재벌기업의 BPO 통제 메커니즘에 관한 탐색적 연구: 자원 의존성 관점에서

Exploring Control Mechanisms in BPO(Business Process Outsourcing) Arrangement by Korean Conglomerate: Resource Dependency Perspective

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요 약

본 연구에서는 IT 집약적인 비즈니스 프로세스 아웃소싱(BPO)에 있어서 통제 구조가 불필요하다는 일반 통념에 대한 진실여부를 밝혀보고자 한다. 우선 통제 구조와 관련된 선행연구에서 본 연구의 연구모형을 도출하고 이를 국내 BPO 사례에 적용시킴으로써 BPO에서 사용하고 있는 통제구조를 식별하였다. 또한 현재 BPO에서 사용하고 있는 통제구조의 요소들이 어떠한 관계를 갖고 BPO 성공을 이루는가에 대한 프로세스 관점의 연구모형을 도출하고 향후 BPO 연구 수행에 도움이 되고자 한다.

키워드 : Business Process Outsourcing, Control Mechanism, Resource Dependency, IS Capability

I. Introduction

Recently, firms are increasingly adopting Business Process Outsourcing (BPO) that outsources non-core business processes as wells as supporting Information Technology (IT). The Gartner Group defines BPO as the delegation of one or more IT-intensive business processes to an external provider that, in turn, owns, administrates and manages the selected processes based on defined and measurable performance metrics (Gartner, 2003). BPO permits the firm to focus on its core-competency by outsourcing constantly changing business processes and supporting IT (UN, 2003). BPO can leverage provider's leading-edge technology as well as their economy of scale, gaining significant reduction in costs.

It is a common notion that BPO is controlled by contract mainly in a form of SLA (Service Level Agreement) and there need no additional control mechanisms. The argument behind this is that: since firms do not want to continue to control the business process, they outsourced it to the provider. In

resource dependency theory, control is considered as an organizational response to resource dependence (Green and Welsh, 1988). Defining the resource as the subunit's activities within an organization, Green and Welsh argue that control of the resource is associated with directing or constraining the subunit's activities to some standard or purposes. Control ensures that resources are obtained in an effective manner to achieve the organizational goal.

Translating the resource dependency to a BPO context, the provider's activities to perform the business process can be viewed as the resources for the outsourcer to control. There are two alternative strategies in relation to the control. The first one is the dependence reduction strategy; the second is the dependence restructuring strategy. Dependence reduction strategy is related to settle for less (Green and Welsh, 1988). In this strategy, organizations choose to forego the resource such as settle for less sales within certain areas due to difficulties in control. The purpose of restructuring is to exchange one type of dependence relationship (s) for another to gain a cost advantage or simplication in relation with the control (Pfeffer and Salancik, 1978). Unlike the dependence reduction, dependence restructuring does not require changing organizational goals (Green and Welsh, 1988). The purpose of BPO is not to settle for less but to gain cost advantages or simplication in relation with the control. BPO does not require changing organizational goals. Meeting both conditions of dependence restructuring stated above, BPO is considered as dependence restructuring rather than dependence reduction. Theoretically, BPO still needs to be controlled to ensure that the provider's activities follow some standard and agreement and the resource (i.e. business process) is obtained which is at least equal to the previous level or better.

The purpose of this study is to explore control mechanisms in BPO and how each component of the control mechanisms leads to BPO effectiveness. There has been a stream of research on the control mechanism in IS outsourcing (Kern and Wilcocks, 2001; Sabherwal, 1999; Lee and Kim, 1999). However, they focused on informal control mechanism such as trust based partnership, ignoring other formal control mechanisms such as behavior and outcome control mechanisms. BPO is going beyond traditional IS outsourcing that outsources IT infrastructure and functional applications. Academics and practitioners reported that mismanagement of BPO projects caused short-term market performance shortfalls and business shutdown in extreme case (Shi, 2007). A systematic study needs to be done to investigate effective control mechanisms in BPO setting to ensure BPO effectiveness. As outsourcing grows rapidly, the business tries to define new roles of IS department (Fennny and Willcocks, 1998; Bharadwaj 2000). This research proposes that setting up proper BPO control structure be core IS capability to achieve business advantages through outsourcing opportunities.

Ⅱ. Research Methodology

This study takes exploratory inductive and qualitative approach. After reviewing the literature on IS outsourcing, it was determined that no current theory answered the research question. Therefore, 'ground theory building' methodology that builds theory in a grounded and inductive fashion is used for this study (Eisenhardt, 1989; Yin, 1984). First, the research framework on the control structure is derived from previous literature. The framework consists of potentially important constructs to fur-

ther investigate the control mechanism for BPO. For the control mechanism, this study focused on outcome/process control mechanisms, IS and social control. This framework is applied to case analyses of a Korean firm. Regarding the results of this study, effective BPO control mechanisms are proposed and future research tasks are derived.

Ⅲ. Resource Dependency and Control Structure

Resource dependency theories argue that control mechanisms are associated with an organization's dependence on the subunit's activities within the organization (Green and Welsh, 1988). The subunit's activities performed for organization are considered as resources (Nord, 1980; Pfeffer and Salancik, 1978). Because achieving organizational goals depends on the resources (i.e. the activities of the subunits), the dependence needs to be controlled to ensure that the resources are obtained in an effective manner. Translated to IOR (Inter-Organizational Relationship) setting like BPO, the primary purpose of control is to ensure that the outsourced resource be obtained in an effective manner to achieve predetermined BPO goal. Control structures in IOR can be explained from TCE (Total Cost Economics), agent and coordination theories.

From TCE standpoint, hierarchical control structure is used to complement incomplete contract in IOR. When the organization can specify all the contingencies on the contract to protect their investment from the opportunistic behaviors of the partner, hierarchical control is not necessary (Williamson, 1979; Williamson, 1991). However, when bounded rationality limits the organization to anticipate all the contingencies, the organization employs the hierarchical control to complement the incomplete contract. Types of the hierarchical control are well addressed by agent theory.

Agent theory argues that agency relationships exist in all cooperative efforts (Eisenhardt, 1985). In this relationship, one party is designated as the agents who act for the other called as principle. The control structure for the agent is determined by task characteristics of the agent. If task is relatively programmed, behavior control mechanisms such as operating procedures and rules are appropriate. If the task is less programmed and outputs are readily measured, then outcome-based control mechanisms such as target performances are appropriate. Organizations can compensate for decreased task programmability and outcome measurability by increasing information systems (IS) or social control (Eisenhardt, 1985). Information Systems have capability to monitor the behavior of the agents and measure their performances (Smith and Fingar, 2002). The social control mechanism compensates the uncertainty and ambiguity of agent's performance by improving the goal congruity. The principal mode of social control is trust that is associated with the goodwill and capabilities of the agent (Adler, 2001; Sako, 1992). Goodwill trust is defined as the expectation that someone will perform in the interests of the relationship, even if it is not in the other's interest to do so. Capability trust relates to expectations about another's competencies to perform a task satisfactorily. In fact, trust is regarded to be the most efficient and low-cost solution. Therefore, it substitutes formal controls whenever a sufficient level of formal control is realized for safeguarding the transaction (Ouchi, 1979; Decker 2003).

As opposed to TCE, some organizational scholars assert that even under perfect contract, there still needs for hierarchical control mechanism in order for coordinating the resource dependencies (Gulati

and Singh, 1998, Decker, 2003). According to (Gulati and Singh, 1998), Imagine that an alliance is formed between two firms that have complete confidence in each other and face no appropriation concerns whatsoever. Despite this frictionless situation, they must still coordinate the division of labor and the interface activities and products between them.

Coordination theory views IOR as cooperation between partners to create value as well as to achieve desirable or predetermined outcomes (Fisher, 1995; Borys and Jemison, 1989; Dyer and Singh, 1998; Zajac and Olsen, 1993). To create value, partners in IOR pool resources, determine tasks to be performed and decide on a division of labor (Decker, 2003). The resulting interdependence between the subtasks that the partners agree to perform, subsequently needs to be coordinated across organizational boundaries. The extent of the anticipated interdependence between partners at the time they form an alliance can vary substantially. At one extreme, an alliance may have a simple division of labor with minimal ongoing adjustments. At the other extreme, the likely interdependence can be extensive, resulting from a complex division of labor that requires continuing mutual adjustments between partners.

According to Malone and Crowston (1990), coordination is defined as the act of managing interdependencies between activities to achieve a goal. Interdependencies among activities exist whenever the output of an activity is the input to one or more other activities. Interdependencies also exist when several activities are using same objects or must occur at the same time. In total, there are three types of interdependencies among individual activities: prerequisite, shared, and simultaneity. Coordination of prerequisite interdependencies involves ordering activities and moving information from one activity to the next. While coordination of shared resource involves allocating resource required by multiple activities, coordination of simultaneity involves synchronizing the activities that must occur at the same time.

Similar types of interdependencies and coordination mechanisms can be found in the organizational theory (Thompson, 1967). For coordination among pooled interdependent units, they suggest establishment of standardization, by which the actions of each unit can be constrained and consistent with those of others in the interdependent relationship. This coordination is appropriate when the environment is relatively stable and repetitive. Coordination among sequentially interdependent units is accomplished by planning or scheduling for sharing information that governs each of their actions. Coordination by plan does not require the same degree of stability and routinization that is required for coordination by standardization and thus is suitable for more dynamic situations. Coordination among reciprocally interdependent units can be achieved by mutual adjustment. As the situation is more variable and unpredictable, the company relies more on coordination by mutual adjustment.

The higher the anticipated interdependence between alliance partners, the greater the magnitude of expected coordination costs. Thus the choice of control structure must consider coordination costs resulting from the extent of interdependence expected by the partners (Gulati and Singh, 1998). Gulati and Singh (1998) stress the importance of using control mechanisms for managing task interdependence by arguing that concerns about anticipated coordination costs are particularly salient in alliances, which can entail significant coordination of activities between partners and yet have to be managed without the benefit of the structure and

〈Table 1〉 Task Characteristics and Control Structure

Task characteristics	Control Mechanism
Programmable	• Ex-ante Behavior Control (planning, formalization, rules and operating procedures) • Ex-post Behavior Control (reporting and checking Devices)
Less programmable but Outcome measurable	• Ex-ante Outcome Control (explicit goals) • Ex-post outcome control (performance monitoring and rewarding)
Less programmable and Less outcome measurable	• Information Systems, Social Control

systems available in traditional hierarchies. Typical coordination mechanisms to minimize coordination costs in communication, decision making, and preventing, disputes include planning and formalization. Planning involves defining activities, scheduling activities and allocating resources. Formalization defines roles and interactions rules between partners, prevents conflicts and simplifies coordination.

According to Decker (2003) and Ouich (1979), control mechanisms can be classified into ex-ante and ex-post mechanisms. While the ex-ante mechanism is related with aligning partner's interests before execution, the ex-post mechanism is associated with resolving control problems during execution by monitoring and evaluating performance. Planning, formalization, rules and operating procedures discussed above are ex-ante behavior control mechanisms (<Table 1>). Behavior monitoring such as reporting and checking devices are ex-post mechanisms (Das and Teng, 1988).

Ex-ante outcome control includes goal setting and incentive system. Das and Teng (1988) emphasize importance of goal setting: because explicit goals often are difficult to formulate in the initial stage of forming alliances, firms would give more attention to an effective goal setting process. By participating in the goal setting process, the partners interact among themselves, gain a better understanding of each other, and develop mutual trust (Liefer and Mills, 1996). This process aspect of outcome control not only helps set the direction and develop mutual trust but also facilitates setting specific rules and regulations. When firms have more needs for control, the firms set goals with shorter-term orientation that can be evaluated more frequently (Das and Teng, 1998). Ex-post outcome control includes performance monitoring and rewarding.

Ⅳ. Data Collection

Data sources include interviews with managers and documents about the firm. Since the BPO market was in its infancy, it was difficult to find a BPO case. Therefore, we first contacted a highly reputable SI (System Integration) firm to identify a BPO case. We found out that an E-Solution unit of the firm (denoted as E-Solution hereinafter) had just started providing BPO to ELC. ELC, a subsidiary of the largest manufacturer of electronic consumer products in Korea was found to operate on-line shopping mall of the parent company. ELC outsourced the operation of the order fulfillment process and related system to E-Solution, a subsidiary of the same conglomerate as ELC. The system fully automates order fulfillment process consisting of re-

ceiving a customer order, checking inventory, making payment, delivering the order, and managing customer accounts. For the delivery of the products and electronic payments, the on-line system is integrated with the business process of external business partners through an extranet. The scope of our study is limited to the process handled only by the provider.

Initially, the E-Solution vice director was interviewed twice to identify control mechanism built in the BPO relationship with ELC. Each interview took about one and half hours. The manager of E-Solution in charge of ELC was interviewed for two hours. The case data obtained from the manager covers the system that the partners were using for communication and control purposes. Then, the personnel of ELC in charge of BPO were interviewed to validate the control mechanisms and obtain additional control mechanisms as well as the performance of BPO.

Both parties requested anonymity in return for providing information about control mechanisms such as budget, BPO performance and goal setting. Upon their requests, tape recording was not used; only note taking. After the interview, e-mail, messenger and telephones were used to obtain additional information as well as to validate the case data. To enhance the validity of the case study, first, the case protocol was developed as suggested by Yin (1984). The protocol includes research background, interviewee, interview questions, data to be collected and the process of data collection.

V. Case Description

5.1 Firm Background and BPO Goals.

The parent company of ELC is a global leader and technology innovator in consumer electronics, home appliances and mobile communications, comprising four business units Mobile communications, Digital Appliance, Digital Display and Digital Media with 2006 global sales of US $38.6 billion[1]. Traditionally, the parent company sold consumer electronic products through off-line channels. They founded ELC for an on-line shopping mall operation. As on-line sales grew, the order fulfillment process became problematic. ELC needed a systematic handling of the order fulfillment process to improve customer satisfaction. At the same time, ELC recognized the importance of on-line channels, marketing and communication. ELC signed a BPO contract with E-Solution. The aims of BPO were efficient operations of the order fulfillment process and related on-line systems. In the same year that BPO was adopted, on-line sales jumped 12 folds. At the beginning of on-line shopping mall, only 5 orders per day were processed. When orders exceeded 5 per day, the order fulfillment became chaotic. Right after outsourcing started, order fulfillment process was improved enough to process orders worth of $0.3 million per month. $0.3 million was the annual sales figure before process outsourcing. As results of the outsourcing, customer satisfaction was also improved.

While ELC was in charge of strategy, home page design, marketing, promotion, and customer relationship management, the provider was responsible for order processing, payment, delivery, account management, system development, system operation and system maintenance.

The purpose of BPO can be summarized below:

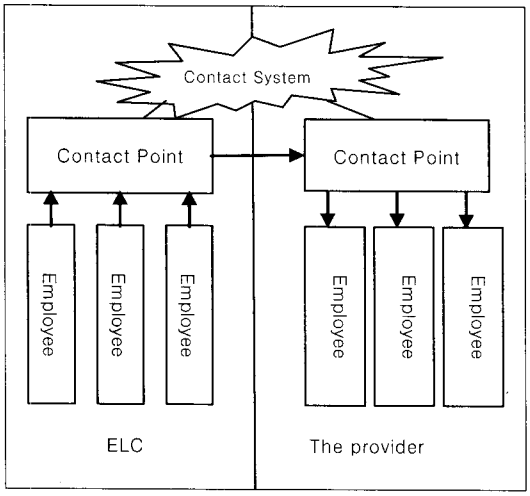
1) For anonymity, the document source from which factual information about the firm was obtained is not revealed.

① Sales increase through accurate and rapid order processing.
② Cost reduction through outsourcing.
③ Implementation of automatic system for an on-line shopping mall.
④ Effective risk management associated with on-line operations.

The interviewees consistently indicated that forming a consensus on BPO goals, objectives and values are the most important factors in BPO effectiveness.

5.2 Communication Mechanism

For efficient operations of the online-shopping mall, setting up the communication mechanism between ELC and the provider was vital. For example, to accommodate the development of new products and discontinuation of existing outdated products, the contents of the on-line catalog needed to be updated constantly. This requires clear and consistent communications between ELC and the provider. Six employees from the service provider resided in ELC. ELC and the provider communicated through the Contact-Points <Figure 1>.



〈Figure 1〉 Communication Structure

The Contact-Point in ELC collects the service requests made by the employees in ELC and sends the request to The Contact-Point of the provider via Contact System. Then, The Contact-Point of the provider distributes the requests to the relevant employees for processing. Developed by the provider, the Contact System is an asset of the provider. The service requests were made in relation to the following matters and concerns:

- maintenance of the system
- security of the system
- performance of the system
- payment
- delivery
- account management
- request of the system output
- correction of the system errors.

The requests were made upon needs. The Contact System keeps track of the individuals who requested and processed the task. The system provides feedback on processing status as well as delayed processing. The entire work process was recorded electronically and can be accessed by both parties. On-line manuals related to the process were provided. This communication structure prevented potential conflicts between ELC and the provider. If the employee with an excuse of urgency had directly asked the Contact-Point of the provider, the provider would have had difficulties with scheduling the request. This might have caused conflicts between ELC and the provider. Upon completion of the requests, the provider calls to ask if ELC is satisfied with the service.

Before executing the process, it was important

for the partners to set the performance goal. Goal setting provided the partners with directions as well as clarification of mutual expectations. In the process of setting the goal, the partners got involved in the active communications to resolve the differences in the goal. An example of the difference could be when ELC wanted to set the task processing time to 20 days and the provider did not agree. To resolve the difference, they communicated. Mutual trust between the partners was important for resolving the differences. During this process, the partners agreed that goal congruence increased among them.

The Contact System keeps track of the number of new requests, fulfilled requests, incomplete requests and reporting calls. Every month, the provider makes a monthly report including status of the requests and summary statistics of the requests. ELC then gives the provider feedback based on the monthly report. Monthly evaluation also covers the evaluation of process quality such as a mismatch in inventory levels between the system and the warehouse. When the performance of the provider is below expectation, ELC adjusts the process. At the end of the year, an annual evaluation is performed and the results are reflected on the following year's contract. Although the BPO is contract based and there is no need for extra incentives except for the fee specified on the contract, a 'Gratitude Certificate' is awarded to the selected employee of the provider. Then, this award is reflected in the Human Resource (HR) evaluation of the provider.

The partners tried to build mutual trust. Over time, ELC's requests and complaints were addressed at the individual level informally and without reporting to the control line. This was possible since the Contact System worked well and trust was built over time. The two parties felt that they were on the same team. The partners also communicated via MSN, phone and e-mail for service requests, request confirmations, and opinion exchanges. Frequent Interactions via this communication system helped build trust as well.

5.3 Annual Planning

At the beginning of every year, ELC lays out an annual business plan and the provider participates in the planning process as needed. For example, in the ELC setting, a goal of $10,000,000 in annual sales on-line, and then the provider issues guidance for the system capacity. Launching a new business line to take advantage of already developed e-commerce system also requires provider's expertise on system requirements.

Once the annual goal for ELC and associated goals for the provider are set, the provider needs to submit the business plan. The plan includes budgets, specific tasks to be performed, time line and HR requirements. The business plan is based on ABB (Activity-Based Budgeting) by which activities and required resources to perform the activities are derived. ELC evaluates and approves the plan. In the process of setting the performance goals and finalizing the business plan, the partners involved in active communication formed a consensus gradually and developed mutual trust.

5.4 Risk Management

Various risk types and risk management procedure were predefined. When a problem was sensed or occurred, ELC was immediately informed the partner of the risk level, the risk handling procedure applied, and the results of the application. The following types of the risks were defined: physical,

software, and environmental. Physical risk includes unauthorized access to the system, fire, network down and hardware failure. While software risk includes duplicate data definition, environmental risk includes personnel leave, marriage and giving birth. The physical risk was monitored and handled for 24 hours by the network management team. Software risk was notified to the appropriate personnel for correction. For environmental risk, the service provider replaced appropriate personnel immediately.

VI. Findings From Case

In BPO arrangement, the outsourcer and the client were found to be highly interdependent. Even though the relationship between the outsourcer and the provider was based on contract, significant interactions and knowledge exchanges occurred before and during BPO execution. The provider even participated in the outsourcer's annual planning process to adjust process activities and performance for possible future business scenarios. To gain economy of scale, the providers tend to standardize the business process for which they provide the service (Shi, 2007). To the outsourcer's side, this standardization causes break down of their work into smaller processes for outsourcing, which is called modularization of the business process (Kim, 1996). The modularized business process outsourcing causes the interdependencies between the outsourcer and the provider. To manage the interdependences, the contract based relationship was complemented with various hierarchical elements summarized in <Table 2>. The outsourcer's competency in setting up proper control mechanisms bears direct impact on BPO success (ELC's sales jumped 12 folds in the same year that BPO was adopted). Specific control mechanisms found in the case study are listed in <Table 2> and each finding is explained below.

6.1 Findings1: Behavior Control Mechanism

To pre-specify how the provider should act, the

〈Table 2〉 Summary of Case Findings

Types of Control Mechanisms		Control Mechanisms Used in the Case
Behavior Control	Ex-ante mechanisms	• Annual Planning • Risk management procedure • communication protocols
	Ex-post mechanisms	• Monitoring work process via Contact System • Scheduled reporting
Outcome Control	Ex-ante mechanisms	• Performance goals, Annual goal
	Ex-post mechanisms	• Data from Contact System • Gratitude Certificate
Social Control	Ex-ante mechanisms	• Reputable vendor selection • Vendor's capability
	Ex-post mechanisms	• Gratitude Certificate • Frequent communication • Goal congruence • Mutual trust

following ex-ante behavior control mechanisms were used: annual planning, risk management procedure and communication rules and procedures. Once annual goal was set by ELC and the provider, specific activities to be performed were laid out; and time and resources were allocated. The provider's participation in annual planning process helped to adjust process activities and performances that the provider accounts for under future business scenarios. This found to be detrimental for BPO success according to the interviewee. Various risk management procedures including even handling of personnel leave were found in this case. BPO industry is well-known for high turn-over rates (Shi, 2007). Thorough risk management procedures increase awareness of potential performance risks and thus chances of BPO success.

It is important to note that lateral communication channel set by Contact-Points prevents members' direct communications and prevents possible conflicts resulting from too many communication links. Coordination complexity is associated to the frequency of communications along the communication links (Hall, 1991; Malone, 1987; Malone and Smith, 1988). In order to reduce the frequency of communications between the outsourcer and the provider, the Contact-Point in ELC collects the service requests made by the employees in ELC and sends the request to the Contact-Point of the provider via Contact System. The message handling rule established for Contact-Points made the receiving Contact-Point be kept from frequent disturbances.

IS called the Contact System played a major role as ex-post behavior control mechanism. Through the Contact System, ELC was able to check if the service request is registered and completed by the appropriate personnel with desirable outcomes. The system keeps track of a series of activities done by the provider, which includes registration, processing and close-up of the request. The system not only records the individuals involved in each activity but also records the time of the activity. The system also provided feedback on registration, processing status and reasons for any processing. Weekly and monthly reporting was used to ensure desirable behavior of the provider. More rich communication methods such as phone and MSN, were used to complement the limit of formal Contact System.

6.2 Findings 2: Outcome Control Mechanism

Specific goals were used as ex-ante control mechanisms. In the beginning of the outsourcing arrangement, the purpose of the BPO contract was clearly specified. Both short-term and long-term goals were set. For the area that needs to be monitored and checked frequently, the goals with more short-term orientation were set. Goal setting not only provided the partners with directions for performing task, but also allowed them to understand each other's expectations. In the process of setting the performance goal, the partners communicated actively for mutual adjustment, formed a consensus and developed mutual trust.

Ex-post outcome control was done based on data from the Contact System. Obtained from the Contact System, provider's performance indicators (i.e., the numbers of new requests, fulfilled requests, incomplete requests and reporting calls) enabled ELC to check and adjust any departure from the agreement. This checking was done through weekly and monthly reports. A 'Gratitude Certificate' is awarded to the selected employee of the provider. Complementary use of various other media such as

phone calls, each has different information richness, served as effective feedback mechanism to deliver process status and performance, which is essential to cybernetic nature of control system.

6.3 Findings 3: Social Control Mechanism

A reputable vendor was selected as BPO partner. Vendor's competency in laying proper control mechanism bears direct impact on building mutual trust and BPO success. As indicated by the manager, the two parties felt that they were on the same team. Efforts to build mutual trust were made by both parties. ELC awarded the Gratitude Certificate' to the selected employees of the provider, although there was no need for it. On the other hand, the provider made the following efforts to build trust: (1) resolve ELC's requests and complaints informally without reporting to the formal control line; (2) place phone calls upon completion of the request; and (3) communicate with ELC via MSN, phone and e-mail for confirmation and opinion exchange. All these efforts create frequent interactions between partners, which results in mutual trust. In the heart of the Contact System, goal setting and trust-based relationships, was communication and learning about each other's expectations. Communication and learning in turn lead to high goal congruence.

Ⅶ. Conclusions and Limitations

The myth about BPO is that there needs no additional control mechanism but SLA (Service Level Agreement) in controlling the outsourced process. This study has found that significant interactions and knowledge exchanges occurred before and during BPO execution due to interdependencies between an outsourcer and a provider. The fact that the outsourcer and the provider mutually adjust their business plan during the annual planning process indicates that the partner's interdependency is very high. To manage the interdependencies, the contract based relationship was complemented with various hierarchical control mechanisms. This study suggests that the managers of the outsourcing companies should focus the followings to ensure BPO success:

- setting up mutually agreed BPO goal, having clear project plans, allocating adequate resources and defining potential risks
- minimizing coordination complexity via a set of communication rules and procedures
- complement the limit of formal communication structures by utilizing more rich communication methods such as face-to-face meeting and phone
- setting up effective feedback mechanism to deliver process status and performance
- establishing trust-based partnerships via goal congruence and effective communications

This study has also found that a provider's competency in laying proper control mechanism has direct impact on BPO success. In this particular case, the provider acted like an extended organization of the outsourcer via setting up proper communication protocols and keeping physical proximity.

As outsourcing grows rapidly and IS function migrates to a relatively small functional unit, many businesses are struggling to define and develop new IS capabilities for their units (Fennny and Willcocks, 1998). This study proposes that 'setting up proper control mechanism between user and BPO service provider' is new IS capabilities that businesses should focus on. According to Bharadwaj

(2000), IS capabilities are key driver of performance difference among successful firms from less successful counterparts. As firms experience global competition and opt for BPO to focus on core competency, development of BPO control mechanism is expected to be core IS capability for successful firms. The ELC's capability in setting up proper control mechanism bears direct impact on its business performance. The following fact supports this conclusion: on-line sales of ELC with proper BPO control mechanisms jumped 12 folds in the same year that BPO was adopted.

Further research is called for to investigate the relationships between learning and BPO effectiveness. This study indicates that BPO requires frequent communication and learning between the outsourcer and the provider in the process of defining goals, eliciting requirements, and processing the requests. The Contact System, goal setting process and trust-based relationships facilitated the communication and learning. While the provider learned of the needs, requirements and expectations of the outsourcer, the outsourcer learned of the expertise and advice of the provider to achieve BPO effectiveness. Collectively, the provider and vendor build a consensus of target business model and achieve BPO effectiveness. The above is summarized by the following research model:

- The Contact System → Promotion of communication and learning → High quality outcome.
- Goal Setting Process → Promotion of communication and learning → Goal Congruence → High quality outcome.
- Trust-based Relationships → Promotion of communication and learning → High quality outcome.

Future research is also called for side effects of learning such as 'asymmetrical learning' by an outsourcer and its provider as well as 'knowledge spillover'. Since the provider usually has multiple clients, it could learn more about BPO projects and be smarter then the client. This might cause opportunistic behavior of the provider to creep up the price, work amount, or work scope (Shi, 2007). Knowledge spillover during frequent interactions can have harmful effects on the outsourcer. More research on long-term control mechanism can be done in relation to side effects of learning.

The findings can not be extrapolated to all BPO cases because this study is based on one case. The outsourcer and the provider in this case belong to the same conglomerate group and their control structure could be greatly influenced by this unique relationship. For example, annual planning shown in this case might be unique control feature in an affiliated relationship although price-bidding client-supplier relationships increasingly employ joint planning process to protect incomplete contract (Hopwood, 1996; Gietzmann, 1996). Further studies need to be done in a wide variety of context to broaden the research data. Nonetheless, the findings still provide some fairly significant insights in exploratory research.

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Exploring Control Mechanisms in BPO (Business Process Outsourcing) Arrangement by Korean Conglomerate: Resource Dependency Perspective

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Abstract

The myth about BPO is: since firms do not want to continue to control the business process, they outsourced it to the external provider. Therefore, there is no need for controlling the outsourced process. Based on resource dependency theory, this study explores control mechanism used in BPO context.The overall approach of this study is qualitative, inductive and exploratory. First, a generic framework on the control structure is derived from extant literature, which includes outcome/process control, IS and social control. This framework is applied to a Korean BPO case. This study has found that the hybrid control structure consisting of behavior, outcome and social control mechanisms are effective for BPO success. As outsourcing grows rapidly and IS functions become smaller, the business struggles to redefine its IS capability. This research proposes setting up proper control mechanism between user and BPO service provider as new IS capability that business should focus on; and provides guidelines for managers in development of new IS capability.

Keywords: BPO, Control Structure, Exploratory Study

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이화여자대학교 컴퓨터학과를 졸업하고 Texas Tech University에서 경영정보학 석사와 박사를 취득하였다. 현재 이화여자대학교 경영대학 경영정보시스템 부교수로 재직 중이다.
주요 관심분야는 비즈니스 프로세스 관리(Business Process Management)로서 현재 프로세스 아웃소싱과 관련된 조정 및 통제 메커니즘에 대한 연구를 수행 중이며 관련 분야에서 다수의 논문을 발표하였다. 한국경영정보학회와 한국시뮬레이션 학회 회원이다.

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이화여대 법학과를 졸업하고 이화여자대학교 정보과학대학원에서 석사를 취득하였다.

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