A Model for Assessing IT Impact Sourcing Relationships

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What determines the success or failure of IT 'impact sourcing' relationships?

We have known for some time that various factors affect the outcome of IT outsourcing relationships. But no-one has yet applied this to IT 'impact sourcing': outsourcing to bottom-of-the-pyramid employees with the aim of socio-economic development impact. This was the focus for a study recently conducted within the Centre for Development Informatics by postgraduate researcher, Sheng Lu.

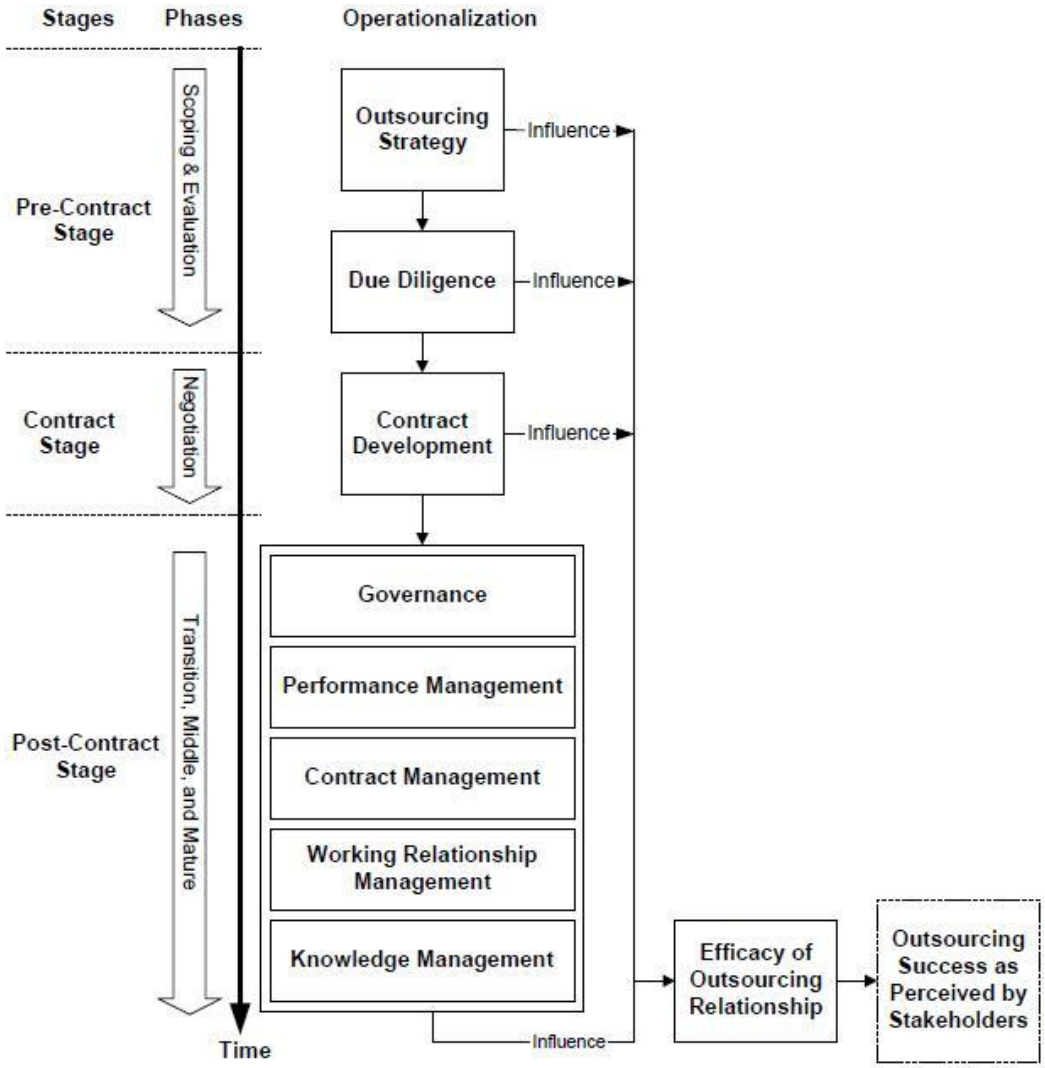
As detailed in "The Research Agenda for IT Impact Sourcing", Rockefeller/Monitor research estimates that impact sourcing is already a US$4.5 billion market employing 144,000 people and "has the potential to be a $20 billion market by 2015, directly employing 780,000 socio-economically disadvantaged individuals".

The most common model of impact sourcing involves three main actors: the client, the BoP sub-contractor employees/enterprise, and an intermediary that sits between the other two and provides quality control. This creates two relationships: client—intermediary; and intermediary—BoP sub-contractor of which the former will be the main focus here.

Numerous models have been used to help understand IT outsourcing relationships in general:

- Some have been more factor-oriented. For example, Lee and Kim (1999)[i] argue that trust, business understanding, benefit and risk sharing, conflict, and commitment are factors that influence the relationship.
- Some have been more process-oriented. For example, Kern and Willcocks (2002)[ii] take an interactional approach that focuses on different types of exchange that occur during an outsourcing relationship.

The model chosen to explain IT impact sourcing was Alborz et al's (2003)[iii] IT outsourcing relationships model, shown in the figure below.



The model divides an IT outsourcing relationship into three stages: pre-contract, contract development, and post-contract implementation. It identifies eight elements which operate during those three stages and which contribute to a successful relationship, some of which can be broken down into further sub-components:
- The initial strategy for outsourcing
- Due diligence through supplier selection, evaluation and development
- Development of the outsourcing contract
- Governance of the relationship through the role and support of senior management, the structure and style of the relationship, and the skills brought to bear upon it
- Monitoring and management of supplier performance
- Management of the contract
- Management of the working relationship between client and supplier
- Knowledge exchange and learning

Alborz et al's model was selected because it integrates a number of earlier models, and combines both process- and factor-oriented approaches.

The model was tested through a review of IT impact sourcing case study secondary data, and through development of primary data from two interviews, providing a client- and intermediary-side perspective from one

of the largest IT impact sourcing intermediaries, with operations in a number of developing countries.

Many of aspects of the client—intermediary impact sourcing relationship mirror those found in traditional IT outsourcing. However, the social mission within impact sourcing was found to affect various elements including:
- ***Due diligence 1***: clients select IT impact sourcing intermediaries on a quadruple-criterion basis of cost, delivery timescale, perceived quality of service, and social mission. The latter may be perceived in terms of alignment with the client's own mission statement (a number of clients themselves have, in part, a social mission). The outsourcing activity may also be given a higher profile by the client than traditional IT outsourcing; for example, in annual reports or corporate social responsibility statements. This pressurises impact sourcing intermediaries to maintain a strong public image of corporate and developmental responsibility.
- ***Due diligence 2***: supplier development encompasses not just the intermediary, but also the terminal sub-contractors at the bottom of the pyramid. These are selected from poor areas or communities, trained and screened for both service quality and social impact by the intermediary.
- ***Contract development***: in some cases (though not all) social impact indicators may be written in to the supplier—intermediary contract.
- ***Governance 1***: the social mission within IT impact sourcing may provide a hook that snags greater senior management support from the client than traditional outsourcing, but it may also create a gap in understanding and knowledge that must be bridged.
- ***Governance 2***: the style of relationship management must, at least initially, be one that incorporates more patience and latitude than required within some traditional IT contracts. Information and knowledge gaps are particularly significant between client and BoP sub-contractors, and all actors tend to be on a learning curve since impact sourcing is too new to contain significant repeat business. But repeat business is growing and there seems to be a general assumption that clients, intermediaries, and BoP sub-contractors will be forming long-term contractual relationships.
- ***Performance management***: as with contract development, this may include monitoring of the socio-economic impact of the contract within the developing country.
- ***Management of the working relationship***: trust is a key factor. But not just trust that the IT services will be delivered on time, on cost, on quality but that any explicit or implicit social impact will be delivered and – more importantly – than any implicit corporate reputational gains will also be delivered. Once again, this emphasises the greater scrutiny that impact sourcing value chains may be subject to compared with traditional IT outsourcing, and the consequent need for intermediaries to exercise care over their reputation and image.

In sum, the limited base of data means this is only a proof of concept that indicates the potential relevance of the model, and points the way for future study. Within those limits, it appears that Alborz et al's model can be applied to help understand IT impact sourcing relationships. While the core stages and elements work as specified, the context of IT impact

sourcing and the influence of social mission mean that specific issues do arise.

We hope that the model will be used for further research, exploring in more detail the processes and factors that underpin success – or failure – of IT impact sourcing relationships.

The model can also be used by impact sourcing practitioners as an analytical tool to assess their own client—supplier relations either before or during contract implementation. Analysis can investigate each of the components of the Alborz et al. framework, adding in the social mission modifications indicated above.

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[i] Lee, J.N. and Kim, Y.J. (1999). Effect of Partnership Quality on IS Outsourcing Success: Conceptual Framework and Empirical Validation. *Journal of Management Information Systems* **15**(4), 29-61.

[ii] Kern, T. and Willcocks, L.P. (2002). Exploring relationships in information technology outsourcing: the interaction approach. *European Journal of Information Systems* **11**(1), 3-19.

[iii] Alborz, S., Seddon, P.B., and Scheepers, R. (2003). A Model for Studying IT Outsourcing Relationships. *7th Pacific Asia Conference on Information Systems*, Adelaide, Australia. 10th-13th July, 1297-1313.