which has been the number one issue since 2003, except for 2007 when ‘Attracting, developing, and retaining IT professionals’ was at the top of the table. IT/business alignment was then ranked 2nd. Detailed descriptions of this management concern appear in their first paper in 2004. The definition of IT and business alignment was given as follows (Luftman and McLean 2004, p. 96):

Alignment means applying IT in an appropriate and timely way, in harmony with business strategies, goals and needs. This definition addresses both how IT is aligned with the business and how the business should/could be aligned with IT.

The factors enabling IT and business alignment were explained as communications between IT and business, value measurements, governance, IT/business partnership, technology scope and skills. However, three reasons for this concern being pervasive

and continuous are well identified in their most recent work (Luftman, Kempaiah and Rigoni 2009). First, it is difficult for decision makers to reach a consensus due to the vague terminologies used in the concept of alignment such as integrated, partnership, harmony and needs. Second, alignment cannot be achieved when the issue is misunderstood as that IT should be aligned with the business; instead, it is a matter of how IT and business are aligned with each other. Third, apart from the expectation, there is no single general solution of this problem. Many business and IT leaders still focus only on IT infrastructure—networks, software, databases, applications, etc. However, organisations need to combine all relevant strategic alignment maturity components like communication, governance and human resources.

Returning to the discussion about the connectedness between IT/business alignment and outsourcing, the latter should be considered when an organisation pursues the former. For example, the communication problem does not occur only in the communication between business and in-house IT organisations. Those between external IT suppliers and internal business or strategy parts of organisations should be well designed and crafted in the relational and contractual elements with external suppliers.

Consequently, most management concerns are accompanied by the consideration of IT outsourcing explicitly or implicitly. There might be some organisations that do not have any outsourcing contract at all; however, it does not mean that they have never been concerned about outsourcing. Indeed the possibility, or more pragmatically in Lacity and Hirschheim's (1995) terms, the threat of outsourcing, have formed an important part of the internal management repertoire of large organisations for many years (see also Lacity and Willcocks 2008). Among the top ten concerns in 2008, all of which stay as the top priority during this multi-year research, only two concerns of 'Making better

use of information' and 'Managing change' are not found to be directly related to IT outsourcing, though even there it can be seen that one of the reasons outsourcing is often entered into is to make better use of information while all outsourcing does involve transition, but also a change in the way the organisation manages, whether consciously entered into, or as a response to the problems engendered by not changing. After reviewing other mid-ranked concerns before 2007, we can draw the same conclusion. The following concerns are examples: 'Measuring the value of IT', 'IT governance', 'Business process reengineering', 'Evolving CIO leadership role', 'Creating an information architecture' and 'Introducing rapid business solutions'. It would seem that most IT management concerns in contemporary organisations involve an IT outsourcing component.

This conclusion is also drawn from this thesis author's six-year professional experience as an IT manager in a large government organisation. The key management concerns identified by Luftman and his colleagues are consistent with the author's own experience and the argument in the above section was developed based also on the author's observations during that period.

On this subject of the impact of IT outsourcing (understood as including IT-enabled business process outsourcing), the research already carried out in IS studies shows that outsourcing provides a wide research area in terms of technology and organisational change. Considering the nature of IT outsourcing, which brings external assets and management over to client organisations, it necessarily raises the issues of reconstructing power, organisational forms and processes. These, it is suggested, should be tackled at a more holistic and governance level, rather than through an atomistic and technological approach focusing only on the IT components.

There are some grounds in favour of this perspective. First, IT outsourcing is strongly linked with other IT-related managerial issues, as lengthily discussed up to now. Second, the phenomena of BPO is expanding into every back office, many middle office and some front office domains (Gottfredson, Puryear and Phillips 2005; Lacity and Willcocks 2006a; Oshri, Kotlarsky and Willcocks 2009). Third, IT outsourcing has become both a perennial and multi-faceted endeavour. IT outsourcing is not an independent or one-off project, but a collective and continuing one. Furthermore, IT outsourcing environments have been becoming more complex, as represented by the trend towards outsourcing contracts with multiple suppliers, IT and business process arrangements, and offshore outsourcing (Cohen and Young, 2005; Willcocks and Lacity 2009a).

To summarise, IT outsourcing is a business practice that pervades every aspect of IT management and multiple domains of a contemporary organisation's work; furthermore, it has great influence on the technology and organisation design from an operational point of view to a strategic governance perspective. There have been many studies with an individual research focus on for example IT outsourcing, IT management and governance, technology and organisation change, or innovation. However, few studies as yet view IT outsourcing as an organisational component, and explore relative phenomena in the context of organisational governance and/or at the institutional level; more particularly, even fewer do this over time, and in the light of changes in what are dynamic contexts. This problematisation forms the background of the research interest and the author's motivation to select the subject of this thesis.

1.2 Research purpose and scope

This research aims, through the theoretical lenses of IT outsourcing and organisation studies, to understand the phenomena involved in IT outsourcing practices, organisational changes and their underlying social context in terms of bureaucratic organisations. It will do so through adopting a processual analysis of organisational change, using a longitudinal comparative case study approach.

More specifically, the research purpose is to discover how and why organisations construct and change their relevant structural components—such as organisational forms and processes, and contract structure—to develop improving governance and achieve innovation in IT outsourcing-related management practices. Within this research purpose, three scoping issues will be presented in advance.

The first is the research boundary regarding the parties involved. This thesis is client-focused research because the original research interest lay in the governance issues of client organisations. This approach can be justified by a taken-for-granted assumption that it is the client that crafts its outsourcing contract and can change its own organisational components, even though such decisions are supported by external entities. On this point, client organisations' capabilities—according to most research even more than so than the capabilities provided by external partners—are always key success factors for innovation and performance enhancement in IT outsourcing. This is supported by Willcocks and Feeny (2006). Four out of their nine core in-house IS capabilities immediately relate to outsourcing as follows: 'Informed buying', 'Contract facilitation', 'Contract monitoring' and 'Vendor development'. That said, both case studies examined in this thesis also look at how client capabilities evolve and fit with

supplier capabilities over time in the light of changes in requirements, emerging problems and dynamic changes in context.

Second, this thesis does not address in-depth discussion about IT outsourcing success. For example, the criteria for IT outsourcing success and the evaluation of each deal's achievements are beyond the research scope. Considering that the research purpose is to understand the organisational setting pursuing IT outsourcing-related innovation, the assessment of innovation may be an element to discuss. It is, however, too big to be tackled as a secondary major subject of this thesis. However, this thesis does reveal stakeholders' own evaluations of practices and outcomes, and these vary across the 'success-failure' spectrum depending on the stakeholder's position and the issue at hand. This approach is also consistent with the conclusion of recent comprehensive research into conceptualising IT outsourcing success. Cullen, Seddon and Willcocks (2009), based on the results of a critical literature review of eighteen IT outsourcing success literature and case studies of 63 large organisations, concluded that:

Unrecognized in most of the literature is that outcomes sought from outsourcing have a temporal dimension, as well as varying from organization to organization (p. 304).

In assessing ITO success, each respondent must first indicate which goals were important to his/her organization at the time of interest, then ITO success should be evaluated in terms of the achievement of *those* goals, not the achievement of all possible goals (p. 305).

As another aspect of IT outsourcing success, the authors posed the question of whether the relationship with the supplier is an outcome of successful outsourcing or a means to obtain success (Cullen, Seddon and Willcocks 2009). Reserving a final answer, the authors declared that there was no doubt about the importance of a good relationship

between client and supplier in achieving IT outsourcing success based on their own analyses of empirical studies and prior literature. Searching this literature, the present author would point to Alborz, Seddon and Scheepers 2005; Corbett 2005; Dibbern et al. 2004; Grover, Cheon and Teng 1996; Kern and Willcocks 2002. This conclusion is consistent with the research purpose of this thesis in that building a good relationship was revealed as one of the explicit goals of outsourcing strategy in the two case study organisations.

The third research scope set up in this thesis is the object of outsourced activities. To state the conclusion first, the main focus is the outsourcing of existing IT operation and service delivery by using those IT rather than the outsourcing of application development. IT outsourcing can be generally differentiated from other outsourcing deals due to its influence on organisational processes (Kern and Willcocks 2002); however, this feature is amplified in this kind of IT outsourcing because it is melted into a client organisations' day-to-day operational business. Compared to this, an IS development project is one-off, short-term, and it is more concretely target-driven. However, it also has to be pointed out that the ambiguous boundary between application maintenance and development increases the complexity of IT service outsourcing management, as will be discussed later.

In short, the research purpose of this thesis is to explore the changes in client organisation structure, management and contract arrangements in response to IT outsourcing and BPO in dynamic contexts. To what degree do innovations in structure, management, and governance occur over time in response to outsourcing. This is related to many detailed concerns from governance level such as the allocation of the decision-making authority between client and supplier or between IS and business staff, to management level, like the deployment of organisational process, structure and

IS/business staff or the constitution of contract. The author has chosen to focus in particular on public sector organisations in two different countries because their pre-change bureaucratic structures provide a common, and in the organisation studies research literature well rehearsed backdrop to organisational change, and because the cross country dimension provides the ability to tease out comparative, and distinctive, factors operating in each of the cases.

1.3 Research and thesis structure

This thesis operates an interpretive multiple-case study approach dealing with two government organisations. The first case is the IT outsourcing of the electronic government procurement (e-GP) system of the Public Procurement Service (PPS) of the Republic of Korea (Korea); and the other is the BPO of the Teachers' Pensions Scheme (TPS) administration for the Department for Children, Schools and Families (DCSF²) of the UK. These case studies are not linked with any commercial research project. In addition, this research was not subsidised from any fund; however, the author of the thesis was given free financial assistance in part by the Korean government as an incumbent government official of PPS during the study of this subject.

This thesis consists of eight chapters. The present *Introduction* chapter describes the research background, purpose and scope, thesis structure and intended contribution. Motivation of this research is provided in terms of the importance of outsourcing as an embedded organisational component for the governance and management of IT and contemporary organisation.

² DCSF was renamed the Department for Education after the May 2010 UK election. To maintain consistency, however, this thesis uses DCSF as the title of case organisation.

Chapter Two, *Literature Review*, introduces and discusses relevant literature on the following three criteria: IT outsourcing and client organisation change, organisation studies and IT outsourcing, and information systems and structuration theory. The first two groups of literature are examined to find prior researches on the relationship with IT outsourcing and client organisation change; and the last group is reviewed to construct a social theory underpinning the theoretical perspective of this thesis.

In Chapter Three, *Research Design and Methodology*, the framing of the research questions and research strategy, with philosophical underpinning, is discussed; subsequently, the employed methodological options are presented. A methodological characteristic of this research is related to a strongly subjective position of the author in one of two cases. In order to handle this issue, some discussions about interpretive research quality criteria are made as methodological background. In addition, argumentation analysis—that is rarely used in IS research—is introduced as a data analysis method.

Chapter Four, *Conceptual Framework*, describes the intellectual perspective that informs this study. A structuration theory-informed formal organisation perspective is chosen as a theoretical perspective and a processual analysis-informed multidimensional IT outsourcing configuration framework is reinvented as an analytical framework. These conceptual frameworks are reworked from diverse research areas of organisation studies, structuration theory, processual analysis, IT governance, lifecycle perspective of sourcing process, and IT outsourcing configuration.

Chapters Five and Six address each of the empirical case studies—of PPS and DCSF. Both cases are analysed using the same analytical framework developed in Chapter Four.

A principal finding in the PPS case study is the recognition of interrelationships among strategy, contract structure and organisational construction, or among structure, human behaviour and the institutional context. The most significant, (though not only) issue emerging and investigated in PPS is the retention of IS capabilities to deliver everyday e-GP services. The BPO case of DCSF reveals the same interest in developing in-house capabilities. But, unlike in the PPS case, DCSF pursues those capabilities in terms of performance evaluation and risk mitigation to achieve cost reduction and avoid over-dependence on a specific supplier. There is a different balance in terms of dependence on internal and external capabilities found in the cases, and the research investigates, amongst other things, the within-case, cultural and contextual reasons for this difference. This acts as a prelude to the much greater comparative detail in the next chapter.

Chapter Seven, *Synthesis and Comparison of Case Studies*, discusses a comparative analysis of the two cases. In spite of many similarities in the background and context of outsourcing, this analysis identifies wide differences between the two sets of practices. An immediate and fundamental background of those seems to be the difference in strategic positioning (core/non-core) of related business. Finally, the overall conclusion and interpretation, construction of contribution and further research opportunities are given in the conclusion chapter.

1.4 Intended contribution

The expected contribution of this work is categorised into academic and practical. Academically, although IT outsourcing can be regarded as just a business practice, it is worth revisiting it through the lenses of the appropriate theories because the impact on organisation and its implications for IS and organisational studies are significant.

First, this research is expected to reveal what is happening in the field of IT outsourcing in detail from contract constitution, pricing method, organisation format and process design to participants' perceptions and reactions. Findings will be interpreted as organisational and behavioural change intertwined with given technologies and outsourcing management skills. Synergistic analyses will be conducted and presented through the dimensions of different contexts and outsourcing environment: Korea vs. the UK and IT outsourcing vs. BPO. In addition to these, three standards to interpret findings and explore implications will be derived as follows: core vs. non-core function, high vs. low switching cost and high vs. low variability. In these respects, this thesis can provide IS researchers with abundant empirical data around ITO/BPO outsourcing and organisation change in dynamic contexts.

Secondly, this research is intended to supplement the lack of studies on the structure of the client organisation and changes therein during outsourcing. Despite high profile discussions about a so-called network or virtual organisation, traditional bureaucratic elements are still observed in the real world, as will be disclosed in this research. Specifically, this research will contribute to understanding both aspects of decomposing and recomposing bureaucracy brought about by outsourcing in modern organisations. This is both a significant and under-researched phenomenon. For example, Kallinikos (2006), as a leading researcher in bureaucracy, identifies outsourcing as an important instance of these phenomena, as follows:

[Outsourcing and subcontracting] provide novel incentives for reframing the logic upon which boundedness, location and hierarchy as major and constitutive organizational principles have been predicated. (p. 92)

[D]isaggregation could be interpreted as a means for exploring the decomposability of organizational operations, and taking advantage of the possibility of relocating externally a significant number of operations

previously conducted in-house. (pp. 102-103)

Nevertheless, outsourcing was not an independent topic in his work. However, in the present thesis, outsourcing is acknowledged as one of the strongest generic catalysts promoting organisational change. On this point, the thesis will point to the need to reappraise the growing significance, and the relative isolation of outsourcing as it is researched and discussed in IS and organisation studies.

As the last academic contribution, the outsourcing-related literature can definitely be strengthened by further work on theoretical underpinnings and in-depth case studies. This thesis will be a trial to expand the application of structuration theory and organisation studies to outsourcing studies; social context and institutionalised human practices underlying IT outsourcing will be explored by use of the processual analysis method. In addition, in spite of a consensus that governance matters in terms of IT outsourcing success, there has been little link between IT governance and the IT outsourcing literature. This thesis will deal with IT outsourcing in a wider context of IT governance issues.

This research is also expected to have implications for practitioners. The analytical framework it produces can provide practical focal points in bureaucratic organisations. Practitioners can use the framework in order to examine their own status, and design organisational elements and contractual arrangements. The practices developed and employed in the light of the problems and contexts to hand will provide normative lessons to practitioners, always remembering that this research does not support 'best practice' techniques or solutions, rather than examples of what works and does not work, in specific contexts, as described by practitioners, and re-interpreted by the researcher.

CHAPTER TWO LITERATURE REVIEW

2.1 Introduction

This chapter offers the result of the literature review with respect to the research purpose and scope delineated in the previous chapter. This thesis aims to investigate how bureaucratically structured client organisations deal with IT outsourcing in terms of internal management. The applications of relevant literature are at the heart of this research. Diverse theoretical lenses are involved in the selection of the research topic, the exploration of phenomena and the interpretation of findings. By employing such theoretical underpinnings synthesised from what works in the research literature, this thesis suggests that a more comprehensive and substantial understanding of IT outsourcing-related phenomena can be expected.

The literature reviewed in this chapter primarily involves overall theoretical underpinnings that identify the research topic, develop the intellectual framework and give guidelines regarding how phenomena may be understood. Against this, a specific theoretical background for guiding methodology and empirical studies will be intensively examined in Chapters Three and Four describing methodology and conceptual framework, respectively.

Five bodies of literature—categorised as three—are identified as relevant. The first category is referred to as IS/IT outsourcing, where the IT outsourcing-specific literature and other IS work regarding organisation change are examined. The second one is

organisation studies and IT outsourcing. Two bodies of literature here are studies on bureaucracy as institution, and public management studies. The final category focuses on structuration theory and gives overall, founding direction regarding how this thesis views structure, human behaviours and their relationships.

2.2 Information systems and IT outsourcing

2.2.1 IT outsourcing and client organisation change

2.2.1.1 IT outsourcing research strand

This thesis explores the IT outsourcing literature to obtain perspectives on IT outsourcing and organisation change, which is established as the research subject. Due to the growing importance of IT outsourcing, the number of academic research papers on IT outsourcing has increased dramatically in very recent years. Three literature reviews by IS researchers were examined first in order to classify prior studies.

Dibbern et al. (2004) provide a very comprehensive analysis of literature in this area. They reviewed 84 articles from 21 academic journals and conference proceedings between 1988 and 2000. These authors used diverse layers of analysis in terms of outsourcing stages (why, what, which, how, outcome), theoretical foundations (agency theory, transaction cost theory, game theory, resource theories, strategic management theories, social exchange theory, innovation theories, power and politics theories, relationship theories, etc.), and research approaches (positivist, descriptive, interpretive, conceptual and mathematical).

More recently, Gonzalez, Gasco and Llopis (2006) found 131 articles between 1988 and 2005 out of 18 academic journals. These authors divided the articles into five groups by topic, such as the client's perspective, the provider's perspective, the relationship perspective, the economic theory perspective, and others. Almost half the articles were judged to belong to the client's perspective category, which is connected to the research interest of this thesis. This group has five sub-classifications: success factors, reasons, risks, decision making and the general view.

Most recently, Lacity, Shaji and Willcocks (2009) conducted a literature review based on 357 papers across 71 journals from 1990 to 2008. Those papers were selected according to the criterion of the rich implications for practice that a specific paper had, which was established as their review aim. The papers were categorised as follows: determinants of IT outsourcing; IT outsourcing strategy; IT outsourcing risks; determinants of IT outsourcing success; client and supplier capabilities; and sourcing varieties (offshore, application service provision and BPO).

Within the above three literature review articles, no specific research or taxonomy on IT outsourcing and client organisation change was identified. For example, Lacity, Shaji and Willcocks (2009) discuss relevant issues. On the one hand, IT outsourcing success determinants are explored in terms of outsourcing decision, contractual governance and relational governance; on the other hand, client and supplier capabilities for the success of IT outsourcing are investigated. However, these discussions do not address any straightforward implications about clients' organisation structures. Instead, those are based on the consideration of human resources, strategy, contract structure, or trust and cooperation.

Against this research stream, the present thesis attempted to investigate literature addressing the topic more directly. At the early stage of this study, EBSCOhost Business Source Premier and ScienceDirect databases were searched for articles published between 2000 and 2007 in 13 journals with the terms ‘outsourcing’, ‘organization’, ‘management’, ‘bureaucracy’, or ‘innovation’ in their titles, abstracts or keyword lists. Those terms were selected according to their possible relevance to this thesis’s research interest. Ninety-four articles were found with the term ‘outsourcing’ only. Among them, 55 articles contained the following secondary terms: 26 with ‘organisation’, 23 with ‘management’ and 6 with ‘innovation’. No studies were found using the terms ‘outsourcing’ and ‘bureaucracy’ together. Six articles containing ‘innovation’ were found in only two business journals: *Harvard Business Review* and *MIT Sloan Management Review*. The result of this literature examination is provided in Table 2-1; no article is found to contain duplicate secondary terms.

These 55 articles containing ‘outsourcing’ as well as a secondary term form the basis for our IT outsourcing-specific literature review. As with Gonzalez, Gasco and Llopis’s analysis (2006), many articles addressed outsourcing strategies of client organisations and also explored success factors, reasons for success/failure (e.g., Adeleye, Annansingh and Nunes 2004; Baldwin, Lrani and Love 2001; Chesbrough and Teece 2002; Gottfredson, Puryear and Phillips 2005; Hancox and Hackney 2000; Loebbecke and Huyskens 2006; Lorence and Spink 2004; Nohria et al. 2005). On the other hand, not many of the articles’ authors seemed to have similar research interests as this thesis, that is, organisation change and IT outsourcing management. However, some articles focused on the management of overall IT/IS assets without really considering IT outsourcing (e.g., Peppard, Lambert and Edwards 2000; Sambamurthy and Zmud 2000; Vaast and Levina 2006). One interesting approach was used in the literature regarding

client and IT outsourcing supplier relationships based on psychological contracts (Koh, Ang and Straub 2004; Miranda and Kavan 2005). The main feature of this approach is the recognition of informal relationships outside formal outsourcing contracts.

Table 2-1: Results of the IT outsourcing literature investigation

Journal	Number of articles including specific terms					
	Outsourcing	Bureaucracy	Organization	Innovation	Management	Any one of secondary terms
EJIS	9	0	2	0	3	5
I&M	17	0	5	0	7	12
IJIM	10	0	0	0	3	3
ISJ	5	0	2	0	1	3
ISR	6	0	1	0	2	3
IT&P	1	0	0	0	0	0
JIT	4	0	1	0	0	1
JMS	3	0	1	0	0	1
JSIS	9	0	7	0	0	7
MISQ	6	0	1	0	1	2
OS	1	0	1	0	0	1
HBR	21	0	5	5	5	15
SMR	2	0	0	1	1	2
Total	94	0	26	6	23	55

* EJIS: *European Journal of Information Systems*; I&M: *Information and Management*; IJIM: *International Journal of Information Management*; ISJ: *Information Systems Journal*; ISR: *Information Systems Research*; IT&P: *Information Technology and People*; JIT: *Journal of Information Technology*; JMS: *Journal of Management Studies*; JSIS: *Journal of Strategic Information Systems*; MISQ: *MIS Quarterly*; OS: *Organization Science*; HBR: *Harvard Business Review*; SMR: *(MIT) Sloan Management Review*

2.2.1.2 IT outsourcing and contextual analyses

In assessing the relevant literature, a common weakness, or more accurately omission, noted in these studies was the lack of consideration of the factors involving clients as they apply to organisational change. In order to do so, in-depth analyses of client organisations' social contexts and the way they change are required. In particular, most studies were primarily interested in the construction of contracts, while client organisations, their structures and their ability to absorb and initiate change seem to be regarded as constants. However, existing client organisations and constructed outsourcing practices have interrelationships: on the one hand, change in client organisations' forms and processes can improve outsourcing performance; on the other hand, outsourcing can lead to the reorganisation of clients, not only in outsourced areas, but also in retained domains. Such change should be discussed both within IS functions and in the wider context of overall IT assets management, including the business side of every organisation, as has been suggested by many more general governance-related researchers (e.g., Mead and Boeschoten 2006; Peppard, Lambert and Edwards 2000; Weill and Woodham 2002).

To summarise the results of the literature review, the existing literature on IT outsourcing is restricted to studies of client organisations' strategy—why is outsourcing adopted; what is to be outsourced; how are outsourcing deals made?—or relationship construction between client organisations and outsourcing suppliers. Outsourcing-led organisational change studies have been neglected, this thesis suggests, due to the misunderstanding of outsourcing as something outside the organisation. For example, Clegg (2007) presented supply chains and outsourcing as examples of decomposing bureaucracy. This aspect is evidenced by a BPO case study of a British government

organisation in Chapter Six, where a large-scale transfer of assets, responsibilities, risks and workforces occurred. This thesis's research interest, however, arose from the postulate that outsourcing is a phenomenon connected with the recomposition of bureaucracy. This perspective is supported by a Korean case study discussed in Chapter Five, in which diverse internal management matters and organisation changes appear. Even in the British case in Chapter Six, the client organisation had to establish new functions, such as contract management.

This thesis intends to examine how and why clients reshape organisational components to manage outsourcing contracts and to construct relationship with suppliers. To achieve this, the research employs an in-depth longitudinal case study approach and broad social theories exploring interrelationship among structure, human behaviours, and context, as suggested by Kern and Willcocks (2002). Those authors found that such contextual empirical outsourcing research focusing on client organisations was very rare. Our own review of the subsequent (post-2002) literature suggests that the approach is very under-utilised in outsourcing studies, given what can be gained in insight and understanding from the approach.

2.2.1.3 Implications of IT outsourcing literature review

A potential alternative approach to examining this phenomenon is studies of contractual and relational governance. Contractual governance involves diverse organisational structures and crafting and monitoring complex contracts to resolve business requirements and contingencies. Relational governance embraces informal, long-term relationships between the client and supplier. Trust emerges as a key concept in defining good relational governance (Sabherwal 1999). Many researchers identify these two

governance mechanisms as substitutes for one another. For example, good relational governance decreases the need for well-organised contractual governance, and vice versa (Choudhury and Sabherwal 2003; Kishore et al. 2003). However, Poppo and Zenger (2002) and Goo et al. (2009) find and confirm a positive relationship between relational governance and formal contracts. On the one hand, formal contracts support relational governance by mitigating opportunistic behaviours through well-defined control mechanisms; on the other hand, relational governance complements formal contracts by entrusting both parties and resolving contractual conflicts. This complementarity view is described as follows by Poppo and Zenger (2002, p. 713).

Formal contracts promote relational governance in exchange settings and relational governance enables the refinement of contract and promotes stability in interorganizational exchanges.

However, the main bodies analysed by these studies were conventional contractual arrangements and the understanding of organisational/personal relationships, instead of the overall client organisation that implements all of these strategies and changes.

This thesis is distinct from, and adds to such previous studies, in that the research focuses on client organisation, its bureaucratic structure and change thereof. Dibbern et al. (2004) confirmed this potential future direction of IT outsourcing research as a change in focus, as follows (p. 89):

Although companies outsource for a variety of reasons, the view that the primary reason is cost savings appears to be falling out of favor. More and more companies appear to be entering into outsourcing 'deals' not so much to reduce costs but for the sake of management focus (Halvey et al., 1996). In other words, they outsource certain parts of IS in order to free up management and IS personnel to work on specific value-added functions; turning their attention to those areas where the internal skill sets add strategic value to the organization. Internal IS departments can no longer

expect to continually grow in size by internally acquiring all the skills sets they need to maintain IS in their host organizations. The corporate mandate to downsize affects IS departments as it does all other departments. Focus becomes the key. IS groups are thus determining which areas they provide value-add, with outsourcing vendors being chosen to handle all other area.

This suggestion strongly implies that investigating client organisation change—as pursued by this thesis—is highly useful for establishing aspects of restructuring and enhancing in-house management and capabilities, as being pursued increasingly in actual outsourcing arrangements. In addition, this thesis can enrich previous research findings by conceptualising and integrating contractual and relational governance as multidimensional decision points in a holistic manner. This becomes a significant contribution because, as argued above, the prior IT outsourcing literature hardly delivered a rich base of client organisation change-focused empirical studies.

To develop a focus on this integration objective, the wider literature regarding the characteristics of IT outsourcing contracts and the client-supplier relationship needs to be examined. In this respect, there is an interesting way into this issue. Executives' common concerns about outsourcing are revealed by exploring what occurs after their outsourcing contracts are terminated. Most companies re-make contracts with incumbent suppliers, one-quarter switch suppliers, and one-tenth bring IT back in-house (backsource) (Lacity and Willcocks 2006b). The reasons for these decisions were investigated by Whitten and Leidner (2006) as perceptions of product quality, relationship quality, service quality and switching costs. Each quality is described as follows (pp. 607-609):

Service quality: perceived judgement resulting from a comparison of client expectations with the level of service customers perceive to have received from the outsourcing vendor

Product quality: the perception of performance, features, reliability, conformance, durability, serviceability and aesthetics characterizing product; in particular, reliability as the most important attribute for software product

Relationship quality: the quality of trust, commitment, communication quality, cultural similarity, and balanced interdependence

Switching cost: costs associated with either moving service to another vendor or bringing the outsourcing activities back in house

According to these authors, clients switch vendors or bring IT back in-house, only when they recognise switching costs to be low. Where low switching costs exist, a client with good service/product quality and poor relationship quality will attempt to switch vendors; and poor service and product quality-experienced clients prefer back-sourcing.

High transaction costs in IT outsourcing arrangements emerge from the literature as an important characteristic of IT outsourcing. IS and outsourcing activities' embeddedness with organisation/business activities can explain these high transaction costs. This makes IT outsourcing and IT-enabled BPO distinct from other types of outsourcing or goods procurement (Ang and Straub 1998; Kern and Willcocks 2002; Kishore et al. 2003). Under these circumstances, a well-organised control and monitoring system is strongly required because clients cannot switch vendors easily. For example, Choudhury and Sabherwal (2003) found that clients use a mixture of diverse modes and mechanisms for the control of suppliers in information system development projects. As shown by these findings, many clients have no choice but to make contracts with the same suppliers and, in addition, to strive to develop organisational capabilities to control their existing suppliers. This trend will be explored through this thesis's subject of organisation change in terms of format, work processes and control mechanisms. This will be assisted by utilising the IT outsourcing configuration framework (Cullen,

Seddon and Willcocks 2005) and the lifecycle perspective of sourcing process (Cullen, Seddon and Willcocks 2006), the uses of which will be discussed in detail in the conceptual framework chapter of this thesis.

2.2.2 Information systems and organisation change

The second body of literature relates to the topic of IS and organisation change. This is a very persistent subject of IS research. This category is chosen in order to obtain theoretical foundations to consider organisational change as it relates to IT. By analysing prior literature, Galliers and Baets (1998) presented four forces as the drivers and mechanisms behind organisation transformation triggered by IT adoption. These are described as IT, organisational behaviour, corporate strategy and cognitive psychology. From this analysis, it becomes clear that organisation strategy, human practice and psychological perceptions, beyond IT itself, are also involved in transforming organisations. As discussed in the previous section, IT outsourcing-specific research that focuses on organisational change has, surprisingly, been rarely carried out. However, we can infer that an integrated approach including behaviour, strategy and structure is required to explore fully the relationships between organisational transformation and IT outsourcing.

Most empirical research on this subject is related to specific IS and their ability to enable organisation change; the resistance of organisation to this change; or flexible or inflexible characters of technology and organisation. For example, Bjørn-Andersen and Turner (1998) found that a groupware for electronic document management is a key enabler of the organisation's transformation into a flexible structure. On the other hand, more holistic and institutional approaches are encouraged by many researchers.

Avgerou (2000) explores the relationship between IS and organisational transformation through the use of institutionalist theory. She suggests that there are two institutionalisation processes: on the one hand, legitimisation of IT innovation as a taken-for-granted validity; on the other hand, organisational efforts to achieve and absorb a radically different organisational regime. She argues that IT should not be regarded as simply an enabler or an embedded component of organisation change; instead, it should be understood as a mutual interaction within institutionalisation processes. Similarly, Orlikowski (1996) conceptualises IT-related organisational transformation as the enactment of situated practices of actors and of improvisational ongoing changes, grounded in everyday practices.

Although a wide range of literature has addressed the issues of IS and organisation change, IT outsourcing has not been recognised as an independent, let alone a major subject in this research trend. However, the significance of this research trend to this thesis is the theoretical foundation, this previous research can provide regarding how to view and understand IT, human practices, structure and organisation strategy when ITO/BPO become the research object.

Regarding these theoretical foundations, Giddens's (1984) structuration theory was chosen as a grand social theory, to be introduced later in this chapter. Furthermore, Pettigrew's processual analysis (Pettigrew 1985; 1990; 1997) is employed to guide the empirical study of this thesis. This method will be discussed as a constituent element of the conceptual framework of this thesis in Chapter Four.

2.3 Organisation studies and IT outsourcing

2.3.1 Bureaucracy as institution

The literature regarding bureaucracy is examined because our research focus is related to the bureaucratic structure of organisation. Bureaucracy remains a conventional theoretical framework in organisation studies, although the salience of Weber's modern bureaucracy model has been frequently criticised by those espousing the need to focus in contemporary organisations on the 'post-bureaucratic or network organisation' (Courpasson and Reed 2004, du Gay 2005). As du Gay (2005) suggested, those critiques can be overcome or re-contemplated if the concept of bureaucracy were accepted as an institution.

In order to explore the concept of bureaucracy as an institution, two characteristics of post-bureaucratic or network organisation must be examined. These were well summarised by Clegg (2007, p. 11) as follows: "reduction of hierarchy and of coercive elements in bureaucracy and a move towards less rigid and perhaps apparently less rationalistic ways of organising." As implied by these trends, many current discourses on bureaucracy have been conducted on aspects of organisational forms or processes.

However, bureaucracy includes another aspect of institution from Weber's original concept, as aptly described by Casey (2004, p. 60) below:

In the classical Weberian view, modern bureaucratic production and administrative organizations manifest in their everyday processes and enactments the forms of rationalization and secularization characteristic of societal modernization. The modern bureaucratic organization epitomizes the systematic, methodical, rational-legal instrumentality of industrial

society.

Despite this institutional characteristic, overemphasis on stable structural arrangements of organisation caused bureaucracy to be partially understood as only an organisational form. As an institution, however, bureaucracy could be understood in the wider contexts of social, political and economic domains. For example, Courpasson (2000) analysed bureaucracy through the lens of organisational politics, and Kärreman and Alvesson (2004) identified it as a socio-ideological layer of control. In addition, Thompson and Alvesson (2005) recognised contemporary organisation changes as the re-configuration of bureaucratic forms, rather than their dissolution. Based on the same critique against post-bureaucratic organisations, Salaman (2005) found that there also exist the same rules, norms and techniques in so-called post-bureaucratic organisations.

Among these research strands, to find bureaucratic regimes through the use of bureaucracy as an institution within contemporary organisations, Kallinikos (2006) provided an inclusive term of bureaucracy as both an institution and an organisational form in modernity. His perspective is more strongly relevant to this study because he invented it as an institutional perspective inspired by institutional implications of information growth and IT change. His concept of formal organisation means bureaucracy. He criticises the contemporary critique of bureaucracy as follows: “the dominant understanding of bureaucracy tends to [falsely] view bureaucracy as a largely introvert and ossified social form” (p. 117). Below is the definition of bureaucracy (formal organisation, in his term) that he presents (p. 125):

Social entities (most notably firms and public agencies) that operate under a specific regime of rules and regulations, as the outcome of the jurisdictional responsibility granted to them through legal, administrative or political processes

Bureaucracy is not the functional collectivity of organisational arrangements, but a central institution representing a specific form of governing social relations. This is coherent with other conceptualisations of bureaucracy as an institution.

On the other hand, while admitting that outsourcing and subcontracting are implicated in the development of new network organisations, he insisted on the continuous existence of embedded bureaucratic orders. The following lengthy citation reveals this insight well (p. 119):

Even though network relationships may be formalized in a variety of contracts, the network lacks jurisdictional responsibility which would lend it a formal status. For as far as profit appropriation is associated with the corporate form (Kraakman 2001), and work is predominantly carried out in institutional settings regulated by employment contracts (no matter how flexible or time limited) it is difficult to think of networks as an alternative to formal organization. Unless the network is constituted as a unit of jurisdictional responsibility (which would require its transformation into some sort of formal organization) it is destined to remain no more than a social arrangement or practice; a strategy, as it were, for the reallocation of resources in a highly volatile economy within which information and communication processes assume primary importance.

Regarding the essence of the formal organisation, understood as the transformed form of jurisdictional responsibility above, Kallinikos explained it as follows (p. 149):

No matter how important they may be in other respects, the dimensions of centralization, standardization, formalization and specialization develop within the constitutive framework of relations established by the non-inclusive forms of human involvement and the selective, mobile and reversible terms by which individuals are tied to organizations. These terms provide the very foundation of the bureaucratic organization.

The author suggested that human involvement in organisations should be either inclusive or non-inclusive. The non-inclusive form of human involvement above

pertains to the social relationship linked by the labour contract observed in contemporary organisations. In a private discussion about perspective, he emphasised patronage as a criterion for the inclusive relationship of involvement.

In conclusion, the concept of bureaucracy as an institution expands the understanding of bureaucracy from a static organisation structure to a dynamic and instantiated social relationship based on certain social orders in modernity. Among those, Kallinikos's (2006) formal organisation perspective provided a direct implication about the juxtaposition of a contract-based relationship and underlying traditional bureaucratic orders, such as centralisation, standardisation and specialisation. The formal organisation perspective—together with the structuration theory presented in this chapter—will be explored again in detail in Chapter Four to formulate a theoretical perspective in this thesis.

2.3.2 Public management and IT outsourcing

2.3.2.1 Limited literature on IT outsourcing in public management

For our purposes the public management literature also needs to be examined. Two case studies (concerning central government bodies of Korea and the UK) require this thesis's author to draw upon literature about public management in addition to conventional literature about IS and organisation study. After a careful review of this literature, three findings emerge that help to delimit the kinds of literature relevant for use.

The first finding is that very little academic research literature exists on IT outsourcing

in public organisations. For example, Flynn (2007) and Walsh (1995) recognise outsourcing as a distinct phenomenon in contemporary public sector management. However, they focus on original public services such as healthcare, refuse collection and street cleaning; IT was introduced as just a possible area of outsourcing. A similar example is the work of Domberger (1998), who provides insightful perspectives on diverse aspects of outsourcing in contemporary organisations. He even explores the characteristics of public sector outsourcing with an individual chapter, but there is little consideration of IT and organisational aspects. Furthermore, with the exception of Dunleavy et al. (2006), IT outsourcing is rarely an independent subject even in the public management literature of e-government (see for example Fountain 2001). This was confirmed by Chen and Perry (2003, p. 405) who explores outsourcing for e-government as follows: “Against the background of the emergence of IT outsourcing, however, the growth of knowledge about government IT outsourcing is surprisingly sluggish.” Apart from the several research papers on the subject by Willcocks and colleagues (collected in Willcocks and Lacity 2009b), the only paper identified as dealing with general characteristics of public sector IT outsourcing is the work of Hancox and Hackney (2000), which compares the two sectors according to criteria of core competencies, transaction cost economics, agency theory and partnership. These authors suggest that one of the contributions of their paper is to introduce sectoral comparison, which has been ignored in other studies of IT outsourcing. Consequently, this lack of literature may imply, by omission, that there is no significant difference in research trends between public and private sectors with respect to IT outsourcing, and no specialised theoretical background for research needed on public sector IT outsourcing.

The second finding is that most concerns about outsourcing in public organisations are

not peculiar to those organisations but are common to them and private organisations; if different they are different in the degree rather than the nature of the concerns. For example, loss of knowledge that had been gained from experience was presented as a concern about outsourcing in the public sector (Walsh 1995). This is necessarily true of any IT outsourcing; private companies also worry about their core capabilities. As another example, benefits from public sector outsourcing may not be forthcoming due to market failure of public services (Flynn 2007); we can see the same phenomenon in the private sector where high transaction costs exist.

The third finding is that research into public management has paid attention to external effects of outsourcing deals. In terms of costs, Grimshaw, Vincent and Willmott (2002) and Walsh (1995) suggest that significant costs are externalised and unacknowledged in the public sector. For example, in the UK government context, short-term cost reduction may be offset by increased long-term expenditure on National Insurance contributions and additional costs of unemployment compensation. These authors also found that public sector managers worried about erosion of the public sector ethos (fairness, antipathy to corruption, reliability and so on) among workers. Consistent with this view, Hancox and Hackney (2000) reveal that local authorities were concerned about frustration with the democratic process arising because of standardised products and services provided by private suppliers. However, this seems relatively less important in IT outsourcing because the nature of IT components has little relationship with political aspects of public policies. In addition, this can be ignored in this thesis because the research scope will be limited to the managerial and organisational levels and does not concern institutional impacts, including the broader socio-economic impacts of outsourcing.

Consequently, the existing intellectual frameworks within IS and organisation studies are evaluated here as being applicable to cases of public sector IT outsourcing as well. This thesis will also include general discussions about outsourcing in public management as a way in to helping to understand the context of two case organisations and their specifically IT outsourcing/BPO experiences. This was something attempted by Seddon, Cullen and Willcocks (2007) when they tested, and validated, whether Domberger's theory about general outsourcing could also be applicable to IT outsourcing. Interestingly, as a further twist, Domberger's theory was itself developed in the context of extensive research into general public sector outsourcing cases involving both non-IT and IT activities.

2.3.2.2 Information systems, e-governance and public management

From a public management perspective, information systems and their impact on contemporary public organisations came to be recognised as an emerging major research area mainly in terms of e-government reform. Three pertinent and representative research studies are selected to review such a trend. First, Fountain (2001, pp. 102-103) suggested seven propositions that will see IT being enacted variably in e-government or, using her term, in founding the 'virtual state':

Government agencies will resist the potential for dramatic efficiency gains if those gains translate into loss of resources (budget and personnel) for the agency.

Federal interagency networks will be difficult to build and maintain because the formal institutions of the federal government reward agency-centred activities and discourage cross-agency activities.

Agencies lack resources for learning to use IT.

Intergovernmental and public–private networks will over-shadow cross-agency IT-based networks because the institutional context favours those arrangements more readily than cross-agency federal networks.

Agencies are likely to focus reform efforts on constituents, or “customers,” who also are potential or actual strategic allies in the appropriations process.

The nature of changes necessary to develop a network will affect the probability of success of the effort.

The culture, history, mental models, and standard practices of a policy domain or agency will affect technology enactment – that is, whether and how an agency uses the Internet.

She also conducted a tangible comparison by distinguishing the virtual bureaucracy required by contemporary public organisation from classical Weberian bureaucracy with seven elements as shown in Table 2-2. This provides a typical analysis of the change in bureaucratic organisational form from a public management perspective.

Table 2-2: Comparison of Weberian and Virtual Bureaucracies

Elements of a Weberian bureaucracy	Elements of a virtual bureaucracy
Functional differentiation, precise division of labor, clear jurisdictional boundaries	Information structured using information technology rather than people; organizational structure based on information systems rather than people
Hierarchy of offices and individuals	Electronic and informal communication; teams carry out the work and make decisions
Files, written documents, staff to maintain and transmit files	Digitized files in flexible form, maintained and transmitted electronically using sensors, bar codes, transponders, hand-held computers; chips record, store, analyze, and transmit data; systems staff maintain hardware, software, and telecommunications

Employees are neutral, impersonal, attached to a particular office	Employees are cross-functional, empowered; jobs limited not only by expertise but also by the extent and sophistication of computer mediation
Office system of general rules, standard operating procedures, performance programs	Rules embedded in applications and information systems; an invisible, virtual structure
Slow processing time due to batch processing, delays, lags, multiple handoffs	Rapid or real-time processing
Long cycles of feedback and adjustment	Constant monitoring and updating of feedback; more rapid or real-time adjustment possible

* Source: Fountain (2001, p. 61)

Recently, Dunleavy et al. (2006) developed a new paradigm for public management reform by use of the term Digital Era Governance (DEG) that focuses on the central role of IT in organising and delivering public services. The authors suggested that DEG will be able to replace new public management (NPM) theory which has been predominant during the past two decade. By a comparative study of seven countries, the research reveals DEG as seems exploitation of enhanced IT as a fundamental principal means of operating in contemporary public management. This suggestion appears clear in the following statement (p. 217):

The whole thrust of this book has been to stress that government IT changes are no longer peripheral or routine aspects of contemporary public management and public policy changes, but increasingly important and determinant influences upon what is feasible.

On the other hand, these authors take a view also consistent that underpinning this thesis—of bureaucracy as institution and with a structural perspective regarding technology and organisation change. This is revealed in the following statements (p.

217):

We see this influence of IT systems as having effects not in any direct technologically determined way but via a wide range of cognitive, behavioural, organizational, political, and cultural changes that are linked to information systems broadly construed.

The authors conclude that the performance of DEG or e-government differs from country to country according to factors such as context, internal expertise, resource allocation, government-IT company relationships, and so on. An interesting finding is the impact of governance institutions and bureaucratic cultures. These authors showed that cultural differences had less influence on IT performance than expected. They presumed that IT outsourcing-dependent environments of public organisations may explain this phenomenon, since applied IT outsourcing methodologies were developed by many global IT suppliers; and have been used in the individual contracts of many countries. To explore this, the authors investigated the competitive tension and the power of the IT industry around each government, but they could not find a straightforward causal relationship between specific IT outsourcing types and performance. These authors provisionally concluded that it depends on the individual context of each government.

Another study relevant to our purposes is provided by White and Korosec (2005). In revealing the frequent failures of public sector IT projects in the federal and local governments of the US, the authors attempted to explore the issues in contracting and outsourcing IT in the public sector. First, these authors confirmed the limitations of using private sector software within the public sector (p. 411):

Unfortunately, government agencies found that software developed for the

private sector often needed to be reworked to meet the unique needs of government, usually resulting in significant additional development costs and project delays.

Other than this self-explanatory factor, no further examples were provided in their research. For example, they presented the political background, such as NPM, as a characteristic driving force of public organisations' IT outsourcing. However, there is no reason why this should be distinguished from the innovation required by the private sector. White and Korosec (2005) also made reference to the government's adoption of the Software Acquisition Capability Maturity Model (SA-CMM) as a new procurement skill of software and IT services. Again, this was originally developed by and for the private sector. Two of the leading conclusions of this research were (White and Korosec 2005, p. 413):

First, public agencies must focus on long-term strategic approaches to managing IT outsourcing agreements (Chen and Perry 2003).

Secondly, managers must remember that IT outsourcing requires more management skills than traditional (government-provided) procurements (Smith et al. 2001).

How these are to be achieved within the context of public organisations remains unclear. However, the latter conclusion listed above implies a need for special requirements, at least with respect to public management.

In summary, the scholars previously mentioned came to recognise the importance of IT or e-governance; however, specific forms of internal management and structures of client organisations were rarely considered, even within these IS-oriented public management studies.

2.3.2.3 Comparison of public- and private-sector IT outsourcing

Public and private organisations have much in common, including their IT outsourcing determinants, strategies, success factors and concerns. Although much public management literature reveals characteristics of public sector outsourcing, this is not the case for IT outsourcing only, as explained in the previous section.

However, an attempt to compare public and private sector organisations is meaningful, not to obtain a general solution but to learn how to better understand the context of public sector practices. For example, Hancox and Hackney (2000) compare the two sectors based on interviews with thirteen IT managers in six private companies and seven local authorities in the UK, as summarised in Table 2-3.

Table 2-3: Comparison between public and private sector IT outsourcing

Framework		Public	Private
Core competencies	Core/non-core classification as outsourcing determinant	low	low
	Requirements of cost reduction and service improvement as outsourcing determinant	medium	high
	Perception of IT as strategic resource	low	high
Total Cost Economics	Transaction cost	high	medium
Agency Theory	Concern of labour opportunism	high	medium
Partnership	Shared risk/award	low	high

* Source: Hancox and Hackney (2000)

Besides the direct comparison above, some descriptive comparisons noted in relevant researches provide this thesis with some implications. Six differences can be identified, four of which are relative differences. Only two points are peculiar to the public sector.

The first distinction is the positioning on global sourcing. Dunleavy et al. (2006) found that global sourcing is not a hot issue in the public sector, contrary to the private sector. There is no similar movement of global sourcing in government contexts (author note: this is changing as at 2010, though) whereas this is a mainstream practice in private sectors. The second distinction is more complex. Recognising a distinction between responsibility and accountability, Hancox and Hackney (2000) conceptualised that democratic accountability belongs to client government organisations; whereas, private outsourcing suppliers are only charged with contractual responsibility. However, Walsh (1995) suggests that the development of market-based approach to public service management does raise the issue of accountability in government (p. 213):

Markets break the clear lines of hierarchical accountability that, at least in theory, characterise the traditional Weberian bureaucracy, with public servants reporting up the line to senior officials, who, in turn, report to politicians [who represent democratic value].

Five reasons for this challenge were presented (p. 213-214):

Separation of the political and the managerial levels within organisations

Interaction of commercial and service motivations, and the challenge to the 'public service' ethic

Difficulties that arise in assigning responsibility in a more differentiated public service

Growth of appointed bodies that operate without traditional controls and are not accountable through the electoral process

Decline of the role of intermediary political levels and the consequent concentration of power in the hands of central government politicians, in the case of the UK

Walsh's concern about the accountability seems a persistent issue throughout all public

sector outsourcing. He insisted on the requirement of significant levels of political reform accompanying the reforms of the management of the public services represented by market-based service delivery. This issue is not to be discussed in detail in this thesis, since this kind of institutional analysis is outside the research scope.

The other four descriptive differences apply to diverse aspects of IT outsourcing. First, the importance of IT outsourcing is strengthened by the fact that the government is unable to compete with private industry in recruiting good quality IT experts, due to, amongst other things, insufficient finance (Dunleavy et al. 2006; Fountain 2001; Grimshaw, Vincent and Willmott 2002). On the other hand, Slaughter and Ang (1996) found that public organisations outsource functions even when they have an adequate monetary budget because of inflexible human-resource management in government bureaucracies.

Second, many client organisations, particularly in the public sector, believe that unless they have direct control over the inputs required for production, they have little if any control over the outputs (Domberger 1998). This is best discussed along with the third concern, namely performance management.

Due to relative diffidence on performance management, public organisations are likely to be more reliant on input control—which makes the present research particularly relevant from both an academic and a practitioner perspective. This was shown by many researchers who consider the shortage of capability in crafting specifications, performance monitoring and contract management. By its nature, the performance of public services cannot be easily calculated (Domberger 1998; Flynn 2007; Grimshaw, Vincent and Willmott 2002; Hancox and Hackney 2000; Walsh 1995). In particular,

over-dependency on key performance indicators (KPI) was noted by Domberger (1998) as a problem in the public sector.

A final point is the recognition of costs. It is difficult to determine the cost of public services, in particular, of complex and common core-support services in the public sector (Flynn 2007; Walsh 1995). This is true because we can see the limitations of market mechanisms within the public sector. Simultaneously, it is false because, on the one hand, if we confined our discussion to IT outsourcing it would be easier to calculate costs here than for any other public service outsourcing, and on the other hand, the nature of IT resource management in public organisations seems similar to that of the private sector. Even in private companies, the calculation of costs and benefits has become more and more difficult due to the integrated nature of large IS.

General discussion about the public-private distinction seems to be not particularly illuminating. Cases need to be examined individually because most differences are only relative ones and are, as will emerge from the research, dependent on the nature of specific public services. However, these findings provide an appropriate framework for understanding the context and provide confidence in using the theoretical and analytical framework rooted in IS studies rather than just in public management.

2.4 Information systems and structuration theory

As briefly mentioned already, structuration theory is the informing social theory underpinning the thesis's exploration of IT outsourcing and organisation change. Giddens's structuration theory has been adopted by many IS researchers since the late 1980s (Jones, Orlikowski and Munir 2004). One key feature of the structuration theory

is the recognition of the duality of structure that re-conceptualises the dualism of objectivism (e.g., naturalism and functionalism) and subjectivism (e.g., hermeneutics or phenomenology) (Giddens 1984). On this point, he proposed the interaction between structure (representing objectivism) and activities of human agents (representing subjectivism), which work as both causes and results during the process of recursive reproduced relations. Giddens's key concepts are as follows (p. 25):

Structure(s): rules and resources, or sets of transformation relations, organised as properties of social systems

System(s): reproduced relations between actors or collectivities, organised as regular social practices

Structuration: conditions governing the continuity of transmutation of structures, and therefore the reproduction of social systems

The concept of rules composing structure consists of rules of social life and formulated rules. The former means “techniques or generalizable procedures applied in the enactment/reproduction of social practices”, and the latter refers to “codified interpretations of rules rather than rules as such” (Giddens 1984, p. 21). Bureaucratic rules are presented as the typical form of the latter. In addition, he claims that “[r]esources are drawn upon and reproduced by knowledgeable agents in the course of interaction [...] Resources are media through which power is exercised, as a routine element of the instantiation of conduct in social reproduction” (p. 16). Meanwhile, it is important to understand Giddens's voluntary concept of human agency, which states that “the seed of change is there in every act which contributes towards the reproduction of any ‘ordered’ form of social life” (Giddens 1976, p. 108; as cited in Jones et al. 2004, p. 304). He also suggested that human activities do not require actors' consciousness. According to structuration theory, human agents' intermediary roles, in particular

emerging as institutionalised behaviours—whether those are intended or not—are always requisite in the perception of social systems. These aspects are clearly revealed in his understanding of power and time-space zone (Giddens 1984):

Power is thus seen as being instantiated in action rather than being a type of act, or a resource to be drawn on, and all sanctions, no matter how oppressive and comprehensive, even the threat of death, carry no weight without the acquiescence of those threatened with them (p. 175).

As time-space is zoned in routinised social practices it is regionalized, with certain spaces becoming associated with particular activities (p. 305).

Regarding the application of structuration theory to IS studies, Pozzebon and Pinsonneault (2008) discuss its challenges as follows: first, structuration theory is too complex, addressing high level abstractions, to be applied to empirical studies of IS phenomena; and second, it cannot be easily combined with other theories or methodological approaches in a coherent manner. These points have been criticised as common weaknesses by many other researchers (Jones, Orlikowski and Munir 2004). Given the above, Halperin and Backhouse (2007) summarised the types of structuration theory application in IS research, presented in Table 2-4.

In spite of Giddens's suggestion of a harmonised approach between objectivism and subjectivism, as Halperin and Backhouse (2007) noted, structuration theory is understood to be founded in constructive and interpretive perspectives against other perspectives focusing on scientific truth and social reality. This is very coherent with the overall philosophical stance of this thesis, as described in the next chapter. In addition, as examined in Chapter Four, this thesis employs structuration theory to form a conceptual framework. More specifically, this means using it as a meta-theory informing other theoretical foundations. For example, structuration theory contributes

towards overcoming the weaknesses of functionalists' perspectives revealed in other theoretical perspectives employed in this thesis.

Table 2-4: Types of structuration theory application in IS researches

Types of structuration theory application	Categories of application proposed in the literature
Application of structuration theory in empirical IS studies	Operational studies
	Analyze
	Structuration theory applications in IS research
Use of structuration theory with other theoretical approaches	Use as meta-theory
	Use of structuration theory with other theories
Use of structuration theory concepts in IS research	Use of individual concepts
	Use of structuration theory concepts and related Giddens' writing
Theorization of IS domains using structuration theory	Theorise
	Development of an IS specific version of structuration theory

* Source: Adapted from Halperin and Backhouse (2007, p. 3)

2.5 Conclusion

The purpose of this chapter was to identify theoretical foundations in order to give shape to the research question and to provide intellectual frameworks for the analysis of phenomena and the interpretation of the study's findings. Five bodies of literature have been examined, and the implications of each body can be summarised as follows. From the IT outsourcing literature, knowledge of IT outsourcing characteristics improves the general understanding of IT outsourcing environments. For example, there are usually

high transaction costs observed; and relationship management is investigated as a particularly critical success factor in outsourcing. However, the lack of studies regarding client organisations' structures and their change in terms of IT outsourcing is recognised, driving this thesis's research interest presented in the introduction chapter.

Second, from the IS and organisation change literature, two weaknesses are revealed. On the one hand, contextual analyses of structure, history, human behaviour and mutual interactions are scarce in the existing literature. On the other hand, this research strand seldom addresses IT outsourcing-specific analyses—that is, its interest is restricted to IT and its impact on organisation change, or on the process of enactment. There is little research on client organisation change brought about by the outsourcing of IT. As explained in the next chapter, the research question of this thesis is designed to fill this gap in knowledge, partially by applying the IS and organisational change literature

Third, as reflected by Dunleavy et al. (2006) and Fountain (2001), there is a shortage of studies on IT, and IT outsourcing and BPO in public management studies. On this point, we inevitably find ourselves referring to the general IS literature to study e-government cases. Theories rooted in private sectors are also posited as useful for explaining the phenomena observed in government organisations. Nonetheless, evidence obtained from public management studies is also usable to achieve a richer contextual understanding of public sector phenomena.

Fourth and fifth, the formal organisation perspective and structuration theory were investigated as proper viewpoints of bureaucracy, structure, human behaviours, rules, and related concepts. This was also supported by Dunleavy et al.'s DEG work and proposal, as previously mentioned. Technology is not a sole and independent

determinant of organisation change. These theories provide solid theoretical foundations for understanding and interpreting social systems and IT. These provide substantial frameworks for understanding change and dynamic context in a holistic manner. For example, organisational change in this thesis will be conceptualised as a more multidimensional term, including changes of structure, human capability, behaviour, technology and strategy.

In conclusion, following the literature review, IT outsourcing and client's bureaucratic organisation change are put forward as a specific research topic, which has to date been rarely explored within the IS research tradition. Bureaucracy as institution and structuration theory are selected to form a theoretical perspective and to supplement the shortage of contextual significance of social systems and processes from the functional viewpoint of many otherwise relevant IS studies. These aspects will be more thoroughly explained in the methodology chapter that frames the research question, and in the conceptual framework chapter, where we build this thesis's theoretical and base and analytical framework.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter describes a research design to frame the research structure and methodological considerations for scientific social research. The main purpose of this chapter is to provide evidence of research rigour. This goal will be achieved by demonstrating a cohesive research framing process and appropriate research methods to be employed in this thesis.

In explaining the process of research framing, chosen philosophical stances against the research background introduced in Chapter One are explored and the construction of research questions is presented, intertwined with philosophical background, research interests, employed theories, and research methods used. To explain the research method, constructed research design components such as research strategy and other methodological choices are given after the research frame is explained. The field studies section that follows details the specific research methods employed in two case studies, along with their rationale. Finally, justification for the chosen methodology according to the methodological background mentioned above is discussed.

While focusing on the methodological considerations of this thesis, this chapter presents and justifies research questions, research strategy and methods, underpinning philosophy; it also provides a general discussion of associated methodological

components. Additionally, some of the elements involved, such as the theoretical perspective and analytical framework, are briefly introduced, but a detailed discussion will be given in Chapter Four.

As a preliminary, the author's involvement in one of the two selected cases needs to be explained. The author worked on the development and implementation of the e-government procurement system as a government official—first as an assistant director and later as a director of an IT division—in the PPS from 2000 to 2006. In addition, he plans to return to his position after the study. This research position raises issues for methodology. These will be dealt with separately in the section on methodological appropriateness.

3.2 Framing the research

3.2.1 Philosophical stances and research frame

Research topics are derived from researchers' ontological perceptions of social reality and epistemological perspectives on ways of acquiring knowledge. With respect to the definition of ontology, Bhaskar (1978, pp. 29-30) divides it into philosophical and scientific ontology. The former is referred to as "the sense of the kind of world presupposed by a philosophical account of science"; the latter means "the sense of the particular entities and processes postulated by some substantive scientific theory". In addition, in a social science view, Searle (1995, pp. 5-6) explains ontology as follows: "Since our investigation is ontological, i.e., about how social facts exist, we need to figure out how social reality fits into our overall ontology, i.e., how the existence of social facts relates to other things that exist." To summarise, ontology means the study

of being, of existence.

On the other hand, epistemology is the theory of knowledge. One of its definitions is “the theory of knowledge embedded in the theoretical perspective, described as philosophical stance informing the methodology and thus providing a context for the process and grounding its logic and criteria, and thereby in the methodology” (Crotty 2003, p. 3). Aside from in-depth discussion of this subject, epistemology can be exemplified by positivism, realism, constructivism, interpretivism, critical theory, postmodernism, and so on (Crotty 2003).

Confusion about terminology exists in epistemology as these are very abstract concepts. For example, Crotty (2003) separates epistemology and theoretical perspective, and objectivism, constructionism and subjectivism are presented as epistemology. In his terms, positivism and interpretivism belong to a theoretical perspective. Kaplan and Duchon (1988) also use a theoretical perspective for these. On the other hand, Mingers (2001a) and Smith (2006) describe these as paradigms; however, it is more important to understand ontological and epistemological propositions and the senses of subjective and objective rather than the classification of terminology. Searle (1995, pp. 8-9) explained these concepts in terms of the following cohesive metaphor:

The statement “Mt. Everest is more beautiful than Mt. Whitney” is about ontologically objective entities, but makes a subjective judgment about them. On the other hand, the statement “I now have a pain in my lower back” reports an epistemically objective fact in the sense that it is made true by the existence of an actual fact that is not dependent on any stance, attitudes, or opinions of observers. However, the phenomenon itself, the actual pain, has a subjective mode of existence.

Whether explicitly or implicitly, social reality can be understood and explored from the combined perspectives of ontology and epistemology, as in Searle's explanation. Each researcher's ontological position is understood as lying in the continuum between two extreme positions, objectivism and subjectivism (Searle 1995). Regarding ontology, critical realism came to be acknowledged as an appropriate philosophy for IS research, including interpretive studies (Mingers 2004; Smith 2006; Walsham 2006). On the other hand, in IS studies, positivism and interpretivism have been regarded as the two dominant forms of epistemology. Despite the overwhelming strength of positivism in the IS field of the 1980s, interpretivism seems to have been considered a valid approach from the early 1990s (Orlikowski and Baroudi 1991; Smith 2006; Walsham 1995a). In fact, Weber (2004) notes that interpretivism has become prevalent in current IS studies. Similarly, Crotty (2003) and Smith (2006) also explain that strong traditions of positivism have decreased as post-positivism has developed. Within the research interest provided and the author's professional experience in IS fields, the philosophical stances of this thesis can be explained as laying within the mainstream research traditions of critical realism and interpretivism.

3.2.2 Critical realism and interpretivism

Critical realism forms the ontological background of this research. In this philosophical approach, knowledge is classified into two dimensions: intransitive (subject-independent characteristic of social reality) and transitive (constructive perception of world) (Bhaskar 1978; Sayer 2000). On the one hand, a subject-independent critical realist's ontological perception leads the thesis author to explore objectified realities (e.g., organisational format/process and IT outsourcing contract); on the other hand, the recognition of interpretable transitive knowledge will help the author understand

phenomena beyond the observed.

Meanwhile, interpretivism is an epistemology in contrast with conventional positivism. A description for it has been given by many researchers, but that of Crotty (2003, p. 67), in contrast with positivism, is given first:

A positivist approach would follow the methods of the natural sciences and, by way of allegedly value-free, detached observation, seek to identify universal features of humanhood, society and history that offer explanation and hence control and predictability. The interpretivist approach, to the contrary, looks for culturally derived and historically situated interpretations of the social life-world.

Common and shared concepts of interpretivism are as follows: producing an understanding of context and process as an aim; recognising subjective interpretations of actors and researchers; signifying meanings behind language, consciousness, shared meanings and other artifacts; sustaining the distinction of social scientific methods from those of natural science such as hypothesis testing (e.g., Avgerou and Walsham 2000; Klein and Myers 1999; Lee 1991; Orlikowski and Baroudi 1991; Sayer 2000; Walsham 1993).

On the other hand, Sayer (2000) suggests that critical realism is different from conventional realism in that it focuses on necessity and contingency instead of regularity; it assumes a more open social system with different contexts than a closed or concrete open system. Simultaneously, it does not reject the characteristics of social processes dependent on actors' interpretations. As a result, critical realism is widely compatible with diverse research methods, from positivism to interpretivism. Moreover, its perspective of causative mechanisms with conditions determined by contexts between cause and effect provides a proper analytical framework for this thesis. Against

positivistic causality as a constant conjunction of events, mechanically mapping inputs to outcomes, Smith (2006) epitomises the interpretivists' causality as circular and multidimensional. In this respect, critical realism-based interpretivists' causation can be understood as, in Sayer's terms above, contexts and actors' interpretation-mediated causation.

Critical realism is also argued to be recognised as an epistemological stance: Bhaskar (1978) suggested comprehending ontological and epistemological questions within it, and Mingers (2001b) supports this view by revealing epistemological aspects of transitive knowledge. He regards the transitive dimension as an epistemological domain. In addition, Sayer (2000) explains that critical realists leave room for interpretive understandings of social reality. Based on this characteristic, critical realism addresses abundant rationale for the epistemological question of 'how reality is known'.

However, interpretivism can also be identified as a coherent epistemological stance of this research, considering the constructive character of the transitive knowledge in critical realism. This coherency is insightfully proposed by Smith (2006, p. 207), as follows:

[Critical realism] gives a solid ontological grounding for interpretivist research reaffirming the importance for a focus on meanings, interpretation, and context as causal influences without unnecessarily denying their existence.

To strengthen the consistency between subject-dependent epistemic understanding and subject-independent ontological characteristics of critical realism, some supporting concepts need to be drawn upon. For example, Haraway (1991) criticises 'strong social

constructionism’ from a critical realist’s point of view. The concepts of ‘mild constructivism’ (Sismondo 1993), ‘moderate essentialism’ (Sayer 2000), and ‘a broadly interpretive approach’ (Avgerou and Walsham 2000) sustain that combined conceptualisation.

3.3 Research design

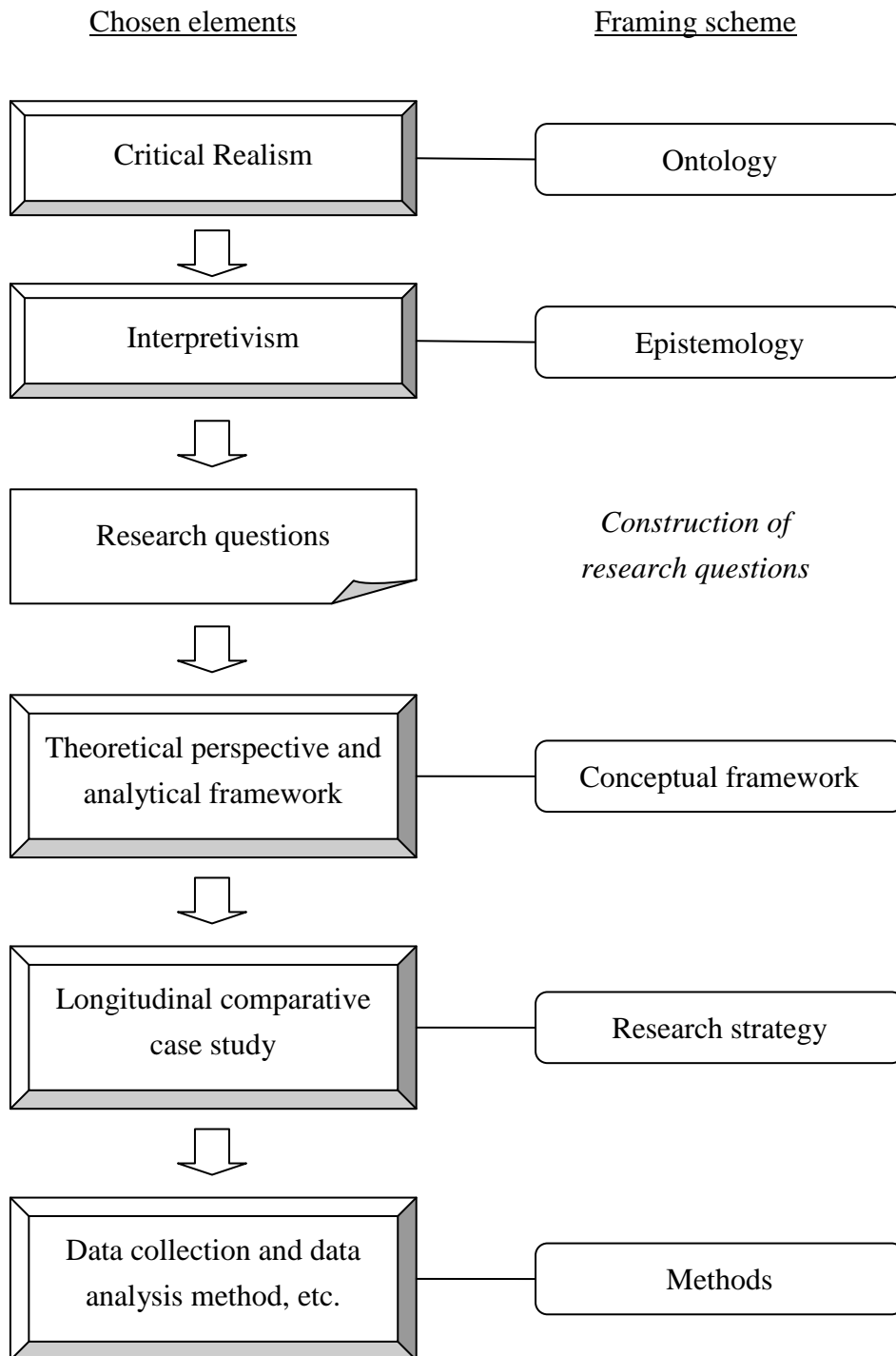
3.3.1 Construction of research questions

Research questions can be constructed based on the research interest introduced in Chapter One and the philosophical stances above. In order to do this, a research framing scheme needs to be reviewed. Crotty (2003) provides a hierarchy of four elements to be considered in a research proposal, namely, methods, methodology, theoretical perspective, and epistemology. Inspired by this approach, Figure 3-1 displays the hierarchical research framing scheme of the thesis, comprising ontology, epistemology, a conceptual framework, a research strategy and methods.

The figure is interpreted as follows. Research can be framed by a sequential and hierarchical structure. As explained, researchers’ philosophical stances (ontology and epistemology) drive the construction of research questions. Critical realism and interpretivism have been presented as those philosophical stances. After research questions are set up, a conceptual framework needs to be invented; relevant research strategy and methods should then be chosen based on those intellectual backgrounds. To provide related elements in advance, a conceptual framework consists of theoretical perspective and an analytical framework to be presented as structuration theory-informed formal organisation perspective and a processual analysis-informed

multidimensional IT outsourcing configuration framework, respectively.

Figure 3-1: Research frame and associated intellectual elements



The selected research strategy is a longitudinal comparative study; main data collection methods are participant observation and interview; the primary data analysis method is argumentation analysis. Among these, the conceptual framework will be explained in Chapter Four, whereas the other components are explored in this chapter.

The significance of this research framing scheme lies in its contribution to the maintenance of consistency among chosen philosophical and theoretical perspectives, research strategy and research methods. Though admittedly a combined approach, there are definitely inconsistent combinations of these elements. For example, critical realists cannot hold the subjectivist position of extreme interpretivists, because they believe that “researcher and reality are inseparable” (Weber 2004, p. iv); however, the nature of critical realism also differs from that of objectivism.

Here is an actual example of the benefit of this scheme. While assuming critical realism and interpretivism as philosophical stances and a single case study as a research strategy, the author had initially set up a research question as building an IT outsourcing governance model when this research began. In addition, while following epistemic positions as constructible and interpretable social reality mediated by human behaviour, and while applying Giddens’ structuration theory (Giddens 1984) requiring a contextual approach, some functionalistic frameworks such as an IT outsourcing configuration framework (Cullen, Seddon and Willcocks 2005) were attempted without critique.

However, during contemplation of research framing illustrated in Figure 3-1, the author came to recognise that those were methodologically confusing and inconsistent. An initial research question required a positivistic approach employing significant multiple cases and theory testing to lead to a functional outcome. In addition, a possible invented

model needed to be generalised while minimising the impacts of local contexts and the need to maintain strong causation between model components and managerial practices. Nonetheless, those were against the author's philosophical stances, and output is necessarily unachievable by use of the intended research strategy. For example, Smith (2006) summarises the interpretive research purpose as follows (p. 197): "The goal of much interpretivist research is not to uncover universal laws, but instead to supply descriptive narratives of the events under exploration." The previously stated initial research question had falsely pursued a universal law through interpretive research.

Consequently, to correct the immaturity of methodology, existing conceptual frameworks were invented to follow a contextual approach by use of Pettigrew's (1997) processual analysis; involved theories were not employed to be tested, but as the criteria of exploration; no effort was made to generalise the results. Finally, the research purpose was altered from model building to understanding of phenomena. Generalised implications of this thesis should be understood as tendencies rather than predictions, as suggested by Walsham (1995b), as interpretive research generalisations; theories are used to guide empirical research and to interpret research findings, as encouraged by Avgerou and Walsham (2000).

From this philosophical background and findings in the literature review, provisional questions were developed, as follows:

How do bureaucratic organisations relate to and deal with IT outsourcing in dynamic contexts?

What are the structures of bureaucratic client organisations and the organisational changes occurring in tandem with the pursuance of IT outsourcing?

What are the contextual features and social processes shaping the underlying choices and modes of management undertaken by client organisations in regard to IT outsourcing?

These questions are motivated by the findings of the critical literature review, this author's own professional experience, and a related pilot study. Regarding the results of the literature review, this will be a trial to supplement the lack of outsourcing studies on client organisation, as stated in the literature review section. No study of outsourcing was found emphasising pre-existing client organisational structure or contextual and processual change impacting its own bureaucratic structure. Besides IT outsourcing research, within the literature on organisation studies, no significant empirical studies thoroughly addressing this issue specific to outsourcing IT were found either. Consequently, to link the outsourcing literature with organisation studies, this thesis was motivated by the need to develop theoretical underpinnings incorporating change, time, dynamism and external and internal contexts, to bridge the gap between two relevant research areas.

The chosen critical realist's perception and interpretivists' perspective on social reality will keep this thesis consistent in driving the study as follows: on one hand, a subject-independent critical realist's ontological perception leads to exploration of objectified realities, such as organisational arrangements such as organisation form and IT outsourcing contract, and Sayer (2000) provides bureaucracy as an example of critical realists' real and actual object; on the other hand, the recognition of interpretable transitive knowledge of critical realism and interpretivists' epistemology will help this author understand phenomena beyond the observed. As previously suggested, this view is reinforced by the perspectives of structuration theory. For example, the author's observations reveal that reproduced social practices have much more influence on social

phenomena than hierarchical administrative authorities do, even in a strong government bureaucracy, as discussed later.

Finally, in regard to the research question, Silverman's (2005) 'kitchen-sink' approach to narrowing research topics was considered. This proposition is well stated as follows: "If you define your topic very widely, you will usually be unable to say anything at great depth about it" (p. 80). It is composed of the following strategies: draw a flow chart, find a puzzle and use a zoom lens. These describe reflexive considerations in constructing achievable and contributable research questions. The questions are focused on bureaucratic organisational structures of client organisations and their changes. These have been delimited from wider governance issues in the early stages. In addition to the current questions, initial research interests had covered the following: exploring IT outsourcing success factors, designing organisation in terms of business and IT side (in-house and outsourcing suppliers), identifying the capabilities of in-house staff, and conceptualising a new bureaucracy characterised by IT outsourcing. These still stay as relevant subjects of this thesis and are explored to support existing questions; however, the focus of the research question was devised to examine client organisations' bureaucratic structures, though structure here does not mean a conventional concept of organisational form, as discussed in the section on bureaucracy as institution, in Chapter Two.

3.3.2 Research strategy

According to Yin (2003, p. 5), the research strategies of social science can be categorised as follows: experiment, survey, archival analysis, history, and case study. Among these, the case study was selected because, following Yin, the type of research

question is ‘why/how?’, control of behaviours or events is not required, and it covers contemporary events. A longitudinal comparative case study method forms the specific case study strategy employed in this thesis. According to Pettigrew (1997), this method reveals recurrent patterns in processes and provides the opportunity to explore holistic explanations within and between cases; however, this is not large cross-sectional comparative research to achieve generalised and representative results. On the contrary, this is an intensive and interpretive case study to explore social processes, underlying contexts and human behaviours. In this respect, this thesis does not aim primarily to explore commonness of or differences between cases. Based on Pettigrew’s processual analysis, embedded in the analytical framework of this thesis, it is used to gain a holistic understanding of bureaucratic organisational structure and its changes in terms of IT outsourcing. However comparisons can be made across the two cases to help elicit causation and impacts of the variety of factors being brought to bear in each case.

On the other hand, this intensive study approach is also justified by the criteria emerging from the chosen philosophical and theoretical literature. It is appropriate for a critical realist, “strong on causal explanation and interpreting meanings in context” (Sayer 2000, p. 21). This has also been proposed as a proper approach to structuration theory, which will be discussed in detail in a later chapter. Jones, Orlikowski and Munir (2004, p. 322) conceive of this approach as follows:

[I]n-depth studies of a single or few organizations allow us to see the different ways in which structures can be enacted, which would otherwise be completely missed in large cross-sectional samples, where such differences would tend to cancel each other out.

A more detailed analysis of this longitudinal comparative case study strategy will be provided in the conceptual framework in Chapter Four and implemented in empirical

investigation chapters thereafter.

This thesis selects two cases. The first is outsourcing of the e-GP system of the PPS of Korea. This was researched as a pilot study for this research as well. Pettigrew (1997) emphasises that a single pilot case study is the best approach to the study of organisational change and development because it can be used to form and verify relevant concepts and initial pattern recognition. Another case is outsourcing of the TPS administration of the DCSF of the UK. These two case studies are described in Chapters Five and Six, respectively, and synthesised and compared in Chapter Seven.

The rationales for selecting these case organisations can be described as follows. First, these two organisations are accessible to the author. The author is currently a PPS government official; hence, he can make use of that position. On the other hand, there exists a link to DCSF through the author's associated school's research institution. Beyond this accessibility rationale, these two cases reveal contrasting characteristics, as will be discussed in Chapter Seven. In spite of these differences, the two organisations are expected to share some commonalities as government organisations from Korea and the UK. In these terms, the choice of these two case organisations fits the requirement of the provided research questions involving a bureaucratic organisational structure.

3.3.3 Research methods

3.3.3.1 Unit of analysis

In case studies, this thesis analysed the following areas: where IT outsourcing-related decisions are made and implemented; where IT outsourcing deals are contracted and

monitored; and where IT outsourcing-related activities are managed, assessed and fed back. Only an overall approach is presented here as research methods are considered in the research design stage.

In the case of the PPS, IT divisions were the most important units, according to these criteria. This is consistent with the statements above regarding narrowing of research questions. The unit of analysis is delimited as well, to focus the research questions; however, some phenomena observed in the combined work of IT and business divisions are noteworthy, since they have required serious organisational change. The unit of analysis will expand to such areas. The time boundary of the PPS case study was set between 2000 and 2008, when the current version of a large e-government procurement system was implemented and outsourced.

On the other hand, no IT division remained after BPO within DCSF. In addition, as explored later, the case of DCSF is not categorised as IT outsourcing, but as BPO. Under these circumstances, the remaining organisation of the client is relatively small, with around 25 staff members, compared with about 250 staff members on the supplier's side. Moreover, the number of initially transferred staff from DCSF to a supplier was about 500 in 1996. In this sense, the unit of analysis in the DCSF case study is the entire division relevant to TPS business. This is an independent mission unconnected with other divisions of DCSF; however, in this respect, the supplier's side will be more seriously explored compared with the case of PPS, in that it was a prior government bureaucratic organisation and relevant IT functions and achievements emerged. The time span of the DCSF case study was set between 1996 and 2008.

3.3.3.2 Data collection method

Participant observation, interviews and document analysis are employed as data collection methods. The main data collection methods of PPS's and DCSF's case study are participant observation and interviews, respectively. In the process of data collection, Yin (2003) presented three principles as follows: "obtain multiple sources of evidence", "create a case study database" and "maintain a chain of evidence" (pp. 97-106). Ultimately, this thesis follows those processes in terms of data collection. For example, participant observation will be triangulated by interviews in PPS; interview result will be double-checked by documents. In particular, interview data from diverse interested parties—the client, supplier, manager-level, staff-level—can be another route of triangulation based on multiple sources. These data will be cohesively interpreted by the criteria of solid analytical framework, as will be shown in the empirical chapters.

Regarding the PPS's primary data collection method, possible disputes about participant observation surround the scientific rigour maintained by the researchers. This point may be raised due to the subjective position of the author, which forms the ethical issue of this thesis and is explained in a separate section later.

The researcher has selected to use the semi-structured interview, which may require improvisation with an incomplete script (Myers and Newman 2007). Key questions and their structure were created by the criteria for an analytical framework given in Chapter Four. In addition, this thesis will maintain interview-related rigour by following the seven guidelines for qualitative interviewing proposed by these authors: (1) situating the researcher as an actor; (2) minimising social dissonance; (3) representing various "voices"; (4) everyone is an interpreter; (5) using mirroring in questions and answers;

(6) flexibility; and (7) ethics of interviewing. Finally, this thesis will report details of the interview process, as suggested by Myers and Newman (2007), including period, recording technique, etc. The application of these will be presented in the section regarding field study.

Regarding the seven interview ethics, the Research Subject Information and Consent forms for agencies were read and signed by all four parties in two contracts of PPS and DCSF; and the individual Informed Consent Form for Research Study was signed by and collected from every interviewee (see Appendix 1 for these forms). According to these documents, the titles of the involved organisations can be disclosed, whereas every interviewee was handled anonymously.

Finally, it is important to explain the structure of the interview. A theoretically informed interview pro-forma was recommended for the processual analysis (Pettigrew 1997), and this was employed as part of the analytical framework. Pettigrew suggested that: “Comparative case study work such as pro-formas provide the analytical spine for the study—a constant reference point and tracking device through the study. Normally, such pro-formas are tested and refined in the set of early interviews” (p. 344). As implied by this approach, semi-structured interview scripts were open to change before and during the interviews.

3.3.3.3 Data analysis method

Regarding data analysis, Yin (2003) proposed a strategy for “linking data to propositions” as “pattern matching” suggesting that “several pieces of information from the same case may be related to some theoretical proposition” (p. 26). In addition, he

presented the “relying on theoretical propositions” strategy as the most preferred strategy for the analysis of data (p. 111).

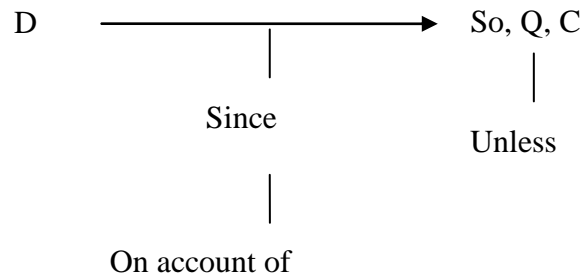
This proposition is applied to this thesis. As will be presented in the next chapter, processual analysis (Pettigrew 1997) is employed as a component-forming analytical framework. In Pettigrew’s work, he stresses the links between context, processes, content and outcomes, as well as the recursive cycle of induction and deduction. This is also compatible with the use of theory, suggested by Avgerou and Walsham (2000), in interpretive research as a guiding scheme, rather than the target to be tested or constructed. Within this research, entire processes of data collection and analysis will follow the presented conceptual framework, and all findings will be interpreted by the framework’s components.

For the mode of data analysis, argumentation analysis will be employed. Although it is a matter of degree, not many symbolic materials are expected to be data in this study. Involved phenomena are the result or process of denotative restructuring government organisations or outsourcing contracts. On this point, some conventional interpretive approaches—particularly, those that are hermeneutic and semiotic—do not seem appropriate.

As a type of content analysis method, argumentation analysis emphasises the “interactional view of argumentation, their focus being on the informal use of arguments in everyday discourse and within a particular context” (Liakopoulos 2000, p. 153). In particular, Toulmin’s theory of argumentation provides an analytically functional account of argumentation analysis (Liakopoulos 2000; van Eemeren, Grootendorst and Kruiger 1987). Toulmin (2003) presented the schematic skeleton of

an argumentation structure (originally developed in 1958), as illustrated in Figure 3-2, which consists of data (D), warrants (W), backing (B), claim (C), and rebuttal (R).

Figure 3-2: Toulmin's argumentation structure



* Source: Reprinted from Toulmin (2003), p. 97

According to Toulmin (2003, pp. 89-100), claims (C) are established by appealing to data (D) as foundations. However, warrants (W) are usually required to link D with C. He distinguishes D from W by defining D as specific and explicit and W as general and implicit. In addition, he addresses the required rebuttal (R) and qualifier (Q), which refer to the exception or condition constraining C and R's possibility, respectively. Q is qualified by such terms as 'presumably', 'almost' and 'certainly'. Also, he explains that backing (B) is useful when W are challenged. B is distinguished from W in that B is expressed in the form of categorical statements of fact, whereas W by hypothetical and bridge-like statements. All of the components are not necessarily required. In fact, the simplest form may be as simple as 'D→C'. Toulmin asserted that the skeleton illustrated in Figure 3-2 is complex enough to extend even to complicated arguments.

In spite of its comprehensiveness for the analyses of argumentation, this model is not easily applied in empirical research; in particular, the distinction between D, W and B

appears to be somewhat ambiguous, even arbitrary. Still, the method's strength lies in its ability to explore and address controversial social phenomena.

This is an appropriate approach for this research for the following two reasons. First, the change in client organisations was the result of strong disputes between constituents. Argumentation analysis has seldom been used by IS researchers, but this thesis reveals that it can be useful in IS fields of controversy. Secondly, argumentation analysis is also a proper instrument to enhance interpretive research quality, and, more specifically, to overcome this thesis author's subjectivity as an ex-participant. The exploration of phenomena in empirical investigation from Chapters Five to Six is the result of this argumentation analysis. Specific presentations of this application will be attached in Appendix 2.

3.4 Field studies

3.4.1 PPS case

In the PPS case study, the author was able to observe most of the phenomena and collect documents as a PPS official; the author also conducted some related researches regarding this case (e.g., Lee 2007; Lee 2009; Lee et al. 2007; Seong and Lee 2004), which describe the overall process of IS building and its performance. Regarding this thesis, a pilot study was conducted in March 2007 during the preparation of the research proposal. In this pilot study, relevant concepts regarding the employed analytical framework were tested and modified to be applicable. In actuality, owing to the author's sound understanding of the case as a prior participant, the establishment of this framework was processed smoothly. It included several telephone interviews and

Internet chatting with former colleagues to confirm the application of concepts to the current settings.

As discussed above, the description of the field study follows Myers and Newman's (2007) reporting principles. After the literature review and construction of the conceptual framework, the field work was conducted for two weeks, October 13-24, 2008. While at the offices, the author observed what had been changed and examined recent documents. The relevant interviews were conducted from October 16-20, 2008.

Table 3-1: Interviewees of PPS's case study (16-20 October 2008)

Organisation	Client (PPS)		Supplier	Advisory group	Total
	IT	Business			
Senior managers	3	2	2	2	9
Middle managers	3	1	2	1	7
Staff	2	3	-	-	5
Total	8	6	4	3	21

The total number of interviewees was twenty-one; the group consisted of various levels of in-house business and IT staff, outsourcing suppliers and advisory groups, including academics and an involved consulting firm. The composition of these informants is given in Table 3-1, all of whom have worked for the case since the beginning. The interview type was semi-structured and qualitative, which requires improvisation with an incomplete script (Myers and Newman 2007); the interviews lasted approximately one hour each participant. Questions were asked that corresponded to the three dimensions constructed by the framework of this thesis that will be fully presented in the next chapter. The interview scripts used in PPS were translated into English by the author of this thesis and reused in the DCSF case study. This English version is given in

Appendix 3. Furthermore, all interviews were recorded and saved, but not transcribed.

From the interview data, some significant phenomena were revealed, in particular, those that happened after the thesis author left the office. With the assistance of the diverse informant sources, the interview responses can be revisited and re-interpreted. These comprise the empirical investigation detailed in Chapter Five.

3.4.2 DCSF case

A similar approach was adapted to the DCSF case study, including the interview structure and procedures. In contrast to the PPS case, however, the primary data collection method was the interview. There was no opportunity for participant observation, so data sources were restricted to interviews and documents collected from the field.

Regarding the interview, the same script as that for PPS was used, though those were under ongoing change. A total of 20 interviews were conducted with 19 informants. The interviews were held twice, the first stage from 9-11 February 2009 for three days; and the second group took place from 29-30 September for two days. The preparation for interviews, such as the appointment of appropriate informants and interview schedules, was completed before the visits, and the interviews were conducted as planned. Including two telephone interviews, all interviews took sixty to one hundred and fifty minutes each. Six key informants were interviewed twice, and five interviews were held with two interviewees simultaneously. All interviews were recorded and transcribed for follow-up review.

The first visit focused on understanding the background of the deal, whereas specific data to be mapped with this thesis’s analytical framework were collected during the second trip.

The informants were composed of individuals from various levels and associated organisational groups. Many of them were key participants and witnesses of the 1996 outsourcing adoption; hence, they were able to provide profound and rich data so the author could better grasp the context and processes that occurred in DCSF during the past ten years plus. Such data comprise the 20,000-word empirical investigation chapter of this thesis. The groups of informants are summarised in Table 3-2.

Table 3-2: Interviewees of DCSF’s case study (9-11 February / 29-30 September 2009)

Organisation	Client (DCSF)	Supplier		Total
		Transferred	Non-transferred	
Senior managers	2	2	3	7
Middle managers	1	5	-	6
Staff	1	2	3	6
Total	4	9	6	19

Out of 19 informants, only two are IT experts and currently working in related areas. The nine transferred staff members refer to DCSF government officials before the 1996 outsourcing process.

3.5 Methodological appropriateness

3.5.1 Interpretive research rigour

This thesis author's ex-participant's position required that he determine whether his involvement style would be that of 'outside researcher' or 'involved researcher' (Walsham 2006). This forms the ethical issue of this thesis as stated in the next section.

With respect to this positioning, Walsham (2006) supported the uses of Klein and Myers's seven principles and Golden-Biddle and Locke's three criteria in interpretive research. He proposed these criteria for interpretive researchers to apply for the justification of their methodology. On the one hand, Klein and Myers (1999) emphasised contextualised iterative critical reflection in a case and research environment.

More specifically to the presentation of the result, Golden-Biddle and Locke (1993) suggested that convincing ethnographic research needs to meet three criteria of authenticity (the research conveys the vitality of everyday life), plausibility (it reveals distinctive research contributions while dealing with common concerns within the readers' community) and criticality (it enables readers to re-examine their taken-for-granted ideas and beliefs). Together with the Walsham's (2006) recommendation above, these criteria are important in this thesis research, since most of the PPS's case study data are similar to those obtained from ethnographic research, in that researcher stayed and collected data there for entire period of interest.

The conventional research quality criteria of validity, reliability and representativeness have been contended and reinvented for qualitative researches by many scholars (e.g.,

Gaskell and Bauer 2000; Trauth 1997). An insightful declaration of this viewpoint appears in Trauth (p. 242):

The subjective nature of qualitative methods, in general, and ethnographic ones, in particular, therefore, calls for a totally different perspective on reliability. [...] [Reliability] means producing results that can be trusted and establishing findings that are meaningful and of interest to the reader.

In conclusion, this thesis author follows the principles of Klein and Myers's (1999) as separately discussed in the next section. Golden-Biddle and Locke's (1993) suggestions will be also abided by in order to achieve the reliability. These authors' wording of authenticity, plausibility and criticality must be connected with the terms 'trusted' and 'of interest to the reader' that Trauth (1997) used.

3.5.2 Ethical issues and methodological appropriateness

An ethical issue peculiar to this research is related to the author's position as a former proactive actor in the PPS case. For all its advantages, it required more effort to maintain neutrality. According to Pettigrew (1997) and Farrall (2006), neutrality is a common concern among all longitudinal case researchers. Moreover, as Baskerville and Wood-Harper (1996) noted, IS study is necessarily a much applied field requiring practical solutions. In this respect, an action research method was proposed as the best approach for IS studies by these authors. On the other hand, Benbasat, Goldstein and Mead (1987, p. 82) defined action research as "studies in which the author, usually a researcher, is a participant in the implementation of a system, but simultaneously wants to evaluate a certain intervention technique". This research would be an action research rather than a case study, if the author had started it five years ago when he was working

for the projects. However, this was unable to be an action research any longer, in that action research methods were impossible to be conducted from outside the case.

To overcome this weakness, two solutions emerge. Paradoxically, this research complies with the scientific rigour required by action researchers, who may have the strongest subjective position. Checkland and Holwell (1998) suggested that action researchers should declare their epistemology and intellectual framework in advance to maintain their neutrality as social scientists. On this point, this thesis's conceptual framework that will be introduced in the next chapter is the declaration of methodology, which embodies the epistemological and theoretical frameworks of this research.

Second, argumentation analysis is selected as a data analysis mode; the author's own position will be explicitly revealed. By its presentation of all conflicting viewpoints including the author's own, this approach supports Klein and Myers' principles of dialogical reasoning and multiple interpretations and Golden-Biddle and Locke's authenticity and plausibility criteria. To state in advance, the author was a strong advocate of the transformation observed in PPS.

Consequently, the efforts of appropriating methodology for this thesis are informed by the principles of Klein and Myers (1999). The first and fundamental principle is the hermeneutic circle, which suggests "we come to understand a complex whole from preconceptions about the meanings of its parts and their interrelationships" (p. 71). Data should be re-interpreted intertwined with the context and the researcher-observation/informant relationship.

The second is the principle of contextualisation. As opposed to a positivist approach,

interpretive researchers understand organisational patterns as being constantly changing. Considering the research questions and employed intellectual frameworks, contextual approach is a key characteristic of this thesis.

The third principle is interaction between the researcher(s) and the subjects, which entails unavoidable mutual influence. This is particularly associated with the PPS case study where the thesis author worked. As stated above, it is impossible for an author to be free from this situation. For example, the author was not only a data-collector, but also a data-producer in the case organisation; and interviewees recognised the author as their senior, junior, or same level colleague. In this respect, the great scientific rigour required by action researchers contributes to the enhancement of this author's methodological quality.

The fourth principle is that of abstraction and generalisation. Even an interpretive field study focusing on a specific context requires theoretical abstractions and generalisations in order for readers to follow the researchers' theoretical insights. This research also reveals the structural aspects of technology, organisation and human practices under the theoretical lenses of structuration theory and formal organisation perspective. With respect to the weakness of generalisation in interpretive research, this thesis is expected to contribute to other research by addressing broader theoretical issues and the output of many multiple-case studies in the literature review and methodology sections. This approach was suggested by Yin (2003) to increase the contribution of single-case studies.

The fifth principle is dialogical reasoning, which may be discussed together with the sixth principle of multiple interpretations. To summarise these, a researcher should

identify and confront chosen philosophical and theoretical positions drawn from one's prejudices. Contrary to the positivist's value-free position, interpretive researchers should recognise that "prejudice is the necessary starting point of our understanding" (Klein and Myers 1999, p. 76). This extends to the confrontation of conflicting interpretations of stakeholders besides the researcher himself. In this respect, argumentation analysis was selected as an appropriate data analysis and presentation mode, as stated above.

The final principle is that of suspicion, which emphasises critical thinking drawn from critical theorists. This principle, however, has few implications for this research in that different theoretical underpinnings are involved in this study.

CHAPTER FOUR

CONCEPTUAL FRAMEWORK

4.1 Introduction

As discussed in Chapter Two, the IT outsourcing literature has no major focus on considering client organisation change and its dynamic aspects in dealing with outsourcing arrangements, whereas organisation studies and public management research show little interest in the IT outsourcing component in their wide range of works. Accordingly, this thesis needed to develop theoretical underpinnings that incorporate change, time and dynamism, and context by linking the outsourcing literature with organisation studies.

This chapter describes two layers of the conceptual framework, consisting of a theoretical perspective and an analytical framework. These were developed from the result of the literature review described in Chapter Two and the thesis author's pilot study introduced in Chapter Three; and they lead to empirical investigations in the following chapters by providing intellectual frameworks for the constructive understanding of social processes and the structural analysis of outsourcing practices. The former mainly involves the works of Giddens's structuration theory (Giddens 1984) and Kallinikos's formal organisation perspective (Kallinikos 2006); the latter was underpinned by Pettigrew's processual analysis (Pettigrew 1997), the IT outsourcing configuration framework and lifecycle perspective of sourcing process, both of which were presented by Cullen, Seddon and Willcocks (2005; 2006), and various sources in

the IT governance literature. Of these, the concept and implications of structuration theory and the formal organisation perspective were already reviewed in Chapter Two.

Consistent with the research scope, these frameworks are employed and restrictively verified in order to conduct two specific case studies within this thesis; and any further generalisation of the results of this study will not be attempted. However, all of these underpinning intellectual frameworks are identified either as a common social theory or perspective (in the cases of structuration theory and formal organisation perspective), a widely used research method (in the case of processual analysis), and the result of multiple case researches (in the cases of the IT outsourcing configuration framework, lifecycle perspective of sourcing process and IT governance).

This chapter explains the framework in the following order (1) theoretical perspective—titled as the structuration theory-informed formal organisation perspective and (2) analytical framework—titled as the processual analysis-informed multidimensional IT outsourcing configuration framework. The discussion that follows is linked with the prior review of structuration theory and formal organisation perspective in Chapter Two; additional literature concerning an analytical framework will be examined in detail. These relate to processual analysis, IT governance and the IT outsourcing-related literature on configuration and lifecycle perspectives. These latter will be deployed to develop a multidimensional IT outsourcing configuration framework.

4.2 Structuration theory-informed formal organisation perspective

4.2.1 Philosophical background and structuration theory in IS research

Critical realism and interpretivism form the philosophical background of this thesis. As presented in the previous chapter, these frame the research question and the methodology of this thesis. In addition, these philosophical stances give the direction of the intellectual frameworks employed in the research. Structuration theory is selected as a theory designed to understand social reality. It has profound implications when analysing and interpreting phenomena and contexts in terms of structural elements and human behaviours. As reviewed in Chapter Two, this is one of the mainstream social theories in IS research (Jones, Orlikowski and Munir 2004); and chosen as an appropriate perspective to overcome the dualism of contractual (representing structure in Giddens's term) and relational governance (representing human behaviour in Giddens's term) in this thesis. Giddens suggests that the social system is organised as regular social practices and consists of the ongoing, reproduced, and instantiated relations between actors or collectivities (Giddens 1984). Structuration theory is coherent with critical realism and interpretivism as the highest theoretical background, in terms of the perception of social reality and scientific knowledge. In a straightforward manner, structuration theory can be justified by this thesis's interpretivists' epistemological view; in that structuration theory is rooted in constructive and interpretive understanding of social reality and knowledge construction (Halperin and Backhouse 2007).

Structuration theory in IS researches has been argued over from the viewpoint of critical realism, which, in fact is chosen as an ontological perspective for this thesis. For

example, Archer (1995; as cited in Jones, Orlikowski and Munir 2004, p. 309) criticised this theory, stating that technological artefacts like IS may have more direct influence, regardless of their interactions with human practices proposed by structuration theory. In general, this materialistic view may be valid for technological system-involved studies. Following this thesis's pilot study carried out in PPS, contemporary, large infrastructure information systems do not seem so malleable that they can be easily reshaped by human practices, as was suggested by social constructionism of technology (SCOT) (Pinch and Bijker 1987) or the structurational view of technology (Orlikowski 1992; 2000).

A key concept for the application of structuration theory to IS researches is the interpretive flexibility of technology, the definition of which here depends on Sahay and Robey's (1996, p. 260) "capacity of a specific technology (or other knowledge system) to sustain the divergent interpretations of multiple relevant groups". This concept originated from the work of Pinch and Bijker (1987), which conceptualised it in the SCOT by adopting the concept of the empirical programme of relativism (EPOR) of the sociology of scientific knowledge. According to EPOR, scientific findings are recognised to be open to multiple interpretations. Under this perspective, Pinch and Bijker (1987, p. 40) suggested that "technological artefacts are culturally constructed and interpreted; in other words, the interpretative flexibility of a technological artefact must be shown." This perspective is understood to take a stand opposed to conventional technical determinism.

From a structurational viewpoint, SCOT and technical determinism were criticised by Orlikowski (1992) as a false dichotomy. She understood Giddens's original structuration theory as "recognition that human actions are enabled and constrained by

structures, yet that these structures are the result of previous actions.” From this understanding, Orlikowski explained the structurational view of technology as holding that “technology embodies and hence is an instantiation of some of the rules and resources constituting the structure of an organization” (pp. 404-405). At that stage, this author sustained the view that there are mutual and equal interactions among technology and human practice. However, human practices became more dominant than technology in her later work (Orlikowski 2000), where she conceptualised technology as ‘Technology-in-Practice’ and understood the instantiation, emergence and enactment of human practices in the structurational context. In any case, interpretive flexibility is generally referred to as the characteristic of IT to make these interactions between technology and human practice possible.

Under this wide consensus regarding mutual influence, the boundaries of interpretive flexibility have become another important issue. While arguing about the user-centric aspect of prior literature with regard to the structurational view of IT, Doherty and his colleagues suggested the concept of the ‘functional boundaries’ embedded in packaged software, which was defined as the determinant of “the extent to which its functionality can be appropriated to meet the desired outcomes of specific stakeholders” (Doherty, Coombs and Loan-Clarke 2006, p. 578). Many empirical studies have supported this boundary under the findings that IT is not as malleable as expected, according to conventional views, especially with case studies of packaged software like the enterprise resource planning (ERP) system (e.g., Cadili and Whitley 2005; Kallinikos 2002).

An interesting response to this view was provided by Orlikowski herself at an informal seminar held by the Information Systems and Innovation Group of the London School

of Economics, on the 18th of June 2008. While recognising the functional boundaries as an empirical characteristic of IT, she discerned it from her technology-in-practice view as follows.

First, the functional boundaries concept describes the characteristic of specific technological artefacts, whereas my understanding in practice lens perspective focuses on wider context of technology in phenomena. For example, I accept that MS PowerPoint is a rigid artefact, but my point is that we can use alternatives for presentations such as MS Word with big-size font, if required.

Second, I did not present the interpretive flexibility as a characteristic of artefacts. It was an answer to ontological questions as revealed by my choice of terms such as enactment and instantiation. On the other hand, Doherty et al.'s conceptualisation is in empirical and analytical level. So, I think, the approaches and research aims are different. I can agree with their view in terms of a characteristic of specific technology.

According to this response, Orlikowski clarifies that her structurational view does not reject the inflexibility feature of IT.

As discussed thus far, central debates of structuration theory in IS researches are related to the understanding of the relationship between technology and human practices. Technical determinists or conventional critical realists may doubt structuration theory, in that information systems and technology are independent variables, rather than dependent ones that are necessarily intermediated by human practices.

However, aside from this discussion, this critique will not be applied to this research, the object of which is not a technological system, but an organisational phenomenon regarding IT outsourcing. It depends much more on social domains, although a large IS constitute a specific IT outsourcing environment. For example, there will be two IS

introduced in the case studies chapters: the e-government procurement system in Chapter Five and the pensions administration system in Chapter Six. Nonetheless, the research focus will not be on the mutual interactions between organisation and these IS. Within the research scope, the technological characteristics of these systems will be addressed as having one-way influence on the decisions of outsourcing arrangements and relative organisations. This thesis does not concern the IS themselves, but explores the phenomena, social processes and underlying context behind outsourcing-related organisation change. Mutual interactions implied by structuration theory will be concerned about within those areas of human behaviours, outsourcing arrangements and organisation structure; while, the characteristics of specific IS are regarded as embedded attributes within these structures. Consequently, the structuration theory in this research is not subject to possible critique from the chosen philosophy of critical realism.

4.2.2 Formal organisation perspective informed by structuration theory

Kallinikos's formal organisation perspective was examined as a significant theoretical perspective in this thesis. It provides an inclusive understanding of bureaucracy as both an institution and an organisation form. It is useful here to re-present the research purpose of this thesis, as described in the introduction chapter. It was described as the understanding of phenomena involved in IT outsourcing practices, organisational changes and their underlying social contexts in terms of bureaucratic organisations. In this respect, the term bureaucracy in this thesis must be transferred from the narrow concept of organisation structure and practices to the broader concept of an institution. In particular, Kallinikos's concept of formal organisation is strongly inspired by the consequences of contemporary information growth and by its institutional influence on organisations.

Besides the comprehensiveness of the term, the formal organisation perspective provides grounded implications to this research. Non-inclusive involvement of individuals in organisations is a characteristic of formal organisation, which was described by “the primary matrix of relations out of which emerge other derivative characteristics, often taken as the epitome of bureaucracy, such as standardization, formalization, specialization and centralization” (Kallinikos 2006, p. 130). To explore this aspect of the separation of the role from the person, he suggested the importance of the labour contract as the legal-institutional order in modernity. Outsourcing contracts play the same role for IT outsourcing studies. In this respect, outsourcing suppliers can be conceptualised as being non-inclusively involved with client organisations via IT outsourcing contracts that separate the inclusive roles from non-inclusive persons. This appears to be very consistent with the viewpoint of the formal organisation perspective.

This characteristic supports how structuration theory is used as a meta-theory in this research, which will be explained in greater detail later. Formal organisation is employed to understand social realities as enacted and emergent in dynamic social contexts, rather than static functional collectivities. This is an ontological answer to inform the formal organisation.

In addition, the broadly known concept of network or virtual organisation representing the post-bureaucratic organisation form was also argued over by Kallinikos (2004; 2006). He insisted on the juxtaposition of networks within formal organisation because there is little evidence of the demise of bureaucracy. This is well exemplified by his stress on elementary and microscopic level analyses about decomposition and the functional recomposition of organisational arrangements, which are disclosed by increasing the dissolvability of organisational operations. Consequently, compared to

other conventional strands of new organisational forms, such as networks and something virtual, Kallinikos emphasises the significance of formal organisations—represented by bounded and hierarchical systems—within the institutional context. A similar conceptualisation can even be found in literature regarding post-bureaucracy. For example, Black and Edwards (2000, p. 572) describe virtual systems as “the technology facilitated enactment of activities that used to require a physical presence to complete”. While noting characteristics of complexity in network organisations, these authors admitted the existence of traditional organisational orders: “Being a virtual organization does not preclude the using of traditional business methods, just that the dominant method of doing business is heavily dependent upon advanced information technology” (p. 572).

On the other hand, IT outsourcing can be the typical form of networking in a network enterprise, which is defined by Castells (2000, p. 187) as a “specific form of enterprise whose system of means is constituted by the intersection of segments of autonomous systems of goals”. Presumably, if we investigated bureaucratic organisations in a very microscopic way, as recommended by Kallinikos, we could find the traditional bureaucratic orders underlying social phenomena regarding IT outsourcing. For example, hierarchical bureaucracy in IS divisions can be transformed into outsourcing contract networks. It does not mean, however, that the attributes of modern bureaucracy—like standardisation, formalisation and specialisation—will vanish.

The above two explanations of bureaucracy as institution have direct implications for the present research, where the traditional bureaucratic structure intertwined with IT outsourcing is explored as a main research object.

Regarding consistency with other intellectual approaches in this thesis, the employed philosophical stances—critical realism and interpretivism—underlie the formal organisation perspective, in that Kallinikos pursued both subject-independent arrangements of formal organisations and social processes beyond the observed. In addition, Sayer (2000) used bureaucracy to explain the concept of the ‘actual’, and in that critical realist’s work bureaucracy is exemplified as actual reality within a critical realist perspective.

However, the formal organisation perspective is also consistent with structuration theory in many respects. Before examining the consistency between these two perspectives, the use of structuration theory must be reviewed. To state the conclusion first, structuration theory is employed as a meta-theory to reinforce the use of the formal organisation perspective to understand IT outsourcing-related phenomena and social context. This is one of nine categories of structuration theory application presented by Halperin and Backhouse (2007) (see Table 2-4). As examined in the previous chapter, structuration theory cannot be easily coupled with other theories and applied to empirical studies. However, it is suggested that structuration as a meta-theory contributes to the reconciliation of the duality of structure, as follows (Halperin and Backhouse 2007, p. 2):

The meta-perspective of structuration theory overcomes the biased character of both approaches in IS, such as social constructivism, which emphasizes agency, and of theories such as institutional analysis, which emphasize structure. [...] In particular, attempts have been made to combine structuration theory with Actor Network Theory. For example, Walsham and Sahay (1999) distinguish between structuration, which they employ as a meta-theory, and ANT, which they employ as a more detailed methodological and analytical device.

Consequently, the ontological understanding of social phenomena in structuration theory, as emphasised by Giddens (1990a) himself, reinforces the specific perspective of Kallinikos in terms of bureaucratic organisation within the dynamic context in this thesis. Following this understanding of the use of structuration theory, the most serious issue on theoretical consistency falls on finding coherence between structuration theory and the formal organisation perspective. This coherence is developed through the following three rationales.

First, Kallinikos's recognition of bureaucracy has much in common with the sociological perspective of Giddens. Giddens (1984, p. 21) discussed bureaucracy as an example of the formulated rule defined as codified interpretations of rules, rather than rules as such. Surprisingly, a similar description is found in statements about formal organisation, as follows (Kallinikos 2006, p. 19):

Structural and organisational arrangements are instantiations of, or at least expressions of, institutions and the codification of social experience and struggles that institutions embody.

We find another instance of the term 'instantiation' here, which was also presented by Giddens as the nature of social processes. This perspective is clearly revealed in his statement, as follows: "human beings are necessarily in a constant state of reflexive monitoring of their situation rather than being the 'cultural' or 'structural dopes' implied by traditional views of structure" (Giddens 1979, p. 52; as cited in Jones, Orlikowski and Munir 2004, p. 302). In addition, Kallinikos's concept of individuals' non-inclusive involvement in organisations is also compatible with Giddens's view that social relations are not embedded in specific contexts that contribute to the globalising character of modernity (Giddens 1990b, p. 21; as cited in Jones, Orlikowski and Munir 2004, p. 305). Consequently, formal organisation can be understood as a 'formal' social

system, which was defined by Giddens as reproduced relations between actors or collectivities. Institutional characteristics of both theories were definitely and commonly emphasised by the two theorists.

Second, these two theories are compatible in terms of their context-free approaches. On the one hand, Kallinikos (2006, p. 17) confessed to seek the “context-free understanding of technology as a major regulative regime that can be associated with major shifts in social practices and institutions”; on the other hand, Giddens (1990a) advocated his theory that “I am not particularly interested in epistemology, but in the ontology of social life. I do not agree, though, with the idea of the context-bound nature of knowledge claims...” (p. 300). He also states that “[my principles] are essentially procedural and do not supply concepts useful for the actual prosecution of research” (p. 312). This heuristic feature of the two theories will increase the potential of application for establishing theoretical backgrounds in this study. This characteristic allows for a more generalised approach to specific empirical research endeavours.

Third, the formal organisation perspective, representing bureaucracy as an institution here, is an appropriate approach for extending the use of structuration theory to the institutional and longitudinal levels of analyses, recommended by Jones, Orlikowski and Munir (2004). The recognition of structure or formal organisation as processes or the instantiation of processes can be well informed by these two theories.

Under these rationales, structuration theory informs the formal organisation perspective for a wider understanding of social realities in this thesis; hence, the formal organisation perspective informed by structuration theory forms the theoretical perspective of this study.

4.3 Processual analysis-informed multidimensional IT outsourcing configuration framework

To construct a tangible analytical frame, the processual analysis-informed multidimensional IT outsourcing configuration framework is reinvented as an integrated framework. This has been developed from many prior studies, and these will be examined in the next two sections.

4.3.1 Processual analysis and longitudinal case study

Pettigrew's processual analysis was developed for process research, in particular, organisational change research. Pettigrew (1997, p. 338) understands process to be "a sequence of individual and collective events, actions and activities unfolding over time in context". He sustained the view that social reality is a dynamic process, rather than a steady state; hence, phenomena regarding organisational change cannot be explored without the consideration of the longitudinal aspects—in terms of human activities, structures and context—that can be triangulated by other cases. Finally, he concluded that a primary research method for process research is a longitudinal comparative case study.

His suggestion for good longitudinal case studies follows three analytical rationales (Pettigrew 1997): searching for patterns in the process; searching for underlying mechanisms shaping any patterning; and recursive verifications between inductive pattern recognition and deductive data analyses. Only by following these rationales, he suggested, can process researchers produce a case study rather than a case history.

In addition, he argued that five guiding assumptions were required by process researchers (Pettigrew 1997). The first is the recognition of the aspect of both context-embedded process and process-embedded context. Social processes are embedded in the contexts, and both are mutually interrelated. Accordingly, researchers need to study processes across a number of levels of analysis of context to grasp the core of phenomena behind observations. The second assumption is temporal interconnectedness in history. This is well epitomised by his statement that “The past is alive in the present and may shape the emerging future.” (p. 341); hence, process researchers should understand the meaning of sequential events over time. The third guiding assumption is that human actions and interpretations intertwine within context. The essence of this assumption is shown again in the following statement: “Context is not just a stimulus environment but a nested arrangement of structures and processes where the subjective interpretations of actors perceiving, learning, and remembering help shape process” (p. 341). Human actions observed in phenomena should be explained in a contextual manner in this view. The fourth assumption is the importance of a holistic approach. This emphasises an integrated approach of the above three assumptions to explore social reality in terms of time, human actions and context. In addition, this makes the longitudinal case study method a primary method of process research because it makes possible holistic explanations within and between cases. The last assumption is process-outcome interrelationship study, which links the analysis of process to outcomes. By defining outcomes, the complexity in process studies can be reduced, and clear focal points can be provided to comparative case studies. It also contributes to the exploration of variations as to how and why outcomes are shaped by process and context. These five assumptions guide the establishment of the analytical framework for this study.

Regarding the intellectual coherency between the processual analysis method and other

philosophical and theoretical perspectives, the first four assumptions explicitly reveal the same understanding with those of structuration theory, in that both stress contextual aspects; human behaviours; interrelationship between structure, human practices and contexts; and holistic approaches. In addition, holistic causation in the fourth assumption can also be compatible with the contextual causation promoted by Sayer's critical realist's view, which stresses contingency and conditions (Sayer 2000).

Under this sustaining view of process research, an applicable longitudinal field research framework was presented in his early writings. Pettigrew (1985) advocated four components of holistic, contextualist analysis: namely external context, internal context, process, and outcome. He (1990) also added content as an independent domain, describing process, contexts and content as 'how', 'why' and 'what' questions, respectively. This was proposed as an analytical framework for processual analysis. Pettigrew (1997, p. 347) summarises the contribution of the processual analysis method as follows.

The major contribution of process research (as characterised here) is to catch reality in flight, to explore the dynamic qualities of human conduct and organisational life and to embed such dynamics over time in the various layers of context in which streams of activity occur.

4.3.2 Relevant literature on multidimensional IT outsourcing configuration framework

4.3.2.1 IT outsourcing configuration framework

Among much relevant literature, the IT outsourcing configuration framework has direct

implications upon this thesis’s analytical framework. Cullen, Seddon and Willcocks (2005, p. 359) define it as “a high-level description of the set of structural choices made in crafting IT arrangements of IT outsourcing”. These authors establish the purpose of this framework as described below (p. 357):

The articulation of the concept of configuration as a taxonomy of IT outsourcing structural characteristics, the key attributes, and demonstration that configuration is an important concept for understanding, comparing, and managing IT outsourcing arrangements.

These authors provided seven attributes of the frameworks and many options that mean the specific decision within each attribute, as summarised in Table 4-1.

Table 4-1: Attributes and affiliated options of IT outsourcing configuration

Attribute (Options)	Description
1. Scope grouping	What services are provided to whom, and where
♦ Service scope	The nature of the work, aligned with the traditional segmentation of an IT function
· Entire service scope	Outsourcing of entire service scope
· Selected scope	Outsourcing of selected service scope in terms of service segmentation or the degree of outsourced activities
♦ Recipient scope	The groups that have been identified to receive specific outsourcing services
· All business units	Standardised outsourcing service to all business units
· Business unit self select	Different service specifications based on the customised business requirement of each business unit
♦ Geographic scope	The physical locations that have been identified to receive particular outsourcing services
· All geographies	Integrated services from one site
· Geography self select	Different service delivery sites responding to regional business environment

2. Supplier grouping	How many suppliers provide the outsourced services
· Sole supplier	Single service provider that provides all outsourcing services, no subcontracting
· Prime contractor	Head service provider subcontracts work but is accountable for all outsourced services
· Best of breed	Multiple suppliers, each providing unique services, as well as overlapping services
· Panel	Multiple service providers providing similar services under continuous competition
3. Financial scale	The financial value to the organisation using Relative and Absolute dimensions
· Relative	The % of operating spend represented by the outsourcing portfolio
· Absolute	The per annum value of the outsourcing portfolio
4. Pricing framework	The method by which the payment to the supplier/s is calculated
· Lump sum/fixed price	Lump sum price over specified parameters
· Unit-based	Price per specific transaction unit
· Cost-based	Actual costs plus a percentage mark up or fixed management fee
5. Contract duration	Agreed length of the contract
· Single term	Fixed one term deals
· Rollover terms	Fixed initial term with options to extend
· Evergreen term	No define contract expiry date, either party can invoke various termination rights
6. Resource ownership	Which party controls and/or owns the various service delivery resources (assets, facilities and labor)
· Infrastructure	Supplier/s provides asset and facilities

<ul style="list-style-type: none"> · Onsite · Service & facility · Asset buy-in · Facility host · Labor · Total outsourcing 	<p>Supplier/s provides labor and assets</p> <p>Supplier/s provides facility and labor</p> <p>Supplier/s provides assets only</p> <p>Supplier/s provides facility only</p> <p>Supplier/s provides workforce and/or management only</p> <p>All resources are provided by supplier/s</p>
7. Commercial relationship	The high-level organisation to organisation nature of relationship structure
<ul style="list-style-type: none"> · Arms-length · Value-added · Co-sourced · Equity 	<p>Independent parties for which the relationship is solely transactional</p> <p>Independent parties with a combination of arms-length contract/s and shared business initiatives</p> <p>Independent parties providing a mix of service labor and assets, with integrated end accountability</p> <p>Related entities providing services to one another or through a combined entity</p>

* Source: Cullen, Seddon and Willcocks (2005; 2007)

The application of these attributes and affiliated options will be demonstrated in the empirical investigation chapters. These seven attributes are the points to be decided by the outsourcing designers of client organisations. This framework is well arranged to show what should be taken into account in IT outsourcing arrangements and client organisation design. However, this must be reinvented for the study at hand in light of the following two limitations of the original framework.

First, the lack of attributes concerning client organisational arrangements could be supplemented. The relative distribution of in-house staff and the design of internal procedures to manage IT services are two examples. Regarding the former, IT outsourcing can be managed and monitored by centralised or decentralised in-house

divisions or by business or IT divisions. The roles and responsibilities of business and IT divisions can be another issue. Regarding internal procedures, existing workflows may be redesigned according to outsourcing configuration portfolios. This requires in-depth studies of organisational procedures from two angles: the first is management functions, like collecting users' requests, business-related and technological decision-making, system change management, deploying new/changed functions and inspection of the result, etc.; and the second is the allocation of authority, such as to what extent in-house staff should participate in which decisions. These are connected with the disputes about decomposing and recomposing existing bureaucracy in formal organisation, in that the formalised and standardised design of organisational formats and procedures represents the features of traditional bureaucracy melded with networked IT outsourcing practices.

Second, the structural approach can strengthen the original framework. Structuration, which describes the conditions of instantiated social systems, will form the social context underlying decisions regarding configuration options. For example, if a client organisation adopts a sole supplier option in the supplier grouping attribute, it should have the specific organisational and technological structuration to support that decision. It can also be explained by a chosen theoretical underpinning of structuration theory-informed formal organisation. An existing portfolio can be understood as the shape of instantiated formal organisation.

4.3.2.2 Lifecycle perspective on sourcing process

A lifecycle perspective of the sourcing process was proposed as the framework for managing outsourcing processes (Cullen, Seddon and Willcocks 2006). While

confirming the significance of outsourcing management as the determinant of outsourcing success, these authors describe the research purpose of the lifecycle perspective as follows (p. 37):

The goal is to create a template that defines the fundamental process activities for managing outsourcing together with the evidence of their importance.

This perspective concludes that successful outsourcing can be achieved when viewed as a strategy with a lifecycle, rather than as a one-off transaction. Outsourcing management should follow a path, making systemised feedback and regeneration of incumbent value of outsourcing activities possible.

This perspective is employed in this thesis to provide a sequential taxonomy that has been commonly observed in outsourcing phenomena. It is specifically important to this thesis, which focuses on contextual investigation over time. The lifecycle, in this perspective, consists of four phases and nine attached building blocks with a total of 54 key activities. Four phases are established and described as follows (Cullen, Seddon and Willcocks 2006, pp. 38-40): the “architect phase, where the foundation for outsourcing is laid; engage phase, where one or more suppliers are selected and the deal is negotiated; operate phase, where the deal is put in place, operationalized, and managed through its term; and, regenerate phase, where next-generation options are assessed”. Affiliated building blocks are explained in Table 4-2.

In particular, the term configuration in the ‘Design’ building block is linked with the authors’ own IT outsourcing configuration introduced in the previous section. These authors regard the attributes of IT outsourcing configuration as the decision point of the outsourcing deal in the design stage. This approach is also adopted by this thesis, as

explained later in this chapter.

Table 4-2: Lifecycle perspective and affiliated phases and building blocks

Ph-ase	Building block	Goal
Architect	Investigate	“Veracity, not ideology”: Replacing ideological beliefs with goals appropriate to the organization’s circumstances, its industry, and the markets where it procures services
	Target	“Appropriate services identified”: Identifying and profiling those areas where client can actually achieve sought-after benefits
	Strategize	“Informed, not speculative strategies”: Planning to enable objective and knowledgeable decisions to be made throughout the remainder of the lifecycle
	Design	“Well-designed future state”: Wrapping up the architect phase by defining the planned configuration of the deal
Engage	Select	“Best value for money”: Increasing the bargaining power by leveraging the competitive tension that naturally occurs in this phase
	Negotiate	“Complete, efficient contract”: Refining the exact wording of various documents, instead of give-and-take negotiations over the intent of the deal, under the assumption of well crafted prior activities in lifecycle management
Operate	Transition	“Efficient mobilization”: Merely executing the plans made earlier
	Manage	“Results”: Managing outputs, rather than inputs, by using negotiation and relationship management in place of direct control, and by relying on periodic planning and reviews to take the place of day-to-day oversight of service delivery operations
Regenerate	Refresh	“Refreshed strategy”: Reassessing initial sourcing decision before coming to the end of contract and leading to any one of following works including re-tendered, backsourced and renegotiated with the incumbent supplier

* Source: Cullen, Seddon and Willcocks (2006, p. 39-56)

4.3.2.3 IT governance

IT governance is an emerging research area within IS studies, as exemplified by a special issue of *Information Systems Management* in 2009 (Cater-Steel 2009). The lack of academic research on this issue is suggested throughout that special issue volume by many researchers (e.g., Willson and Pollard 2009). Earlier, while titling their paper as “Attempting to Define IT Governance: Wisdom or Folly?”, Webb, Pollard and Ridley (2006) disclose that the concept of IT governance itself was not universally accepted. In addition, its distinction from other concepts—such as IT service management (ITSM), information technology infrastructure library (ITIL), service level management (SLM), business service management (BSM), control objectives for information and related technology (CobiT), and enterprise architecture (EA)—is suggested as not being clear yet (Khaiata and Zualkerman 2009; Winniford, Conger and Erickson-Harris 2009).

The term IT governance as used in the literature has narrow and broad dimensions depending on the source. The narrow subject of IT governance is business and IS alignment and the appropriation of decision rights regarding IT in organisations. However, Webb, Pollard and Ridley (2006) give a broad concept that is based on the distinction of governance and management, as suggested by Bird (2001). In this sense, IT governance is conceptualised as an overall IT-related strategy. This distinction between narrow and broad concepts is supported by Winniford, Conger and Erickson-Harris (2009).

From a narrow concept view, Mead and Boeschoten (2006) provided guidelines for excellent governance regarding IT, while arguing that “too often IT governance is limited to the IT-side decisions” (p. 15). These authors categorised two decision

domains as follows: the business side (cross-unit governance, business strategy and risk management) and the IT side (IT strategy, development portfolio, IT organisation and tactical IT governance).

In addition, Weill and Woodham (2002) present a wide range of governance structures and affiliated rationales, while defining IT governance as “specifying the decision rights and accountability framework to encourage desirable behaviour in the use of IT” (p. 1). These authors suggest the importance of studying who decision makers are and how decisions are made in the following four domains of IT: IT principles, IT infrastructure strategies, IT architecture, and IT investment and prioritisation. According to this categorisation, five governance archetypes are identified by empirical investigations of 40 large firms in the US and Europe. Table 4-3 summarises these.

Table 4-3: Governance archetypes categorised by Weill and Woodham

Archetype	Description
Business monarchy	Senior leadership (e.g., CEO, CFO, COO) owned decision rights and CIO participation as a board member
IT monarchy	CIO or IT executives owned decision rights
Feudal	Decentralised business units owned decision rights
Federal	Combined participants owned decision rights including senior executives, business unit leaders, business process owners, IT executives and end-users
Anarchy	Individual business process owners or end users owned decision rights

* Source: Weill and Woodham 2002 (pp. 3-4)

These authors found that top-performing firms follow many decentralised archetypes—federal, feudal and anarchy—or centralised business monarchy, compared with other firms. It is rare to find successful IT monarchy archetype cases. In particular, certain

archetypes are investigated as being more powerful in specific IT domains, as follows: the federal archetype for IT investment; the feudal archetype for IT architecture; anarchy archetype for IT principle; and the business monarchy archetype for IT infrastructure and IT architecture decisions. As discussed thus far, IT governance in a narrow sense explores appropriate governance structure in terms of decision rights and mechanisms.

IT governance in this sense has direct implications for the design of organisation structures and work processes. For example, PPS's governance archetype can be regarded as 'IT monarchy', while that of DCSF is categorised as 'Feudal' in Weill and Woodham's (2002) criteria. However, as explained later, the employment of IT governance in this thesis is not to establish such rationales behind the construction of organisations. Organisation design is one of the key subjects of this study, but it will be conducted through the wider contextual consideration intermediated by a broad concept of IT governance.

The broad concept of IT governance tackles wider issues of IT-related governance concerns. From this point of view, Webb, Pollard and Ridley (2006, p. 7) define IT governance as follows:

IT Governance is the strategic alignment of IT with the business such that maximum business value is achieved through the development and maintenance of effective IT control and accountability, performance management and risk management.

These authors derive this from the result of their content analysis of prior studies regarding IT governance. The following definition of IT governance institute (ITGI) is another example of governance in a broad sense (ITGI 2007, p. 5).

The responsibility of executives and the board of directors, and consists of the leadership, organisational structures and processes that ensure that the enterprise's IT sustains and extends the organization's strategies and objectives.

As shown in these descriptions, the broad sense of IT governance expands the interest from narrow governance structures to overall IS/IT alignment strategies, taking into account structure and other tangible and intangible organisational resources.

This thesis adopts the above definition of IT governance given by Webb, Pollard and Ridley. The broad concept of IT governance is employed to inform the multidimensional IT outsourcing configuration framework in the area of context regarding IT outsourcing-related decisions. Webb, Pollard and Ridley (2006) conceptualise broad IT governance based on the distinction between management and governance suggested by Bird. Bird (2001) understands management as day-to-day, operation-level activities based on the authority delegated to managers by governors. The natures of manager and executive responsibilities are administrative, supervisory and facilitating, while those of boards and governance structures are expressed as exercising such things as for example, good authoritative judgement and final accountability.

Based on this distinction between governance and management, and as a result of reviewing the literature, Webb, Pollard and Ridley (2006) conclude that there are five common elements of IT governance: strategic alignment, delivery of business value through IT, performance management, risk management, and control and accountability. A detailed investigation of these concepts is outside the research scope of this thesis. However, these elements are consistent with those of IT governance defined by ITGI (2007). There are two differences in these elements. Control and accountability—according to Webb, Pollard and Ridley—do not appear in those defined by ITGI.

Instead, resource management³ is included in ITGI's conceptualisation. Discarding resource management, this thesis takes control and accountability as part of IT governance elements. Control and accountability describe the core of governance concerns, such as control and authority, whereas resource management covers too wide an area to be specified in terms of IT resources including people. Most elements in this resource management concept seem to be addressed under other elements. Consequently, IT governance elements in this thesis are defined as in Table 4-4.

Table 4-4: Elements of IT governance

Element	Description
Strategic alignment	Focusing on ensuring the linkage of business and IT plans; on defining, maintaining and validating the IT value proposition; and on aligning IT operations with enterprise operations
Delivery of business value through IT	Executing the value proposition throughout the delivery cycle, ensuring that IT delivers the promised benefits against the strategy, concentrating on optimizing costs and proving the intrinsic value of IT
Performance management	Tracking and monitoring strategy implementation, project completion, resource usage, process performance and service delivery, using, for example, balanced scorecards that translate strategy into action to achieve goals measurable beyond conventional accounting
Risk management	Risk awareness by senior corporate officers, a clear understanding of the enterprise's appetite for risk, understanding of compliance requirements, transparency about the significant risks to the enterprise, and embedding of risk management responsibilities into the organisation
Control and accountability	Leadership, control and direction from those persons within an organisation with authority to govern

Note: Most definitions follow those of ITGI (2007), except for control and accountability, the definitions for which come from Webb, Pollard and Ridley (2006).

³ Resource management is about the optimal investment in and the proper management of critical IT resources: applications, information, infrastructure and people. Key issues relate to the optimisation of knowledge and infrastructure (ITGI 2007, p. 6).

The limitations of the IT governance literature for IT outsourcing research was identified during the author's examination of the literature. Whether a broad or narrow concept, IT governance tends to ignore IT outsourcing despite it being a highly prevalent practice in contemporary organisations. On a narrow concept of governance related discussions regarding governance structure are restricted to IS/business alignment within client organisations. On the other hand, only the overall organisation's IT strategy and governance concerns are handled in the broad sense of IT governance. For example, possible explorations of outsourcing relationships in terms of control and accountability are very rare in the extant IT governance literature. Only one major attempt based on this view was identified under the title of "Outsourcing Relationships: The Contract as IT Governance Tool" (Gellings 2007). In order to identify outsourcing success factors, this author analyses contractual components by the criteria of a broad sense of IT governance. However, otherwise there is a serious dearth of governance literature on the subject of IT outsourcing, despite a marked concern on the issue amongst modern practitioners.

4.3.3 Multidimensional IT outsourcing configuration framework informed by processual analysis

The analytical framework of this thesis draws upon the above four perspectives or frameworks. Aside from processual analysis, which guides the overall contextual approach, the IT outsourcing configuration and lifecycle perspectives together with IT governance issues inform this study in significant ways upon. The common features of these are their heuristic value, meaning that they do not address algorithmic rules, such as that selective outsourcing is better than total outsourcing; instead, these form an analytical scheme by which one can conduct a study. Accordingly, these are used to

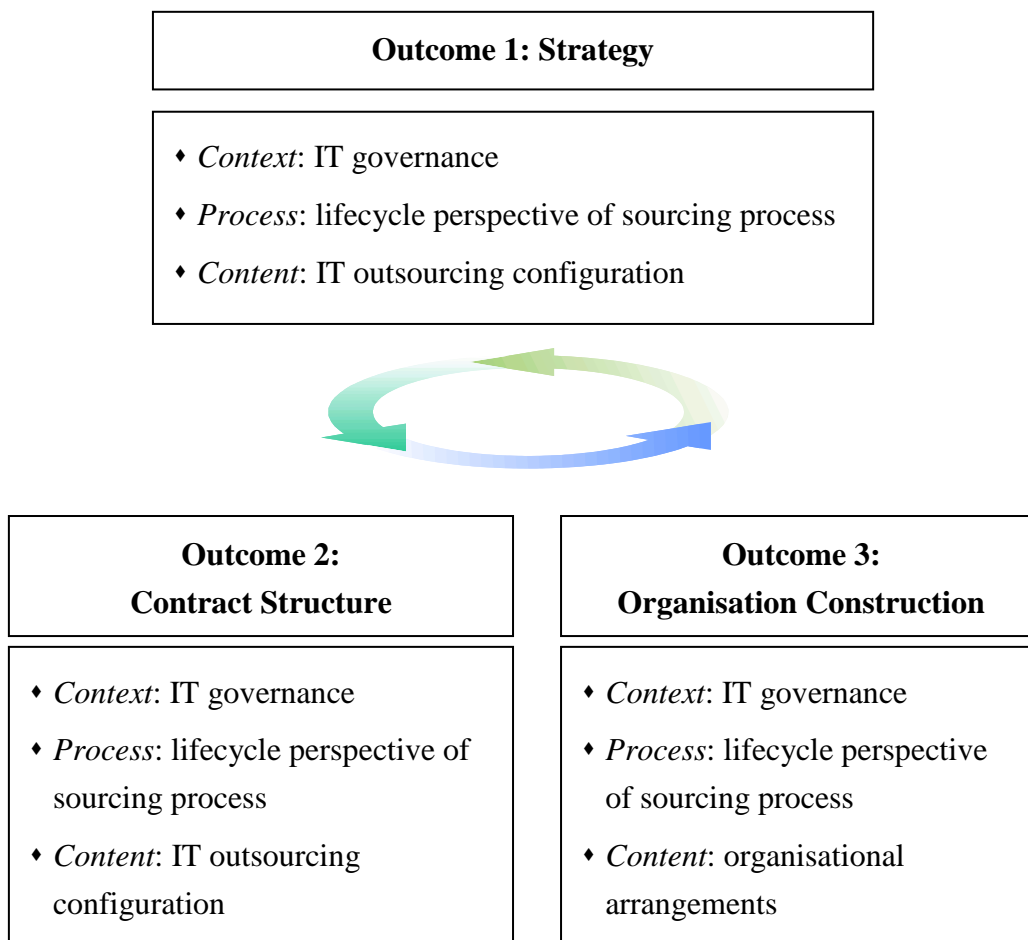
create an analytical scheme for selecting and describing components that are applicable to empirical research.

However, two limitations are identified in their application to this research. First, these three works are positivistic, in that they depend on functional elements composing organisation and outsourcing deals. This does not suit the philosophical background and research questions of this thesis, although these characteristics allow for their elementary applications as analytical frameworks for the empirical investigation. In other words, these provide little explanation about the links between individual action, organisation and social context, which were presented as the characteristics of traditional functionalism by Markus (2004). Consequently, structuralist understanding intermediated by processual analysis is required to supplement this inconsistency between the functionalistic approach of theoretical foundations and interpretivists' problematisation of this thesis's philosophical stance. Due to this reinvention, the original configuration framework can be transformed to a constructible/institutional scheme from a functional concept.

The second and the most critical limitation in using these models as analytical frameworks is the lack of focus on organisational arrangements, such as organisational forms and processes. More specifically, this thesis's research purpose is to explore the structure of bureaucratic client organisation and its change in relation to IT outsourcing, whereas the main foci for these original models are outsourcing contract structure, contract processes and management schemes. To deal with this issue, a multidimensional IT outsourcing configuration framework informed by processual analysis is reinvented as the analytical framework of this thesis.

The definition of the multidimensional IT outsourcing configuration framework here is ‘a high-level description of the set of IT outsourcing and organisation arrangements decisions and their dynamic relationships in terms of strategy, contract structure and organisation construction’. Figure 4-1 illustrates how this framework is redeveloped in terms of other relevant constructs. Overall direction is given by the processual analysis method, which consists of context (why?), process (how?), content (what?) and outcome domains.

Figure 4-1: Multidimensional IT outsourcing configuration and relevant literature



In accordance with this method and the result of the pilot study for this thesis, IT governance, lifecycle perspective and IT outsourcing configuration compose context, process and content domain, respectively. Three dimensions of strategy, organisation construction and contract structure—each of which is to be analysed by Pettigrew’s content, process and context domains framework—are conceptualised as an outcome domain. These are constructed by the set of affiliated content components. This approach is justified in that the purpose of this research is to investigate how organisational change is related to IT outsourcing. For example, if the purpose were related to outsourcing success, outcomes should include the success factor or evaluation, to be given values. However, all answers regarding content, context and process are designed to explain the changes in these three dimensions. In this respect, the processual analysis based framework can be justified.

Regarding the second limitation of the original model mentioned above, in addition to seven attributes in Table 4-1, two components of IT outsourcing configuration need to be further created, as follows:

Organisation arrangements: formal organisational arrangements, such as organisation form and staffing

Processes and activities: a set of authority allocation and implementing procedures and activities for service management

In conclusion, organisational changes are viewed as three dimensions of strategy, contract structure and organisation construction, examined as the outcome domain of processual analysis. Each dimension describes relevant phenomena in a holistic manner and is explored by three domains of context, process and content, which are explained by five IT governance concerns, four lifecycle phases and nine IT outsourcing

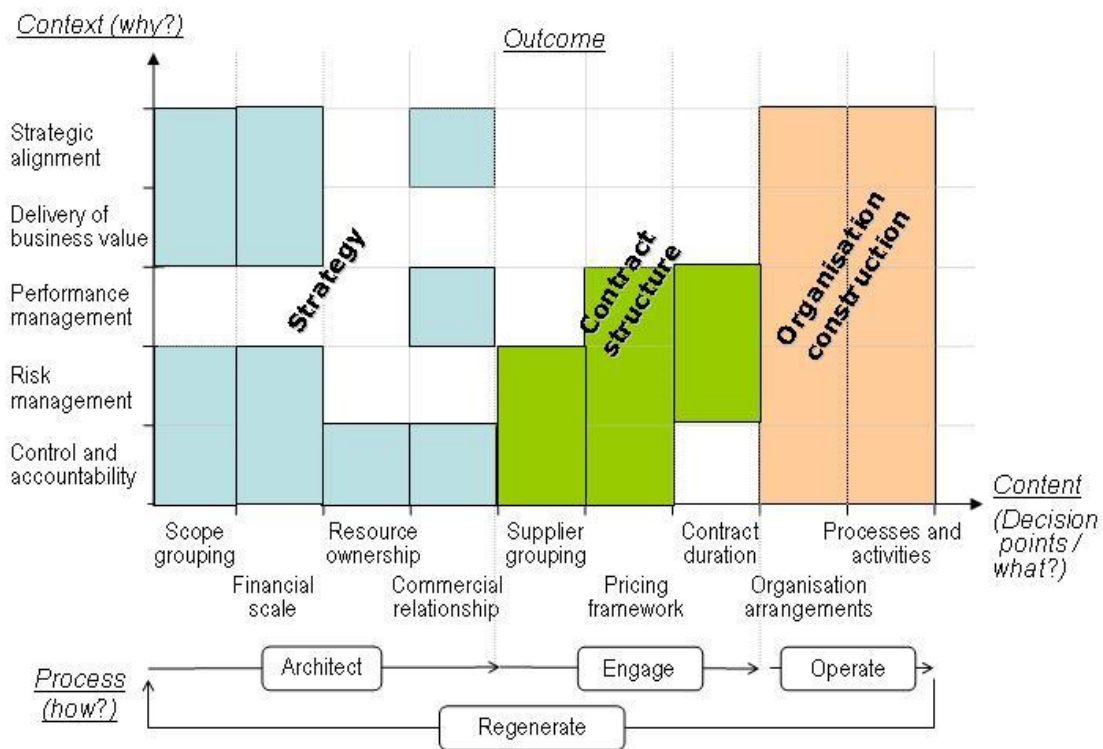
configuration decision points, respectively. Context answers the question of why each dimension is constructed or changed; process involves the question as to how this construction or change takes place; and content identifies the related decision points.

Beyond this structural coherence with processual analysis, this framework fits a longitudinal comparative case study, which was suggested by Pettigrew (1997) as an appropriate process research method. This framework shows strong consistency with the five guiding assumptions of processual analysis. With respect to the first two assumptions presented in the processual analysis section (see p. 106), comprehensive IT governance concerns, explored by chronological viewpoints, are beneficial to explain the aspects of context-embedded process and process-embedded context and of temporal interconnectedness in history. In terms of the process-outcome interrelationship assumption, three dimensions as outcome—composed by common elements of the lifecycle perspective and IT outsourcing configuration—provide both cross-sectional and longitudinal focal points to lead an analytical comparative study. Simultaneously, the outcome can be linked with prior processes in a recursive manner. On the other hand, with the structurational perception of social reality, the exhaustiveness of this multidimensional framework supports the holistic approach and contextualised understanding of human practices and structure, which were presented as the third and fourth guiding assumptions of processual analysis.

In any event, this framework implies that IT outsourcing configuration should be considered on the basis of the reflexive interrelationships among strategy, contract structure, and organisation construction. The employment of specific components of relevant literature is as follows. All original configuration attributes belong to the content area, together with two newly established attributes for this thesis, defined

above, because those were developed as the result of decisions. In addition, employing IT governance provides certain types and reasons of decisions; on the other hand, the lifecycle perspective of the sourcing process supplies a phasic approach to this analysis. Involved attributes and phases belonging to each dimension are illustrated in Figure 4-2.

Figure 4-2: Components involved in multidimensional configuration framework



The above figure is interpreted as follows. The definitions of each component follow those presented in Tables 4-1, 4-2 and 4-4, in addition to the newly added two from this section. Phenomena regarding IT outsourcing and organisational change need to be comprehensively analysed in terms of strategy, contract structure and organisation construction. Among these, strategy is formed by four decisions: scope grouping, financial scale, resource ownership and commercial relationship. Strategy building is observed to take place in the architect phase. On the other hand, contract structure is determined by three decisions: supplier grouping, pricing framework and contract

duration. Contract structuring is mainly involved in the engage phase. Finally, organisation construction refers to the decisions of organisation arrangements and processes and activities. This is conceptualised as occurring in the operate phase. All of these choices are fed back within a contract term, or at the end of the term, as activities in the regenerate phase.

On the other hand, relevant IT governance concerns as contexts of specific decisions are derived from the pilot study of this thesis, as displayed in Figure 4-2. For example, two organisational construction-related decisions can be explained by all IT governance concerns, whereas resource ownership decision is strongly associated with control and accountability concerns. All IT governance concerns may be understood to have explanatory powers on all decisions. In this term, presented links are based on relative strength. Accordingly, these associations do not mean to rule out other IT governance concerns from the exploration of specific decisions.

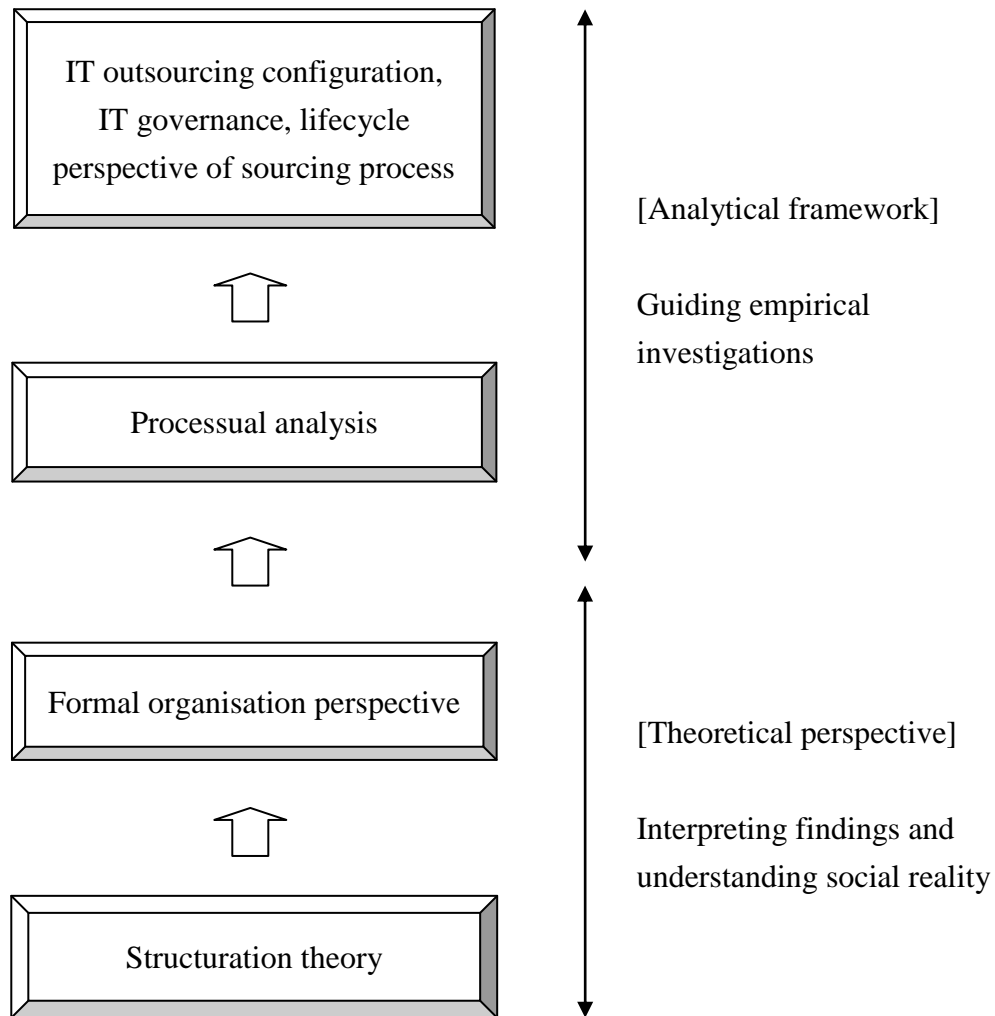
The specific application of this framework will appear in the case study sections in Chapters Five and Six; and the comparison of the findings from the two case studies in Chapter Seven will also follow the focal points indicated in this framework.

4.4 Conclusion

This chapter describes the development of the conceptual framework of this thesis which will give direction to further theoretical and empirical investigation. On the one hand, the structuration theory-informed formal organisation perspective was presented as a theoretical perspective; on the other hand, the processual analysis-informed multidimensional IT outsourcing configuration framework was reinvented as an

analytical framework. This conceptual framework structure is illustrated in Figure 4-3.

Figure 4-3: Conceptual framework structure



As detailed above, all perspectives in this structure have been made consistent with each other. Structuration theory strengthens the formal organisation perspective's institutional and dynamic aspects of structures and human behaviours in a contextual manner. A common understanding of social processes and knowledge acquisition between structuration theory and processual analysis were also demonstrated. The processual analysis method empowers the contextual approach within originally cross-sectional and functional frameworks of IT outsourcing configuration, IT governance

and the lifecycle perspective of sourcing.

This framework is the intellectual product of a literature examination and an initial pilot study of a single case. In particular, the use of single case study as a pilot study was recommended by Pettigrew (1997) as stated in the methodology chapter. In addition, various elements within the relevant literature were collected from the results of rich multiple-case studies. For example, the numbers of investigated cases are 49 in IT outsourcing configuration cases, and 100 in lifecycle perspectives of sourcing cases, all of which came primarily from European, American and Australian firms after the mid-1990s. This does not imply the generalisability of the thesis findings, but it can at least justify the relevance of the employed elements.

Consequently, while maintaining theoretical consistency, the processual analysis-informed multidimensional IT outsourcing configuration framework will facilitate the longitudinal comparative case studies of this thesis; furthermore, the structuration theory-informed formal organisation perspective will be used to interpret findings and to better understand social reality.

CHAPTER FIVE
CASE I: E-GOVERNMENT PROCUREMENT SYSTEM
OUTSOURCING IN KOREA

5.1 Introduction

This chapter describes the first empirical case study of the thesis. This is an e-GP system outsourcing case in the PPS of the South Korean government. This chapter is followed by a chapter describing a British case study; these two studies, while constituting the comparative study of the thesis, will be discussed in a combined analysis in Chapter Seven.

This case informs the thesis with its empirical demonstration of a client's diverse strategies in relationship to its IT outsourcing concerns. Phenomenal significance is inferred from the finding that strategy, contract structure and client organisation construction are mutually interrelated. The multidimensional IT outsourcing configuration framework of this thesis provides an appropriate analytical tool for this case analysis. 'What', 'why' and 'how' questions will be explored as decision points, underlying context and process components, respectively. The concepts involved will be briefly introduced again for the reader's convenience.

To make the context clear, it should be noted in advance that the significance of procurement in PPS differs from that of other organisations. Procurement is normally

referred to as a back office function that supports a main business; however, it is a front office service in PPS, since PPS is a specialised procurement organisation, and its main mission is the provision of procurement services to other public organisations. In addition, the case study focuses on the change—in terms of strategy, contract structure and organisational change—brought about by a critical alteration of outsourcing strategy in 2004 and 2005. PPS e-GP history goes back to 1997, and this entire e-GP account will be explored to explain the context of relevant phenomena. However, a meaningful outsourcing arrangement was first made in 2003; accordingly, this study concentrates on the change in 2004-05 in contrast with the previous outsourcing arrangement in 2003.

Regarding the presentation of this thesis, the exploration will follow the analytical framework presented in the previous chapter. However, the application of an argumentation analysis is implicitly embedded within the framework's descriptions. (A presentation employing Toulmin's argument structure—see Figure 3-2 in Chapter Three—is attached separately as Appendix 2). This is for the following reasons: first, argumentation analyses contain holistic explorations of phenomena throughout all components of a multidimensional IT outsourcing configuration framework; second, it is hard to address the findings coherently when presenting them requires pursuing the individual and atomistic arguments that are observed in the related phenomena.

5.2 Background

5.2.1 Case overview

PPS, founded in 1949 and currently with 913 staff members, is the central procurement

organisation of the Korean government and performs the role of procuring goods and services at optimal prices, thereby saving the government money. Its five functions are domestic and foreign procurement for public organisations, contracts for the government's major construction projects, government stockpiling and supply of major raw material commodities, efficient management of government goods and property, and management and operation of the government-wide e-procurement system (PPS 2009); however, its fundamental roles have been recognised as the first two functions.

Beyond this original mission of contractor, PPS developed a nationwide e-GP system—called Korea Online E-Procurement System (KONEPS)—in September 2002 as an application service and integrated e-GP portal for all public organisations, from central and local governments to state-owned enterprises; thus the function of management and operation of the government-wide e-procurement system was newly established. KONEPS was one of 11 nationwide e-government initiatives implemented since 2001 in pursuit of a citizen-centred e-government in Korea (Lee, Tan and Trimi 2005). It is renowned in the international world as a successful case of innovation in the field of e-GP (Lee 2007; Lee et al. 2007; Seong and Lee 2004; OECD 2004; UN 2004; World Bank 2006).

As the central procurement organisation, PPS itself is the largest procurement entity, with a turnover of £16.1 billion⁴ in 2008—that is, 27.9% of total public procurement in Korea. Within the central procurement system, every public organisation is encouraged to request PPS to make contracts with suppliers on their behalf, in particular, over a specific threshold of scales. On the other hand, KONEPS's annual transaction volume

⁴ Currency exchange rate in this thesis is GBP 1 for KRW 1,800.

reached £35 billion in the same year, involving 39,000 public organisations and 150,000 suppliers with 200,000 daily users of its Web site. The number of tender notices published through KONEPS was 330,000 in 2008 (PPS 2009). Regarding figures, the volume of KONEPS is distinct from that of central procurement. The former includes transactions between other public organisations and suppliers using KONEPS application services without the intervention of PPS as a contractor.

PPS started an e-GP for centralised procurement in 1997 with commencement of an electronic document interchange (EDI) among public organisations, private companies, and PPS. Until 1999, as few as 21 in-house IT experts were able to manage this EDI system with the support of a small number of external operators. At that time there were only 13 servers and about 300 users within the PPS and 20 other public organisations. The EDI system had very limited function for supporting PPS businesses; however, by 2005 there were 77 much larger servers and hundreds of thousands of users, engaging in crucial activities such as electronic bidding (e-bidding), contracting (e-contracting), and payment (e-payment) across all public procurement beyond PPS. On the other hand, as is common in government, the number of in-house experts was not increased; in fact, there were only 24 staff members in 2005. Increasing the number of in-house staff was not allowed in the government because it was regarded as opposed to the NPM trend characterised by downsizing and privatisation (Cheong 2008; Song 2004).

Tentatively speaking, PPS began large-scale outsourcing in 2003 in that a significant share of IT budget was consumed for e-GP outsourcing contracts. The main outsourcing supplier was Samsung SDS (SDS), one of the affiliate companies of Samsung Group, a globally renowned conglomerate and the largest IT service company in Korea, with annual turnover of £1.4 billion in 2008. The total number of employees was about 9,750

as of 2009 (SDS 2009; 2010). SDS had been charged with the development of PPS e-GP systems since its beginning. SDS was awarded the contract to these tenders for more than ten consecutive major projects through separate competitive bidding processes; however, these system development outsourcing projects were not included in the research scope of this thesis, as indicated in Chapter One. The main focus is the outsourcing of existing IS operations and service delivery by using those IS (referred to as IT service outsourcing, hereafter).

A critical period for this thesis was during 2004 and 2005, when a sourcing strategy transformation was implemented. In order to understand the total structure of PPS IT background at that time, the PPS IT budget needs to be briefly introduced here. As of 2005, the total IT budget was £5.46 million, and annual IT service outsourcing expenditure was £1.77 million (32.4% of total IT budget), with variable number of outsourcing staff at between 50 and 60. This outsourcing contract has been continuously awarded to SDS as a prime contractor. Besides this, another £0.51 million (9.3%) and £1.44 million (26.4%) were spent on application development and hardware acquisition, respectively. These two items were also used in outsourcing arrangements for PPS's e-GP systems development and expansion projects, most of which were outsourced to SDS. In addition, £0.73 million (13.4%), £0.94 million (17.2%), and £0.07 million (1.3%) were consumed for hardware lease fee, facility and utility fees, and other administrative costs in turn.

In order to understand the phenomena observed in the case, the reasons for IT outsourcing in the Korean public sector need to be broadly introduced. According to NIA (2001), the reasons and their response ratios were: lack of in-house technology and expertise (42.9%), cost reduction (25.9%), time pressure (13.3%), public confidence

(10.1%), and other (7.9%). Against this background, the three features of PPS that emerge from the present research, and which underpin the entire context, were as follows.

First, it is important to note that KONEPS was not welcomed by everyone at first. This feature explains why KONEPS-related business has been isolated within PPS. IT divisions in PPS played a dominant role in operating and developing e-GP, not only in technological aspects, but also in business aspects. In fact, the centralised procurement system had been challenged by a decentralised one for more than 30 years in terms of the autonomy of each organisation. The opponents of the centralised system urged the abrogation of PPS, and PPS struggled for survival. In these circumstances, the traditional strategy of PPS e-GP was to differentiate developed centralised procurement from the underdeveloped systems of decentralised procurement. On this point, an application service to support decentralised procurement could be regarded, in part, as a conflicting mission. Consequently, other parts of PPS except for IT divisions gave a wide berth to KONEPS, particularly in the beginning.

Second, e-GP related capabilities were recognised as a core business of PPS while it pursued a specialised central procurement organisation, and PPS was very keen on developing its e-GP capabilities in this respect. We see evidence that PPS was very eager to retain in-house capabilities to manage the e-GP service. PPS IT-relative outsourcing had been divided into four domains: application, hardware/network operation, desktop and local area network (LAN) operation, and call centre. Among these, application and hardware/network operation for e-GP service were regarded as its core competency and became the target of innovation to develop organisational capabilities. On the contrary, desktop and LAN operations were considered non-core

functions. PPS outsourced these to a specialised small and medium enterprise, and an IT division has played only an administrative support role since the late 1990s. The expenditure on this outsourcing contract is very small, amounting to £83,000 in 2005.

More dramatic evidence of core/non-core disputes was found in its call centre outsourcing. Started in 1998 as a technical helpdesk embedded in an IT division, the call centre initially comprised three external staff members answering questions about how to use the system, later expanding to eleven in 2001. This was a contractual arrangement with a small and medium-sized company. They sat alongside in-house IT experts and supported them with in-house management. With the start of KONEPS, the call centre was outsourced to SDS as part of the whole e-GP IT service outsourcing contract and numbered 34 at that time. They started work in an independent space in a PPS office building; however, it was backsourced in 2004, i.e. brought back in-house, and moved from an IT division to a customer support team (CST) on the organisational chart. Consultants were individually contracted by PPS, although they were not government officials. In this respect, this was distinct from a contract with a third party supplier. Two reasons have been identified for backsourcing the call centre. The more complex functions of the new system made it impossible to separate functional and business queries, with most questions requiring business answers as well as technical support, so PPS decided to deploy seven business staff members to the call centre to deliver one-stop service to enquirers. Further, call centre activities were perceived to be a core business of a communication channel to collect customer feedback and find room for business improvement (PPS 2004a; 2006).

The third feature of the PPS case is the very dynamic nature of involved IS functions and the management of IT service. The PPS e-GP system was undergoing changes

though their depth and scope varied with each development stage. The system itself has continually expanded, and endless user requests for more convenience had to be dealt with. In addition, PPS IT divisions have been pressured to provide new functions by the organisation's leadership, ever since e-GP became the symbol by which PPS could demonstrate its constant drive for innovation. Related business regulations that should be supported by the e-GP system were also frequently revised. This characteristic is revealed well by the data automatically collected from an IS management system. During 2006, the total number of completed service requests accompanying application modification amounted to 1,765, which means 147.1 cases in monthly base. This figure maintained 146.1 a month, during the first eight months of 2007. According to other data from the same system, as presented in Table 5-1, only 26% of applications were not changed during March 2007. Among 17,879 application units managed by SDS then, 61.1% were changed up to five times. Forty-eight applications were changed more than 40 times in a month then. This may reflect the low-stability of the system in part. However, it shows well, anyway, the dynamism of the PPS IT environment.

Table 5-1: The frequency of application change in PPS e-GP system (March 2007)

Number of changes	0	1~5	6~10	11~20	21~30	31~40	41~	Total
Number of applications (Ratio)	4,650 (26.0%)	10,931 (61.1%)	1,399 (7.8%)	720 (4.0%)	93 (0.5%)	38 (0.2%)	48 (0.3%)	17,879 (100%)

* Data source: PPS IT service management system

At the same time, many different types of governance arrangements have existed within PPS e-GP service management. This complicated situation is well summarised in the following statement by a PPS staff member:

Strictly speaking, there was no operation outsourcing project to maintain fixed systems then. There were only ongoing development projects. It was PPS's rapid IT innovation era, and every function was upgraded every day. It was not easy even to identify which functions were under modification or construction by which team and for whom. It frequently happened that the same source code was being handled by different teams. For example, a system development outsourcing project team was embarrassed if they found a change in version of an existing application when they were about to deploy another new version of it that had been modified by themselves based on a previous version as of five days ago. It transpired that an in-house managed team had done it two days ago. Each team had its own test server and separate management process, including authorisation of client. Well-organised communication and integration channels were strongly required among an in-house operation team, in-house contract management team, in-house managed external operation team, and external outsourcing suppliers, but it was not easy then. We were concentrating more on the development of new systems than on developing a stable management system for existing services.

5.2.2 Distinction between outsourcing and buy-in as insourcing

To understand the complexity caused by the dynamics of the IT environment, the complicated governance structure of PPS needs to be explained in detail. This is critical not only for understanding phenomena but also for grasping key arguments occurring in the PPS context. Two contrasting suggestions for PPS's IT outsourcing history can be described as follows:

Suggestion 1: PPS has never adopted outsourcing. Although third-party suppliers have always been involved, those external resources work under in-house management control. In-house IT experts, if required, can still maintain information systems technologically because they have learned how to do it by participating in the development and operation of it. PPS's responsibilities to citizens could not be avoided even if they were totally outsourced. If any problem came up, it would not be third-party suppliers

but PPS who would be blamed for it. More specifically, IT divisions, in particular IT experts recognised as the operators of the e-GP system by internal management, would be victims.

Suggestion 2: The e-GP system was already outsourced in practice. In-house experts no longer control the system; instead, it is outsourcing suppliers whom they control. PPS has to admit that PPS is unable to run its systems without outsourcing suppliers; furthermore, PPS is getting to depend more and more on external suppliers when decisions are made. PPS's technology-based management leadership in this environment is apt to be formalised; even worse, it looks as though it would not be a help to enhance in-house capabilities and managerial efficiency. Accountability of the system should stay within PPS, but contractual responsibility can be transferred to external suppliers.

According to a categorisation by Willcocks and Lacity (2009a) based on the type of governing IT outsourcing relationship, three IT sourcing contract types can be identified: fee-for-service, strategic alliance/partnership, and buy-in contracts. There is no doubt that the first two are options of outsourcing. On the other hand, buy-in contract is described as "A customer buys in vendor resources to supplement in-house capabilities, but the vendor resources are managed by in-house business and IT management" (Willcocks and Lacity 2009a, p. 8); these authors consistently label this as insourcing in that the clients manage IT activity and vendor resources internally (Lacity and Willcocks 2006a; Willcocks and Lacity 2009a). Regardless of the range of inclusiveness of the term outsourcing, it is clear that a criterion is in practice whether in-house management operates in sourcing arrangements or not. Following this logic, Suggestion 1 above can be supported as a form of buy-in contract.

This case study finds, however, that the distinguishing criteria of buy-in and outsourcing are not only a question of 'whether in-house management exists or not'; but

also that of ‘how much practically in-house management involves’. In this respect, as inferred by the Suggestion 2 above, the case of PPS has significant implications for the choice of sourcing types and its social/organisational impact intertwined with organisational context, organisation and contract structure, and human behaviour.

A large-scale Web-based system appeared in 2000 and, as provisionally indicated earlier, IT service outsourcing commenced in 2003. Who ran the PPS e-GP system during the gap between 2000 and 2002? Three sourcing arrangements were concurrently operating, as follows: insourcing; in-house–managed buy-in contracts for existing systems operation and maintenance; and outsourcing for new systems development. In particular, the in-house IT experts of PPS suggested that the e-GP system was being run by in-house staff members though there were some external assistants. IT experts declared that they could do it without those external helpers if enough staff members were provided. This was investigated as a common view among government IT experts in Korea (Song 2004). According to the author, government IT experts preferred insourcing to outsourcing for operation and maintenance of IS but accepted that outsourcing was unavoidable for system planning and development considering the lack of technology. In addition, it was true that there were still small independent modules maintained by in-house experts alone. This was, however, an arguable assertion, as implied by Suggestions 1 and 2 above. The relatively invisible roles of outsourcing suppliers were becoming larger.

There was also a small buy-in contract for external assistants to run existing systems. External programmers and operators were supplied by a third-party service provider, and the total number of its staff was only around ten. They were literally assigned to in-house IT experts by the criteria of sub-systems in each in-house staff member’s

assignment. Each external member sat beside his or her allotted in-house staff in the same room. In this contract, the deal was the provision of an agreed number of IT experts. There was no assignment of specific functions or achievement of a certain level of service performance. There was no service level agreement (SLA). In any event, this view was consistent with the rationale of labelling buy-in contracts as insourcing (Willcocks and Lacity 2009a).

Third, PPS had conducted ongoing large development projects and from 40 to 300 external experts and specialised IT management were involved at any one time from third-party suppliers. These were complete outsourcing arrangements rather than buy-ins. In-house management was involved as procurer and contract manager, contributing cooperation and administrative support. Although in-house management occasionally compelled a supplier to make specific decisions, the supplier bore final responsibility for performance of the contract. The largest project was KONEPS, from July 2001 to December 2002. The scope of this project well represents the complexity of PPS's IT environment. This project included prior consulting including business process reengineering (BPR) and information strategy planning (ISP); development of new KONEPS application service based on existing PPS central procurement system; expansion of hardware capacity for both existing and new systems; development of shared and linking service between KONEPS and existing central procurement system; and development of many new or refined functions of the existing central procurement system.

Compared with the view of IT experts that in-house management took the lead, this thesis author observed that the role of system management was then carried out more by an external supplier except for some project management-related leadership as a

procurer. This was consistent with the views of many non-IT experts and internal managers; in fact, they complained that they were unable to recognise the original work of in-house IT experts except for general contract management. There were some grounds for this suggestion.

First, system development projects overwhelmed operations until completion of the KONEPS project in 2002. It was well represented by its contract scale. For example, the KONEPS project was a £14 million deal and 33 times larger than the operation buy-in contract, £0.42 million, in 2002. In addition, all PPS IS were monolithically integrated into an e-GP system; therefore, the nature of all development projects was related to the modification and expansion of active e-GP systems. For example, the EDI system was upgraded to a Web-based system while it was running; sometimes, both systems coexisted. Furthermore, similar systems were expanded to other business domains in an integrated manner, for instance, from domestic goods to construction work applications based on the same platform or a shared architecture. Consequently, it was difficult to discern the roles and responsibilities of existing systems operation and new system development. Some new functions were planned to operate, replacing old ones, in advance, in the middle of the development outsourcing project contract term; in this case, the system development project included operation of these new functions until the end of that contract. In accordance with this, a development project team could not help being deeply involved with the operation of existing services.

Second, information was centred on development outsourcing projects. All systems were so integrated that nobody could manage it without overall knowledge, from hardware to applications and active to under-developing functions. Because of this complexity, it became impossible to retain complete responsibility within a specific

sub-system. Accordingly, expertise on entire systems and information about the progress of each project needed to be shared. In this phase, the external system development outsourcing supplier became the primary source of information during 2000 and 2002. These suppliers retained both technological expertise in current and under-developing systems because they had to analyse the current system as well as develop and expand related functions.

In-house IT experts were filling the role of project manager in their areas in these projects. It was hard for them to learn how to operate these developed systems by themselves, as understaffed in-house IT experts had to prepare for the next development projects when a project was completed. Normally, an in-house IT expert was simultaneously responsible for development project managers and operators (with the assistance of external programmers) within a sub-system given to him. They used to give priority to the development project because it seemed more attractive than maintenance work. It was not easy to gain recognition from senior managers for routinised maintenance work. In these circumstances, operation and maintenance work was inherited by the next development project or in-house managed buy-in project. How was it possible? The answer is the third reason for strong involvement of external suppliers.

Third, it was a favourable environment for transferring risks to a third-party supplier because SDS took over both the buy-in contract and development outsourcing projects. If any problems occurred even in existing systems, two external project managers representing systems development and operations tended to fix them together. In actuality, the causes of troubles were ambiguous in many cases because there were too many functions or the system environment that were manipulated simultaneously by

both parties. Although the two contracts were separate and the system operation project was recognised as managed by in-house staff, PPS tended to transfer the risk of system operations to SDS in the background. The following request was investigated as a common approach taken by PPS.

I don't know what caused this trouble. Anyway, solve it as soon as possible. We don't care who fixes this. You [project managers of operation and development side] are in the same SDS, and this was developed by your company. Who can solve this but SDS?

In a nutshell, the operation project team was asked to contribute to the development project by providing in-depth knowledge of active systems and service by PPS and development project teams; simultaneously, the development project teams were forced to participate in trouble-shooting of the existing system by PPS.

Within SDS, the initiative drifted from development outsourcing projects to IT service outsourcing projects after 2003 because the service scope and technological architecture of the mainstream e-GP system, consisting of KONEPS and PPS's centralised procurement system, had been established, and relevant knowledge was centred on the IT service outsourcing team. In addition, the size of the IT service outsourcing deal was enlarged and the nature of subsequent development projects became supplementary, compared with mainstream functions of e-GP service, such as disaster recovery, customer relationship management (CRM) and data warehouse.

However, enduring challenges were encountered in terms of operation/maintenance and development. On one hand, some in-house staff members and development projects members complained that the IT service outsourcing team did not fully support them in spite of their abundant expertise in the system; on the other hand, other in-house staff

members and IT service outsourcing teams blamed development projects arguing that those projects ignored the importance of stable service delivery and shifted their risks onto IT service outsourcing. From the viewpoint of PPS, it was an argument between the two different priorities of secured service and continuous upgrade.

Fourth, the lack of in-house human resources to retain sufficient capability supports the observations of the thesis author. In actuality, it depends on the definition of capabilities. To return to two arguments presented at the beginning of this section, the first suggestion is based on the belief that in-house IT experts can maintain IS without external resources. On the contrary, the second suggestion pursues different capabilities not founded on technology itself because it seems no longer possible. Until the mid-1990s, in-house IT experts had maintained and developed previous small-scale applications based on 3rd-Generation Programming Language (3GL) like COBOL or PL/SQL; however, the fundamental platform of new systems development was changed to object-oriented Java and 4GL like Power Builder that was appropriate for a Web-based system. Nonetheless, there was no suitable training programme for incumbent staff or significant recruitment of highly skilled experts, as is common in government. If we define required skills or capabilities as abilities in these kinds of application development, it was obvious that PPS did not have them. With the beginning of e-GP in 1997, the role of IT experts shifted from programmers to project managers or business analysts to control or support development projects. Even though retention of programming capability might have been helpful to avoid risk of being captured by external suppliers, human resources were seriously limited.

As can be seen, many managerial issues arose among in-house system operation function, in-house contract management function, development outsourcing projects,

and the in-house managed buy-in project between 2000 and 2002. Even after 2003 when IT service outsourcing began, these conflicts continued among interested parties. This complex situation formed the background of IT outsourcing innovation starting in 2004.

To summarise, there was no alternative but to operate the e-GP service with some degree of external suppliers' involvement. Distinctive stages after 2000 can be described in terms of buy-in insourcing and outsourcing. Within PPS, it is difficult to distinguish each of these by the objective criterion of 'whether in-house management operated or not' implied by Willcocks and Lacity (2009a). This thesis suggests that the quality of in-house management should be considered, while dividing PPS's sourcing history into three stages. In terms of contractual arrangement and governing relationship, the stages have few differences; that is, in-house management always existed in some depth.

The first was the 'pseudo buy-in' stage, from 2000 to 2002, characterised by prevalent development projects. In the weak distinction between operation and development projects, strong in-house management was observed. In-house management played the overall role of collecting, defining, and coordinating business requirements and even technological specifications for new systems despite final responsibility being vested in a private contractor; however, against the rationale of the buy-in approach, in-house management did not work strongly in the area of existing system operation buy-in contracts.

The second stage was 'pseudo IT outsourcing', from 2003 to 2004, featuring an IT service outsourcing-centred operation. In-house staff started to pay attention to the

existing system operation; however, there was no agreed performance indicator of the IT service outsourcing contract. Furthermore, the control mechanism was the same as that of the old buy-in system; hence, the supplier's roles and responsibilities were described as the provision of skilled experts, and they were classified and assigned to a specific in-house management category. Compared with the prior stage, IT service outsourcing, that is, the operation side, started being recognised as a key function; but internal management became looser in terms of IS technology.

The last stage is labelled 'IT outsourcing'. Diverse innovation was pursued, including the introduction of SLA, to be explored in detail in the next section. These three stages are summarised in Table 5-2. Exploration presented from the next section focuses on the transition to IT outsourcing compared with prior pseudo IT outsourcing, which was the result of IT outsourcing innovation in 2005.

Table 5-2: Stages of PPS sourcing arrangements

Stage	Contractual arrangement	Overall in-house management	Note
Pseudo Buy-in (2000-02)	Large development projects and a small operation buy-in project	Strong	Development project-centred operation
Pseudo IT outsourcing (2003-04)	A central IT service outsourcing and other large development projects	Medium	IT service outsourcing-centred operation
IT outsourcing (2005-)	A central and complicated IT service outsourcing and small development projects	Weak	Introduction of SLA

5.3 Strategy dimension

5.3.1 Decision points and underlying context

This section explores why and how PPS transformed its organisation and outsourcing contracts and relative decisions with respect to strategy building. This strategy was formalised as an official document of an IT outsourcing innovation plan (PPS 2004b).

5.3.1.1 Commercial relationship

5.3.1.1.1 Decision points

‘Commercial relationship’ is fundamental to the strategy for transformation of IT outsourcing. It means the relationship structure between client and supplier. There are four options of ‘arms-length’, ‘value-added’, ‘co-sourced’ and ‘equity’. There was no room for the value-added and equity options in the PPS case because PPS and any potential contractor had no prior relationship in terms of ownership or similar, and no shared business initiatives were crafted in contracts. PPS’s initial choice since 2000 was co-sourced, describing the mixed provision of labour and assets and integrated accountability. In accordance with the benefit of a buy-in contract, this was understood as the most useful way for clients to learn high-technology and service operation from external suppliers (Willcocks and Lacity 2009a). However, e-GP system was too huge to be run by understaffed and less skilled internal experts. In fact, PPS had intended to build in-house capabilities through defining roles and responsibilities separate from those of outsourcing. For example, business analyses were assigned mainly to in-house staff, whereas outsourcing suppliers were expected to support them with technological

examinations. In this way, PPS attempted to maintain its knowledge as a core capability

However, there was only undefined and disorganised cooperation between PPS, development outsourcing project suppliers, and IT service outsourcing suppliers until 2004. Accordingly, the more mature the system implemented by PPS, the more advanced the contract and management skills required. This was particularly important since confusion is always possible where, in general, a government holds the dominant position in a contract with a private company; such a possibility was amplified in Korean culture, as will be described in the next section, about underlying context.

Consequently, PPS aimed to transform its option from co-sourced to arms-length, which would mean exclusive accountabilities. How did PPS try to achieve this transformation of its commercial relationship? The overall direction was to concentrate on performance evaluation activities, with less intervention by in-house IT experts into day-to-day operations, and severance of direct organisational connections between staff of the two parties. This aspect had a great influence on the reconstruction of other components. Transformation advocates insisted that core capabilities could be built on the basis only of the selection and concentration principle, that performance matters, and that the paradigm of system management should change from application and hardware operation to process-based IT service management.

However, opponents suggested that the core capability of the IT divisions is technological knowledge based on business processes; opportunistic behaviours would occur if PPS ceased to intervene in detailed activities of suppliers. IT experts were concerned about losing their identity as specialists. The key capabilities emerging during these disputes were system analysis and design ability. Advocates of the

transformation felt it impossible for those to be retained because of lack of in-house resources and the technological characteristics of large integrated system architecture. They urged in-house IT experts to concentrate on new capabilities of performance management, strategic planning, cost assessment, and so on. On the contrary, opponents suggested that they would not like to abandon it because future expansion of the IT division might be the best solution. Consequently, some compromises were made, as will be explained later.

5.3.1.1.2 Underlying contexts

From these developments, the underlying IT governance concerns became disclosed as ‘strategic alignment’, ‘performance management’ and ‘control and accountability’. This decision summarised issues raised in the overall transformation processes and had a great influence on the decisions of other components.

Regarding concerns over strategic alignment, this commercial relationship transformation revealed a characteristic of the PPS context. PPS pursued in-house capability building within the e-GP service by transforming the traditional co-sourced option to arms-length relations. According to a buy-in custom prevalent in PPS sourcing strategy, it was still believed that in-house management should overlap the individual activities of outsourcing suppliers during 2003 and 2004, though a large-scale outsourcing was adopted.

Reflecting on the result of this approach, transformation advocates concluded that the old managerial system had failed to link the expertise in the e-GP system (representing IT) with that in e-GP service management (representing business). PPS had believed

that greater knowledge of the e-GP system would guarantee more effective and accountable e-GP service management, which was accepted as a core of business by PPS. However, in spite of some disagreement, the consensus was that assigned in-house staff members were likely to be generalists rather than competitive experts under those conditions. Prominent in-house staff had a tendency to pass their work on to outsourcing in the background. For example, the activities of analysing and defining business requirements for the established e-GP system were laid on external suppliers, though those had originally been designed as an in-house mission in pursuit of capability retention. It meant that the e-GP system was moving gradually further away from PPS core business.

Korean public management culture is one of the explanations for this phenomenon. Public service and relationships with citizens and businesses in Korea have been dominated by the government side. The reasons that have been given include: long-lasting authoritarian regime and centralised government structure, patriarchal Confucianism, and more recently, government-led economic development since 1960s (Park 2004). Against this cultural background, PPS and SDS had not been equal in their relations. In this respect, moving to an arms-length from a co-sourced option was a strategy to overcome the disadvantage of undisciplined cooperation by exploitation of original and explicit roles of in-house IT experts.

Performance management and control and accountability concerns provided the rationale of an alternative way to govern suppliers and e-GP services against the view of the traditional co-sourced approach. Performance-based control and increased accountability because of it were declared a new paradigm of outsourcing management. This kind of principle must literally be too obvious to be disputed in most outsourcing

cases; however, it was not easy for PPS to employ. There was a sense within PPS that external suppliers should be under the tight supervision of in-house managers act by act, but the ideal was different from the real. The following statement by a PPS IT expert describes this situation:

We became government officials as IT experts and have done technological work in IS for a long time; however, in an unavoidable IT outsourcing environment from the late 1990s, we were tormented by doubts about our identities as technicians. It was an identity crisis. We had initially tried to undertake all the operations work of the developed system, but it soon became clear that understaffed IT divisions were unable to do it. We began controlling outsourcing suppliers based on technological knowledge, but it again became obvious that they did not need technological advice from us. So our work turned to general contract management such as head counting, report review, and so on. We pretended to be IT experts over external suppliers but it was hard to follow because of the complexity of the integrated system and advanced technology. Some were satisfied with such a superior position, but others were embarrassed by the fact that we did not know the system well. The problem was more critical for junior members in that they did not have the opportunities to be involved with development work that we did.

After all this, PPS began applying SLA and process-based control schemes to develop distinct accountabilities from those of SDS.

5.3.1.2 Scope grouping

5.3.1.2.1 Decision points

The second decision point in this dimension is ‘scope grouping’, describing the contract scope in terms of service, recipient and geography facets. Each facet consists of two options: ‘service scope’ with ‘entire service option’ or ‘selected scope option’;

‘recipient scope’ with ‘all business units option’ or ‘business unit self-select option’; and ‘geographic scope’ with ‘all geographies option’ or ‘geography self-select option’. Since 2000, PPS’s choices have been the entire service scope, all business units, and all geographies options. The transformation in 2005 caused no change in the options of recipient and geographic scope. Web-based e-GP service has been delivered to all users (all business units), and the workplace and data centre was in PPS Headquarters in spite of 11 regional PPS and 5 overseas procurement officers (all geographies). However, in the service scope—that is, functional service bundles—structural changes occurred within the same entire service scope option.

The author of the thesis considers e-GP service outsourcing to have commenced in 2003. What made this deal distinct from the prior PPS centralised procurement system outsourcing previously described as a small-scale operation buy-in project? In terms of the contract, there was little difference. There was no SLA, and the contract was still founded on labour provision. In actuality, many staff members regarded the new contract as another buy-in and denied the concept of outsourcing based on their perception of in-house management involvement, as discussed concerning the commercial relationship decision. This was consistent with the traditional view that the authority of e-GP should be retained within PPS, with in-house staff members participating in day-to-day operations in order to learn and control the management of e-GP.

In a consideration of functional elements, the contract scope of e-GP system outsourcing since 2003 can be described as application maintenance, systems operations, telecommunications management and maintenance, and end-user support among six types of IT functions. Regarding this classification, this thesis follows the criteria given

by Grover, Cheon and Teng (1996), who give two additional typical functions of application development and systems planning and management. Although these authors' original categorisation identified application development and maintenance as an integrated element, the nature of IT service operation— representing maintenance— is quite different from that of an IS development project—representing development, as was discussed in Chapter One in detail.

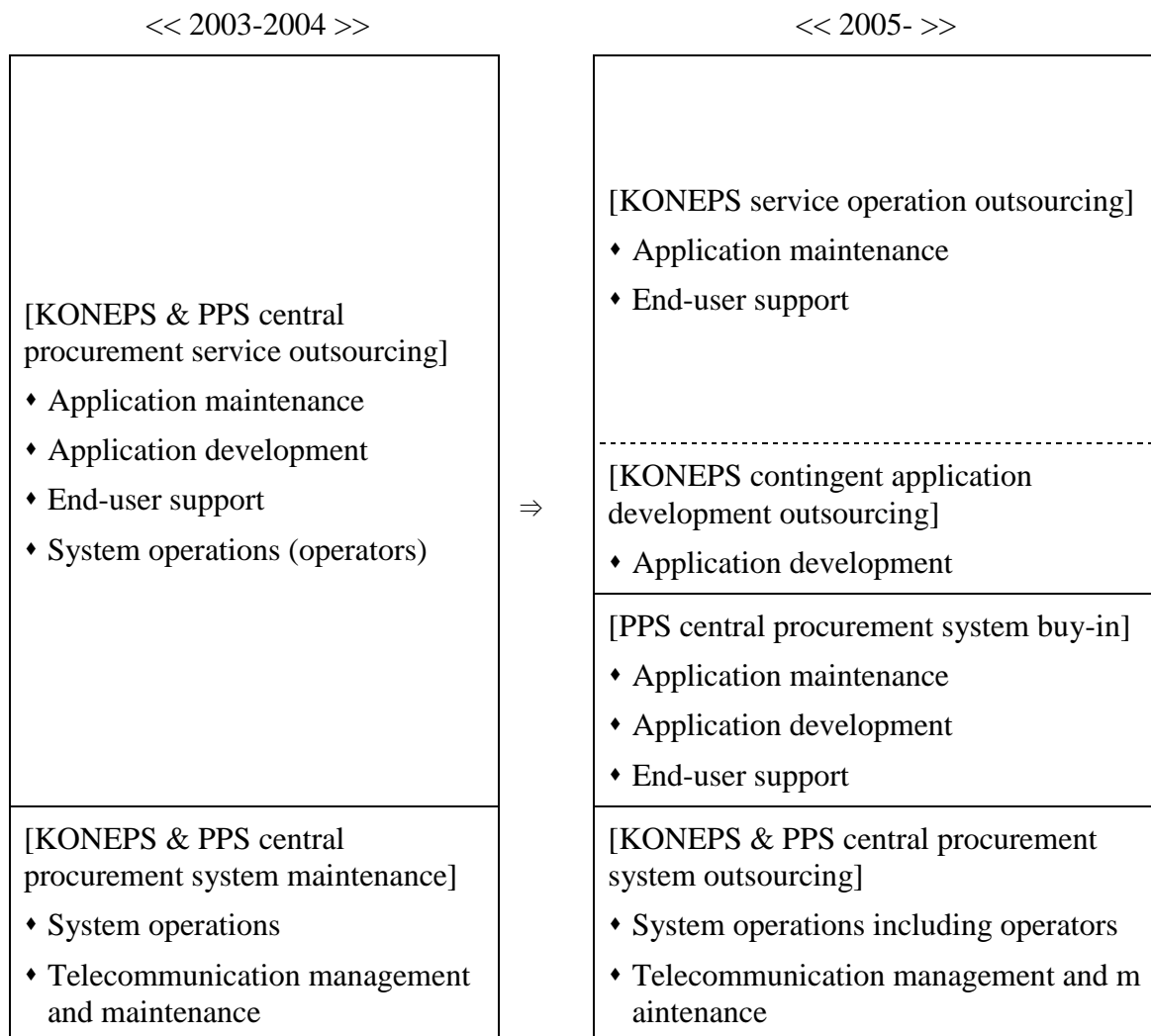
Outsourcing contracts in 2003 and 2004 comprised two deals in application outsourcing and hardware/network maintenance. In terms of IT function types, the application deal focused on application maintenance, development, and end-user support, whereas the hardware/network deal involved systems operations and telecommunications management and maintenance. A major difference between the outsourcing and maintenance deals was the provision of an onsite workforce. In the case of the hardware maintenance deal, the contractor's only responsibility was non-resident technical support and troubleshooting in emergencies. No resident operators were included in the hardware maintenance contract; on the contrary, they were included in the application outsourcing deal. Preparing for innovation, PPS was not interested in the hardware/network contract, since those were to be transferred to a newly established government agency beginning in 2006⁵. PPS transferred only hardware/network operators to the hardware deal in order to completely separate roles and responsibilities of application and hardware contracts. On the other hand, systems planning and management were left out because they included activities such as project management, personnel management, and administrative support, which were recognised by PPS as

⁵ Korea created the National Computing and Information Agency in 2006, which is a government body operating as the Internet Data Centre for government information resources. All IT resources such as servers were moved to this organisation from independent government organisations, including PPS.

core in-house capabilities. PPS sought to retain those functions in-house though they were supported by external suppliers.

Figure 5-1 shows structural change in the service scope option in 2005. PPS again first divided the application and service outsourcing parts into external KONEPS and internal central procurement. The latter includes certain specialised modules for PPS centralised procurement work used only by PPS.

Figure 5-1: Structural change in outsourcing service scope in 2005



Furthermore, PPS separated the KONEPS service outsourcing contract into two parts, again with one contractor: service operation and contingent application development. The former included the activities of maintenance and the technology support helpdesk, whereas the latter contained minor development work. This was the trial to clarify the criteria of out-of-scope work normally argued between clients and suppliers. As previously presented, the e-GP service environment was a dynamic one; for example, there were ongoing contingent requests for system modification responding to regulation changes, new business establishment, and functional improvements for a more user-friendly interface—none of which can be anticipated in advance. As a result, PPS came to recognise these facets as normal application operations. Before 2005, those were negotiated between PPS and outsourcing suppliers on a case-by-case basis; however, beginning in 2005, PPS started reserving 20% of the relative budget—estimated by analysis of outsourcing activities, as described later in Table 5-3—for this purpose and consuming it by the criteria of fee for service.

5.3.1.2.2 Underlying context

First, the contexts of two unchanged options should be briefly explained, those of the recipient and geographic scope options. Because of the standardised business processes and Web-based technological characteristics, there was no requirement for differentiated services in terms of service recipients or physical locations of service delivery. Approximately 190,000 external users were making use of KONEPS for their own businesses through Web browsers, and the same was true of PPS staff. These internal members had no choice but to use KONEPS and the centralised procurement system delivered by PPS IT divisions and SDS in an integrated manner. Consequently, all business units option of recipient scope and all geographies options of geographic

scope remained.

With respect to the transformation of the service scope option, the underlying context is explored by the criteria of relative IT governance concerns of ‘strategic alignment’, ‘delivery of business value through IT’, ‘risk management’ and ‘control and accountability’. From the concern of strategic alignment, the entire service scope option had been adopted in 2003 considering the lack of in-house resources. As revealed in the PPS history given in the background section of this chapter, PPS strategically recognised the e-GP service as its core business, and KONEPS was a totally new function in terms of both IS and business; however, there was no possibility of insourcing because the expansion of workforces was not allowed.

On the other hand, restructuring its entire service scope in 2004, PPS divided the prior application outsourcing contract into three parts. This could be discussed later as a component of supplier grouping in the contract structure component; however, it is more appropriate to explore it here because it was significant for scope grouping as well. PPS did it strategically in order to build and retain in-house capabilities. The separation was fundamentally difficult because every function was integrated. For example, if some functions of the e-bid system failed, the causes might not have been only in the e-bid system itself but also in the document transaction system, overall security system, system configuration, middleware to link applications and hardware, and so on.

While PPS managed the contract, it became more obvious that in-house experts were have a hard time governing such a huge system in a technological manner. Technological manner, here, means activities such as business analysis, system architecture and application design, application source code examination and step-by-

step authorisation, application development for an emergency, etc. These were beyond the capabilities of in-house staff. Besides the limit to in-house expertise, an IT expert in the field was assigned the work of 5–6 external staff members, on average, owing to the lack of workforce; in addition, they had to assume the role of contract manager. There were no more development projects of the mainstream system that had existed before 2003 to share responsibility with them.

After its one-year experience in outsourcing, PPS decided to change its structural attributes in service scope. The aim of reconstruction was to set up ‘the juxtaposition of do-it-yourself better and outsource-others more systematically’, which resulted in the transformation of PPS central procurement system buy-in for internal services and KONEPS outsourcing for external services, respectively (PPS 2006). This is a good illustration of the comprehensive approach of IT outsourcing innovation in PPS. On one hand, this was a trial to enhance in-house capabilities by applying an appropriate management technique for each area, considering the business and technical characteristics and the skills of in-house resources. The internal system was relatively small scale and less advanced in technology. The users and their impacts were restricted to PPS. On the other hand, this was one of the solutions for securing the commercial relationship shift, mentioned previously as the movement to arms-length from co-sourced option. By removing the co-sourced approach in the outsourcing area, PPS intended to distinguish the roles and responsibilities of client and supplier. Eventually, more in-house staff members were assigned to internal services in order to offer more technology-based management from source code maintenance. The decreased number of in-house staff for external services began to apply new management concepts, which will be discussed in detail later. They formally abandoned routine maintenance work.

At the same time, this change was the result of political struggles. The initiator of this transformation initially suggested adopting new management over the entire contract, which was characterised by performance management and process control. However, this was understood as being on the opposite side of traditional direct control over external workforce and their activities; therefore, most IT experts expressed antipathy towards this outsourcing innovation for reasons like the need for control, the fact that process management was recognised as being less technological, and even that it could be conducted by non-IT experts. After three months of dispute, a compromise was reached by separating application contracts and applying different management tools to each. This amounted to a soft landing for all interested parties. Opponents succeeded in preserving an area of appropriate size for in-sourced IS management based on a buy-in contract, whereas advocates reserved a key business area that could be systematically outsourced. On this point, this transformation represented PPS's response to the concern for strategic alignment in terms of both retention of the traditional capability of system management and development of new management skills in IT outsourcing.

The background of this transformation is also seen in three other IT governance concerns. The conventional understanding of delivery of business value through IT concern is about the relationship between the e-GP system and procurement works of PPS or individual procuring organisations. However, in the PPS case, another important business of PPS was recognised as management of e-GP. In this sense, the reconstruction of service scope and intended management paradigm shift should be understood as pursuing business value through IT outsourcing innovation.

In terms of concerns about risk management and control and accountability, PPS pursued this innovation to enhance accountability without losing knowledge or control

of the service. Aside from argumentation on core knowledge or the nature of control, the PPS case reveals well what a client organisation does in responding to risk originating from an unavoidable IT outsourcing environment.

5.3.1.3 Financial scale

5.3.1.3.1 Decision points

The third decision point is ‘financial scale’. This was depicted as the financial value in relative and absolute dimensions. Table 5-3 displays the composition of PPS’s budget from fiscal year 2000 to 2007⁶. In the composition of expenditures, the figures for application outsourcing mean the budget for contracting of application maintenance and routinised development, including end-user support, whereas system operation indicates the budget for systems operation in Figure 5-1. Except for lease fee and facility/utility fees (e.g., network and electricity), which were directly paid by PPS, all other expenditures were used for sourcing contracts (buy-in or outsourcing).

Table 5-3 summarises the PPS IT history explained earlier. Before 2003, the overwhelming importance of the IS development project—68.6% to 84.6% of total IT budget—was reflected in the PPS budget. The reason for large IS development investment in 2003 after the completion of KONEPS project was the disaster recovery backup centre and CRM building for KONEPS. Considering that these are outside mainstream functions, PPS perceived that the e-GP system entered a state of

⁶ Besides the PPS general budget, investment by the E-government Special Fund administered by another ministry was included in this budget. It amounted to £31 million for IS development during 2000 and 2004, about 92% of the entire IS development budget during the same period.

stabilisation from 2003, as implied by figures representing changes in proportion of budget for stabilisation (application outsourcing, system operation, and relevant fees) and fluctuation (IS development). Budget for maintenance and stabilisation comprised an average 25.6% of total IT budget before 2003; this increased to 86.4% between 2004 and 2007. In contrast, the share of IS development budget decreased from 74.4% to 13.6% on average during the same period.

Table 5-3: PPS annual budget from 2000 to 2007 (£1000)

Budget\FY	2000	2001	2002	2003	2004	2005	2006	2007
Total (A)	70,969	53,349	76,414	71,757	64,411	61,333	80,886	85,180
Total IT (B)	4,404	5,944	16,589	15,425	5,593	5,458	7,106	7,617
(B/A) (%)	6.2	11.1	21.7	21.5	8.7	8.9	8.8	8.9
Application outsourcing ¹ (C)	161	313	475	1,514	1,931	1,767	2,012	2,276
(C/B) (%)	3.7	5.3	2.9	9.8	34.5	32.4	28.3	29.9
System operation ² (D)	194	206	257	724	1,000	1,443	1,505	1,489
(D/B) (%)	4.4	3.5	1.6	4.7	17.9	26.4	21.2	19.6
IS development ³ (E)	3,033	4,042	14,041	11,757	881	508	1,305	838
(E/B) (%)	68.9	68.0	84.6	76.2	15.8	9.3	18.4	11.0
Lease fee, etc. ⁴ (F)	1,015	1,383	1,816	1,430	1,781	1,739	2,283	3,014
(F/B) (%)	23.0	23.3	10.9	9.3	31.8	31.9	32.1	39.6

* Source: PPS Budget

1. Budget for application maintenance outsourcing/buy-in contract
2. Budget for hardware/network facility acquisition and maintenance contract
3. Budget for IS development outsourcing contract, including application development and hardware acquisition
4. Budget for hardware lease fee, facility and utility fees, etc.

The qualitative change in outsourcing in 2005 did not affect this; the ratio of application outsourcing to the IT budget slightly decreased from 34.5% to 32.4%. Compared to this, the ratio necessarily increased sharply in 2003 when large-scale outsourcing was adopted. If funds transferred for e-government (see Footnote 6 in p. 158) that account for IS development are removed, the ratio increased from 9.0% (2000) to 10.6% (2001) to 16.6% (2002) to 34.3% (2003) within PPS's own budget. A similar ratio has been maintained since then. On the other hand, the increase in absolute scale reflects expansion of the target system to be outsourced and general price rises.

5.3.1.3.2 Underlying context

The independent context underpinning the financial scale decision would be meaningful only if there were any constraints in financial terms. In the case of PPS, financial figures were externally determined by the scope of outsourced systems and functions, represented by the scope grouping option. In this sense, the context of financial scale can be understood as the same as that of the scope grouping option. On the other hand, there were necessarily disputes about cost assessing and separating, but these were matters of pricing methods and supplier grouping, as will be discussed later.

5.3.1.4 Resource ownership

5.3.1.4.1 Decision points

The last decision point in the strategy dimension is 'resource ownership'. This reflects the constitution of control and ownership in terms of assets, facilities and assets. There are seven options: 'infrastructure', 'onsite', 'service and facility', 'asset buy-in',

‘facility host’, ‘labour buy-in’ and ‘total ownership’. The long-standing choice of PPS had been the labour buy-in option—which meant its assets (e.g., hardware, software) and facilities (e.g., office site, data centre) were owned and controlled by the clients, whereas labour was contracted and provided by suppliers. All assets and facilities were owned and provided by PPS except for the personal devices of external suppliers’ staff members, such as PCs and office supply.

On the other hand, as the developer (Cullen, Seddon and Willcocks 2005) of this concept suggested, the term ownership is not literal. The authors clarify that the control of assets is more important than legal ownership. This view has a long intellectual tradition in management studies under the banner of ‘separation of ownership and control’ (Martinelli 1994). Lee, Miranda, and Kim (2004) applied this perspective in IT outsourcing. The authors conceptualised ownership and control as decision scope and contract type in an IT outsourcing contract, respectively. The former was defined as “the proportion of the IT function in- or out-sourced”, whereas the latter referred to “who retains control over processes that are not contractually stipulated” (p. 113). The case of PPS provides empirical practice for this discussion. Very straightforwardly, ownership of a developed system goes to the client organisation under Korean government regulation; but control in practice is another matter.

This thesis argues that the labour buy-in option of resource ownership component was maintained until 2004, before the adoption of IT service outsourcing, though there was some doubt that in-house management maintained appropriate control of client-owned assets. During that period, in-house IT experts had the right to access the system, and they held prominent positions over outsourcing suppliers; however, within the IT service outsourcing for external services, the change to the onsite option occurred in the

IT outsourcing innovation plan in 2004 (PPS 2004b; 2006). The onsite option is featured by supplier-owned/controlled assets/labour and client-provided facilities. From 2005, in-house staff members were no longer allowed access to the outsourced system with the rearranged roles and responsibilities. In-house management came to be in charge only of process management. This is the basis for the suggestion that the option was transformed from buy-in to onsite.

In addition, resource ownership-related discussions up to now were limited to the aspect of technological management. If we broaden it to the entire service management, it might become a more complex issue regarding the strength of in-house management. It seems almost impossible to classify complicated outsourcing phenomena in a monolithic criterion of the existence of in-house management, as discussed earlier in making the distinction between buy-in and outsourcing.

5.3.1.4.2 Underlying context

The underlying context of the transformation from labour buy-in to onsite option can be analysed by control and accountability concerns. As mentioned above, all ownership of developed e-government systems belongs to the government in the Korean legal system. However, PPS chose to develop a new management method based on process control and performance assessment instead of system management in a technological manner; accordingly, the labour buy-in option accompanying stronger involvement of client was transformed to onsite. This change sought to reinforce supplier accountability and the client's concentration on process management replacing incumbent assets control beyond PPS's power.

Consequently, PPS's resource ownership decision can be epitomised as reallocation of assets control authority. As implied by Lee, Miranda, and Kim (2004), this kind of allocation of control was hard to specify in advance in the contract; on the contrary, it was constructed during the operation. For example, the restriction of in-house experts' access to the system was only vaguely declared in the contract document; hence, the removal of old in-house authorities was neglected and those survived after 2005, though in-house experts did nothing with those. However, with increasing concerns about security and stability, SDS was empowered and even encouraged to block access of the PPS IT experts and delete their accounts from the system. There was a clear opportunity for this. In late 2005, the Korean prosecutor's office launched an investigation into PPS against suspicion of e-bid system management-related corruption. Although the prosecution cleared the suspect of suspicion, PPS decided to clarify the authority of system management. Considering the imbalance of power between client and supplier and nostalgia felt by in-house IT experts, it would have taken longer if it had not been for this case.

On the other hand, this transformation was interrelated with other decisions. For example, the commercial relationship option change from co-sourced to arms-length can be supported by the resource ownership transformation in terms of exclusive accountabilities. If key assets were controlled by PPS, it would have been difficult to distinguish the responsibilities of PPS and SDS. Similarly, the division of application outsourcing contracts in the service scope option allowed for different and specialised in-house management within specific parts of e-GP management. In particular, process-based control and performance assessment emerged as the solution against control and accountability concerns. These aspects will be explored in detail in the dimensions of contract structure and organisation construction below.

5.3.2 Process of strategy building

Regarding ‘how’ questions, the strategy building process is consistent with the architect and regenerate phases of the lifecycle perspective on sourcing processes. These processes were repeated every year; however, the distinction between architect and regenerate phase is not easily made because there was no clear stage of adopting outsourcing. For example, activities during the architect phase could have been identified if PPS had experienced a prior insourcing period; but, as introduced in the background section, complex sourcing arrangements existed from the beginning of e-GP in 1997. Accordingly, the IT outsourcing innovation pursued by PPS in 2004 was derived from evaluation of prior sourcing strategies and performance in practice. Mechanistically speaking, this innovation can be understood as taking place only in the regenerate phase in this sense.

Nonetheless, it is still useful to employ the concept of the architect phase to explore and explicate phenomena in strategy building. This approach can be justified in that the contents of transformation were so radical as to represent new IT outsourcing adoption. Consequently, this section describes phenomena observed at PPS after the IT service outsourcing contract in 2003 through a different ordering of the sourcing lifecycle perspective. A brief explanation using the regenerate phase concept will be followed by a more detailed exploration of architecting IT outsourcing innovation.

5.3.2.1 Regenerate phase

The regenerate phase refers to the period of preparation for the next contract based on an assessment of the existing contract. This was presented in the original model as the

refresh building block (Cullen, Seddon and Willcocks 2006). There were two manifest regenerate phases when two one-year contracts of 2003 and 2004 were made.

A consistent concern of outsourcing deals in PPS was confusion between buy-in and outsourcing, creating the issue of in-house capabilities development. Large-scale outsourcing in 2003 was simply an expansion of scale compared with prior buy-in contracts for operations based on the provision of external experts. PPS had no experience with such big outsourcing deals before. This was the first outsourcing contract in the entire e-GP system, including KONEPS that had been built the previous year. In addition, there was no serious assessment of the capabilities issues once more, mainly because of the lack of time when preparing for the 2004 contract. Through 2003, PPS IT divisions and SDS were very busy stabilising the new e-GP system and developing a disaster recovery system, CRM, and a data warehouse. For the advocates of IT outsourcing innovation, it was already clear that existing sourcing strategy should be changed. Notwithstanding this, they lacked sufficient data for the analyses of the IT service outsourcing operation. In addition, diverse practices by other agencies and private companies were required to achieve a benchmark. In practice the only strategy crafted at the end of 2003 was gaining time without the loss of effort. A consistent basis for obtaining information on IT service operations was also needed.

PPS finally decided to outsource again with SDS without competitive bidding processes; accordingly, a private contract was made. The macro-level plan for IT outsourcing innovation—including the introduction of a long-term contract flowing from the next contract was prepared only at that moment. This plan was approved by the PPS Administrator, together with the project plan of a private contract with SDS. A PPS IT division staff member explained that situation as follows:

Most of us have doubts about the existing outsourcing arrangements; however, one year was not long enough to obtain data and plan a new way to manage contracts and services. It was the first year of IT service outsourcing. We agreed that another year would be very helpful for analysis and innovation of the contract. But contracting in a non-competitive way was allowed exceptionally in Korean procurement regulations, so we convinced leadership to authorise it with a blueprint for further innovation in 2005. The contract for 2004 was an extension of the 2003 contract by one year in practice though it was made in the form of a new one-year contract.

The regenerate phase of the contract in 2005 was linked directly to the architect phase of IT outsourcing innovation.

5.3.2.2 Architect phase

Activities during the architect phase are presented in the published model as investigate, target, strategise and design. The architect phase occurred in 2004. In the investigate building block, PPS attempted to benchmark other practices and obtain some grounds for innovation. The most obvious result of this benchmarking was the prevalent multiple-year contract duration. Even though a one-year term was applied to all government deals without exception, three- or five-year contracts were found to be the dominant types in the Korean private sector. Because of the instability of short-term contracts and possible inefficiencies caused by repetitive bidding processes, this was accepted relatively easily except for its legal aspects. This will be explained in detail in the contract structure dimension.

On the other hand, the most important activity of the investigate building block was an analysis of outsourcing supplier's activities to support a new contract structure. PPS started to investigate prior outsourced activities of SDS for the purpose of activity

categorisation and pre-assessment of costs. For instance, the workload of IT outsourcing for applications in the first half of 2004 was analysed, as shown in Table 5-4. Thanks to this analysis, the nature of IT outsourcing activities was revealed and reflected in the innovation plan, which became an action plan for bidding processes and organisational reconstruction.

Table 5-4: Workload of application outsourcing activities during the first half of 2004

Activity	Description	Ratio (%)
Application alteration	Maintaining, modifying, and developing applications, 20% of which were analysed as out-of-scope in terms of maintenance work	29.7
Technology supporting helpdesk	Troubleshooting for users who failed to be satisfied by the call centre	26.0
User request analysis	Technological/business analyses to review user requests	15.9
Documentation	Reporting of technological/business analyses, statistics, etc.	7.9
Application monitoring	Routinised service and system monitoring to protect against service failure	6.4
Assistance for hardware maintenance	Assisting everyday work or testing applications after a change in hardware configuration	6.4
User training	User training on demand	2.6
Business meetings	Meetings with interested parties	2.5
Assistance for other applications	Assisting integrated testing of connected external applications	1.1
Service failure treatment	Recovering from service failures	1.0
Administrative work	Administrative work	0.5
Total		100.0

* Source: PPS (2006)

This analysis provided significant data, particularly for the separation of KONEPS service operation outsourcing—representing maintenance and end-user support—and

KONEPS contingent application development outsourcing—representing minor but contingent development—shown in Figure 5-1. Assessing the share of application development workload, 20% of the budget was allocated to the latter.

During the target building block, PPS decided to apply different sourcing strategies to separate parts resulting from restructuring of the service scope option in the scope grouping component. IT service outsourcing was selected as a core innovation in the area of external service application outsourcing and is the main research scope of this thesis.

Regarding the strategise building block, the acrid disputes presented up to now were vivid social processes for constructing structures intertwined with institutionalised human behaviours. More technically, the IT division held an internal workshop in February 2004 to introduce new IT service management skills such as ITIL⁷, and SLA. Meanwhile, there were serious debates within one IT division. PPS has two IT divisions: the information planning division and the information management division (IMD). IMD is in charge of the development and operation of e-GP services, including outsourcing contract management. Except for two staff members, one of whom is the director, the other 15 constituents were IT experts. A director and a few IT experts demanded more radical transformations based on a performance assessment and ITIL-based process control, whereas most IT experts insisted on incremental changes that maintained direct control over outsourcing suppliers.

In addition, an interesting aspect of the PPS strategy building process is the

⁷ ITIL is a set of best practice guidance for IT service management, focusing on people, processes, and technology issues (See section 5.5.1.2).

considerable effort placed in promoting its practice to other organisations. PPS did so not only to maintain its good reputation as a leading agency in the e-government field but also to gain justification for its new outsourcing management system. Many modules of its transformation were new to the Korean government and against the conservative nature of sourcing/procurement stakeholders; finally, dozens of other public organisations benchmarked PPS in 2005 and some of them adopted similar structures. Accordingly, most relevant constituents felt safe about this procurement issue and were satisfied with the result of strategising. This effort was finally rewarded later in 2009. Policy-related government ministries set up a guideline, entitled *Manual of IT Outsourcing Management: Focusing on Software Operation and Maintenance*, as a specific regulation for public sector IT outsourcing contracting and management based on the PPS case (MOPAS, MOSF, MKE, and NIA 2009).

In the last building block of design, PPS constructed a contract structure for a three-year IT outsourcing contract from 2005 to 2007 and provided an organisational design, which will be explored in detail later. All these decisions were concretised in the *Plan for PPS e-Procurement System Outsourcing Innovation* at the end of 2004 (PPS 2004b). Finally, bidding processes for the next contract followed this plan.

On the other hand, it is noteworthy that this transformation strategy was a concern mainly of the IT division alone, which was interested in finding new roles and responsibilities for its IT experts in an outsourcing environment. The key division was IMD in charge of e-GP system management by whom the transformation was initiated and implemented. In fact, senior officials showed little concern about this, since the problems had not been revealed to them. Moreover, senior officials were not interested in such technical work. Their decisions terminated at the stages of ‘outsourcing or not’

and ‘how much?’

5.4 Contract structure dimension

This dimension approaches covers conventional issues of contract structuring during the transformation stage of PPS outsourcing. As discussed earlier, contract structure must be viewed through the interrelationship amongst the other dimensions of strategy and organisation construction.

5.4.1 Decision points and underlying context

5.4.1.1 Supplier grouping

5.4.1.1.1 Decision points

The first decision point is ‘supplier grouping’, described mainly as the number of suppliers. This is classified in the original model into four options: ‘sole supplier’, ‘prime contractor’, ‘best-of-breed’ and ‘panel’. In general, PPS had selected the best-of-breed option with a sole contractor or a prime contractor for each deal. The best-of-breed option implies multiple contracts with multiple vendors. There used to be an unofficial head contractor. On the other hand, a prime contractor meant consortium with a head contractor, whereas the sole supplier option was a contract with a single contractor. For example, during 2003 and 2004, PPS maintained two contracts with SDS for application outsourcing and one with another specialised small company for hardware/network maintenance. As an onsite outsourcing contractor, SDS held an unofficial head contractor position. Because of the characteristics of temporal contracts

in system operation described in the section on scope grouping, PPS focused only on the application part hereafter.

The decision on supplier grouping in 2005 was strongly related to that of scope grouping. PPS made a change in the number of suppliers according to the newly structured service scope option. As illustrated in Figure 5-1, PPS divided application outsourcing into the two areas of external service outsourcing and internal service buy-in contract. If the scope of discussion is restricted to the application part only, the option can be understood as being transformed from prime contractor to the best-of-breed option, because there was a single prime contractor on the application side before 2004. To summarise, as shown in Figure 5-1, there were two contractors in application and system maintenance before 2004; the number increased to three in charge of external application outsourcing, internal application buy-in, and hardware/network maintenance buy-in contracts.

Finally, it is noteworthy that the decisions announced in the tender notice by PPS were the sole supplier or prime contractor option under the best-of-breed option. The distinction of these two options was less interesting to PPS because both had the same rationale of sole accountability. In external application service outsourcing, SDS chose to participate as a prime contractor. This decision was not made by PPS but by SDS. On the other hand, the contractor for internal application buy-in was a sole supplier.

5.4.1.1.2 Underlying context

The common reason the best-of-breed option was chosen was that it was known to take advantage of the specialised expertises of different suppliers. This is true in the case of

the division into application and system in 2003. The application part was outsourced to a developer, SDS, whereas the hardware/network side contract was made with a specialised hardware vendor. It was possible to contract system operation to SDS as a prime contractor; however, PPS did not do so, in order to maintain a buy-in approach characterised by direct in-house management of a vendor. In addition, the distinction between hardware and application seemed relatively possible though it was difficult to separate as well because of system integration.

Interestingly, the separation of the application side and application of the best-of-breed option cannot be justified by the existing rationale of the best-of-breed option. There was no room for another specialised company in internal applications because it was also developed by SDS. Under this circumstance, the reason was the strategic decision to increase in-house capabilities. The separation was the result of a service scope option change in the scope grouping component. As was explained, PPS did this in order to apply different management skills that were understood as technology based. PPS made a contract for internal service buy-in with a small and medium company instead of with SDS. In-house IT experts were forced to manage the system by themselves with the support of less-developed external programmers. This was advocated as the buy-in option to sustain the traditional technology-based capabilities of the in-house IT experts. Internal members of staff were unable to protest this policy because they stubbornly stood by that position, insisting on direct control of the contractor. This was consistent with explanations given for other components such as commercial relationship, scope grouping and resource ownership.

Consequently, the underlying contexts of this decision were control and accountability and risk management concerns. Consistency in accountability and control authority over

awarded service scope was strengthened. By separating application outsourcing contracts, PPS made room for the increased internal accountability in the buy-in section. In addition, PPS took the risk of switching vendors in its internal service area to build in-house capabilities. PPS had intended to enhance/build in-house capabilities by forcing them to lead inexperienced external programmers.

5.4.1.2 Pricing framework

5.4.1.2.1 Decision points

‘Pricing framework’ involves the method of cost calculation. There are three main options: ‘lump-sum fixed price’, ‘unit pricing’ and ‘cost-based pricing’. In 2005, the PPS adopted a mixture of these options in place of the prior lump-sum fixed framework. The lump-sum fixed option remained in the areas of internal application buy-in contract and external service operation outsourcing; however, the cost-based pricing option was selected in the remaining contract for contingent application development. This was appraised as the introduction of meritocracy in an outsourcing deal.

On the other hand, a more important rationale for this transformation was to systematise contract management. As explained in the service scope option change, this was done to clarify the criteria for out-of-scope work, about which it had been argued whether or not this should be included in outsourcing activities. Before that, the boundary of outsourcing was vaguely understood as ability to be completed by the fixed number of workers in the contract, which was decided by case-by-case negotiations. By the adoption of this pricing system, all development work was basically separated from the maintenance scope—here defined as ordinary error-fixing-like activities. About 20% of

the budget for external application outsourcing was allotted to it, using a 'pay as you go' method. In 2005, contracts for external service operation outsourcing amounted to £1.2 million; whereas those for contingent application development were set at £0.3 million maximum. Payment due for contingent application development was paid to the supplier quarterly after completion and inspection of the development.

In addition, the rationale for cost assessment was altered from labour cost to the number of function points (FP) based on the unit of business functionalities in every application outsourcing deal. Overall, costs of application outsourcing were generally calculated as 10–15% of development cost in Korea. Four traditional pricing methods are used for application development: man-month, source lines of code, the number of application units, and FP (MIC 2006). These represent pricing by volume of employed workforce, by length of programme source code, by number of programmes constituting a system, and by unit of business functionalities, respectively. PPS's prior labour cost pricing used the man-month method, and this was the dominant one in outsourcing contracting; however, the first three had a common weakness of focusing on the supply side. As a simple example, the same functions required by a client can be developed by different numbers of programmers, lines of source code, and number of programme units. In spite of the advantages of simplicity, the results can vary depending on the skill, expertise and efficiency of developers. On the contrary, the FP counting method is based on a sizing measure of clear business significance. There is a global standard for this developed by the International Function Point Users Group (IFPUG). This is recognised as customer-centred and being relatively objectified.

However, this policy change to FP had great significance in the PPS case. What it meant was a philosophical change from workforce control to task/performance control. Under

labour cost pricing, in-house contract managers had a tendency to control the volume of workforce that might not be linked with performance. In addition, this allowed in-house staff members to intervene in the activities of individual staff members. By removing this, contract structure flexibility increased, and it worked as an incentive for suppliers to raise productivity by managing human resources more efficiently. The number of workers was removed from all contract documents, since it might cause a problem with flexibility in the new structure.

In any event, instead of control of the number of workers, PPS introduced an SLA for the first time in an IT service outsourcing contract. PPS assumed it was an advanced control mechanism based on service performance. On the other hand, IMD had established standardised criteria of developed functions and the rate of price applied to specific cases. For example, a very small-scale job under certain FP change per task is regarded as error-fixing and no payment is given. There were many concrete criteria—in terms of scale, relative difficulty, and so on—stipulated in advance. It is much more important in the management of a contingent application development contract in that the cost was calculated afterwards in accordance with this pricing guideline.

5.4.1.2.2 Underlying context

The context of the pricing framework decision can be understood in terms of ‘performance management’, ‘risk management’ and ‘control and accountability’ concerns. In particular, the introduction of a cost-based pricing option as part of outsourcing arrangements was regarded as commencement of performance-based management utilising a pricing method. The old lump-sum fixed price was criticised as having no influence on motivating suppliers. Although the same total amount was

maintained at that time, the new cost-based pricing option left room for a supplier to get paid for the work done. PPS was very keen not to exceed the total amount of previous year's contracts in the new system because PPS did not want to give rise to unnecessary disputes such as waste of money caused by the innovation. In any event, it expected that this transformation would be understood as a trial restructuring of IT outsourcing arrangements for higher performance and to begin the building of more sophisticated in-house management capability.

However, PPS took the risk of a complex pricing environment in terms of risk management. Lump-sum fixed cost can be the simplest approach in contract management; however, PPS decided that a more sophisticated cost assessment scheme would be another opportunity to build in-house capability. For example, calculating FP seemed attractive because it required in-depth knowledge of related business and system analysis, which was regarded as a core IT-related capability. In this respect, control and accountability concerns were involved in this decision. Complete verification of complicated pricing results needed to be guaranteed to avoid suspicion of overpayment. This was the most important control mechanism in this transformation. Based on this rationale, PPS trained a certified function point specialist (CFPS⁸) in advance from among in-house IT experts to avoid lack of consistency in cost evaluation and to gain credibility from stakeholders. It was the first time such a specialist was retained within the Korean government, and PPS considered it a core resource to sustain this contract structure. One more CFPS was produced in 2006. These specialists were in charge of supporting pricing works over IT divisions and wholly responsible for the examination of FP proposed by the supplier of the contingent application development contract on a

⁸ CFPS is the title for international qualification given to a specialist in evaluating function points by IFPUG.

quarterly basis.

As a final point, there was synergy between other components and the introduction of FP-based pricing and cost-based pricing though it was not the main reason for this transformation. For instance, the replacement of labour-cost pricing with FP-based pricing secured the exclusive roles and responsibilities of client and supplier, which was pursued by the commercial relationship transformation. SDS was given a free hand to manage its human resources without the intervention of PPS. In addition, the separation of the contingent application development contract and involved cost-based pricing prevented in-house individuals from arbitrarily negotiating the scope of development works within any outsourcing contract.

5.4.1.3 Contract duration

5.4.1.3.1 Decision points

The last component in the contract structure dimension is ‘contract duration’, referring to the length of a contract term. Its options are ‘single term’, ‘evergreen’ and ‘rollover’. In this instance, there was no choice, since government contract law allows only single-term contracts in Korea. However, PPS extended the term from one to three years; not only was there a lack of stability among trained programmers but also inefficiency as a result of the unvalued annual competitive bidding process. There had been no long-term IT outsourcing contract with the Korean government before, since officials understood those to be allowed exceptionally for multi-year projects such as social overhead capital.

After acrimonious discussion, the move to a long-term contract was introduced by PPS.

Though the contract was too short to be considered a ‘long-term’ contract compared with US or European practices⁹, the reasons supporting this multiple-year contract were deemed convincing and persuasive. Except for this one question of legitimacy, the need for a long-term contract was not denied by anyone. Long-term contracts were readily agreed upon by senior managers compared with other complicated transformations represented by the separation of contingent application development contracts, the introduction of cost-based pricing and FP pricing methods, and SLA.

5.4.1.3.2 Underlying context

PPS had transformed its one-year contract to three-year contracts. This applied to all outsourcing arrangements within PPS, including internal service buy-in and desktop and LAN operation outsourcing contracts. The only exception was system operation outsourcing, which was planned to be transferred to another government organisation in 2006. The conventional rationale in contract duration disputes is as follows. On the one hand, long-term contracts are expected to enhance the supplier’s capability and to build mutual trust between the client and supplier (Klepper and Jones 1998; Lee, Miranda and Kim 2004; as cited in Cullen, Seddon and Willcocks 2005, p. 371). On the other hand, Willcocks and Lacity (2009a) suggested that short-term contracts, described as typically three to five years, achieve more success due to stronger vendor motivation, quick response to the market, greater opportunities to review and improve the existing contract, and so on.

Related IT governance concerns were ‘risk management’ and ‘performance

⁹ For example, Willcocks and Lacity (2009a) give the title ‘long-term’ to contracts with a minimum eight-year term.

management'. The risk management concern was to increase the stability of suppliers and constituents, which served as the context of this decision. In addition, a three-year contract provided a good opportunity for suppliers to present annual business improvement plans based on achievements the previous year.

5.4.2 Process of contract structuring: engage phase

The contract structure was created under the phase of engagement in the lifecycle perspective of sourcing processes. As a government organisation, PPS had to follow the strict procurement regulations of *Government Contract Act, - Enforcement Ordinance, - Enforcement Regulation* and other regulations relative to the application of laws. The general method of selecting a contractor is open competition; the criterion for assessing a bid in this kind of IT sourcing is a mixture of project proposal and price evaluation. In the Korean system, there is little room for further negotiation after selection. Negotiation occurred during the early part of the operation phase, with its lack of obvious specifications.

After the selection stage, an incumbent supplier, SDS—a developer and the largest IT service company in Korea—became a prime contractor for external application outsourcing. Despite competitive bidding, the advantages of the know-how gained during the development and service operation stages did not allow the entry of other participants. In actuality, there was no significant competitor, not only in this deal but also in previous deals of e-GP outsourcing. The main background of this under-competitiveness can be found in the characteristics of the e-GP system. It was not packaged software like ERP; it was developed in accordance with the specific business requirements of a government procurement system—that is, it was not developed for the

commercial market. Accordingly, any new participant company lacked the opportunity to access expertise to replace SDS. If the PPS e-GP system were a market-oriented IS used in other public organisations or private companies, more serious competition might have taken place.

From the PPS perspective, even though they emphasised process-related fairness as a public procurer, facilitating the new supplier participation did not seem important because PPS had recognised the competitiveness of SDS as a developer and long-term partner since the late 1990s. This is the reason PPS made more of an effort in innovation on outsourcing management from the strategy-building stage rather than switching out of an incumbent supplier. Since 2004, both parties had shared the effort to analyse existing contract structure and invent a new contract, such as the separation of continuous operation and contingent application development.

On the other hand, a new medium size company was selected as the supplier of internal application buy-in based on the proposed price and after a basic examination of its financial status. There was no project proposal evaluation. This criterion was justified in that the purpose of the contract was only provision of certain skilled workers. The amount of the contract was £250,000, only 17% of the costs of external service outsourcing, including contingent development, with SDS.

As a final talking point, Lee, Miranda, and Kim (2004) suggested little competition exists in the IT outsourcing market in Korea because of the affiliated conglomerate known as *Chaebol*. They found that a company outsourced IT to their partnered IT provider within the same *Chaebol*. This might well be the case in the private sector; however, it is not the case in the public sector. Strong competition exists in the public

sector, especially at the initial stages, because government is not affiliated with any company and there are very strong needs for transparency to citizens in public procurement. Weak competition in the PPS case can be explained by the fact that the developer company and incumbent IT outsourcing supplier are more competitive thanks to their accumulated expertise, as discussed above. This is very common in the specific and monopolistic public service-related e-government system but hardly experienced in the private sector or in other government organisations. Examples are IS projects in the businesses of customs, defence, property rights, tax, national identity, and local government public administration.

5.5 Organisation construction dimension

This dimension involves PPS's bureaucratic organisational changes intertwined with strategy and contract structure. Decision points in the analysis of the previous two dimensions were based on the results of multiple-case research devising the original IT outsourcing configuration framework (Cullen, Seddon and Willcocks 2005). However, this dimension uses that framework but also develops it through the results of an empirical investigation into PPS that highlights substantive elements of organisational change, as presented in the section on the conceptual framework in Chapter Four.

The investigation here focuses on the e-GP system and IT outsourcing contract management rather than on e-GP services and related businesses supported by the system and the outsourcing contract. The first e-GP system had begun supporting businesses in 1997, so paper-based work increasingly disappeared during the next ten years. Of course, some changes in business were made. For example, the importance of diversification of suppliers was noted as a result of expansion of the Internet shopping

mall in PPS's e-GP system; accordingly, related business areas were extended. However, the research interest of this thesis is not the impact of e-GP on PPS business, but the significance of IT outsourcing transformation from the viewpoints of PPS IT divisions, e-GP management and PPS's core IT-related capabilities.

5.5.1 Decision points and underlying context

5.5.1.1 Organisation arrangements

5.5.1.1.1 Decision points

The first component is organisation arrangements. 'Organisation arrangements' is described as formal organisational arrangement setting. Organisation arrangements of structural form and staffing compose the bureaucratic nature of the government body. According to the established strategy, more in-house IT experts were distributed to internal applications, and they began conducting more technology-based management. Before 2005, six and nine staff members were allocated to internal and external application operations, respectively; five were moved to the internal service area from external at the end of 2004 to offer more workforce-intensive management from source code maintenance. They worked together with 11 external programmers of a new small and medium supplier; it is correct to call it buy-in rather than outsourcing because external programmers were directly controlled by in-house management. In addition, there was no SLA either. On the contrary, the decreased number of in-house staff for external application services was redistributed to the new tasks of more complex contract management, performance evaluation, and cost assessment. The following analysis explores external application outsourcing only.

Within the external application outsourcing area, the rationale of the organisation form was changed from the business domain-based sub-system (e.g., e-bidding, Internet shopping mall) to the ITIL-based process unit (e.g., service desk, incident management, problem management). Before 2005, e-GP service operation within IMD had followed a hierarchical bureaucracy that was copied again to outsourcing suppliers; however, it was transformed to a horizontally arranged ITIL process-based bureaucracy¹⁰. In-house staff members were allocated to each area as process managers in charge of final responsibility. Instead of vertical responsibility within a business domain from the collection of user requests to the test of released functions, process managers are in charge of specific processes across all business domains.

PPS pursued this transformation, representing the breakup of traditional bureaucracy, in order to build an appropriate organisational structure that is required for better e-GP and outsourcing contract management strategised by it. This is not only for the in-house capability building that is specific to IT service management processes, but IMD also minimised the direct and informal relationships between the staff of each party. This is referred to as the decomposition and recomposition of bureaucracy, which made the arms-length commercial relationship more concrete by severing the direct involvement between the client and the outsourcing staff. For example, in the previous system, the outsourcing project manager was limited in controlling the staff when they were tied intensively to a client's staff. Communications are designed to occur at a higher level and through official procedures within ITIL; it was originally regarded as inappropriately sectionalised and against the nature of the integrated e-GP system. Before this time, each PPS staff member put his/her application ahead of overall system

¹⁰ This aspect will be explained in the next section regarding processes and activities.

priorities. As a result of transformation, the entire system stability was declared to be top-priority and was technologically handled by SDS.

The transformation also decreased duplicate work and the confusion caused by undefined roles and responsibilities between PPS and SDS. For example, SDS staff members should have obtained duplicate step-by-step approvals of their every activity from both party managers hierarchically. However, in the new system, if they obtained approval within the SDS outsourcing team, the approval was processed automatically in the ITSM system where ITIL processes then kicked in. In-house staff—now process managers—came to have authority to control during the final stage of each process. Before that, they could get involved in every activity if they wanted to. This was possible because their missions had been defined as controlling outsourcing staff members. This transformation is illustrated by comparing Figures 5-2 and 5-3. Cost assessment and SLM units were also created

Figure 5-2: Sub-system (business) domain-based bureaucracy (up to 2004)

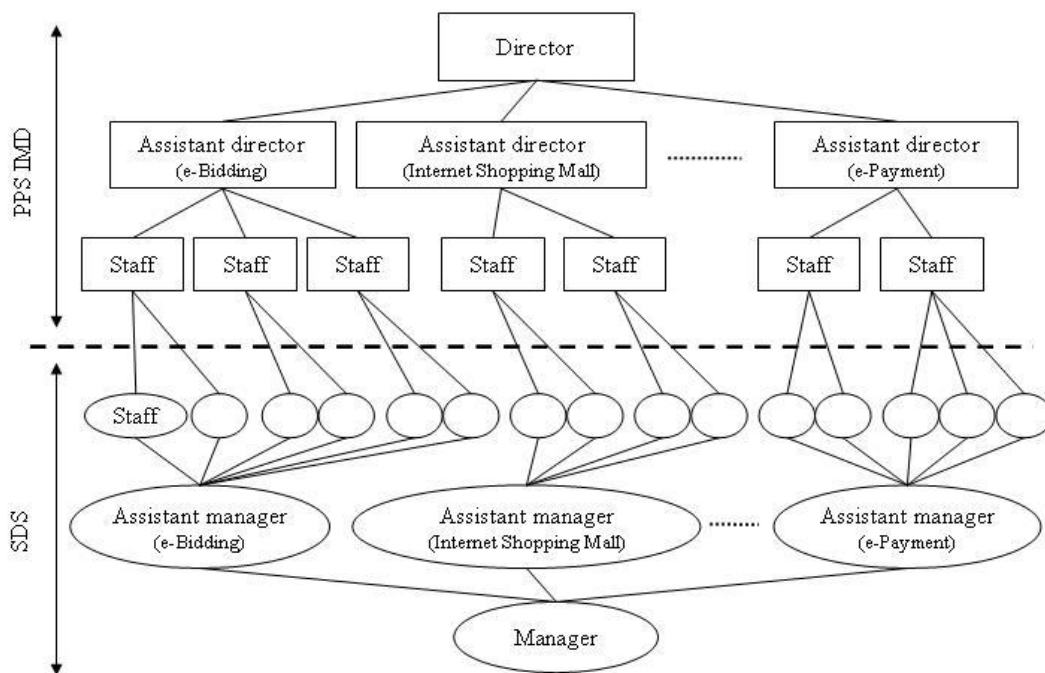
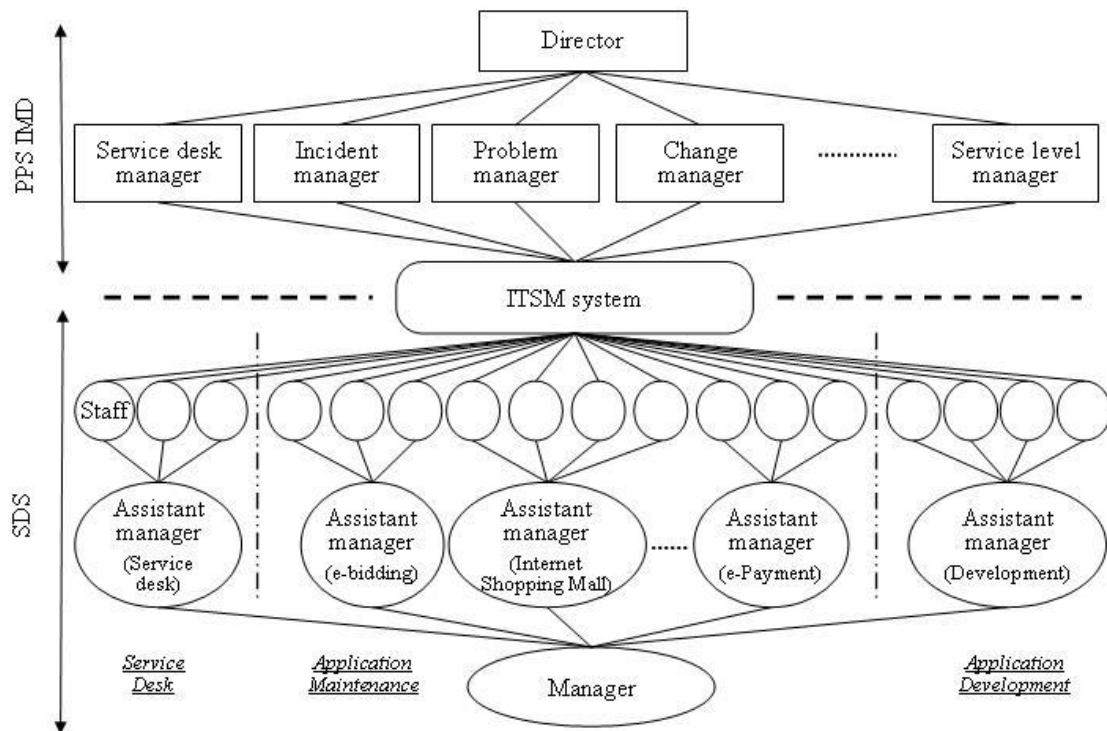


Figure 5-3: ITIL processes based bureaucracy (2005-2007)



An interesting point was that the director of IMD—the initiator of this transformation—now led his staff members in ignoring specific business requirements. The following lengthy statements describe this well.

I persuaded my staff members not to be interested in each business requirement. For example, here is a process manager in charge of incident management among ITIL procedures. If there is a repetitive request for creation of specific parameters for bid qualification evaluation, in-house experts had a tendency to ask someone whether it is really required. In more serious cases, he would like to examine the application source codes to check that it can be easily added. But, my suggestion was that it was not his job. He had to analyse it based on the pattern of that request and decide whether it should be handed over to problem management. If yes, it would be processed as a task for problem management; if no, it would be returned to the service desk with a routine answer. The old management system depended on business and the IT-related expertise of each member of staff. They were distributed by a set of business domains. They were expected to

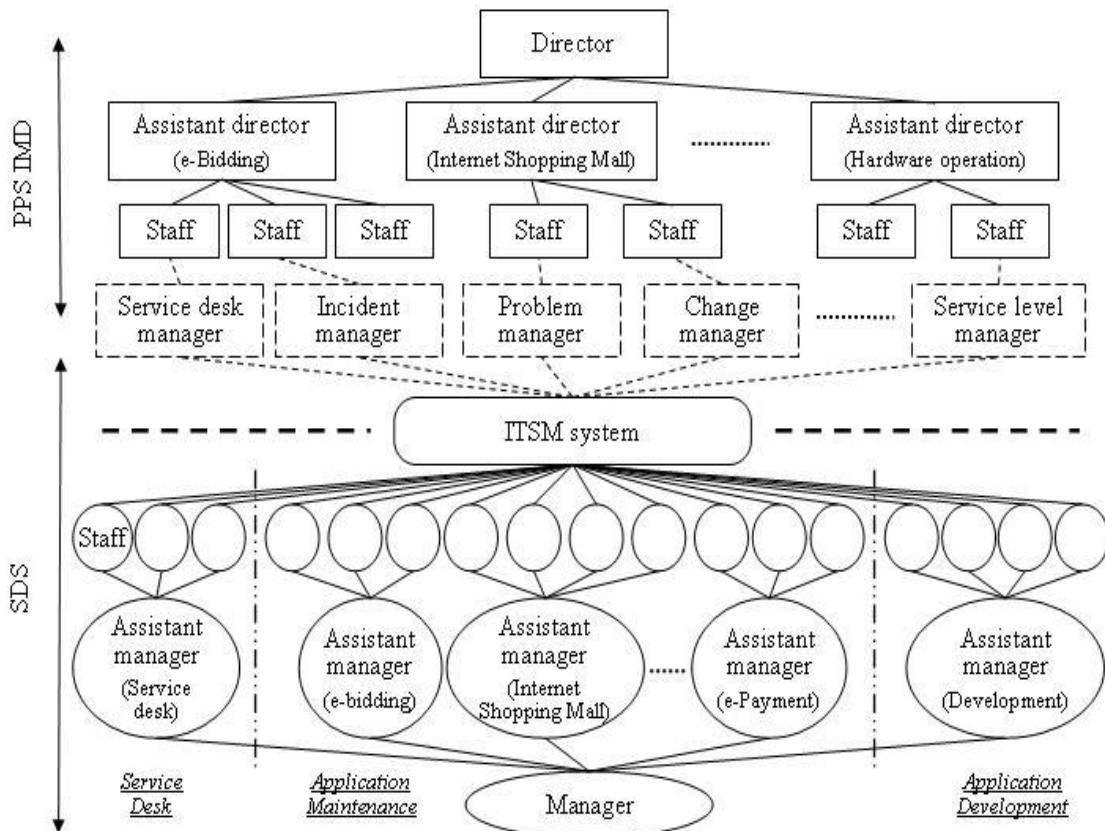
be specialised in business and IS in charge. However, it was too big and complex to be appropriately managed by a staff. I had a different idea. If it were not already achievable, in-house management would do better concentrating on something else. In-house management should operate somewhere within the streamline of IT service management from service request to release of that function. Business requirements can be examined in the process of problem management. What does the problem manager do? He cannot judge the requirement because he cannot be an expert for all business domains. His role was designed as a referee between external staff and in-house business staff.

Reviewing the supplier's side, one can see a big difference, as well. Before 2005, members of staff were working on all kinds of work within their applications. Assuming a staff member was in charge of a specific application, he had to answer user enquiries, fix programme errors and tune in, and simultaneously develop new functions. However, SDS divided itself into three parts: service desk, application maintenance, and application development as shown in Figure 5-3. The old application maintenance team structure remained because its nature did not change; however, the service desk in charge of technological user support was newly constructed. In addition to that, a special development team was established to respond to the contingent application development project. The application maintenance team were operating and monitoring applications in charge and supporting the service desk when more in-depth technological understanding was required. Furthermore, they occasionally used to be asked to participate in the development work with their expertise. SDS staff members were rotated among these teams to gain diverse experience and synergy effect.

However, a reverse organisational change occurred in 2008. A hierarchical bureaucracy was re-established, although in-house staff simultaneously retained the process managers' position. Managing workflow through the ITSM system also survived. The

result was that the activities of a process manager became formalised. This final form is displayed in Figure 5-4. The reasons for this change are shown in the interrelationship among institutionalised behaviours, structures and context.

Figure 5-4: Re-establishment of traditional organisation form (2008)



It is worthwhile to note how the linking organisation was constructed between IT and the business. There was no significant change in this respect, except for the creation of a large call centre. In 2003, the PPS established the call centre that was outsourced to SDS and incorporated with the entire outsourcing contract; accordingly, its management was assigned to an IT division in charge of outsourcing contract management. However, as previously mentioned, it was finally backsourced one year later, and in 2004, authority was moved to the CST. The purpose of this move was one-stop customer

service and in-house capability retention under the circumstances that were presented in the background section. CST was the amalgamation of the call centre and PPS civic centre. Due to the emerging importance of e-procurement, CST was established in the E-procurement Service Bureau rather than the Planning and Coordination Bureau as in the old civic centre function. From then on, seven in-house business experts, not IT experts, were assigned to CST call centre to answer questions and instruct consultants. CST consisted of eleven in-house officials and approximately forty-five private consultants in 2008. Only four officials were assigned to the traditional work of the civic centre, such as company registration for bids. CST was expected to play the role of coordinator among business divisions, IT divisions, and outsourcing supplier; however, this is not likely to have happened. This will be explained again in the section on processes and activities.

5.5.1.1.2 Underlying context

All IT governance concerns were involved in this organisational arrangements component as context. A consistent stream of outsourcing transformation can be expressed as the movement to performance management and process control. For example, an arms-length commercial relationship option can be secured by the onsite resource ownership option that describes exclusive accountabilities of control. Simultaneously, an FP-based pricing framework was adopted to remove labour cost aspects from the contract. Although there were some political struggles, the appropriate scope for outsourcing was decided by restructuring the entire service scope option.

Organisational arrangements can be explained by the same logic. ITIL-based process management was one of the methods separating the application maintenance work of

SDS and the process management work of PPS. The organisational format was restructured to consolidate these changes. In addition, personnel management followed this policy. In-house IT experts were redistributed and assigned new roles and responsibilities. The old regime of in-house direct control was severed by the rearrangement of internal staff by process criteria in terms of organisational structure.

In this respect, organisational arrangements were structured consistent with the components of processes and activities in the next section. PPS considered those first and designed the organisational format and staffing in response to those. More specifically, the organisational format was redesigned to concentrate on process management; by doing so, PPS pursued new in-house capabilities of IT service management. This can be interpreted as a response to strategic alignment concerns about the system itself and linked in-house management as a core business. PPS also sought new business value—that is, to be the leading e-government organisation—in terms of delivery of business value through IT. Furthermore, the specialised SLM unit was created (performance management) and a new process-based control scheme was established (control and accountability).

It is important to explore why this organisational arrangement was restored. The first reason was identified as the emerging failure to maintain consistency in the performance evaluation system between the traditional and new bureaucracies. After a director of IMD who had initiated this transformation left in mid-2006, no successor recognised the process management activities. For example, top priority used to be business-specific knowledge, and an official again came to be in charge of each business domain as contact points with business divisions. One of these senior staff who had no IT experience before suggested as follows:

I was surprised when I found the team members did not take charge of specific business functions. As IT was outsourced to SDS, in-house members should have become business experts very good at IT. My members must answer any question in their areas of business expertise. And users in business divisions need their contact points within PPS. For example, the official in charge of a construction service contract must be given an in-house IT expert who is responsible for it.

Secondly, from the IT experts' point of view, the business domain-based structure seemed more advantageous for their reputation because it allowed a direct relationship with business staff, which is important in bureaucratic structures.

As a final reason, initial staffing placed some limitations on the development of a new management scheme. As will be explained in the next section, ITIL in PPS then consists of 11 processes, but insufficient staff were allotted to them. All process managers held additional duties outside external application operation, or they took responsibility for more than two processes. This became an excuse for in-house staff to neglect the new ITIL structure, in part. Process managers' roles would be inappropriately transferred again to SDS in the background together with their user accounts and passwords.

Right from the initial stage, there were serious disputes about this staffing. One manager urged that in-house staff should concentrate on business-related core processes such as incident management and problem management; they felt the supplier could play roles in other processes. However, most opposed this because they felt that in-house staff had to retain a role in all activities against future requirements, even though it might be just a formality at that moment in time. In any event, mainstream ITIL workflow was settled, and an arms-length relationship became firm.

5.5.1.2 Processes and activities

5.5.1.2.1 Decision points

Another decision point here is ‘processes and activities’. This means a set of authority allocation and implementing procedures and activities for resource management. As an application service provider, PPS paid attention to ITIL because it is a set of proper processes and activities for IT service management. In actuality, in spite of the growing importance of IT service management in contemporary organisations, there is very little academic research on this issue (Cater-Steel 2009). In particular, the author suggested that ITIL-based ITSM should be taken into account for mature IT governance and IT/business alignment. The Office of Government Commerce (OGC), the developer of ITIL, defined ITIL as “a set of best practice guidance for ITSM” and ITSM as “a top-down, business-driven approach to the management of IT that specifically addresses the strategic business value generated by the IT organisation and the need to deliver a high-quality IT service. ITSM is designed to focus on the people, processes and technology issues that IT organisations face” (OGC 2006a, p. 21). The latest version of ITIL (v.3) describes the scope of ITSM in a life-cycle perspective on service strategy, design, transition, operation, and continuous improvement (Winniford, Conger and Erickson-Harris 2009).

According to a study (Wüllenweber et al. 2008), process standardisation not only has direct effects—reduction of process errors followed by cost reduction and performance improvement—but also mediating effects—greater transparency and better monitoring possibilities—on business process outsourcing success. These effects are consistent with PPS’s intentions to adopt ITIL. The version adopted by PPS in 2004 was ITIL

version 2. The novel aspect of PPS in introducing ITIL was a trial to distribute relevant activities between client and outsourcing supplier. ITIL describes two domains and 11 processes of IT service management with a hierarchical structure of roles and responsibilities provided within each process: service support domain (service desk, incident management, problem management, configuration management, change management, and release management) and service delivery domain (service-level management, capacity management, IT service continuity management, availability management, and financial management for IT services) (TSO 2005). The description of each process is given in Table 5-5.

ITIL processes came to underpin the whole workflow of PPS's IMD and SDS outsourcing team. Before 2005, all work was done through a hierarchical bureaucracy. For example, in principle, user requests were delivered to the IMD as official documents and assigned to each sub-unit. Relevant in-house staff then reviewed the user requests and, if required, officially asked SDS for the solution. Because of the technological characteristics of IS, however, in many cases these processes were not clearly revealed. Many decisions were made or left in a black box within each sub-unit or with an assigned official.

Under these critiques, IMD restructured the organisational processes in line with ITIL. For example, every user request or error report must first be received by the service desk and should be directly responded to or assigned to the incident or problem management process. If an application change is required, the altered application would be deployed through the processes of configuration management, change management and release management. In-house staff members were appointed as non-hierarchical process managers.

Table 5-5: ITIL processes description

Processes	Description
Service Support	How customers and users can get access to the appropriate services to support their activities and the business, and how those services are supported
- Service desk	The initial point of contact with the IT organisation for users
- Incident management	Activities to resolve the incident and restore the provision of services quickly, by whatever means possible; whereby, incident means any event which is not part of the standard operation of a service and which causes, or may cause, and interruption to, or a reduction in the quality of that service
- Problem management	Adding to incident records, activities to identify the root cause of incidents and problems and eliminate them
- Configuration management	The control of changing IT infrastructure (standardisation and status monitoring); identifying all significant components within the infrastructure; collecting, recording and managing details about the components; and providing information about them to all other processes
- Change management	The approval and controlled implementation of changes to the IT infrastructure
- Release management	A set of configuration items that are tested and introduced into the live environment together to ensure the successful rollout of releases, including integration, testing and storage
Service Delivery	The services to support customer's business, and what is needed to provide these services
- Service level management	The process of negotiating, defining, measuring, managing and improving the quality of IT services at an acceptable cost
- Capacity management	The process of optimising the cost, timing of acquisition, and deployment of IT resources, to support the agreements made with the customer
- Continuity management	Ensuring the and IT services can be restored within specified time limits after a disaster
- Availability management	The process of ensuring the appropriate deployment of resources, methods and techniques, to support the availability of IT services agreed with the customer
- Financial management	The prudent provision of IT services in financial terms represented by the cost/benefit analysis

* Source: TSO (2005)

SDS staff members were not assigned to each process manager; instead, they were controlled by in-house management by process to process. This in-house involvement was necessarily considered when SDS's performance was evaluated. For example, any delay of service would be condoned if the cause of it were investigated as being in the PPS's side. All participants in these processes—users, in-house IT experts and outsourcing suppliers—are mutually interrelated within the ITSM system, as shown in Figure 5-3.

Regarding the workflow between business and IT, the role of call centre of CST needs to be explored. After the settlement of CST with call centre in 2004, IMD had tried to let CST take over the leadership of business analysis and legislation works which were mainly carried out by IT divisions before. The IMD staff, most of whom are IT experts, wished that they could concentrate more on business analyses for programme-building rather than drawing consensus between business parts, examining legal frameworks, analysing expected benefits, and so on. From the point of view of the IMD staff, if the business-oriented officers in CST led the process improvements and establishment of legal frameworks, they could do it more efficiently than the IT experts. On the one hand, these are their areas of expertise; on the other hand, the business staff would feel more comfortable talking with contract officers in CST.

In this respect, IMD proposed a weekly customer satisfaction meeting in 2005 between CST, IMD, and SDS outsourcing team on the pretext of creating a comprehensive customer satisfaction plan. The leadership of the weekly meeting originally performed by the director of IMD, but was taken over by the director of CST eight months later; this was only possible after a new proactive director of CST accepted the position. Now, finding measures for the enhancement of user satisfaction and collecting opinions from

interested parties have become the official missions of CST, although the roles of IMD are still too widespread; IMD encouraged the SDS outsourcing team to play a key role on behalf of IMD, which would not be involved in specific business requirements.

In addition, there were two other meetings to be held for contract or IT service management. A monthly meeting, chaired by the director of IMD, is held to review performance evaluation and other administrative issues. However, more important issues were dealt with in the more occasional change advisory board (CAB), which was also led by the director of IMD, within the change management process of ITIL. Most of the related IT experts from IMD and SDS also participated in the meeting. Any technology-based decisions and prioritisations were made in this meeting.

5.5.1.2.2 Underlying context

All IT governance concerns are part of the underlying context of this dimension. For example, strategic alignment necessarily informed the decisions on organisation construction in terms of core capability. Delivery of business value through IT shed light on these considerations because this was an effort to rearrange in-house resources to secure new business value for IMD. Newly established functions and processes of performance evaluation responded to concerns for performance management. Risk management concerns were involved in that the most significant risk recognised by PPS was the loss of contractual position throughout the IT service delivery cycle. Finally, control and accountability concerns underlay overall organisation-constructing rationales by improving transparency and the distribution of roles and responsibilities.

Interestingly, phenomena during the settlement of this system provide good examples of

the way people, structures and technology issues become mutually interrelated. When ITIL was first introduced at the beginning of 2005, there was little understanding of it among stakeholders. In particular, the ITSM system did not exist until March 2006; therefore, all processes were carried out on paper. Under these circumstances, it took time for all participants to adapt. Other reasons, such as understaffing, as mentioned, were identified; however, the most significant background was institutionalised human behaviour, using Giddens's terminology. In spite of officially redistributed organisation and authority, in-house IT experts did not give up direct control, and SDS was not sure what a proper relationship with clients amounted to. Only after beginning the use of the ITSM system in 2006 did ITIL procedures become more and more settled. The new environment was characterised by new IT enforcing staff members to follow the official procedures. An opposite observation was made when the old organisational format was partly restored in 2008. In spite of the recovered organisational structure, the newly institutionalised human behaviour within ITIL did not turn back.

5.5.2 Process of organisation construction: operation phase

In essence, all practices, including the implementation of outsourcing contracts and organisation construction, took place during the operation phase. This is more critical in the area of organisation construction because constructing an organisation is a dynamic and ongoing process affected by the results of previous actions, whereas contract regeneration can basically occur only in the next term once a contract is in place.

Organisational arrangements were redistributed throughout the second half of 2004 to prepare for implementation of a new contract in January 2005. Process transformation was sustained by the acquisition of 'BS15000' of the British Standard Institution based

on the ITIL of OGC in November 2004 and strengthened by ITSM system building in March 2006. Moreover, the International Organization for Standardization (ISO) established 'ISO/IEC 20000' as the official specification of international standards for IT service management in 2005, which succeeded 'BS15000' (ISO 2005).

Regarding ISO/IEC 20000, it was strategically established in the outsourcing innovation plan in 2004. Global certification is normally attractive because it can be recognised as a quality benchmark. The international standard became a powerful driving force in these circumstances for obtaining political and financial support from leadership. PPS was the first government organisation to be qualified by BS15000. PPS played a role as a leading government agency in the field of ITSM, and many other public organisations followed PPS afterwards. As a final talking point, to secure this organisational construct, PPS constrained suppliers to accept this management scheme by advertising it in its request for proposals for the outsourcing bid in advance.

5.6 Conclusion

PPS aimed to develop in-house capabilities through organisation and outsourcing contract transformation in 2004 and 2005. As a result, both seemed to succeed in innovation because the structures were transformed as strategised, and became stabilised and imbedded within PPS. These transformations are summarised in Table 5-6, using the criteria of this thesis's multidimensional IT outsourcing configuration framework. The Customer Satisfaction Index for 2006, which was calculated by an independent institution with more than 2,000 users, showed a rise of 7.8% over the 2004 level (Research Lab. Inc., 2004; 2005; 2006). If the purpose of this innovation had been service quality improvement and a more flexible contract structure—which seems very

important in contingent application development outsourcing—there would have been no doubt about its success. Even former opponents of this transformation admitted that the new system achieved much greater transparency and accuracy in monitoring and tracing suppliers' activities. Regarding cost reduction, it is impossible to establish a comparison because the calculation of application development prior to 2004 cannot be quantified. As explained, contingent application development contract operated within the incremental basis range of total expenditure for outsourcing; hence, cost savings did not receive detailed attention.

However, in terms of capability building, most participants did not perceive the changes as a success. For example, the client organisation was restored to its original bureaucracy, and actual control of outsourced activities became dependent on an informal relationship again—in many cases, because ITSM-based control as process managers became a formality. According to the evaluation of participants, two reasons relating to structure and human behaviour explain this result. First, there were some structural problems. IMD should have concentrated on more important procedures to obtain a tangible accomplishment, considering the limitations of in-house resources. In addition, IMD neglected to build up a new performance evaluation system of the activities of in-house IT-expert process managers, so members failed to persuade new directors to recognise new management skills as important.

The human behaviour-related reasons involve a more intrinsic aspect of bureaucracy and institutionalised context, as suggested by structuration theory. Most IT experts in IMD had more than 10 years experience; in practice this seemed to translate into them tending not to change their way of working. There were institutionalised behaviours and beliefs about how to manage IS and suppliers. One of the incentives for organisational

reversal (in 2008) was that IMD experts wanted to restore a direct relationship with business staff according to the various business domains. Instantiated process-based workflow was isolated from the entire existing bureaucratic structure. Perhaps this points to sustainable organisational change needing to occur through harmonisation with the more traditional institutions in the specific circumstances prevailing in a particular organisational set-up.

In summary, there was a substantial change in organisation and contract structure and less direct intervention of in-house staff. In addition, outsourcing supplier informants reported that system management and the performance evaluation system totally changed after 2005. From the viewpoint of technological IS management, ITIL-based procedures were completely implemented. As implied by structuration theory, if a system once settles, it will not change again easily, and it can be more sustainable with the use of IS, like the ITSM system, as an enabler; for example, many client informants admitted that ITIL processes might survive because there was an ITSM system.

More technically, as verified by the conceptual multidimensional IT outsourcing configuration framework and its application in this research, if change is to stick, one would expect the whole contracting and configuration structure to be modified to fit with other organisational changes. As the simplest example, if an organisation outsources something, it will at least develop a contract management function. There were many instances of this within PPS practice. The separation of a contingent application development contract would not be possible without the consideration of relevant functions like CFPS in client organisations. Moreover, all decisions were interrelated. A contingent application development contract among the scope of grouping options cannot be set up without adopting a cost-based pricing option, and the

restriction of in-house staff access to authority in the resource ownership component was the result of the arms-length commercial relationship shift. This commercial relationship change underlay all relevant decisions on organisational construction and contract structure transformation.

Consequently, any organisation pursuing contract structure change should consider the related context and internal client organisation from its structure, staffing and capability building. We could see in this case that innovation in IT outsourcing practice was implemented only by this interrelationship among diverse dimensions of organisation, configuration, and outsourcing contracting.

Table 5-6: Framework-based PPS e-GP outsourcing transformation summary (comparison between 2004 and 2005)

Dimension	What?			Why?	How?
	Decision point	Options change	Description	Context	Process
Strategy	Commercial relationship	Co-sourced → Arms-length	Disorganised cooperation → Distinct accountabilities	<ul style="list-style-type: none"> ♦ Seeking for the original roles of in-house IT experts based on exclusive accountabilities ♦ Selection and concentration under limited in-house resource cf. Strategic alignment, control and accountability, and performance management concerns	Regenerate <ul style="list-style-type: none"> ♦ Reflecting on the limit of existing structure in terms of capability development
	Scope grouping	Entire service scope	Structural change to partition an previously integrated scope	<ul style="list-style-type: none"> ♦ Juxtaposition of do-it-yourself better and outsource-others more systematically ♦ Applying different management tools to divided area ♦ Political struggle and a compromise cf. Strategic alignment, delivery of business value through IT, risk management, and control and accountability	Architect <ul style="list-style-type: none"> ♦ In-depth analysis of existing outsourcing activities ♦ Internal workshop for forming a consensus
		All business units	No change		
		All geographies	No change		
Financial scale	Large relative	No change (34.5%→32.4%)	<ul style="list-style-type: none"> ♦ Result of transforming service scope option cf. Same concerns with above scope grouping	<ul style="list-style-type: none"> ♦ Proactive PR to obtain supports and self-justification 	
	Large absolute	No change (£1.93m→£1.77 per annum)			

	Resource ownership	Labour buy-in → Onsite	Transfer of control authority of assets to supplier	<ul style="list-style-type: none"> ♦ Pursuing the consistent between responsibilities in contract and in practice cf. Control and accountability concern	
Contract structure	Supplier grouping	Sole supplier or Prime contractor → Best-of-Breed	<ul style="list-style-type: none"> ♦ Multiple suppliers of outsourcing partition ♦ Sole or prime contractor in each part 	<ul style="list-style-type: none"> ♦ Making room for a buy-in contract under in-house management ♦ Consistency with the service scope restructuring cf. Control and accountability, and risk management concerns	Engage <ul style="list-style-type: none"> ♦ Competitive bidding procedures, but limited competition due to the technological characteristic ♦ Selecting small and medium company intentionally in internal service buy-in
	Pricing framework	Lump-sum fixed price → Hybrid of lump-sum fixed and cost-based pricing	<ul style="list-style-type: none"> ♦ Introduction of cost-based pricing ♦ FP based pricing replacing labour cost base 	<ul style="list-style-type: none"> ♦ Performance-based management ♦ Developing core capabilities of IT expertise on cost assessment cf. Control and accountability, performance management, and risk management concerns	
	Contract duration	Single term	Structural change (1-year→3-year)	<ul style="list-style-type: none"> ♦ Stretching the meaning of government regulation ♦ Taking advantage of long-term contract cf. Performance management, and risk management concerns	

Organisation construction	Organisation arrangements	Hierarchical bureaucracy → Horizontal bureaucracy	Recomposing a horizontally process-based organisation format instead of hierarchically business domain-based format	<ul style="list-style-type: none"> ♦ Capability building in process control and performance management ♦ Supporting strategy in terms of organisation arrangements cf. All IT governance concerns	Operate <ul style="list-style-type: none"> ♦ Having time for preparation from 2004 ♦ Qualified by global certification of ITSM
	Processes and activities	Hierarchical bureaucracy → ITIL process-based ITSM	Recomposing a process-based workflow supported by ITSM system, instead of prior hierarchical one	<ul style="list-style-type: none"> ♦ Capability building in process control and performance management ♦ Supporting strategy in terms of organisation arrangements cf. All IT governance concerns	

CHAPTER SIX

CASE II: TEACHERS' PENSION SCHEME ADMINISTRATION OUTSOURCING IN THE UK

6.1 Introduction

This chapter presents an in-depth empirical investigation of the second case study explored in this thesis. This case involves the TPS administration outsourcing delivered by Capita Hartshead on behalf of the DCSF in the UK government.

In contrast with the previous Korean case, this case is distinct in that its outsourcing arrangement is not categorised as IT outsourcing, but as a BPO. This case can also be compared and contrasted with the PPS case by the following criteria. First, TPS is regarded as performing non-core functions of DCSF, whereas e-GP is a core business of PPS. Second, the nature of pensions administration makes it something like a commodity in the market. Other IS solutions and experienced service providers exist, but on the other hand, the PPS e-GP system was developed for public procurement, peculiar to Korean public organisations. The developer, SDS, was the only competent provider of this service. Third, in terms of IT systems, the degree of dynamism in the underlying business is important. Thus the PPS e-GP system was very frequently asked to be changed, whereas, TPS has been relatively static. Fourth, the TPS case shows a more radical outsourcing policy in that about 500 government officials were systematically transferred to a private company. PPS did not do that, and indeed it

would be very rare for Korean government business to undertake such an approach. In South Korea, the two processes of resignation from government and recruitment of service providers are treated as different things, even where there are unofficial terms and conditions of outsourcing contracts in the background. There is no related legal system to secure this process. This emerged as one of the distinctive differences between how the UK and South Korean public sectors operated.

Reserving the comparative cross-case analysis to Chapter Seven, the empirical findings and the analyses of this case are presented here. Phenomena observed in this case are provided and analysed by the use of the multidimensional IT outsourcing configuration framework outlined in Chapter Three. ‘What’, ‘why’ and ‘how’ questions will be answered by decision points, underlying context, and process components of the framework, respectively, following same format used in the first case study.

To remind readers of the concepts involved, the relevant components of our analytical framework will be introduced again briefly. However, some re-interpretation will be carried out in order to allow the specialised concepts in IT outsourcing to be applied to this BPO case. As in the previous case, interview quotations will be cited, especially in the context exploration sections. These quotations are useful in addressing background history without making any adjustments. As a final note, supplier side organisational change will be treated as another important factor in this case. This is a significant difference between the UK case and the previously discussed Korean case, which focused primarily on the client side. The reason is that, as a BPO case, the main body of the service delivery organisation was wholly transferred from a client to a supplier. In this sense, it is vital to investigate the change of this transferred organisation for a better understanding of phenomena that are interrelated with outsourcing.

6.2 Case Overview

Outsourcing of TPS administration is managed by DCSF, which deals with child and family services and education. This organisation was created in 2007 and, together with the Department for Innovation, Universities and Skills (currently, the Department for Business, Innovation and Skills) took over the responsibilities of the former Department for Education and Skills (DfES). The number of DCSF staff members was approximately 2,700 as of 2008 (TSO 2009a). TPS was among the responsibilities transferred from the DfES to DCSF; however, the move caused no significant changes to TPS businesses. Therefore, to avoid confusion, this thesis will consistently use DCSF as the title of the client organisation managing this case.

The TPS is a statutory contributory scheme that was established in 1925. Next to the National Health Service (NHS) pension, it is currently (2010) the second largest public sector pension scheme in England and Wales, which provides pension services to teachers from local authorities, independent schools, diverse forms of higher educational institutions, and even from football clubs. The total number of employers amounted to almost 2,359 as of 2009, and this number consists of 172 local authorities, 413 further education institutions, 90 higher education institutions, and 1,684 independent establishments (TSO 2009b). In the 2007-08 fiscal year, TPS's total expenditure was £10,698 million, which, if excluding the newly launched Dedicated School Grants (DSG), continuously represents 35% to 40% of the DCSF's total spending. DSG funds the School's Budget, which, prior to 2006, was generated and distributed by local government finance systems (DCSF 2006; TSO 2009a).

The TPS was managed and administered by an agency of the DCSF between 1992 and

1996. This responsibility was then contracted out to Capita, a private company, in 1996. Capita is one of the UK's largest outsourcing companies. It is, in particular, the biggest BPO provider in the UK, with 25.5% of the market share; Capita is also a main provider of BPO and professional support services to the public sector in the UK (Capita 2009a; OVUM 2008). Its annual turnover is £2.4 billion, and the company employed approximately 36,000 individuals in 2008 (Capita 2009b). The actual service provider managing the TPS is Capita Hartshead, the pensions operating division of Capita Business Services Limited, which is in turn owned by Capita Group Plc. Capita Hartshead was created when Capita acquired Hartshead Solway, a pensions-specialised company, in 1997. It administers pension schemes for over 550 clients, with a collective client base of more than 3.4 million throughout the UK. In 2008, it was staffed by around 1,500 employees across 15 locations in the UK and Ireland (Capita 2009b; Capita Hartshead 2009).

As of 2008, Capita Hartshead's administration of the TPS involved the financial control of £5.5 billion in scheme expenditure and £4.2 billion in scheme income. The daily payroll value that year was between £7.5 million and £12.5 million. There are 1.5 million members of the TPS, comprised of approximately 480,000 pensioners, 650,000 in-service members, and 380,000 deferred members. Deferred members are those who have left civil service employment, but who are not yet old enough to take their pensions. With respect to customer communication, Capita Hartshead handles 450,000 calls and 100,000 written and emailed enquiries per year (Capita Hartshead 2009). Capita Hartshead's management of the TPS appears to have been deemed successful. This thesis finds internal evidence to support this perspective; as one external indicator, the outsourcing arrangement received the 'Best Administration' award at the 2008 Pensions and Investment UK Scheme Awards, run by *Pensions Management* magazine (TP 2008).

The outsourcing of the TPS is a typical BPO in containing necessary IT components. The target business in this case is DCSF's teachers' pension administration. Among the IT systems utilised is HartLink, an integrated, extensible application platform developed by Capita Hartshead to support multi-clients' pension businesses, including case control, document management, and payroll. More specifically, TPS services are delivered by Capita Hartshead's Teachers' Pensions (TP), located in DCSF's government office building in Darlington. However, Capita Hartshead manages the HartLink platform from its Sheffield base, 100 miles from Darlington. In addition, the IT infrastructure for HartLink is run by Capita's data centre in Kent.

TPS administration outsourcing was first awarded to Capita in January and implemented in October 1996 as a seven-year contract. The company was then re-awarded the contract following competitive tender in 2003, with a further one-year extension added in 2008, taking its contract to September 2011. The initial contract had a budget of £17 million for the first year, but the cost was reduced to £8.9 million in 2003. The second term contract was worth £62 million over the seven-year period, which means £8.86 million per annum (Capita 2003a). This dramatic cost saving was achieved by the staff reduction, which was mainly enabled by IT innovation under Capita Hartshead. Through Transfer of Undertakings (Protection of Employment) Regulations (TUPE)¹¹ arrangements, there were 479 staff transfers from the DCSF to Capita in 1996; however, the number of staff members decreased to 250 for the following contract (Capita 2008). The remaining individuals are still working for other pensions-related contracts that were brought into the same Darlington site by Capita Hartshead.

¹¹ TUPE is an important part of UK labour law which "preserve employees' terms and conditions when a business or undertaking, or part of one, is transferred to a new employer." (BIS 2009)

Problems with TPS administration prior to outsourcing are revealed in the following commercial statement by Capita Hartshead, and confirmed by interviews with DCSF staff (Capita 2008, p. 2):

Before Capita took over the running of the Teachers Pensions Scheme, the operation was labour-intensive and inefficient. Member query response times were measured in weeks rather than days and member files could easily be misplaced, leading to low productivity while staff conducted a thorough search. The Department's objective for outsourcing the scheme's administration was to ensure wide-scale customer service improvements in a cost effective and efficient manner.

However, the driving forces behind this BPO deal were the privatisation policy of UK public management in the 1990s and the arguable decision that TPS administration was not the core policy-related business of DCSF. According to proactive participants of that outsourcing decision, they were asked to select something to be outsourced in pursuance of government policy; at the same time, they were confronted with many difficulties with legacy IT systems that processed TPS administration. For example, they needed to budget for IT to solve the Y2K problem. However, from the first stage, DCSF did not regard this deal as an outsourcing of IT functions. Instead, it decided to outsource entire business processes to a third party supplier. Consequently, it was felt in 1996 that there should be a transfer of most agency staff to the third party supplier.

The strong evidence is that TPS administration has improved over the past decade. However, aside from this accomplishment, there is growing concern regarding the construction of in-house capabilities within DCSF. An overall evaluation of this outsourcing practice is well described by a DCSF respondent, as follows:

There's no doubt in financial terms our value for money has increased over the life of both contracts [two consecutive outsourcing deals between DCSF and Capita]. The level of service that is available to members has improved

very considerably... In terms of have we lost anything? I mean over the years that has, that has decreased year on year? And of course, if there is a concern, it's that as some of us get older in the tooth and move on, the actual expertise within the department on pension's issues will diminish.

6.3 Strategy Dimension

This section explains what (decision points), why (underlying context), and how (process) DCSF pursued the outsourcing of TPS administration in terms of strategy building.

6.3.1 Decision points and underlying context

Decision points of this dimension consist of four components: 'scope grouping', 'financial scale', 'resource ownership' and 'commercial relationship'.

6.3.1.1 Scope grouping

6.3.1.1.1 Decision points

'Scope grouping' means 'what services are provided to whom, and where'. This component again consists of three facets, each of which is composed of two options, as follows: 'service scope' with the 'entire service scope' or 'selected scope' option; 'recipient scope' with 'all business units' or 'business unit self select' option; and 'geographic scope' with 'all geographies' or 'geography self select' options. To state the conclusions first, DCSF's choices were entirely service scope, all business units and all geographies options.

As described by many research studies, IT outsourcing transactions vary and evolve in many ways (Hirschheim and Dibbern 2009, Willcocks and Lacity 2009a). In order to understand these diverse modes of IT outsourcing, Cullen, Seddon and Willcocks (2005) developed the IT outsourcing configuration framework, upon which the analytical framework of this thesis is based. Under these circumstances, can this framework also be applied to this BPO case of TPS? On this point, the applied analytical framework must be revisited to prove the appropriateness for BPO beyond IT outsourcing.

As discussed in the previous chapter, service scope can be categorised in outsourced functions, such as application maintenance and systems operations. It is meaningful to distinguish those functions in IT outsourcing because it reveals the qualitative degree of the outsourcing deal. For example, even if two client organisations select the same total outsourcing strategy—which means over 80% of their IT budgets consumption for an outsourcing deal (Lacity and Willcocks 1998)—those can differ in degree from each other. On the one hand, an organisation that does not outsource a systems planning and management function must place much more importance on in-house IT capability compared with an organisation that outsources all related functions. On the other hand, some may concentrate on application components, and others have a greater interest in systems and infrastructure operations, according to the characteristics of the organisation in question and its services.

However, where IT components fundamentally deliver consigned business processes, these discussions concerning degree of outsourcing need to be modified. All related functions are necessarily provided by external suppliers, not just IT. There is no notable in-house component left in the client organisation. The suppliers carry out a complete

business function, and they can choose any implementation method independently, whereas clients receive only the results (Wüllenweber et al. 2008).

Conceptually speaking, BPO might only concentrate on specific procedures within a whole business process; furthermore, there can also be multiple-supplier BPO cases, which split a business process into many sub-processes, each of which are assigned to multiple vendors. Most empirical studies describe BPO as an outsourcing deal involving a business function or process with a sole supplier (e.g., Gewald and Dibbern 2009; Lacity, Shaji and Willcocks 2009; Mani, Barua and Whinston 2006; Penter and Pervan 2009; Yang et al. 2007). One such typical definition of BPO is given by Gewald and Dibbern (2009, p. 249), as follows:

Business process outsourcing (BPO) involves the delegation of an entire business process to a third party provider, including its supporting services. Business processes in which IT plays an important role have become prime candidates for BPO.

Accordingly, in terms of service scope option, the option taken in the TPS BPO deal can be referred to as the entire service scope. All business functions involved with TPS were transferred to Capita Hartshead with the first contract in 1996. Transferred resources are not only IT assets, like IT experts, but also all business staff administering the scheme. The number of staff transferred was 479, among which only ten individuals were IT experts. Furthermore, approximately ten staff members (the number varied over the 1996-2010 period) remained within DCSF in the areas of policy and outsourcing contract management. With respect to IT assets, DCSF transferred a legacy system to a new administrator through Capita Hartshead, which hardly used it after the contract.

In accordance with the full service scope approach, the recipient scope option was all business units. In the strict sense of word, it is inappropriate to refer to this as all

business units because most IT service recipients, who are the users of the IT system in TP, came to belong to Capita Hartshead instead of DCSF after the transfer. However, if we conceptualise the whole TPS administration service as the target service of the contract, just as IT services in an IT outsourcing contract, all TPS-related groups—such as the TPS policy unit in DCSF—can be referred to as recipients of those services. From the viewpoint of TP staff, whether they were transferred or not, they had no other choice but to use the IT service provided by the IT department of Capita Hartshead. In this respect, the chosen option by DCSF in terms of recipient scope is the all business units option.

As the last facet of service scope, the ‘all geographies’ option was chosen by DCSF. All TPS-related divisions are located in Darlington, and even TP works in the same building.

The analytical framework of the multidimensional outsourcing configuration framework shows some limits to be applied to the BPO case, as the foundation put forth by Cullen, Seddon and Willcocks (2005) was developed as a taxonomy for diverse IT outsourcing phenomena. It reveals some discrepancies among concepts, when applied to BPO. Nonetheless, the above analyses based on that framework coherently address the case’s structural features. It is evident that all business processes were delivered to the relevant recipient groups by Capita Hartshead from a single workplace in Darlington.

6.3.1.1.2 Underlying context

Among the three facets of scope grouping, service scope most deserves further exploration in the DCSF context. The geographic scope was decided independently

based on a DCSF's physical location. In addition, the recipient scope simply follows the choice made regarding the service scope option; for example, if a decision were only the outsourcing of finance system management for teachers' pensions, recipient groups could be restricted to financial accounting staffs. Thus, the underlying context behind the decision of service scope is worth a more intensive examination in order to shed more insight into the case.

However, a similar re-interpretation of the analytical framework is required for BPO. The given descriptions of IT governance concerns presume issues between business and IT. The following is a definition of strategic planning, as an example (ITGI 2007, p. 6):

Focusing on ensuring the linkage of business and IT plans; on defining, maintaining and validating the IT value proposition; and on aligning IT operations with enterprise operations

This can be literally applied to IT outsourcing, as explored in the previous chapter's Korean case, but a broader conceptualisation is requisite in BPO. This thesis diversifies the understanding of IT aspects in IT governance as a BPO arrangement with strong IT components. If organisation executives are concerned with IT, their concerns should also address related BPO components pertaining to IT.

Returning to DCSF's underlying context for making the service scope decision, the four primary concerns involved are 'strategic alignment', 'delivery of business value through IT', 'risk management' and 'control and accountability', as conceptually predicted in the analytical framework. Concerning strategic alignment, the entire service scope outsourcing decision was made ostensibly to seek more value. In actuality, the decision stemmed from the NPM reform wave, characterised by more extensive private sector involvement and cost-effective government, during the early 1990s (Dunleavy et al.

2006; Flynn 2007; White and Korosec 2005). Before then, all TPS administration functions had been located alongside all policy functions. In 1992, DCSF created the Teachers' Pensions Agency within the department in pursuit of a small policy department. TPS administration seemed to be a convincing candidate, in that it took up a very substantial part of the overall running costs of the department with more than 300 staff. During this time, DCSF attempted to eliminate all delivery aspects from the intended policy-centred department. TPS administration was already categorised as a routine and technical mission and had the potential to be transferred to external suppliers.

It is not clear whether the innovation of moving to becoming an Agency was successful. According to statements by respondents, at least, it seems to have become more target-driven than before. During those days, DCSF developed 11 performance indicators to measure its accomplishment. This view was more strongly supported by senior level staff members, as revealed in the following statements:

What we'd seen in the move from, being integrated into the Department for Education and then comparing that to the way things changed when we were with the agency, was that we were more target driven. Having been non-target driven previously, there were a number of performance targets that were introduced.

I suppose, I don't want to get too carried away, cause we did have the agency before that and the agency had done some of this under their own steam.

However, many working-level respondents consistently described the agency as similar to that of the old civil servant system, rather than the current private company style. It is vividly explained by a Capita Hartshead staff member's statement:

I think we're more target driven now and I think we're more aware of the

targets we have to achieve now and I think that is definitely from every point of view. And I think there was a very slightly more pressure on everybody because of the targets [in the agency]. But again, I don't know whether it's because when we were in 1996, targets didn't really bother us. Whereas now, targets do bother us and we have to achieve them and I personally feel that we are achieving targets.

Consequently, the reasons why outsourcing was adopted in 1996 cannot be directly drawn from an evaluation of the Agency operation. However, it is an obvious fact that IT was one reason for the subsequent outsourcing. DCSF previously harboured its own legacy IT system to process TPS administration. However, it was difficult to invest in IT in-house as a government office, in spite of the Agency's somewhat significant achievement. This is well described by the following DCSF senior manager's statement:

And it was then decided that, although there had been a number of efficiencies and improvements resulting from the creation of the Teachers' Pensions Agency, there was a lot more to be done and there was also quite a significant need for capital investment in IT infrastructure and such like, a lot of scope for efficiencies. Working practices had been long embedded and hadn't changed much over perhaps some decades. So the decision was taken in I don't know '94, '95, something like that, that the agency would be put out to the market and the administration of the pensions scheme would be given to a private sector contractor.

While operating the Agency, DCSF tested markets for TPS businesses. For example, the Agency itself tested the market for many detailed processes, such as payroll and finance. In the meantime, pensions administration was found to be a market-oriented task that could be transferred to some competitive private companies. Finally, DCSF introduced BPO in the area of TPS administration entirely.

Judging from a strategic alignment viewpoint, outsourcing determinants can be

explained as follows. First, DCSF regarded TPS administration as a non-core business component characterised by its delivery aspect. Furthermore, high cost-reduction was expected because it was not yet, as an Agency, satisfactorily developed in terms of IT. It was very labour-intensive work at that time. Second, TPS administration was evaluated as having great potential for privatisation. DCSF found that many businesses were in the private pensions area, though DCSF was wary of the large size of TPS, given the relatively small scale of the private sector. Some candidate private companies were identified according to the results of market testing. Third, DCSF placed a low priority on capital investment in IT, which seemed essential for the development of business. This perception was necessarily connected with the first recognition that TPS administration is outside of the core business, along with large parts of the IT base.

However, the greatest impetus for outsourcing was found in political judgements, as suggested by most respondents. The privatisation movement in NPM-based governmental policy encouraged DCSF to adopt that strategy. Under this context, DCSF identified TPS administration as a strong candidate for outsourcing. This aspect is evident in its choice of BPO instead of IT outsourcing. Although it is understood that IT matters, one option could be the outsourcing of IT functions alone. DCSF might outsource the development of a new administration system and its maintenance; alternatively, DCSF could transfer only IT divisions to an external supplier, together with a development project. In reality, DCSF chose these options for other outsourcing deals, such as finance, human resources and so on. No detailed justification could be found for the TPS decisions, and the present research could only really find them in political factors. Neither a systematic benefit-cost analysis report nor an evaluation of the Agency's prior performance was provided. Two key participants described this process in brief as follows:

I think the agenda for privatisation was as I said, politically driven and I think when the department looked at itself internally to see which was probably the most appropriate area for privatisation, the pensions business consisted of 479 people at the time at the point of transfer. So you know, it was a large body of people. It was non-policy and the department sees itself primarily as a policy making department. This was the general view from, from staff and just putting the sort of political consideration around the decision.

Really I think the IT, from what I remember, the IT came in quite late on that. That wasn't always necessarily part of it.

The second IT governance concern in the framework is the delivery of business value through IT, which is re-interpreted to be applied to this BPO case below:

Executing the value proposition through the delivery of the cycle, ensuring that BPO delivers the promised benefits against the strategy, concentrating on optimising costs and proving the intrinsic value of BPO

When the first contract was made, three substantial requirements were presented by DCSF. The first was service improvement, as DCSF recognised that IT provided by a private specialised company could achieve this. Through outsourcing, DCSF expected to transfer the risk of in-house IT investment. The second was cost-reduction, symbolised by value for money. The first year budget was set with amounts similar to those of the prior agency; however, the budget decreased each subsequent year throughout the entire contract term. The last requirement is relatively uncommon. DCSF requested that a supplier contribute to the site development of Darlington as a town. This request was most likely linked with the protection of staff members transferred from DCSF. In accordance with this policy, Capita Hartshead was allowed to bring other outsourcing arrangements to the Darlington site.

The above policies represent the value pursued by DCSF when it outsourced TPS administration. The first two requirements can be regarded as common driving forces of every outsourcing deal. However, the last requirement represents the characteristics of TPS outsourcing as a BPO accompanied by a large-scale transfer of staff; it also shows the public interest in local area development and a safeguard against the possible unemployment of local staff transferred from the public to the private sector. DCSF had to allow staff reductions in order to save on costs, but it needed to support Capita Hartshead to abide by the TUPE, by redeploying former DCSF staff to other contracts administered in Darlington.

As stated earlier, the deal is generally recognised as a successful case in terms of service quality and cost. With respect to the third requirement, Capita Hartshead carried out many pensions-related contracts in the Darlington base, and many staff members who transferred from DCSF were involved there—that is, outside of TPS administration. As an example figure, the number of transferred staff members was 479 in 1996; this number was reduced to 250 in 2003. However, the total number of Capita Hartshead staff at Darlington in 2009 was 650. Approximately 230 of the transferred staff members were redeployed to new missions, while 170 were newly employed for other outsourcing arrangements by Capita Hartshead. As evident from the above, priority upon the delivery of business value through IT (BPO here) justified related decisions.

The third IT governance concern involved in the framework is risk management. A more conventional discussion of IT governance took place in this case. There was no evidence found to explain the BPO preference for IT outsourcing, but every participant agrees that concerns regarding IT investment led to this outsourcing decision:

I suppose there was the view taken that actually what we were doing here was transferring a lot of risk over to this sort of contractor to take as I say, some of the risks on of the sort of staffing and IT investment that would be needed to take the service forward.

There was then just a programme of predominantly around a much greater IT investment which we didn't have within the Civil Service, of looking at providing more streamlined processes based on system automation.

They [Capita] were thinking about the improvements, the efficiencies and there was an investment and I recall at the time, it was something in excess of a million pound which, which the public sector probably wouldn't have invested but Capita did.

Previous research studies suggests that IT must always be a significant factor for consideration in BPO, though it did not seem to be an indispensable element in the TPS outsourcing decision, as discussed above.

On the other hand, another rationale behind this outsourcing decision was the lack of IT expertise within DCSF. The number of transferred IT experts—that is, prior DCSF IT experts involved—was only about ten then, meaning that there were no resources to develop a sophisticated and large information systems in-house. The department faced serious problems with regard to upgrading legacy systems. Thus, outsourcing the IT component was the only solution for that issue. As repeatedly discussed, DCSF's choice was BPO beyond IT outsourcing. Before 1996, there was also the movement to outsource more components of IT, but it did not disappear entirely because in fact initially in-house bids won. The first IT that disappeared from the department was TPS-related IT; subsequently, additional components of the department's IT were transferred to different companies. No in-house bidding was being allowed for TPS outsourcing. In reality, there was no in-house resource to argue in favour of this. If DCSF had sought in-house involvement, it would have taken on more risk, in terms of both cost and

staffing. On the contrary, DCSF acknowledged the existence of similar solutions and resources in the private sector, relating to the pensions area, after inspection of the market. This enabled DCSF to feel more comfortable mitigating and transferring risk by outsourcing.

The final IT governance concerns in the framework underpinning scope grouping decisions were control and accountability. The matter was whether or not DCSF could maintain control to deliver the service to TPS members after outsourcing. Two positive rationales were identified. First, DCSF maintained the authoritative power to determine policy regarding TPS. There was no doubt about this because TPS is a government scheme for teachers, most of whom are civil servants. Second, DCSF was confident about retaining governing power after outsourcing due to its accumulated knowledge, not only in policy, but also in the administration of the scheme. The following respondent's answer to the question, "Are you happy that your in-house capability is good enough to be able to manage this contract in a successful way?" reveals how this decision was justified.

The answer has been yes for all that time for two reasons. One is that we not only have very good and very experienced people on the pension side of the house, but we deliberately took a decision to keep the contract management side of the operation sitting alongside the pensions technical side of it as well. So their contract managers are also very knowledgeable on pensions issues and they have certain pension related responsibilities themselves anyway just to make sure they keep their hand in.

However, it is worthwhile to note that this view depends entirely on the human resources aspect. All interviewees who had worked for TPS in DCSF before outsourcing, in particular in the case of upper- to middle-level officers, are concerned

about the dilution of in-house knowledge. With respect to this view, there is no difference found between current DCSF staff and TP staff transferred from DCSF. This was confirmed by an overall evaluation of this deal, which was presented at the end of the case overview section.

This concern is based on an argument against the view that TPS administration is not a core business of the department. If it were regarded as non-core, the loss of administrative knowledge would not be a problem. Two rationales supporting this concern were found. First, TPS is critical to personnel management of teachers from recruitment to retirement, who are keen to be involved in educational or children's services. Thus, TPS cannot be isolated from the policy issues of DCSF. Second, policy and administration works should be handled as closely connected missions. Knowledge gained from the operation of the scheme may provide a solid foundation or motivation for policy-making; on the other hand, to administer TPS, TP must fully understand the application and implication of a policy.

I mean the department is about or was very much at that time about educational policies. Now it's talk more about children's policy now but something like teachers pensions, you know, the whole legislation, the whole drive behind teachers pensions is almost in a world of its own, quite separate to education. You know, it's not the fact that they're teachers; it's what's the link. But in terms of any other link to education, I mean you know, I'm almost sort of saying this in a negative way.

I still believe there are still some people in the client team who are philosophically opposed to the privatisation of this work, which is why I think sometimes they follow the line of detailed questioning and probing.

The above statements provide insight into the client side's concerns. In this regard, control and accountability became a new serious concern for DCSF, and contract management emerged as a new core competency.

To summarise the section, the entire service scope, all business units and all geographies options, were presented as the choices for DCSF within scope grouping decisions. Among these, the entire service scope option was revealed as the most important decision affecting other areas. Four underlying concerns affecting context were examined: strategic alignment, delivery of business value through IT, risk management, and control and accountability. Strategic alignment lent structure to the comprehensive view of this BPO motivation, determined to be political. Aside from this, the adoption of BPO could not be explained. Despite the suggested belief that in-house capability to control and monitor contracts was adequate, based on experienced human resources, existing control and accountability concerns were revealed. In line with what Willcocks et al. (2004) suggested, these concerns might be amplified in BPO deals, in that knowledge implications are greater than IT outsourcing because the former is closer to the business compared with the latter.

6.3.1.2 Financial scale

6.3.1.2.1 Decision points

‘Financial scale’ describes ‘the financial value to a client organisation using relative and absolute dimensions’. The relative scale of the TPS outsourcing deal is small on any criterion of the composition of DCSF expenditure, as displayed in Table 6-1.

Since fiscal year (FY) 2003-04, the total expenditure of TPS has been between £6,344 million (FY 2004-05) and £10,914 million (FY 2008-09). In the meantime, the average annual cost of the second contract (£8.86 million) accounted for only from 0.08% to 0.14% of those TPS expenditures. In contrast to total administration costs of DCSF,

defined as the “day-to-day costs incurred in administering the Department’s business” (TSO 2009a, p. 257), the cost of TPS administration outsourcing accounts for 5% of the total.

Table 6-1: Annual expenditure of DCSF (£ million)

Expenditure\FY	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Total (A)	18,272	18,681	22,100	23,917 ¹⁾	27,346 ¹⁾	28,614 ¹⁾
TPS (B)	6,575	6,344	8,037	8,599	10,698	10,914
(B/A) (%)	36.0	34.0	36.4	36.0	39.1	38.1
Total administration costs (C)	193	209	193	196	182	189
TPS administration outsourcing (D)	8.86	8.86	8.86	8.86	8.86	8.86
(D/B) (%)	0.13	0.14	0.11	0.10	0.08	0.08
(D/C) (%)	4.59	4.24	4.59	4.52	4.87	4.69

* Source: DCSF total departmental spending, 2003-04 to 2008-09 (TSO 2009a)

1) Newly transferred DSG expenditure has been deducted from total expenditure since 2006-07 to maintain consistency.

These figures partially show the characteristic of this contract in the DCSF context. The exceptionally low ratio of contract amount to entire TPS expenditure is mainly explained by the fact that a pensions business requires much more significant financial funds to manage the scheme’s income and expenditure beyond administrative purposes. In addition, with respect to the relative value of outsourcing scale to total administration costs, one cannot clearly identify the strategic importance of TPS administration outsourcing with those figures. However, considering the decision that TPS administration is a non-core business of DCSF, the low ratio of 5% to departmental total administration costs is additional evidence of this low priority, especially when compared with the high expenditure share of the TPS programme.

On the other hand, the relative scale could be 100% if the scope of business were confined to TPS only. As a BPO case, most administration costs, including human resources and IT, were outsourced. Accordingly, the relative financial scale can be referred to as small at the gross level, but as large in the related business domain. In addition to this relative scale, there must also be a large absolute scale option, in that TPS is a very large public pensions scheme. In practice, this deal attracted many suppliers during its procurement processes.

This analysis, however, does not conform to the purpose of the original IT outsourcing configuration model proposed by Cullen, Seddon and Willcocks (2005), upon which the analysis presented in this thesis is based. These authors developed this component in order to explore the depth of IT outsourcing in terms of client organisations' IT budgets; therefore, this framework does not completely fit the TPS case, as this is a BPO, rather than IT outsourcing. Any IT budget was unable to be identified. When DCSF decided to outsource TPS administration first, participants never recognised the target activities or assets as IT components. Although one of the reasons for outsourcing was their limits upon improving a legacy system, decision-makers understood that this was the outsourcing of the Teachers' Pensions Agency that had carried out TPS business since 1992. Given this scenario, the original description of financial scale is not applicable to this case. Notwithstanding this inconsistency, the same analytical framework remains relevant in this BPO case analysis because this component is useful to the overall understanding of the relative business weight to TPS administration, given by DCSF.

Although the figure of total IT expenditure of DCSF is not disclosed in this study, there are certainly no other IT functions or independent IT budgets within TPS business because all administration works have been totally outsourced to Capita Hartshead since

1996. Since then, other parts of IT assets and functions in DCSF were subsequently contracted out, so there is very little left in terms of in-house IT functions and related network issues.

6.3.1.2.2 Underlying context

With respect to the underlying context issue of financial scale, no independent concern was identified. The decision of financial scale can be understood as the consequence of the service scope decision; therefore, relevant IT governance concerns would like to be regarded as the same as those of scope grouping. No restrictions were set by financial factors alone. DCSF had sufficient financial resources already being consumed to run the Agency. Moreover, the cost was expected to be reduced as a result of outsourcing.

When Cullen, Seddon and Willcocks (2005) discussed the financial scale attribute in their work, the significance of this attribute was the perception of risk comparing total and selective outsourcing. For example, total outsourcing is commonly acknowledged as riskier as an ‘all-or-nothing’ strategy (Willcocks and Lacity 2009a). However, this needs to be qualified in the case of BPO as discussed above under scope grouping.

6.3.1.3 Resource ownership

6.3.1.3.1 Decision points

‘Resource ownership’ refers to ‘which party controls and/or owns the various service delivery resources that were classified by the criteria of assets, facilities and labour’. This consists of the following six options: ‘infrastructure’, ‘onsite’, ‘service & facility’,

‘asset buy-in’, ‘facility host’, ‘labour buy-in’ and ‘total ownership’. Among these, DCSF’s decision was total ownership, which means that the external supplier provides all related resources of assets (e.g., hardware, software), facilities (e.g., office site, data centre), and labour (direct and/or management). Although the TP site is located in the government building of DCSF, TP pays rent to DCSF. Resource ownership, in practice, is not only a matter of which party is the owner of specific resources. In addition, operational accessibility and control mechanism should be examined. Those elements tend to be combined in complex outsourcing deals; hence, it is not easy to standardise them (Cullen, Seddon and Willcocks 2005).

The option chosen by DCSF can be categorised as total ownership, as presented above. At first glance, it seems to be a necessary option for most BPO arrangements, considering the nature of BPO to outsource the entire set of service delivery measures; in actuality, the present case was not so straightforward. In 1996, DCSF delegated the operation of its own legacy system to Capita Hartshead. Based on this fact, this case might be regarded as a service & facility option characterised by client-owned assets and supplier-owned facilities and labour. However, as was presented by the developers of the original model and as was demonstrated in the PPS case, the matter is not legal ownership, but control in practice. Furthermore, the transferred legacy system came to be used in a very restricted manner by TP, which employed primarily data within that system. Capita Hartshead began replacing this old system with its own systems as soon as the first-term contract commenced. Some of those were newly developed by Capita Hartshead. Finally, all data were completely migrated to Capita Hartshead’s HartLink system in the initial phase of the second-term contract in 2004. Since then, even data in the old system have become obsolete.

The total ownership option seems to be a dominant choice in BPO arrangements, but some exceptions can exist. Assuming that there is a rather competitive IT system for a specific business, client organisations can choose the service & facility option. In other words, a client can outsource only facilities and/or relative IT and business staff members to deliver services, under the condition of continuous use of the existing IT system. However, it remains ambivalent whether this type of deal is consistent with the concept of BPO. As another example, we may conclude that at least infrastructure, asset buy-in and facility host options, which are characterised by client-owned labour, do not suit BPO, in that the delegation of labour supply must be an indispensable attribute of it. However, this becomes less convincing if a BPO supplier has full management authority over client-side labour. To reiterate, there may well be too many varied phenomena and activities in outsourcing arrangements for them to be standardised accurately and easily.

6.3.1.3.2 Underlying context

Under the analytical framework of this thesis, control and accountability concerns must be examined in order to explore the background of resource ownership decisions. As revealed in the description of resource ownership, its determinant must be related to concern for control. In practice, resource ownership options are higher-level decisions in BPO. However, diverse rationales behind detailed decisions can be found.

In the present case a relevant asset prior to outsourcing was a character-based legacy system called Puma. Puma had been mainly used to manage members' records, and it was unable to support entire processes. As mentioned previously, this issue was eliminated when the database was migrated and integrated into Capita Hartshead's

HartLink system in May 2004. When DCSF strategically decided to adopt the BPO approach, Puma maintenance was necessarily delegated to Capita Hartshead, given its users and operators. When Capita Hartshead took over, this company introduced and developed many new systems for process automation, including calculation, payroll, and electronic document management (EDM). Even though the holistic integration of these systems was achieved in late 2004, Capita Hartshead did not depend significantly on Puma once it was charged with Puma's operation. Only pensions data within Puma were used and updated for new systems in day-to-day operations. As at 2010, Puma is still formally owned by DCSF; Capita Hartshead continues to maintain Puma, including the synchronisation of data with its HartLink system.

DCSF was not concerned about Puma. Puma has suffered from many problems, and its functions were very limited compared with many other modernised systems. Outsourcing was DCSF's solution to resolving these problems. DCSF's complaints about legacy systems were apparent, as indicated in the following two statements:

And they [old legacy systems] needed to be moved on to a more modern platform. So that was one of the key things, to have a much better IS system underpinning the administration which would allow for a much wider range of um, functionality and particularly to support web-based functionality. We were very keen on getting individual scheme members and employers, able to have much easier access to the system, to their records, to have online benefit statements and online transaction processing and those sorts of things as well.

What we used to have was a database which held all the member records. When we did calculations on legacy systems, we used have to take extracts of that onto another system to do those calculations.

Apparently, under these circumstances, DCSF did not intend to own or to control related information systems in-house anymore.

This standpoint was also disclosed in the bidding process. IT was neither seriously nor independently evaluated when DCSF selected a supplier. Furthermore, the same tendency is revealed in its contract document. Reviewing the Statement of Service Requirements (SOSR) 2003, part of the second-term contract document, only 25 sporadic clauses among a total of 319 clauses under 11 sections were found to describe IT-related issues explicitly (Capita 2003b). Many of those involved only information security and data recovery issues, except for five clauses. These related clauses are as follows: DCSF staff's accessibility to the database (2.18, 11.18); system continuity (2.27); electronic document management system standardisation (3.5); the provision of on-line service (7.7); and information security and data recovery (10.2, 10.9 and 10.25-42). As further evidence, no IT-related KPI operated among the 51 indicators used for service level measurement. If this were an IT outsourcing arrangement, such indicators as request time and system downtime would be included. This analysis does not aim to criticise DCSF's ignorance of IT in the TPS case; on the contrary, the character of this arrangement as BPO is clearly demonstrated. To DCSF, the matter pertained to business, rather than IT. Consequently, it is obvious that DCSF certainly did not have any intention to control IT directly.

In addition, such facilities as the data centre and office/supply building have been provided by Capita Hartshead since 1996. It is worthwhile noting that every respondent emphasised the co-location of the client and supplier in terms of strong relationship building and knowledge sharing. Most TP staff members were formerly DCSF officials working in the DCSF building. There was no need for a change in location. Finally, there was nothing specific to describe about the context of labour ownership. Most transferred staff members assumed that the deal would result in the privatisation of the entire Teachers' Pensions Agency for which they worked.

6.3.1.4 Commercial relationship

6.3.1.4.1 Decision point

‘Commercial relationship’ summarises, according to the configuration framework, ‘the high-level organisation to organisation nature of relationship structure’. Four possible options of this structure are ‘arms-length’, ‘value-added’, ‘co-sourced’ and ‘equity’. Only the arms-length option, which refers to the distinct accountabilities of both parties, was applicable to DCSF in this kind of BPO. The co-sourced option, characterised by the mixed provision of labour and assets, was untenable because there were no resources left within DCSF. The equity option can be selected only between associated organisations in terms of equity shares. Finally, there was no shared business initiative, which refers to the quality of value-added options found, such as the put-back of the supplier’s revenue. Two consecutive contracts between DCSF and Capita formed a conventional commercial relationship with the arms-length option. The two parties are wholly unrelated and have mutually exclusive accountabilities.

This observation is obviously supported by the fact that each party operates in separate areas of TPS policy and administration. DCSF and TP advance their own processes only; hence, there is no shared process that could possibly cause mutual intervention. Policy and administration works are necessarily related, but the interrelation structurally occurs between results, rather than between processes. For instance, DCSF makes use of information provided by TP, whereas TP follows the policy determined by DCSF. This is a formal and structural aspect of interaction, through the recognition of certain informal relations beyond this channel.

6.3.1.4.2 Underlying context

DCSF had no other alternative to the arms-length option, as explained above. Two concerns that provided the context for the commercial relationship decision emerged from this: control and accountability, and performance management. Permitting exclusive accountability as established in the contract, DCSF attempted to properly control and monitor the activities of Capita Hartshead. The first choice was in-depth involvement in day-to-day operations. One of DCSF's contract management tasks was casework aimed to inspect Capita Hartshead's actions and to validate and double-check the company's work. A respondent stated that this was done in a significant number of samples.

That function seems to have weakened quickly, for two identifiable reasons. Over time, Capita Hartshead became more rigorously trained, while experienced staff in DCSF disappeared due to personnel moves or retirement. Another reason was the lack of resources in DCSF, as represented by the unbalanced capacity in the number of staff members of each party. Initially, there were 479 transferred staff members in Capita Hartshead, whereas only four staff members in a contract management team of DCSF. Some respondents suggested that the direct involvement function remains in operation, but it appears to be formalised. The existing control and monitoring mechanism is much more dependent on the audit system. These recent trends are aptly described in the following statements by a key participant in DCSF:

So there is still some limited retained function [validating and double-checking] but it is much less than what we started with in terms of what I'd call the case checking and validation of teachers pensions day to day work that they, you know, we let them get on with it. [...] There was a much stronger audit function. The department kept a closer eye on them, whereas

you may have picked up now that Capita run their own audit ... Because, over time, we've got more confident that Capita are doing it right.

TPS administration works have been removed from DCSF's responsibilities for more than 10 years, meaning that the operational knowledge accumulated by Capita Hartshead may surpass that of DCSF. In all probability it is the BPO strategy adopted that has produced this, probably unintended outcome. The audit work mentioned by the respondent above is different from the original intentions of the contract management team. According to other interviewees, DCSF is not auditing the tasks, but reviewing Capita Hartshead self-audit results. If they chose, for example, the co-sourced option, and if DCSF were more deeply involved with operation work, this loss of knowledge might be mitigated. However, it was DCSF's strategy to select 'total' BPO, in the light of the restricted resources it had to run alternative options.

The second choice to control and monitor the contract was in the area of performance evaluation, which is related to performance management concerns. Eleven KPIs had already been established during the early 1990s era of the Teachers Pensions' Agency. Due to this experience, DCSF were relatively familiar with performance-based contract management. This KPI number increased to 21 when the first contract was brokered, and finally, DCSF and Capita Hartshead increased the number of KPI up to 51 as of early 2010.

Under the arms-length commercial relationship, DCSF pursued control and accountability and performance management to manage Capita Hartshead. A senior officer in DCSF answered a question regarding how DCSF maintained service quality during the early stage of outsourcing, as follows:

I suppose those were the two key things and the staffing and the

performance indicators to make sure that the level of service [was good].

The expertise of the transferred staff members and the KPI-enabled control experience were identified as key to maintaining service quality at the outsourcing introduction stage. The intended process-based case involvement had disappeared rapidly, so the two missions of the contracting parties became more distinct.

6.3.2 Process of strategy building

Strategy building-related phenomena appear in the architect and regenerate phases of the lifecycle framework.

6.3.2.1 Architect phase

Cullen, Seddon and Willcocks (2006) subdivide the architect phase into four building blocks: investigate, target, strategise and design. Most key activities in the architect phase are found in the history of TPS outsourcing strategy building. DCSF had already gone down the outsourcing route since the early 1990s. It created an agency within the department and applied market-driven innovation, incorporating performance evaluation. Although it is doubtful that DCSF had a plan to finally outsource TPS administration to a private company, the Agency continued performing market tests and inspecting market and technology in the private sector of the pensions industry. The statement below describes the process of market testing and the concern about possible suppliers.

So we'd lots of expressions of interest from all sorts of people, and one of our main concerns was the extent to which bidders would be able to take on an organisation which was so much bigger than themselves.

To describe DCSF activities in the order of the four building blocks, the goal—outsourcing—was formed under the governmental policy of privatisation in the investigation building block; then, it was concretised as cost-reduction and service improvement through the use of outsourcing. DCSF found that there was expertise in the private sector pensions industry that could be applied to TPS. Then, DCSF decided to outsource all business processes in the target building block, based on the perception that TPS was not suitable for the policy-centred, small department philosophy.

In the strategise building block, DCSF drafted the contract and organisational structure; simultaneously, it persuaded internal and external stakeholders to support this outsourcing policy. There was extensive dissent expressed by internal staff, the teachers' union and TPS member groups. Internal staff members were concerned about losing their positions as civil servants, while external groups questioned whether there would be deterioration of service. Internal staff members who would be transferred felt secure when it became clear that civil servants' rights would be protected. In addition, external staffs were satisfied that DCSF secured a strong and open communication channel with them. In fact, DCSF established a requirement of periodic meeting in the contract to discuss services and users' requests between DCSF, teachers' unions, TPS members, and Capita Hartshead. However, none of our respondents stated that there were severe protests against the outsourcing policy. It seemed to be fairly readily accepted under the then trend in governmental policy.

Finally, specific plans for contract and bidding processes were crafted in the design building block. For example, the baseline service level was formulated, based upon the Agency's prior performance. According to many respondents, the first contract was not well crafted compared to the current contract. However, subsequent contracts became

more sophisticated due to the knowledge accumulated by DCSF. The architect phase must be repeated whenever new contracts are made, but this seemed simply to reflect the result of the assessment completed in the regenerate phase. There was no fundamental change in policy—for example, there was no discussion of something like back-sourcing—found, thereafter.

6.3.2.2 Regenerate phase

The regenerate phase describes the step in which a strategy for the next contract is developed based upon an assessment of the existing contract. It is also termed the ‘refresh’ building block. There have been two explicit regenerate phases within TPS outsourcing. The first occurred in 2003, when the second-term contract was prepared, and another is now in place for the third-term contract from 2011¹².

The overall purposes pursued by DCSF in the two regenerate phases were the extension of KPIs and more complex and detailed documentation to guide supplier activities. As indicated, the number of KPI has increased to 51; this number was 21 in 1996 and 11 during the Agency era. The most significant concern in this phase has been with control and accountability. As can be imagined, once the contract is finalised, how DCSF manages it while maintaining accountability becomes the primary concern. DCSF learned from past experiences; one senior officer of DCSF stated that:

There was no training course or anything available [for contract management], I mean there was a certain amount of learning it on the job and doing what we thought was right. And we’ve learned from that and built on the experience over the years both with the second contract and I’m sure

¹² The DCSF TPS Re-tendering team was created to prepare the next contract in the latter half of 2009.

where we'll go to with the next contract. You know, the lessons we kind of learned where we needed to be tighter in our performance indicators and our measurements and how you deal with the contract.

Beyond performance management, another issue present at this stage is forming an exit strategy and creating the possibility of transferring to another provider. The ad hoc approach at TPS was summed up in the following statements made by another senior officer.

There was working under [the first] contract which in today's terms would be considered far too loose and imprecise, so things like at the end of the contract, the contractor would have to - I can't remember how it was worded but it was something like the contractor would have to - behave reasonably in providing assistance to support the week ending. There was no specific understanding what that meant... what was reasonable and what might be required and all those sorts of things. So we learnt quite a few lessons from that.

Accordingly, when preparing the second contract, DCSF established its right to buy resources from existing providers, including the second TUPE, which also signified the transfer of staff from Capita Hartshead to the next outsourcing supplier. Currently, DCSF are further interested in standard data format requirements for other providers in order to be able to migrate data into their own systems easily.

Unlike what was observed in the architect phase, stakeholders did not raise any issues about the outsourcing policy during this regenerate phase. On the contrary, when preparing for the second-term contract in 2003, the teachers' union declared that it would support the incumbent supplier for another seven years. It appears that the union preferred to avoid any risk that would be caused by a change in supplier.

In any event, DCSF currently continues listening to other competitors' input to collect case knowledge and be in a position to draft a well-crafted contract proposal for the third-term outsourcing bidding. To summarise these current (2009/10) activities, DCSF is assessing the past performance of Capita Hartshead; but, more importantly, it is concentrating on developing more tightly articulated contract documents against control and accountability concerns during the regenerate phase.

6.4 Contract structure dimension

This section explains what (decision points), why (underlying context) and how (process) DCSF pursued the outsourcing of TPS administration in terms of contract structure. This is the second dimension to be explored in this case.

6.4.1 Decision points and underlying context

Decision points of this dimension consist of three components: 'supplier grouping', 'pricing framework' and 'contract duration'.

6.4.1.1 Supplier grouping

6.4.1.1.1 Decision point

'Supplier grouping' means 'how many suppliers provide the outsourced services'. Four options of this component are 'sole supplier', 'prime contractor', 'best-of-breed' and 'panel'. DCSF selected the sole supplier and prime contractor options, as both single and consortia composed of prime and subcontractors have been allowed to participate.

The former means one contractor aiming for sole accountability and seamless service. This is characterised by lower communication costs and higher switching costs (Cullen, Seddon and Willcocks 2005). Excessive dependency on a sole supplier is normally cited as a significant weakness of this option. The latter option may be helpful if subcontractors are expected to compensate a prime contractor for specific expertise, regional capacity, and so on. From the management viewpoint of the client, these are similar in practice in that a prime contractor should act as a sole supplier to clients.

As mentioned before, many studies of BPO reveal that the single provider option is more prevalent. This option is attractive due to its single point of accountability. The sole supplier or a prime contractor used to assume all responsibility over the outsourced business process. This was also the case between DCSF and Capita Hartshead. With respect to the prime contractor option, Capita Hartshead could bring other subcontractors if it so chose. For example, Capita Hartshead might participate in the bid with a subcontractor of IS provision, unless it had a competitive system like HartLink. The option observed in the TPS outsourcing is that of sole supplier, but this option is selected by the supplier. DCSF also allowed the prime contractor option.

6.4.1.1.2 Underlying context

The context of the supplier grouping decision can be analysed through two IT governance concerns in the multidimensional IT outsourcing configuration framework. These governance concerns are risk management and control and accountability. In terms of the risk management concern, DCSF chose sole accountability options, such as the sole supplier and prime contractor options, without any dispute. There was no consideration of splitting the service scope or business process in order to assign them

to separate multiple companies, pursuing the best-of-breed option. This can be interpreted as an avoidance of risk involved in complex management of multiple providers. As discussed above, sole accountability options are expected to reduce management costs. Capita Hartshead is the sole provider controlled by DCSF, and it is fully responsible for TPS administration.

There is necessarily the risk of over-dependency on a single provider in these options, in particular in the sole supplier option. However, this risk can be reduced if the service is general and similar to a commodity. It is difficult to determine whether TPS is regarded as a commodity-like service or a public sector-specific service. It may be a matter of degree, but it is noteworthy that DCSF identified many candidate companies in its market testing phase, and there were seven competitors in the 1996 bid. Furthermore, a commodity-like feature, which means general technology and abundant potential bidders, is neatly described in the following two statements. First, a DCSF member collecting other suppliers' opinions for the next bid revealed:

I think it was about eight or nine companies that we actually met with and we talked to them about the re-tendering exercise you know, we told them about the Teachers' Pension Scheme, gave them a history behind the scheme and where we were at now. And we talked to them about - how do they administer pension schemes in terms of are we missing something with how Capita are currently providing the administration? And as it was with that particular question, yes, there were a few little things that they did differently than Capita do now but on the main fundamentals, Capita are doing what the other companies are doing. Yeah, there's a difference of approach in terms of some like to focus more on quality, some like to get things through the door a lot quicker. You know, there's all the variations. But the other thing we talked to them about was - we're going to be retendering this contract what are going to be the obstacles that are going to stop you bidding? And the key thing that came out from those discussions was they want going forward, they want that level playing field with Capita.

And they're some of the key issues that, that we're going to have to overcome when we do start the retender project shortly [in 2010/11].

A staff member at Capita Hartshead suggested that the company's strongest competency is the IT used in TPS administration. However, there may be some competitors who can run TPS with their own information systems:

The department is absolutely aware that it do not want to be beholden to one supplier. [...] And it's very much about the secondary TUPE being able to take place. The interesting dynamic now, however, is of course the big risk in systems because of course, the department has gone from what were its own systems, which were compound and legacy, to a supplier system which is unique to us [Capita]. So whoever will come in to do the next contract, if we didn't win it, will have to come in with a system. But that's the same for any outsourcing company.

This nature of TPS administration outsourcing, characterised by generalisability and substitutability, may alleviate DCSF's concerns about the risk caused by adopting the sole accountability option.

Performance management is another concern that affects the context of the supplier grouping decision in the original configuration framework. However, it does not matter in DCSF. As investigated in the section about commercial relationships, DCSF felt confident about its performance management, and a concern over performance management was not identified when related decisions were made.

6.4.1.2 Pricing framework

6.4.1.2.1 Decision point

'Pricing framework' means 'the method by which the payment to the supplier is

calculated'. 'Lump-sum fixed price', 'unit pricing' and 'cost based pricing' are set up as three options of this component, and the first of these was adopted by DCSF. The contract amount had a diminishing structure year by year. For example, the annual cost was £17 million in the first year, but this figure was reduced to £8.9 million by the seventh year of the 1996 contract. However, it was not calculated by the supplier's cost or delivered service unit. Instead, it is a lump-sum, fixed price based on the cost of labour.

This choice was expected, as the lump-sum fixed price option can be effective when both service scope and cost are predictable (Cullen, Seddon and Willcocks 2005). DCSF recognised the TPS outsourcing arrangement as administration service outsourcing, which is characterised more heavily by staff employment than by variable IT components. DCSF was not concerned with additional costs caused by IS change. Following this logic, DCSF could pursue the cost-reduction made possible by the resulting personnel cuts.

For example, a modernisation project was completed and implemented in 2007, designed to change amongst other things composite regulations, technical calculation methods, member classification. It required system modifications and its attendant additional costs. However, even in this case, the cost issue never arose. DCSF and Capita Hartshead recognised that such costs would be included under the fixed contract terms.

6.4.1.2.2 Underlying context

DCSF's 'control and accountability' and 'risk management' concerns need to be

explored. The relevance of this can be justified in that the pricing can work as a good leverage to achieve desirable performance and control. However, no specific driving force to adopt other options was identified. According to Willcocks et al. (2004), the unit pricing method seems prevalent in BPO. If this is indeed the case, DCSF can be charged at the unit of the delivered service (e.g., £1 per one thousand cases of pension payment, £1 per a statistical report). However, this practice would surely be complex and require extensive effort to calculate and verify service units. Alternatively, the lump-sum fixed price raises no additional management cost in terms of pricing. Most importantly, pricing terms and conditions seem very favourable for DCSF, as was disclosed by the case of the modernisation project. The following is a TP manager's answer to the question, "Was the modernisation work included in the initial scope of the contract?"

Yep, I mean basically, it's a fixed price contract and the department get any statutory changes. So we have to, if they make changes, we've got to do it. So it could be very very onerous.

DCSF was satisfied with this pricing policy, as it could then transfer all financial risk to the supplier, as emphasised by the following observation by an in-house staff member:

The department decided to modernise the pensions scheme. And that, in itself, had a big impact on Capita in the sense of, of internal processes that they needed to redevelop, systems that needed to be redeveloped um, you know, obviously it wasn't across the piece but you know, it was a big project for Capita themselves. And in such a short timescale that they had to work to in respect of developing the administration to meet the new demands of the new scheme. And they did it, and costs or charges for that development work was never an issue and were not discussed.

Under these circumstances, DCSF did not have to be concerned about the existing pricing option. Performance management was recognised as the DCSF contract management team's key expertise (mentioned previously). The team believed that the

audit system and performance evaluations were sufficient to control the supplier.

6.4.1.3 Contract duration

6.4.1.3.1 Decision point

‘Contract duration’ refers to the ‘agreed length of the contract’, of which options are ‘single term’, ‘rollover’ and ‘evergreen’. DCSF’s choice was the rollover option, which describes a fixed initial term and possible extension. It is the currently prevalent method in British government organisations’ procurement practice. One example of this description is revealed in the following clauses, found in the 2011 TPS tender notice (DCSF 2009).

II.3) DURATION OF THE CONTRACT OR TIME-LIMIT FOR COMPLETION:

Starting: 1.10.2011. Completion: 30.9.2018.

VI.1) THIS IS A RECURRENT PROCUREMENT:

Yes. Estimated timing for further notices to be published: The contract will be for 7 years extendable by up to 3 years. This would mean, if the contract runs its maximum course, including extension, the procurement will re-occur in 2019-20.

This was the same option included in two previous contracts for TPS outsourcing. As a result, the two seven-year contracts with Capita Hartshead were awarded in 1996 and 2003, respectively; finally, the second contract was extended by one year to September 2011 in 2008.

The decision to extend the contract duration from one to three years is normally determined by the client’s assessment of the incumbent supplier’s proposal for an

extension. This one-year extension was made through a contingent condition on the part of DCSF, which planned to move to another office building in March 2012 because the current office became superannuated. TP of Capita Hartshead is located on the same premises as DCSF, but DCSF had no space for TP in the new building. Therefore, DCSF formed a schedule that would address all parties' needs. If the next service provider, whether Capita Hartshead or a new company, began the contract in October 2011, this would make the location more stable. For example, if there was no extension, the new contractor would then move to another place shortly after the commencement of the contract; if there were a two- or three-year extension, Capita Hartshead would find a new office location for only one or two years. To protect DCSF's interest, frequent bidding is commonly expected to secure the best value for the client. Under this condition, one year seemed sufficient to earn the time needed to prepare for bidding and to attract competitors.

6.4.1.3.2 Underlying context

Based on the same analysis of the strengths and weaknesses of long-term contracts in the Korean case, DCSF's rollover option can be regarded as a combination of long-term contract stability and short-term contract competition philosophy, by allowing for a longer contract term based on the supplier's performance.

On this point, DCSF's choice can be understood as a strategy to mitigate the risks of both short-term and long-term contract duration. 'Risk management' and 'control and accountability' concerns are additional components with which to explore the context in which the contract duration decision was made. With respect to control and accountability, this option provides DCSF with the leverage to control Capita Hartshead.

DCSF maintains the right to determine the contract's extension beyond the routine performance assessment, based on the service provider's business improvement plan and KPI. Further specific grounds supporting detailed decisions (e.g., Why seven years, rather than five or ten years?) were not identified, reflecting that there were no antagonistic discussions about this issue. If—following Willcocks and Lacity's criterion above—a seven-year contract is the longest ('short-term') contract that is likely to be effective, it is ideal and enables the relevant parties to enjoy the benefits of long-term and short-term contracts.

6.4.2 Process of contract structuring: Engage phase

The engage phase of the lifecycle perspective is applied to the analyses of phenomena in this contract structuring process. This phase consists of two building blocks: 'select' and 'negotiate'. Key activities in this phase are planning and managing tender processes, establishing award criteria and evaluating bidders, and negotiating and selecting contractors. These are very technical and statutory processes, particularly in the case of public organisations. In the British government, the OGC created related guidelines to be followed by the government to maximise the benefits of its spending. OGC summarises this legal framework as follows (OGC 2009, p. 21):

Contracting authorities, through their accounting officers, are responsible for achieving value for money (VFM) in procurement, normally through competition. They must comply with legal obligations under EU rules and other international obligations, and follow OGC policies and standards on public procurement as set out in the Policy and Standards Framework.

Public procurement in the UK follows British regulations that implement EU public procurement directives. Two principal UK regulations in force are the *Public Contracts*

Regulations 2006 and *Utilities Contracts Regulations 2006*. The former provides rules for the procurement of supplies, works and services; the latter applies rules for the water, energy, transport and postal services sectors (TSO 2006a; 2006b; OGC 2006b; 2009). Although these regulations were enforced from January 2006 onwards, there are few differences in practice between the former and current regulations (OGC 2006c). Both TPS contracts of 1996 and 2003 were completed under the old regulations.

A basic process for complex project procurement like TPS outsourcing has three key stages: the ‘pre-procurement’, ‘tender process and contract award’ and ‘contract & supplier management’ stages. The tender process and contract award stage occurs during the engage phase and consists of five distinct tasks, from ‘preparation’, ‘pre-qualification & selection’, ‘competitive dialogue’, ‘final tenders’ to ‘contract award’ (OGC 2009).

DCSF followed these procedures regulating competitive bidding. The number of initial participants was seven for the 1996 contract, and three major bidders were selected in the pre-qualification stages. Finally, Capita Hartshead was awarded the contract through competitive dialogue. Capita’s outsourcing contract performance and prior Hartshead Solway’s expertise in pension’s business were evaluated as its main strengths.

Similar procedures were followed in 2003. A distinct characteristic then was DCSF’s effort to improve the written contract and to craft a detailed exit strategy based on its experience over the previous seven years. These factors are described in the statements below, made by a DCSF staff member:

So that the first contract was actually quite slim, the current contract is actually quite detailed. And one of the things for example, that we have

included in the contract this time was the bidders, I've forgotten what it's called now [It means Response to SOSR], but their methodology statement, how they were going to do things. Again because first time around that wasn't part of the contract and there were some issues around us saying, well, when you bid for this, you said you'd do these sorts of things and the answer was, well, that's not in the contract. So we learned quite a harsh lesson from that, so we made sure that this statement, the service requirements, the methodology statements, the response to the proposals are all now an integral part of the contract.

One of the biggest things I think we picked up in looking to deliver the second contract—which, I'm not saying it influenced the outcome of them— was exit strategies and transition to another provider.... I think the first contract was all about getting it up and started and perhaps the work that went into how do you get out of it at the end of it all, how do you move on was not as well prescribed.... But it became clearer as we started to think about the current contract that we've now got. And I think that's a lot better in terms of how the exit sort of strategies and the transitions to potentially a different provider might work the next time.

In processing bids for the 2011 contract, DCSF is following the same procedures and expects to invite three or four bidders to tender or to participate (DCSF 2009).

6.5 Organisation construction dimension

This section explains what (decision points), why (underlying context) and how (process) DCSF and Capita Hartshead tried to create or transform their organisations. This is the last dimension to be explored in this section and focuses on the organisation changes directly caused by outsourcing adoption, whereas the first PPS case emphasised organisational transformation facilitated by the innovation of an existing outsourcing arrangement. Beyond the client's change, phenomena in TP run by Capita Hartshead are more deeply investigated, as most service delivery organisations were transferred to Capita Hartshead to form TP. In other words, TP had belonged to DCSF before 1996.

At this point, TP's change has significant implications for potential organisational change by other clients that retain related functions and organisations.

Decision points in this dimension are composed of two components—'organisation arrangements' and 'processes and activities'. The former pertains to the formal organisational arrangement setting, such as organisation form and staffing; the latter describes a set of authority allocation and implementing procedures and activities for resource management. Finally, the process of organisation construction can be explained as activities that occur during the operate phase of the lifecycle perspective.

6.5.1 DCSF's organisation construction

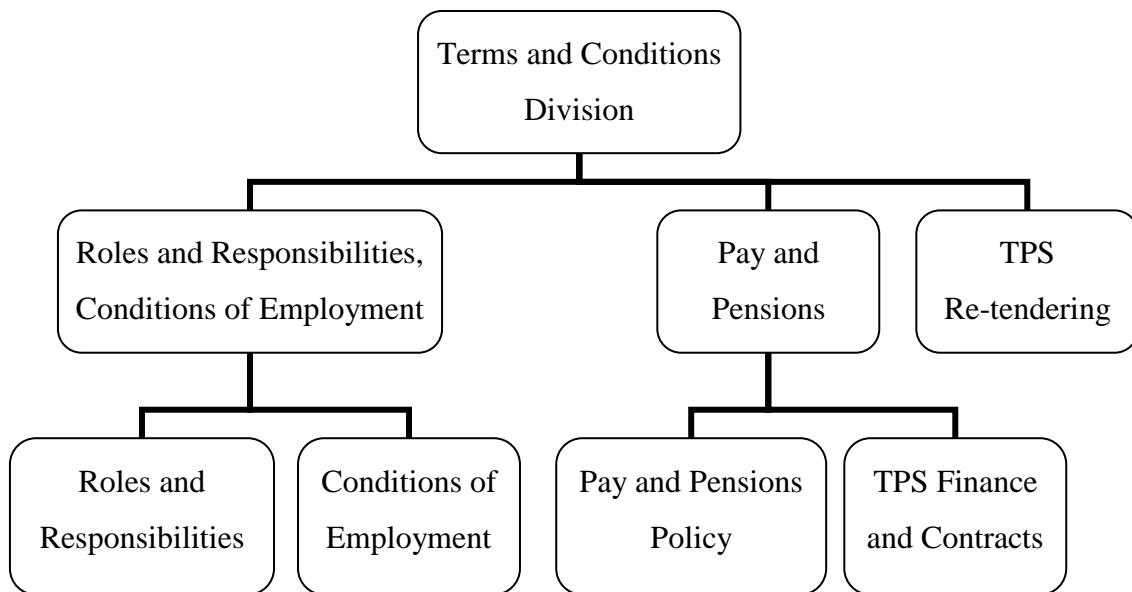
6.5.1.1 Organisation arrangements

In contrast with the PPS case investigated in the previous chapter, as demonstrated by the transformation of its existing bureaucracy, DCSF client organisation change is characterised as the removal of all delivery aspects of the organisation, while retaining only policy functions, and the creation of new functions for contract management and auditing. Since a new organisation format was settled in 1996, no significant changes have been reported. An old agency of about 500 staff members was reduced to an approximately ten-member, small policy unit; this number has since increased to about 20 individuals. Most of them are assigned to legal and policy issues, while only four have remained involved in contract management functions that deal with transferred TPS administration responsibilities. This skeleton has also been maintained since then.

Figure 6-1 shows the organisational format of DCSF involvement as of September 2009.

Under the Schools Directorate, the Terms and Conditions Division is responsible for TPS businesses. As it is now in the re-tendering process of the third-term contract, a TPS re-tendering team is temporarily present; at other times, this team is dismantled and does not exist. The TPS Finance and Contracts team is responsible for contract management functions, and all other teams deal with policy issues—except, of course, the TPS Re-tendering team. Except for some support staff, there are nine staff members in the Roles and Responsibilities/Conditions of Employment team; seven in the Pay and Pensions Policy team; four in the TPS Finance and Contracts team; and finally, four in the TPS Re-tendering team.

Figure 6-1 : DCSF TPS organisation format



* Source: DCSF organisation chart

Overall, the Roles and Responsibilities, Conditions of Employment team is a pure policy unit that is involved in scheme management—for example, determining scheme policy, such as pensioners’ qualifications and classification criteria, managing relationships with stakeholders, and legislating. Once a policy is established, the next

phase occurs in the Pay and Pensions Policy team, which handles fund management like scheme valuation, account estimation and planning. The TPS Finance and Contracts team (or ‘Contract Management team’) is directly involved with contract management issues, including performance measurement, monitoring and controlling the supplier, and official relationship management between DCSF and Capita Hartshead.

DCSF was confident of its staff members’ experience and skills. Many retained employees had enough broad expertise in pension businesses. However, with respect to IT and contract management, DCSF lacked the necessary resources; outsourcing was adopted to solve the IT expertise deficiency. In terms of newly required contract management, DCSF naturally learned from its previous contracting experience. These aspects were analysed during the regenerate phase (see Section 6.3.2.2)

A more serious and unique concern regarding organisation arrangements was knowledge retention in the outsourcing environment. It seemed that there was no concern about this initially, based on a belief in accumulated expertise. DCSF had developed the casework function to guide and validate everyday operations, as was investigated in the section on commercial relationship decisions. However, this early confidence reached its limit for two reasons. First, TP’s abilities expanded beyond those of DCSF. TP staffs were originally experienced officials of the former DCSF agency, and Capita Hartshead management capabilities were rapidly established. Thus, TP became better able to administer TPS effectively without DCSF involvement.

Secondly, and more importantly, DCSF recognised the risk of knowledge loss. With respect to staffing, DCSF’s expertise was entirely grounded in human resources. However, these experienced employees eventually retired or rotated to other areas.

Rotation system is the feature of public sector personnel management, so in-house knowledge became more superficial. One DCSF manager expressed his concern about this as follows:

But we're looking for much more cross-functional working so that we don't just have three or four pensions experts and everybody else does something else. So we've had to spread the knowledge wider across the unit... And that's quite an issue for us to make sure that we are able to do the job which we have done so well over the years because of the experience and background the people have. We will fail to do that when we don't have people with the same level of background knowledge.

It became difficult for the understaffed in-house personnel to sustain this type of management philosophy after outsourcing. The problem was not only with the number of staff members. Although young officials were continuously recruited, they did not possess the same professional experiences in TPS operation, as their predecessors could claim.

In terms of organisation format, the old spirit of DCSF involved combining knowledge of policy and administration projects, as explained by a DCSF manager:

We've always felt that it was very important that these sort of people work together in the sense that any changes in policy are reflected back into the contract. Or, of course, you know, what, what can emerge from the contract, that side sort of can play back into, can play back into policy. I mean it's a two-way thing.

This was the underpinning context of two separate teams: the Pay and Pensions Policy team, located between pure policy and contract management, and the contract management team; both were established under the same head of the Pay and Pensions team. However, as revealed in his statement, the tie between policy and administration became increasingly loose due to the staffing issues described above. Alternatively, the

contract management team became more interested in performance management and audit and relationship building in order to improve TPS services. Considering the feature of BPO that focuses more prominently on the final performance of the outsourced business, there was little room to develop client involvement in day-to-day operations. There was no significant change found in organisation arrangements over the fourteen years of contract terms.

The organisation construction-related context can be presented in terms of all IT governance concerns following the multidimensional IT outsourcing configuration framework. Among those, the key concerns underpinning organisation construction are performance management and control and accountability. The organisational design inevitably responded to other concerns as well regarding strategic alignment, the delivery of business value through IT, and risk management. For instance, DCSF had intended to participate in everyday operations in order to maintain its dominant position in the contract (strategic alignment view) and to lead Capita Hartshead with superior expertise (delivery of business value view). In addition, these actions could mitigate the risk of being captured by a supplier and prevent the service provider from deteriorating the TPS service (risk management view).

However, the other two concerns regarding contractor's performance evaluation had more significant implication for organisation construction. A specialised contract management team was established for both independent performance management and dedicated control functions.

6.5.1.2 Processes and activities

Except for policy functions, processes and activities observed in DCSF were no longer TPS administration-related because all of those were transferred to TP. DCSF management now concentrates on monitoring and communicating with TP or building relationships with stakeholders. All of these processes and activities were formally organised as diverse level meetings between DCSF and TP. This requirement was established as follows in SOSR of the 2003 contract (Capita 2003b, p. 98-99):

Convene and facilitate monthly, quarterly and annual liaison meetings with the DfES [now DCSF], and ad hoc meetings as required by DfES, including meetings where external parties are present. The Governance Model outlined in the Method Statements details our intentions for such meetings.

Capita will convene, host and facilitate Teachers' Pensions User Group quarterly meetings involving teacher and Employer representatives, DfES and the contractor.

In accordance with these terms and conditions, meetings displayed in Table 6-2 occur between DCSF and TP, all of which are formally and regularly held. Among these, RTI meetings are held between policy people. The responsibilities of the TP technical team are to provide technical information to members of staff, principally about regulations that govern the TPS or the rules governing the principal civil service scheme. This team mainly works with the policy teams of DCSF in order to assist clients and to provide feedback for clients' drafts of regulations. They of course explain the regulation changes and their impacts upon TP staff, and they instigate the relevant changes to operational works. This term, the RTI meeting does not operate for contract management, but contributes to policy-knowledge sharing and cross-checking between DCSF and TP.

Table 6-2: Meeting list between DCSF and TP

Meeting	Frequency	Participants (Chair)	Agenda
Keep-In-Touch (KIT) Meeting	Twice a month	DCSF contract management team, TP staff members (Senior staff of contract management team)	One for service improvement plan (most IT requests here) and the other for audit reports
Monthly Contract meeting	Monthly	DCSF contract management team and TP managers (Head of TP)	Performance evaluation
Quarterly Strategy Meeting	Quarterly	DCSF contract management team and TP managers, including Capita Hartshead Managing Director (Head of DCSF Pay and Pensions)	Strategic issues
TP Administration Forum	Twice a year (Darlington/London)	DCSF contract management team, TP managers and employers, and teachers' unions (Head of DCSF Pay and Pensions)	Information and feedback with stakeholders
Project Board	Occasionally	Ad-hoc (DCSF, TP and Capita Hartshead Sheffield)	e.g., Scheme modernisation in 2007
Regular Tree and Technical Issues (RTI) Meeting	Twice a month	DCSF policy team and TP technical team (in charge of pensions technique in terms of policy)	Technical issues guided by strategy in strategy meeting

* Source: Interview with DCSF and TP members

The above meetings are presented as unique formal channels to encourage communication and to build relationships between DCSF and TP, by both parties' staff. DCSF involvement in TPS administration seemed to occur only through these channels. However, informal aspects are also supported by both parties. Informal channels supplement the lack of exact understanding of prescription or requirements described in

the formal side of relationships, particularly in the early stages of a contract, when the terms are not yet well defined. Even now, these efforts toward open and explicit communication are recognised as a very important factor of outsourcing success.

Informal information channels can even be found in the highest levels of the organisation. For example, the director of the Terms and Conditions division meets the Head of TP to discuss strategy and relationship management on a quarterly basis; he also spends time with Capita's finance director once or twice a year to discuss overall contract management. On the other hand, a TP manager explained that many informal conversations took place during the process of policy change. Staff members of both parties exchange their opinions about any specific potential change before it appears as a formal agenda. The perception of the informal relationship supported by DCSF is described by a DCSF manager:

You know, you shouldn't be at either extreme. You should get it right and we do have the formal and we do have a contract and we do have KPIs and they're very formal. But we have a lot of informal stuff that goes on, that kind of makes, in lots of way makes sure that you don't have the rows at the formal meetings cause you've sorted thing you know, a lot of things out in the sort of background. [...] I suppose to keep that balance right. And it doesn't become too formal and we don't, we don't lose that strength of the, the informal support that goes on now.

Without exception, every respondent from DCSF and TP answered that they maintain a very strong relationship. Two novel characteristics of this relationship were presented as the co-location of the client and supplier, and the collegueship developed based on previous relationship established in DCSF. This aspect is highlighted in the following concern of a DCSF staff member, who questions the planned physical separation of

DCSF and TP.

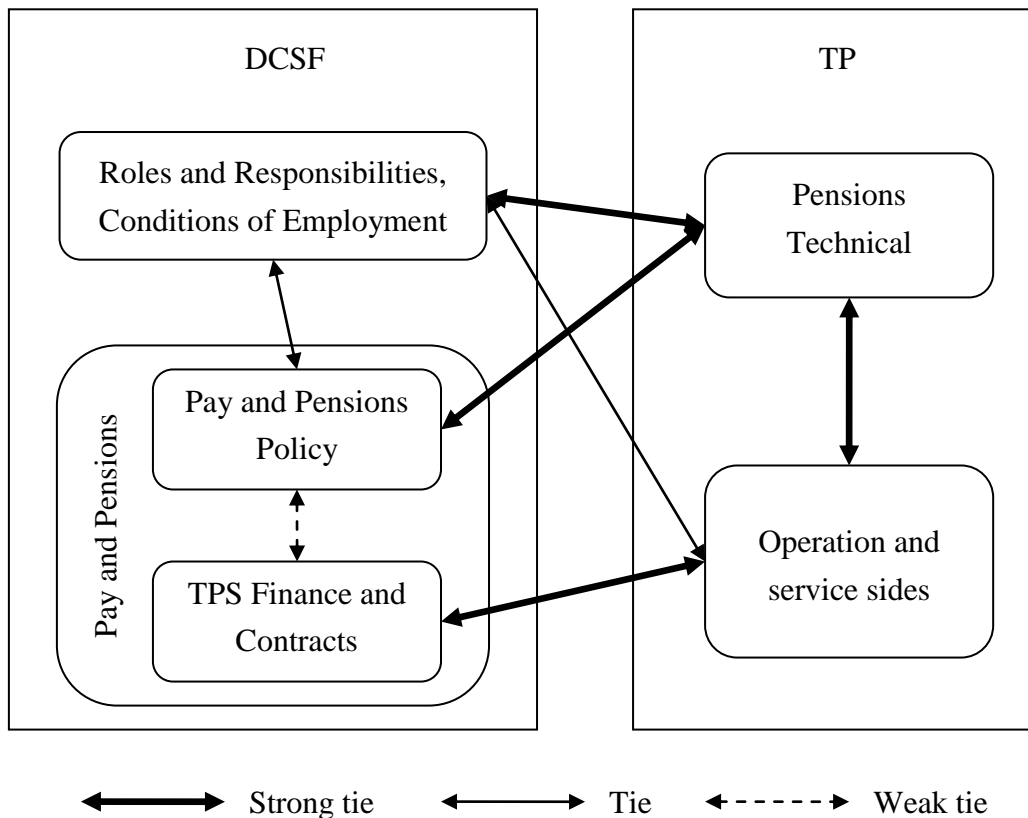
I suppose, is of course, one of the things we are doing because of mainly our own accommodation arrangements and the fact the department itself is leaving this building and going down to the town centre, is it won't, there won't be shared accommodation. And how that might impact on the informal. I don't think it'll have an impact on the formal side of how we manage, how we manage the relationship but it's something that needs to be um, how we continue to make sure that, that good informal sides and that can stretch a bit, too.

This governance structure focuses on the relationship between DCSF and TP—that is, between the client and supplier. DCSF's processes and activities surrounding TPS administration are connected with TP through the formal and informal channels introduced previously. Given this, what are the processes and activities of the DCSF policy team? The RTI meeting must be key for DCSF and TP policy people. However, no strong interface between the policy team and contract management team of DCSF is identified. As revealed in the above section, the combination of policy and operation was a long held tradition of DCSF, but it seems to occur more strongly between the DCSF policy and TP technical teams, rather than between the DCSF policy and contract management teams. A DCSF manager's serious statement, transcribed below, examines this observation well:

They [policy and contract management] can still have some kind of a relationship I guess but it becomes a bit distant and a bit, and a bit cut off.

In summary, a relationship map illustrating the processes and activities among DCSF and TP organisations is offered in Figure 6-2. The contract management team and TP are very strongly interrelated, evident from their monthly contract meetings.

Figure 6-2 : Relationship map of DCSF and TP organisations



Performance evaluation and all control and monitoring activities take place in this channel. Within TP, policy and operation units are also strongly linked, as discussed later in Section 6.5.2. On the other hand, there are strong ties between DCSF's policy teams and TP's technical team. DCSF policy teams obtain operation-related knowledge required for policy setting through TP's technical team or through direct communication with TP operation teams. The RTI meeting is an official channel for the exchange of such information. On the contrary, the contract management team is relatively isolated from DCSF policy units, although it is located more closely to them in the organisation chart. The contract management team is more specialised in processing contracts and in relationship management with TP, rather than the contents of TPS administration. This is because the contract team lacks the resources to support policy work. All information accumulated in the process of administering TPS was delivered by TP organisations. No

intermediary role of the contract management team was identified.

Finally, the underlying context can be reconsidered under the criteria of every IT governance concern, as done in the previous organisation arrangement section. For example, most resources held by the Terms and Conditions Division pertain to policy functions and processes that were selected as a core business of DCSF. This was the result of DCSF's strategic alignment concern. Thus, processes and activities design focus on performance management and control and accountability concerns. The governance structure of diverse meetings is aimed to assign and monitor tasks, evaluate performance and obtain information to maintain accountability of policy product.

6.5.2 TP's organisation construction

TP's organisation was understood as being transformed from the old public sector agency to a new, private company organisation. The basic mission of TPS administration was not altered. However, two environmental changes occurred, represented by private sector management and advanced IT. On the one hand, TP was wholly transferred to private sector management, though there are still some civil servant staff members under TUPE; on the other hand, Capita Hartshead has brought significant IT innovation into TPS administration during the past fourteen years.

It is not easy to discern the impact of each aspect on organisation construction. For example, do complex work processes operate more efficiently due to the adoption of IT or private sector management? In response to this question, some respondents argued that the innovation would have been achieved without outsourcing, if such IT investments were placed within the public agency. Neither positive nor negative

answers provided any solid evidence. Instead, the suggestions appear to have depended on the degree of trust/pride in the government bureaucracy's efficiency, which each respondent subjectively perceived. Therefore, it is unproductive to assume what would happen if the same IT investment were carried out in-house, or if only IT were outsourced, instead of BPO.

The underlying context of TP organisation construction decisions will not be independently explored. Those discussions are located outside of the scope of this study because the interest of the supplier or bidder is, by nature, entirely different from the client's interest.

6.5.2.1 Organisation arrangements

When investigating changes in organisation arrangements, the impact of IT on such changes must be considered. The following quotation from a TP manager, who was also a former DCSF staff member, encapsulates how technology can impose restrictions on the design of an organisation.

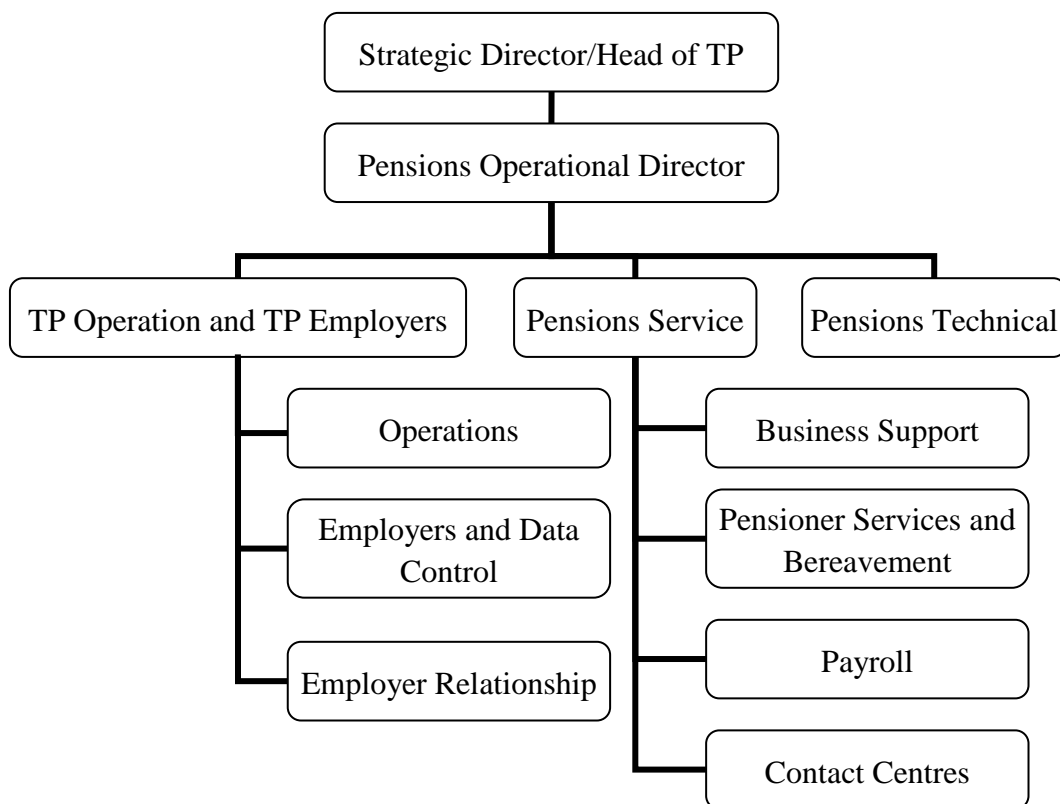
The IT systems to a significant extent drove the organisational structure as well which was the wrong way around. So for example, we had two separate systems, one which would do benefit calculations and another system which would do service records and contribution records and things like that. So because they were very separate systems which didn't talk to each other, you were forced into an organisational structure which actually was based on your access to these separate systems.

This describes the situation of the old agency disclosing how IT could affect its organisational structure. In addition, this influence is far more apparent in the design of work processes and activities, as will be discussed in the next section. Figure 6-3

displays the TP organisation format.

One key characteristic is that most organisations work across contracts. Except for the TP Operation and TP Employers team, which is responsible for only TPS operations, every organisation is in charge of other pensions outsourcing arrangements, although TP is dominant. In the strategy building step, many other arrangements are delivered from the TP Darlington site. These arrangements were derived from both the public sector and private companies' schemes. For example, the Payroll team under Pensions Service handles all payroll functions for schemes administered in TP. Regardless, the TP Operation and TP Employer and Pensions Service teams conduct operations, whereas the Pensions Technical team is responsible for policy-related missions.

Figure 6-3 : Capita Hartshead TP organisation format



* Source: TP organisation chart

IT experts in the Business Improvement (BI) team within Business Support deal with IT functions. Although the IT infrastructure of TP is managed by the IT department of Capita Hartshead in Sheffield, TP IT experts maintain TPS-specific functions, such as HartLink parameters and the TP Web site. There are six IT experts within a team of 15 members, all of whom were transferred from DCSF. IT functions currently operate entirely under the overall business improvement perspective, rather than technology. This BI team is strongly tied with the Capita Hartshead's IT department in Sheffield. For example, the head of BI concurrently holds the position of senior manager in the Sheffield IT department.

According to multiple interviewees, this organisation structure has been basically maintained without any significant changes since the creation of TP in 1996. However, the reduction of hierarchy is noteworthy. This was more the result of privatisation, not IT advancements. Government bureaucracy was streamlined; for example, at the highest level, there were a chief executive and four senior managers in the former agency. After the 1996 transfer to Capita Hartshead, one out of four senior member's positions disappeared, and all of these top managers were eliminated by 2000. The next descriptive statement made by a TP manager highlights this phenomenon.

The only, the only thing I suppose was, as far as we're concerned, it [structure] never changed. We're still doing the same job, the same sort of operations sections if you like. The only thing that did change was - a level of management disappeared. If you think in terms of the Civil Service, you had, we had what we called assistants, clerical assistants, who went and got the files and photocopied and everything. Then you had a clerical officer who did the actual calculations on the work. Then you had an executive officer that authorised that. Then you had a higher executive officer who oversaw all that. Then you had a senior executive officer, then right up to a principal who was in charge of the whole division. So there was all, and your teams were eight people. One executive officer to eight people. [...] So

what Capita did was look at the whole process and take away the executive officer level to start with and made those if you like, a core team who were knowledgeable people who we could feed on if we needed information. They kept these Assistant Operations Managers, got rid of the next level all together, because they never did anything but sit in little rooms and, I shouldn't say that but that's what happened. And then the director level if you like, became the Ops Manager [TP Operation and TP Employers] over the whole lot. So you only had one Ops Manager and so many Assistant Managers and as time's moved on, that's even shrunk.

In addition to this vertical point of view, there has also been a reduction of staff members holding the same job, as represented by the curtailment of total staff number from 479 in 1996 to 250 in 2003. IT was certainly a key factor in this trend, as indicated by a TP staff member:

When I started eight years ago, it was a team of roughly about 15 people and a target of about 20 days to do an application for something. Over four or five years, those targets halved and the team's halved in size as well so the efficiencies made by all the IT resource put in the developments is sort of changed the size of the company in a short space of time.

Consequently, the organisational arrangements have dramatically changed in terms of hierarchy and size, although the organisation's functions and overall structure seemed to remain static.

6.5.2.2 Processes and activities

Pension administration work before outsourcing was very complicated and paper-based, as described below:

There used to be nine miles of paper files down here. And we used to have to go down looking for files and on an afternoon if there was a file lost, a bell would ring and everybody had to stop and search for a file. That all went when Capita came in cause they brought the EDM process in and

scanned all the paper files on.

This is a very simple example of business innovation enabled by IT. Unlike the case of organisational arrangements, there is no evidence of innovation based on private sector management; that is, all process innovation can be explained by IT. However, this IT investment and change management were completed by an external supplier, Capita Hartshead. Again, it is out of the scope of this study to separate these two aspects enabling innovation under this environment.

The general workflow of TPS administration must now be introduced. When any task occurs, the Business Support team scans or inputs it into the Caselink system. Then, the system creates a Casetype that is loaded onto HartLink. Then, this appears in an SLA report the next day, which indicates the tasks to be completed and their deadlines. The tasks are also assigned to the appropriate teams. All following actions are conducted and finalised within the Casetype in the HartLink account of the responsible official. The official can refer to other staff members who have handled similar cases before. Every activity is linked with relevant tasks, including performance reports, and streamlined as a flow within an integrated system. However, IT-related work is separated from this workflow. For example, even a contact centre cannot answer any problems regarding the TP Web site; the contact centre can only reset user passwords. Otherwise, enquirers must log their queries through the Web site's email link.

With respect to the relationship between two parties, most staff members are not involved in this. Communication with the client is wholly assigned to managers through official meetings or informal conversations. No working-level staff members responded that they were regularly involved with the client. One exception is the case of staff loans from TP to DCSF. Due to the understaffed client organisation, TP dispatches staff

members to the client, as required. One example of this rarity was the 2007 scheme modernisation project. A Pensions Technical team member joined DCSF to assist them for six months.

On the other hand, examples of remarkable IT innovation cases do include (Capita Hartshead 2009): TP Web site, including secure access to statements and secure data transmission; EDM replacing files with imaging and workflow; HartLink adoption to replace the previous legacy system; contact centre with associated IT; and improved scheme communication, including text messaging and email.

Procedures involving IT, from the initial request to realisation, can be generalised as follows. TP runs a system—Request Link—that is a work control system for change requests. Staff members must specify what they want to develop on this system. If the request is finally approved as valid, those would be progressed. The final approval authority belongs to three senior managers—that is, the heads of TP Operation and TP Employers, Pensions Service, and Pensions Operations Director. Approved requests are sent to IT staff, who then quantify how much time is needed to complete the project. After the change development, users of such functions test the change until it passes evaluation; then, the operation side's managers approve the change and make it live. To coordinate these processes, the three senior managers above and the head of the BI team hold weekly service improvement meetings to share progress and to prioritise tasks.

Regarding the management of IS, common applications are maintained by the Capita Hartshead IT department in Sheffield. For example, HartLink is a very flexible IT platform for the use of diverse pensions business. TP's IT experts developed and maintained TP-specific functions under the instructions of or collaboration with

Sheffield experts. However, it is very rare to modify existing software in terms of basic operation functions, such as calculation, payroll and the like. Otherwise, Capita Hartshead could not admit this kind of fixed price contract concerning the high risk of cost. There is no charged scheme for additional application development; even the large scheme modernisation project of 2007 did not cost DCSF extra funds or resources. Pension administration work is not so dynamic that it must be changed frequently. Nonetheless, TP was recently asked and is currently attempting to expand the use of online transactions, like members' diverse applications. TP is following procedures in accordance with the e-government trend to facilitate Web-based transactions for public service consumers.

6.5.3 Process of organisation construction: Operate phase

Organisation construction occurs during the operate phase of the lifecycle perspective. This phase consists of two building blocks: 'transition' and 'manage'. There was an explicit transition period for the first contract. Capita Hartshead was awarded the contract in January 1996, and the contract commenced in October of the same year. Between those months, DCSF had to prepare to transfer the agency and to rebuild in-house organisation, while Capita Hartshead set up TP. The biggest issue relevant then was the soft landing of labour transfer. From DCSF's perspective, they had to decide who would remain, how to secure continuous employment, how to manage the transferred staff members who decided to retain civil servants' rights after transfer, and so on. Nonetheless, no serious concerns were identified during that phase because most staff members could not prevent their transfer, and formal legal frameworks had already been established, such as TUPE.

Compared with DCSF, Capita Hartshead had to carry out a wider range of tasks, such as legacy system analyses and organisation consulting. For example, Capita consultants who were change managers at its headquarters—instead of pension’s experts—found that the development of an in-house payroll system could reduce expenses. They also recognised the possibility of enhancing labour efficiency through the introduction of private sector management.

Unexpectedly, no radical changes were perceived by most participants at the initial stage. All of these participants were ex-colleagues who had worked with one another for a long period of time. Moreover, they worked in the same office even after the transfer. Most respondents described very little change. The sole exception was upper-middle managers in TP, who were transferred from DCSF to Capita Hartshead. They felt more pressure under the private company’s management. One respondent described this atmosphere as a ‘more disciplined environment’. Ten consultants came from Capita, and instead of usurping responsibility, they acted as facilitators of change. True alterations across the entire staff in TP occurred with IT innovation and the accompanying radical staff reductions. EDM that was applied to operation works in 1998 was popularly mentioned as the strongest tool that changed work processes. Most stakeholders support the view that there was no critical confusion during the transition and early management periods, despite certain trial-and-error practices. One example of these was the attempt to implement a new organisation structure. Capita Hartshead once removed some mid-managers and imposed a collaborative organisational style under the title of a self-managed team. However, this change did not last because it was disorganised—for example, there were no precise job descriptions.

During the ‘manage’ building block, there was a serious loss of service quality in the

first stage, as indicated by the following statement of a DCSF manager:

One of the things that we faced fairly early on in the first contract was a very significant decline in service standards, which was unexpected and actually very unwelcome from our point of view. One of the lessons that we learnt I think is that Capita were very good in the transition phase between award of contract and starting of the contract going live and there were lots of really good first rate people who were about making sure that everything was geared up towards them taking over. But once actually the contract went live, they just disappeared into the mists and there was a sense of abandonment I think to a degree. There was also quite a push to build on the Capita base here in terms of the pensions administration work that they undertook. And I think Capita would argue that there was a raiding of good quality experience teachers' pension staff to fill other contracts and we suffered very badly as a result of that. So I think one of the lessons we learnt from that is actually to pin things down much more precisely and to be much clearer about what we were expecting from the delivery in terms of service standards and the limitations on to the extent to which we would allow those to drop.

Clearly, there was a temporal problem in terms of service quality, perhaps caused by the drastic staff reduction that occurred within a short time span. Seventy employees (approximately 15% of the total staff) were redeployed to other sections within six months after the contract commenced. Staff reduction without sufficient IT-enabled business innovation might aggravate this problem. To address the issue, DCSF summoned the higher managers of Capita group in order to provoke their continuous interest in TP; this move was considered to be a very strong solution by senior managers of DCSF.

6.6 Conclusion

DCSF pursued the innovation of TPS administration through a BPO arrangement with a

leading British supplier, Capita. Although the motive for this action was the British government's nationwide privatisation policy, this TPS administration outsourcing was pushed forward through the evaluation of the department's long-term business strategy and as the result of market analyses. About 98% of total staff members around the business were transferred to a private company, and remaining employees were assigned to policy teams; others became responsible for new contract management functions. Overall, this BPO was evaluated as successful in achieving cost reduction and service improvement, and also the local area development proposed by DCSF. The enablers of this achievement were determined to be IT innovation and (private sector) management brought by Capita Hartshead.

These phenomena, from the viewpoint of the client, were analysed in depth by this thesis's multidimensional IT outsourcing configuration framework, as summarised in Table 6-3. Implicit in the purpose of this framework, a comprehensive analysis was attempted, although some limits to applying the framework to BPO were discussed. The TPS outsourcing case could be understood in a combined perspective among strategy, contract structure and organisation construction dimensions. Nine decision points were determined through the mutual interrelationships and contextual backgrounds of each dimension. A principal decision was identified as scope grouping, and this affected the entirety of TPS administration. For example, large relative financial scale, total ownership, and sole supplier/prime contractor options were explained to be very consistent with this comprehensive BPO decision. Other decisions were also explored, involving a combination of certain choices and their underlying contexts. The primary context underpinning the service scope decision was the government-wide privatisation policy and DCSF's pursuit of a small, policy-centred department. These above observations fitted well into the lifecycle perspective of outsourcing management

adopted.

With respect to organisational change in the client, this case is characterised by a radical removal of all delivery aspects of service from DCSF, caused by the ‘total’ outsourcing of the business process. A governance model of this contract management was investigated as creating communication channels, together with informal channels, between the client and supplier; performance management and control were maintained through KPI evaluations and the audit system. Unexpectedly, a serious culture shock—caused by the large staff transfer—was not observed for two reasons. First, the work environment was not significantly altered. Former employees of DCSF were still working together in the same building, although their affiliations had changed to a private company. Second, Capita was cautious when adopting the new management system. The company regarded itself as a supporter and change manager, instead of a supervisor. Although transferred upper-middle managers recognised the potential for heavy workloads, most other staff members did not share their concerns. Most interviewees supported the standpoint that change management of Capita was good enough during the transition period.

A novel finding was the isolation of the contract management function from in-house policy teams. The DCSF case presents a good example of the decision-making processes represented by a role-based horizontal organisation, instead of a hierarchical contractual relationship. Mutual dependence on knowledge and information was found to be significant between the policy-related functions of DCSF and TP, rather than between policy and contract management teams within DCSF. In addition, there have been few apparent changes to the client organisation since the late 1990s. However, significant changes have occurred in the background. The contract management team’s

intended involvement in day-to-day operations was transformed to performance management and to strengthening the audit system, due to the lack of human resources in terms of number and expertise. These observations should be understood as consequences of DCSF's overall BPO strategy.

In addition to the client's organisational change, TP organisation was also explored, and it revealed possible transformations caused by outsourcing. Organisational change amongst transferred activities could be explained by two aspects—private organisation management adoption and IT innovation. The impact of the former involved the elimination of hierarchy in organisation arrangements; and that of the latter resulted in the transformation of processes and activities. Although these two aspects were related, TP staff members stated that effective innovation and transformation occurred after the unified adoption of IT. The management of IS seemed less complex than that observed in the Korean case. First, the basic functions of pension administration do not change frequently; furthermore, the supplier's system seemed to be a very flexible platform upon which to support diverse options of pensions business. Also, the client was not interested in IS because the client did not recognise IS as an independent object to control or monitor; therefore, no interference was likely to occur, as far as the supplier's business performance was satisfactory.

Finally, and similar to the Korean case, institutionalised behaviour and perception was also relevant to this case. Many staff members worried about the loss of expertise required for policy-making. They suggested that these could be obtained only through involvement in day-to-day operations. Interestingly, this was a concern only of senior managers, who held extensive experience in TPS business, from operation to policy, before outsourcing. Whether they now belong to DCSF or TP, these senior managers

mentioned the importance of fundamental knowledge obtained through the everyday operations that they performed earlier in their careers in the organisation.

While this may be true, it also reflects the view of structuration theory, which is that social systems are the reproduction of human behaviour within an institutionalised context; this provides the background theory to the thesis at hand. Although structural and bureaucratic arrangements have been transformed in some depth, human perceptions and behaviours that are contextually accumulated did not alter easily. Furthermore, DCSF reserves the right to buy every resource from Capita Hartshead, including the second TUPE, as an exit strategy. Many competitors also exist in the market. Under these circumstances, the risk of being seized by an external supplier can be reduced. Their major concerns were not about service quality or cost, but were more related with the identity and authority as an independent organisation in charge of TPS business. Younger staff members, however, were not concerned with this. It is self-explanatory in that they have different contextual backgrounds compared with those of their seniors.

Table 6-3: Framework-based TPS outsourcing summary, in terms of client

Dimension	What?			Why?	How?
	Decision point	Options	Description	Context	Process
Strategy	Scope grouping	Entire service scope	Outsourcing of all resources and processes	<ul style="list-style-type: none"> ♦ Focusing on core businesses and the nature of deal, based on BPO adoption ♦ Risk mitigation thanks to purchasability of service ♦ Service characteristic in terms of recipient and geographic coverage cf. Strategic alignment, delivery of business value through IT, risk management, and control and accountability	Architect <ul style="list-style-type: none"> ♦ Applying the government policy of privatisation ♦ Market-testing and selection of service scope and resources to be outsourced ♦ Persuading stakeholders Regenerate <ul style="list-style-type: none"> ♦ Reflecting and consolidating contract and relationship
		All business units	Use of outsourcing service without exception		
		All geographies	Nationwide service from Darlington site		
	Financial scale	Large relative	Outsourcing of all IT and most related costs	<ul style="list-style-type: none"> ♦ Result of taking entire service scope option cf. Same concerns with above scope grouping	
Large absolute		£8.86 million per annum			
Resource ownership	Total ownership	Supplier's assets, facilities and labour	<ul style="list-style-type: none"> ♦ No appropriate prior in-house resources ♦ Nature of deal based on BPO adoption cf. Control and accountability concern		
Commercial relationship	Arms-length	Distinct accountabilities between exclusive two parties	<ul style="list-style-type: none"> ♦ Exclusive accountability ♦ Selection and concentration under limited in-house resource cf. Control and accountability, and performance management concerns		

Dimension	What?			Why?	How?
	Decision point	Options	Description	Context	Process
Contract structure	Supplier grouping	Sole supplier or Prime contractor	Allowance of sole supplier or prime contractor entry to bid (Resulting in sole supplier)	<ul style="list-style-type: none"> ♦ Single point of accountability ♦ Nature of deal based on BPO adoption ♦ Risk mitigation thanks to purchasability of service cf. Control and accountability, and risk management concerns	Engage <ul style="list-style-type: none"> ♦ Collecting opinions from market ♦ Applying government procurement procedures
	Pricing framework	Lump-sum fixed price	Labour cost based fixed price	<ul style="list-style-type: none"> ♦ Simple and low management cost ♦ Risk transfer by all inclusive pricing policy cf. Control and accountability, and risk management concerns	
	Contract duration	Rollover	7-year and extendable by up to 3 years	<ul style="list-style-type: none"> ♦ Government regulation ♦ Flexibility sustaining both stability and motivation cf. Control and accountability, and risk management concerns	
Organisation construction	Organisation arrangements	Policy and contract management	Focusing on policy unit and creation of a small contract management team	<ul style="list-style-type: none"> ♦ Aiming at small policy-centred organisation ♦ Self-confidence in knowledge of business and experience of performance management cf. All IT governance concerns	Operate <ul style="list-style-type: none"> ♦ Securing staff transfer NB. IT innovation and private sector management adoption in transferred area
	Processes and activities	Regular meetings and informal relationship	Establishing diverse formal meetings and separating policy and contract management functions	<ul style="list-style-type: none"> ♦ Constructing effective control and cooperative work with understaffed resource ♦ Balance between formal and informal communication cf. All IT governance concerns	

CHAPTER SEVEN

SYNTHESIS AND COMPARISON OF CASE STUDIES

7.1 Introduction

This chapter presents a synthesis, and a comparison across the two case studies. To avoid confusion, it is worth stating in advance that the analysed phenomena and derived implications cannot be generalised in any simplistic manner. This thesis embodies interpretive case research focusing on an in-depth understanding of social processes, human behaviours, and change within specific contexts. Therefore, only two empirical cases were chosen and these have been intensively explored. These cases were not selected as representative of global outsourcing practices or even public sector outsourcing practices, but rather each case was selected as a case in itself in order to explore the distinctive context, content and processes related to the relevant outsourcing decisions and their enactment over time.

More specifically, the results of PPS's case study cannot be extended to all Korean government bodies or the whole IT outsourcing industry in Korea, let alone that of East Asian countries. Assuming that the fundamental distinction between the PPS and DCSF cases is the perceived significance of internal management against outsourced functions, certain Korean government organisations may, and some indeed do, still transfer their IT functions to third parties with less involvement than does DCSF. On the other hand, some British government organisations may be, and are, involved in day-to-day

operations more strongly than PPS. In practice one contribution of this research is to demonstrate what Cullen, Seddon and Willcocks (2005) found which was both a remarkable diversity in configuration in both IT outsourcing and BPO cases, but also no obvious pattern in the levels of success achieved by any one set of configuration choices. Their argument *that* because outsourcing arrangements can be so different, it is a mistake to treat them all as instances of the same phenomenon, is definitely confirmed by the present thesis findings.

This aspect is not found in the general outsourcing literature, and also deepens the more generic finding by an international comparative study on e-government—involving the UK, the US, Canada, Australia, New Zealand, the Netherlands and Japan—conducted by Dunleavy et al. (2006). According to them, the Netherlands' government organisations generally show much more interest in internal IT capabilities compared with the UK. The US government also shows a strong involvement tradition compared to other Western countries except for the Netherlands. In contrast, the Japanese government has the tendency to transfer more resources and responsibilities to private companies compared with the UK.

The demonstration of each case's representative nature and the possibility of generalisation based on this comparative case study are not within the scope of this research. Instead, the comparative analyses in this chapter provide a more convincing understanding of each case in terms of its original and specific context and its social process beyond the individual description presented in previous chapters.

As presented in Chapter Four, Pettigrew (1997) suggests that a longitudinal case study is the best research method for contextual research; its structure was established using a

set of four components including context, content, process and outcome. This proposition was embedded within the reinvented analytical framework of this thesis as the multidimensional IT outsourcing configuration framework illustrated in Figure 4-1 in the conceptual framework chapter. The descriptions and analyses of the two case studies have followed this framework throughout Chapters Five and Six. Table 5-6 and Table 6-3 summarise the result and the process of using this framework. Based on the outcome components of three dimensions (strategy, contract structure, and organisation construction), the questions ‘why’, ‘how’, and ‘what’ are coherently explored within this framework.

The benefits of this approach are well expressed by Pettigrew (1997, p. 342) as follows:

Building an outcome into a process research design has a number of advantages. Firstly, the outcome both simplifies and complicates the study by providing a focal point, an anchor for the whole investigation. Secondly and crucially, there is the possibility to explore how and why variations in context and process shape variability in the observed outcomes across the comparative investigation. How policy outcomes are shaped by the process and the context is after all one of the central distinguishing questions that can be posed in process research. In many social science fields, and certainly in equilibrium models in Economics, the interest is only in the result of the process, not the process itself. Process research is capable of generating sound knowledge not only of processes and outcomes but also of why and how outcomes are differentially shaped by processes.

This chapter synthesises and compares two case studies according to the criteria of this framework in order to maintain consistency and gain the benefits Pettigrew suggests. Observable similarity and dissimilarity are analysed in the section on content and outcome analysis, which is followed by the section on context and process analyses. Finally, a section of discussion and implications will present the holistic understanding of these syntheses and comparisons.

7.2 Outcome and content analysis

This section compares decisions made by PPS and DCSF. In-depth analyses of context and process will follow in the next two sections. The purpose of this section is to clarify the similarities and differences of the decisions made by these two organisations within identical components of the framework. In the case of PPS, what will be compared are the existing decisions resulting from the transformation in 2005. These changes will be analysed and compared in terms of context and process at a later point.

7.2.1 Strategic dimension

Strategy has been dealt with as the first outcome in comprehending the four decision points. It involves a set of decisions outlining the consequences of outsourcing in terms of scope grouping, financial scale, resource ownership, and commercial relationship management. The comparison between PPS's and DCSF's decisions in this dimension is summarised in Table 7-1. PPS and DCSF took the same options at most decision points except resource ownership, where PPS chose onsite ownership and DCSF chose total ownership. However, the specific elements of these largely similar decisions are, upon investigation, quite different.

In terms of their commercial relationship, both organisations selected the arms-length option. There is no relationship, such as shared equity, between PPS and SDS or DCSF and Capita Hartshead. One party in each contract is a government organisation and the other is a private company. On the one hand, there was no alternate consideration observed in DCSF's case. DCSF conducted contract management based on a performance control perspective. Capita Hartshead periodically reports its performance

to its client, DCSF, and DCSF evaluates it. Although both parties set up diverse channels for the purpose of communication, these channels are not meant for participation in day-to-day operations, but for the review of a performance report or the sharing of information.

Table 7-1: Comparison of strategic dimension between PPS and DCSF

Decision point	Selected options		Comparison (P: PPS after transformation; D: DCSF)
	PPS	DCSF	
Commercial relationship	Co-sourced → Arms-length	Arms-length	P: Exclusive relationship in terms of process control D: Exclusive relationship in terms of performance control
Scope grouping	Entire service scope	Entire service scope	P: Outsourcing of entire IT functions D: Outsourcing of entire business process
	All business units	All business units	No difference
	All geographies	All geographies	No difference
Financial scale	Large relative	Large relative	P: 60-70% of total IT budget for IT service outsourcing, IS development outsourcing, and system operation D: 100% of budget for business process operation
	Large absolute	Large absolute	P: £2.3m IT service outsourcing (2007) D: £8.9m TPS administration outsourcing (2007-08)
Resource ownership	Labour buy-in → Onsite	Total ownership	P: Supplier-owned labour and supplier-controlled asset D: Supplier-owned labour, asset, and facility

On the other hand, PPS's arms-length relationship is exercised during everyday

operations. PPS's in-house employees work as process managers who are in charge of the final approval of each process. These authorisation processes are structurally embedded in the integrated e-GP service management workflow. This can be conceptualised as an exclusive relationship in terms of process control, though there are also performance control activities such as periodical service level evaluations. The philosophy of performance management had been declared, but the emphasis on a service level itself was not significant.

Within the scope grouping, no difference was found in the recipient and geographic scope components. These decisions followed the business and technological environment. In this term, standardised and integrated service character supports these decisions. Outsourcing service was delivered to all business staff, and it was not required to come from regionally separate sites. On the other hand, there was also a qualitative difference within the same service scope option, similar to that of the arms-length commercial relationship. DCSF transferred all resources to Capita Hartshead and outsourced the entire TPS administration process to the company, whereas PPS delegated the IT functions for its e-GP services mainly to SDS and two other private companies.

Third, both organisations' decisions regarding financial scale resulted in large relative and large absolute options. As explained in previous chapters, financial scales were regarded as being dependent upon the decisions of scope grouping in both cases. There was no evidence of original and independent effects on this component caused by financial conditions. PPS consumed 60-70% of the total IT budget for IT service outsourcing, IS development outsourcing and system maintenance fees from 2004 to 2007. In the case of DCSF, due to the characteristics of BPO, all related budgetary

elements could be investigated for use with the contract; no budget was appropriated for IT within a TPS account.

The final content of the strategic outcome is resource ownership, which shows different options only within this dimension. Onsite and total ownership options were chosen by PPS and DCSF, respectively. DCSF's TPS was administered by Capita Hartshead's assets, labours and facilities. Prior DCSF-owned employees and legacy systems were transferred to Capita Hartshead from the beginning of the outsourcing in 1996. On the other hand, only labour was provided by SDS in PPS's case. All assets and facilities are owned by PPS. However, as mentioned in Chapter Five, SDS has maintained control of assets (hardware and software) since the transformation 2005.

To sum up the presented differences, every option chosen by the two organisations was the same except for resource ownership. However, qualitative differences within the same option were also found in the arms-length commercial relationship, entire service scope and large relative financial scale decisions. Some of these differences can be explained by the characteristics of IT outsourcing and BPO. As discussed in Chapter Six, the entire service scope and the large relative financial scale were only possible in BPO. The total ownership option was presented as almost unique to BPO as well. However, a more important determinant of these differences seems to be the perception of IT or related business processes as a core business of each organisation. This will be explored in detail later in the section of discussion and implications.

7.2.2 Contract structure dimension

The contract structure dimension consists of three decision points: supplier grouping,

pricing framework and contract duration. Contract structure as an outcome in this context means a set of diverse decisions and relationships that constitute a contract document and authorised practice. The comparison of contract structure between PPS and DCSF is summarised in Table 7-2. As confirmed by this Table, PPS and DCSF chose different options at all three decision points.

Table 7-2: Comparison of contract structure dimension between PPS and DCSF

Decision point	Selected options		Comparison (P: PPS after transformation; D: DCSF)
	PPS	DCSF	
Supplier grouping	Sole supplier or Prime contractor → Best-of-Breed	Sole supplier or Prime contractor	P: Separating IT functions and selecting different suppliers D: Sole accountability
Pricing framework	Lump-sum fixed price → Hybrid of lump-sum fixed and cost-based pricing	Lump-sum fixed price	P: Combined pricing based on the function points analysis D: Labour cost-based fixed price
Contract duration	Single term (1-yr → 3-yr)	Rollover	P: 3-year contract D: 7-year and extendable by up to 3 years

The first point is supplier grouping. DCSF maintained the sole supplier or prime contractor option during three consecutive contracts, from 1996 to the existing bid announcement for the third term contract. There was always a sole supplier, Capita Hartshead, but DCSF also allowed the participation of a prime contractor. On the other hand, PPS's choice was best-of-breed in the transformation of 2005. Before then, PPS's choice was the same as DCSF's sole accountability option (sole supplier or prime contractor). Although there was a contract for system maintenance/operation with another company, if the scope of this discussion were limited to IT service outsourcing, it could be evaluated as sole accountability option. In 2005, PPS divided its IT service

outsourcing into external and internal and applied the best-of-breed option there.

The next component is the pricing framework. DCSF's choice was a lump-sum fixed price based on labour costs, whereas PPS transformed prior lump-sum fixed price into a hybrid structure consisting of both lump-sum fixed and cost-based pricing. The latter was applied to flexible contingent application development outsourcing; and the former remained in the conventional KONEPS service operation outsourcing side. As discussed in Chapter Five, the basis for cost assessment was also changed to the FP counting method. This change was introduced as an innovation of cost assessment from input (labour) to output (target system scale).

The last aspect of this dimension is contract duration, which was also not equal between the two organisations. DCSF's contract term was set up as a seven-year rollover extendable by up to three years. PPS maintained the single term option, but the contract term was extended from one to three years in 2005. PPS's extension of contract term was the result of consideration of the contract stability enhancement which was not required to DCSF. In any case, the options were selected based on each government's procurement regulation.

As previously shown, every decision in this dimension differed between PPS and DCSF. PPS's case in particular illustrates the aspect of mutual relationship from decision to decision. For example, the newly separated service scope grouping worked as a fundamental background for the transformation of supplier grouping and the pricing framework.

7.2.3 Organisation construction dimension

The third output was conceptualised as an organisation construction, which means the design and execution of in-house resources in terms of organisation arrangements, and processes and activities. A comparison summary of this dimension is provided in Table 7-3.

Table 7-3: Comparison of organisation construction dimension between PPS and DCSF

Decision point	Selected options		Comparison (P: PPS after transformation; D: DCSF)
	PPS	DCSF	
Organisation arrangements	Hierarchical bureaucracy → Horizontal bureaucracy	Policy and contract management	P: Re-deployment of internal experts responding to horizontal ITIL processes D: Focusing on policy unit and creation of a small contract management team
Processes and activities	Hierarchical bureaucracy → ITIL process-based ITSM	Performance evaluation, regular meetings and informal relationship	P: Recomposing a process-based workflow supported by ITSM system D: Establishing formal communication channels

In terms of organisational arrangements that are represented by the organisation's form and staffing, DCSF followed a conventional path. As a BPO arrangement, DCSF transferred all operation staff and organisation to Capita Hartshead. The remaining internal organisation was minimised to become small and policy-focused. To manage the outsourcing deal, a contract management team was created with a small number of staff. On the other hand, strong IT divisions remained within PPS. In spite of a complicated and repetitive transformation and restoration, the fundamental rationale of the innovation was the deployment of the organisation's form and staff to a process-based horizontal structure, replacing the prior business domain-based hierarchical

bureaucracy. A contract management function and a service level evaluation function were established within an existing IT division in 2005. However, these were less important for PPS than for DCSF.

The other component is processes and activities. DCSF and Capita Hartshead set up diverse level regular meetings as formal communication channels to do contract management work. These were found to be the key mechanism to control and monitor Capita Hartshead's operation work. DCSF began to accept the performance management-centred control, though they initially considered stronger involvement in everyday operations. In contrast, PPS became more directly involved in outsourced operations. They operated as process managers and tried to control the service management process under the condition that technology-related works would be exclusively transferred to SDS. The key practice enabling this process-based management style was ITIL, which describes a set of the best practices of IT service management. Performance management is separately conducted by the review and assessment of SDS's performance report. A number of official meetings (fewer than DCSF) operate as well between PPS's IT division in charge of contract management, SDS and business divisions.

7.3 Context analysis

The purpose of this section is to compare the underlying context of different decisions made by PPS and DCSF. This once again employs the analytical framework used in Chapters Five and Six. More specifically, identical IT governance concerns function as criteria of the comparison and will be more descriptive than those in the content and outcome comparison in the previous section. Based on this comparison, synthetic

interpretation will be attempted in the discussion and implication section.

7.3.1 Strategy dimension

According to the results of individual empirical investigations, nearly identical IT governance concerns can explain why specific decisions of PPS and DCSF were made. The only distinction is the application of a strategic alignment concern applied to the commercial relationship decision only within PPS. This mapping relationship is displayed in Table 7-4. Indicated abbreviations in each attribute represent involved decision points responding to specific IT governance concerns and applied organisations.

DCSF's case confirms a more conventional view of IT outsourcing determinants. In contrast to the PPS, DCSF's context is linked with the outsourcing determinant discussion in that most of concerns form backgrounds from when DCSF adopted outsourcing in 1996. On the other hand, PPS's context describes why it transformed prior pseudo-IT outsourcing into an IT outsourcing contract. By interpreting Table 7-4, we can conclude that DCSF selected outsourcing because TPS is a non-core business (strategic alignment); it is required to access advanced private IS (delivery of business value through IT) and needs to avoid the risk of large IT investment (risk management). As a result, DCSF had to devise a control mechanism (control and accountability) and the performance evaluation emerged as a solution (performance management).

Table 7-4: Comparison of the context of strategy decisions between PPS and DCSF

IT governance concern	Comparison	
	PPS rationale	DCSF rationale
Strategic alignment	(CR/SC/FS) Developing in-house capabilities under the perception of e-GP as core business	(SC/FS) Developing in-house capabilities under the perception of TPS administration as non-core business
Delivery of business value through IT	(SC/FS) Regarding e-GP management as authoritative business rather than supportive IT	(SC/FS) Employing advanced private sector IT for TPS service improvement
Performance management	(CR) Increasing the importance of performance control in search of distinctive accountabilities	(CR) Increasing the importance of performance control under exclusive accountabilities
Risk management	(SC/FS) Avoiding the loss of knowledge	(SC/FS) Avoiding large IT investment risk
Control and accountability	(CR/RO/SG/FS) Concerning control mechanism under new exclusive accountability	(CR/RO/SG/FS) Concerning control mechanism in terms of contract management

* CR: Commercial relationship; SG: Scope grouping; FS: Financial scale; RO: Resource ownership

On the other hand, PPS's case addresses a slightly inconsistent context. First of all, PPS recognised e-GP management as one of its core functions (strategic alignment). Accordingly, it was concerned about the loss of knowledge (risk management) in determining e-GP management to be a business that should be delivered by its own in-house capabilities (delivery of business value through IT). In spite of these conditions, the lack of in-house resources—representing the characteristics of public sector organisations—forced PPS to adopt outsourcing. Under these circumstances, PPS's initial choice was buy-in contracts that mean external resources under internal

management. However, this approach revealed many limitations in gaining the expected benefits, as presented in Chapter Five. After all, PPS's IT outsourcing innovation was symbolised by performance management and ITIL-based IT service management process control. It was the result of a new control mechanism (control and accountability) and an emphasis on performance evaluation (performance management).

Under these circumstances, what is the key difference between the two organisations' concerns? It must be whether or not IT was regarded as their core business. PPS might follow a similar path to DCSF if it perceived e-GP management to be a non-core business. This aspect is also unveiled by the fact that strategic alignment was not applied to explain the context of the commercial relationship decision in DCSF. As displayed in Figure 4-2 in Chapter Four, the initial framework included the strategic alignment within the related IT governance concerns of commercial relationship. (Note that this framework was devised as a result of the literature review and this thesis's pilot research conducted on PPS.) However, DCSF, who categorised the TPS administration as a non-core function, did not have to concern about other options in commercial relationship. On the contrary, PPS needed to concern the strategic alignment in order to separate the roles and responsibilities of internal and external staff for the purpose of developing original in-house capabilities against the problems in its previous disorganised co-sourced relationship.

7.3.2 Contract structure dimension

Within the contract structure dimension, performance management, risk management and control and accountability concerns were investigated to explain the contexts of the two organisations' related decisions. This performance management concern was

related to the PPS case only. Table 7-5 summarises them.

Table 7-5: Comparison of the context of contract structure decisions of PPS and DCSF

IT governance concern	Comparison	
	PPS rationale	DCSF rationale
Performance management	(PF/CD) Considering pricing and contract duration as tools for suppliers' motivation	-
Risk management	(SU/PF/CD) <ul style="list-style-type: none"> · Taking the risk of complexity caused by switching supplier and complicated pricing · Avoiding the risk of instability caused by 1-yr contract 	(SU/PF/CD) <ul style="list-style-type: none"> · Avoiding the risk of complexity by adopting sole accountability and lump-sum fixed pricing · Avoiding the risk of long/short-term contract by adopting mid-term contract duration
Control and accountability	(SU/PF) <ul style="list-style-type: none"> · Maintaining consistency between control authority and its responsibility · Using pricing as a control tool 	(SU/CD) <ul style="list-style-type: none"> · Little concern about over-dependency on specific supplier owing to the high replaceability of service · Control by the evaluation of extension

* SU: Supplier grouping; PF: Pricing framework; CD: Contract duration

First, performance management contributes to the explanation of pricing framework and contract duration decisions in PPS. PPS assumed that cost-based pricing and a long-term contract would motivate suppliers. These two transformations were declared as key innovation practices after acrid disputes occurred at PPS. However, such concerns were not observed at DCSF. A multi-year contract had already been established as a common contracting method in the UK government; therefore, DCSF seemed not to have concerns about it. Similarly, the pricing method was not used for the purpose of

motivation; it was recognised as more important in terms of risk management, as will soon be discussed.

From the viewpoint of risk management, DCSF preferred to mitigate risk by reducing complexity. It chose the sole accountability option in supplier grouping and lump-sum fixed pricing. Regarding the latter, DCSF was able to transfer all financial risk by making Capita Hartshead absorb any additional cost related to service provision. In contrast, PPS decided to take the risk of complexity by using multiple providers—including switching a vendor in the internal buy-in contract—and complicated cost-based pricing. In terms of contract duration, PPS tried to mitigate the risk of instability by adopting a three-year contract, replacing its previous single-year contract term.

Finally, regarding control and accountability concerns, PPS chose to maintain consistency between control authority and its responsibility in 2005. The prior discrepancy between authority and responsibility was perceived to be the cause of PPS's disorganised relationship management. For example, PPS divided its previously integrated scope into an internal service buy-in contract and an external IT service outsourcing contract and gave more responsibility regarding internal service operation works to its in-house experts. In this way, the autonomy of SDS in external service was enhanced. In addition, PPS also used a new pricing method based on costs as a control mechanism. Compared to this, DCSF was not concerned about over-dependency on a single supplier thanks to the replaceability of pensions administration service outsourcing. The rollover contract duration option was also a control tool based on the evaluation of a supplier regarding the decision of contract extension.

In conclusion, PPS showed a tendency to take the risk of a complex contract structure,

whereas DCSF tried to avoid it. It is the finding of this thesis that this tendency was necessarily linked with the decisions made in strategy dimension. The underlying background of PPS's risk-taking was the development of in-house capability and knowledge retention in outsourced services that were regarded as PPS's core businesses. Furthermore, PPS recognised that complexity management itself should be its new IT competency. The adoptions of a complicated pricing method or of multiple providers sourcing are examples of this. In addition, the differences between the two organisations and their related contexts were disclosed by the analysis of IT governance concerns applied to each decision point. For example, PPS transformed its pricing framework and contract duration options based on performance management concerns, since performance management emerged as a new capability required for outsourcing contract management. However, it was not new to DCSF. Consequently, no related concern was found in DCSF.

7.3.3 Organisation construction dimension

Every IT governance concern was understood to involve most decisions also in the organisation construction dimension. What this means is that all decision points and IT governance concerns were found to operate in a comprehensive manner. For example, the strategic alignment concern determined PPS's rationale of process-based management to be a core capability, and this rationale gave direction to all decisions regarding organisational arrangements and processes and activities. Under these circumstances, the comparison focuses on the description of differences and their contexts. In DCSF's case, only the client's side (since TP is understood to be the supplier's side) is within the scope of the discussion. Table 7-6 summarises the context comparison in this dimension.

Table 7-6: Comparison of the context of organisation construction decisions between PPS and DCSF

IT governance concern	Comparison	
	PPS rationale	DCSF rationale
Strategic alignment	(OA/PA) Process-based organisation construction under the perception of process control as a strategic capability	(OA/PA) Policy-centred organisation construction under the perception of TPS policy as a strategic business
Delivery of business value through IT	(OA/PA) Developing IT outsourcing management as a new business of PPS's IT function	(OA/PA) Concentrating on TPS policy business by use of outsourced administration service
Performance management	(OA/PA) Setting up performance management function and organisation	(OA/PA) Focusing on performance management in contract management organisation
Risk management	(OA/PA) Avoiding the loss of knowledge	(OA/PA) Less risk perception based on the replaceable character of pensions administration outsourcing service
Control and accountability	(OA/PA) Process-based control and accountability exercised through ITIL process allocation	(OA/PA) Performance-based control and accountability exercised through diverse communication channels

* OA: Organisation arrangements; PA: Processes and activities

The fundamental distinction between the two organisations is their differing perceptions of core capability in contract management. On the one hand, PPS sought deeper involvement in operation processes, though the core capabilities were designed based on the exclusive accountability principle. On the other hand, DCSF regarded its core capability as a performance management capability to avoid shared processes with Capita Hartshead. Based on these separate principles, PPS implemented process-based

organisation forms, processes and activities, while DCSF pursued a policy-centred organisation, focusing its contract management on performance evaluation.

Risk management can also be viewed from another angle. PPS was concerned about the loss of knowledge, so it tried to find solutions. Its initial approach was a direct involvement as the managers in charge of the supplier's workforce control, as was observed before 2004. Since 2005, PPS has struggled to find a different solution based on new IT outsourcing management skills such as process control and performance management. The rationale for this was a change in core capabilities from the old input/direct/technology-based control to the new performance/ITIL process/IT service-based control. In contrast, regardless of its similar concerns about loss of knowledge, DCSF continues to increase its ability for performance evaluation and sophisticated contract structure, as represented by its feasible exit plan.

7.4 Analysis by process

The analytical framework used in both case studies employs the lifecycle perspective on sourcing process developed by Cullen, Seddon, and Willcocks (2006) to contribute to the phasic understanding of phenomena. The phases consist of architect, engage, operate and regenerate.

Most differences in the outsourcing processes are related to contents or context components that have been presented above. For example, an intensive consideration of the development of new outsourcing arrangements to replace the previous buy-in contract was observed in PPS during the architect and regenerate phases, but this was a matter of content rather than something peculiar to the process-related features. The

nature of activities conducted by each organisation seemed to be not very different. Both organisations invested in following the general processes of nine building blocks—investigate, target, strategise, design, select, negotiate, transition, manage, and refresh—within four phases. In spite of this, a comparison can be made based on the different context of each organisation. The following comparison results can be interpreted as answers to the ‘how’ question implied by this process component.

First, PPS’s IT outsourcing was entirely driven by its IT divisions, whereas business units played the main role in DCSF. The reasons for this seem simple. PPS initiated its outsourcing innovation due to the identity crisis of its in-house IT experts. In contrast, DCSF’s IT division did not appear in the process investigation. The fundamental background of this difference might be, again, the different perceptions of IT as a core business.

Second, there was a great deal of evidence that PPS emphasised its public relations to justify its outsourcing innovation during the architect phase. In addition, it obtained an ISO/IEC 20000 specification for the same purpose. Public relations were required because there was no precedent for the transformation in many respects. However, it did not happen in DCSF, which paid attention to the public relations regarding improved services and has been benchmarked by many other organisations to learn the factors of its success. However, DCSF seems not to be as proactive as PPS. In terms of outsourcing and organisational change, DCSF did not have any incentives because the TPS outsourcing was a typical BPO deal encouraged by government policy.

Third, during the engagement phase, both organisations processed procurement work in accordance with relevant regulations. This is a common practice of public organisations.

However, the level of competitiveness was quite different between the two. The pensions administration outsourcing industry is a relatively competitive market; therefore, DCSF showed much more interest in attracting bidding participants and setting up a feasible exit plan describing the incumbent contractor's responsibility to support the next contractor in taking over the service in case of a change in supplier. In contrast, e-GP service's outsourcing is not a very competitive market. Consequently, PPS emphasised internal management design to control suppliers and monitor performance.

Finally, within the transition period, complexity took a different shape. The deterioration of TPS's service quality was reported in DCSF during the initial transition stage in 1996. A radical reduction in the number of employees was a possible cause. In addition, due to the characteristics of the large-scale BPO deal, there were considerable efforts made in terms of personnel management because most of the staff was transferred to Capita Hartshead. This was serious because it was a transfer from the public sector to the private sector. Such phenomena were not observed in PPS; the mainstream service provider and its constituents were maintained during the transition period. The transformed structure focuses on re-building the relationship between client and supplier. Consequently, it took in-house IT experts awhile to adapt themselves to their new roles and responsibilities. As discussed in Chapter Five, this was successful in some points and not in others.

7.5 Discussion and implications

7.5.1 Outsourcing environment

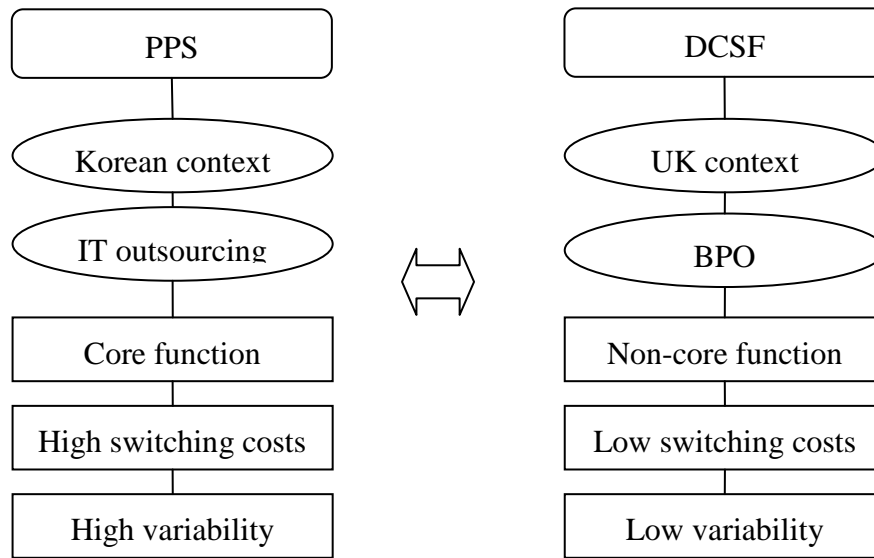
The result of a comparison between PPS and DCSF describes many points of similarity and dissimilarity in terms of managerial decisions and social processes. Based on these findings, this comparison provides many implications for related studies and practices on outsourcing. These will be presented in a holistic manner across all decision points and IT governance concerns, rather than as in the previous sectionalised analyses; theoretical perspectives will be employed to understand and interpret findings.

Overall, the two cases of PPS and DCSF are quite different. PPS implemented IT outsourcing by focusing on building in-house capability as a core competency; accordingly, it retained relatively strong in-house IT expertise accompanying bureaucratic organisational change. Meanwhile, DCSF adopted a typical BPO strategy, transferring all resources to a third party and concentrating on performance management through the newly established function of contract management. The most significant difference between the two cases is derived from their opposite decisions regarding the core/non-core distinction. This was a common contextual characteristic penetrating all other decisions, human perceptions, social processes and resulting phenomena. This was originally explored as a component within the strategy dimension; but, this thesis found that it was, in fact, the starting point of all subsequent decisions about contract structure and organisation construction. As another important point, even in the cases of apparently the same decisions, structural elements inside those and underlying social contexts were investigated as being totally different in many cases.

However, many similarities exist as well. For instance, many of the decisions made by PPS and DCSF were the same. Yet, it is noteworthy that similar social contexts were extensively observed. The examples are the common concerns about in-house knowledge dilution, suppliers' opportunistic behaviours, accurate performance evaluation, and so on.

Following these overall understandings, this comparative study reveals some standards to interpret findings and explore implications. These standards originate from the differences in terms of business and the technological outsourcing environments. Two transcendental distinctions were assumed: 'IT outsourcing vs. BPO' and 'Korea vs. UK'. These two are expected to primarily distinguish the characteristics of the PPS and DCSF cases. Additionally, from the collected findings and associated analyses, three further criteria were derived as follows: 'core vs. non-core perception of outsourced functions', 'high vs. low supplier switching costs' and 'high vs. low variability in terms of business and applied IT'. These criteria were invented, in that these were identified, from the literature and the case research experience, as common elements leading to holistic understanding through comparison. For instance, the recognition of e-GP as core business forced PPS to devise a complex scope grouping and the application of various management skills; whereas, the opposite stance of DCSF led to different results, including 'total' outsourcing. In addition, DCSF's relatively low supplier switching costs, caused by the existence of alternative competitors, allowed DCSF to be less concerned about being captured by a single supplier, while PPS did think much of that possibility. Finally, frequent application change requests in PPS underlay the context of pricing framework and scope grouping decisions transformation. By comparison, such dynamic aspects are relatively innocuous in DCSF. The PPS and DCSF cases can be categorised as illustrated in Figure 7-1.

Figure 7-1: Distinction between PPS and DCSF outsourcing environments



7.5.2 Discussion and implications

The first explicit standard to consider in the contribution or implication of this thesis is the regional difference in the two cases. Both are central government organisations, but we can assume that some differences may be explained by their countries. To state the conclusion first, this thesis found that this regional distinction had some, but limited, explanatory power.

The UK is one of the strongest NPM governments, the characteristics of which are described as downsizing and private sector involvement (Dunleavy et al. 2006; Flynn 2007; Walsh 1995). In particular, Dunleavy et al. (2006) found many overall similarities between NPM governments—the UK, Australia, and New Zealand—in their seven-country comparative study. Apparently, phenomena observed in DCSF can be explained by the NPM tradition in the UK government. For example, it chose radical privatisation,

represented by total BPO; this was encouraged by the government-wide reform programme. By contrast, PPS decided to use relatively limited IT outsourcing, retaining significant in-house functions even within those areas. However, the Korean government also declared small and efficient government as its aim, and e-government initiatives were one of the measures to achieve it. That idea formed the context of why many government organisations were not allowed to increase their numbers of employees in spite of the radically increased workload of e-government systems management.

Consequently, this thesis is unable to find significant differences explained by cultural differences between the two countries. This is consistent with Dunleavy et al.'s finding that there was little impact caused by the cultural differences in IT outsourcing practices presented in Chapter Two. As revealed by in-depth interviews with incumbent and prior DCSF staff, many of the UK government officials showed similar concerns or even hostility toward the outsourcing, which was also observed in the Korean PPS's public servants. There was some contrary evidence that even PPS took the path toward a total BPO approach in the desktop and LAN management outsourcing where these activities were regarded as a non-core business. It is more appropriate to explain the observed differences by other criteria, such as core/non-core perception. For example, this thesis suggests, within the empirical studies of this thesis, that TPS administration was outsourced as a BPO not because DCSF belongs to the UK government, but because TPS was selected as a non-core business.

Another transcendental distinction criterion is the nature of deals. TPS administration outsourcing is a BPO deal, whereas PPS's e-GP outsourcing is an IT outsourcing contract. This is followed by numerous related differences that were explored by our

micro-level analyses. For instance, the following options selected by DCSF were investigated as unavoidable choices of BPO: an arms-length commercial relationship, the entire service scope grouping, large relative financial scale, total resource ownership and a sole supplier/prime contractor supplier grouping. These may be conceptualised as general distinctions of BPO from IT outsourcing. However, except for total resource ownership and the sole supplier/prime contractor supplier grouping, most decisions were the same as those of PPS. In addition, PPS could choose those options if it desired to do so. However, are the specific practices which resulted from the same decisions also identical between the two organisations? The answer is 'No'.

As in the previous discussion, the characteristic contexts of each organisation explain more phenomena than the nominal taxonomy of BPO and IT outsourcing can do. For instance, if PPS was unconcerned about the service operation capability, it must have chosen the sole supplier/prime contractor option that was the previous option before 2005, because the separation of internal/external application outsourcing must not have been required. On the other hand, within the same entire service scope option, the two practices are quite different. PPS designed deeper involvement in day-to-day operations across the entire service scope, whereas DCSF solely emphasised a performance management concern. These examples demonstrate well that the differences can be understood better by the contextual and specific distinctions of the two cases, rather than different universal rationales of BPO and IT outsourcing.

According to the findings of the empirical study and literature review, this thesis identifies the need for more conceptual studies regarding BPO. It is very obvious that generically BPO amounts to an outsourcing deal containing strong IT components. However, with the varying expansion of IT-related outsourcing practices, the

distinctions amongst IT buy-in, IT outsourcing and BPO increasingly seem to be becoming muddled in the emerging outsourcing research literature. This thesis categorised the two researched deals as follows. PPS's IT outsourcing before 2005 was through buy-in arrangements, because there was no SLA, and there was a tightly knit relationship between the two parties' individual staff members, though many activities were significantly outsourced. PPS's IT outsourcing after 2005 can be referred to as IT outsourcing, because there existed an SLA, and efforts to build a structure for exclusive accountabilities though strong in-house involvement were observed. DCSF's TPS administration is a BPO deal, in that there are SLA and strong exclusive accountability accompanying a large-scale labour transfer to host entire business processes beyond IT. However, in spite of the importance and the accomplishment of IT to TPS service quality, involved IT components and related activities were not critically highlighted.

The above discussion reveals that actual outsourcing practices do not mechanically fit related concepts in the literature. For this reason, this thesis concludes that more conceptually informed empirical studies are required, particularly, in the newly developed concept of BPO. Nonetheless, several intellectual frameworks derived from previous IT outsourcing researches were found to be applicable to the empirical analyses of the BPO case. An implication of this thesis is that little knowledge may be gained if outsourcing research only focuses on the generalised features of BPO and IT outsourcing at the macro-level. Contextualised, in-depth, interpretive research can discover hidden attributes, processes and management practices behind the terms 'IT outsourcing' or 'BPO'.

Beyond the two transcendental criteria discussed above, three standards were derived from the results of this thesis's empirical study. The first and most important one is the

perception of outsourced functions as core/non-core businesses. As previously discussed in Chapter Two, Hancox and Hackney (2000) found that the core/non-core classification has little importance as outsourcing determinants against the conventional propositions of outsourcing research. The authors suggest that it is common to both the public and private sectors.

One of conventional views of IT outsourcing determinants is that organisations outsource non-core functions in order to concentrate on more strategic core functions. That rationale seems to apply more straightforwardly to DCSF, because it outsourced TPS administration based on just such a decision. However, it was not clear that it was the critical determinant of outsourcing adoption, in that outsourcing was decided by pan-governmental policy in DCSF. DCSF just selected the TPS administration as its non-core business in responding to this government policy. On the other hand, PPS persistently recognised e-GP services as its core business. PPS had no choice but to adopt outsourcing, mostly because the increase of in-house experts needed to operate new systems was not allowed due to a pan-government policy.

The recognition of a function's core/non-core character exercised more significant effects on subordinate, specific decisions regarding strategy, contract structure and organisational design. For instance, categorising e-GP management as its core business, PPS pursued a complex mechanism to develop its own capabilities within outsourced functions; whereas DCSF has focused more on the performance evaluation. Similarly, regarding the requirements of cost reduction and service improvements as outsourcing determinants—which is one of criteria of the public- and private sector outsourcing comparison presented by Hancox and Hackney (2000)—no evidence was observed across both cases that outsourcing was initially introduced to achieve those, though the

agenda was emphasised by both organisations. In concluding, outsourcing determinants did not seem to primarily reside in core competency evaluation, cost reduction, or service improvement requirements in either case. Both cases adopted outsourcing primarily in accordance with government policy, as Hancox and Hackney (2000) also found.

However, contrary to Hancox and Hackney's (2000) proposition, IT is perceived as a strategic resource by PPS; this is a critical difference compared against DCSF. Many other decisions were different between the two organisations following on from this distinction. This aspect will be revisited at the end of this section.

The other two criteria derived from the empirical findings of this thesis are vendor switching costs and the business/technological variability of outsourced functions. PPS accepted the high vendor switching costs of e-GP service outsourcing, in that it is a peculiar service only to PPS and no similar services are offered in private industry, as explained in Chapter Five. Under this circumstance, PPS showed little interest in motivating or threatening SDS through the use of potential competitors. Accordingly, PPS came to emphasise deeper involvement in everyday e-GP service operation in order to control SDS. Of course, another rationale of this decision was to retain and develop capability in this area because it is regarded as its core business (see below). In any case, if there were other private solutions to advance e-GP, PPS might not insist on its own system. In this case, PPS could abandon its e-GP system, as DCSF did.

In contrast, DCSF did not try to develop its own pensions administration IS because it can purchase it from a related market. This may affect its perception of IT as a non-core function. Following this perception and the market environment, DCSF can choose to

concentrate on performance evaluation in terms of contract management. Its strategy must be: 'If there is any problem, we can switch vendors'. Consequently, DCSF showed greater interest in performance management and in exit plan to prepare for such an occasion.

As revealed in this discussion, the switching costs can be a universal environment factor impacting outsourcing practices and phenomena. All IT concerns must be differentiated according to whether the employed IT can be easily switched or not. If yes, the involved IT must be regarded as less strategically important (strategic alignment); more alternatives can be accessed for service improvement (delivery of business value through IT); only performance can matter (performance management); risk may be reduced (risk management); and stronger negotiation power can be retained (control and accountability). In this respect, switching costs seems to be a universal component which gives shape to every outsourcing deal.

On the other hand, the business and technological variability of functions is another critical distinction point. There was a sharp comparison observed in the two cases. The DCSF environment was investigated as relatively static, particularly in terms of IT change. In contrast, PPS's environment was very dynamic, due to both business requirements (such as changes in regulation) and technological requirements (such as new service development and existing function enhancement). About 150 IT system change requests have been completed on a monthly basis in PPS, as reported in Chapter Five.

This distinction can explain many differences found in our empirical investigations. For example, lump-sum fixed pricing can be accepted by DCSF and Capita Hartshead, thanks to this feature. In the case of PPS, ongoing disputes about the scope of the

contract in terms of frequent modifications caused PPS to consider the introduction of cost-based pricing. The background of the commercial relationship change from co-sourced to arms-length can be explored via this characteristic. IS change is technology-based work by nature. In this respect, the role of external IT experts needs to be respected—in particular, concerning the complexity of an integrated computing and business environment. Nevertheless, PPS's in-house IT experts hesitated to transfer those roles to SDS. It was a result of a dispute about what core capability is, as presented in Chapter Five. Consequently, the co-sourced commercial relationship did not operate well prior to 2004, and exclusive accountability became to be emphasised after 2005. In the case of DCSF, the separation of policy and administrative works were more obvious. There were no in-house IT experts left; furthermore, there were no frequent requests for IT. Under this circumstance, possible intervention of the two parties can be minimised. As discussed above, variability forms an important business and technology environment in outsourcing.

Returning to the discussion of core/non-core perception, this thesis suggests that core/non-core classification matters very significantly. However, it is not important as an outsourcing determinant as viewed by conventional research, but, rather, critical as a factor to give shape to a client organisation's outsourcing strategy, contract structure and organisational construction. The analysis of this requires a comprehensive viewpoint encompassing all of the above discussion. It is the reason why this needs to be finally discussed, and presented as the conclusion of this thesis.

First, the core/non-core classification strongly depends on an organisation's business competitiveness. However, the above two environmental features were also linked with the evaluation. On the one hand, if the outsourced function can be easily purchased from

outside, such functions would not tend to be core businesses. On the other hand, if the functions were in a very static environment, less attention would be paid to those. This aspect can be directly inferred from the opposite environments of PPS and DCSF.

Second, a client organisation which regards outsourced functions as core businesses does not abandon the opportunity to learn business and technological expertise within outsourced functions; this effort may require complex contract structure and organisation construction. In the case of PPS, it would like to willingly take the risk of a more complex management scheme regarding pricing, supplier grouping and processes. As appeared in the disputes over buy-in and outsourcing in PPS, much confusion might need to be tackled to arrive at internal management and outsourcing accountabilities. Compared with this, DCSF, which categorised TPS administration as a non-core business, was able to design those relatively simply, concentrating on performance evaluation.

Third, the importance of internal management—represented by organisational arrangements, and processes and activities in this thesis—would be maximised if a client organisation considered relative functions as core businesses. In Chapter Two, the reason client organisational change has been ignored was presumed to be the misunderstanding that outsourcing means the cutting off of all responsibilities, resources and decisions within outsourced functions. The DCSF case may show this aspect. It did so and strengthened the policy and contract management functions as its core businesses. However, PPS did not do this. It restructured IT divisions, redeployed internal staff, redesigned management processes, reallocated relevant authorities and re-educated employees to adopt new management skills, based on an IT service management philosophy that replaces the previous information systems operation and

maintenance perspective. As presented above, it may cause confusion and conflict regarding the traditional missions of employees in practice or the conventional conceptualisation of IT outsourcing in academia. Nonetheless, PPS's case provides an implication for required in-house capabilities, IT outsourcing contract constitution, organisational design and outsourcing relationship management.

To understand it more precisely, this aspect need to be interpreted by the use of the theoretical perspective employed in this research, entitled as a structuration theory-informed formal organisation perspective. Phenomena observed in both organisations describe the change of bureaucratic social orders presented as a constituting component of bureaucracy as institution by Kallinikos (2006). Organisation arrangements and outsourcing contracts can be conceptualised as structure, and involved outsourcing management practices can be regarded as instantiation or emergence of technology within this thesis's subject. All of these form the social system of each organisation. Regarding human behaviours, in spite of structural change and reinforced rules, institutionalised behaviours did not seem to change easily. The PPS organisation restoration plainly showed that aspect. We can see the coexistence of old and new regimes to constitute social systems. In the case of PPS, the changes to human practices were isolated from certain solid structures that were separately changing or restoring. These seem to follow another path of institutionalisation.

Similar phenomena were observed in DCSF. There were many changes, such as the adoption of BPO and the introduction of advanced IS. However, operators remained, though they were transferred from the public sector to the private sector. Structural change did not correspond with human behaviour. When they were first transferred, most did not feel the impact of the change. It took time for all, and it can be interpreted

as time for institutionalisation. In any case, traditional bureaucratic virtues, such as centralisation, standardisation, formalisation and specialisation, were still operating over entire processes and in the outcomes of seeming changes.

In conclusion, a contextual/processual, structuration theory-informed approach to studying two outsourcing cases over time has been grounded through combining and utilising configuration and lifecycle frameworks derived from the outsourcing research literature. The resulting analytical framework and approach permitted micro-level analyses of IT outsourcing and BPO cases over relatively long time periods. The disaggregation made possible by these analytical moves revealed the distinctive features of the two outsourcing arrangements and the underlying distinctive logics in each case.

The thesis's research approach and findings offer a starting point for developing further a contingency theory of management of outsourcing built around the proposition that most major problems in outsourcing are due to agency issues between the client (principal) and supplier (agent) and that different types of outsourcing arrangements lead to different types of agency problems that require different types of management. The configuration model we have applied here emerges as an instructive way of disaggregating structural attributes to provide insight for management as to the rationale, risks and issues inherent in each of the different choices available, and what management must do to make a configuration work. In fact, while there will inevitably be demand for prescriptions as to the 'best ways' of configuring outsourcing arrangements, the present study suggests there are no easy answers. The mix of intent, the context for which the deal is being configured, and how well the deal is actually resourced and managed, invariably combine in unique ways, making each total configuration specific to its circumstances.

CHAPTER EIGHT CONCLUSION

8.1 Thesis overview and key findings

This thesis describes the author's PhD research on outsourcing and clients' bureaucratic organisation changes. Two cases from Korea and the UK government organisations are involved; the results are presented as longitudinal case studies with some comparisons made. The nature of this research is explorative and empirical. As revealed by the research questions in Chapter Three, this thesis primarily seeks for the answers to 'why' and 'how' questions such as: why bureaucratic client organisations are concerned about IT outsourcing or BPO; in consequence, how they construct or change their strategy, organisational arrangements and outsourcing contracts; and, what are the contexts and social processes that let those constructions go forward. To achieve these, intensive empirical investigations are conducted by use of a cautiously invented analytical framework.

The research interest was initially motivated by the author's own concerns during his professional experience as an IT manager. Research questions are focused on clients' organisational change and related social processes brought about by outsourcing. This was constructed grounded on the research interest and the results of the IT and BPO outsourcing literature review. The SIM surveys of IT executives' management concerns confirm the wide significance of IT outsourcing in contemporary organisations, as discussed in Chapter One.

In terms of framing this research, Figure 3-1 in Chapter Three displays a methodological approach given as a hierarchy of critical realism (ontology), interpretivism (epistemology), structuration theory-informed formal organisation perspective (theoretical perspective), processual analysis-informed multidimensional IT outsourcing configuration framework (analytical framework), longitudinal comparative case study (research strategy), and diverse research methods. The linkages from one to one are demonstrated where appropriate—that is, overall consistency from ontology to research methods is, we suggest, maintained.

The use of literature or theories is more focused on the development of relevant intellectual frameworks than on dealing with in-depth disputes regarding the original concepts. For example, Giddens's structuration theory is a very complex social theory embracing a long history of critique. However, this thesis employs exclusively his voluntarist-inclined conceptualisation of human beings' institutionalised behaviours, instantiated structure and mutual interactions. As explained in Chapters Two and Four, structuration theory is used as a meta-theory, identified as a type of its various usages in Table 2-4, to reinforce the formal organisation perspective which remains the primary theoretical perspective of this thesis.

These restrictive applications of philosophical perspectives and literature are set up and justified in the light of the research's purpose and scope. On the one hand, as interpretive research, this thesis does not aim to build or test theories; on the other hand, those perspectives and theories are selected, examined and exercised for the purpose of empirical study. All of these are instruments used to construct research questions; to frame and guide the research; and to analyse and interpret data and findings. This usage

is designed in Chapter Three as methodology; demonstrated in Chapter Four as conceptual frameworks, and utilised in following investigation chapters. The employed philosophy and literature and their engaged key concepts are summarised in Table 8-1.

Table 8-1: Employed key concepts in involved philosophy and literature

Literature	Key concepts and applications
Critical realism	<ul style="list-style-type: none"> · Perception of subject-independent but interpretable/constructible social reality · Identifying structural components like organisation arrangements and outsourcing contract, which can be constructed by human behaviours
Interpretivism	<ul style="list-style-type: none"> · Existence of subjective interpretations of actors/researchers and requirements of signifying hidden meanings behind the observed · Employing interpretive research strategy focusing on context and social processes
Structuration theory	<ul style="list-style-type: none"> · Voluntary human beings' institutionalised behaviours, instantiated structure, and mutual interactions · Operating as a meta-theory to inform formal organisation perspective and, consequently, providing a grand social theory to interpret phenomena
Formal organisation perspective	<ul style="list-style-type: none"> · Juxtaposition of bureaucratic and post-bureaucratic orders within contemporary formal organisation (bureaucracy as institution) · Understanding organisation change as the recomposition of formal organisation instead of decomposition of bureaucracy

Within this intellectual context, the processual analysis-informed multidimensional IT outsourcing configuration framework, is illustrated in Figure 4-1 and 4-2, is the original intellectual creation of this research. This enables a contextual approach to be adopted in investigating longitudinal IT/BPO outsourcing and client organisation structures. Though unique components of the organisation construction dimension—organisation arrangements, and processes and activities (see definitions in p. 122)—are added by the

author, other diverse levels of elements came from a number of prior researches on this subject as supplied by descriptions in Table 4-1, 4-2 and 4-4. The use of this framework is the central element of this research in that this determines the technical structure of data analyses and presentation throughout all the thesis's empirical investigation components.

This framework has been configured to narrow the gap between existing literature and the thesis's requirements. Literature on IT governance (ITGI 2007; Webb, Pollard and Ridley 2006), IT outsourcing configuration (Cullen, Seddon and Willcocks 2005) and the lifecycle perspective (Cullen, Seddon and Willcocks 2006) are integrated into this framework via a processual analysis framework (Pettigrew 1997). Pettigrew (1997) also shed light on the research strategy. This thesis's longitudinal case study approach—of which components are context, content, process and outcome—is proposed by Pettigrew as a very suitable process research method. The addition of the two components in the previous paragraph and the conceptualisation of three dimensions as outcome components of the processual analysis scheme are motivated by this thesis author's own recognition and the result of the pilot study of this research.

Regarding empirical findings, three standards classifying outsourcing environment are derived from these case studies as core vs. non-core perception of outsourced functions; high vs. low supplier switching costs; and high vs. low variability in terms of business and applied IT. These were suggested as possible common criteria to describe the outsourcing environment. Within the two cases' contexts, the combination of the perception as core business with high switching costs and variability characteristics, which are observed in PPS, drives a client organisation to have the tendency to involve internal management in everyday operation of services. On the contrary, the opposite

characteristics of DCSF led to a client organisation focus on performance management and the components of a contract regarding an exit plan. More complex development of the organisation's design was pursued by PPS, whereas a specialised contract management capability was the concern of DCSF. Consequently, the above three standards emerged as rationales for strategic choices of the client organisations when they moved to outsourcing

Against expectation, explicit distinctions such as cultural differences of two governments and divergence of IT outsourcing and BPO did not sufficiently explain the core of the phenomena regarding outsourcing and client organisational change. Based on the results of longitudinal analyses, core/non-core perception of related functions, embedded in the context of each case, is identified as a critical rationale to determine client organisations' strategy and in-house organisational construction as well as outsourcing contract structure. This rationale is found to be influenced by the other two characteristics of the outsourcing environment mentioned above.

This research has been suitably conducted methodologically speaking. First, the selection of the research strategy of longitudinal case studies is justified by general discussion of Yin (2003) and the process research focus suggested by Pettigrew (1997). Conventional data collection methods of participant observation, interview and document analysis are given as proper methodology, considering the research scope and the author's data accessibilities. In addition, argumentation analysis provided novel data analysis methods, suitable given the nature of phenomena involving controversial issues. Finally, Klein and Myers's (1999) seven principles were observed to give direction to the analyses of data in interpretive research.

Besides these, the author's ex-participant's position was considered an ethical issue in terms of the researcher's involvement. Argumentation analysis is supported as a tool to overcome this issue as well, in that obvious disclosure of the author's own position can enhance the objectivity of data analysis and presentation. In addition to this, the solid application of the processual analysis method in empirical investigation is also expected to avoid the risk of the author's possible prejudice. By following Checkland and Holwell's (1998) rigour for action researchers, the processual analysis-informed multidimensional IT outsourcing configuration framework operates as a pre-declared analytical framework to guide the research. Logically speaking, possible bias caused by the author's subjective position could be reduced if the action researchers' rigour was maintained, assuming that action research is the most subjective formal research method in terms of researchers' position.

Lastly, the presentation of results is critical in obtaining readers' trust. With respect to interview method, in accordance with Myers and Newman's (2007) criteria, the details of interview processes were addressed. Regarding overall justification of methodology, Golden-Biddle and Locke's (1993) three criteria were employed. To be more authentic to the readers, the presentation of vivid phenomena observed in everyday operation of the cases was described. This was reflected in lengthy texts in two empirical investigation chapters that count for a substantial proportion of this thesis. In terms of the plausibility criterion, this research covered areas of interest to IS or public management scholars interested in such areas as outsourcing, bureaucracy, and organisational change. Additionally, regarding how critical the major finding of this thesis is, its distinctive contribution is to suggest that outsourcing should be understood and researched as an embedded component of contemporary organisation management

instead of as a ‘cutting-off’ and ‘decomposition’ of existing organisations. This, of course, also has practical implications for the way contemporary organisations are constructed, how change is processed and how an organisation and its external services providers are managed.

8.2 Construction of contribution

As introduced in Chapter One, the intended contribution is categorised into either academic or practice. The latter can be discussed with respect to the management implications of this thesis’s results, whereas the former primarily explains the significance of outsourcing in organisational change studies and the adequacy of the research framework in future research.

8.2.1 Practice contribution

This empirical study has implications for contemporary organisations’ management concerns. As disclosed in the SIM survey results introduced in Chapter One, IT-related outsourcing needs to be tackled at a corporate level. In this respect, this thesis’ novel characteristics of comprehensive understanding of outsourcing phenomena from strategy, contract structure to organisation construction deserves to be noted, though those cannot be directly generalised to other cases. Based on the findings, however, contributions to practice can be offered.

First, practitioners need to consider first the outsourcing environment classified in this research. Those are explained as ‘core vs. non-core perception of outsourced functions’,

‘high vs. low supplier switching costs’ and ‘high vs. low variability in terms of business and applied IT’. In particular, organisations are required to pay attention to positioning related business somewhere between core and non-core functions. As presented to date, this effects not only the decision of outsourcing adoption, but also the detailed design of other components regarding outsourcing and client organisational change. Practitioners are expected to learn more from the two practices of PPS and DCSF when they understand the context and social processes found in each case.

Second, the revised processual analysis-informed multidimensional IT outsourcing configuration framework can be used as a concrete analytical framework to be applicable to any client organisation. Involved decision points (scope grouping, financial scale, resource ownership, commercial relationship, supplier grouping, pricing framework, contract duration, organisation arrangements, and processes and activities) and a broad concept of IT governance (strategic alignment, delivery of business value through IT, performance management, risk management, and control and accountability) are common elements of all client organisations. In this respect, every organisation can identify its own options and compare those not only with the decisions, but also with the processes and contexts of PPS and DCSF.

As the last practice contribution, this research has a number of implications for client organisations. The components of a client organisation are rarely emphasised. For instance, global outsourcing service providers have a tendency to develop and present what they can do, what the benefits are to be gained by outsourcing, and how they will deliver services. Furthermore, as examined in this research, academic outsourcing research focused on client organisations’ structures, processes and capabilities and how

they can be and are changed as a result of outsourcing are very neglected. In this respect, PPS's process-control-based organisation model—represented by complex organisational arrangements and international standard management processes (see Figures 5-2, 5-3 and 5-4)—can provide unique lessons to organisations in similar contexts. In particular, an attempt to apply outsourcing management processes to ITIL processes provides unique references to the many organisations who are considering, or who have already embarked upon, ITIL adoption within an IT outsourcing environment. Meanwhile, DCSF's conventional performance-control-based organisation model—represented by the creation of contract management functions and establishment of official communication channels (see Figures 6-1, 6-2 and Table 6-2)—can be benchmarked by many other organisations situated in similar environments.

Though this thesis does not address the issue of outsourcing success, the observed phenomena and described contexts, contents, processes and outcomes of two case organisations provide valuable opportunities for other practitioners, given that both cases were considered to be successes by the majority of the relevant stakeholders, and in terms of financial and service outcomes. However, it is also noteworthy that any comparison or application of these results should be founded on the exploration of their own contextual characteristics.

8.2.2 Academic contribution

Academically, although IT outsourcing can be regarded as just a business practice, it is worth revisiting it through the lenses of appropriate theories because the impact on an organisation and its implications for IS and organisational studies are significant.

First of all, the original contribution of this thesis is to supplement the lack of studies on the structure of bureaucratic client organisation and its change in contexts of IT outsourcing. As examined in Chapter Two, no prior researches dealing with this subject in a major way were found. Even in the client organisation-focused literature, most work concentrated on finding outsourcing determinants, success factors and human resources. On the other hand, some relevant literature from IT governance studies did not pay attention to IT outsourcing components. Similarly, the IT and organisational change literature, including that on public management, were examined but found not to focus much at all on the significance of outsourcing.

Under these circumstances, Kallinikos's (2006) formal organisation perspective emerges as a candidate for explaining IT outsourcing as an enabler of organisation change. In this thesis, the application of the formal organisation perspective to real organisational settings provides rationales for recognising the aspects of traditional bureaucracy that penetrates contemporary network organisations.

In insisting on the survival of traditional bureaucratic orders even within the network organisation, Kallinikos (2006) suggests the juxtaposition of networks (representing outsourcing) and underlying traditional bureaucratic orders like centralisation, standardisation and specialisation. With respect to Kallinikos's perspective, this research reveals abundant examples of the decomposition and recomposition of existing bureaucracies facilitated by outsourcing. On this point, the research provides empirical data to describe both decomposing and recomposing bureaucracies in modern organisations. Consequently, in this area, this thesis bridges the gap between existing IT outsourcing literature and organisation studies.

Secondly, this research reappraises IT outsourcing as a significant domain in organisation studies. For example, Kallinikos (2006, p. 155) connects IT development with transformational characteristics of bureaucracy, stating as follows:

Administrative simplification, flatter hierarchies, better cross-functional or cross-agency communication and improved responsiveness to environmental contingencies represent examples of the kind of changes associated with the informatized rendition of organizational tasks and operations.

Nevertheless, outsourcing is not an isolated topic: he just shows that it is an important instance of decomposing and recomposing bureaucracy. However, IT outsourcing can be acknowledged as one of the consequences of what has been called informatisation and this research shows that outsourcing can provides important momentum to leading organisational change in bureaucratic organisations.

Third, the outsourcing-related research and literature can be strengthened by the theoretical underpinnings and in-depth case study findings produced by this thesis. This research expands the application of structuration theory and formal organisation perspective to outsourcing studies; social context and institutionalised human practices underlying IT outsourcing have been explored by use of the processual analysis method. Similar suggestions appear repeatedly in the works of Cullen, Seddon and Willcocks (2005; 2007). Their view, however, was concentrated on functional contract structures such as service scope and contract duration, and little consideration was given to clients' organisational change, historical/technological context, business strategy or capabilities, which must be connected with final decisions on IT outsourcing structures.

In addition, this thesis is somewhat novel in showing how to apply a structural

view to the interpretation of phenomena in the area of IT outsourcing and organisational change. For example, in DCSF, actors' open interpretations are mutually related with structure. Materialistic structure, such as the BPO contract, official transfer of employees, and DCSF's and TP's organisation restructuring, cannot be understood without the consideration of human perceptions. Even though structures were transformed, old staff members, who had worked in DCSF as public servants, were still concerned about the loss of knowledge within client organisations. Members of the staff who had very short experience as government officials did not recall any significant change of working mode when they were initially transferred. Instead, they seemed to be more affected by other structure change like IT innovation. In the cases of much younger staff that had not belonged to DCSF before, they were not concerned about the client's knowledge. TPS administration is not the business of DCSF to them. It seems to be recognised as a purely Capita Hartshead's job to them. PPS's organisation transformation/restoration and ITIL process survival (see Figure 5-4) also confirm this structural understanding, as was lengthily discussed in Chapter Five.

Finally, this thesis proposes and confirms the applicability of two methodological instruments. The first one is the employment of the longitudinal case study as a research strategy for IT outsourcing studies. As revealed by the literature review in Chapter Two, the contextual approach has been scarcely applied to this field. Confirming this, Kern and Willcocks (2002) suggested that those researches are required to involve the longitudinal case study approach in outsourcing literature. These authors also emphasised the need for social theories that explore interrelationships among structure, human behaviours and contexts. This thesis provides an example of that attempt.

With respect to the second instrument, this thesis provided two well founded analytical frameworks extendible to other IT outsourcing-related researches, and also demonstrated their applicability. These can be listed as the processual analysis-informed multidimensional IT outsourcing configuration framework and standards for IT outsourcing environment classification. These frameworks can be reused by other researchers in the areas of outsourcing and organisational change in a contextual manner. Researchers can put their own data into the multidimensional IT outsourcing configuration framework, and analyse different outsourcing environments using the criteria of ‘core/non-core’, ‘switching costs’ and ‘business and technological variability’.

The classification standards of the outsourcing environment are directly derived from the findings of this present study, whereas the other tool is the result of many other pieces of research, as was discussed. However, it can be identified as a unique model, in that it has been reinvented as an independent framework. Except for two components in the organisation construction dimension, all the components of processual analysis, IT outsourcing configuration framework, lifecycle perspective of sourcing process, and IT governance are in the pre-existing research literature. The contribution can be referred to as the collection, conceptualisation and integration of that previous individual academic work. As practitioners can apply these frameworks to their strategy building, so can outsourcing researcher apply them in their own study work.

8.3 Limitations and further research direction

The limits of this research need to be discussed. Some are the result of the delimited research scope; others are related to the mode of presentation of the results.

First, as repeatedly stated, the results of this thesis cannot easily be generalised. There are two reasons for this. On the one hand, this research addresses the specific contexts of PPS and DCSF. Even the extension of results to the entire Korean or British government is not valid because no evidence of their representativeness was found and even pursued. This fits the rationale of interpretivists' approach to explore in-depth understanding of localised contexts and human behaviours.

On the other hand, this research did not conduct any institutional-level exploration. For example, overall cultural characteristics of each government were not dealt with. If this were done, there might be relatively wider room for a generalised discussion about each case, though it could not provide anything like a general solution within this thesis's interpretivists' epistemology. The research boundary forms the background of this delimitation. As revealed in the research questions, the focus of this research is internal management. The research objects are restricted to certain client organisations' local contexts, their constituents' perceptions, resulting phenomena and related social processes within those organisations. In Chapters Five and Six, some environmental context, such as government-led IT outsourcing environment of Korea and NPM tradition in the UK government, were employed to explore related phenomena. However, those rare cases were restricted to the directly related areas. Higher institutional level variables, for example, the degree of decentralisation or business practices, are defined as outside the research scope.

As another research scope boundary, this thesis does not explain the success of the cases, but the change of components. This was explicitly presented in the introduction chapter. Outsourcing success is one of the common research subjects in IS studies. However, its

meaning and scope were defined as too complex, and, given the research objectives, theoretical underpinning and methods, not necessary, to be dealt with as an associated supplementary topic of this thesis. Consequently, readers are required to take the neutral position. This is not research on what client organisations should do, but research on why and how it happens.

Second, as presented in Table 8-1, the research literature is restrictively and purposely used in this research. However, this does not imply that the stipulations in that literature were distorted when employed here. For example, to justify the use of structuration theory as meta-theory, the literature was studiously reviewed to identify the range of legitimate modes of its application to empirical studies. However, the classification and frequency analysis of such diverse modes of application were not the purpose, nor the described product of this exploration.

Third, this thesis may be misunderstood as being overly descriptive rather than sufficiently analytical (e.g., computer-assisted method) in its documentation. However, it is written in an analytical manner from a different angle. This limitation is related to the research method and the researcher's position. Due to the participant observation-centred data collecting in PPS case, relatively large parts of physical data exist in the forms of final or draft documents. In particular, many were produced by the author himself when he was working for PPS. These documents were referred to when specific factual events, such as figures, need to be recalled. However, most interpretations of an actor's statements and behaviour, which is really significant in this interpretive research, exist in the author's mind. The author was in charge of the outsourcing innovation project and able to observe and discuss with, and interview many stakeholders. These

were partly adjusted by further interviews held in 2009, but those were not critical.

As discussed in the methodology chapter, the rationales against this position were the action researcher's rigour proposed by Checkland and Holwell (1998) and argumentation analysis. As these authors suggested, action researchers are necessarily subject participants. If they were able to maintain scientific rigour by following an intellectual framework declared in advance, it must be applicable to this thesis author's situation. In this respect, the presentation of the empirical study in this thesis was always thorough, and in keeping with the pre-established processual analysis-informed multidimensional IT outsourcing configuration framework. The empirical investigations were presented, analysed and compared in the standardised formats of three dimensions, each of which mechanically consisted of decision points and underlying context, and process. As presented, the explanation of each domain was also standardised across the case studies.

During the research, some areas for further research were identified. The first and simplest of these is the application of this thesis's conceptual framework to other organisation settings. The structuration theory-informed formal organisation perspective and processual analysis-informed multidimensional IT outsourcing configuration frameworks do have considerable potential for universal use in outsourcing-related longitudinal researches, as hopefully this present thesis has demonstrated.

Second, similar frameworks can be developed in other particular domains of the outsourcing field. For example, this research focuses on IT service outsourcing. However, IS development outsourcing can be a feasible area in which to apply a similar

approach. In addition, a BPO-centred approach could be another possible area. Considering that not a few IT outsourcing-originated concepts were modified in order to apply BPO, there might be some room for the development of a BPO-specific framework. Another important candidate subject to be combined with this thesis is the development of human resources and organisational capability. For example, further research on the human and organisational capabilities needed to achieve the transformation of strategy, contract structure and organisation construction could prove very significant for academics and practitioners alike.

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Appendix 1: Consent Forms

Research Subject Information and Consent form for Case Organisations

RESEARCH SUBJECT INFORMATION AND CONSENT FORM

The Department for Children, Schools and Families of the United Kingdom and Capita Hartshead has been asked to be case-study organisations of a research project below. This consent form will certify the institution's acceptance of it based on following information. This may contain words that you do not understand. Please ask the Researcher to explain any words or information that you do not clearly understand.

TITLE: Bureaucratic Organising, Client Organisation and IT Outsourcing in Dynamic Contexts: Comparative Longitudinal Case Study Research

RESEARCHER: Jae Yong Lee, BA, MPA, MSc, PhD student
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(Email) J.Y.LEE@lse.ac.uk

SUPERVISOR: Professor Leslie P. Willcocks

SITE(S) TO BE RESEARCHED: Capita Hartshead, Mowden Hall, Darlington
The Department for Children, Schools and Families of the United Kingdom (DCSF)
Public Procurement Service of the Republic of Korea (PPS)

PURPOSE OF THE STUDY

This research is a PhD research project in Information Systems and Innovation Group at the London School of Economics and Political Science (LSE). This is to explore client organisations and how these relate and develop with the adoption of information technology (IT) outsourcing, specifically, in terms of the bureaucratic structure of client organisation and its change. Two public sector outsourcing cases of DCSF in the UK and PPS in Korea will be investigated, since these are anticipated to present relevant empirical data to this research.

This research is expected to supplement the lack of studies on the bureaucratic structure of client organisation and its change in relationship to IT outsourcing. In addition, this research will reveal how IT outsourcing shapes both aspects of decomposing and recomposing existing bureaucracy in contemporary formal organisations; simultaneously, it will reappraise IT outsourcing as a significant domain in information systems and organisational change studies. Third, pre-existing outsourcing literature can be complemented and extended by the theoretical underpinnings and in-depth case studies of this research. Lastly, the multidimensional IT outsourcing configuration

framework–focused on three dimensions of strategy, contract structure and organisation construction–will have implications for practice, and the investigated cases will promote innovation practices in IT outsourcing arrangements.

PROCEDURES

This PhD dissertation is planned to be completed by June 2010. DCSF and Capita Hartshead will be visited between February and March of 2009 for the collection of data that will mainly consist of interviews with diverse informants such as in-house staff and an outsourcing supplier. Another case organisation, PPS, was investigated on site on October of 2008. Further field works on these organisations may be conducted if required under prior notifications. Results of this research project will be written up as part of a PhD dissertation at LSE. In addition, results may be published in academic journals and discussed at conferences.

CONFIDENTIALITY

1. The Researcher agrees not to directly or indirectly at any time during or after the research use or divulge or allow to be divulged to any person firm or company (and shall use his best endeavours to prevent the publication or disclosure of) any information which may be imparted in confidence or be of a confidential nature relating to the business, plans or internal affairs of DCSF and Capita Hartshead and in particular all know-how, marketing information, trade secrets, inventions, unpublished information relating to DCSF or Capita Hartshead's intellectual property and any other commercial, financial or technical information relating to the business of DCSF and Capita Hartshead unless that person, firm or company has signed an undertaking in a form approved by DCSF and Capita Hartshead.
2. The Researcher shall not permit any person, firm or company to assist in the research unless such person, firm or company has signed such an undertaking.
3. The Researcher shall not use such confidential information for any other purpose other than undertaking the research.
4. Paragraph 1 and 2 shall not apply to confidential information which:
 - 4.1 is at the date of the signing of this consent form or at a later date comes into the public domain other than through the breach of this consent form by the Researcher;
 - 4.2 was known by the Researcher before receipt from DCSF and Capita Hartshead and which had not previously been obtained by the Researcher under an obligation of confidence; or
 - 4.3 subsequently comes lawfully into the Researcher's possession from a third party, free of any obligations of confidence.

BENEFITS, RISKS AND DISCOMFORTS

This research is expected to give some opportunities for DCSF to enhance the accomplishment of its innovation practice in this field, because final results will be fed back to DCSF with diverse

Informed Consent Form for Research Study for Individual Interviewees

Informed Consent Form for Research Study

RESEARCH TITLE:

Bureaucratic Organising, Client Organisation and IT Outsourcing in Dynamic Contexts: Comparative Longitudinal Case Study Research

DATE: / /

INTRODUCTION

You have been asked to take part in a research project which is part of a PhD dissertation at the London School of Economics and Political Science (LSE). The purpose of the research is to explore client organisations and how these relate and develop with the adoption of information technology (IT) outsourcing, specifically, in terms of the bureaucratic structure of client organisations and their changes.

PARTICIPATION AND CONFIDENTIALITY

Your participation in this research project involves a 1 hour interview with Jae Yong Lee, the researcher on the project. The interview will be audio recorded. All interviews will be kept confidential and will be fully anonymised. This means that personal information such as your name will not be used in any work that results from this research. Your participation in this study does not involve any physical or emotional risk to you, other than what you would encounter in daily life. If at any time you wish to stop the interview, however, tell the researcher that you are not able to continue. You also have the right to ask the researcher for the recorded audio file at the end of the interview if you do not want the researcher to have it. This is a non-profit research and you will not be paid for taking part in this study.

Results of this research project will be written up as part of a PhD dissertation at LSE. In addition, results may be published in an academic journal and discussed at conferences.

CONSENT

I understand the purpose of this research project and all my questions have been answered. I understand that my interview will be kept confidential and will be fully anonymised. I understand that I have the right to stop the interview at any time.

I give my consent to be interviewed.

Participant's Signature and Date

Participant's Printed Name

Jae Yong Lee

Interviewer's Signature and Date

Interviewer's Printed Name

Contact: Jae Yong Lee
12 Waxwell Close, Pinner, Middlesex, HA5 3ET, UK (Tel: +44-(0)78-9446-5938)

Appendix 2: Representative Argumentation Analysis

Representative argumentation analyses using Toulmin's (2003) argument structure are presented here. Consecutively associated claims form an argumentation representing the key arguments that are revealed in PPS case.

◆ Argumentation supporting PPS outsourcing transformation

Associated claims:

(1) PPS needs to retain in-house capabilities regarding e-GP; (2) Outsourcing should be adopted; (3) In-house capabilities are no longer technological; (4) Arms-length commercial relationship transformation contributes to in-house capability building; (5) Relevant components need to be transformed, together with a change in the commercial relationship; (6) Client should concentrate on key functions regarding IT service management.

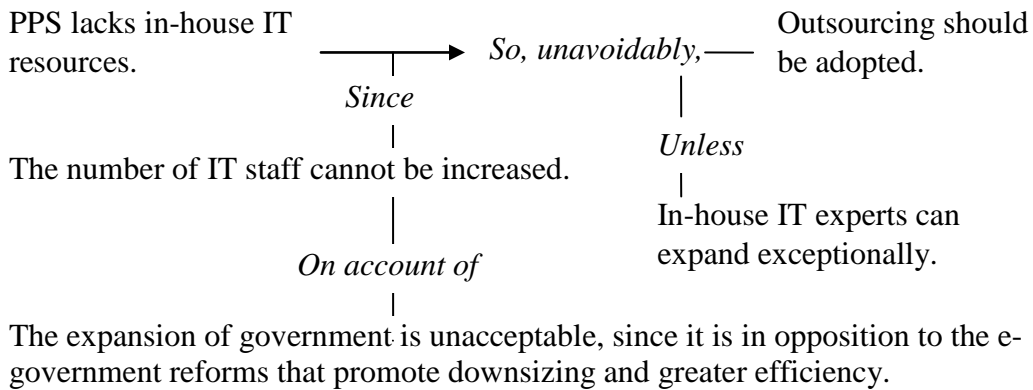
Argumentation analysis of each claim:

Claim 1

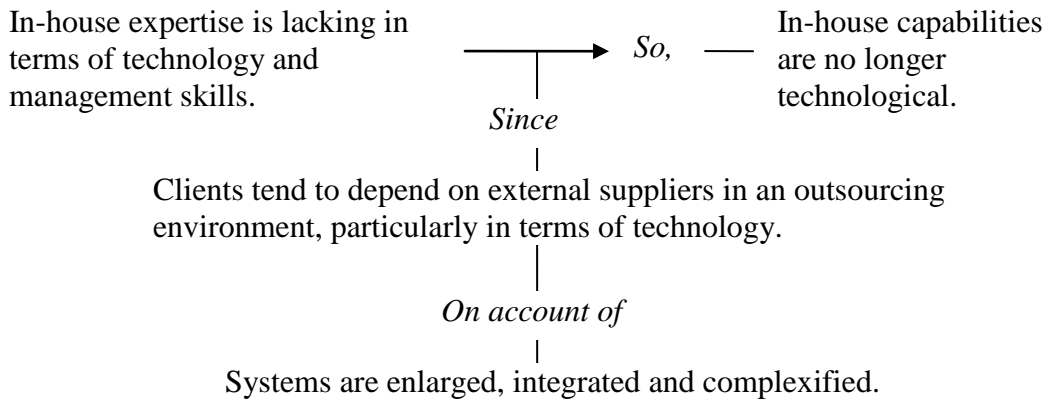
E-GP management is a core business of PPS. $\xrightarrow{\text{Since}}$ So, PPS needs to retain in-house capabilities regarding e-GP.

E-GP has become the symbol of PPS's innovation and confidential government procurement administration.

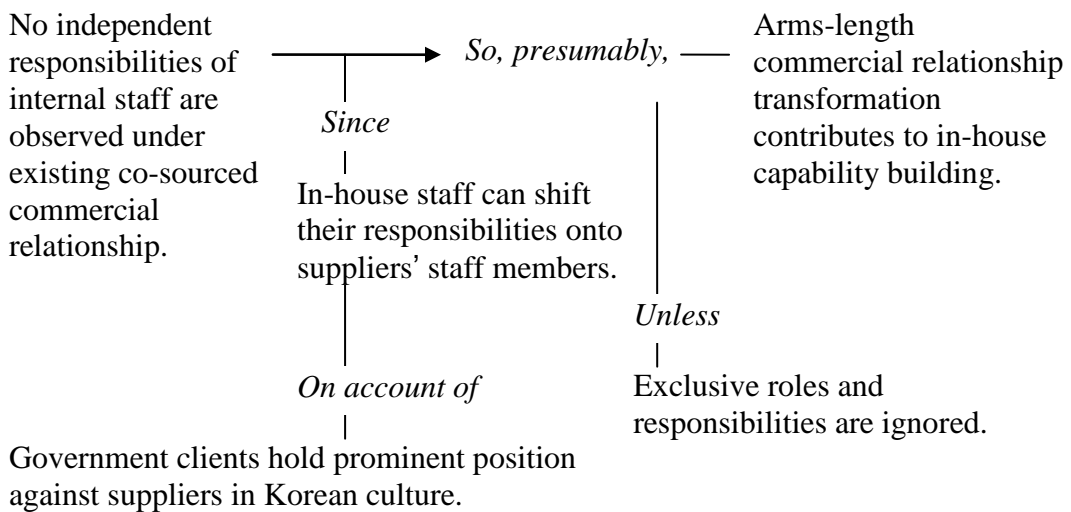
Claim 2



Claim 3

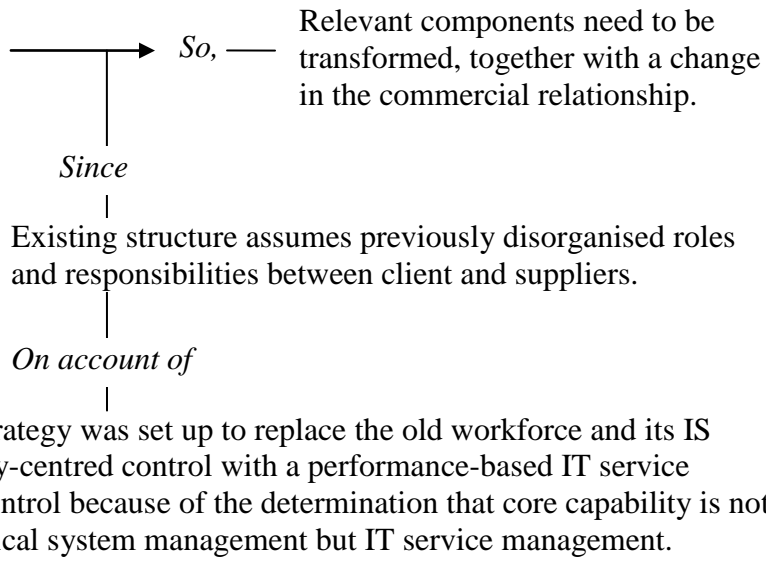


Claim 4



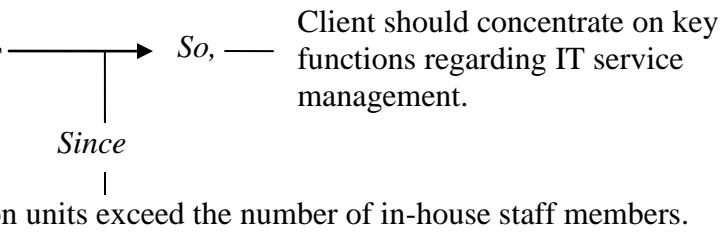
Claim 5

Exclusive accountabilities cannot be sustained without the transformation of prior client organisation and contract structure.



Claim 6

Even after the transition, PPS will lack in-house IT staff.



◆ Argumentation opposing PPS outsourcing transformation

Associated claims:

(1) PPS needs to retain in-house capabilities regarding e-GP; (2) Outsourcing should be adopted¹³; (3) Client can be captured by external suppliers; (4) Co-sourced commercial relationship is the best way to obtain technological knowledge and control suppliers; (5) Proposed transformations are inadequate other than contract duration and pricing framework change; (6) In-house experts need to retain their supervisory positions for all functions, even though those positions are nominal at present.

Argumentation analysis of each claim:

Claim 3'

In-house expertise is lacking in terms of technology and management skills.

—————→

So, almost,

Client can be captured by external suppliers.

Since

Unless

Understaffed in-house IT divisions cannot exercise necessary control over large-scale outsourcing suppliers.

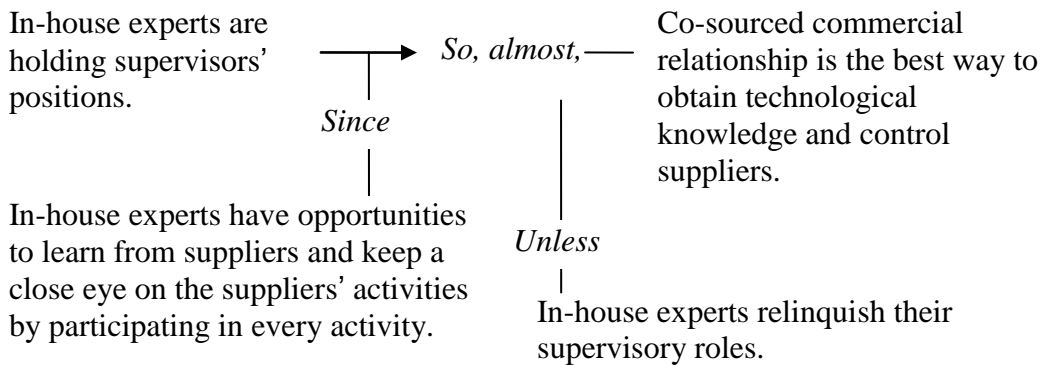
Significant competitors exist in the related outsourcing industry.

On account of

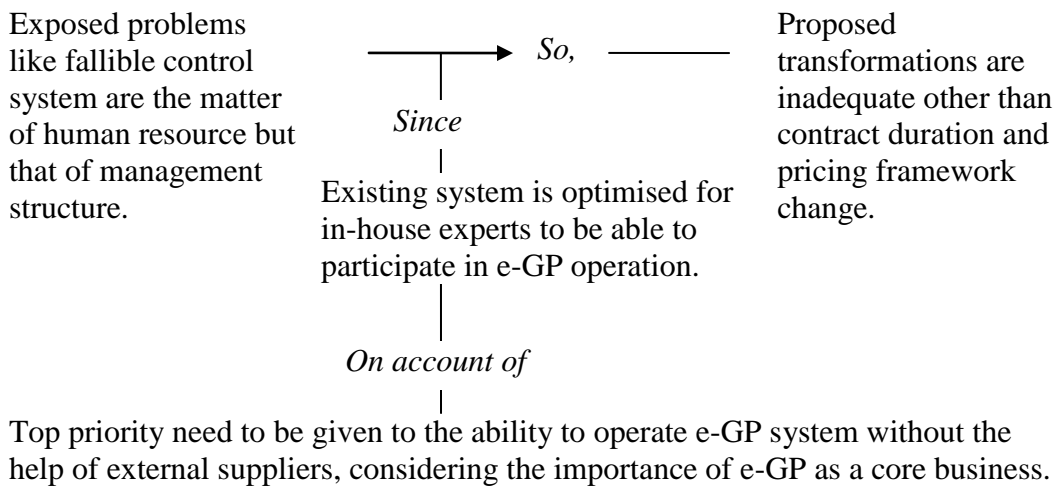
Technology-based input control is essential to monitor opportunistic behaviours of commercial suppliers.

¹³ Claim 1 and 2 are shared with those of supporters. All parties were in agreement with the suggestions that e-GP is a core business of PPS and outsourcing is unavoidable. All in-house staff agreed to the statement “In-house IT expertise is lacking in terms of technological and management skills.”, included in supporters’ Claim 3. However, the claims expressed in Claim 3 reveal the differences in recognition within PPS, more specifically, IT-experts and non-IT-experts.

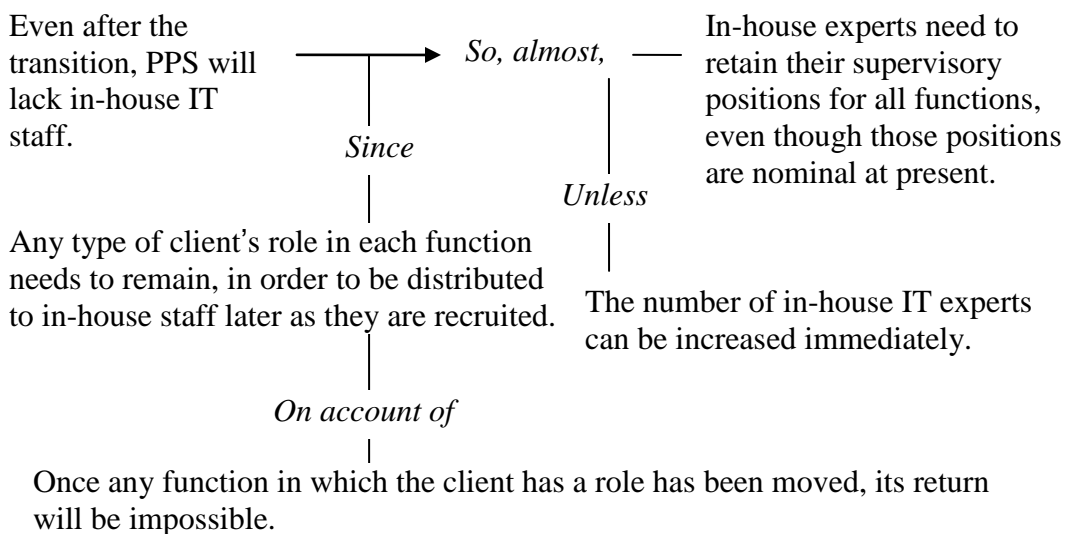
Claim 4'



Claim 5'



Claim 6'



Appendix 3: Interview Procedure and Question Scripts

Interview Procedure and Question Scripts

RESEARCH TITLE

Bureaucratic Organising, Client Organisation and IT Outsourcing in Dynamic Contexts:
Comparative Longitudinal Case Study Research

PROCEDURE

Self-introduction and the distribution of informed consent form

Welcome, and thank you for attending. I am Jae Yong Lee and this is a non-profit PhD research project at LSE. The purpose of this research is to explore client organisations and how these relate and develop with the adoption of information technology (IT) outsourcing, specifically, in terms of the bureaucratic structure of client organisation and its change. DCSF and Capita Hartshead were invited as case-study organisations of this research. This practice is expected to present relevant empirical data to this research.

Verbal explanation of consent form

This is the consent form of this interview to be signed by you. As explained in it, this interview will take about 1 hour with me. Most importantly, all interviews will be kept confidential and will be fully anonymised. This means that personal information such as your name will not be used in any work that results from this research. The interview will be audio recorded. Results of this research project will be written up as part of a PhD dissertation at LSE.

Your participation does not involve any physical or emotional risk to you. However, tell me that you are not able to continue if at any time you wish to stop the interview. You also have the right to ask me for the recorded audio file at the end of the interview if you do not want me to have it. Please write your signature on the form if you can give me consent to participate in this interview. Once again, thank you for participating.

Execution of interview

Let's start the interview. This is not a survey but a semi-structured qualitative interview. You can state everything you would like to say after my question. And I will improvise relevant questions if required.

QUESTION SCRIPTS (DCSF)

Profile

- 1 When did you start your work in DfES or DCSF? How long do you work for the TP administration?
- 2 Could you explain your missions briefly?
- 3 Are you an IT expert?

Strategy dimension

- 1 Context (why)
 - 1.1 If you have any knowledge of contract history, could you tell me why your department adopted the outsourcing of TP administration? Was the contract with the Capita in 1996 the first outsourcing deal? There seems a 1-year gap in 2002 between two contracts of 1996 and 2003. What happened then?
 - 1.2 Was there any significant change of outsourcing policy since 1996 in terms of management of performance, pricing method, and so on?
 - 1.3 What were concerns when the DCSF adopted or altered outsourcing deal? *(One of the biggest concerns of outsourcing may be the loss of contractual position and dependency on specific suppliers. What was the solution of the DCSF, if any?)*
 - 1.4 To what extent are senior executives interested in outsourcing strategy? I heard 479 staff were transferred from the DCSF to Capita Hartshead. Who and how many were left within the department and what were the criteria of that? Can you identify the ratio of IT experts among transferred staff?
 - 1.5 Is the HartLink an only involved IT system for the TP management and administration by both parties? Isn't it connected with any other external systems, in particular, DCSF's legacy system? For example, is the list of teachers' names shared real time or batch type? If yes, how can you maintain the compatibility and reusability of data between different systems? What is the mainstream processing type of it, online or batch?
 - 1.6 Who are the HartLink users: only Capita Hartshead staff, DCSF's staff in charge of the TPS management, or TPS members using the TP website?
- 2 Process (how)
 - 2.1 Did your institution take clear approaches to make outsourcing strategy which may be concluded as a request for proposal of a tender?
 - 2.2 Who were participants in the process of outsourcing-related strategy-building? Which kinds of disputes were there and how they were harmonised? Were those smooth processes?

3 Content (what)

- 3.1 Could you explain the choices and underpinning contexts within outsourcing contracting or organisation constructing in terms of financial scale, resource ownership and commercial relationship? Is there any scheme of incentive and penalty? How were those included in a contract?
- 3.2 Which functions were retained in-house after outsourcing? Could you classify those functions in terms of business and IT departments' responsibilities? If the functions and resources were transferred to Capita Hartshead, to what extent were the processes and activities changed as compared with the prior ones within the transferred areas?

4 Outcome

- 4.1 Were you satisfied with the strategy considering initial problematisation?
- 4.2 Was there any change in your evaluation since then?

Contract structure dimension

1 Context (why)

- 1.1 Did the outsourcing strategy work as a master plan for contract structuring? Was there any change during the contracting and implementing stages?

2 Process (how)

- 2.1 Who were participants in the process of outsourcing contracting? What are the roles of business or IT in-house staff?

3 Content (what)

- 3.1 Could you explain the decisions on IT outsourcing contracting with respect to scope grouping, supplier grouping, pricing framework and contract duration? Regarding the contract scope, can you explain the recent extension of contract in 2008? I heard that it was worth 10 million pounds. What were the extended scope and its cost assessment method?
- 3.2 Client roles were introduced as scheme manager, fund manager, contract manager. Is the Hartlink, a back-office information system of Capita Hartshead, an individual dimension of performance evaluation? Is there any technological key performance indicator (KPI) such as unexpected downtime?
- 3.3 What are processes and activities of updating systems responding to user requests or policy changes?

4 Outcome

- 4.1 Were you satisfied with the final contract considering initial problematisation?
- 4.2 Was there any change in your evaluation since then?

Organisation construction dimension

1 Context (why)

- 1.1 Did the outsourcing strategy work as a master plan for organisation construction?
Was there any change during the implementing stage?

2 Process (how)

- 2.1 During outsourcing implementation, to what extent was the role of business and IT departments clearly distinct? What kinds of disputes were there and how they were harmonised?

3 Content (what)

- 3.1 Could you explain the decisions on organisational arrangements in terms of organisational format, bureaucratic workflow and in-house staff distribution? How many members are involved by the criterion of business and IT staff? Could you describe its organisation chart?
- 3.2 Is there any area of the DCSF's IT service that was not covered by outsourcing-related activities; for example, an independent data management system involving the TP? Was the old legacy system involving the TPS totally removed?
- 3.3 Could you specify the in-house decision rights and accountability framework to encourage desirable outcomes of outsourcing? Who officially and unofficially lead following meetings: Teachers Pensions Administration Forum (client, administrator, employer and teachers unions), KIT (Keep-in-Touch) meetings, Quarterly Strategy meetings, Auditor meetings, Project Boards, etc? Could you tell me the composition, participants and frequency of these meetings?

4 Outcome

- 4.1 Were you satisfied with the organisation construction considering an initial plan and the purpose of outsourcing or its transformation?
- 4.2 Was there any change in your evaluation since then?

QUESTION SCRIPTS (Capita Hartshead)

Profile

- 1 When did you start your work in Capita Hartshead? Were you transferred from the DfES? How long do you work for the TP administration?
- 2 Could you explain your missions briefly?
- 3 Are you an IT expert? Are you involved in the development and maintenance of Hartlink?

Strategy dimension

- 1 Context (why)
 - 1.1 If you have any knowledge of contract history, could you tell me why the client adopted the outsourcing of TP administration? Was the contract with the Capita in 1996 the first outsourcing deal? There seems a 1-year gap in 2002 between two contracts of 1996 and 2003. What happened then?
 - 1.2 Was there any significant change of policy from supplier's part since 1996?
 - 1.3 Is the HartLink an only involved IT system for the TP management and administration by both parties? Isn't it connected with any other external systems, in particular, DCSF's legacy system? For example, is the list of teachers' names shared real time or batch type? If yes, how can you maintain the compatibility and reusability of data between different systems?
 - 1.4 Who are the HartLink users: only Capita Hartshead employees, DCSF's staff in charge of the TPS management, or TPS members using the TP website? What is the mainstream processing type of it, online or batch?
- 2 Process (how)
- 3 Content (what)
 - 3.1 Could you explain the choices and underpinning contexts within outsourcing contracting or organisation constructing in terms of financial scale, resource ownership and commercial relationship? Is there any scheme of incentive and penalty? How were those included in a contract?
 - 3.2 To what extent were the processes and activities changed as compared with the prior ones within outsourced functions?
- 4 Outcome
 - 4.1 Were you satisfied with the strategy considering initial problematisation?
 - 4.2 Was there any change in your evaluation since then?

Contract structure dimension

- 1 Context (why)
- 2 Process (how)
- 3 Content (what)
 - 3.1 Could you explain the decisions on IT outsourcing contracting with respect to scope grouping, supplier grouping, pricing framework and contract duration? Regarding the contract scope, can you explain the recent extension of contract in 2008? I heard that it was worth 10 million pounds. What were the extended scope and its cost assessment method?
 - 3.2 What are processes and activities of updating systems responding to user requests or policy changes?
 - 3.3 How many members are involved from supplier's side? How much is the transferred staff among them? Was there any significant change; what was the background, if any? Could you describe supplier's organisation chart?
- 4 Outcome
 - 4.1 Were you satisfied with the final contract considering initial problematisation?
 - 4.2 Was there any change in your evaluation since then?

Organisation construction dimension

- 1 Context (why)
- 2 Process (how)
- 3 Content (what)
 - 3.1 Could you explain the decisions on organisational arrangements in terms of organisational format, bureaucratic workflow and in-house staff distribution? How many members are involved by the criteria of business and IT staff? Could you describe its organisation chart?
 - 3.2 Could you specify the in-house decision rights and accountability framework to encourage desirable outcomes of outsourcing? Who officially and unofficially lead following meetings: Teachers Pensions Administration Forum (client, administrator, employer and teachers unions), KIT (Keep-in-Touch) meetings, Quarterly Strategy meetings, Auditor meetings, Project Boards, etc? Could you tell me the composition, participants and frequency of these meetings?
- 4 Outcome

TPS Interview Outline for DCSF (29~30 Sep 2009)

1 Organisation forms and workflow

- 1.1 Please describe the organisation chart and the approximate staff numbers in DCSF such as policy team and contract management team.
- 1.2 Can you describe, please, the overall working procedures based on the organisation chart? *In particular please describe what happens in these four cases:*
 - 1.2.1 Application change - When a user (member) request requiring IT functions modification or development is received at contact centre from a pension member
 - 1.2.2 Application change - When a DCSF contract or policy team member requests IT functions modification or development
 - 1.2.3 When a request to correct data comes from members or from DCSF staff
 - 1.2.4 When a DCSF staff asks for statistical data
- 1.3 Are there any intermediary roles in the contract management team that do more than KPI control/performance measurement? We are thinking here of the team operating between the DCSF policy team and the Capita Darlington team?
- 1.4 Could you specify the DCSF decision rights, authority and accountability framework for improving service performance and retain core knowledge?
 - 1.4.1 For example, who, officially or unofficially leads the following meetings: Teachers Pensions Administration Forum (client, administrator, employer and teachers unions), KIT (Keep-in-Touch) meetings, Quarterly Strategy meetings; Auditor meetings, Project Boards, etc?
 - 1.4.2 Could you tell us the structure, participants and frequency of the above meetings?

- 1.5 Were there any significant change from 1996 onwards in terms of both parties' organisation forms and workflows?
- 1.6 While constructing the outsourcing deal during the next re-bid preparation, who are the participants? Is the policy team also involved? Is it only contract management team, is there an ad hoc taskforce? What are the distinctive roles and responsibilities of different groups in this process?

2 Evaluation

- 2.1 What is your assessment of the suppliers' service over the history of the relationship? Have objectives and standards of service changed at all – if so how and where?

3 KPI and capabilities retention

- 3.1 Is KPI the only tool for contract management? If so do you think that it is enough?
 - 3.1.1 Please describe overall structure of KPI. Do you measure on technology/technical performance e.g., allowed system downtime? Or is it all business process and business outputs that are measured?
- 3.2 Have you ever been concerned about the dilution of in-house knowledge? When and why? Are there specific efforts to overcome this in terms of staffing or organisation design?
- 3.3 According to our previous interviews, privatisation policy was one of the strongest drivers of the earliest outsourcing decision. Is this the case? Who drove the decision then, and who drove the later outsourcing decisions?
- 3.4 Were there any disputes about the decisions of detailed contract structure such as sole contractor, fixed pricing and 7-year terms? What is the background detail to these?
- 3.5 It is difficult to meet every client requests on time. How did Capita persuade DCSF to accept those? For example, 'no technology yet', 'no preliminary budget this year' or 'low priority'.

TPS Interview Outline for Capita (29~30 Sep 2009)

1 Organisation forms and workflow

- 1.1 Please describe the organisation chart and the approximate staff numbers in Capita Darlington and related Sheffield site.
- 1.2 Can you describe, please, the overall working procedures based on the organisation chart? *In particular please describe what happens in these four cases:*
 - 1.2.1 Application change - When a user (member) request requiring IT functions modification or development is received at contact centre from a pension member
 - 1.2.2 Application change - When a DCSF contract or policy team member requests IT functions modification or development
 - 1.2.3 When a request to correct data comes from members or from DCSF staff
 - 1.2.4 When a DCSF staff asks for statistical data
- 1.3 Are there any intermediary roles in the contract management team that do more than KPI control/performance measurement? We are thinking here of the team operating between the DCSF policy team and the Capita Darlington team?
- 1.4 Could you specify the DCSF decision rights, authority and accountability framework for improving service performance and retain core knowledge?
 - 1.4.1 For example, who, officially or unofficially leads the following meetings: Teachers Pensions Administration Forum (client, administrator, employer and teachers unions), KIT (Keep-in-Touch) meetings, Quarterly Strategy meetings; Auditor meetings, Project Boards, etc?
 - 1.4.2 Could you tell us the structure, participants and frequency of the above meetings?
- 1.5 Were there any significant change from 1996 onwards in terms of both parties' organisation forms and workflows?

2 KPI and capabilities retention

- 2.1 Is KPI the only tool for contract management? If so do you think that it is enough?
 - 2.1.1 Please describe overall structure of KPI. Do you measure on technology/technical performance e.g., allowed system downtime? Or is it all business process and business outputs that are measured?
- 2.2 Have you ever heard about concerns in DCSF about the dilution of in-house knowledge? When and why? Are there specific efforts to overcome this in terms of staffing or organisation design?
- 2.3 According to our previous interviews, privatisation policy was one of the strongest drivers of the earliest outsourcing decision. Is this the case? Who drove the decision then, and who drove the later outsourcing decisions?
- 2.4 Were there any disputes about the decisions of detailed contract structure such as sole contractor, fixed pricing and 7-year terms? What is the background detail to these?

3 IT management

- 3.1 Can IT experts in Capita Darlington access HartLink directly, or ask Sheffield to do that? Is there an independent module for them to be allowed to modify?
 - 3.1.1 Does Capita have any formal rules to manage information systems such as e.g. access authority, procedures for application change?
- 3.2 How often does Capita have to modify HartLink against DCSF requests? How many of those affect HartLink functions for other clients?
- 3.3 It is difficult to meet every client requests on time. How did you persuade DCSF to accept those? For example, 'no technology yet', 'no preliminary budget this year' or 'low priority'.

4 Comparison with other clients in Capita Darlington

- 4.1 Can you describe the characteristics of the DCSF system management process compared with other clients? Do you see any common characteristics for public sectors clients compared with private client companies?

Detailed questions for framework components

Resource ownership (select Capita or DCSF in each resource)

Resource	Party "Owing" the Resource	Remarks
Assets (e.g. hardware, software)	Capita or DCSF	
Facilities (e.g. office site, data centre)	Capita or DCSF	
Labour (e.g. direct and/or management)	Capita or DCSF	

Commercial relationship (select one of four types which addresses the closest answer)

Types	Description	Remarks
Arms-length (independent parties)	Mutually exclusive accountabilities (market relationship)	
Value-added (shared business initiatives)	A combination of arms-length services and shared business initiatives such as distinct obligations and remuneration arrangements	
Co-sourced (integrated resources and accountabilities)	Provision of mixed service labour and assets resulting integrated accountabilities (co-location of staff and management based on both parties' expertise)	
Equity (related entities)	Between two parties of shared equity	

Scope grouping

- Service scope: Which services were outsourced, all related functions or part of them? (*transition of 1.4 million member records to HardLink from inherited legacy systems; implementation of HardLink Exchange; online data validation for employers; implementation of electronic data management and sophisticated scanning technology; redevelopment of TPS website; seamless update of systems in respect of Pensions Simplification (April 2006) and Scheme modernisation project (January 2007); pre-retirement administration; pensions payroll and fund accounting*) In particular, is the update of systems above included the original contract scope?
- Recipient scope: Who are the customers (system users) of the Capita's service? External (pensioner) or internal (DCSF staff / Capita staff)?
- Geographic scope: What is the geographic coverage of this contract? Is every service delivered in Darlington? Don't you have any other place to provide relative services?

Supplier grouping

- Is the Capita a sole contractor of the TPS administration? Are there some subcontractors under the Capita as a prime contractor? Is there any other prime contractor within the TPS administration?
- How many IT outsourcing contracts does the whole DCSF currently have including the TPS administration outsourcing?

Pricing framework

- What is the pricing method over the contract among lump sum, fixed price, unit pricing, and cost based pricing?
- What is the rationale of the chosen method? For example, labour cost?