

The Provision of Inter-organisational Infrastructure as an Appropriate Role for Cosourcing

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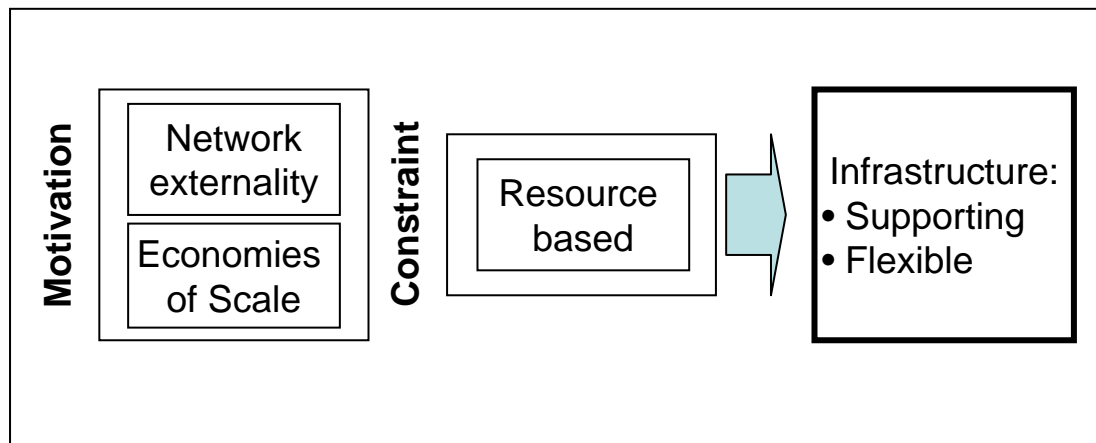
PURPOSE AND SIGNIFICANCE

Ultimately

- Outline a theoretical framework to provide guidance with regard to the implementation of cosourcing (and shared services)

Currently

- Consideration of the motivators and constraints and proposal of infrastructure as an appropriate role
- Empirical basis is core banking systems and the supporting IT services in credit unions



Cosourcing (and shared services)

- In the UK three banks and Unisys formed a joint cheque processing venture (Roberts, 2004) – similarly in Australia PLUS BPay
- Royalty services (joint venture between Warner, Universal and Exigen), Xansa and the English Department of Health (Gartner, 2005)
- Gartner estimates that approximately 5% of all BPO deals could be characterised as BPU contracts
- ABN Amro, Morgan Stanley and others have created shared services centres in Australia for processing, IT support or contact centres
- Gartner suggests that business ecosystems will cooperate to create or converge on selected business process utilities through 2007 (0.6 probability) to 2010 (0.8 probability)

Not all successful

- Seddon (2001) for example provides an account of the Australian Federal Government's failed attempt to introduce IT outsourcing by "grouping government agencies (mainly departments) into clusters"

AN INFRASTRUCTURE ROLE

- Network externalities – value of a unit increase with the number of units sold
- Economies of scale – production and distribution efficiencies as a result of larger size
- Resource based theory - provide generic activities that are not strategic; allowing an organisation to more tightly focus on its areas of competitive advantage
- One potential outcome is a focus on cosourcing to provide inter-organisational infrastructure
- Duncan (1995) defined infrastructure as “a set of shared, tangible, IT resources that provide a foundation to enable present and future business applications” (p38).

STUDY

- Interviews – 14 credit unions, 3 IT services providers
- One or two per organisation (1 – 2hrs)
- Opportunity to comment
- Review of public and company documentation

Credit Union	Total assets	Interviewees
CU1	< \$100m	General Manager
CU 2	< \$100m	General Manager
CU 3	\$100-\$500m	CEO; IT Manager
CU 4	> \$500m	CEO
CU 5	> \$500m	General Manager; Finance Manager
CU 6	\$100-\$500m	CEO
CU 7	>\$500m	CEO; General Manager
CU 8	\$100-\$500m	CEO; Corporate Manager
CU 9	>\$500m	Deputy CEO
CU 10	< \$100m	Deputy Chairman
CU 11	>\$500m	Manager IT; Manager Finance
CU 12	\$100-\$500m	CEO
CU 13	>\$500m	General Manager; Finance Manager
CU14	\$100-\$500m	CEO

Core banking system and computer services cosourcing

Cost savings

- Motivation medium sized credit unions want access to those services, we rely on some of those large credit unions to get that aggregated purchasing power so that we get a reasonable price
- Cost savings
- Voice
- Non core
- Support
- Flexibility
- Alternative suppliers
- Cosourcing flavour

Voice Capabilities

- “If I was to negotiate Australia wide with whoever head up [Company1], number one they’d say well who are you? How big are you.. and they’d basically put me on the bottom of the pile. Or they would charge some astronomical fee for our members to transact” CU6

Capabilities

- “small get access to new technology, large get volume based transaction discounts” CU5

different CUs

	Joint operation	CU1 CU10	CU8	CU2 CU12	CU7 Bundled	Not Bundled CU14	CU5
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Compromise

- “There is inherent compromise in all of these systems...” CU4
- “The system had to be selected to suit all sizes. This system can run on all sizes, but it runs better on the bigger organisations” CU14

FINDINGS & FUTURE RESEARCH

- Externalities and especially economies of scale are motivations for cosourcing – but there are also other factors to consider (eg access to capabilities)
- Cosourcing will be limited to those activities that do not of themselves provide a sustained competitive advantage for any of the organisations involved
- A focus on infrastructure may be appropriate BUT multiple infrastructures
- Future research could usefully look at:
 - cosourcing structures – Is there for example an optimum number of participants beyond which the incremental transaction costs of managing the cosourcing arrangement outweigh the incremental scale benefits (see for example the work of Hancock et al, 1999 regarding diseconomies of scale).
 - Are there preferred compositions – for example that avoid or embrace the inclusion of a partner that is of a significantly larger scale than the other participants.
 - The impact of different legislative frameworks and competitive situations on cosourcing