STRATEGIC GOVERNANCE AND RISK-MANAGEMENT OF THE OUTSOURCING ECOSYSTEM:

Developing dynamic capabilities and addressing implementation challenges

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THESIS SUMMARY

As outsourcing continues to grow in large global organisations, governance and risk management of the related outsourcing ecosystem is evolving as a strategic Board-level activity, driving competitive advantage and value-creation, in addition to value-protection. Amidst this growth and evolution, the outsourcing of Information Technology (IT) and IT-enabled Business Process Outsourcing (BPO) continues to mature into a broader category referred to by contemporary researchers as "business services" including almost every service that can be delivered by third parties, often enabled by digitisation and technology.

Through such strategic initiatives, focused on creating inimitable competitive advantage and organisational value, organisations have increased their levels of dependence on outsourcing, exposing themselves to newer risks amid shifting business environments. But despite these developments, there has been limited research on the ability of organisations to manage risks around outsourcing with a dynamic mind-set to create and protect value for organisations. Instead, most research continues to focus exclusively on preventing "bad things happening".

The first part of the research establishes the context by providing a forward-looking multi-disciplinary view on strategic risk and governance related to outsourcing. This is followed by gaining an understanding of how and why large global organisations are broadening their perspective and enhancing maturity over governance and risk-management around their outsourcing ecosystem, including capabilities that they must develop to emerge as astute decision-makers, using industry-specific case studies. The second part of the research uses primary data to capture the overall progress made in achieving this transformation and implementation challenges.

This thesis contributes to the growing body of outsourcing literature by focusing on governance from a novel "outsourcing ecosystem" perspective. It also makes practical contributions by identifying and addressing implementation challenges relevant to this transformational thinking, together with a 2x2 framework, which hold relevance for organisations operating with a significant outsourcing ecosystem and their leadership.

Keywords: *Outsourcing Ecosystem, Strategic Governance, Risk Management. Dynamic Capability, Third-party Risk.*

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1 INTRODUCTION

<u>Section Summary</u>: This section provides an introduction to the subject and motivation for the research. It sets out an overview of the research problem and the change drivers in the macro-economic and business environment of large global organisations that are propelling these organisations to transform themselves to adopt a more strategic approach to the governance and risk management of an ever-increasing number of third parties forming their outsourcing ecosystem. Having thus set the context, it seeks to identify and address the research gaps in this area by aligning them to the research steps and highlighting the proposed contribution from a theoretical and practical perspective. Following on from this introduction, the subsequent section will describe the philosophy of the research and its phased design, together with empirical data collection and related safeguards for ethical conduct of research. A brief description of the key constructs and terms used in this thesis is set out in Appendix – E.

1.1 Introduction and overview of the research problem

This thesis explores the emerging change in mind-set (and related organisational transformation) around risk management and governance in large global organisations that are outsourcing IT and business processes to a progressively larger number of vendors (including some positioned as strategic business partners) forming their "outsourcing ecosystem" or "extended enterprise". These organisations consider this change to be highly strategic in nature, i.e. where specific responsibilities and behaviours lead to the successful implementation of the organisational strategy. In addition to cost-reduction, organisations are increasingly striving to achieve strategic benefits such as more flexible IT, access to global markets and talent, etc. making it important to understand sourcing projects and their governance within a more strategic context (Lacity, Khan, & Yan, 2016).

Throughout this thesis, the phrase "third party" is used consistently to refer to providers/suppliers of IT and business processes and services, collectively also referred to as the third-party ecosystem (discussed in detail in section 3.2 of this thesis), embodying the cumulative impact of these individual outsourcing relationships. Accordingly, "outsourcing risk management" refers to the process of managing risks related to the third-party ecosystem.

In support of the growing third-party ecosystem in organisations, recent data published by Deloitte (2018) in their publication entitled "Extended Enterprise Risk Management (EERM) – Focusing on the Climb Ahead" indicated that more than 56% of large global organisations had more than 1000 third parties comprising their ecosystem or extended enterprise. Within this group, 27% managed

anything between 10,000 and 50,000 third parties as part of their ecosystem while another 19% had more than 50,000 third parties forming their extended enterprise. This number is only expected to grow in the years ahead.

This thesis is organised by sections and sub-sections rather than chapters and sub-chapters. The first part of the research (section 3) establishes the context by providing a forward-looking multi-disciplinary view of the emerging concept of strategic governance and risk management. Having set the context, it then attempts to gain an understanding of *how* and *why* such large global organisations are broadening their perspective and maturity over governance and risk-management around their outsourcing ecosystem, together with the organisational capabilities that they must develop to emerge as astute decision-makers in this regard, using primary research-based industry-specific case studies.

The second part of the thesis (sections 4 and 5) also uses further primary data, but this time to capture the overall progress made in achieving this organisational transformation, identifying the related implementation challenges, and evolving good-practice (to address these challenges), to exploit the full spectrum of opportunity that the outsourcing ecosystem presents.

This research recognizes the role of the Board of Directors in large publicly-listed global organisations to be in keeping with fiduciary duties to shareholders. This includes providing strategic direction and monitoring organisational goals, together with related strategies and policies. The role of executive leadership, led by the Chief Executive Officer (CEO), is to run the organisation in line with the Board's direction by making operational decisions, keeping the Board informed, and providing information and recommendations to support the Board in policy-making, decision-making, and oversight. Accordingly, the term "Board-level activity" in this thesis refers to an activity of a strategic nature that is directed and monitored by the Board, while being implemented by the executive leadership including the CEO and other members of top management (referred to as the C-suite), under direct Board oversight.

Over the last few years, the potential for enhancing organisational value through the outsourcing ecosystem, enabled by such strategic governance and risk management, has made it a Board- and top

leadership (C-suite)-led imperative and has led researchers to study this phenomenon with a value-creation and competitive advantage lens. Earlier researchers mainly focused on value after it was created, rather than the proactive identification of the antecedents of such value creation (Chebiyyam, Sidhartha, Narain, & Kanwal, 2016), in this case through a strategic approach to governance of the outsourcing ecosystem. At the same time, related organisations have also gradually increased their levels of dependence on outsourcing to unprecedented levels (Forrester Research, 2013; Gartner, 2014; Deloitte, 2015), exposing themselves to newer risks and hazards amid shifting business environments (Starbuck, 2014; Oshri, Kotlarsky, & Willcocks, 2015; Deloitte, 2016; Lacity, Khan, & Yan, 2016). Despite this development, over the last decade or so there has been limited research on the ability of organisations to manage risks around outsourcing with a strategic and dynamic mind-set to create value for organisations. Instead, most researchers have largely examined risk management around outsourcing with the goal of preventing "bad things happening" and avoiding the related risks, where possible. Further, their research has focused primarily at the level of contract managers and other members of middle/lower (i.e. operations-focused) management rather than at strategic management or top leadership levels (e.g., Zhang, Liu, Tan, Jiang, & Zhu, 2018; Gupta, 2018; Suveiu, 2015; Lintukangas, Kahkonen, & Ritala, 2016; Tsan-Ming, Yulan, & Wallace, 2016; Christ, Mintchik, Chen, & Bierstaker, 2015; Słoniec, Kaczorowska, & Motyka, 2016; Alexander, & Stefan, 2016; Jarvenpaa & Keating, 2011; Handley & Benton Jr., 2012; Mason, Oshri, & Leek, 2012), although combined vendor-provider operational perspectives have more recently started to emerge (e.g. Yu-Chih Liu, & Asri Rizki, 2016; Liu, Wang, & Huang, 2017) and the focus on a broader range of third parties beyond just IT or BPO outsourced service providers is starting to develop for the benefit of independent reviewers within an organisation such as internal audit functions (Rose & Frio, 2017). This missing evidence has obscured the full spectrum of potential opportunity that outsourcing could create for organisations, particularly those that are more radical or transformational in nature. This thesis aims to address the gap and broaden this perspective by gaining a better understanding of this strategic transformation, relating it to the development of newer organisational capabilities and identifying/addressing the challenges with implementing this new approach.

Apart from the growing level of dependence on this outsourcing ecosystem, the uncertain, volatile and complex macro-economic and business environment since the last global financial crisis has only made the case for such an enquiry more pressing. Starbuck (2014) argues that risk management as part of corporate governance should continually consider technological and social changes such as networking and alliances, which are propelling corporations toward entirely new organisational forms. Further, he stresses that businesses will continue to face growing economic uncertainty and turbulence, requiring them to develop new capabilities to increase their maturity in risk management in this environment. This call for a refocus on governance and risk management is further supported by researchers such as Lehn (2018), who argues that in this rapidly changing environment, governance plays a prominent role in ensuring corporate agility, i.e., the ease with which firms adapt to changes in their respective environments, particularly in the more decentralised environments. This, in turn, is directly related to corporate performance and survival during such periods of environmental volatility. Individuals charged with governance, including members of Boards of Directors and Audit Committees, as well as C-suite executives are now facing much greater accountability with greater consequences for not appropriately discharging governance-related responsibilities, particularly in the more regulated industry segments (Keay, 2017; Brinkley, 2016). Researchers believe that increased accountability will help drive greater prudence and better conduct in governance (e.g. Korner, 2017).

As outsourcing evolves, including variants like nearshoring, offshore outsourcing and on-shoring (Oshri, Kotlarsky & Willcocks, 2015), the various risks involved and management mechanisms also continue to mature and evolve (Carmel & Agarwal 2002; Hahn et al., 2009). The first few waves of experimenting with outsourcing have now moved this up the value chain, calling for enhanced and evolved strategic mechanisms for governance/risk management.

1.2 What is changing in the internal and external environment?

This sub-section highlights the change drivers in the macro-economic and business environment of large global organisations that are compelling them to transform their approach to governance and risk management of their outsourcing ecosystem and to reposition the same to more strategic levels as

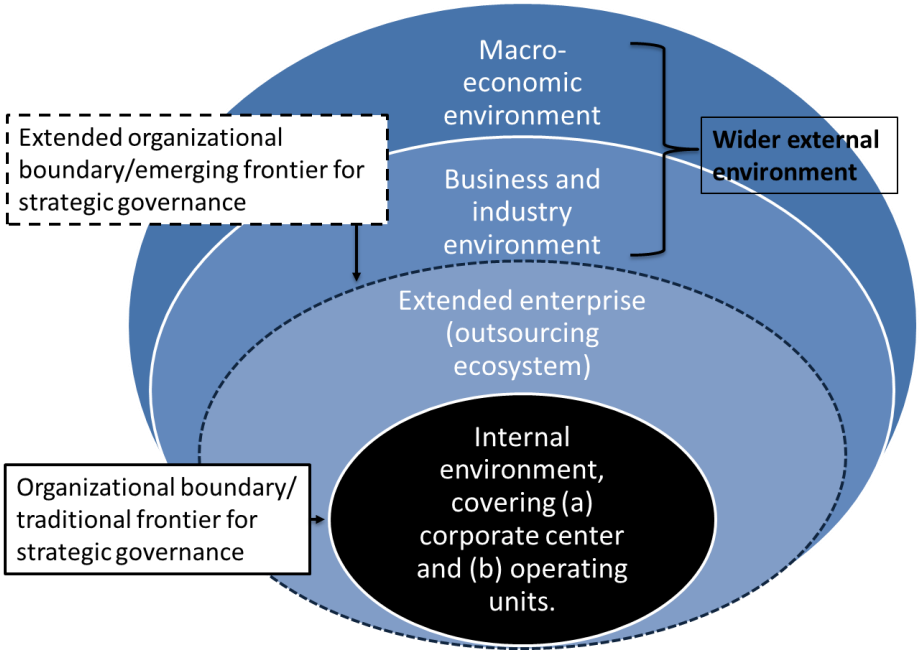
explained earlier. Throughout this thesis, the term “strategic governance and risk management” is used to denote its close linkage with the successful implementation of the strategy of large global organisations in this thesis that operate with a significant outsourcing ecosystem (after establishing its implications through literature review in section 3.1), although a number of similar terms such as “the adoption of a strategic mind-set”, “strategic transformation”, “strategic repositioning”, and “strategic management” are used in prior literature. Therefore at the very outset of the thesis, it is worth gaining an understanding of what such strategic responsibilities and behaviours entail. Najmaei (2014) argues that strategic management, in both theory and practice, tries to understand how organisations aspire to improve their performance in competitive interactions with other firms.

Given this description, strategic management can be described as “developing an explanation of firm performance by understanding the roles of external and internal environments, positioning and managing within these environments, and relating competencies and advantages to opportunities within external environments, or the processes of building capabilities that allow a firm to create value for customers, shareholders, and society while operating in competitive markets” (Nag, Hambrick, & Chen, 2007, p.946.). This view of strategic management points to three essential constructs of strategic management (all of which have been considered in this thesis, including specifically Table-1 in sub-section 1.3.2 which discusses the rationale for the research questions, aligned to the various layers of internal and external environments of large global organisations):

- The careful analysis of internal and external environments.
- The development of value-creating strategic initiatives for stakeholders.
- The exploitation and development of organisational capabilities and competencies better than competitors.

To set the stage, Figure-1 below demonstrates the key layers in the internal and external environments of the research firms.

Figure -1: The Organization in Context of its Internal and External Environment



Source: Researcher's own analysis based on literature review cited below.

For simplicity, let us consider three key components of the external environment:

- The outsourcing ecosystem or extended enterprise consists of various outsourcing providers, as indicated above, some of whom are more critical in importance than others and are positioned as strategic partners to the focal organisation.
- The business and industry environment includes various business stakeholders including industry regulators as well as organisational peers and competitors.
- The wider macro-economic environment that represents the various economic and other external forces that impact organisational behaviour and performance.

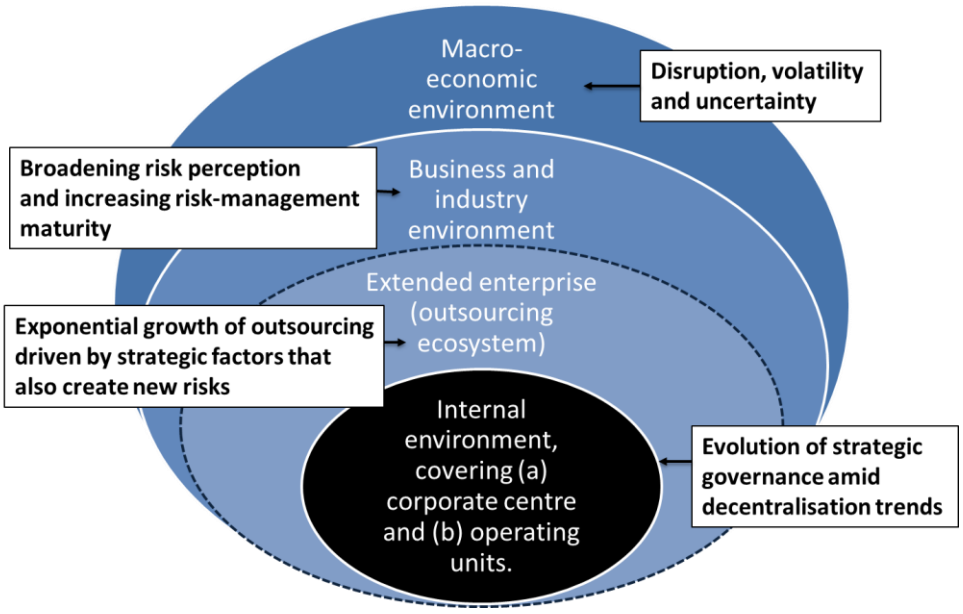
Similarly, within the organisation:

- The corporate centre is the logical owner of a company's resource allocation process and needs to have the appropriate structure, organisation and capabilities to play this role fully and effectively. Strategic leadership and governance functions form the core responsibilities of the corporate centre (Hall, Huyett, & Koller, 2012).

- The operating units of the organisation, together with the corporate centre, set the external frontline or legal boundaries of the business as a result of their interactions with the external environment. However, as the research findings set out in section 3 indicate, adverse risk events originating outside of the legal boundaries of the organisation can have a significant impact on shareholder value, brand and reputation, profit and loss, employee engagement, and operations. As organisations continue to evolve toward more complex ecosystems, these risks are likely to grow. Yet all too often traditional governance and risk management processes do not adequately consider these extended enterprise risks. Beyond financial and reputation losses, these risk events can demand a significant amount of time and focus on the part of organisational leadership to navigate and remediate the events, and sometimes even rebuild the organisation and its reputation. To protect and create value in the modern enterprise, management and boards need to reset the "front line of risk management" to include and focus on the extended enterprise.

  The outlines of this transformation of governance and risk management are already evident at many of the organisations covered by this research although few have completed the journey to create a coherent system with clear accountability for its execution. At the same time, this thesis outlines many of the innovative approaches that were observed during this research. Collectively, they point to this "resetting of the front line" of governance and risk management and new opportunities to drive value from emerging risk management practices and technology.

Figure -2: What's Changing in the Internal and External Environment ?



Source: Researcher's own analysis based on literature review cited below.

Figure-2 sets out a summary of the key changes taking place in the internal and external environment of the research organisations:

- Macro-economic environment: The unprecedented pace of disruptive change, volatility and uncertainty has created the need to continually rethink the role of governance/risk management as a strategic enabler for leadership while preventing "bad things happening" as well as a strategic enabler for leadership. Recognizing the difference between risk and uncertainty is critical for business success. Risk can be quantified using probabilities, including conditional probabilities but uncertainty cannot be quantified that way at all. With uncertainty, the "unknowns are unknown", requiring very different management responses and coping mechanisms and entrepreneurial proclivities (Teece & Leih, 2016). This argument is used in this thesis to reinforce the understanding of the emerging view of risks in section 3.1.1 as well as to establish the linkage with dynamic capabilities-based thinking in response to the research findings in section 3.3. The dynamic capabilities framework highlights interrelationships that need to be understood if managers are to build and maintain competitive advantage. It helps set

priorities and enables coherence between strategy, structure, and the business environment (Teece, Peteraf, & Leih, 2016).

- Business and industry environment: Organisations across industry segments are broadening their risk perception while enhancing the maturity of governance/risk management processes to emerge as astute decision-makers, reinforced by regulators in the highly regulated industries. At the same time, organisations are seeking to develop inimitable competitive advantage by leveraging the skills and competencies available to them through their outsourcing ecosystem in an innovative manner. This phenomenon is investigated empirically through the industry case studies in section 3.4.1 and the articulation of a 2x2 decision-making framework across the more regulated and relatively unregulated industry sectors in section 3.4.2. Regulatory concern now embraces third-party risk. For instance, with the inexorable trend in the financial services sector to digitisation, the adoption of other new technologies and new business models (e.g. Fin Tech), third-party service provision and collaboration, outsourcing and third-party risk has understandably become a more pronounced regulatory concern in the financial services sector (Lewis, 2018).
- Outsourcing ecosystem: Exponential growth of outsourcing is increasingly being driven by longer-term strategic factors (beyond cost-savings) to achieve inimitable competitive advantage across an ecosystem of multiple third-party vendors. This also creates new risks, requiring a strategic rethinking in the approach to governance/risk management of the outsourcing ecosystem. The global survey in section 4 highlights these changes and their impact on implementing an integrated and holistic framework for strategic governance of the outsourcing ecosystem.
- Operating units: The global survey in sections 4 and 5 of this thesis also identifies the impact of the contemporary trend of increasing decentralisation in large global organisations to promote greater responsiveness and agility. Such increasing decentralisation presents a potential challenge to implementing a strategic and unified approach to governance/risk management of

the outsourcing ecosystem, creating an "execution gap" between strategic intent and organisational capabilities.

- Corporate centre: Bridging the execution gap in governance/risk management of the outsourcing ecosystem and developing dynamic capabilities for strategic governance and risk management are emerging as key focus areas for the corporate centre/organisational leadership as discussed in section 4.7, together with emerging best-practices. As revealed in the literature review (section 3.1) and mirrored subsequently in the industry case studies in section 3.4.1, boards and organisational leadership (C-suite) are increasingly being expected to lead this transformational opportunity to extend the frontline of governance/risk management beyond traditional organisational boundaries by adopting an extended enterprise perspective.

1.3 Aims, objectives and contributions of the study

The motivation for this research was founded on the researcher's involvement with one of the largest global accounting and consulting firms, which was in the process of starting a new practice area in their Risk Advisory business called "Third Party Governance and Risk Management". In one of his early interactions with one of the global leaders of this new practice area in December 2014, he was invited to participate in a client roundtable event where senior executives from FTSE 500 organisations in the UK expressed their concerns around the growth and complexity of their outsourcing ecosystem, given that many of these organisations were managing anything between 20,000–50,000 outsourcing contracts ranging from providers of IT and business process outsourcing services that included operating their core and support functions, sales and distribution functions etc. to their core supply chain (for manufacturing and trading companies). Many of these FTSE 500 organisations had also established their own subsidiary companies in lower-cost locations such as India and the Philippines to offshore their IT and business processes, which were also considered to be an extension of "outsourcing" in the eyes of the industry regulator, given that these subsidiaries were managed by their own local management teams. During this roundtable discussion, it emerged that IT and business process outsourcing represented their key area of concern, given the rapid changes in technology and the criticality of the business processes involved – as well as representing a

relatively recent development when compared to traditional supply-chain management, where organisational expertise had been developed over the years. Having said that, these executives wanted to eventually extend their third-party governance and risk management framework to cover all third parties, including their supply chain, subsidiary companies and even joint venture partners and affiliate organisations to common standards as required by industry regulators. To establish a business case for investment in third-party governance and risk management, these organisations were keen to demonstrate a realisation of benefits from their investment by exploiting the upside of such risk management in addition to "preventing bad things happening". At the same time, they had realised that this would not be possible unless significant transformational changes were implemented within their organisations and relevant capability had been developed. Some of the participants in this roundtable discussion expressed a need to obtain professional assistance to guide them through this process of transformational change, share evolving good practices as well as assist in addressing implementation issues.

Following this roundtable meeting, the researcher was offered an initial one-year contract-based opportunity (during 2015-16) to develop research-based thought-ware (based on his research for this DBA degree that included any relevant ongoing guidance from his supervisors to drive the knowledge agenda). The plan was to publish this research globally via the consulting firm (subject to meeting its global quality and brand standards), primarily as downloadable educational content to enlighten and coach their clients in this area, supported by a global survey of C-suite executives. Given the increasing proportion of work in a global organisation that was being handled by third parties with high to critical level of dependency on them (even up to 85-90% in some instances where, according to participants of the above roundtable, these organisations had chosen outsourcing as a core strategic choice to remain agile and responsive to market needs in a cost-effective way), it was evident to the researcher that this would hold significant implications for the way in which organisational leadership, procurement and vendor management teams, finance teams, risk management and internal audit groups and even industry regulators contributed to governing and risk-managing these third-party relationships.

Encouraged by the initial response from their clients, the contractual arrangement between the researcher and the global consulting firm has since been continually extended up to December 2018 to continue educating and guiding their clients, using the findings from this research in progress. The researcher has since been recognised as their global head of research for this new practice area, now known as Extended Enterprise Risk Management.

Aligned to the above contractual agreement with the sponsoring firm, the research embodied in this thesis thus aims to contribute towards the development of contemporary business practices related to implementing successful strategic governance mechanisms around outsourcing business or IT processes in the larger global organisations, particularly those with a turnover exceeding US$ 1 billion and typically those listed on a stock exchange (listed companies). Past research in this area has largely had an operational or a "contract manager" perspective (at the micro or meso level), rather than a strategic, top-down, Board and C-suite (macro level) wider corporate governance perspective. As will be evident from the detailed literature review in section 3.1, the dominant focus of past risk-management research has been on day-to-day operational issues around "preventing bad things happening" around outsourcing (aligned to the traditional view of risk), resulting in a lack of focus on strategic issues that impact organisational positioning, competitive advantage and value through governance and risk management. This is particularly true in an increasingly uncertain and volatile business environment which now creates the need for developing dynamic risk management capabilities aligned to the changing mantra that risk management and governance should be a matter of choice rather than a matter of chance to achieve strategic goals.

To summarise, the aims and objectives of this research are four-fold:

- Establish the context by providing a forward-looking multi-disciplinary view on strategic governance and risk management of the outsourcing ecosystem.
- In this context, gain an understanding of how and why large global organisations are broadening their perspective and enhancing maturity over such governance and risk management, together with the organisational capabilities they must develop to emerge as

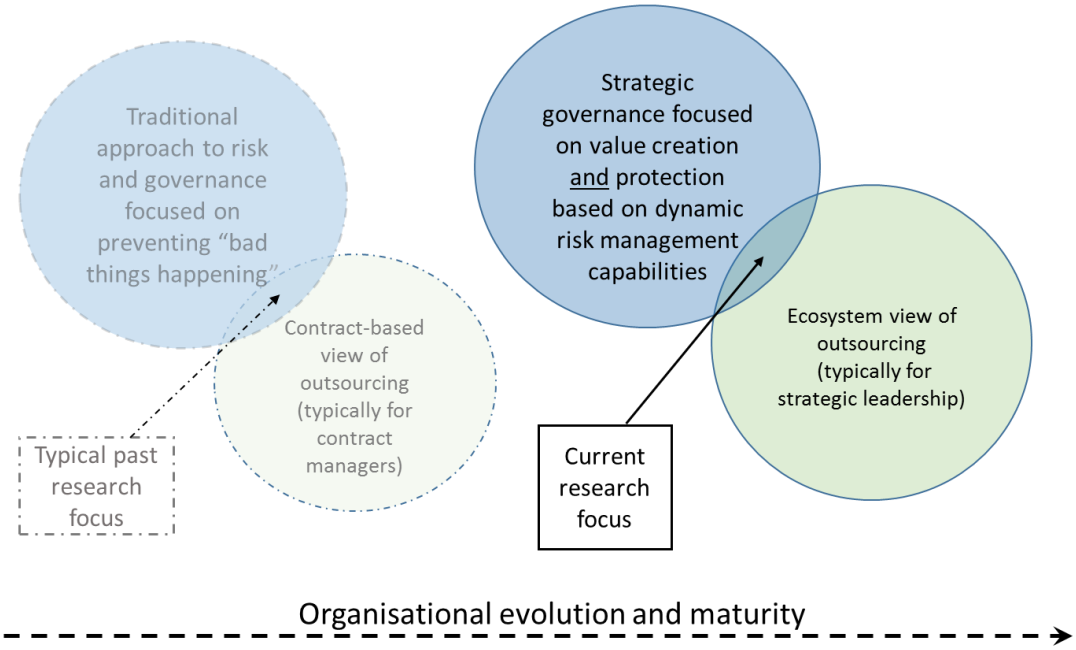
Astute Entrepreneurs. This is proposed to be done through primary research-based industry-specific case studies.

- Assess the overall progress made by global organisations in achieving this transformation, identifying the implementation challenges.
- Addressing these implementation challenges through emerging good practices.

1.3.1 Identifying and addressing the research gaps

The detailed literature review in section 3.1 indicates how organisations are repositioning governance to the board level focused on maximizing organisational value and mitigating the negative impact of risks smartly and strategically. Further, these organisations are doing so with an ecosystem perspective (section 3.2) rather than just an individual "contract-based" perspective to outsourcing relationships. In this process of evolution and maturity, these organisations continue to develop dynamic (risk-management) capabilities that this transformational change entails (section 3.3). Despite all these changes happening in organisations and their business environments, there exists a gap in the literature that this thesis seeks to address. This gap is the result of the difference between typical prior research focus and the scope of the current research as indicated in Figure-3 below.

Figure – 3: Identifying the Research Gap



Source: Researcher's own analysis based on literature review referred to below.

Figure-3 above summarises the result of the literature review in section 3.1.4 of this thesis. It reveals that prior research on outsourcing risk has primarily focused on a contract-based view (appropriate for the contract managers in the middle level of management). There is thus an organisational as well as a research need, not only to transition to the ecosystem view of outsourcing, but to also concurrently evolve and mature from the traditional perspective of governance and risk management to the emerging concept of strategic governance. This, in turn, justifies the first research question (**RQ1**): *Why and how are large global organisations (that operate with a significant level of dependence on their outsourcing ecosystem) broadening their perspective and increasing the maturity of risk-management to reposition their governance and risk-management processes around their outsourcing ecosystem (comprising multiple vendors and providers) to more strategic levels (for competitive advantage and value-creation)*?

Secondly, the literature review confirms the existence of a knowledge gap around new organisational capabilities required to exploit the full spectrum of opportunities (conventional to radical) to create value and competitive advantage by outsourcing in an uncertain and volatile business. This is addressed in the second research question (**RQ2**): *How can insights from the dynamic capabilities (DC) theory be used to describe two new sets of dynamic capabilities required to strategically transform organisations: (a) having a broader perception of risk in outsourcing that recognizes opportunities in addition to the threats and hazards; and (b) developing more mature risk management mechanisms that enable organisations to maximize the business opportunity from outsourcing while mitigating risk in an uncertain and complex environment?* Based on these two new capabilities, a 2x2 framework is presented to assist organisations in understanding their current positioning and to motivate them to determine a possible trajectory going forward that not only manages risks but also fully exploits the opportunities that outsourcing can create for them. Using primary data collected through a survey and interviews of senior executives, exemplar case studies are used to illustrate this framework and the different paths that organisations can pursue (horizontal, vertical or diagonal) in their attempt to develop into astute decision-makers.

A third research gap relates to the implementation issues faced while making the transition to strategic governance and risk management with a holistic ecosystem perspective. Having addressed the need and manner of transformational change in organisations to establish strategic governance and risk management mechanisms over their outsourcing ecosystems, supported by utilising the DC theory to focus on relevant capability-development, **RQ3** relates to implementation issues of this relatively new corporate thinking: *How are organisations making progress in implementing this repositioning and what key challenge(s) are they facing?* As discussed subsequently, the findings in response to this RQ indicate a widening "execution gap" caused by leadership intent failing to achieve intended consequences arising from people, processes and technologies underpinning the transition to strategic governance.

The fourth and final research question, **RQ4,** relates to *how these organisations are overcoming the implementation challenges, particularly the execution gap between strategy and execution identified above, together with capturing and summarizing the related good practices evolving.*

This work is exploratory in nature, seeking to capture both breadth (through global survey) and depth (through a smaller number of detailed semi-structured interviews) to fulfil the research questions. The breadth refers to the many factors that impact strategic governance and risk management in large global organisations, whereas the depth can be found in understanding the specific aspirations, challenges and emerging practices in a global organisation that could be positioned as the "role model". In this way, the research endeavours to draw together a number of important themes, through exploratory enquiry, using an "outside-in" approach across disciplines to make sense of a 'messy' business context (Parkhe, 1993). Sections 2.1 and 2.2 explain this research rationale in greater detail.

1.3.2 Aligning research gaps to research steps and proposed contributions

Table-1 below aligns these research questions (RQ1 – RQ4) to the changes taking place in the various layers of the external and internal environments of large global organisations (see Figure-2 on page 12).

Table-1: The Research Questions in Context

Research Questions	**Rationale for Research Questions in the Organisational/Environmental Context**
RQ1: ***Why*** *and* ***how*** *are large global organisations (which operate with a significant level of dependence on their outsourcing ecosystem) broadening their perspective and increasing the maturity of risk-management to reposition their governance and risk-management processes around their outsourcing ecosystem to more strategic levels?*	• Examine the impact of change drivers in *the macro-economic environment* as well as in the organisational *business and industry environment* in driving transformational change in large global organisations in strategically governing their third-party ecosystem to create and protect organisational value. • Review prior literature supported by empirical evidence to identify organisational attributes indicating higher/lower breadth of risk perception and risk-management maturity level compared to *peers on a cross-industry basis.* • Use the above attributes to propose a 2x2 framework for astute *organisational decision-making* for outsourcing based on an "aspirational path to excellence".
RQ2: *How can a classical management theory like Dynamic Capabilities theory be extended to aid in understanding the development of the related capabilities for such repositioning of governance and risk management around the outsourcing ecosystem?*	• Uncertainty in the *wider external environment* requires non-traditional management responses, coping mechanisms and entrepreneurial proclivities for creating and protecting organisational value (Teece & Leih, 2016). • The dynamic capabilities framework highlights interrelationships to be understood and managed to build and maintain competitive advantage amid uncertainty. It helps set priorities and enables *coherence between strategy, structure, and the business environment* (Teece, Peteraf, & Leih, 2016) which need to be considered for organisations to develop forward-looking governance and risk management capabilities related to the outsourcing ecosystem.
RQ3: *How are organisations making progress in implementing this repositioning and what key challenge(s) are they facing?*	Review implementation progress and identify implementation challenges in large global organisations *in the various organisational layers* (e.g. the execution gap between leadership intent and capability of operational units, challenges related to decentralisation in the corporate centre etc.).
RQ4: *How are these organisations addressing these challenges?*	Summarise action points and capture good practices evolving in organisations (*across all organisational layers)* that can serve as role-models to develop successful value-creating initiatives for stakeholders and develop relevant capabilities better than competitors.

Table-2 follows on from Table-1 to align the research questions to the research steps and proposed contributions from this thesis within the overall research philosophy (discussed in section 2.1) and the three phases envisaged as part of the overall research design (section 2.2).

Table-2: Research Questions, Research Objectives and Proposed Contribution

RQ1: *Why and how are large global organisations (which operate with a significant level of dependence on their outsourcing ecosystem) broadening their perspective and maturity of risk-management and repositioning their governance and risk-management processes around this outsourcing ecosystem to more strategic levels?*	
Research Objectives	**Proposed Contribution**
• Review available literature to gain an understanding of existing knowledge on governance and risk management, both generally as well as specifically to outsourcing and the third-party ecosystem. • Identify the key drivers of strategic change in the internal and external environment that are challenging traditional thinking and approaches to the above. • Investigate the key reasons for increased risk and uncertainty in the outsourcing ecosystem and its impact on governance-related activities. • Based on the above, develop a model or framework to assess organisational positioning and progress made in implementing strategic governance mechanisms related to their outsourcing ecosystem based on two considerations identified by the literature review: (a) the breadth of their risk perception and (b) the maturity of governance and risk management mechanisms related to their outsourcing ecosystem, with a specific reference to outsourcing of IT and business processes. • Illustrate the above framework using industry case studies based on empirical data collected through primary research to demonstrate the "aspirational path to excellence" being followed across industry segments to	• On the academic side, this research contributes to the growing body of outsourcing literature by focusing on strategic governance and risk management from a novel and emerging "outsourcing ecosystem" perspective. To that end, it has integrated and extended the multi-disciplinary perspective on risk and governance across diverse disciplines such as strategy, operations, finance, risk, insurance, legal and compliance, macro-economics etc. supported by empirical evidence and case exemplars to propose a forward-looking framework. This framework depicts a unique trajectory to enable companies to foreground capacities for strategic advantage through outsourcing that challenges traditional thinking in this area. • From a practical perspective, the framework that is proposed in this thesis is intended to assist organisations to align risk management with strategic governance and develop governance mechanisms that allow them to benefit from outsourcing opportunities. Specifically, the framework motivates organisations to answer two key questions. First, "Where are you today?" to assess where they are currently positioned in terms of maturity of strategic governance over outsourcing vis-à-vis their breadth of risk perception which drives their appetite to take higher risks. Second, "Which way should you be going next?" to determine a possible trajectory going forward to be able not just to manage risks but also fully

emerge as astute decision makers related to outsourcing.	exploit the opportunities that outsourcing can create. • Methodologically speaking, the work highlights the value of a flexible problematisation approach (Locke and Golden-Biddle, 1997; Alvesson and Sandberg, 2011) in investigating "messy" contemporary issues, characterised by multiple layers of change and related uncertainties in the external and internal environment of large global organisations. This perspective allowed the researcher a degree of freedom and subsequently led to the unexpected discovery of the aspirational path to excellence in the 2x2 framework presented in this thesis through a multi-stage approach involving exploratory interviews, qualitative and quantitative data collection in a range of organisational and industry contexts. This approach within this exploratory investigation provided both breadth (by studying responses to a diverse range of questions in a large-scale global survey spanning three continents) and a depth of focus (a small number of in-depth qualitative semi-structured interviews) to fully capture a range of issues and themes in a relatively under-studied field.
RQ2: *How can a classical management theory like Dynamic Capabilities theory be extended to aid in understanding the development of the related capabilities for such repositioning of governance and risk management around the outsourcing ecosystem?*	
Research Objectives	**Proposed Contribution**
• Investigate the relevance of the DC Theory in developing governance and risk management capabilities related to the above framework in the contemporary context.	• In addition to making an academic contribution by providing a multi-disciplinary perspective indicated under RQ1 above, this thesis proposes to relate and extend DC theory to the need for a more dynamic approach to the governance and risk management of the outsourcing ecosystem. To do so, the thesis builds upon earlier studies that have long recognised overall vendor relationship management ability of organisations as a DC. It now focuses specifically on two new capabilities (identified by empirical research) forming an integral part of such overarching vendor relationship management activities: (a) the capability to have a broader perception of risk in outsourcing that recognizes opportunities that these risks present in addition to the threats and hazards; and (b) the "asset orchestration" capability to develop more mature risk management mechanisms that enable organisations to

	maximize the opportunity while addressing the risk.
RQ3: *How are organisations making progress in implementing this repositioning and what key challenge(s) are they facing?* RQ4: *How are these organisations addressing these challenges?*	
Research Objectives	**Proposed Contribution**
• Review implementation experience by large global organisations in achieveing the transition to strategic governance and risk management related to the outsourcing ecosystem, identifying implementation challenges and good practices/strategic processes that are being adopted by the more successful organisations. • Examine how organisational design (appropriate balance of centralisation and decentralisation) together with the judicious use of technology, people and processes can cost-effectively be leveraged to address the implementation challenges.	• The thesis extends past experience on managing the strategy execution gap and relates the same to the context of the outsourcing ecosystem with a Strategic Management focus as well as Information Management focus. From a practitioner perspective, members of the Board and C-suite as well as senior management in large global outsourcing (client) organisations can use this thesis to help them address the potential for emerging practices and mechanisms to avoid or address the execution gap to maximize the opportunities that the outsourcing ecosystem can create for them going forward. • The current trend of increasing decentralisation in large global organisations presents a new set of challenges to achieving the transformational repositioning in the strategic governance and risk management of large global organisations. In response to this trend, this thesis highlights a three-pronged approach being used by large decentralised global organisations to address this challenge by revisiting the role of the corporate centre with regard to its strategy and governance functions; aligning outsourcing governance practices to the nature and extent of decentralisation and ensuring better coordination between those who perform governance and control functions across the business.

1.4 Outline and structure of the thesis

As is evident from the above discussion, this thesis examines the following three related topics within the over-arching theme of strategic governance and risk-management of the outsourcing ecosystem, under a common philosophical stance and integrated research design over three phases, further explained in section 2.2 (see Figures-4, 5 and 6).

- How and why are large global organisations adopting a more strategic approach in this regard (RQ1), and developing *dynamic* risk management capabilities (RQ2) to achieve this organisational transformation? However, to examine these questions, a forward-looking emerging view of strategic governance and risk management in the outsourcing context is presented at the outset through a multi-disciplinary literature review to initially establish the context and a shared understanding with the user of this thesis (section 3).
- Organisational progress in making this transition, together with implementation challenges (with a specific focus on the execution gap) and how these are being overcome through evolving good practices (section 4).
- Understanding decentralisation as the root cause of the above execution gap and evolving organisational good practices to address the impact of decentralisation (section 5).

The remainder of this thesis is thus organised as follows.

Section 2 (research methodology and design) explains the exploratory nature of the research which was justified by the novelty of the research area combined with the unprecedented pace of change across the external and internal environment of large global organisations discussed in the preceding section supported by emerging professional literature. As such the work employed a large-scale global survey with 113 responses, supported by a much smaller number (28) of in-depth follow-on interviews, which, in turn, were informed by themes from the literature and underlying social constructivist ontology. Section 2.1 clarifies the rationale surrounding the philosophical stance of the work, followed by the three-phased research design/process (section 2.2), detailed steps for empirical

data collection and analysis (section 2.3), concluding with ethical issues and limitations concerned with these (section 2.4).

Section 3 reviews the first of the three topics indicated above by revisiting, in depth, the complex context of the research to discuss the problem statement, on the basis of which the research questions have been articulated and address RQ1 and RQ2. To set the context, sections 3.1.1 to 3.1.4 examine the following in detail: the traditional views of risk and risk-management and the changing perceptions in this regard; uncertainty and its impact on risk-thinking; following on to discuss the upside or opportunity in risk/risk-management and the rise of such risk-based governance, resulting in a summarised description of key terms including "strategic governance" which forms the key construct undergoing a transformational change in perception and interpretation in this thesis. In doing so, some of the other enablers for this transformational change such as the changing role of the industry regulators (in the external environment) and the Board of Directors (in the internal environment) are also discussed in the context of large global organisations. Establishing the problem statement also requires an understanding of the "outsourcing ecosystem" in relation to recent studies on organisational ecosystems. Having gained this understanding, the changing perceptions of strategic governance and risk management in general are specifically related to the outsourcing ecosystem in section 3.2. Section 3.3, in turn, discusses the key principles from the DC theory to provide the theoretical underpinning in interpreting this changing perception of governance and risk-management as a dynamic mechanism for enhancing competitive advantage and shareholder value. As organisations face significant changes in the environment in which they operate, these changes necessitate significant shifts in strategy in order to ensure survival and growth (Burgelman & Grove, 1996; Brown & Eisenhardt, 1997). In rapidly-changing times, there is a growing recognition that the organisation's ability to survive, grow and retain its competitive advantage depends more on its capacity to renew itself in line with environmental changes, rather than on the industry structure and positioning or its specific resources (Teece, Pisano et al., 1997, Hodgkinson & Healey, 2011). Competences or capabilities, leading to competitive advantage, rest fundamentally in organisational processes, which are moulded by its evolutionary and co-evolutionary paths (Teece & Pisano, 2004).

In this section, the DC theory is specifically related to developing the two specific capabilities around risk management that subsequently define the two axes of the 2x2 framework: (a) a broader perception of risk in outsourcing that continually recognizes the opportunities that these risks present in addition to the threats and hazards; and (b) mature risk-management mechanisms that enable organisations to mitigate the risks while maximizing the business opportunity from outsourcing. Both these new capabilities require the organisation to act strategically and with flexibility and adaptability in order to innovatively embrace the new opportunities by graduating from an ordinary capabilities mind-set to a DC mind-set. Having thus set the context, section 3.4 presents the findings of the pilot survey in the form of a 2x2 framework to assess organisational positioning with regard to strategic governance of their outsourcing ecosystem and explains the "Aspirational Path to Excellence" (section 3.4.2) for organisations to emerge as astute decision-makers in this area, illustrated by industry perspectives/case studies in section 3.4.1. Following the case studies and the discussion on the 'aspirational path to excellence', in section 3.4.1, the rest of this section discusses how the DC theory can be extended to assist in the development of the new dynamic capabilities framework relating to strategic governance and risk management in these organisations.

Section 5 then focuses specifically on decentralisation as the root cause of this emerging gap in organisations and how it can be addressed by achieving the optimal balance between centralisation and decentralisation, together with other evolving good practices (RQ4).

Section 6 presents a reflection on the outcomes of the study by setting out a holistic summary across all the above research phases/questions as one integrated item or entity. Findings are discussed in the context of both:

- theoretical framework i.e., how do these findings contribute to the existing body of knowledge e.g. extending DC theory or reconfirming principles and practices identified as a result of prior research? For instance, how are they contrasting/confirming/extending what was expected from theory?
- managerial context i.e., how do these findings alter organisational leadership's perceptions and actions with regard to developing dynamic risk management capabilities for innovative or

entrepreneurial outsourcing; understanding what the peer group is doing with regard to addressing execution gaps in strategic governance and risk management of outsourcing etc.). In other words, how do the findings contribute to current professional practice?

Section 7 concludes the thesis, revisiting the contributions once again, acknowledging the weaknesses and limitations of the study and providing input for making recommendations for further research.

2 RESEARCH METHODOLOGY AND DESIGN

Section Summary: This section describes the philosophy of the research and its phased design, together with the detailed steps for empirical data collection and related safeguards for the ethical conduct of this research. The research is largely founded on the interpretivist paradigm and draws on a problematisation perspective with research questions emerging from gap-analysis in past research and existing literature as discussed in the previous section. It uses qualitative as well as quantitative data gathered through a large-scale survey supported by detailed follow-on interviews to bring in depth as well as breadth to this study, in addition to enabling triangulation of research data for a more robust analysis. The subsequent section will describe the first of the three phases of the research and address the first two research questions.

2.1 Research philosophy

As indicated in the introductory section, the nature of this work is explorative and multidisciplinary. The knowledge proposed to be researched is bound by individual experience (Berger & Luckmann, 1991) (in this case, the experience of transitioning to strategic governance and risk management of the outsourcing ecosystem) and the current research aims to learn about these experiences as against empirically testing them. The researcher is motivated by a desire to reflect the complexity of the constructs outlined in the literature review and how these interact with each other to establish this constructed reality of strategic governance, together with an understanding of the related processes and good practices it entails. It is therefore clear that there are a number of influences on this work (presented in the literature review) which are reflective of 'messy' (Parkhe, 1993), complex and real life research.

The research draws on a problematisation perspective (Locke & Golden-Biddle, 1997; Alvesson & Sandberg, 2011) with the research questions emerging from gap-analysis in past research and existing literature. To the best of the researcher's knowledge, there is no prevalent academic literature surrounding similar research topics related to strategic governance of the outsourcing ecosystem; accordingly, this opens up the opportunity to contribute new knowledge to the research field in light of the emergent issues and gaps identified in the literature review.

It is believed that such problematisation of reality (Locke & Golden-Biddle, 1997; Alvesson & Sandberg, 2011) also enables flexibility of research in examining phenomena. This, in turn, often leads to the discovery of problems or findings that the researcher may not have initially considered.

The epistemological stance adopted should therefore promote both an inductive and deductive approach to answering research questions, which this research pursues by using qualitative and quantitative data in order to provide a full and rigorous exploration of the issues defined in the literature review, with the required depth (e.g. smaller number of semi-structured interviews) and breadth (e.g. large-scale survey to inform and support the semi-structured interviews and the resulting in-depth findings and analysis).

Having said that, this research is largely founded in an interpretivist paradigm and in keeping with Bryman & Bell's explanation that interpretivism is "taken to denote an alternative to the positivist orthodox" (Bryman & Bell, 2015). This then means that the goal of research becomes focused on investigating the roles and behaviour of actors in specific situations rather than the recording and analysis of objective measurements (Bryman & Bell, 2015). The nature of interpretivism has been discussed by several authors, such as Burrel & Morgan (1979; p. 28), Bryman & Bell (2015), Saunders, Lewis & Thornhill (2012; p. 140) and Robson & McCartan (2016). Burrel & Morgan explain that "the interpretive paradigm is informed by a concern to understand the world as it is, to understand the fundamental nature of the social world at the level of subjective experience. It seeks explanation within the realm of individual consciousness and subjectivity, as well as within the frame of reference of the participant as opposed to the observer of action" (Burrel & Morgan, 1979; p. 28). Interpretivism is thus characterized by its focus on looking at the world from a subjective viewpoint in contrast to an objective viewpoint and "sees the social world as an emergent process which is created by the individuals concerned" (Burrel & Morgan, 1979; p. 28). The result is that rather than seeking to explain observations on the basis of objective observations, explanation is sought in understanding the subjective interpretation of events by the relevant participants and the interaction of actors in real situations to understand observed phenomena (Bryman & Bell, 2011). Robson (2011) outlines that interpretivism assumes "that social properties are created by human beings and social interaction" (Robson, 2011; p. 24). The underlying *epistemology* of this thesis is thus *social constructionism* which is based on the understanding that reality (and therefore the knowledge of reality) is shaped by the individual and therefore predominantly subjective.

The specific approach used for the empirical research in this thesis can perhaps be described as *pragmatic interpretivism.* Researchers such as Goldkuhl (2012) reaffirm that such an interpretivist approach can co-exist with methodological pragmatism providing flexibility around the role of the researcher in creating knowledge and permitting a pluralist attitude (Goles & Hirschheim, 2000) rather than a more rigid "methods follow process" to ensure "everything relevant is interpreted", as in this case through a combination of quantitative and qualitative data collected through the interviews and the survey. Appropriate for complex real world situations such as the subject of this thesis, Goldkuhl (2012) describes such a pragmatic methodological approach to research in the interpretivist/constructionist paradigm as "*meaningful action based in evolutionary social interaction"*. This is in contrast, for instance, to an approach focusing solely on the measurement of objective metrics and performance indicators. One of the limitations of an interpretivist approach however is that the subjective nature of the behavioural interplay between actors which underpins it may be highly contextually dependent. Thus results and explanations derived in a particular situation cannot always be readily translated to other contexts. This research takes that into account by seeking to identify various emerging processes and good practices based on this ontological model. From an epistemological viewpoint, this means that it is important to understand these behaviours by the application of qualitative methods such as semi-structured interviews with small samples and in-depth analysis (as in the follow-on interviews) as outlined by Saunders, Lewis & Thornhill (2012; p. 140), in this case to discuss organisational transformation in context of adopting a strategic approach to the governance of the outsourcing ecosystem. However, in addition, informing and supporting the results of the semi-structured interviews using the results of the large-scale survey, in the view of the researcher, has brought in the much-needed methodological pragmatism to support the interpretive analysis.

This research reflects both emic and etic approaches to constructs in its design and addressing the research questions (Morris et al., 1999). The emic approach, whereby constructs are described on the participant's terms (e.g. definition of strategic governance) and drawn from self-understanding (Pike, 1954; 1967), is particularly true to the qualitative side of the work which endeavours to draw

subjective, rich data from interviews. Whilst predominantly emic, this research also employs an etic approach through the investigation of strategic governance and risk-management capability by applying an outside view (in this case the DC theory). Etic approaches are able to provide a holistic view of constructs through taking into account external factors (such as the multiple drivers of change in the various elements of the external and internal environment described in section 2) and can often be explored in terms of objective measures (Pike, 1967). The objective measure in this research, however, is used for the purpose of exploration (to augment larger volumes of qualitative data collected) rather than testing, comparing populations or more sophisticated quantitative analysis.

Additionally, this work also moves back and forth between both the different data sets and theory which is reflective of other approaches that support an iterative research process such as the Hermeneutic Cycle referred to earlier. For instance, the concept of abduction (as established by Blaikie, 1993) is whereby researchers generate social scientific accounts from social actors' accounts. In this way, abductive research follows social constructive ontological assumptions whereby there is no single reality but multiple and changing realities (Ong, 2012) from "socially constructed mutual knowledge" (Blaikie, 2000; p.116).

Abductive research is not simply a mixture of deductive and inductive approaches (Dubois & Gadde, 2002). It often begins with a general idea of an area to explore which is then refined in collaboration with the social actors being studied (Ong, 2012). This is similar to the flexible research strategy behind progressive focusing (Sinkovics & Alfoldi, 2012) which allows the researcher to move between theory and fieldwork, making modifications in between, in order to generate theory. Although there appear to be synergies with this work and its analytical approach, it should be made clear that abductive research strategies are different from methods of grounded theory (Ong, 2012). Grounded theory emphasises the accounts of the reality of the social actors being studied but also acknowledges the account of the researcher in creating knowledge, whereas abductive research theories are more insular, emic and sympathetic towards lay terms (Ong, 2012). Although aspects of abductive research have had a strong influence on research design, this work has not adopted a purely abductive approach because its strategy is predominantly emic. This research also has an outside

perspective (etic) approach as the researcher was using established theories to guide this work. Themes for analysis were developed through the interviews and words of the participants (emic) but also guided by academic and practical theory (etic) (Douglas & Craig, 2006).

Whilst abductive and progressive focusing theories acknowledge the 'messy' (Parkhe, 1993) nature of real-word research (especially those involving qualitative elements), this does not mean an 'anything goes' approach (Sinkovics & Alfoldi, 2012); researchers should employ tools to manage and document the research method.

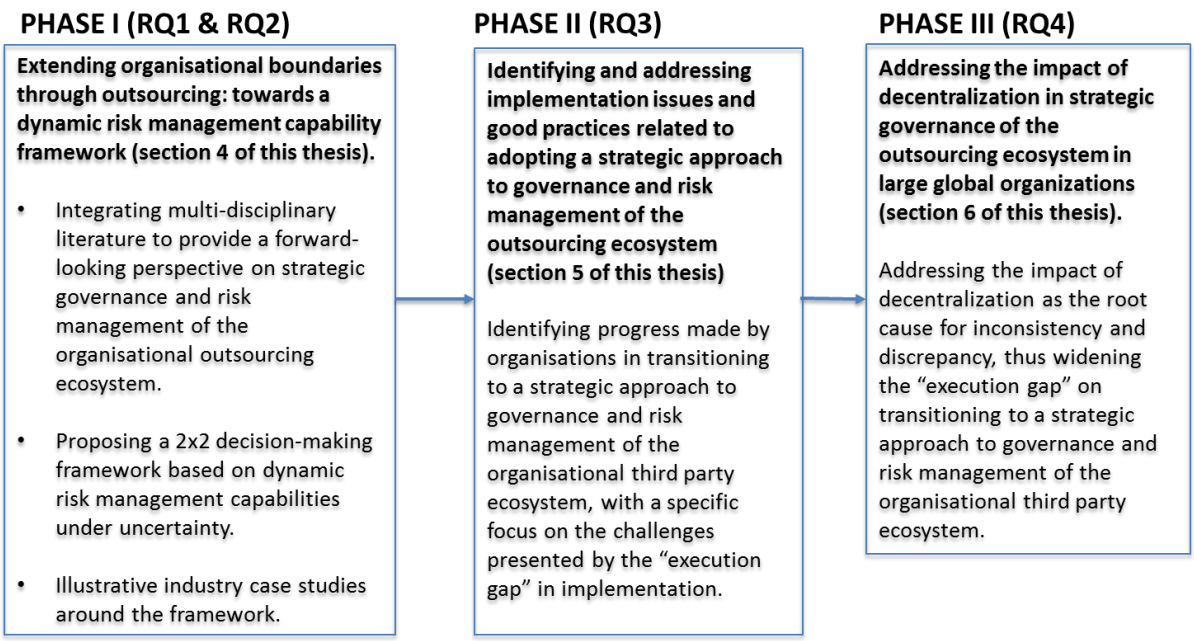
To summarise, it is clear that there are a number of influences on this work in terms of ontological, epistemological and research design approaches. It is reflective of flexible and explorative work that attempts to provide a holistic and honest view of a 'messy' world (Parke, 1993). In terms of ontology, the researcher believes the form of nature and reality to be both subjective and objective; epistemologically the researcher has adopted a social constructivist view of knowledge based on this (Berger & Luckmann, 1991). The methods are founded on these views, especially in terms of one of the offshoots of grounded theory in analysis of the qualitative part of this work, as discussed in a subsequent section below. The influence from abductive (Blaikie, 1993) and progressive focussing (Sinkovics & Alfoldi, 2012) has encouraged the researcher to employ an iterative approach to clarify knowledge using qualitative and quantitative data (large-scale survey plus a smaller number of detailed qualitative follow-on interviews that underpin the industry case studies), as well as going back and forth between data sets.

Researcher bias, one of the key challenges of interpretivist research, is addressed by testing the interview protocols and reviewing whether the planned procedures are performing as envisioned by the researcher (Chenail, 2011). The use of contact sheets and research memos, amongst other steps described under data collection and analysis, have enabled the meaningful interpretation of actual and latent meanings to reconstruct the reality.

2.2 Research phases and design

The sequencing of this thesis over three phases as indicated in the outline and structure (section 1.4) reflects how the researcher has investigated three related topics within the over-arching theme of strategic governance and risk-management of the outsourcing ecosystem, under a common philosophical stance and integrated research design (see Figures 4 to 6 below).

Figure – 4: The Research Sequence: Overview



As a result, an iterative approach to establishing the theoretical foundations through literature review has been adopted as relevant to each specific topic within each of the three phases/research topics. Further literature reviews have been conducted in subsequent phases as and when new areas have emerged during this exploratory research, requiring an iterative approach between such literature and the related data being analysed (see Figure - 6 below).

Aligned to the three phases of the research illustrated in Figures 5 and 6 below, the subsequent Table-3 on page 36 sets out a *consolidated summary of research objectives, methodology and contribution by research question.*

Figure – 5: The Research Sequence: Phase I

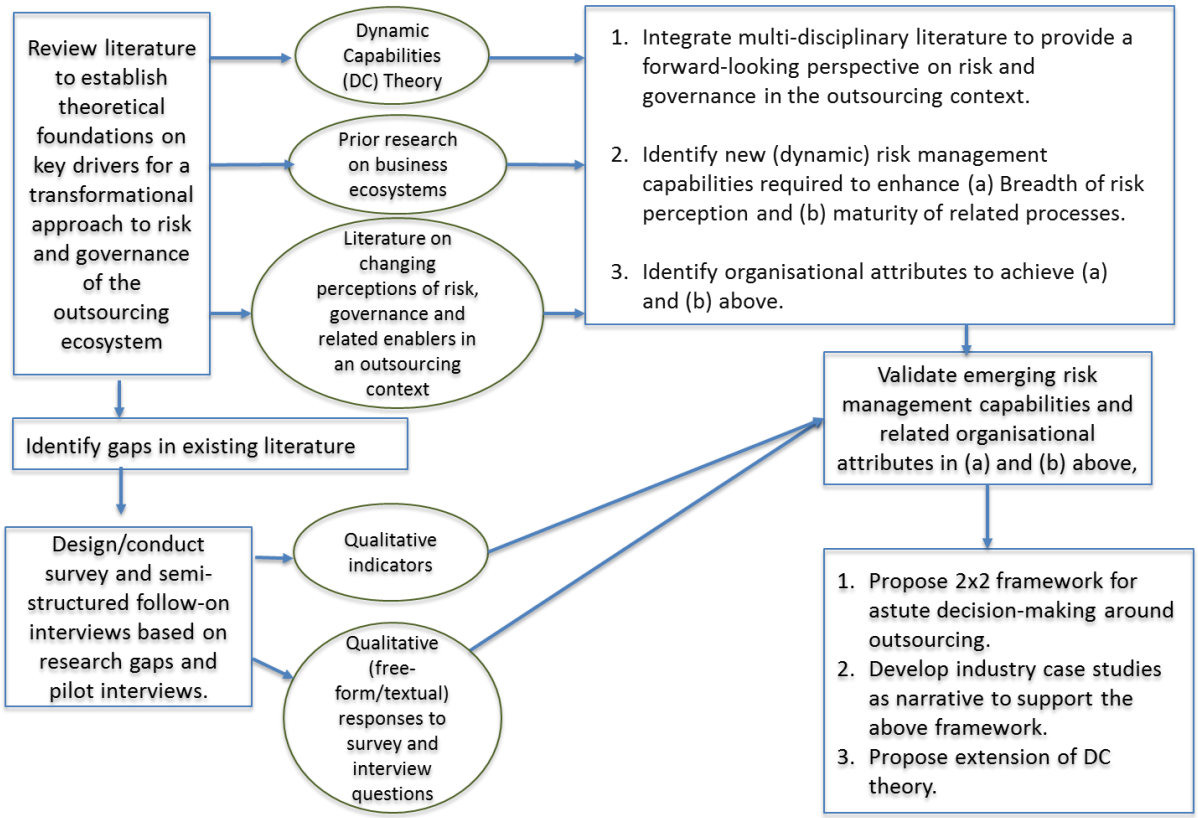


Figure – 6: The Research Sequence: Phases II and III

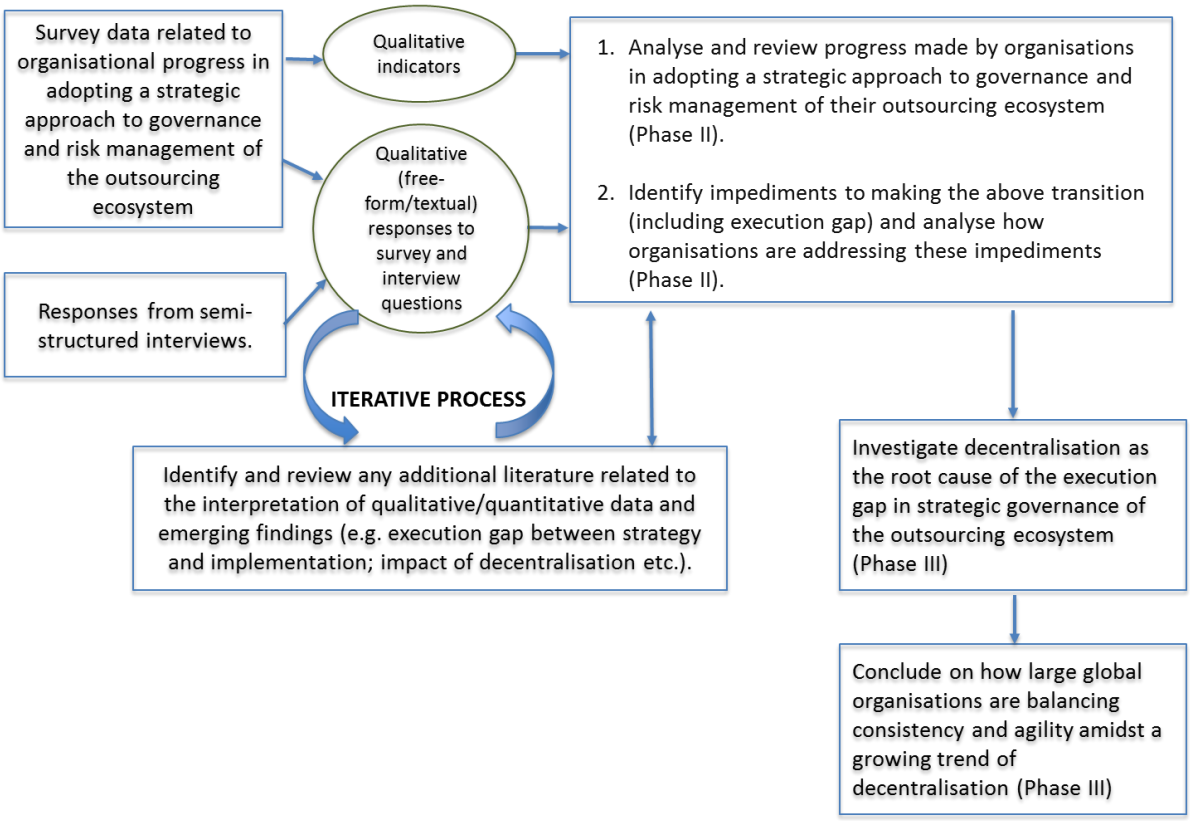


Table – 3: Consolidated Summary of Research Objectives, Methodology and Contribution by Research Question *(elaborating Figures 5 and 6 above)*

RQ1: ***Why*** *and* ***how*** *are large global organisations (which operate with a significant level of dependence on their outsourcing ecosystem) broadening their perspective and increasing the maturity of risk-management to reposition their governance and risk-management processes around their outsourcing ecosystem to more strategic levels?*		
Summarised Research Objectives	**Research Methodology and Steps**	**Contribution**
• Gain an understanding of existing knowledge on governance and risk management (both generally as well as specifically to outsourcing and the third-party ecosystem) to summarise the state of the literature and identify knowledge gaps to be addressed by empirical research in this thesis, including ○ key change drivers for organisational transformation; ○ impact of increasing risk and uncertainty in the outsourcing ecosystem on governance-related activities.	• Review available academic literature, prior research and practitioner-based publications to gain an understanding of existing knowledge on governance and risk management across multiple disciples such as strategy, operations, finance, risk, insurance, legal and compliance, macro-economics etc. (see section 3.1 of this thesis for this literature review). • Having defined the state of the literature, compare this with the research objective across the four steps followed for literature review to identify detailed gaps to be addressed by empirical research (see Appendix A for this analysis).	• On the academic side, this research contributes to the growing body of outsourcing literature by focusing on strategic governance and risk management from a novel and emerging "outsourcing ecosystem" perspective. To that end, it has integrated and extended the multi-disciplinary perspective on risk and governance across diverse disciplines indicated in the middle column of this table. This multi-disciplinary literature review is supported by empirical evidence and case exemplars to propose a forward-looking framework, which in turn depicts a unique trajectory to enable companies to foreground capacities for strategic advantage through outsourcing that challenges traditional thinking in this area.
• Develop a framework to assess organisational positioning and progress made in implementing strategic governance mechanisms related to the outsourcing ecosystem. Illustrate this framework using industry case studies based on empirical data collected through primary research to demonstrate the "aspirational path to excellence" being followed across industry segments.	• Develop survey questionnaire (Appendix C) and semi-structured interview prompts (Appendix D) aligned to the analysis in Appendix A described above. • Develop and execute survey – further details in section 2.3 of this thesis. • Conduct semi-structured interviews to gain a deeper understanding – see section 2.3 sub-headings *semi-structured interviews* and *data analysis* for further details of data collection and analysis. • Define the two axes of the proposed framework based on literature review supported by above data analysis – see figures 8 and 9 in section 3.4.1.	• From a practical perspective, the framework that is proposed in this thesis is intended to assist organisations to align risk management with strategic governance and develop governance mechanisms that allow them to benefit from outsourcing opportunities. Specifically, the framework motivates organisations to answer two key questions. First, "Where are you today?" to assess where they are currently positioned in terms of maturity of strategic governance over outsourcing vis-à-vis their breadth of risk perception which drives their appetite to take higher risks. Second, "Which way should you be going next?" to determine a possible

Table – 3: Consolidated Summary of Research Objectives, Methodology and Contribution by Research Question *(elaborating Figures 5 and 6 above)*

	• Interpret implications of framework (figure 10), illustrated by industry case studies based on survey and interview data (figure 11) in section 3.4.3.	trajectory going forward to be able not just to manage risks but also fully exploit the opportunities that outsourcing can create. • Methodologically, the work highlights the value of a flexible problematisation approach (Locke and Golden-Biddle, 1997; Alvesson and Sandberg, 2011) in investigating "messy" contemporary issues, characterised by multiple layers of change and related uncertainties in the external and internal environment of large global organisations. This perspective allowed the researcher a degree of freedom and subsequently led to the unexpected discovery of the aspirational path to excellence in the 2x2 framework (section 7).
RQ2: *How can a classical management theory like Dynamic Capabilities (DC) theory utilised to aid in understanding the development of the related capabilities for such repositioning of governance and risk management around the outsourcing ecosystem?*		
• Investigate the relevance of the DC Theory in understanding and developing governance and risk management capabilities in the contemporary context.	• Using fundamental principles of the Hermeneutic Circle, carry out multiple iterations of abstraction and generalisation of the survey/interview data through theoretical framing of the findings using the relevant insights from the DC theory (see section 3.4.3 – Table 6 for this analysis). The fundamental principles of the Hermeneutic Circle *inter-alia* involve revisiting prior ideas and pre-conceived notions by distanced re-interpretation of the empirical data by revisiting the theoretical framework as many times as required to bring together the parts of the picture as one whole – see Gadamer, 1977). This has enabled establishing the linkage between the key criteria for DCs proposed by Teece (2014) to the two axes of the framework to develop specific risk-management capabilities for strategic governance and risk-management.	• In addition to providing a multi-disciplinary perspective (RQ1 above), this thesis utilises DC theory to establish the need for a more dynamic approach to the governance and risk management of the outsourcing ecosystem and specifies how exactly this can be achieved. It does so by focusing specifically on the two new capabilities identified in this thesis: (a) the capability to have a broader perception of risk in outsourcing that recognises ongoing opportunities that these risks present in addition to the threats and hazards; and (b) the "asset orchestration" capability to develop more mature risk management mechanisms that enable organisations to maximize the opportunity while addressing the risk amid changes in the macro-economic and business environment.

Table – 3: Consolidated Summary of Research Objectives, Methodology and Contribution by Research Question *(elaborating Figures 5 and 6 above)*

RQ3: ***How are organisations making progress in implementing this repositioning and what key challenge(s) are they facing?*** **RQ4:** ***How are these organisations addressing these challenges?***		
• Gain an understanding of implementation experience in implementing a transformational approach to reposition governance and risk management of the outsourcing ecosystem to more strategic levels by large global organisations. This specifically includes identifying implementation challenges and good practices that are being adopted by the more successful organisations. • Examine how organisational design (appropriate balance of centralisation and decentralisation) together with the judicious use of technology, people and processes can cost-effectively be leveraged to address the implementation challenges.	• Use survey results in the form of basic descriptive statistics, supported by data analysis from semi-structured interviews (as described against RQ1 above) to explore the emergence of a value-focused ecosystem in large global organisations with increasing dependence on the provider with regard to critical organisational processes and the related risks and challenges this is creating (sections 4.1 to 4.3). • Determine the extent of progress made by large global organisations in increasing the maturity of governance and risk management processes relating to its outsourcing ecosystem to address these risks and whether strategic intent matches organisational abilities to ensure an integrated and holistic approach to the management of third parties forming its outsourcing ecosystem (execution gap) (section 4.4). • Investigate the cause of this execution gap and align prior research to survey/interview findings to propose the way forward to address this gap (section 4.5 to 4.7). • Investigate decentralisation in large global organisations as a root cause of this execution gap and align prior research to survey/interview findings to address the impact of decentralisation (sections 5.1 to 5,3).	• The thesis extends past experience on managing the strategy execution gap and relates the same to the context of the outsourcing ecosystem with a Strategic Management focus as well as Information Management focus. From a practitioner perspective, members of the Board and C-suite as well as senior management in large global outsourcing (client) organisations can use this analysis to help them address the potential for emerging practices and mechanisms to avoid or address the execution gap, thus maximising the opportunities that the outsourcing ecosystem can create for them going forward. • Decentralisation in large global organisations presents a new set of challenges to achieving the transformational repositioning in the strategic governance and risk management of large global organisations. In response to this trend, this thesis highlights a three-pronged approach (being used by large decentralised global organisations) by revisiting the role of the corporate centre with regard to its strategy and governance functions; aligning outsourcing governance practices to the nature and extent of decentralisation and ensuring better coordination between those who perform governance and control functions across the business.

Qualitative and quantitative data to address the research questions

To effectively address the research questions, this researcher thus employed an approach to gather detailed qualitative data through a smaller number of detailed semi-structured interviews supported by more generic quantitative indicators captured through a broader survey to address the research questions (see Table-4).

Table-4: Data Collection

Data type	**Method**	**Relevant Research Question**
Qualitative Quantitative	Semi-structured interviews grouped into industry-specific case studies. Populating the industry positioning on the 2x2 framework to support the qualitative analysis above.	**RQ1**: Why and how are outsourcing organisations (client view) broadening their perspective and maturity of governance/risk management mechanisms around their outsourcing ecosystem and repositioning them to more strategic levels in the organisation for competitive advantage and value creation.
Qualitative	Semi-structured interviews	**RQ2**: How can a classical management theory like Dynamic Capabilities (DC) Theory be extended to aid the development of the related capabilities for such repositioning of governance/risk management of the outsourcing ecosystem.
Quantitative indicators/ benchmarks to support qualitative data Qualitative	Large-scale survey to provide snapshots of implementation progress and other basic data supporting the qualitative analysis below. Semi-structured interviews.	**RQ3:** What are the organisational experiences of trying to reposition their governance/risk management of their outsourcing ecosystem to more strategic levels enabled through a renewed set of holistic and consistent mechanisms, including the key challenges so far?
Qualitative Quantitative indicators/ benchmarks	Semi-structured interviews. Basic quantitative data to support or dispel qualitative understanding or reasoning.	**RQ4**: How are these organisations overcoming these challenges?

The long-standing debate between purist quantitative and qualitative researchers on using both these types of data together within the same research design has become somewhat redundant in the literature as the combination of the two has become recognised as an independent and established third research paradigm (Johnson & Onwuegbuzie, 2004). Johnson et al. (2007) understand the paradigm as:

> *"…combining elements of qualitative and quantitative research approaches…for the broad purposes of breadth and depth of understanding and corroboration." (p.123)*

As explained earlier, the current research calls for this notion of breadth and depth. This study uses a 'between methods' (Denzin, 1978) approach involving the use of both quantitative and qualitative methods to satisfy the research questions. It demonstrates pluralism to reflect the interdisciplinary, complex and dynamic phenomena being explored; the remainder of this section seeks to justify this choice further.

An earlier generation of researchers claimed that quantitative and qualitative methods should not be combined and that they are incompatible (Howe, 1988). However the long-term (and dated) debate over keeping quantitative and qualitative paradigms separate is becoming less relevant with the growing number of studies now following a combined approach. This is increasingly being perceived by contemporary researchers as appealing to a pragmatic philosophic perspective as no incompatibility between quantitative and qualitative methods is now believed to exist at either the level of practice or that of epistemology.

One of the articulated justifications for employing a combination of qualitative and quantitative data is to gain the best of both worlds by drawing from the strengths and minimising the weaknesses of each approach (Johnson & Onwuegbuzie, 2004). Integration in this way ensures triangulation of research data by viewing quantitative and qualitative methods as complementary practices rather than competing paradigms (Jick, 1979).

2.3 Detailed steps for empirical data collection and analysis

The survey indicated above was designed to investigate the current and emerging risk management and governance practices in outsourcing amongst large global organisations. These senior members of management were responsible for governance and risk management around the outsourcing of IT and business processes in their organisations, and included Chief Finance Officers, Heads of Procurement/Vendor Management, Chief Risk Officers, Heads of Internal Audit and those leading the Compliance and IT Risk function. Potential respondents were screened through discussions with the lead relationship manager (relationship-owner) in the consulting firm to reconfirm that in each case these individuals represented senior leadership charged with the governance of outsourcing relationships in these organisations with appropriate responsibility and authority. Additional insight was also obtained from respondents from subsidiaries of these organisations, which independently managed outsourcing and third-party relationships with some degree of decentralisation but with lower annual revenues relevant to the specific subsidiary.

The respondents represented industries across all the major industry segments. However, a substantial proportion of responses were obtained from organisations in Financial Services (FS) (34%), followed by Healthcare & Life Sciences (HLS) (26%), and Business and Professional Services (BAPS) (17%). Analysis of the survey results revealed clusters emerging around these three key industry segments, thus providing us with the confidence to set out the case studies on organisational positioning around risk perception and governance maturity by these industry segments. This seems to be representative of the diverse state of play that was typical of a large global organisation in that segment. A potential fourth cluster was seen to emerge around Public Sector organisations together with some other organisations from Consumer Business (CB), Energy and Resources (E&R) and Technology, Media and Telecom (TMT) representing, in total, around 9% of respondents). These organisations typically had a high public exposure and therefore were inherently risk averse, like their Public Sector counterparts. This risk-averse mind-set was reflected in the organisations' reluctance to adopt more entrepreneurial approaches to outsourcing due to their increased public accountability. Many of these organisations had their roots in the public sector and had been subsequently privatised without any

significant behavioural changes with regard to risk-taking and entrepreneurship. For simplicity, these have been grouped under "Public Sector" in the subsequent analysis.

More than 70% of the organisations represented in the survey had annual revenues in excess of US$1 billion. The majority of these organisations were headquartered in Western Europe and in Northern America, although the survey did not reveal any significant changes to their behaviour as global organisations based on the location of the corporate headquarters. The questionnaire was designed through collaborative efforts between representatives of the consulting firm that enabled the survey and academic input from the authors. It was split into the following four sections with an initial filtering question to identify and select those respondent organisations that were outsourcing IT and business processes for consideration in this report:

- Background and context of the respondent's third-party or outsourcing ecosystem.
- Mechanisms for managing risk.
- Governance frameworks.
- Technology, delivery models and other evolving issues and good practices.

In order to capture the evolution in risk management and governance process over time and to identify future trends, the survey was designed to include questions that are related to the organisations' current position and also their past status (referred to as "a year or more earlier"), as well as the position to which they aspired in the near future (referred to as "a year or more ahead"). The survey was followed by one-on-one detailed interviews with 36 of these respondents (including 8 initial pilot interviews), selected on the basis of their availability and willingness to participate in these interviews. These semi-structured interviews were intended to obtain a better qualitative understanding of their organisations' specific circumstances and challenges vis-à-vis their peers, supported by illustrative examples and their proposed way forward, augmented by additional quantitative indicators revealed by the survey.

To be able to report these findings by industry segment and also illustrate the 2x2 framework through these industry perspectives (exemplifying all aspects of change across the external and internal organisational environment), a case-study based approach was adopted for the follow-on interviews. Case study is a research strategy for examining a contemporary phenomenon in its real-life context, especially when the boundaries between the phenomenon and context are not clearly evident (Yin, 2008). In this research, the behavioural phenomenon in terms of the changing approach to strategic or corporate governance at leadership levels is very closely interwoven with the organisational context and cannot be separated. Therefore the context is deliberately part of the design. Hartley (2004) describes the aim of doing this as being able to provide an analysis of the context and processes which illuminate the theoretical issues being studied.

A common feature of case studies is their holistic approach. Since the case study seeks to capture people as they experience their natural, everyday circumstances, it can offer the researcher empirical and theoretical gains in understanding larger social complexes of actors, actions and motives (Feagin et al., 1991). This enabled the semi-structured interviews to identify good practices/strategies (covering people, process and technology domains) that were being adopted by the more successful organisations to address enhanced risk and uncertainty holistically and cost-effectively.

Case study research, like other qualitative research, is amenable to the theoretical generalisation of the learnings from my proposed research, although broader generalisation to the extent possible under positivist research may be a challenge (Lee, 2008). Theoretical generalisation involves suggesting new interpretations and concepts or re-examining earlier concepts and interpretations in major and innovative ways (Yin, 2008). This would be key to understanding strategic or corporate governance in its repositioned status at a significantly higher level of the corporate hierarchy.

Case study approaches can be based on a single case or multiple cases. Multiple case designs facilitate comparative analysis where the aims of the research include the need to find the replication of results under different circumstances. In the context of this research, a multiple rather than a single case study approach was selected, covering around 5-6 organisations in each industry segment. Each such

industry segment constituted a case and a group of similar organisations in any of the four industry segments presented made up an embedded case, thereby facilitating cross-case analysis between these four embedded cases (industry segments).

As there was a significant amount of learning in carrying out each of these four embedded case studies, a sequential rather than a parallel approach was considered appropriate in the context of the research. A sequential approach to case analysis helped refine the approach in studying subsequent industry segments. This *replication logic* is supported by Yin (2008), as set out below. The case study organisations would be selected based on the "typical instance" logic, where each of the case study organisations within the embedded cases are similar in crucial respects to the others that might have been chosen, and that the findings from the case study are therefore likely to apply elsewhere. As the case study organisation is like most of the rest, the findings can be generalised to theory applicable to the entire class of organisations comprising each of the embedded cases.

Semi-structured interviews: Data collection was largely qualitative in nature through these semi-structured interviews, using open-ended questions, which had been informed by the preceding survey. This provided respondents with room for flexibility and variation to reinforce the understanding, unlike a structured interview where the questions and response categories are predetermined, inflexible and invariable and may fail to address all the facets or dimensions of this complex phenomenon. On the other hand, there is a risk that a fully unstructured interview may lose the focus of addressing the specific research areas set out in the research questions (Silverman, 2005). Fontana & Frey (2003) emphasize that it is critical to ask not just the right questions but also in the manner most appropriate to the research setting, the culture and the language of the respondents, deciding how the questions are delivered, including the wording and the sequence, as well as building rapport/trust with the research settings and participants. As the rapport, context and storyline evolves, different respondents can be asked the broader questions in a different way or in a different order, thus enhancing the quality of data gathered.

Many of the principles of Interpretive Field Research applied specifically to the IS research field as articulated by Klein & Myers (1999) were used in the current research, such as: the fundamental principle of the Hermeneutic Circle to iterate between information provided by the key informants and wider organisational data; the need for contextualisation of interviews and social construction of data; abstraction and generalisation through theoretical framing of the findings; the need for sensitivity to biases, systematic distortions, multiple interpretations and consideration of potential revisions to research design based on dialogical reasoning.

The process and situation for the interviews was trialled, as feasible, within the case study environments, to address researcher bias. The more unstructured the interview, the more communication skills in general and listening in particular are important (Silverman 2005).

Data analysis

Data collected from the above interviews was primarily in the form of transcripts and notes. To substantiate some of the discussions during the interviews, any other documentary evidence gathered from the interviewees, such as policies, procedures, communication, minutes of Board and Audit Committee meetings, regulatory directives, design documents relating to technology-driven risk management mechanisms etc. directly relevant to the agenda of strategic and corporate governance in organisations, was also captured.

The fundamental principles of data analysis set out by Miles & Huberman (1994) were followed, tailored to the specific research circumstances, to reduce the vast amount of data collected to the underlying themes, ideas and concepts, without losing the richness of the data. This enabled the presentation of the case study data in various forms and perspectives (quotes, diagrams, cross-case and within-case data discussion) to enrich the analysis and enable conclusions to be drawn. These conclusions were then verified and validated to ensure high quality reliable research.

Application of Grounded Theory: With regard to interpretation and analysis of the follow-on interviews, the grounded theory approach, in its “pragmatic form” (Strauss & Corbin, 1998), was followed, which encourages the researcher not just to generate the theory from the data as in the

"purist form" (Glaser & Strauss 1967), but also to blend the process with existing insights obtained from existing theory, literature and practice. The search for meaning thus starts evolving at the early stages of data collection through a continuous interplay of data collected and analysed, in this case, both quantitative and qualitative. (Stern, 1994). Grounded theory as a tool for analysis arguably has some conflicts with understanding the world as subjective or objective from a philosophical point of view (Annells, 1996) and therefore this will be clarified in this section. The view of the researcher and this subsequent work is that of social constructionism: society is both subjective and objective in that society and individuals assign objective meaning to constructs (Andrews, 2012). Annells states that the philosophical view of grounded theory is whereby:

> *"…social and natural worlds have differing realities but that both forms of reality are probabilistically apprehensible, albeit imperfectly" (Annells, 1996; p.385).*

This work employs grounded theory in two ways. Firstly, it assumes a similar perspective to Glaser (2001) in that the theory should emerge from the data through induction. It should however be understood that there is a level of deduction occurring. This is due to the background of the researcher as an individual who has been immersed in this subject of research and therefore is unable to withdraw completely from personal subjective views (Thomas & James, 2006). Secondly, this research deliberately draws on grounded theory in order to logically make sense of a large amount of qualitative data and to ensure that meaningful knowledge is drawn from it. This, of course, requires a level of objectivity. Objective meanings and codes are assigned to the subjective views of the participants with the purpose of drawing meaningful results that represent the samples in this research (see detailed steps in operationalizing analytical techniques below).

Grounded theory arose from philosophies of symbolic interaction which have been traditionally employed by psychologists and sociologists enquiring about human and group behaviours (Chenitz & Swanson, 1986). The view here is that individuals will enter into their own experiences as an object and not a subject defining themselves through social roles, expectations and perspectives of themselves and others (Mead, 1962). Individuals derive meaning from social interaction and interpret this (thus modifying meaning) to determine their actions (Blumer, 1969). This corresponds with a

constructivist paradigm of enquiry (Guba & Lincoln, 1994) whereby the nature of reality (in terms of objectivity) is formed subjectively by a person or collective mental constructions.

When talking about objectivity and subjectivity, it is useful to understand the differing backgrounds of grounded theory's founding academics, Glaser and Strauss. Glaser had training in positivistic approaches and therefore coded qualitative responses into something objective (Annells, 1996). This portrays more of an etic approach whereby constructs are described externally in terms of concepts that are equally understandable to other cultures (Pike, 1967). It is in this way that grounded theory has been criticised for its formulaic nature (Robrecht, 1995; Thomas & James, 2006) and has been accused of oversimplifying complex meanings and interrelationships because of its reliance on a naïve model of scientific induction towards "inference to the best explanation" (Miller & Fredericks, 1999). Nonetheless, in terms of the current research it is this systematic approach and analysis strategy that has enabled the researcher to clearly make sense of a large amount of qualitative data.

Strauss's training encouraged him to understand the active role of individuals in research and the subjective nature of interpretation (Strauss, 1987; Thomas & James, 2006). It is acknowledged that preconceptions cannot be wholly abandoned, which contrasts with Glaser's (1978) motivation to "come closer to objectivity" (p.8). The view of social constructionism appreciates that while knowledge is subjective, the value that we can assign to it is objective (Andrews, 2012); grounded theory shares this view (Annells, 1996) and encourages "concepts of reality" (Glaser, 1992; p.14), however, it is Strauss (1987) who more clearly acknowledges the subjective role of the researcher.

Since the original work on grounded theory (Glaser & Strauss, 1967) different versions and forms of grounded theory have arisen, each with similarities but serving different purposes and reflecting different backgrounds (Bryant & Charmaz, 2007):

- Strauss & Corbin's (1998) approach finds the researcher knowing where to start; they approach data from a top down view, deriving and proving theory from the data.

- The Glaserian perspective (2001) stresses the importance of letting a theory emerge from the data rather than using specific, present categories; the theory emerges from the data. The researcher approaches a phenomenon with a completely 'empty mind'.
- The Constructivist approach (Charmaz, 2003; Charmaz, 2006; Charmaz, 2014) emphasizes the importance of meanings individuals attribute to the phenomena under study. The researcher will apply active codes to look at the feelings and values participants assign to concepts rather than solely focusing on facts and description. It accepts the researcher as an active participant in shaping the conclusions.

The current study does not aim to tell an individual story surrounding each participant; rather it seeks to identify behaviours to do with strategic governance and risk-management in the context of the outsourcing ecosystem to resolve a concern (Breckenridge et al., 2012). The outcome seeks to explore behaviour rather than describe how individuals construct their own independent reality (which is more aligned with Glaser's (2001) view).

Before a divergence in views occurred between Glaser and Strauss, the intention of grounded theory stressed the prescription of data analysis steps to develop and contribute to a logic paradigm or model of the theory generated (Glaser & Strauss, 1967) through both inductive and deductive enquiry. The current work is reflective of this original approach. The researcher has some preconceptions of themes that he wished to explore and which have been guided by the literature and theory presented in this thesis, although the specific details surrounding the outputs from the data are unknown, reflecting both inductive and deductive approaches (Polsa, 2013).

<u>Detailed steps in operationalising analytical techniques</u>

1. *Open coding and concept development (enabled by NVivo):* To start, the interview transcriptions were analysed and open-coded into distinct units of meaning by identifying key words or phrases which connect the informant's account to the subject of my research, for instance the concept of the "execution gap", albeit expressed by using different words by different interviewees . Concept development then involved identification of a chunk of data

as “belonging to, representing, or being an example of some more general phenomenon” (Spiggle, 1994; p.493). For instance, the informants from the outsourcing organisations talk about what enhances risk to their organisation and then relate that to various elements or situations of risk that they are describing.

2. *Contact summaries/research memos:* Immediately following each interview, a Contact Summary sheet was created with a research memo for each interview, highlighting the main themes and any thoughts or perceptions (e.g. anxiety expressed over regulatory non-compliance and enforcement action related to the actions of third parties in the outsourcing ecosystem) that could be subsequently revisited to enrich the emerging theory.
3. *Axial coding and category development:* Involving grouping of emerging concepts, for instance, elements or situations of risk and related challenges, into those arising from regulatory, people/cultural, technology or process issues, based on the relationship between these concepts. This involved the process of abstraction (refer also to the discussion on abstraction in section 5.1 above) onto a theoretical level to create the basis for theory-construction (Glaser & Strauss, 1967) which can be traced back to the data.
4. *Theoretical sampling:* As concepts/categories were identified and the alignment to DC theory started to develop, the need to include additional informants and incorporate new scenarios not covered earlier was considered, in order to strengthen the research findings and propose an alignment to DC theory based on risk management capabilities arising from the interviews. Thus, at this stage, the process of data collection started to get ‘controlled’ by the emerging theory” (Glaser, 1978; p.36). In this case, the agenda for subsequent interviews was refreshed to include the list of relevant insights arising from the DC theory to ensure these insights were comprehensively covered in the discussions. Another example related to the identification of the “execution gap”. When the initial interviews identified that one of the potential causes of this gap was the delegation of key risk management functions to junior managerial staff without relevant skills or training, a small number of such junior staff from the same organisations were also included as additional informants.

5. *Constant comparison and triangulation:* As the name implies, this involves comparing like to like in looking for emerging patterns and themes. These comparisons were initially done within each embedded case and then across the embedded cases. Similarly, literature being reviewed and emerging theory were continually compared as was the relationship between the data and emerging theory. As discussed earlier, the use of a combination of quantitative and qualitative data significantly enhanced the opportunities for triangulation.
6. *Treatment of any emerging disagreement between the data, the emerging theory and the literature:* The principle applied here was that rather than assuming that the emerging theory was incorrect, plausible explanations to the divergence would be sought that reconciled and made sense of both the research data including specific explanations provided by interviewees, as well as the literature. For instance, in the industry case studies, the macro economic and business environment impacting the specific industry (e.g. regulatory pressures in Financial Services or the inherent changes that the Healthcare and Life Sciences industry was going through) provided many of these explanations to determine the trajectory or aspirational path to excellence in RQ1.
7. *Reaching the point of saturation:* The researcher "stayed in the field" until the point of saturation was reached and no new evidence emerged from subsequent data.
8. *Obtaining feedback as a quality and sense check:* This was done at the broader thematic level, to protect the confidentiality and anonymity of respondents, and served as a quality and sense check on the conclusions (Miles & Huberman, 1994).

A structured and robust approach, enabled by the use of NVivo, to manage the high volume of data, enabled the researcher to address the limitations of the grounded theory approach which often relates to the "data overload and information blackout" (Drucker, 1988). It also enabled the researcher to ensure that early impressions (or data collected) did not make a deeper mark, which in turn, has the risk of subsequent data that is inconsistent, difficult to get or missing to be ignored.

This proposed design was refined and adjusted as the research progressed, to better align with the research problem, particularly based on the experience of the trialling and sequential studies.

2.4 Safeguards to ensure ethical conduct of research

Appendix B sets out a sample consent form used to tell potential research informants about the research, enabling them to make an educated choice about participating in the research by clearly setting out upfront what the research is about and what it entails from their perspective. Apart from explaining the objective and scope of the study; the consent form also clearly indicated the manner in which data would be collected and how this data would be used. It emphasised that participation in this research was voluntary and the participants could potentially withdraw their consent at any later time, without providing any specific reason for such withdrawal.

The participants were further assured that commercial confidentiality related to their organisation as well as individual sensitivities in matters relating to Board or leadership-level strategic activities would be protected. Further, some personally identifiable information (PII) or personally sensitive information (PSI) may have been captured during the interviews with the key informants. There was thus a need to have a continuous focus on preventing any misuse of such information beyond original intent. The legal obligation under the Data Protection Act, 1988 required the researcher to store any personal information in password protected data files, lock physical copies and not retain them longer than necessary (normally 5-7 years). Any confidential corporate information obtained during my research would also need to be similarly safeguarded. As the data collection for this research was completed prior to the European Global Data Privacy Regulations (GDPR) came into effect on 25 May 2018, this aspect of compliance was not required to be considered by the researcher. Finally, all uses of other researchers' work and publications have been duly acknowledged to avoid plagiarism as I am responsible for the integrity, impartiality and independence of my research.

3 EXTENDING ORGANISATIONAL BOUNDARIES THROUGH OUTSOURCING: TOWARDS A DYNAMIC RISK MANAGEMENT CAPABILITY FRAMEWORK

Section Summary: This section focuses on addressing RQ1 and RQ2, i.e. the how and why of adopting a more strategic approach to the governance and risk management of the outsourcing ecosystem by developing dynamic risk management capabilities underpinned by the dynamic capabilities (DC) theory. The first part of this section (3.1 to 3.3) sets the context of this organisational transformation discussed in the introductory section of this thesis by providing a forward-looking multi-disciplinary view of the emerging concept of strategic governance and risk management in the context of the outsourcing ecosystem, integrating key principles from the DC theory. Having set the context, it then attempts to gain an understanding of how and why such large global organisations are broadening their perspective and maturity over governance and risk-management around their outsourcing ecosystem to emerge as astute decision-makers (3.4.2), together with the organisational capabilities that they must develop to emerge as the astute decision-makers in this regard, using primary research-based industry case studies (3.4.1) and concludes by relating these emerging organisational risk management capabilities to key principles of the DC theory (3.4.3). The next section will focus on addressing RQ3, i.e. gaining an understanding of the organisational experience in implementing this transformational change and related challenges faced.

3.1 Strategic governance and risk management in the outsourcing context

Sub-sections 3.1 to 3.4 establish the context for the organisational transformation by critically reviewing existing literature to gain an understanding of the changing perception of risk and governance that is currently taking place in the business environment and relate it to the outsourcing context. By doing so, these sub-sections further explain the knowledge gaps that establish the foundations for the research covered in this thesis, setting the stage for the subsequent industry case studies, the 2x2 framework and alignment with the DC theory.

Existing literature, relevant to proposed research, can be grouped into four broad themes:

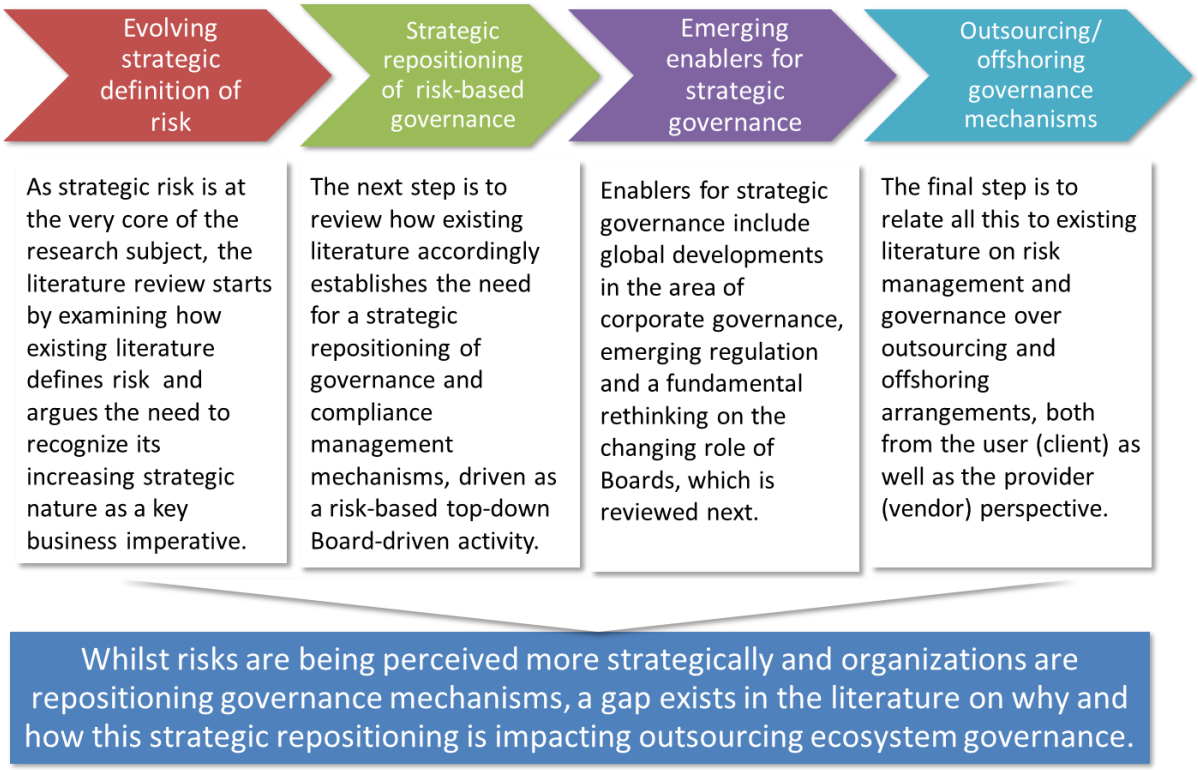
- Risk and risk-management: Explaining and recognizing the strategic nature of risk as an enabler for value-creation.
- Risk-based governance: Strategic repositioning of governance as a risk-based top-down Board-driven activity.
- Enablers for strategic governance: Contemporary rethinking on the role of Board and regulation.
- Strategic governance and risk-management (in the outsourcing context): Studies on risk and governance in the context of outsourcing and relating the above themes to the outsourcing/offshoring context. Figure 7 below summarises this framework for the literature review.

Based on the review of existing literature in this way, the evolving approach to capture the strategic nature of risk and governance in outsourcing is depicted across these four key themes.

- Risk and risk-management: First, *the changing perceptions of risk* over time towards recognizing the strategic nature of risk as an enabler for value-creation, not just "bad things happening" (Funston & Wagner, 2010; Slywotzky & Drzik, 2005), and dealing with uncertainty (Samson, Reneke, & Wiecek, 2009; Carbonara & Caiazza, 2010; Marczyk, 2009; Elahi, 2013). This also includes recognition of the more strategic types of risk, in addition to traditional financial or compliance-related risks (McConnell, 2013; Weitzner & Peridis, 2011).
- Risk-based governance: Second, *strategic repositioning of risk-based governance*, which views governance as driven by strategic risks, and integrated as a top-down Board-driven activity.
- Enablers for strategic governance: Third, *emerging enablers for strategic governance* that involve recognizing the increasing role of the Board in governance (McNulty, Zattoni & Douglas, 2013) and regulation as strategic enablers in this evolution.

- Strategic governance and risk management (in the outsourcing context): Lastly, *strategic governance and risk management mechanisms* relevant to the outsourcing context.

Figure-7: Approach to Literature Review



Each of these four areas is elaborated below:

3.1.1 Risk and Risk-management

Changing Perceptions: Risk is typically defined as a probability or threat of damage, injury, liability, loss, or any other negative occurrence, caused by external or internal vulnerabilities, which may be avoided through pre-emptive action (Law, 2006). Therefore, risk represents a potential for failure in terms of loss, harm or missed opportunity. In line with this view, risk management has typically been associated with mitigating adverse financial consequences of "bad things happening", including the use of market insurance mechanisms (Harrington & Niehaus, 2003). Dionne (2013) explains that after the Second World War, the inability to comprehensively insure business risks led to the emergence of newer mechanisms for risk management such as contingent planning and risk prevention activities. This was followed by the international regulation of risk (1980s), starting with financial institutions developing internal risk management models and capital calculation algorithms to optimize regulatory capital. As

wider governance mechanisms started evolving, integrated risk management was introduced and Chief Risk Officer (CRO) roles emerged. Sarbanes-Oxley regulation, stipulating governance rules for companies, was introduced in the United States in 2002, following various scandals and bankruptcies resulting from poor risk management, and the key stock exchanges added similar rules for listed companies (Blanchard & Dionne, 2004). However, despite these developments, traditional risk management with its focus on avoiding financial risks and protecting existing assets clearly did not prove sufficient to prevent the housing bubble, subprime crisis and credit crisis of the 2000s in the USA, leading on thereafter to a much wider global financial and economic crisis. These challenging times triggered the need to rethink risk and risk management. It was realised that risk management, as practised, rarely involved business leaders and was rarely used to identify and exploit the most promising value-creation opportunities. By not doing so, most directors and executives were left with a skewed view of risk and with only one set of tools (i.e., asset preservation tools) when they also needed another set to deal with the risks that accompany their efforts to create new value for their organisations (Funston & Wagner, 2010). Further, the key focus on "preventing bad things happening" or the downside led many organisations to treat their enterprise risk management function merely as extensions of their audit or regulatory compliance processes (Slywotzky & Drzik, 2005).

Uncertainty and its impact on risk thinking: "Risk" is generally linked with *uncertainty* (Samson, Reneke, & Wiecek, 2009). Indeed, leadership often has to make decisions without complete information and with the inability to specifically describe future outcomes (Carbonara & Caiazza, 2010; Krickx, 2000). Knight (1971) describes two types of uncertainty: first where probabilities are known or knowable, which he calls risk; and second, where probabilities are not known or knowable. This classification established the probability theory based foundation of conventional risk management, involving probabilities based on normal distributions, ignoring the outliers. This approach has failed, as improbable and extreme events have occurred instead of the probable. Thus risk management needs to be flexible and dynamic, rather than static and bound by a set of statistical rules.

Several definitions of risk consider the extent of uncertainty and the magnitude of potential loss, as the two essential elements of risk (e.g., Kaplan & Garrick, 1981). Regda (2007) defines risk as uncertainty, concerning the occurrence of a loss, emanating from lack of complete information about the future.

Luhmann (2005) argues that risk, unlike danger and uncertainty, implies a domain for decision-making about the future. Therefore, risk management creates an expectation of decidability and management of uncertainty and opportunity (Power, 2007).

On a related note, Marczyk (2009) points out the fundamental yet intuitive Principle of Incompatibility between high complexity and high precision (Zadeh, 1975), by which high complexity reduces the accuracy of future predictions, thus increasing risk. Horton (2012) explains how a complex system cannot be explained by breaking it down into its component parts because the key element is the interaction between parts. As a result of these interactions, complex systems exhibit emergent behaviour, making probabilistic risk assessment techniques, based on linear relationships, difficult to apply. Bonabeau (2007) in his paper on understanding and managing complexity risk, gives examples of how such complexities in business processes, legal contracts, software, networks, etc, in a hyper-connected world have led to business failures or major disruptions in different industries.

The extent and impact of uncertainty thus enhances the need to rethink risk management at operational, planning and strategic levels. Researchers agree that the rapid pace of change significantly increases uncertainty and accordingly the risks (both in number and strategic impact), making predictions less reliable and impairing organisational ability to sustain competitive advantage (Dess & Beard, 1984; Wholey & Brittain, 1989; Pearson, 2004; D'Aveni, Gagnino, & Smith, 2010). Risk management would be redundant in a perfectly predictable world (Elahi, 2013).

The upside or opportunity in risk: Research on exploiting the upside or opportunity in risk is emerging as the world continues to realize that risks must be taken to seize opportunities, managed and not simply avoided for an enterprise optimizing its value and success, particularly in uncertainty and turbulence (Funston & Wagner, 2010). Traditional approaches for managing risk tend to focus on monitoring key financial indicators (often driven by financial statements) and regulatory compliance. Resulting risk strategies are thus largely driven by prior performance and past negative events; these are often inappropriate for detecting future strategic risks, managing future performance or focusing beyond value preservation to value-creation (Deloitte, 2013). In line with this view, *risk* can be defined as *the potential for failure in terms of loss or harm or missed opportunity.*

Risk management is the discipline of improving one's chances of survival and success, particularly in uncertainty and turbulence. It is driven by the philosophy that risks must be taken to seize opportunities, and they must be managed not simply avoided. Therefore, by considering and managing risk, an enterprise can succeed in optimizing its value and success (Dictionary of Business and Management; Law, 2006). Risk management can significantly enhance competitive advantage, as advocated by Porter (1985) through cost advantage as well as differentiation. This is showcased by Elahi (2013) who explains how this can be achieved by being stronger in dealing with disruption when it hits everyone, seeking riskier businesses with higher potential profits, creating a resilient image and dealing more effectively with day-to-day fluctuations. On similar lines, Kaplan & Mikes (2012) reiterate the need for managing strategic and external risks, but emphasize that this needs to be accomplished in addition to managing the downside and preventing "bad things happening". Preventable risks, arising from within an organisation, can be monitored and controlled through rule-based standardised compliance tools, while strategic risks and external risks require dynamic approaches, enabled by iterative discussion. Therefore, establishing Enterprise Risk Management (ERM) Systems can create long-term competitive advantage (Nocco & Stulz, 2006).

Aven (2016) summarises the emerging changes in risk and risk-management by concluding through literature review that the scientific foundation of risk assessment and risk management is still somewhat shaky on some issues, in the sense that both theoretical work and practice rely on perspectives and principles that could seriously misguide decision-makers. Examples include the general conception of risk as an expected value or a probability distribution. In recent years several attempts at integrative research have been conducted, establishing broader perspectives on the conceptualisation, assessment and management of risk, which Aven (2016) considers as essential for developing the risk field and obtaining a strong unifying scientific platform for this field. This current thesis addresses this call, specifically the acknowledgement of managerial review and judgement in risk management.

3.1.2 Risk-based governance

Having reviewed how the existing literature recognizes the broadening of risks beyond avoiding or mitigating the negative effects of (primarily) financial risks, this sub-section now examines the related theme of realignment of governance mechanisms to match this reincarnated risk thinking.

Governance is concerned with directing and managing activities to maximize performance that meets the expectations of internal and external stakeholders, while managing risks and complying with applicable laws, regulations and obligations (Arora & Dharwadkar, 2011; Letza, Sun & Kirkbride, 2004). Researchers acknowledge risk-based approaches to governance as universally applicable foundations for improving quality, efficiency and rationality of governance (e.g., Rothstein, Borraz, & Huber, 2013). The alignment of governance mechanisms to risk perceptions provides an objective method for establishing governance priorities, allocating resources and rationalizing the practical limits of what governance interventions can and should achieve (Graham, 2010). Further, risk-based approaches create a potential convergence of the ways in which governance problems are framed and solutions sought across diverse domains and organisations (Hood, Rothstein & Baldwin, 2001). Power (2007) argues how risk-based governance practices offer bureaucracies defensive decision-making rationales that carry the "veneer of technocratic legitimacy" in the face of increasing scrutiny and legitimacy pressures. In line with this compelling justification that risk is driving governance, it is natural to expect that the increasing strategic nature of risk drives risk management activity and governance to more strategic levels, to be discussed and debated amongst the highest levels of management in the organisation, such as the Board of Directors and the CEO. Saltaji (2013) reiterates how this also enhances the ongoing relationship between corporate governance and strategic management in the pursuit of shareholder value, in keeping with the Anglo-American conception of a company as a device to further the wellbeing of shareholders. These emerging perspectives reconcile the need to protect the downside risk to shareholders (managerial accountability), as well as to encourage managers to take risks to increase shareholders' value (Keasey & Wright, 1993).

The recognition of strategic risks as an emerging and rapidly developing form of risk, beyond traditional financial risks, is just the first step in strategically repositioning governance mechanisms. This explicit linkage of risk and strategy, through repositioned governance mechanisms to start at the very top of the organisation, should become an integral part of an organisation's strategy-setting process (Beasley & Frigo, 2007). To address risk issues that have a strategic impact, some organisations have developed initiatives, referred to as Governance, Risk and Compliance (GRC), which look holistically across their risk and control functions and seek to enhance their efficiency by identifying and integrating common

processes and activities, such as risk assessments, typically performed by each of these functions (Frigo & Anderson, 2009).

A recent global survey of top management by Marsh corroborates that risk management functions have indeed started taking a more strategic role leading to mature practices such as: stronger interaction between risk functions and Boards; use of analytics for evolving strategic purposes; development of cross-functional collaboration through such means as risk committees; financial and operational skill-development in risk management personnel; and the evolution of organisational risk knowledge centres (Marsh, 2014). In the fast-paced and highly dynamic global business and political environment when risk can instantaneously become reality, companies should now consider a much broader set of risks and strategic assets which are more difficult to leverage, manage and protect, including people, intellectual property, customers, marketing efforts, and even, for example, "the crowd" in emerging phenomena like crowdsourcing (Nevo & Kotlarsky, 2014). Additionally, companies should adopt more of an *outside-in* perspective by gathering data and appreciating external perspectives from external sources, including, for instance, customers, bloggers, information trendsetters, and marketplace and security analysts (Deloitte, 2013).

3.1.3 Enablers of strategic governance

Following the last global financial crisis, both management practitioners and researchers are reviewing corporate practices and assumptions that may have contributed to this economic disaster. This specifically includes the effectiveness of current models of corporate governance (Acharya & Richardson, 2009). On similar lines McNulty, Zattoni & Douglas (2013) demonstrate how the growing number of academic studies on corporate governance tend to explore Boards of Directors more than other governance-related actors or mechanisms.

Key regulators and governance bodies now agree on the Board's central role in approving and monitoring strategy, in keeping with fiduciary duties to shareholders. Boards are required to "set strategy" (CEBS, 2010), to "guide" strategy (OECD, 2004; NACD, 2008), to "approve" strategy (BCBIS, 2010), and "review" and "monitor" strategy (IOD, 2009). The Board has to understand the inherent strategic risks and ensure appropriate strategic risk management. Strategic risk is different from other risks as the Board itself is the risk-taker (McConnell, 2013). Weitzner & Peridis (2011) argue

accordingly that the Board's traditional role of financial oversight needs to extend to strategic oversight/control. Fully understanding the strategic activities of the organisation enables a more accurate assessment of the risks involved and ethical oversight. This further enables the Board to strike a better balance between risk oversight, growth, performance and strategy.

Changes in the regulatory environment are significantly impacting the Board's area of focus in several countries around the world and are likely to continue to do so (McConnell, 2013). For example, in the financial services sector in the UK, the Prudential Regulatory Authority (PRA) of the Bank of England announced, in May 2011, a new approach to banking regulation, stating that, in future, prudential regulation would be forward-looking, "seeking to assess whether, on the balance of risks, there are vulnerabilities in firms' business models, capital and liquidity positions, governance, risk management and controls that cast into doubt their future financial soundness" (Bank of England, 2011). This directly supports the changing roles discussed above.

Following the financial crisis, the ethics and Corporate Social Responsibility (CSR) has been integrated into the strategic governance responsibilities of the Board. There has also been a surge in research on the strategic and moral benefits of having a strong reputation (Agarwal, Ganco, & Ziedonis, 2009; Davies, Chun, & Kamins, 2010; Roberts & Dowling, 2002). Supporting this notion, the concept of CSR, with its focus on externally-oriented discretionary moral behaviour, has also found its way into strategy research (Hull & Rothenberg, 2008).

3.1.4 Strategic governance (in the context of outsourcing)

Towards an emerging definition of strategic governance: The emerging thinking on risks and governance emanating from the above discussion can thus be synthesised to articulate the evolving definition of strategic governance (see Table 5), aligned to the emerging focus on strategic risks. The emphasis is clearly on value-creation and the approach is distinctly transformational in its impact on the way organisations operate.

Table 5: Strategic Risk and Proposed Definition of Strategic Governance

	Strategic Risk	Strategic Governance
Definition	Potential high-impact loss, harm or missed opportunity arising from or challenging the achievement of business strategy decisions.	A value-creation-based transformational approach to governance where governance mechanisms are driven top-down by recognizing strategic and other risks.
Relevance to the Board	Having articulated a strategy, a Board must identify the highest-level risks that may affect achieving business objectives, to be defined as strategic risks (McConnell, 2013).	According to the Institute of Directors (2009), a strategic governance framework formally establishes the Board's specific responsibilities to shareholders and other stakeholders which include establishing the company's structure, strategy and risk profile and monitoring and evaluating its implementation.

Over the years, researchers have examined the constructs of risk and risk management around outsourcing. Several researchers have tested various hypotheses around managing risks to ensure success in outsourcing initiatives. These hypotheses have ranged from measures of ITO risk (Bahli & Rivard, 2005); investor responses to outsourcing transaction risk (Oh, Gallivan, & Kim, 2006); specific aspects, such as the role of business familiarity in managing outsourcing risks and the resultant impact on pricing decisions (Gefen, Wyss, & Lichtenstein, 2008); and/or service provider opportunism as a key strategic outsourcing risk (Handley & Benton Jr., 2012). There have also been several examples of case-study-based research on aspects such as trust-building as a risk-mitigating factor in outsourcing (Sabherwal, 1999); agility as an essential element underlying the effectiveness of globally-distributed information; systems development teams (Sarker & Sarker, 2009), and successful communication and inter-networking to manage risks in offshore teams (Oshri, Kotlarsky & Willcocks, 2007).

Similarly, in the area of supply chain risk management, the key area of focus appears to have been on preventing supply chain disruptions as the ongoing trend of using module-based and systems-based suppliers has led to greater dependency (Trkman & McCormack, 2009) and inherently increased the vulnerability of the supply chain (Christine, 2013). The companies become inextricably linked and are no longer able to withdraw from the respective supplier networks. Although extensive literature is available on this focus area, several authors point out the need for a more holistic approach on monitoring supply chain risks in greater detail (Chopra & Sodhi, 2004; Narasimhan & Talluri, 2009; Ho et al., 2015). Wu & Knott (2006) also identified a gap between the proactive role of SRM in a

complex and multilayer supply network and the current view on how to deal with the more contemporary supply chain risks, covering both strategic as well as operational risks and the need for further research to close this gap by providing criteria and classifications for a best practice model for SRM, proposed by Choi et al., (2001). It is believed that such literature will not just create a more integrated and strategic framework for action but also be proactive in nature, for instance contributing to the future avoidance of supply disruptions by formulating early and sustainable warning indicators, as recommended by Christoper & Mangan (2005). Unfortunately, a more recent review of supply chain risk management literature by Ho, Zheng, Yildiz, & Talluri (2015) indicates that this gap is yet to be fully addressed.

In case of ITO, BPO and Supply Chain Management, most of this risk-related research has been carried out largely from the perspective of operational-level risks and the findings/recommendations primarily addressed at the level of contract managers or junior levels of staff from procurement and vendor management teams, outsourcing team leaders and other members of middle management. Strategic risks, where researched, have focused, for example, on choice of locations, structuring of relationships, joint ventures and contracts. Research has primarily been on initial structuring and decision-making around an outsourcing mechanism, rather than investigating ongoing activities around managing and reviewing strategic risk as part of the enhanced accountability of the Board of Directors as discussed above.

As outsourcing (as well as supply-chain management in general) is moving up the value chain, the various risks involved, as well as the approaches for managing them, continue to mature and evolve (Carmel & Agarwal, 2002; Hahn, Doh, & Bunyaratavej, 2009), requiring enhanced strategic governance mechanisms. Such mechanisms should help outsourcing organisations to exploit the upside of risk and leverage risk for strategic advantage on an agile and dynamic basis, in addition to managing the downside of risk by preventing “bad things happening”. Both relational and contractual governance have been dominant themes in outsourcing research (Oshri, Kotlarsky, & Gerbasi, 2015; Lacity, Khan, & Yan, 2016). In particular, as BPO evolved beyond routine transaction processing, the concept of relational governance, in addition to or instead of the more rigid, parameter-based contractual governance, has gained importance in academic research (Huber, Fischer, Dibbern, & Hirschheim,

2013). Vivek, Richey & Dalela (2009), for instance, find that offshoring relationships begin with calculative trust and opportunism, which later gives way to building dynamic capabilities to increase process value through a trust-based relationship. Accordingly, the governance processes evolve from transactional to resource complementarity to a phase where trust and long-term orientation governs the outsourced and/or offshored processes. In a later study Huber, Fischer, Dibbern, & Hirschheim (2013) refine this broader theme and develop a process model of how and why complementarity and substitution form dynamically over time between contractual and relational governance, in response to trigger events (such as significant changes in the macro-economic environment impacting organisations, increasing regulatory focus on outsourcing in certain industries such as Financial Services, business disruption, etc.). Continuing with a similar theme Cao, Mohan, Ramesh, & Sarkar (2013) reveal how a balance between contractual and relational governance can be achieved through a process the researchers describe as the "ambidexterity pendulum". Relational factors, however, dominate where BPO is focused on higher value processes (Rai, Keil, Hornyak, & Wullenweber, 2012), process improvement (Jayaraman, Narayanan, Luo, & Swaminathan, 2013) or strategic innovations (Oshri, Kotlarsky, & Gerbasi, 2015) to maximize the strategic benefits of the outsourcing organisation, co-existing with other contractual and administrative mechanisms. Abulokwe and Lupson (2013) specifically relate this to governance processes in captive offshore delivery centres and demonstrate how organisations engaged in captive offshoring are faced with two apparently contradictory sets of issues: a set of highly desirable and interrelated strategic benefits and a variety of operational challenges that arise from the imposed nature of the governance processes, thus advocating the need for co-developed governance processes. Similarly, collaboration in supply-chain management as well as the need for developing environment-friendly and sustainable processes and those that address corporate social responsibility (CSR) objectives are rapidly evolving as contemporary issues that need to be addressed by ongoing research in governance and risk management of the outsourcing ecosystem. Lacity et al. (2016) in their comparative review of empirical business services literature (vis-à-vis prior research) highlight a deeper exploration of the direct effects of transaction attributes, sourcing motivations, client and provider capabilities, and governance on sourcing decisions and outcomes. They

report that researchers have also studied a broader variety of sourcing decisions, including shared services, captive centres, rural sourcing and back-sourcing.

3.2 Towards an ecosystem view of outsourcing

As indicated earlier, analysts continue to predict exponential growth in outsourcing, which echoes their perceived potential for enhancing organisational value in the current economic scenario characterised by volatility and uncertainty in the recovery following the recent global financial crisis. In addition, the definitions of ITO and BPO are continuously evolving, as a result of which contemporary researchers such as Lacity, Khan & Yan (2016) have grouped such sourcing into a broader category called "business services" that transcend the traditional classification into ITO and BPO. Such business services include, but are not limited to, financial and accounting, human resources, procurement, R&D, call centres/customer service, software development, software support, infrastructure management services, systems integration services, legal services and any other services that can be delivered by third parties, typically enabled by technology (Lacity et al., 2016). Specifically, the scope of such business services are constantly broadening to include newer and more evolutionary forms, such as the more recent logistics outsourcing and converging with supply chain management more generally (Accenture, 2017). This report recognizes, for instance, how new outsourcing-based opportunities are emerging in areas such as planning, direct procurement, order management and reverse logistics, blurring the traditional distinction between outsourced business services and physical movement of goods in the supply chain. Similarly, businesses are also seeing a change in how supply chain outsourcing services are provided and who delivers them (third-party logistics companies who have traditionally delivered goods physically at various locations as against professional services firms specializing in BPO service delivery in the areas of demand planning and forecasting, sourcing and procurement, warranty management and customer services). The potential result is a broader range of integrated outsourcing opportunities (both physical goods as well as services) that is likely to come under the aegis of a single provider in future. Similarly, the rules of the game are being re-written for "make or buy decisions" around outsourcing of manufacturing processes in the current uncertain and disruptive environment to be able to continue to create and retain organisational value (PricewaterhouseCoopers, 2017). This analysis helps them identify critical

products that enable the organisation to maintain a competitive and innovative edge (and require a more strategic focus on governance) versus those that can be outsourced more readily without harming growth prospects.

Researchers Song, Xue, Rai, & Zhang (2018) provide another example of an emerging ecosystem relevant to technology companies operating through software platform-based collaboration. They cite the instance of software platforms, such as Apple's iOS and Google's Android, which are emerging as dominant models for software-based services (Tiwana et al., 2010). Based on their technological architectures, these platforms extend their product boundaries by attracting large numbers of third-party applications that create complementary value (Boudreau, 2012; Ceccagnoli et al., 2012). In this way, software platforms inherently operate as a two-sided third-party phenomenon, represented by users on one side and the applications (offered by outsourced third-party developers) on the other side which influence the growth of installed bases of each other (e.g., number of applications, application variety, and nature of application usage etc.), reflecting their growing complexity in the interest of organisational value and sustainable competitive advantage.

There is no doubt that such pursuits of organisational value and sustainable competitive advantage through a longer-term strategic focus on areas such as innovation, growth and scarce skills is continually driving organisations to evolve complex outsourcing strategies across their multiple third-party relationships. These strategies go far beyond merely fulfilling short-term objectives, such as immediate cost-savings, which cannot offer sustained competitive advantage or value, given their imitability (Porter, 1985; 1990). As a result, organisations are increasingly finding themselves operating within an ecosystem of third parties as a fundamental means to transform them in the way they organize themselves to compete globally (Lewin & Peeters, 2006). In terms of the increasing size of the third-party ecosystem in organisations, recent data published by Deloitte (2018) in their publication entitled "Extended Enterprise Risk Management (EERM) – Focusing on the Climb Ahead" indicated that more than 56% of large global organisations have more than 1000 third parties comprising their ecosystem or extended enterprise. Within this group, 27% managed anything between 10,000 and 50,000 third parties as part of their ecosystem while another 19% had more than

50,000 third parties forming their extended enterprise. This number is only expected to grow in the years ahead.

While these changes create new opportunities, they also bring in a different set of risks, many of which have a strategic impact. Accordingly, risk management and governance over these outsourcing relationships or the third-party ecosystem, as it is now being referred to, are starting to transform themselves into an integrated set of strategic and proactive Board-led activities, with a dual focus on enabling value protection as well as value creation. Being viewed for decades as a set of fragmented operational-level activities that address specific threats at the level of individual outsourcing engagements, this rethinking and repositioning of these issues holistically for the entire third-party ecosystem is yet to be supported by adequate research to identify and analyze current and emerging trends and business practices. An opportunity thus exists for management and organisational scholars to make a major contribution in understanding this phenomenon better with an ecosystem lens.

This shift, from a focus on cost to a focus on value, reconfirms the organisational recognition of the strategic opportunity that outsourcing can create for them. As a result, organisations are increasingly finding themselves as operating within an eco-system of third-party relationships, which embodies the cumulative impact of these individual outsourcing relationships.

Prior research and existing literature on IT outsourcing as well as more broadly on supply chain (ecosystem) management presents several debates around whether business organisations should consolidate their supplier base to focus on a small number of service providers or whether they should enhance their reliance on third parties by outsourcing a larger and possibly more critical processes to a larger group of vendors. Typically, such research carried out up to the early 2000s prior to the last global financial crisis identified critical trade-offs involved in increasing the number of suppliers and strongly recommended focus on a handful of strategic partners to balance these trade-offs (Levina & Su, 2008). However, since the turbulence in the business environment leading up to the crisis, there appears to have been a significant change in direction of this thinking, with multi-sourcing increasingly being viewed as the new emerging trend (Cohen & Young, 2006). Researchers such as Skinner, Ford and

Stamp (2009) as well as Jones (2010) explain how such a business environment drives organisations to reduce the traditional contract size into contracts of a smaller scale, distributed across a larger number of diverse providers, each of whom bring in niche skills or address specific client requirements. In addition to leveraging economies of scale resulting from servicing multiple clients in their focused domain, these providers bring in specialist subject matter expertise, domain knowledge, streamlined processes and technology that exceed the internal capabilities of the client organisation. As a result, IT outsourcing as well as the supply chain more generally is now seen as a key source of differentiation and competitive advantage (Millar, 2015). Apart from creating value for organisations by providing a cost advantage, a view of sourcing as strategic recognises the further potential to reduce risk, improve customer responsiveness, develop innovative products and processes as well as take innovations to the market more effectively by collaborating with other providers or supply chain partners (Welch & Nayak, 1992; Shook, Adams, Ketchen, & Craighead, 2009) to become a strategic tool for cutting-edge innovation (Su, Levina & Ross, 2016). For example, a survey by the Loughborough Centre of Excellence for Global Sourcing and Service (2014) highlights that while cost-savings continue to remain an important driver for outsourcing, the relative importance of this driver is reducing as compared to other more strategic drivers such as access to specialised skills, flexibility in utilisation of human resources, access to distinctive business knowledge possessed by the vendor and enabling strategic change by helping overcome internal politics and resistance to change (Oshri, Kotlarsky & Willcocks, 2015). For instance, many organisations are revising their IT and BPO vendor portfolios to include smaller, highly innovative companies in this eco-system of third-party relationships.

Similarly, Deloitte (2018) reports that it is also heartening to see that the business case for investment in risk management of outsourcing ecosystems is increasingly being driven by other factors that exploit the upside of risk, such as enhancing organisational responsiveness and flexibility, innovation, brand confidence, and increasing revenues. In a 2018 survey, 26% of respondents felt that they could achieve greater flexibility to address market uncertainty and 21% considered such investment in governance and risk management a revenue-generating opportunity, for instance by identifying under-reported revenue streams within the third-party ecosystem. This represents another significant shift from the

almost-exclusive earlier focus on managing the downside (such as regulatory exposure or third-party related incidents). The majority of respondents (62%) in this survey had some or significant confidence in their ability to demonstrate at least some tangible benefits, if not significant returns from such investment, supported by the use of performance measures to continually monitor achievement of results against stipulated targets.

The common feature that has enabled organisational researchers to use the analogy of a biological ecosystem to better understand how organisations interact is that the environment presents similar adaptive challenges to organisms. In this context, a business ecosystem consists of a set of organisations that are independent, coordinate activities and share some common adaptive challenges (Viswanadham & Kameshwaran, 2013; Ketchen, Crook, & Craighead, 2014).

Such an ecosystem directly resonates with the centralised network perspective of Lorenzoni & Baden-Fuller (1995), subsequently described by Koenig (2012) as the Supply Ecosystem where the strategic centre of an organisation brings together as a nucleus a small number of strategic partners around it. The ecosystem thus acts as a system of diverse resources (e.g. scarce skills and talent, specialised knowledge and capabilities, "best-in-class" processes, technology etc.) that this central enterprise can mobilize, design, control and animate in order to propose a competitive offer to its clients. As Koenig (2012: p. 215.) explained: "the term system is employed to highlight the fact that a part of the mobilised resources does not belong to the central enterprise but to the partners that have been enlisted". These resources are being managed as firms' strategies are changing and evolving over time, as highlighted by Iansiti & Levien (2004: 1): "the strategy increasingly becomes the art of managing assets that one does not possess". In a similar vein, Moore (2006; 34) recognizes the need to "achieve inter-firm coordination sufficient to justify players aligning their dreams, plans, and product road maps". Recent research by Lappi, Haapasalo & Aaltonon (2015) continues to acknowledge the concept of the business ecosystem as a trending model of business collaboration that emphasizes organisational diversity, relationship dependency and joint evolution.

Contractor et al., (2010) demonstrate how the competitive strength of a 21st century global organisation will be driven not just by technological competencies, but equally by its strategic management competencies, along multiple dimensions, in a world of outsourcing and offshoring. Global organisations will continue to be exploiters, knowledge seekers, and cost reducers (Nicholls-Nixon & Woo, 2003), while being at the same time arbitrageurs, exploiting cost differentials across markets and seeking competitive advantage (Ghemawat, 2007). It will develop alliance negotiation and management skills, so as to increase the value of its quasi-externalised relationships globally (Contractor & Lorange, 2002) and an innovation network manager (Ernst & Kim, 2002).

3.3. Key principles from the dynamic capabilities theory

Dynamic capabilities enable an organisation to act strategically, embrace newer opportunities under uncertainty, and even shape the business environment (O'Reilly & Tushman, 2008; Teece, 2014). In this section, key principles from the DC theory are discussed that can be related to developing two specific capabilities around strategic governance and risk management and thereafter defining the two axes of the 2x2 framework in the earlier section: (a) a broader perception of risk in outsourcing that continually recognizes the opportunities that these risks present in addition to the threats and hazards; and (b) mature risk-management mechanisms that enable organisations to mitigate the risks while maximizing the business opportunity from outsourcing.

Both these new capabilities require the organisation to act strategically and with flexibility and adaptability in order to innovatively embrace the new opportunities by graduating from an ordinary capabilities mind-set to a DC mind-set. Accordingly, it is first important to differentiate between ordinary and dynamic forms of capabilities from a theoretical perspective.

Insight A: Difference between ordinary and dynamic capabilities

The former involves the performance of administrative, operational, and governance-related functions that are necessary to the execution of current plans. They are embedded in some combination of (1) technical skills; (2) facilities and equipment; (3) processes and routines; and (4) the administrative coordination needed to get the job done (Teece, 2016). As a result, much of the knowledge required to

acquire ordinary capabilities can be bought in through consultants who can help design processes or implement technologies or through investment in training (Bloom, Eifert, Mahajan, McKenzie, & Roberts, 2013). Although such capabilities are valuable for businesses, in a competitive business environment these are typically imitated by competition within relatively shorter periods of time (Bloom, Genakos, Sadun, & Van Reenen, 2012).

Dynamic capabilities on the other hand are more innovative in nature and can enable an enterprise to re-focus its attention towards pursuing novel opportunities which do not come with guaranteed success, develop new capabilities, and effectively coordinate (or "orchestrate") internal and external resources to address and shape shifting business environments (Teece, 2016). Strong DCs can allow an enterprise to generate superior profits by developing and producing differentiated products and services that address new markets, or existing markets in new ways (Teece & Pisano, 1994). The strength of a firm's dynamic capabilities determines the speed and degree to which the firm's resources can be aligned and realigned. To achieve this, organisations must be able to continuously sense and seize opportunities, and to periodically transform (Kogut & Zander, 1992; Eisenhardt & Martin, 2000).

To summarise, ordinary capabilities are about being efficient; dynamic capabilities are about learning and improving and about being innovative. Strong DCs are vital for firms facing dynamic competition and, possibly, significant disruption from competitive behaviour (Sidak & Teece, 2009). According to Chatterji & Patro (2014), these broad sets of activities have been called "asset orchestration." These scholars note that very few specific examples are available to demonstrate how this capability operates in practice. The literature review leads the researcher to concur with this view. However, this limitation of earlier research not providing clear examples of such orchestration is addressed by demonstrating how it operates in practice in the context of outsourcing governance and risk management and by providing a direct linkage between the related criteria proposed by Teece (2016) and the two axes of the 2x2 framework provided in the subsequent section 3.4.3 of this thesis. An analysis table is also provided in that section to demonstrate that the development of these new

capabilities primarily entails a change in an organisation's focus from ordinary capabilities to dynamic capabilities.

Insight B: Dual-focus on threats and opportunities

In line with the proposed 2x2 framework, the DC theory envisages the development of an over-arching ability to keep a *dual focus* on recognizing threats along with the opportunities presented by its dynamic and competitive business environment (Teece, 2016). This aligns with the emerging *duality* of the risk-management perspective as identified by the literature review in this thesis – managing threats as well as creating opportunity. Teece & Leih (2016) explain how the "asset orchestration" dimension of dynamic capabilities, together with sensing, seizing and transformational capabilities, can be used for maximizing the opportunity from positive events while mitigating the downside of negative events. Strong dynamic capabilities enable an organisation to do a better job of responding to threats while shaping unknown futures that offer potential opportunities through orchestration of its actions and addressing outcomes of strategic choices. Further, if a firm has a good early warning system (i.e., can "sense" these developments in the business environment as negative or positive at an earlier stage), it can have more time to respond to potentially fortuitous scenarios while planning to absorb the negative shocks. Teece & Leih (2016) also underscore the cognitive skills associated with sensing and sense-making that can benefit any organisation. Similarly, an organisation with strong seizing and transformation capabilities will be more resilient when such negative or positive shocks require rapid alignment or expansion. A culture of continuous renewal keeps organisations supple and responsive. The unacceptable alternative is to continue pursuing an unchanged strategy even in the face of surprising and consequential events when it is a distraction from what the organisation should be doing.

Insight C: Concurrence of routinised and independent innovation

Prior researchers in DC, such as Teece (2016), define innovation in general terms as creative ideas related to the generation and delivery of products or services that are new to the world or just new in a given context. These creative ideas can either:

- extend existing activities in some way (improved risk management processes, proactively "sensing" risks in the business environment, using emerging technologies to process real time data such as cloud, predictive analytics, visualisation of risks etc.) i.e. "*routinised innovation*"; and
- be completely new and create a new market and revenue streams, satisfy a previously unrecognised customer need or develop and commercialize a new approach to technology, i.e. "*independent innovation"*) (Baumol, 2002).

How well a firm fosters both types of innovation (in this paper, through outsourcing) to simultaneously seek competitive advance is based on the strength of its dynamic capabilities (Beske, Land, & Seuring, 2014; Chen, Paulraj & Lado, 2004; Teece & Pisano, 1994; Teece, 2007). Examples of innovative outsourcing identified through this research that are provided in sub-section 3.4 under the heading "*Value-Creation through Innovative Approaches to Outsourcing and Related Governance/Risk Management: Maximizing Opportunities, Mitigating Risks"* as well as the multi-industry perspectives that follow, demonstrate this concurrence in practice.

Insight D: Ownership and accountability for developing DCs

Both the literature review and empirical research reflect similar views on ownership and accountability for implementing DCs in an organisation compared to establishing risk-management mechanisms for outsourcing, which once again establishes a common foundation in relating the two. Although led by Boards and organisational leadership, the ownership and accountability for developing and leveraging dynamic capabilities in an organisation resides, in part, with individual managers and the top management team (Adner & Helfat, 2003). The ability of board members and the top management team to have continued macro- and micro-level insight is important to reallocating resources to lead the firm forward. Teece (2016) is of the view that this is likely to be the most visible feature of the firm's DCs. At the same time, the dependence of DCs on the knowledge of individual managers and in idiosyncratic ("signature") organisational routines that have developed over time makes them hard for rivals to imitate (Gratton & Ghoshal, 2005).

To conclude, as organisations face significant changes in the environment in which they operate, these changes necessitate significant shifts in strategy in order to ensure survival and growth (Burgelman and Grove, 1996; Brown and Eisenhardt, 1997). In rapidly changing times, there is a growing recognition that the organisation's ability to survive, grow and retain its competitive advantage depends more on its capacity to renew itself in line with environmental changes, rather than on its specific resources (Teece, Pisano et al., 1997, Hodgkinson & Healey 2011). Competences or capabilities, leading to competitive advantage, rest fundamentally in organisational processes, which are moulded by its evolutionary and co-evolutionary paths (Teece & Pisano, 2004). This theory is thus leveraged in the subsequent section 4.4 to help understand strategic governance capability in organisations as a dynamic capability and outline how it could be built-up and used for strategic advantage.

3.4 Repositioning governance and risk management of the outsourcing ecosystem

This section follows on from the literature review to discuss the research gaps in further detail as well as the gaps in organisational capabilities from a dynamic risk management ability perspective that organisations are trying to address in adopting a more strategic perspective of governance and risk management of their outsourcing ecosystem. In this way, it proposes two new organisational capabilities required to exploit the full spectrum of opportunities from outsourcing in an uncertain and volatile environment, using insights from the dynamic capabilities (DC) theory. Having done that, it provides empirical evidence of how organisations are starting to gain competitive advantage through these new dynamic capabilities, while also maintaining a duality of focus on the downside.

As outsourcing ecosystems continue to grow in large global organisations around the world, the research findings show how risk management is manifesting itself as a strategic Board-level activity, driving competitive advantage and value-creation. ITO and IT-enabled BPO continues to mature as a major trend. In addition, the definitions of ITO and BPO are continuously evolving, as a result of which contemporary researchers such as Lacity, Khan and Yan (2016) have grouped such sourcing into a broader category called "business services" which transcend the traditional classification into ITO and BPO. Such business services include, but are not limited to, financial and accounting, human

resources, procurement, R&D, call centres/customer service, software development, software support, infrastructure management services, systems integration services, legal services and any other services that can be delivered by third parties, typically enabled by technology (Lacity et al., 2016). Specifically, the scope of such "business services" is constantly broadening to include newer and more evolutionary forms, such as the more recent logistics outsourcing and converging with supply chain management more generally (Accenture, 2017).

In such strategic pursuits focused on creating inimitable competitive advantage and organisational value, organisations have progressively increased their dependence on outsourcing to unprecedented levels (Forrester Research, 2013; Gartner, 2014; Deloitte, 2015), exposing themselves to newer risks and hazards amid shifting business environments (Starbuck, 2014; Oshri, Kotlarsky, & Willcocks, 2015; Deloitte, 2016). This phenomenon of increasing dependence is also empirically verified through the survey in section 4.2 under contemporary settings.

Explaining and addressing the knowledge gaps

Despite the above developments, the literature review in section 3.1 revealed that over the last decade or so there has been limited research on the ability of organisations to manage risks around outsourcing with a dynamic mind-set to create value. Instead, most researchers have largely examined risk management around outsourcing with the goal of preventing "bad things happening". Further, their research has focused primarily at the level of contract managers and other members of middle/lower management rather than at strategic management or top leadership levels (e.g., Zhang, Liu, Tan, Jiang, & Zhu, 2018; Gupta, 2018; Suveiu, 2015; Lintukangas, Kahkonen, & Ritala, 2016; Tsan-Ming, Yulan, & Wallace, 2016; Christ, Mintchik, Chen, & Bierstaker, 2015; Słoniec, Kaczorowska, & Motyka, 2016; Alexander, & Stefan, 2016; Handley & Benton Jr., 2012; Mason, Oshri, & Leek, 2012) although combined vendor-provider operational perspectives are more recently starting to emerge (e.g. Yu-Chih Liu, & Asri Rizki, 2016; Liu, Wang, & Huang, 2017) and the focus on a broader range of third parties beyond just IT or BPO outsourced service providers is starting to develop for the benefit of independent reviewers within an organisation such as internal audit

functions (Rose & Frio, 2017). This missing evidence has obscured the full spectrum of potential opportunity that outsourcing could create for organisations, particularly those that are more radical or transformational in nature. This part of the thesis aims to address the research gap and broaden this perspective by relating it to the development of newer organisational capabilities, in addition to providing several examples revealed through the research of how and why this transformational change is taking place.

The increasingly uncertain and complex macro-economic and business environment since the last global financial crisis has only made the case for such an analysis more pressing. In his article "Why corporate governance deserves serious and creative thought" in the *Academy of Management Perspectives* in 2014, Starbuck makes a strong argument that risk management as part of corporate governance should continually consider technological and social changes such as networking and alliances, which are propelling corporations toward entirely new organisational forms. Further, citing the United Nations Global Outlook (2013), he comments that businesses will continue to face growing economic uncertainty and turbulence, requiring them to develop new capabilities to increase their maturity in risk management in this environment. It emerges as another important under-studied area, seeking researchers' attention.

Earlier studies (e.g., Beske, Land, & Seuring, 2014; Vos & Schiele, 2014; McAdam, Humphreys, Galbraith, & Miller, 2017) have long recognised the generic vendor relationship management ability of organisations as a dynamic capability. This section of the thesis aims to build on such earlier studies and address the above-mentioned research gaps using the findings set out below. This is done by proposing two new organisational capabilities required to exploit the full spectrum of opportunities (conventional to radial) from outsourcing in an uncertain and volatile environment, using insights from the dynamic capabilities (DC) theory:

- First, the capability to have a broader perception of risk in outsourcing that recognizes opportunities that these risks present in addition to the threats and hazards.

- Second, the capability to develop more mature risk management mechanisms that enable organisations to maximize the business opportunity created from outsourcing while mitigating the risk in this uncertain and complex environment.

This dual focus on exploiting the opportunities while managing the risk is referred to as "astute decision-making" in the findings of this research. Insight from the DC theory, which aims to explain the organisational competencies required to achieve competitive advantage in global marketplaces characterised by change (Beske, Land & Seuring, 2014; Vos & Schiele, 2014), is utilised for understanding the risk-taking behaviour of organisational leadership for such astute business decision-making.

By integrating theory and research findings around the new capabilities described above, section 3.4.2 offers a forward-looking framework that can enable organisations to understand their current positioning and select a possible trajectory going forward to emerge as astute decision-makers. This framework is illustrated by providing a four-pronged perspective, based on exemplar case studies from the empirical research, involving high profile industry players across multiple industry segments in section 3.4.1. The related methodology has been set out earlier in Table 3 (page 36 of this thesis).

Value-creation through innovative approaches to outsourcing and related governance/risk management: maximizing opportunities, mitigating risks

The recent change in mind-set around risk-management described above has been mirrored by research, which demonstrates enhanced opportunities for innovative thinking in the outsourcing context. Murphy, Wu, Welsch, Heiser, Young, & Jiang (2012) define innovative or "entrepreneurial outsourcing" as the identification and exploitation of previously unexplored opportunities innovatively through outsourcing. Most of the emerging literature on innovation in this context has focused on processes, practices, and decisions that have led to the development and delivery of innovative and new products/services through outsourcing (Ordóñez de Pablos, 2012). Won (2015), who attempts to theorize the influence of innovation and entrepreneurship in the determination of insourcing vs. outsourcing decisions, demonstrates how such an innovative mindset in sourcing decisions can increase organisational agility and flexibility by outsourcing in an environment of uncertainty. Innovative thinking also influences the choice of sourcing mechanisms in favour of those

aiming to exploit the newly recognised opportunities to create a sustainable competitive advantage that would be challenging for competitors to imitate, as evidenced below.

Maximizing the opportunities – empirical evidence from this research

Vagadia (2012) lists the following five pillars of potential competitive advantage through outsourcing in the era of globalisation, despite the risks involved and no guarantee of success. To provide a better understanding of how the more progressive organisations are starting to innovatively extend their boundaries through outsourcing, below are some specific empirical examples provided by respondents during follow-up interviews, based along these five pillars.

Focus: redefining what business you are in, in convergence with business partners/long-term service providers that possess complementary skills.

> *Example:* A European paper manufacturer reported how it reinvented itself as a bio-energy producer by implementing bio-refinery units in its existing pulping mills to process biomass into energy to generate new revenues. Having operated with in-house IT teams and a strong regional culture since inception, the organisation's Board recognised the risks and debated extensively over multi-sourcing IT and business processes for its new energy business to three firms operating in India, Poland and the Philippines as their delivery centres. This, in the Board's view, was the only feasible alternative to facilitate a timely transition, expedite revenue inflows and secure competitive advantage.

Efficiency: seeking out cost and process efficiencies through lower-cost providers with core competencies in outsourced processes.

> *Example:* Two of the survey respondents (new-generation challenger banks) reported having implemented a number of vested outsourcing contracts based on long-term partnering. They

shared profits from innovative continuous improvement based on actual benefits-realisation with vendors.

Skills and knowledge: seeking global skills and knowledge with a worldwide workforce across multiple time-zones to evolve as a 24-hour company.

Example: An interviewee from the HLS industry reported that they were exploring the concept of launching a "*Darty button*" to provide immediate response to their customers, irrespective of geographical location, enabled by a combination of outsourced service providers. The Wifi-enabled device (costing Euro 25) was pioneered by the French electronics chain Darty, and enables its customers get a call back from the nearest customer service representative within one minute, including items not covered by warranty or procured outside Darty (*The Times*, 2014). The company calls this "*prioritised personal support*," developed and operated by outsourced providers.

Technology: using global technology capabilities to establish a connected ecosystem for enhancing collaboration opportunities across business partners.

Example: A large global financial services organisation with over 10,000 third parties forming its outsourcing ecosystem reported how it had joined a community of large organisations working together to reduce duplication of effort in third-party pre-qualification and on-going assessment, based on pre-agreed common risk-management standards and performance data they had collected collaboratively. This collaboration was facilitated by an outsourced external intermediary. Using cloud-based and other agile technologies, this vendor provides access to a hub of validated data and analytics, helping organisations in the network manage outsourcing risks efficiently and cost-effectively.

New products and markets: offering new products and services, innovatively developed or operating in new markets through business partners and long-term providers.

> *Example:* A global provider of IT and BPO services reported that it was partnering with a large European bank with operations in more than 20 countries to converge various internal finance functions (cost centres) of the bank into shared services utilities and eventually transform them into market utilities servicing other banks as revenue-generating profit centres. They aligned and simplified standardised risk, regulatory and financial reporting processes and modernised technology, reducing total cost of ownership by 32%.

Mitigating the Risks

The nature of the evolving threats to such innovative outsourcing is also compelling organisations to continuously focus on sensing and addressing risks dynamically. Davari & Rezazadeh (2015) recognize outsourcing decisions as one of the most complex organisational decisions, requiring a thorough evaluation of the benefits on one side and the barriers or challenges on the other from the perspective of fostering innovative thinking. Our interviewees, on a similar note, agree that the risks associated with outsourcing continue to increase in proportion to the rewards and that recent examples of high-profile business failures have demonstrated that third-party risk management has not always been given the strategic attention it deserves.

Inappropriate actions or failures of third parties have impaired the achievement of strategic objectives (e.g., a business model failing to achieve growth and profitability targets), compromised organisational reputation, impaired business continuity/resilience and attracted regulatory enforcement action. An interviewee gave an example of an incident which acted as a change driver to stimulate rethinking in their organisation. A major supermarket chain in the USA faced a cyber-attack (in November 2013) in which 70 million items of shoppers' personal data and 40 million credit card details were stolen. The initial intrusion was through network credentials stolen from a third-party vendor, followed by a malware-laced email phishing attack sent to employees of the vendor

organisation. The supermarket faced losses exceeding $400 million including costs of reissuing millions of cards by issuers; fines for Payment Card Industry (PCI) non-compliance; and direct customer service costs, including legal fees for customers affected by the breach.

Many of the interviewees from the FS industry referred to recent cases of regulatory enforcement by the Financial Conduct Authority (FCA) in the United Kingdom that resulted in fines ranging from US$67 million to US$500 million on banks for failures caused by their outsourced providers, which compromised customer interest or impaired their ability to access banking services.

A 2016 global survey on outsourcing and third-party risk conducted by Deloitte mirrors the empirical evidence that enhanced regulation and concerns about cyber fraud, data security and privacy are expected to challenge organisations using outsourcing as part of a business model. Further, the lack of appropriate senior-level executives managing outsourcing in the retained organisation may impair innovation intended to enhance value to the business (Deloitte, 2015). The phrase retained organisation in this context refers to capabilities that the outsourcing firm should retain in-house to ensure that it can exploit business advantages of technology over time (including technology-enabled services outsourced to third parties) (Oshri, Kotlarsky, & Willcocks, 2015).

At the same time, empirical evidence from the survey also demonstrates organisations are going beyond traditional financial and compliance-related risks (McConnell, 2013; Marsh, 2014) to recognize the strategic impact. This supports arguments put forward by researchers that outsourcing management and contract design should be recognised as a capability and a source of competitive advantage for a client firm (Argyres & Mayer, 2007; Harrison & McMillan, 2006), which in turn can enable better product or service innovation or provide access to skills and capabilities not available internally. Outsourcing service providers that bring in new knowledge and experience can thus be utilised as knowledgeable partners or trusted advisors, able to catalyse organisational innovation, provide strategic insights and even feature on organisational Advisory Boards (Deloitte, 2015).

All of the above evidence demonstrates how organisations now need to refresh their approach to emerge more flexible, adaptable and innovative so that they may maximize the strategic opportunities

while mitigating the risks under uncertainty in the business and macro-economic environment. The need to develop this organisational ability therefore leads us to examine how newer risk management capabilities can be developed across various industries, underpinned by the DC theory. Section 3.4.1 below sets out four industry case studies that demonstrate how this is taking place in practice, followed by section 3.4.2 that provides a 2x2 framework providing an aspirational path to excel in this evolution.

3.4.1 Industry perspectives/case studies

Academic literature, as well as empirical evidence, indicates that outsourcing organisations are at different stages with regard to (a) enhancing their perception of risk but also (b) maturity of their governance processes, along a continuum. Based on these two criteria, this section maps organisations from different industries, and suggests the aspirational trajectory to excellence. Exemplar industry case studies are used to illustrate each element of the proposed taxonomy (see Figures-8, -9 and -10 below). These industry case studies and other related data have been collated from a survey of 113 senior executives of large listed global organisations (typically with revenues over US$1 billion) directly responsible for governance and risk management of outsourcing who were asked about past (post financial crisis), present state and future intentions (next 5 years) regarding risk management and outsourcing governance. As discussed in sections 2.2 and 2.3 (research process and design, together with the detailed steps), this survey was carried out in collaboration with one of the global top-tier consulting firms to investigate the current and emerging risk management and governance practices in outsourcing amongst large listed global organisations.

Analysis of the survey results revealed clusters emerging around the key industry segments, thus providing us with the confidence of discussing organisational positioning around risk perception and governance maturity by four key industry segments, representative of the diverse state of play – Financial Services (FS), Healthcare and Life Sciences (HLS), Public Sector (PS) and Business and Professional Services (BAPS), each being representative of a typical organisation in that industry.

Breadth of risk perception

Financial Services: The survey reveals that the Financial Services industry is currently the most advanced across all the key industry segments in its breadth of risk perception and its ability to intertwine the pursuit of value in its strategic and tactical decision-making with the related risks. A key trigger for this appears to be the global regulatory focus in this area. Following the recent global financial crisis, financial regulators around the world, including the Financial Stability Board (FSB), the US Federal Reserve (Fed), the Basel Committee for Banking Supervision (BCBS), the Prudential Regulatory Authority (PRA), and the Financial Conduct Authority (FCA) in the UK, have continually enforced as well as provided guidance on the need to link risk closely with strategic and tactical decision-making. According to these regulators, this linkage between risk and strategy should be established and implemented by the organisation clearly articulating its "risk appetite" which reflects the amount and type of risk that an organisation is willing and able to accept in its pursuit of strategic goals. In November 2013, the FSB set out the key elements for establishing and implementing an effective risk appetite framework and underscoring the roles and responsibilities of the Board of Directors and senior management. In keeping with these principles for an effective risk appetite framework, the breadth of risk perception managed through such frameworks has emerged as the primary lens through which FS organisations' quality of risk management and governance are evaluated. To ensure stakeholder buy-in and engagement, some of the FS organisations covered by the survey initiated risk articulation workshops, which involved supplier staff and leadership in addition to those within their own organisations. These workshops revisited existing perceptions and definitions of risk to establish a shared understanding on risk, as a first step to being able to articulate these risks and participate in risk conversations. The next step was then to align governance and risk management initiatives to outsourcing strategy to ensure that conscious risk-taking was enabled through a greater focus on areas of higher risk, enabled through a greater sophistication of tools and technologies. For example, many of the FS organisations had introduced an organisation-wide mechanism for classifying outsourcing providers who were strategic or critical to their businesses, with related technology investments to enable continuous monitoring through bespoke tools. One of

the organisations surveyed had also initiated a pilot project to evaluate the power of cognitive risk management technology to enable them to transform and consolidate unstructured data related to suppliers of critical services into actionable information providing real-time alerts of notable supplier-related events such as cyber incidents and customised reports for business managers responsible for managing relationships with relevant suppliers. The natural link of risk and reward inherent in financial offerings has also supported the philosophy of considering risk-taking as a source of opportunity. For instance, higher risk financial products, such as small portfolios of equity shares in public companies or specialist unit trusts or investment trusts have historically offered the opportunity for higher returns on investment than fixed interest-bearing deposits or government bonds. Survey respondents felt that this risk-reward thinking inherent in FS is helpful in supporting a similar "risk for reward" approach in the governance and risk management in the context of outsourcing. Accordingly, FS organisations appear to be far more advanced than other industries in taking calculated risks in order to innovate in outsourced higher value processes (e.g., combining new technology such as the cloud or social media, leveraging industry with functional knowledge to reinvent processes, etc.).

The survey also demonstrates that organisations in other industry sectors are starting to follow the example of their counterparts in FS in broadening their outlook to risk, acknowledging risk as a source of potential opportunity. However, given the absence of compelling regulatory pressures in this regard, they are moving slower in this direction.

Life Sciences and Healthcare: The HLS industry segment is a good example of an industry that is broadening its outlook to risk, not in response to regulation, but to address their challenge to manage high levels of uncertainty and disruptive change. The survey reveals that organisations in this industry have an imminent need to evaluate the exposure to risk that strategic decisions bring about in an environment of significant uncertainty, caused by changing demography (e.g., the ageing population in Western countries and related healthcare issues), financial factors (e.g., government reform and cost reduction) and increasing innovation (e.g., patient self-care), amidst increasing regulation and the need to be more patient-centric through greater use of technology. These changes give rise to new

risks, but also open the doors to new opportunities. As a result, HLS organisations are now starting to realize that, to seize these opportunities, it is not enough to be able to avoid risks but they must manage risks to become more effective and efficient and succeed in embracing new technology-enabled ways of working and improving patient services, while increasing revenues and managing costs. In pursuing this view on risks, the explicit link between risk and strategy is increasingly being considered to be an integral part of the organisational strategy-setting process. Accordingly, HLS organisations now expect their risk management functions to not only address damage and regulatory fine prevention, but also introduce new ways to drive growth and manage costs. This, in turn, assists their Board and C-suite in making informed business and strategic decisions about growth and expansion, operational challenges and opportunities, and technology adoption and implementation. For instance, with the shift in thinking from fee-for-service to the concept of value-based care, survey informants explained how many healthcare companies are now using their enhanced perception of risk to evaluate the benefits of adopting new capabilities such as those related to emerging technologies including the "Internet of Things" that could radically transform healthcare delivery, or merging with or acquiring other entities in the supply chain such as contract research organisations that augment current capabilities in healthcare delivery.

Leveraging data innovatively, supported by the advanced analytical tools and technologies, is increasingly enabling organisational leadership to translate risk to opportunity. One respondent organisation, for example, that operates multiple hospitals has initiated a significant transformational initiative to integrate clinical treatment data with cost data related to healthcare service delivery, which earlier resided in separate data pools and was utilised by a completely different set of stakeholders representing lower and middle management teams. The integration of these internal data pools, together with additional external data related to patient finances and behaviours (e.g., retail purchase history) now enables their risk management team to periodically segment patients and match the profiles and preferences of patients to care providers (physicians, nurses, etc.) and healthcare delivery choices in each segment. This has established an evidence-based mechanism to ensure that the right provider is providing care under an appropriate setting, to deliver the intended clinical

impact. As a result, the organisation has been able to enhance net revenues by delivering value-based care (equal or better quality of healthcare delivered at lower cost). Traditionally, IT-based transformation projects in the organisation had been delivered by in-house IT and business teams. However, in this case, the organisational leadership chose to take what they considered higher risks by outsourcing the project to an overseas provider to be able to bring in specialised knowledge and skills, innovation and process improvement. Regular project progress tracking, together with ongoing discussions in the boardroom, helped to manage additional risks and leverage opportunities.

Public Sector: The survey results indicate that PS organisations still have a relatively narrow perception of risk, focusing primarily on the traditional approach of perceiving risks as "bad things happening" rather than the more entrepreneurial perception of risk as a source of opportunity. Based on survey responses, it appears that high levels of public accountability in PS organisations seem to be driving organisational decision-makers to "play safe" and focus risk management efforts on managing any adverse consequences of risks, making limited efforts to integrate risk management more directly with strategy. In some cases, risk management in PS continues to serve the purpose of the proverbial "fig-leaf" for blame-avoidance, or as an excuse for sticking to procedural rules that may be ill adapted to particular problems (Hood, Rothstein & Baldwin, 2001). Further, the entrepreneurial spirit inherent in business risk-taking for financial gain, eventually translating into a higher return on investment for equity shareholders or an increase in share prices (shareholder value), is not natural to public sector enterprises, where senior decision-makers are distracted by considerations of "public value" or "value for money" considerations in making investment decisions. In the absence of risk-taking being seen as a driver of shareholder value, governance and risk management in many PS organisations still operate as an extension of financial audit and compliance mechanisms to support a post-mortem rather than real-time or forward-looking approaches, with very low levels of sophistication in the related tools. For instance, multiple survey respondents indicated the use of spreadsheets, often scattered across several departments that did not provide an integrated view on which to base holistic strategic decisions. At best, some respondent organisations used homegrown solutions with basic interfaces to capture data and create graphical reports.

As a result, this narrower perception of risk tends to have a negative impact on outsourcing decision-making. The inability to perceive risks as a source of organisational value typically leads PS organisations to focus on less critical or lower value processes (e.g., basic accounting processes) rather than higher value or more sophisticated processes (e.g., managerial decision support through advanced analytics) that have the potential to stimulate innovation, process improvement or to maximize the strategic benefits to the organisation.

Business and Professional Services: The survey reveals that this industry segment has the lowest focus on exploiting the upside or the opportunities that risks create for business. The primary focus of risk management in these industries continues to be on minimizing the downside of risk, which in turn has traditionally been the mitigation of risks resulting from professional liability to their clients or other third parties impacted by services rendered by them as a result of errors, omissions or negligence in discharging their professional responsibilities, misunderstandings over the scope of their work and other issues. Such professional liability can be significant and can threaten the very existence of these businesses. Although this fundamentally remains unchanged over the years, additional risks to professional liability continue to emerge. For instance, a firm of accountants or lawyers can now be held liable for risks such as breaches of computer security or data privacy related to their clients. A professional services business can be similarly held liable for bodily injury or property damage as a result of its acts or omissions or even economic damages including delays, lost productivity and remedial costs. The overwhelming significance of these professional liabilities is driving the focus of risk management in outsourcing to minimize the downside of such risks. As a result, BAPS organisations are mainly experiencing a need to integrate and align their governance and risk management efforts on the operational (rather than a strategic) level, essentially focusing on practice-protection and management of the related liabilities, supported by professional liability insurance to cover residual risks.

Based on the literature review and empirical experience supported by the above survey, four key operational implications of organisations that demonstrate a higher breadth of risk perception can be summarised:

- A stronger focus on aligning strategic decision-making around outsourcing to related risks by considering opportunities for value-creation that accompany these risks, while taking steps to mitigate the negative impact of these risks. This is in contrast to organisations with a lower breadth of risk perception that primarily focus on just avoiding "bad things happening" such as breach of data privacy or business interruption caused by the provider of outsourcing services.

- To be able to do so, these organisations establish a holistic view of risks and compare that with the overall risk-taking capacity of the business to articulate clearly the leadership appetite for taking risks by outsourcing processes that bring in higher value through specialised technical knowledge or "best of breed" processes. This, in turn, also enables them to ensure that the returns are commensurate with the risks taken.

- Having established this position, these organisations then establish actionable data points to monitor performance, using analytical and predictive tools and technology.

- All these strategic activities are possible only with a top-level independent risk management function that works with the Board through all the stages of the outsourcing process, rather than an extension of existing compliance functions.

Progress in implementing this concept of leveraging risk for strategic benefit has generally been slow as risk management leaders have struggled to overcome the complexities of embedding the mechanisms mentioned above in their business, except where triggered by drivers such as regulatory action (e.g., in the FS industry) or extremely high levels of uncertainty and disruptive change (e.g., in HLS businesses). This, in turn, has established a continuum along which different businesses can be positioned from a narrower to a broader perception of risk (see Figure-8).

Figure-8: Operational Implications of Outsourcing Organisations Based on Breadth of Risk Perception

	Breadth of risk perception:	
	Narrower *("bad things happening")*	Broader *(source of opportunity)*
Risk management objectives	to mitigate adverse financial consequences of outsourcing (i.e. protecting organizational value)	to identify and exploit the most promising value-creation opportunities through outsourcing, and preventing "bad things happening"
Risk identification and assessment activities	typically fragmented and dispersed across individual projects; often "knee-jerk" reactions to immediate visible threats	typically integrated and founded on organization-wide engagement and risk appetite
Risk management tools and technologies	limited to those necessary for managing outsourcing risks	significantly leveraged and include predictive analytics, aiming to proactively assess emerging risks
Risk management function	operates merely as extensions of reactive audit or regulatory compliance processes	operates as independent top management function

Note: Icons used in Figure-5 illustrate industries (from left to right): Business and Professional Services; Public Sector; Healthcare and Life Sciences, and Financial Services.

Maturity of governance practices

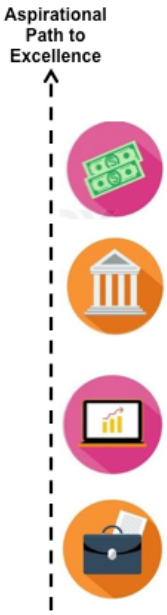
As organisational thinking on risk continues to evolve, it is interesting to study how organisations across these four industry segments are developing and maturing their governance and risk management mechanisms through the implementation of various organisational Governance, Risk and Compliance (GRC) initiatives. Our literature review and empirical evidence from the survey indicate that organisations with a higher level of maturity are better able to align organisational behaviours, structures, processes and infrastructures to the changing spectrum of business risk to reliably and sustainably achieve a higher standard of risk management. Specifically, the following key attributes of organisations that have been able to acquire a higher level of maturity or proficiency in enhancing their governance and risk management mechanisms over outsourcing, can be identified:

- Governance and risk management is a Board-led initiative, which is enabled by institutionalised policies, processes and supporting infrastructure (including tools and technologies) throughout the organisation.

- Roles/responsibilities for outsourcing risk management are defined throughout the entire depth and breadth of the organisation, with a clear focus on risk training and competency development, supported by knowledge sharing on risks across various outsourcing projects.

These attributes (see Figure-9) enable the organisation to establish a consistently disciplined process of decision-making and communication regarding outsourcing risks.

Figure9: Key Organisational Attributes Related to Extent of Outsourcing Governance Maturity



Maturity of governance mechanisms:	Key characteristics of outsourcing governance:	
	Initiative and accountability	Degree of institutionalization and alignment
Higher *(top-down and mature)*	Board and top management led governance initiative with defined risk appetite for outsourcing and clear accountability for outsourcing governance and risk management	Governance and risk management processes institutionalized across the organization (rather than at project level) with common policies, processes and infrastructure. Organizational level training and competency development; knowledge sharing on risks across outsourcing projects
Lower *(need to evolve)*	Project manager or middle management led governance initiative, with risk appetite defined vertically in response to various risks emerging at different points in time; no top-level accountability	Governance is driven by individual capabilities (thus varying across projects) rather than institutionalized risk training and competency development; often relying on experience of individuals rather than documented policies and procedures. Limited alignment of risks across individual outsourcing projects and to wider strategy

Board and top management leadership of governance initiatives

The typical first step in enhancing the governance and risk management function in an organisation is elevating the overall responsibility and strategic decision-making in this regard to the Board level. This is key to establishing the explicit link between strategic decisions around outsourcing initiatives and the related risks in the context of the organisational risk appetite. In turn, Board-level responsibility facilitates multiple stakeholder buy-in, which is a critical success factor for establishing

the top-level linkage between strategy and risk. Our survey reveals that organisational attitude towards managing outsourcing risk has traditionally been reactive and determined by who is driving the activity. In some organisations it has been the responsibility of a procurement team that focused on compliance with payment terms for suppliers. In other organisations it is the brand and intellectual property (IP) protection function that is managing outsourcing risks, focusing on suppliers of services in distribution channels. Such a decentralised approach to risk has led to a micro-focus on risk areas that interest certain parts of a business or certain functions (e.g., operational performance from a supply chain perspective or information security from a corporate security angle). Board-level responsibility enables a holistic proactive approach to risk, covering all categories of third parties and all areas of risk. This Board-led evolving approach is a departure from the myopic method of considering risks in isolation and allows the organisation to consider *operational risk* factors (e.g., performance, quality standards, delivery times, KPI/SLA measurement) with *reputational and financial risk factors* (e.g., labour practices, an understanding of financial health, appropriate charging mechanisms and adherence to these), as well as *legal/regulatory risks* (e.g., compliance with bribery regulations, awareness of global industry standards as they apply to all outsourcing arrangements across the organisation).

Comparing across the four industry segments, the survey results indicate that the FS industry segment appears to be most advanced in this regard, with the Chief Executive Officer (CEO) or a member of the Board being ultimately responsible for outsourcing risk management in a majority of organisations. This can once again be attributed to regulatory pressures as described in the preceding section. Following the financial crisis, key financial regulators now agree that the Board's central role in approving and monitoring strategy cannot be appropriately fulfilled unless the Board understands the risks that strategic changes bring about and ensures appropriate risk management to strike a better balance between risk oversight, growth, performance and strategy. This is further evidenced in the survey results that outsourcing risk discussions feature consistently on the Board agenda in a majority of FS organisations. The survey reveals that this is also true for HLS organisations that are facing significant uncertainty, as described earlier, and are therefore anxious to feature outsourcing

decisions, together with the related risks, regularly on the Board agenda with a high level of urgency. Public Sector organisations that are making significant investments in transforming themselves to develop the capability and capacity comparable to their private sector counterparts are being driven by the need to enhance leadership accountability and direct involvement in organisational governance. This, in turn, is enhancing the move from silo-ed decision-making to a more integrated approach that considers organisation-wide risks and interdependencies.

While the thinking that outsourcing governance should be a Board-level matter is expanding to HLS and PS organisations, in practice, the survey reveals that governance and risk management decisions continue largely to remain vested in operational responsibilities, i.e., the related changes in operational processes or personnel responsibilities, together with multiple stakeholder buy-in, required to implement this transformation are yet to be fully achieved. For instance, one of the HLS organisations included in the survey acknowledged the ultimate responsibility of the Board in outsourcing governance, yet relatively junior staff within the procurement or finance teams were taking key decisions in an isolated manner, based on individual contract considerations rather than holistic policy-driven approaches. Board involvement in these decisions was largely reactive and typically driven by the need to respond to critical incidents resulting from outsourcing. To be able to elevate the position of the governance and risk management function, the organisation assigned oversight responsibility to the Chief Finance Officer (CFO) and the Chief Procurement Officer (CPO) as go-betweens for the junior staff and the Board. It is interesting to note in this connection that the assignment of responsibility for outsourcing risk management to the CFO or the CPO is increasingly the case with many organisations, where these CFOs and CPOs are themselves trying to reposition their own roles from mere operators of financial or procurement functions to being stronger strategic partners to the business leadership and the Board. The status of both CFOs and CPOs, however, varies across organisations in terms of their ability to influence Board members and organisational leadership. For example, in most Fortune 100 companies, CFOs attend most of the leadership and Board meetings and are considered to be strategic advisors to the Board and business leadership. However, this is not the case with relatively small or family-owned businesses where CFO is

considered to be more of an accountant with the responsibility of effective operation and stewardship of finance functions. In such cases, assignment of risk management responsibilities to CFOs may not significantly drive the maturity of governance and risk management mechanisms. In the BAPS sector, however, outsourcing risk is still considered as an individual responsibility of client-facing staff and relationship managers. The survey indicates that BAPS organisations have typically not elevated the risk management function to the top level and accordingly do not generally have outsourcing risk management discussions regularly featuring in their Board agenda around an articulated risk-appetite.

Policies, procedures and supporting infrastructure

To support the elevation of the responsibility and decision-making regarding governance and risk management of outsourcing to Board/C-suite levels, FS organisations have made significant progress post-financial crisis in establishing institutionalised policies that need to be supported by processes, technology and infrastructure. Such policies encompass the entire life-cycle of the outsourcing relationship and include, for instance, policies related to establishing a business case for outsourcing, pre-contracting and due diligence, knowledge transfer and on-boarding through to ongoing monitoring/assurance and contract termination. For instance, a large global bank may have a policy of continuous monitoring of outsourced providers, who are classified as critical to the business, against mandated standards. This then needs to be supported by specific procedures to be followed for such monitoring/assurance activity, for instance, determining the frequency of visits to the third-party location based on risk and related verification to be performed, control self-assessment by the provider, procedures related to use of contractors for performing such risk management activities as against independent assurance provided by in-house internal audit teams, remote assessments with direct access to the provider systems and data, etc. These procedures, in turn, require appropriate tools and technology (e.g., risk management software packages such as RSA Archer or Open Pages; Third Party Management software such as Hiperos, etc.), in addition to the technology infrastructure to ensure secure connectivity with the provider organisation. The survey reveals that the elevation of the risk agenda to Board level has brought in a unified and consistent approach to managing outsourcing arrangements across multiple contracts, functions and departments of large global FS organisations.

When supported by consistent policies, processes, technology and infrastructure, this brings in a significantly higher level of maturity, enabling a consistent and disciplined decision-making process and communication around outsourcing.

Whilst HLS and PS organisations are trying to move in the same direction as their FS counterparts, the survey indicates three primary differences, resulting in the related maturity levels being lower than FS. Firstly, outsourcing governance mechanisms still continues to be focused at the functional level as discussed in the preceding section rather than at the organisational level, despite the emerging leadership vision for change. As a result, the assessment of risk is driven by the priorities of the functional group leading the assessment. Thus, procurement teams might have a greater focus on the related operational risks; financial teams might emphasize compliance with financial terms, and this may undermine the broader organisational focus required on regulatory risks or reputational risks. Secondly, the focus is on the individual contractual arrangements rather than a holistic and consistent approach, e.g., grouping multiple contracts by supplier and having a single suppler relationship manager across all departments for each critical supplier, recognizing the interdependencies and commonalities across multiple contracts. Thirdly, the survey reveals significant gaps between leadership intention and the ability of the supporting processes, tools and technologies to achieve the intended results. For instance, an integrated set of organisational processes, supported by common technology underpinning outsourcing risk management across the entire organisation, were in the process of being developed by most HLS and PS organisations, with PS organisations somewhat more mature than their HLS counterparts, given their emphasis on processes and adversity to risk, in general. At the same time, the threat of global regulation such as the Foreign Corrupt Practices Act (FCPA) or the UK Bribery Act, which holds the principal/user organisation responsible for acts of its agents/providers, is compelling HLS organisations to invest in enhancing their maturity of governance processes. Organisations in the BAPS industry segment once again appear to have made the least investment in organisationally consistent policies, processes and technologies, given the relative lack of Board or leadership involvement in this regard. As a result, risk management processes are ad hoc and are not focused on separately from the related operational process.

Clarity on accountabilities and competency development on risk management

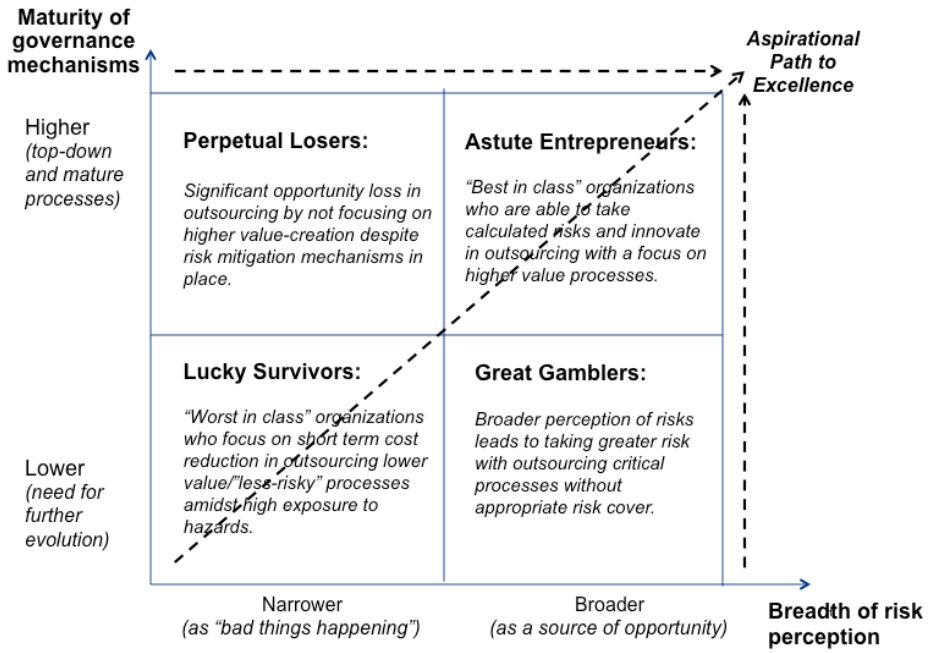
Tools, technologies and processes need to be further supported by clear roles and responsibilities that are known by those tasked with governance and risk management responsibilities throughout the organisation. Additionally, these individuals must have the skills, experience and seniority appropriate to discharge their roles effectively, with the organisation taking responsibility for their competency development to be able to apply their judgment, addressing the relevant business requirements and risk management needs.

The introduction of the Senior Managers Regime (SMR) by the Financial Conduct Authority in the UK in April 2016 has significantly enhanced the focus on having full clarity on allocating prescribed responsibilities to Senior Management Functions (SMF), supported by Management Responsibilities Maps to document key governance arrangements and Statements of Responsibilities for each SMF. Although this currently applies to the UK, the interviewees considered that it is likely to be emulated by regulators in the US and Hong Kong, thus having a global impact and already starting to drive global action. As a result, FS industries have once again progressed faster than their counterparts in other industries in this regard. At the same time, the survey indicates that clarity of accountability, supported by capability development initiatives in PS and HLS, are starting to feature strongly in governance programmes. This is, however, a relatively recent trend and it will take some time for these industry segments to reach the higher levels of maturity that compare with the levels attained by FS organisations. Survey respondents felt that cost and profitability pressures faced by HLS organisations, together with headcount reduction initiatives, may get in the way of investing in personnel with competencies and focus around risk, compared to the more recognised need for investment in capability building in PS. Finally, BAPS organisations are yet to make any significant progress in this regard, given the marked absence of Board and leadership-led governance initiatives and the limited recognition of the need to make further investments in this area, as discussed earlier.

3.4.2 Treading the aspirational path to excellence

Based on the breadth of risk perception and maturity of governance processes, organisations can be mapped to a two-by-two grid set out in Figure 10. This grid can be used by organisations to understand their current positioning, as a first step towards developing plans for reinventing themselves as Astute Entrepreneurs (upper right-hand quadrant) who, as explained below, are able to maximize the opportunities while managing the risks with various outsourcing-related management initiatives.

Figure-10: Framework to Assess Organisational Positioning on Strategic Governance and Managing Outsourcing Risks



Astute Entrepreneurs: The "best in class" organisations are clearly those that have a broad perception of risk, considering risk as an enabler of value rather than just "bad things happening". These organisations are mature in terms of implementation of top-down outsourcing governance, led by the Board. Such organisations are the best positioned to maximize the opportunities arising from outsourcing and innovate in outsourcing (Oshri, Kotlarsky, & Gerbasi, 2015). They are likely to outsource higher value processes (e.g., combining new technology such as the cloud or social media, leveraging industry with functional knowledge to reinvent processes), while managing a greater level of risks in a dynamic, agile and innovate way in their pursuit of business value. Based on the survey

results, it appears that at present the representative organisations in the FS industry fall into this category.

Diametrically opposite to them are the organisations that continue to have a narrower perception of risk and have also not implemented, or matured in their implementation, of governance mechanisms and practices. Such organisations are likely to face the greatest potential challenges to erosion of organisational value and are lucky to be surviving into the future. Accordingly, they can be classed as the *Lucky Survivors*. For such organisations, it is likely that any outsourcing initiatives are focused on lower value generating and less risky activities (e.g., basic transaction processing or accounting) and they may still face several threats and hazards in these limited pursuits of organisational value. Based on the survey results, it appears that at present the representative organisations in the BAPS industry fall into this category. Public Sector organisations were in this category in the past, and over the years they have evolved towards more mature governance processes.

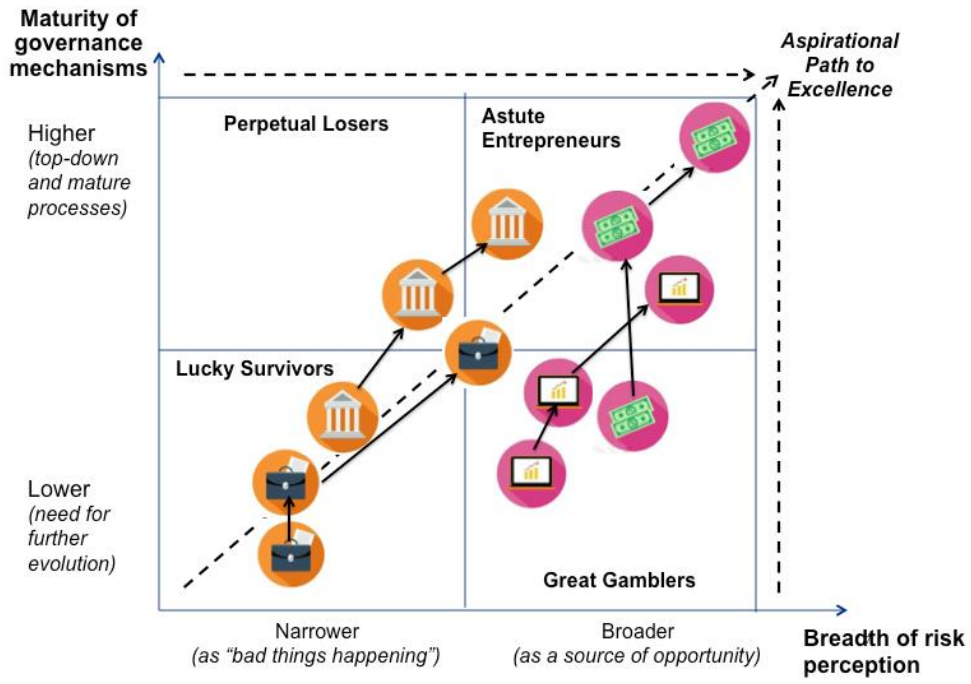
Organisations that have a broader perception of risk are likely to aspire to greater organisational value without the requisite evolution in governance mechanisms to give them the required control and are likely to be unable to manage the various threats they face as they embark on outsourcing. They can be called the *Great Gamblers*. The broader perception of risks in such organisations leads to greater risk-taking, typically by outsourcing critical and high value processes (e.g., supporting key managerial decisions such as advanced analytics or customer-facing processes) but without appropriate risk mitigation cover. Based on the survey results, it appears that at present the representative organisations in the HLS industry fall into this category. Financial Service organisations were in this category in the past but improved their governance processes and evolved into Astute Entrepreneurs.

Finally, *Perpetual Losers* are the organisations that have limited perceptions of risk despite maturing in governance mechanisms, and practices are perpetually facing significant opportunity loss, leading eventually to threats of value erosion and survival challenges**.** In such organisations inability to perceive risks as a source of organisational value typically leads to significant opportunity loss in outsourcing by focusing on less critical or lower value processes (e.g., fundamental accounting processes) despite

significant investment in risk mitigation. Based on the survey results, it appears that at present the representative organisations in the PS industry segment fall into this category.

A consistent path to excellence is evident as organisations in the four industry sectors aspire to evolve over time as Astute Entrepreneurs, who are the best positioned to leverage strategic governance around their outsourcing activities and beyond as shown in Figure-8. The figure illustrates how each of the four industry sectors evolved over time, from post-financial crisis to their current positioning, and their future aspirations. The past (post-financial crisis), present and future positioning of the four industries is supported by the findings from the survey and interviews we conducted with key informants across industries. Arrows between same industry icons show the movement from the positioning in the past, to present positioning, and then aspiration towards future positioning.

Figure 11: Treading the Aspirational Path to Excellence: Past, Present and Future



At the time of the last financial crisis, the majority of large global organisations (across all key industry segments) that were outsourcing business processes or technology did not invest enough in strategically governing their outsourcing, which resulted in relatively lower levels of maturity. This created two categories of organisations:

- The Great Gamblers who had an enhanced breadth of risk perception and acted recklessly by taking more business risks than their strategic governance mechanisms permitted (e.g., FS and HLS), resulting in a significant exposure to unmanaged risks in the face of performance and profitability pressures; and
- The Lucky Survivors who neither invested sufficiently in strategic governance, nor took acceptable levels of risk, resulting in below optimal performance/profitability (e.g., PS and BPS).

In other words, the absence of a Board-driven, structured, holistic, institutionalised and strategic approach to the governance of outsourcing impaired organisations' ability to ensure a proportionate approach to outsourcing governance, based on the intensity of the risks involved vis-à-vis the related governance mechanisms.

Throughout the financial crisis, various organisations across different industry segments continued to respond to the dynamic changes in the economic and business environment. For instance, the FS industry was compelled to make the highest investments in strategic governance as a result of emerging regulation in this regard, which resulted in enhancing the maturity of their governance mechanisms. A similar trend was seen across other industry segments, but not to the extent seen in FS. For instance, PS industries invested in governance mechanisms in an effort to develop the capability and competency of their private sector counterparts without significantly broadening their breadth of risk perception and appetite to risk, while HLS industries made limited investments in governance to manage the disruptive uncertainties that came their way while taking newer risks to survive. BPS industries appear to have been relatively unaffected by the financial crisis.

Although each organisation is unique, based on this empirical research related to future aspirations captured in the survey, the researcher believes that going forward organisations will have a longer-term balanced view and a more deliberate strategic approach to implementing outsourcing governance proportionate to the risks, rather than just responding reactively in an isolated, short-term way to the compelling forces described above. Specifically, we expect to see the following trends in the four industry sectors investigated:

- FS organisations are likely to move diagonally towards the upper-right corner (Figure 10) as they continue to refine themselves as Astute Entrepreneurs.
- HLS organisations are likely to move more horizontally towards the right-hand side of the grid (Figure 10) rather than moving vertically upwards, evolving from Great Gamblers to become Astute Entrepreneurs, as they continue to face significant changes in their operating environment.
- PS organisations are likely to move more vertically upwards in the grid (Figure 10) than horizontally to the right, from being Perpetual Losers towards Astute Entrepreneurs, as they continue to invest in governance while still "playing safe" and taking limited risks.
- BPS organisations are likely to move diagonally to the right in the lower left-hand quadrangle (Figure 10) away from being Lucky Survivors, as they embrace changes far more slowly than others.

Specifically, the framework motivates organisations to answer two key questions. First, "Where are you today?" to assess where they are currently positioned in terms of maturity of strategic governance over outsourcing vis-à-vis their breadth of risk perception which drives their appetite to take higher risks. Second, "Which way should you be going next?" to determine a possible trajectory going forward to be able not just to manage risks but also fully exploit the opportunities that outsourcing can create. As illustrated by the exemplar case studies of four industries, there are different paths that organisations can pursue (e.g., horizontal, vertical or diagonal) in their attempt to develop into Astute Entrepreneurs, depending on their current positioning. For example, Perpetual Losers need to invest in broadening their risk perception, while Great Gamblers need to ensure that strategic governance is driven by the Board and seen as an institutional rather than project-level activity. Lucky Survivors, on the other hand, need to develop both aspects, and this is more likely to be successful if made gradually – from engaging the Board, towards broadening risk perception.

3.4.3 Developing dynamic capabilities for outsourcing governance and risk management

The literature review in section 3.3 identified how the DC theory emphasizes the flexibility and adaptability of organisations and their efforts to act strategically, embrace newer opportunities, and even shape the business environment (O'Reilly & Tushman, 2008; Teece, 2014). As part of this

literature review, selected insights from the DC theory were also discussed that could be related to the two specific capabilities around risk management that form the two axes of the 2x2 framework: (a) a broader perception of risk in outsourcing that continually recognizes the opportunities that these risks present in addition to the threats and hazards; and (b) mature risk-management mechanisms that enable organisations to mitigate the risks while maximizing the business opportunity from outsourcing.

Both these new capabilities require the organisation to act strategically and with flexibility and adaptability in order to innovatively embrace the new opportunities by graduating from an ordinary capabilities mind-set to a DC mind-set.

Following these relevant insights from the DC theory, the key criteria for DCs proposed by Teece can now be linked to the two axes of the framework (see Table-6 below). In turn, the possible utilisation of existing DC literature to develop specific risk-management capabilities forming the core focus of this thesis can thus be proposed.

Table-6: **Linking DC Criteria to Evolving Requirements for Broader Risk Perception and Maturity of Risk Management Processes**

Criteria proposed by Teece (2016)	**Enhancing the breadth of risk perception (Horizontal Axis)**	**Maturity of governance and risk management processes (Vertical Axis)**
Purpose: Ongoing congruence with technological and business opportunities to exploit opportunities for creating organisational value through a more differentiated and distinctive approach to addressing customer and other business needs.	Develop an ongoing capability to be more strategic/innovative in organisational behaviour around outsourcing through continuous alignment of risks to opportunities for value-creation accompanying these risks, mitigating any negative impact (DC mind-set).	Establish a Board and leadership-led dynamic organisational framework focused on extending the frontline (boundaries) of ongoing organisational risk management activity within the organisation to also cover risks (and opportunities) related to third parties including outsourced service providers forming the "extended enterprise."

	Organisations with a lower breadth of risk perception primarily focus on just being technically efficient in avoiding "bad things happening" in the current context, such as breach of data privacy or business interruption caused by the provider of outsourcing services (ordinary capabilities mind-set).	In a dynamic framework, third party/outsourcing risk should be a regular item in the Board agenda discussing: • changes in inherent risks of engaging third parties; • the organisational choice to become more critically dependent on third parties; • review of disruptive events caused by third parties • ongoing sensing of third-party risks and continued alignment to organisational value drivers.
Tripartite schema and key routines: Sense, seize and transform opportunities to increase profitability, develop new capability and orchestrate resources to innovate and respond to/drive changes in a dynamic environment. Go beyond "best practices" to evolve unique "signature processes".	Establish a continuous mechanism for identifying opportunities and threats, enabled by the Board and supported by accountable members of top/middle management leadership team to: • develop a holistic view of risks and ongoing comparisons with the overall risk-taking capacity of the business; • articulate clearly the leadership appetite for taking risks by outsourcing processes that bring in higher value through specialised technical knowledge or "signature" processes. This enables organisations to sense, seize and transform opportunities where returns are commensurate with risks taken.	Within the above framework, continually evolve policies and tactical action plans, processes relevant to the organisational business context and supporting IT infrastructure that can be embedded throughout the depth and breadth of the organisation. There should be related accountability across top and middle management, not just for immediately achieving the intended results but also for revisiting these continually in the light of changing business circumstances.
Managerial emphasis/priority and intended result: Doing the "right things" (not just doing "things right") through entrepreneurial/strategic leadership, asset orchestration and learning resulting in evolutionary fitness (ongoing learning, capability enhancement and alignment).	Organisations with the above capability can then establish actionable data points on a forward-looking basis, to monitor progress, using analytical and predictive tools and technology (in addition to looking for opportunities for independent innovation). Further, these strategic activities need to be supported and guided by a top-level independent risk-management function, rather than an extension of existing compliance functions traditionally focused on consistent processes.	Develop a clear organisational focus on risk training and competency development, supported by knowledge sharing on risks across various outsourcing projects.

4 IDENTIFYING AND ADDRESSING IMPLEMENTATION ISSUES: SURVEY FINDINGS

Section Summary: This section focuses on addressing RQ3 by gaining an understanding of the implementation experience in strategically repositioning the governance and risk management of the outsourcing ecosystem, using the findings from a survey carried out in collaboration with the sponsoring global top-tier consulting firm. The next section will drill-down on decentralisation as the root cause of this execution gap and identify emerging good practices to address the challenge.

Explaining and addressing the knowledge gaps:

Prior research discussed in section 3.1 related to governance and risk management around outsourcing has hitherto not covered the implications of emergent value-focused outsourcing ecosystem in large global organisations with increasing criticality of dependence on the provider (although contemporary management researchers have covered an understanding of business ecosystems in more general terms – see section 4,1). The current research (in sections 4.1 to 4.3 below) demonstrates how this significantly increases the severity of consequences of getting things wrong, amidst a changing perception that risk management and governance should focus on value creation in addition to value preservation. Following this discussion, section 4.4 addresses another gap in prior research around the lack of understanding on the maturity of large global organisations' governance and risk management processes. It does so by using survey data that demonstrates how large global organisations are being compelled to "catch up" in increasing the maturity of their governance and risk management processes related to these third parties. It further analyses these results to assess organisational confidence in the various domains of risk management, revealing an execution gap between strategic intent and ability. Such execution gaps between strategic intent and ability have once again been researched in the past, albeit in general terms, without specific reference to the governance and risk management of the third party ecosystem (see section 4.5). Section 4.4 of this thesis addresses this gap by analysing this in the outsourcing governance/risk management context to identify the potential for emerging practices and mechanisms to address the gap going forward, thus enabling organisations maximize the opportunities that outsourcing can create for them. The related methodology has been set out earlier in Table 3 (page 36 of this thesis).

4.1 Emergence of a value-focused ecosystem: towards a changing perception of risk and governance

The results of the survey indicate that a renewed set of contemporary drivers, which are directly aligned to long-term value-creation, such as business agility, access to specialised skills and knowledge, innovation, process-improvement and other sources of sustainable competitive advantage, are now motivating organisations to outsource IT and business processes (see Table-7). Organisational agility characterised by the need for flexibility and scalability is emerging as the most powerful value-driver for future outsourcing projects (44.9% of respondents, up from 34.6% a year or more earlier). Similarly, the opportunity to bring in product or service innovation by leveraging specialised knowledge or skills from third parties is also rapidly enhancing its dominance as a key future driver (26.9% of respondents, up from 10.3% a year or more earlier). As many as 20.5% of respondents are expecting to improve their performance from the implementation of best practices, representing a significant increase from 9.0% a year or more earlier while 21.8% of respondents (10.3% a year or more earlier) expect outsourcing arrangements to provide other sources of competitive advantage that are derived from on-going innovation. The desire to achieve short-term cost-savings remains an important consideration, but significantly diminished in relative importance, with only 42.3% of respondents considering it a key future driver, down from 57.1% a year or more earlier.

Table-7: Changing Drivers of Outsourcing

Traditional drivers		**Past (a year or more earlier)**	**Present**	**Future (a year or more ahead)**
Cost savings/cost reduction		57.1%	48.1%	42.3%
Manage operational risks		12.2%	11.5%	12.8%
Improve on overall quality parameters		6.4%	7.7%	3.8%
Emerging drivers				
Flexibility and scalability		34.6%	41.0%	44.9%

Implement best practices related to specific processes operated by third parties		9.0%	12.8%	20.5%
Product or service innovation by leveraging specialised third party knowledge		14.1%	23.7%	26.9%
Enhance competitive advantage		10.3%	16.0%	21.8%

This shift, from a focus on cost to a focus on value, reconfirms the organisational recognition of the strategic opportunity that outsourcing can create for them. As a result, organisations are increasingly finding themselves as operating within an eco-system of third party relationships, which embodies the cumulative impact of these individual outsourcing relationships. Such an ecosystem directly resonates with the centralised network perspective of Lorenzoni & Baden-Fuller (1995), subsequently described by Koenig (2012) as the Supply Ecosystem where the strategic centre of an organisation brings together as a nucleus a small number of strategic partners around it. The ecosystem thus acts as a system of diverse resources (e.g. scarce skills and talent, specialised knowledge and capabilities, "best-in-class" processes, technology etc.) that this central enterprise can mobilize, design, control and animate in order to propose a competitive offer to its clients. As Koenig (2012; p. 215) explained: "the term system is employed to highlight the fact that a part of the mobilised resources does not belong to the central enterprise but to the partners that have been enlisted". These resources are being managed as the firm's strategy is changing and evolving over time, as highlighted by Iansiti and Levien (2004b; 1): "the strategy increasingly becomes the art of managing assets that one does not possess". In a similar vein, Moore (2006; 34) recognizes the need to "achieve inter-firm coordination sufficient to justify players' aligning their dreams, plans, and product road maps". Recent research by Lappi, Haapasalo & Aaltonon (2015) continues to acknowledge the concept of the business ecosystem as a trending model of business collaboration that emphasizes organisational diversity, relationship dependency and joint evolution.

Contractor et al. (2010) demonstrate how the competitive strength of a 21st century global organisation will be driven not just by technological competencies, but equally by its strategic management competencies, along multiple dimensions, in a world of outsourcing and offshoring.

Global organisations will continue to be exploiters, knowledge seekers, and cost reducers (Nicholls-Nixon & Woo, 2003), while being at the same time arbitrageurs, exploiting cost differentials across markets and seeking competitive advantage (Ghemawat, 2007). It will develop alliance negotiation and management skills, so as to increase the value of its quasi-externalised relationships globally (Contractor & Lorange, 2002) and innovation network managers (Ernst & Kim, 2002). The results of all these studies align with the future drivers of outsourcing in the survey, thus indicating that the desire for competitive advantage will further enhance the importance of these drivers in the years ahead.

4.2 Increasing criticality of outsourced processes and growing dependence on providers

Table-8 demonstrates how organisations continue to enhance the criticality of outsourced processes, which, together with the change in the drivers described earlier, is significantly increasing their dependence on the outsourcing providers. In particular, 73.9% of respondents believe that the level of dependence on outsourced processes will be high (44.8%) or critical (29.1%) in the year or more ahead, up from 60.3% a year or more earlier. Survey respondents believe that the pursuit of lower costs and agile access to scarce resources and talent will continue to drive businesses to "continue to identify and work with high quality but lower cost vendors and other third-party providers in emerging markets" (as pointed out by one respondent). In the words of another respondent, "third-party providers are increasingly carrying out activities traditionally carried out by direct employees, in particular interacting with customers". This is making the outsourced task far more critical than ever before, thus increasing the severity of consequences on disruption or failure. Several respondents also indicated that the increasing use of new technology (such as the cloud and cloud-based applications) which facilitates collaboration and enables businesses to enhance their virtual boundaries is expected to further accelerate this trend of service provider dependence and the severity of repercussions in case of any failure. Finally, the dependence on specific third-party providers will further increase as organisations choose to work with fewer global strategic partners in an environment where consolidation activity is continuously taking place within the third-party marketplace.

Table-8: Increasing Dependence on Outsourced Processes

Level of dependence	Past (a year or more earlier)	Present	Future (a year or more ahead)
Minor Dependence	3.6%	1.8%	1.2%
Low Dependence	10.2%	7.2%	6.7%
Moderate Dependence	25.9%	27.3%	18.2%
High Dependence	38.0%	36.4%	44.8%
Critical Dependence	22.3%	27.3%	29.1%
Total	100.0%	100.0%	100.0%

4.3 Increasing likelihood and severity of risks related to the outsourcing ecosystem

Table-9 illustrates that as businesses take the concept of outsourcing to new levels, they are facing new risks such as the threat of high profile customer service disruption and other major business failures. This has compromised organisational reputation, broken down business continuity and even attracted substantial penalties and regulatory enforcement action. Respondents consider disruption in client service as the most critical risk of outsourcing, closely followed by breach of regulations or laws by third parties being attributed to their organisation. Reputational damage and financial fraud/exposure also feature high on the list of critical risks. In addition, respondents are anxious about any failure in financial viability of a provider that can impact their ability to deliver. These threats arising from the actions of outsourced service providers are real. 87% of respondents have faced a disruptive incident associated with outsourced providers in the last 2-3 years, out of which 28% faced major disruption and 11% outsourced provider failure, reducing their confidence in the related governance and risk management processes.

Just above a quarter (26.2%) of respondents have suffered reputational damage arising from the actions of their external providers in the last 2-3 years while 23.0% have ended up being non-compliant with regulatory requirements with 8.7% of these respondents facing a fine or financial penalty as a result of this non-compliance. Another 23.0% of respondents have experienced financial

or transaction-reporting errors, 20.6% have dealt with a situation where sensitive customer data has been breached by third-party providers and 10.3% have been challenged on maintaining business continuity with the risk of lost revenue.

Table-9: Outsourcing Risks and Incidents

Top outsourcing risks, ranked by criticality

Risk Areas	**Rank**
Disruption in customer service	First
Breach of regulation or law	Second
Reputational damage	Third
Financial fraud or exposure	Fourth

Impact of incidents actually faced by respondents

Nature of incident	**% of respondents**
Reputational damage	26.2%
Financial or transaction reporting errors	23.0%
Non-compliance with regulatory requirements	23.0%
Breach of sensitive customer data	20.6%
Business continuity failure and lost revenue	10.3%

Prior research and global surveys on outsourcing have also confirmed that increasing costs, enhanced regulation and concerns around cyber fraud, data security and privacy are expected to challenge organisations on outsourcing as a business model (Thorson, 2014; Mathaisel & Yoost, 2015; Deloitte, 2014; Chapman, 2015). Challenges are expected to increase in staffing the retained organisation after outsourcing on the one hand as well as in managing vendors and delivery centres on the other to be able to enhance innovation and generate greater value to the business (Nakatsu & Iacovou, 2009; Abdullah & Verner, 2012; Deloitte, 2014)

4.4 Execution gap in strategic governance and risk management of outsourcing

Given the changing drivers and increasing dependence on outsourcing, survey respondents were asked to self-assess their level of maturity in risk management over outsourcing in line with the new thinking, based on a five-point rating system, considering the overall impact of the various domains of risk management:

- structure of third-party management organisation
- clarity of related roles and responsibilities
- stakeholder awareness and commitment to third-party risk management
- skills, bandwidth and competence in management of third parties
- process and supporting technology for third-party risk management.

The risk management maturity ratings were defined as follows:

- **Initial**: Risk management primarily focused on value preservation with none or very few of the above domains addressed.
- **Managed**: Risk management primarily focused on value preservation with some of the above domains addressed through limited effort.
- **Defined**: Risk management starting to focus on value creation in addition to value preservation. Consideration given to addressing all the above domains with room for improvement.
- **Integrated**: Risk management focused on value creation and value preservation with most of the above domains addressed and evolved.
- **Optimised**: "Best in class" organisation – Risk management focused on value creation and value preservation with all of the above domains addressed and evolved.

<u>Towards a holistic and integrated approach to outsourcing risk</u>

The survey revealed that only 9.5% of respondents had integrated or optimised their risk management systems related to their outsourcing ecosystem a year ago or earlier. However, these organisations

were now being compelled to rapidly "catch-up" in taking a holistic and proactive approach to outsourcing risk, with 71.6% respondents expecting to be able to integrate and optimize their risk management system in the near future (a year or more ahead), including around 16.5% of respondents aspiring to be "best-in-class" (see Table-10).

The trend in terms of the proportion of respondents at each maturity level appears to indicate that most of the respondents have moved up or are aspiring to move up by one level of maturity between the recent past, present and near future, thus reconfirming a progressive journey to excellence.

Table-10: Increasing Maturity of Outsourcing Risk Management Systems

Level of maturity	**Past (a year or more earlier)**	**Present**	**Future (a year or more ahead)**
Initial	21.3%	0.8%	0.0%
Managed	45.7%	26.8%	2.4%
Defined	23.5%	47.2%	26.0%
Integrated	8.7%	22.8%	55.1%
Optimised	0.8%	2.4%	16.5%
Total	100.0%	100.0%	100.0%

The survey results resonate with the review of literature on the changing perception of risks and risk management activities. Organisational focus on outsourcing risk management has traditionally been reactive and driven by mid-level to lower level management, including contract managers, focused on achieving contractual Service Level Agreements (SLAs) to "prevent bad things happening" (e.g. report by Deloitte, 2015). Such an approach to risk has led to micro-focus on risk areas that interest lower and middle levels of management (e.g. McCourt, 2012; Jaeger, 2014; Chapman, 2015). The survey results in Table 8 confirm that organisations are only now starting to depart from this myopia and take a leadership-led holistic and proactive approach to outsourcing risk as a source of organisational value.

However, there is a possibility that respondent aspirations may be overly optimistic in their estimation of the time and effort required to achieve this organisational transformation. Given the diverse range of stakeholders, processes and technology impacted by this transformation, respondent organisations that believe that they would be able to substantially complete their transformational journey in the next year may actually take much longer to do so.

Organisational commitment inadequately supported by processes and enabling technology

Survey respondents have indicated varying levels of organisational confidence in the different domains of risk management over outsourcing. Organisational confidence appears to be the highest in the level of awareness of various stakeholders in outsourcing risk management processes and their commitment to managing the related risks. 78.1% of respondents have expressed moderately high to higher levels of confidence in this domain.

Closely related to stakeholder awareness is the clarity with which the ownership of these risk management activities is known to those tasked with the performance and oversight of the framework. 77.9% of respondents have expressed a moderately high to higher levels of confidence in this area. This relatively higher level of confidence also extends to the organisation of risk management teams as well as the skills, competence and training of the relevant individuals (see Table-11).

However, such higher levels of confidence are not mirrored in the related tools, technology and processes. For instance, organisational confidence is lowest in the tools and technology, monitoring mechanisms and other risk management processes with as many as 94.3%, 93.4% and 88.6% respondents respectively expressing moderately low to lower levels of confidence in these domains.

Table-11: Levels of Confidence in Various Domains of Outsourcing Risk Management

Domains of outsourcing risk management where confidence is moderately high or higher	
Risk management domain	**% of respondents**
Awareness and commitment to managing third-party risk	78.10%
Clarity of roles and responsibilities	77.90%
Skills competence and training	73.90%
Organisation of third-party risk management	73.20%

Domains of outsourcing risk management where confidence is moderately low or lower	
Risk management domain	**% of respondents**
Tools and technology used for risk management	94.30%
Management and monitoring mechanisms	93.50%
Quality of risk management processes	88.60%
Disciplined escalation framework	78.90%

In spite of the overall strategy and governance framework having been put in place in a larger number of respondent organisations, there is therefore more to do in strengthening their risk management tools and technologies, together with the underlying processes and monitoring mechanisms.

This also identifies a disparity between strategic intent and ability, or in other words, an emerging "execution gap" in risk management of the outsourcing ecosystem. The gap is the result of organisational commitment not being supported by the ability of the related operational enablers including technology and processes to achieve intended results. Addressing this execution gap would help to reduce the potential for failure while augmenting organisational capability to maximise the opportunities from outsourcing.

4.5 Relating survey results to prior research on execution gap

Researchers in Strategic Management have studied the concept of the execution gap in large global organisations extensively over the last decade (e.g. Becher, 2005; Lepsinger, 2006; Sull, 2007; Martin, 2010; Minter, 2011; Murray & Mohamed, 2015). Lepsinger (2006) discovered through a survey that contrary to conventional wisdom the real strategic challenge in large global organisations is not the absence of a vision or stakeholder buy-in. Most organisations have clear and inspiring visions and commitment across stakeholders and employees. However, a gap exists between "organisations' ability to develop and communicate sound strategies and their ability to implement those strategies" (Lepsinger, 2006; p. 56.). He advocates that organisations should close this gap before it widens by addressing three key factors, which he refers to as the "Tipping Point Trio":

- Clarifying the strategy in greater level of detail by articulating what would be operationally required to implement that strategy and the priorities for action.
- Ensuring that the appropriate management systems are in place that would enable and support the achievement of the strategy.
- Confirming, through periodic senior management review and monitoring, that the actions required for achieving the strategy mutually support each other across various organisational levels and functions rather than conflict with each other.

In a similar vein, Becher (2005) highlights the need for operational alignment to ensure that strategy and execution are in sync while continuing to underscore the importance of continually monitoring and measuring progress with a dual focus on identifying challenges as well as areas for growth. Minter (2011) revalidated Lepsinger's views five years later while Murray & Mohamed (2015) emphasize the importance of predictive rather than lagging indicators in the monitoring process, given the growing ability of contemporary businesses to manipulate organisational data more effectively and meaningfully than in the past.

4.6 Decentralisation as a key underlying cause of the execution gap

Simply stated, decentralisation is the dispersion or distribution of functions and powers. A decentralised organisation is one where the decision-making authority is not vested in a central group or individual, but is dispersed across business units and divisions to achieve divisional flexibility with which to react to local environmental and operational contingencies (Alexander & Fennell, 1985).

The survey confirms that global organisations are increasingly being managed through increasing degrees of decentralisation across their various operating units and entities. Three-quarters (75.5%) of respondent organisations today have a partial to high degree of decentralisation, reflecting a potential challenge to a holistic and unified approach to third-party risk management that more centralised structures would have enabled, particularly when organisations are seeking to bring in consistency in the manner in which they establish uniform processes and technology for collectively managing their third-party relationships.

Third-party governance and risk management is clearly evolving as a crucial organisation-wide matter (Palm, 2015) that cannot be left to the discretion of a divergent group of operational-level personnel in the multiple divisions of an institution that operates with a moderate to a higher level of decentralisation. However, at the same time, the world is getting disruptively complex as a result of multiple drivers such as globalisation, technology advancement and a more demanding stakeholder community, within the overall context of an uncertain and volatile macro-economic environment. In this increasingly complex and uncertain environment, the structure and internal functioning of organisations must be consistent with changing demands, with firms operating in volatile environments typically characterised by loosely integrated operations and decentralised decision making. (Rantakari, 2013; Lawrence & Lorsch, 1969). By its very nature, a global organisation invariably faces a number of external challenges that it has to address proactively or reactively within short timeframes and accordingly organisational flexibility becomes a very important strategy for survival and remaining competitive (Alexander & Fennell, 1985; Alexander, 1991).

Decentralised structures were generally criticised for their inefficiency, duplication and lack of consistent strategic direction in the past (e.g. Bolton & Farrell, 1990). Research conducted by the Economist Intelligence Unit in collaboration with Ricoh, a Fortune 500 company however recognizes that by 2020 effective business processes will empower workers to better meet the needs of the market place and enable organisations to be more agile (report by Economist Intelligence Unit, 2015). Furthermore, 86% of business leaders agree that by 2020 customers will be the main source of new product or service ideas and therefore an integral part of decision-making, leaving companies no choice but to move further away from centralised structures.

The challenges that arise from increasing decentralisation impacting risk management of outsourcing and governance mechanisms include the following:

- implementing robust governance structures to manage outsourcing ecosystem risk pervasively through the entire decentralised organisation, down to the lowest unit of decentralisation;
- ensuring clarity in accountability on ownership of activities for outsourcing ecosystem risk management across the decentralised business units;
- enhancing visibility and awareness of outsourcing ecosystem risk management processes (including back-end monitoring to determine compliance) consistently through the decentralised organisation;
- developing uniform levels of capability across the decentralised organisation in individuals, to whom activity ownership is allocated;
- integrating consistent processes and technology across the various business units and divisions, with specific deviations only to accommodate local requirements;
- establishing a common culture been across the decentralised units, together with communication and training to have a shared understanding of risk.

One can expect that the existence of a global management philosophy and an integrated management team at the top (global) level of decentralised organisations could address any concerns that a decentralised structure may adversely affect the quality of risk management in the operating units. However, it is important to recognise the conflicting motivations that may drive the behaviours of the operating unit leadership, i.e. the leadership of regional entities, product groups or functions. The challenges with regard to governance and risk management however typically arise from some of the following factors:

- Many of the operating units or entities are run as *independent profit centres*, with clearly articulated performance expectations, goals and metrics. As the executives in charge of these units are made accountable for the achievement of specified profit (or sales) objectives, they must be given the authority and operational freedom to do whatever is required to achieve them. This can potentially challenge the importance and focus of governance and risk management considerations.

- Secondly, the external and internal environments, as well as the markets in which these organisations operate, are diverse. Whilst decentralisation provides the flexibility to determine the appropriate competitive strategy to address its specific market considerations and react to local environmental and operational considerations, this can come at the cost of a more disciplined and uniform approach to risk management that a more centralised approach can ensure.

- Thirdly, the lack of knowledge in centralised risk and governance teams in corporate headquarters relating to local market considerations, competitive forces and the changing local business environment further reduces the effectiveness of any form of long-distance approach to ensuring governance, despite the availability of management information and analytical data.

- Fourthly, the desire for business unit management to operate with a greater degree of decentralisation than planned can amplify the lower level of technology integration and process standardisation.

- Finally, the combination of several softer attributes such as the challenges of implementing a common organisational and risk culture and consistency of training often weakens the focus on risk management in decentralised environments.

4.7 Emerging practices to bridge the execution gap

The survey reveals a number of corporate practices that businesses are adopting to bridge the execution gap.

4.7.1 Escalating the level of responsibility: the role of the Board. The survey results echo the growing organisational acceptance of the need for enhanced accountability for outsourcing ecosystem risk management at the Board and the C-suite level (see Table-12). Being viewed for decades as an operational-level issue rather than a Board or top leadership issue, this rethinking now presents a transformational opportunity for the more progressive organisations leveraging outsourcing as a source of value. Repositioning the accountability for outsourcing risk management at the Board and C-suite level would significantly enhance the status and priority of this organisational imperative and enable the execution gap to be addressed with greater authority and commitment of resources for establishing the relevant management systems including processes, tools and technologies and monitoring mechanisms.

Table-12: Board Involvement in Managing of Outsourcing Risks

Outsourcing risk on the Board agenda

	% of respondents
Not on the Board agenda	0.9%
Intermittently on Board agenda with low importance	18.6%
Reactively in the agenda in response to incidents	25.4%
Periodically on the agenda with varying urgency	39.0%
Features consistently as a critical item on the Board agenda	16.1%
Total	**100.0%**

Level of ultimate accountability for risk management

	% of respondents
Member(s) of the Board	19.5%
Chief Executive Officer (CEO)	27.1%
Chief Finance Officer (CFO)	5.1%
Head of Risk or Chief Risk Officer	9.3%
Chief Procurement Officer or CPO	16.9%
Head of Vendor/Alliance Management	4.2%
Individual Vendor or Alliance Manager	2.5%
Head of Internal Audit	0.8%
Head of Compliance	4.2%
Not clear/dependent on type of third party	10.2%
Total	**100.0%**

Board and C-suite responsibility for outsourcing ecosystem governance and risk management would also ensure a dual focus on value creation and value preservation, based on a holistic understanding of the strategic importance of outsourcing as well as the severity of consequences of not managing the risk of failure. Responsibility vested in organisational levels that are higher than individual functional levels would also facilitate functional stakeholder buy-in and ensure consistency and mutually-supportive actions, one of the potential challenges created through increasing decentralisation of business units and underlying causes of the execution gap discussed earlier in this paper.

Following the financial crisis, key regulators/governance bodies now agree on the Board's central role in approving and monitoring strategy, in keeping with their fiduciary duties to shareholders. The Board therefore needs to understand the risks and ensure appropriate risk management, which would further enable them to strike a better balance between risk oversight, growth, performance and strategy.

4.7.2 Mandating common governance standards: With increasing volume and complexity of outsourcing arrangements in a business environment characterised by increasing decentralisation, the vast majority

of respondent organisations (86.0%) are establishing common risk management standards to be compulsorily followed by all their providers to ensure a consistent approach across business units. Given the increasing spectrum of risks in outsourcing, the survey also reveals that the general trend in this regard is to have a combined approach to formulating these standards, representing a mix of existing industry-specific (e.g. HIPAA standards for safeguarding of personal identifiable or private information for patient data handled or managed by third-party service providers) or generally accepted functional standards (ISO 22301 standard for business continuity in relation to business processes operated by third parties), supplemented by organisation-specific standards particularly in those areas where no such generally accepted standards exist.

Respondents have also indicated that the domains covered by these standards are continually expanding and extending to areas such as code of conduct and ethics, regulatory compliance, minimum wage requirements, information security and privacy etc.

4.7.3 Investing in centralised Centres of Excellence for outsourcing risk management: Establishing a centralised in-house function for outsourcing ecosystem risk management seems to be the approach that the majority of survey respondents are adopting, with 58.4% of respondents in this category despite the emergence of a number of external service-providers offering "managed services" based models (see Table-13). These "managed services" refer to the outsourced delivery of risk management and IT security-related processes to external providers. With the increasing complexity in risk management and use of new technologies, organisations are increasingly considering outsourcing these functions under the ever-expanding banner of business services to specialist teams who can provide the required expertise cost-effectively (Gupta & Zhdanov, 2012; Zhao, Xue & Whinston, 2013). Responses indicate that organisations that are moving to such a centralised in-house function are primarily driven by the need to retain organisational control over this critical activity, enhanced by a better organisational understanding as well as the ability to manage a diverse group of stakeholders that an external provider may be unable to match. There is also a perception amongst some respondents that that in-house models can adapt better to the needs of larger global

organisations, particularly where diverse operating groups are involved, with varying degrees of decentralisation.

Table-13: Approaches to Risk Management

Organisations considering in-house vs. external service provider-based risk management models for outsourcing

Increasingly moving to a centralised in-house function to support third-party management	58.4%
Increasingly moving to an external service provider model for third-party management	8.0%
Neither of these/Not sure	33.6%
Total	**100.0%**

Expected functions of centralised in-house risk management team

Ongoing regular risk assessments	80.3%
Third-party provider monitoring activities	80.3%
Risk management coordination activities	56.1%
Tracking remediation activities	57.6%
Tracking ongoing monitoring requirements	50.0%
Archiving evidence related to risk management	33.3%
Filing of contracts and amendments	48.5%
Assisting in implementing termination plans	25.8%

It is expected that this centralised function would cover most of the key risk management activities including on-going risk assessments (80.3%); monitoring activities (80.3%) and co-ordination (56.1%); tracking remediation activities (57.6%) and on-going monitoring requirements (50.0%). It would also be responsible for various administrative activities such as filing of contracts and amendments (48.5%), archiving evidence related to risk management as required by regulators and

other stakeholders (33.3%) and would assist in the implementation of any contract termination plans where required (25.8%).

It should also be noted that as many as many as 33.6% of respondents are not yet clear on the future organisational choice of an in-house vs. an external service provider model. The choice between a centralised in-house model for outsourcing risk management vis-à-vis an external service provider based model is a vital decision that can have far-reaching strategic consequences therefore it needs to be carefully considered and not taken recklessly. The lack of understanding of their outsourcing ecosystem together with inadequate knowledge of the marketplace of external providers may be resulting in a significant proportion of organisations remaining undecided in this matter, although many of them are already working with contract staff to assist them in the related tasks.

4.7.4 Concurrence of multiple methods of gaining assurance: The growing complexity of risks requires a holistic and deep understanding across a diverse group of organisational stakeholders as well as disparate group of third-party providers. This is resulting in a combination of multiple methods of gaining holistic assurance that the entire spectrum of key risks related to the outsourcing ecosystem are being appropriately managed, balancing between efficiency and effectiveness. Assurance activity can be undertaken by line managers, who are directly responsible for managing the third-party provider (e.g. in the form of ongoing third-party activity monitoring), as well as by organisational teams such as internal audit who operate independently of line management, often reporting directly to the Audit Committee of the Board of Directors or other Board Members. The survey reveals that on-site reviews of third-party providers by line managers dominate the methods of obtaining assurance and is also considered the most effective method, further recognizing the relational impact that this creates (see Table-14).

In-house internal audit reviews represent the second most dominant and effective method of gaining assurance, practised by 62.7% of respondent organisations. In addition, control self-assessments by third-party providers, remote assessments with direct access to third-party systems/data and desktop

audits represent the other key assurance methods, although these are not considered as effective as on-site reviews or in-house internal audit procedures.

Use of contractors or outsourced internal audits are also rapidly gaining popularity as effective methods of obtaining assurance over third-party management.

Some respondents have expressed their dependence on external audits and service provider audits under SSAE16/ISAE3402 standards. However, most of these audits cover the risk of material financial statement misstatements only and may not address the wider set of strategic, operational, reputational, legal and regulatory risks that a best-in-class framework should holistically and proactively address.

However, it is interesting to note that internal controls testing drives the approach to on-site reviews in more than 80% of cases, with detailed transaction testing for all risks driving the approach only in less than 20% of cases. There is clearly room for improvement here by adopting an approach based on a higher extent of detailed transaction testing supported by available data that would significantly improve the quality of assurance obtained. For instance, reversing the mix with 20% of controls testing and 80% of transaction testing should be the benchmark that organisations should strive to attain in this area. This would not only portray a more holistic assessment but would also reduce the risk of reviewers simply ticking the boxes without appropriate substantiation with underlying data.

Table-14: Assurance in Working with Third Parties

Dominant methods of gaining assurance over outsourcing

Method of gaining assurance	% of respondents
Visiting third-party provider locations periodically based on risk assessment	69.5%
In-house internal audit	62.7%
Control self-assessments by third-party providers	39.8%
Remote assessments with direct access to provider systems and data	22.9%
Desktop audits	22.0%

Most effective methods of gaining assurance over third-party management

Methods of gaining assurance over third-party management	Rank
Visiting third-party provider locations periodically based on risk assessment	First
In-house internal audit	Second
Using contractors for outsourcing assurance	Third
Outsourced internal audit	Third
Control self-assessments by third-party providers	Fifth

What drives the approach to on-site third-party reviews

Internal control testing	80.5%
Detailed transaction testing for all risks	19.5%
Total	100.0%

4.7.5 Enhancing the level of monitoring and other assurance activities: Organisations are prioritizing certain key risk management initiatives as their top business imperatives to address the risks that the heightened levels of outsourcing create for them. It is interesting to note that these monitoring and assurance activities take place at various stages of third-party engagement. For instance, business case articulation and due diligence typically take place at the pre-contracting stage followed by finalisation of the contract. On the other hand, visibility and transparency of the activities of various third parties in the outsourcing ecosystem, supported by monitoring and other assurance activities are ongoing processes throughout the life cycle of the third-party engagement. The survey demonstrates that ongoing monitoring and other assurance activities dominate the list of organisational priorities. Specifically, enhanced monitoring of the related external providers appears to be the top initiative in this regard, being taken up by 59.7% of respondents. 57.1% of respondents are stepping up their assurance activities over their service providers as their key initiative to reduce third-party risk (see Table-14).

Table- 15: Key Initiatives to Reduce Risks Associated with Outsourcing

Key initiative		**% of respondents**
Enhanced monitoring		59.7%
Enhancing assurance activities		57.1%
More disciplined contracting		44.5%
Enhanced business case and due diligence		38.7%
Enhancing visibility and transparency		36.1%

Respondents recognize that various stakeholders across various levels and functional areas (for instance, business owners, supply chain teams and compliance groups) have a role to play in these monitoring and assurance activities. Respondents have highlighted the fact that each of these players brings a unique set of perspectives and skills to risk management, which can be an invaluable asset to the business, but which need to be orchestrated to ensure that there is complete clarity on respective roles and responsibilities and to ensure that limited risk management resources are deployed effectively across the organisation to address the most significant areas of concern.

The effectiveness of using limited risk management resources can also be enhanced by intensifying the rigor of disciplined contracting and pre-contracting activities such as business case articulation and due diligence, as indicated by 44.5% and 38.7% of respondents, respectively. Additionally, the activities of third parties within the outsourcing ecosystem should be visible and transparent to all relevant stakeholders across the organisation.

5 ADDRESSING THE IMPACT OF DECENTRALISATION

Section Summary: This section addresses RQ4 by focusing on decentralisation as the root cause of this execution gap in implementation of strategic governance and risk management of the outsourcing ecosystem in large global organisations and sets out emerging good practices to address this challenge. This section concludes the three-phased presentation on research findings. Accordingly, the next section aims to provide a holistic summary and thorough reflection on the research covered by this thesis.

5.1 Experience from prior research and related knowledge gaps

Historically large and geographically dispersed organisations have long been trying to balance between centralisation and decentralisation of the IT function and, more recently, IT-enabled business services (Sia, Soh and Weill, 2010). The choice of organisational structures was typically driven by the need to optimize meeting local and global organisational needs, while making sure that organisations can control and govern centralised or decentralised functions, and therefore suppliers providing IT and business services for these functions. Whilst prior research has informed this debate, our literature review in section 3.1 together with the discussion below demonstrates that this has hitherto not been researched in the context of implications on governance and risk management of the outsourcing ecosystem in large global organisations. The current research in section 5.2 provides empirical evidence from the survey supported by interview data of these challenges in the specific context of the outsourcing governance/risk management as the root cause of the execution gap discussed in the preceding section and sets out the way forward in terms of addressing these challenges. The related methodology has been set out earlier in Table 3 (page 36 of this thesis).

This theme of centralisation vs. decentralisation has been researched and debated for over sixty years and many organisational researchers (e.g., Sobotkiewicz, 2014) who believe this to be one of the most complex both in organisation and management theory and in business practice. As large organisations continue to grow their global presence and evolve as multinationals, management thinkers have increasingly focused on issues concerning their structure, which needs to be aligned to organisational goals and tasks in the context of diverse geographical environments in which they operate.

The dictionary meaning of the word decentralisation is the dispersion or distribution of functions and powers. A decentralised organisation is therefore one where the decision-making authority is not vested

in a central group or individual, but is dispersed across business units and divisions to achieve divisional flexibility with which to react to local environmental and operational contingencies (Alexander & Fennell, 1985). On the contrary, centralisation is defined as the process by which the activities of an organisation (particularly those regarding planning and decision-making) become concentrated within a particular location or group, typically the head office or the centre of the organisation. According to the Bloomsbury Business Library Business and Management Dictionary (2007), centralisation can be defined as the gathering together, at a corporate headquarters, of specialist functions such as finance, personnel, centralised purchasing, and information technology. Centralisation is usually undertaken in order to effect economies of scale and to standardize operating procedures throughout the organisation. Many businesses start to decentralize their organisational authority and decision making as they grow larger or start operating from several places or any new units and markets.

According to Rodrigues (2001), Fayol's original principle of management suggests that too much centralisation leads to ineffectiveness, as does too much decentralisation. As a result, organisations must attain a balance between the two ends of the decision-making scale. An example of an approach that could be used to achieve such a balance is to have senior management establish broad strategic plans and policies while the interpretive decisions of these plans and policies can be made by middle or lower management in the form of tactical plans and procedures (Katz & Kahn, 1978). Weick (1987), however, observes that over the next few decades, the stronger emerging trend amongst larger global organisations has been to move away from this "trickle-down" decision making and evolve "ad-hoc" centres that possess the relevant skills and knowledge with relevance to specific organisation problems to be addressed. As a result, centres of command, authority, decision-making and control in organisations are progressively moving to locations near the expertise for specific tasks. Some researchers (e.g. Magjuka & Baldwin, 1991; Furst, Reeves, Rosen, & Blackburn, 2004) have referred to this phenomenon as the establishment of "Problem Solving Groups" or "Virtual Teams" (Rodrigues, 2010).

Decentralised organisations adapt themselves to the tasks at hand and external environmental considerations (Perlmutter, 1969; Pugh, Hickson, Hinings, & Turner, 1969; Schollhammer, 1971;

Lorsch & Allen, 1973). The key features of these structural attributes, based on these studies, are summarised below to provide the relevant context to understand how decentralisation impacts strategic governance of the outsourcing ecosystem:

- *The extent of integration of the top management team and commonality of the enterprise-wide philosophy* at the top level that thinks in terms of the global commitments of the organisation and establishes a common organisational culture, supported by leadership at functional, product and/or regional levels.

- *Multiple reporting relationships* between executives at the operating entities and those at the corporate headquarters, which may be a combination of direct ("solid" line), indirect (nominal or "grey" line) and coordinating ("dotted" line) relationships, often with varying levels of clarity to enable flexibility in responding to task requirements and the external environment, also known as matrix structures (Shreiber & Rosenberg, 2015).

- *The degree to which both authority and accountability have been delegated* to executives within the operating units. This is typically evident through the number of levels between the leaders in the global organisation and the executives of the operating unit (a taller structure being an indicator of a higher degree of decentralisation), and the level of relative importance given to the concept of the profit centre(s) in the operating unit, i.e. the rigour with which executives in the operating unit are held accountable for profitability.

- *The degree of organisational flexibility and perceived degree of autonomy of executives in the operating unit level.* In some cases, the absence of formal task descriptions with authority specifications in a comprehensive manner ensures that the concept of decentralisation can be followed in "spirit" rather than the "letter of the law" and can be invoked or revoked based on the circumstances or the individuals involved in running the unit which is a critical strategy for survival and maintenance of organisational effectiveness in the face of diversity and speed of change in the internal and external local environment.

Decentralised structures were generally criticised for their inefficiency, duplication and lack of consistent strategic direction in the past (e.g. Bolton & Farrell, 1990). Research conducted by the Economist Intelligence Unit in collaboration with Ricoh, a Fortune 500 company, however recognizes that by 2020, effective business processes will empower workers to better meet the needs of the marketplace and enable organisations to be more agile (report by Economist Intelligence Unit, 2015). Furthermore, 86% of business leaders agree that by 2020 customers will be the main source of new service or product ideas and therefore an integral part of decision-making, leaving companies no choice but to move further away from centralised structures.

It is interesting to recognise that the increasing degree of decentralisation in global organisations is also being accompanied by the development of hybrid structures of various forms, discussed subsequently in this thesis. For example, large global organisations that outsource a major proportion of support functions relying on IT and IT-enabled services (e.g., finance, procurement, human resources and IT) are searching for ways to improve operational efficiencies and some are considering centralisation of support functions under "shared services". Shared services imply the consolidation of support functions from several departments into a stand-alone organisational entity the objective of which is to provide services as efficiently and effectively as possible. When managed well, shared services can reduce costs, improve services and even generate revenue (Oshri, Kotlarsky, & Willcocks, 2015).

A higher degree of centralisation in governance-related activities is almost always inevitable. Let us consider, for instance, the major players in the enterprise software industry such as SAP, IBM and Oracle offering platform-based solutions, where partnering software firms have traditionally co-created value by combining add-on solutions to their platforms for a number of years. (Huber, Kude, & Dibbern, 2017; Sarker et al., 2012). These platform-owners have adopted high degrees of decentralisation with regard to addressing the needs of their customers, yet the same organisations adopt a centralised and integrated way to govern large ecosystems of add-on solution-providers to their platform, bringing in the advantages of standardisation to objectively orchestrate the members of these large third-party ecosystem at arm's length (Wareham et al., 2014). Thus, governance is seen as a problem of designing effective ecosystem-wide standardised mechanisms (Gulati et al., 2012).

5.2 Empirical evidence of the challenges of decentralisation in strategic governance of outsourcing eco-systems

In theory, the existence of a *global management philosophy* and an *integrated management team* at the top (global) level of decentralised organisations should be expected to address any concerns that a decentralised structure may adversely affect the quality of governance and risk management in the operating units. However, it is important to recognise the conflicting motivation that may drive the behaviours of the decentralised operating unit leadership, i.e. the leadership of regional entities, product groups or functions. The challenges with regard to governance and risk management typically arise, based on the above literature review and additional empirical evidence from publicly-available sources, from some of the following factors:

Pressure to meet financial performance targets: Many of the operating units or entities are run as *independent profit centres*, with clearly articulated performance expectations, goals and metrics. As the executives in charge of these units are made accountable for the achievement of these specified profit (or sales) objectives or other financial targets, they naturally assume the authority and operational freedom to do "whatever it takes" to achieve them. This certainly makes the organisation more agile but can potentially overshadow the consistency in focus on governance and risk management considerations. For instance, a global telecommunications company was recently fined US$ 795 million under the Foreign Corrupt Practices Act (FCPA) for paying more than US$ 114 million in bribes to a government official in Uzbekistan in an attempt to win new projects that would enable them to meet performance targets. The proposed service-provider was the Uzbek subsidiary of this company that had structured and concealed the bribes through various payments recorded as disbursements to third-party contractors under sham consulting agreements, such payments to suppliers relating to reseller transactions. Despite the presence of red flags, local or group management did not appropriately vet these transactions (Makinwa, 2016).

Diversity of business and market environments: The external and internal environments, as well as the markets in which these organisations operate are diverse. Whilst decentralisation provides the flexibility

to determine the appropriate competitive strategy to address its specific market considerations and react to local environmental and operational considerations, this can come at the cost of a more disciplined and uniform approach to governance and risk management that a more centralised approach can provide. The search of major incidents related to the lack of understanding of local markets and environments did not identify any publicly-available situations involving third parties related to outsourced IT and business process services; however, there are several reported incidents in other business ecosystems, based on the same principle. For instance, in one of the largest healthcare fraud settlements in history, the US Department of Justice announced that a global healthcare giant and its subsidiaries will pay more than US$2.2 billion to resolve criminal and civil liability arising from allegations relating to manufactured drugs, including promotion for uses not approved as safe and effective by the Food and Drug Administration (FDA) and payment of kickbacks intended to promote the use of these drugs in nursing homes in a specific geographic jurisdiction. Although the consultant pharmacists who were involved purported to provide "independent" recommendations based on their clinical judgment, this civil settlement concluded that the organisation viewed the pharmacists as an "extension of their sales force", thus holding the organisation responsible for these actions (Verschoor, 2014).

Lack of local knowledge of global governance teams: The lack of knowledge of centralised risk and governance teams in local market considerations, competitive forces and the changing local business environment further reduces the effectiveness of any form of long-distance approach to ensuring governance, even where appropriate management information and analytical data is available. For example, a global organisation operating in the energy and resources sector was fined US$ 772 million for engaging in conduct in violation of the FCPA arising from the conduct of third parties and ineffective corporate controls over third parties. Certain consultants/service-providers were located in a country different to the project country. The organisation did not perform any due diligence on the service-providers even though some of them had no knowledge about, or experience in, the relevant industry. At other times, the service-provider asked to be paid in a currency or in a bank account located in a country different to where the consultant and the project were located. In multiple instances, more than

one consultant was retained on the same project, ostensibly to perform the very same services. Despite, these "red flags," the consultants were nevertheless retained without meaningful scrutiny (Leibold, 2015).

Process inconsistencies and non-integrated technology: A lower level of process standardisation and technology integration can result in unintended consequences with business units operating with a greater degree of decentralisation than planned or risk-managed. For example, the Prudential Regulatory Authority (PRA) in the UK recently fined a bank £1.8 million in connection with an arrangement with another company in its parent company group (Company C) for managing finances related to the ATM operations of the bank without appropriate controls around this business process management arrangement. Company C employees improperly transferred a part of these funds over seven years to deal with their own cash flow problems and took steps to conceal their actions, thus putting the financial safety and soundness of the bank at risk (Berry, 2014).

In addition to the regulatory enforcement action described above, a detailed review of the above cases through to final notices of enforcement and organisational response to the same indicates that organisations operating with process inconsistencies and lack of technology integration across the entire organisation have failed to enhance organisational value in the following ways:

- Inability to recover under-reported revenue streams by third parties in the sales and distribution network due to the absence of a consistent (centralised) monitoring of third parties.
- Increased costs arising from poor due diligence and absence of common organisational standards around selection of third parties. These third parties did not operate cost-effectively or were responsible for loss of reputation.
- Inability to gain efficiencies (for instance through technology integration) and opportunity loss arising from the inability to respond to fluctuations in the market forces of demand and supply.

Training and competency development: Finally, the challenges of implementing a common competency development programme in governance and risk management supported by the consistency of training in this area throughout the entire depth and breadth of the decentralised organisation often weakens the

focus on risk management in decentralised environments. As part of the UK Serious Fraud Office (SFOs) co-ordinated global settlement under the UK Bribery Act, a global organisation agreed to a US$ 25m fine for failing to prevent bribery in a Tanzanian subsidiary. The organisation was the lead manager in a large private placement to raise funds from the Tanzanian government. However, the deal was subsequently changed to on-board a local partner to whom compliance processes related to "Know Your Customer" (KYC) were assigned. Unfortunately, the organisation did not have the competency and training on making rigorous enquiries under the KYC rules and accordingly the bribes remained undetected (Jaeger, 2016).

The above empirical evidence thus clearly indicates that third-party governance and risk management is progressively evolving as a crucial organisation-wide matter (Palm, 2015) which cannot be left to the discretion of a divergent group of operational-level personnel in the multiple divisions of an institution that operates with a moderate to a higher level of decentralisation. However, at the same time, the world is getting disruptively complex as a result of multiple drivers such as globalisation, technology advancement and a more demanding stakeholder community, within the overall context of an uncertain and volatile macro-economic environment. In this increasingly complex and uncertain environment, the structure and internal functioning of organisations must be consistent with changing demands, with firms operating in volatile environments typically characterised by loosely integrated operations and decentralised decision making (Rantakari, 2013; Lawrence & Lorsch, 1969). By its very nature, a global organisation invariably faces a number of external challenges that it has to address proactively or reactively within short timeframes and accordingly organisational flexibility becomes a very important strategy for survival and remaining competitive (Alexander & Fennell, 1985; Alexander, 1991).

The challenges (and related questions) that arise from increasing decentralisation impacting the governance and risk management of the outsourcing ecosystem can thus be summarised from the above literature review and additional empirical evidence as follows:

- How can a decentralised organisation implement robust governance structures that addresses diverse market and business unit considerations to manage outsourcing ecosystem risk pervasively through the entire organisation, down to the lowest unit of decentralisation?
- How can the clarity in accountability or ownership of activities for outsourcing ecosystem risk management be enhanced across the decentralised profit centres, each of which is driven by their own profit performance metrics?
- How can the decentralised organisation develop uniform levels of capability in individuals, to whom activity ownership is allocated?
- How can a common level of awareness on outsourcing ecosystem governance and risk be developed across the decentralised units, together with communication and training to have a shared understanding?
- How can consistent processes and technology be integrated across the various business units and divisions, with specific deviations only to accommodate local requirements?

5.3 Addressing the challenges

The following section summarises survey data and feedback from the follow-up interviews to discuss how large global organisations that operate with a higher degree of decentralisation are addressing the above challenges related to the strategic governance of their outsourcing ecosystem. Broadly, these organisations are adopting a three-pronged approach:

- Reviewing the role of the corporate centre, specifically its role in strategy and governance, to ensure that the need for agility to operate with all the attributes of a decentralised organisation discussed earlier in this paper are balanced with the need for consistency to address the threats and challenges that organisations have suffered from.
- Establishing centres of excellence and shared service centres that are directly managed and controlled by the corporate centre, yet operated through innovative organisational models such as “hub and spoke” or “federated structures” that combine best-of-breed elements from the traditional centralised and decentralised structures.

- Enhancing co-ordination between various parties ("three lines of defense") involved in governance and risk management across the entire depth and breadth of the decentralised organisation.

5.3.1 Balancing consistency and agility: reviewing the role of the corporate centre

The survey respondents indicate that one of the foundational actions that large global organisations with higher degrees of decentralisation must take to ensure better governance of the third-party ecosystem is to fine-tune the mechanisms by which the Group Board or other equivalent apex body administers the process of outsourcing ecosystem governance. This includes establishing clarity of accountability on governance and risk management matters between central and local teams at the Board level (in cases where decentralised units are managed by local or subsidiary Boards) or leadership team level that need to permeate down to middle and lower levels of management. In the words of one of the interviewees as a follow-up to the survey:

> "*Our Group has a decentralised Contracts & Procurement function, in that there are teams in various locations globally. There clearly exists an element of confusion over who the relevant line managers are and in some cases only a dotted line back to central team, resulting in less knowledge sharing, too much independence of the team in one location etc., e.g. they take orders from local senior management who do not always comply with group purchasing strategy. Such a structure increases the exposure to third-party related incidents, potentially resulting in disruption to business, reputation damage and regulatory action. We have now initiated a project to have full clarity on who exactly has accountability for doing exactly what at the corporate centre and at the business unit level, which includes the subsequent ratification of anything that the local team has to do to respond to immediate market opportunities or threats.*"

Being able to address key stakeholder requirements not just in the corporate centre but across the various business units is a key requisite for success. As one of the other interviewees responded,

> *"Group leadership does not really understand what the functional heads in the operating entities want and what their performance metrics require them to achieve. I do not think any of these functional heads, including key members of our procurement or IT team have good governance or risk management included in their performance criteria; what they have instead are parameters to indicate whether they are running their respective teams as efficiently as possible and at the lowest cost. If our Group Board took a little more interest in understanding what local functional leadership really want to achieve and what their strategy for doing so actually is, I think that would go a long way in ensuring better governance. Currently Group involvement in local governance and risk management issues is often a bit too little and a bit too late."*

In the words of another respondent to the survey:

> *"We are sometimes told that what we are doing [in the local operating teams] does not adhere to the Group management philosophy, particularly when we have done something that saves a lot of costs for the organisation. If our Group management philosophy is going to be our best kept secret, why keep managing the procurement team by how much money we can save?"*

The findings above are corroborated by a recent McKinsey report (Hall, Huyett, & Koller, 2012) that explains how most corporate centres in global organisations have evolved by simply expanding the capacity of central functions required for single country operation to multiple jurisdictions, as they emerged as global players. However, they soon realised that this became unwieldy and got in the way of getting things done, but more importantly, the agility required to respond to the pace of change in the marketplace. To strike a balance between consistency and agility, many global organisations have now reviewed or are in the process of reviewing the role of the corporate centre with regard to strategy and governance and are reinventing themselves to ensure that the organisation:

- operates with an integrated management philosophy aligned to a corporate strategy articulated by the Board and the C-suite, with related governance mechanisms to address diverse stakeholder expectations across multiple business units and ensure that all compliance requirements are met; while
- continually engaging with the group Board on the one hand and the operating units on the other to refine its strategy (to retain operational agility and competitive advantage); and
- managing performance, while upholding the values in the management philosophy.

To thus summarise, the overall responsibility for establishing a strategy and framework for the governance and risk management of the outsourcing ecosystem of a large global decentralised organisation and aligning it to stakeholder expectations across the entire business should be vested in the corporate centre led by the group Board or central leadership teams (rather than by operating teams at the operating unit or divisional level) and feature consistently on the Board agenda (both at the Group Board level and at the divisional or subsidiary Board level) with high priority. Designated teams from the corporate centre (e.g. centralised risk management and compliance) should continually engage with the operating units to refine this strategy and framework, while reviewing processes at the global and

operational unit level for continuous improvement and to eliminate any duplication or gaps in co-ordination. Further good practices in this area are set out in the sub-section below (5.3.2).

5.3.2 Aligning outsourcing ecosystem governance to the nature and extent of decentralisation

Global organisations have several choices in how they design themselves to achieve their intended balance of consistent centralised control and marketplace agility. In the past, management thinkers have incorrectly assumed that "decentralised" institutions are a rather homogeneous class of large global organisations that are managed through semiautonomous, self-contained divisions responsible for operating decisions; a separate corporate office focusing on strategic decisions; and a corporate staff which performs advisory and auditing functions (Schollhammer, 1971).

However, subsequent research has revealed that three basic choices determine the nature of decentralisation, i.e., what kind of geographic or functional (divisional) independence should the company have (high, overlaid, or low), how extensively should it divisionalize, and how complex a set of coordinative devices (i.e., information systems, review mechanisms, performance evaluation systems, and coordinative groups/roles) should it develop (see Perlmutter, 1969; Pugh, Hickson, Hinings, & Turner, 1969; Schollhammer, 1971; Lorsch & Allen, 1973). This is summarised in Figure-12 below published by Deloitte (2016). One of the authors of this paper designed this summarised depiction of the varying organisational forms under the guidance of the other co-authors for inclusion in the above publication where he is also one of the authors.

The data gathered from the survey, together with the related follow-on interviews, indicate that the mechanisms of governance and risk management that should be put in place for controlled operational agility should recognise and align with these drivers in every decentralised organisation. For instance, an organisation with a high extent of decentralisation and a high degree of divisional independence but rudimentary coordinative devices may require a higher investment in staff responsible for outsourcing ecosystem governance and risk management functions at the divisional level who report up to a central team with final accountability to the Group Board, while those organisations with more sophisticated

coordinative elements should leverage the organisational investment in these elements to operate primarily with a central team with limited representation in the business units (see Figure-12 below).

At one end of this scale of choices are organisations which operate through a greater degree of command and control with direct (solid line) reporting relationships with their operating units, fewer levels between the leaders in the corporate centre and operating unit executives and formal task descriptions with authority specifications.

At the other end of this scale, are those organisations that operate with decentralisation following the "spirit" rather than the "letter of the law" with greater operational flexibility, taller organisation structures between the corporate centre and operating units and a combination of direct (solid line), indirect (grey line) and coordinating (dotted line) relationships with varying levels of clarity.

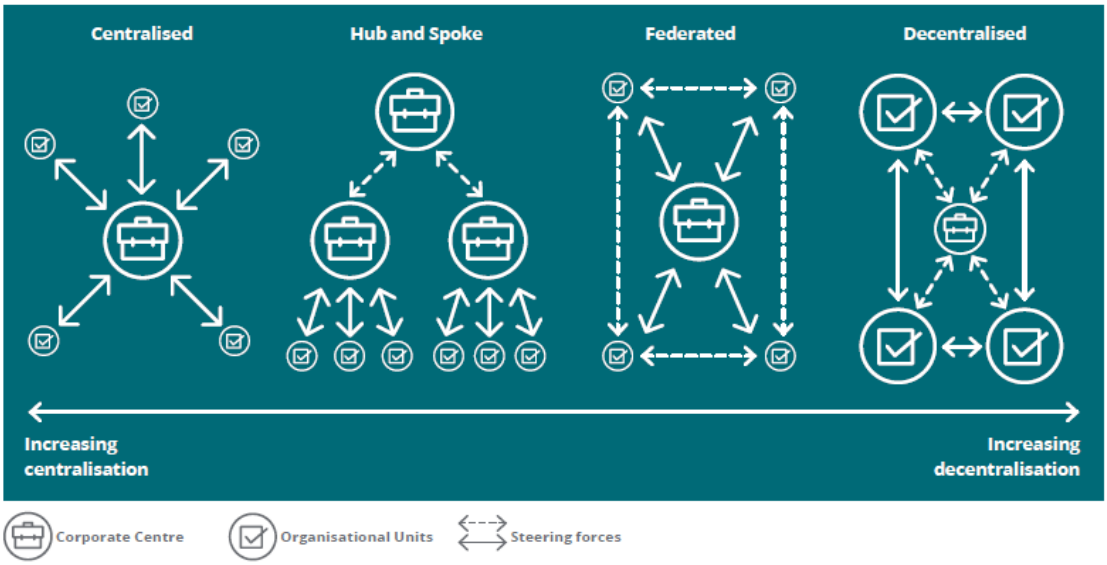
Federated structures, which have become increasingly popular over the last decade in larger organisations, represent a hybrid form that combines characteristics of centralised and decentralised organisations and operates somewhere in the middle of this scale (see Williams & Karahanna, 2013). Such structures can combine the benefits of centralised planning, standardisation and economies of scale with local leadership and flexibility. This, in turn, enables the organisation to remain agile and competitive in the marketplace.

Further, even within the same organisation, different functions could be designed to operate with varying degrees of decentralisation. For instance, an organisation could choose to centralize the decision-making around its IT infrastructure services to maximise the benefits of standardisation and economies of scale, while IT solutions delivery, including relationship management and application development, could mirror the reporting structure of its decentralised businesses. The same organisation could choose to adopt a different approach for its HR or procurement services.

The hub and spoke model is another example of a hybridised approach to a fundamentally more centralised structure that was pioneered by the transportation industry, but the lessons learnt have been applied by most other industries. Although this model could have a number of variants, the fundamental

principle is that the corporate centre redistributes its powers to operate through regional "hubs" that steer the relevant organisational units within its purview (Minculete & Olar, 2014).

Figure-12: Varying Degrees of Decentralisation



(Source: Deloitte, 2016)

Centres of Excellence for Outsourcing Ecosystem Governance: The results of the survey indicate that progressive global organisations are increasingly looking to create Centres of Excellence (CoEs) that are based on the above "hub and spoke model", nurture specialised skills and expertise for being leveraged by all their operating units, while encouraging collaboration to facilitate innovation and continuous improvement.

The survey further revealed that CoEs to address outsourcing ecosystem governance and risk management activities that require specialised skill-sets for the benefit of the entire organisation could cover activities including:

- on-going risk assessments
- third-party monitoring activities and co-ordination
- tracking remediation activities and on-going monitoring requirements
- filing of contracts and amendments
- archiving evidence related to third-party management

- implementation of third-party contract termination plans.

Additionally, the concept of establishing shared services is being explored by several survey respondents for some of the more routine control activities including validation of transaction-level activities with third parties.

5.3.3 Enhancing co-ordination between the "three lines of defense" in the organisation

As outsourcing ecosystem governance evolves as an overarching strategic issue which aligned to business strategy and operations and drills down to the decentralised business units, it is natural that people at various levels, functional areas and stakeholders will have a role to play.

The concept of the Three Lines of Defence (Seago, 2015) distinguishes between three groups of such players as indicated in Figure-13.

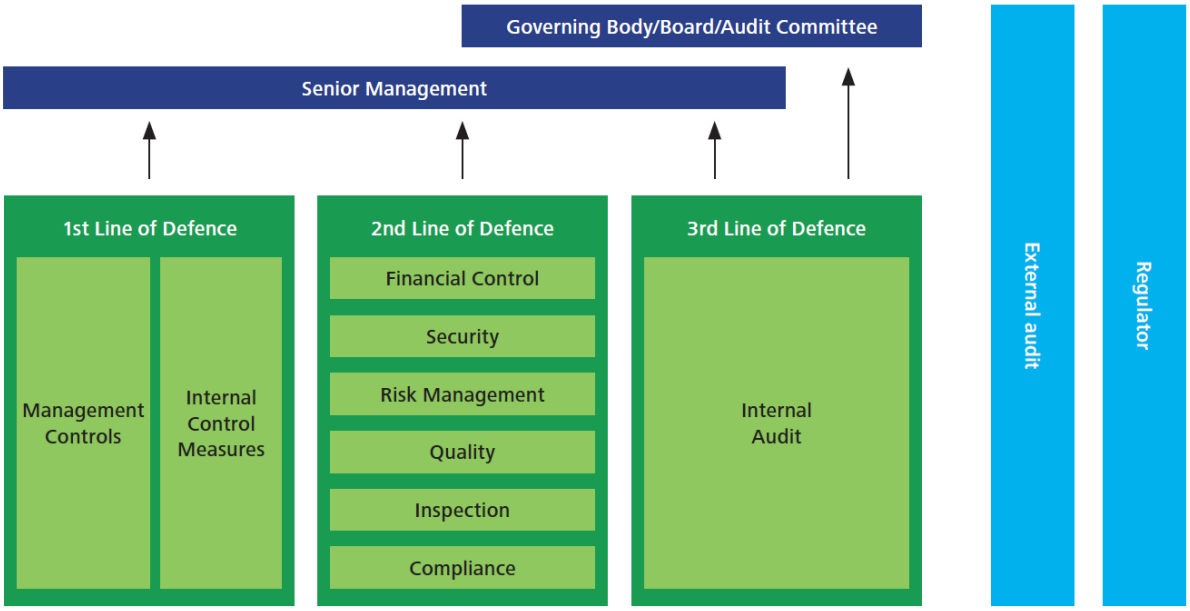
- **First line of defence**: represents functions that own, manage and take corrective action for risks in their respective functional areas. They typically report to operating management, who in turn report up to executive leadership and are supervised by the Board.
- **Second line of defence**: represents functions that oversee and guide common risk management processes as a common organisational function, such as risk management or compliance or even the office of the Chief Financial Officer (CFO) and financial controllers. Once again, they report to the executive leadership and the Board.
- **Third line of defence:** provides independent assurance on risk management, typically represented by Internal Audit functions and teams, reporting typically to an independent Audit Committee.

In a decentralised organisation, each of these players brings a unique set of perspectives and skill-sets to risk management and governance which can be an invaluable asset to every business, provided they are orchestrated to ensure that:

- there is complete clarity on who does what in the area of risk management
- there are neither overlaps nor underlaps in who does what, in the context of the bigger picture

- limited risk management resources are deployed effectively across the organisation to address the most significant areas of concern and opportunity across the business.

Figure-13: The Three Lines of Defense



Adapted from EDIIA/FERMA Guidance on the 8th EU Company Law Directive, article 41

Data gathered from the survey and subsequent follow-up interviews indicate that it is likely that in most global organisations it is only the first line of defence (related to the operating management in the more decentralised units) that would have their reporting lines distributed across separate lines to the leadership of these decentralised units.

The second and third lines of defence would typically continue to operate with a high degree of centralisation, reporting to the strategy and governance-related functions at the corporate centre.

The challenge from an outsourcing ecosystem governance perspective is therefore two-fold:

- establishing a consistent rigour, supported by common standards and working practices related to risk and control assessments and any remediation activity across members of the first lines of defence who report to a diverse set of leaders in the decentralised operating units; and

- ensuring that the benefits of centralised functions related to the second and third lines of defence extend to the entire group organisation, covering all the decentralised units, rather than being the organisation's "best kept secret".

Coordination and knowledge/information-sharing across the Lines of Defence, enabled through common technology and a "risk data warehouse", appears to be a key element required to address these challenges:

- Establishing consistent standards and working practices: Common organisational functions representing the second line of defence, such as centralised risk and compliance teams, in coordination with the central procurement, supply chain management, sales and marketing management etc., should collaborate with leaders of the decentralised operating units to establish the quality standards and working practices to be followed by the first line in carrying out their responsibilities and continually refine the governance and risk management framework based on this iterative experience.
- Focused responsibility in risk management and controls in the first line: Persons charged with risk and control-related functions in the first line of defence should be given focused responsibility in this area, clearly identified and distinguished from transaction processing responsibilities, particularly in high risk areas. This, in turn, should be supported by relevant training, incorporating the quality standards and the working practices mentioned above, together with hand-holding them in discharging their functions. Members of the second line of defence should play a key role in supporting the first line, including the development of training materials, templates and tools and establishing a group-wide outsourcing governance system.
- Embedding second line representatives in the first line: Specific representatives from the second line of defence should consider co-locating or embedding themselves in various first line functions to provide on-going guidance and to identify opportunities for continuous improvement, while continuing to enhance their own specialist expertise. This would enable them to implement critical tasks that have group-wide implications consistently across the

decentralised units, for instance, risk-segmenting third parties, establishing third-party governance related policies and monitoring compliance.

- Better audit planning for the third line: With increasing decentralisation and geographic diversification, it is increasingly being observed that the third line of defence continually feels under-resourced in their ability to carry out on-site reviews of risk and controls across all locations of the diverse decentralised organisation. They should therefore increasingly leverage the power of analysing data obtained upfront from the decentralised units to be able to assess risks more meaningfully and focus their resources on the more critical areas.

6. DISCUSSION

<u>Section Summary</u>: This section sets out a holistic summary across all the research areas/questions on an integrated basis and presents a thorough reflection on the outcomes of the study. The findings are discussed in the context of both:

- *theoretical framework: e.g., how do these findings contribute to the existing body of knowledge e.g. extending DC theory or how do they contrast/confirm/extend what was expected from theory and prior research/literature review?*
- *managerial context: e.g., how do these findings alter organisational leadership's perceptions and actions with regard to developing dynamic risk management capabilities for innovative outsourcing; understanding what the peer group is doing with regard to addressing execution gaps in strategic governance and risk management of outsourcing etc. In other words, how do the findings contribute to current professional practice?*

The motivation for this research arose from the engagement of the researcher with senior executives from FTSE 500 organisations in the UK during 2013-14 who had expressed their concerns around the growth and complexity of their outsourcing ecosystem, given that many of these organisations were managing anything between 20,000 – 50,000 outsourcing contracts at that time, ranging from providers of IT and business process outsourcing services that included operating their core and support functions, sales and distribution functions etc. to their core supply chain (for manufacturing and trading companies). Many of these FTSE 500 organisations had also established their own subsidiary companies in lower-lost locations such as India and the Philippines to offshore their IT and business processes, which were also considered to be an extension of "outsourcing" in the eyes of the industry regulator, given that these subsidiaries were managed by their own local management teams. These executives felt that experience was lacking in managing IT and BPO vendors with an ecosystem perspective, particularly when compared to traditional supply-chain management, where organisational expertise had been developed over the past several years. Having said that, these executives wanted to eventually extend their third-party governance and risk management framework to cover all third parties, including their supply chain, subsidiary companies and even joint venture partners and affiliate organisations to common standards as required by industry regulators. To establish a business case for investment in third-party governance and risk management, these organisations were keen to demonstrate a realisation of benefits from their investment by exploiting the upside of such risk management in addition to "preventing bad things happening". At the same

time, they had realised that this would not be possible unless significant transformational changes were implemented within their organisations and relevant capability had been developed.

Given the increasing proportion of work in a global organisation that was being handled by third parties with high to critical level of dependency on them (even up to 85-90% in some instances where, according to participants of the above roundtable, these organisations had chosen outsourcing as a core strategic choice to remain agile and responsive to market needs in a cost-effective way), it was evident to the researcher that this would hold significant implications for the way in which organisational leadership, procurement and vendor management teams, finance teams, risk management and internal audit groups and even industry regulators contributed to governing and risk-managing these third-party relationships.

A review of prior research in strategic governance and risk management of the outsourcing (third-party) ecosystem, also known as the "extended enterprise", revealed that such research is only just about starting to emerge in academic literature from an ecosystem perspective, mostly as an offshoot of studies related to supply-chain management. However, most of the larger global consulting and business advisory firms had already published their thought-ware on this emerging subject and it appeared that academia was lagging behind. Recent developments in overall governance and risk management literature, particularly around the changing perception of risk and governance and development of the related capabilities to increase governance and risk management maturity specifically related to the context of the emerging concept of the third-party or outsourcing ecosystem seem however to be relevant in providing a contemporary context to strategic governance of the outsourcing ecosystem.

The literature review that followed sought to explore how risks, traditionally seen as "bad things happening" was increasingly being seen as a source of strategic opportunities for business, as a result of which the focus of governance and risk management was also shifting to "creating inimitable sources of value and competitive advantage" in addition to proactively preserving value and safeguarding business organisations from newer threats such as strategic risks (which impair achievement of strategic objectives), reputational damage and regulatory breach – once again a

significant shift in focus from the traditional myopic emphasis on managing financial risks reactively. The overall state of this literature was then related in detail (Appendix-A) to the research questions to derive the areas for empirical investigation.

The problematisation approach encouraged the researcher to extract the research questions from gap-analysis in the existing literature (Locke & Golden-Biddle, 1997; Alvesson & Sandberg, 2011). There is no prevalent academic literature surrounding strategic governance related to the outsourcing ecosystem, so this opens up an opportunity to contribute something novel to these related research fields in light of the emergent issues identified in the literature review.

Such problematisation of reality (Locke & Golden-Biddle, 1997; Alvesson & Sandberg, 2011) promoted flexibility of research in examining the related phenomena. This, in turn, positioned the researcher to discover problems or findings that may not have been initially considered. The epistemological stance adopted therefore promoted a combination of an inductive and deductive approach to answering research questions which this research pursues through a mixed methods approach in order to provide a full and rigorous exploration of the issues defined in the literature review, with the required depth (e.g. semi-structured interviews) and breadth (e.g. large-scale survey to inform and support the semi-structured interviews and the resulting in-depth findings and analysis).

The nature of this work was explorative across multiple disciplines including strategy, operations, finance and risk management, legal and compliance etc. as indicated at the outset of this thesis. The researcher aimed to learn about these experiences as opposed to empirically testing them. The researcher was also motivated by a desire to reflect the complexity of the constructs outlined in the literature review and how these phenomena interacted with each other to form the reality of strategic governance together with understanding of the related processes and good practices it entailed. It was therefore clear that there were a number of influences on this work (presented in the literature review) which reflected ‘messy’ (Parkhe, 1993), complex and real life research. This enabled objective measures identified through the large-scale survey to be used in this research. However, these were

used to further the intention of exploration and to validate the fundamental goalposts envisaged in the interpretive analysis rather than testing or comparing populations.

This set the stage for exploring the emerging change in mind-set and business practices around risk management and governance in large global organisations that were outsourcing IT and business processes to a progressively larger number of vendors (including some positioned as strategic business partners) forming their "outsourcing ecosystem" or "extended enterprise". The vast majority of these organisations considered this change to be highly strategic in nature, i.e. where specific responsibilities and behaviours led to the successful implementation of the organisational strategy.

The study was split into two parts. The first part of the study attempted to gain an understanding of *how* and *why* such large global organisations were broadening their perspective and maturity over governance and risk-management around their outsourcing ecosystem, and the organisational capabilities that needed to be developed to emerge as the astute decision-makers in this regard, using primary research-based industry case studies:

RQ1: ***Why*** *and* ***how*** *are large global organisations (that operate with a significant level of dependence on their outsourcing ecosystem) broadening their perspective and maturity of risk-management and repositioning their governance and risk-management processes around their outsourcing ecosystem (comprising multiple vendors and providers) to more strategic levels (for competitive advantage and value-creation)?*

RQ2: *How can a classical management theory like DC theory that started to evolve in the 1980s and 1990s be extended to aid in understanding the development of the related capabilities for such repositioning of governance and risk management around outsourcing?*

These two questions were intended to define, clarify and explain the context of the overall research, drawing together pertinent themes from the literature relevant to risk management and governance around outsourcing. Findings related to these two RQs are based on the analysis of qualitative and quantitative primary data captured through a survey and followed-up through semi-structured interviews, concluding with the industry-specific case studies demonstrating this transformation. This,

in turn, is supported by a 2 x 2 framework to analyse current organisational positioning and a projected trajectory to move forward with the aspiration to emerge as the astute decision-makers. The second question, in particular, highlights the opportunity to extend an established theory such as DC to explore the complexities of third-party relationships, given the constant change at all levels of the internal and external environment of the organisation described in Section 2 of this thesis.

The second part of the study focused primarily on the implementation experience of this strategic transformation initiative in large global organisations. It once again used primary data based on the survey and follow-up interviews, but this time to capture the overall progress made in achieving this transformation, together with the related implementation challenges, and evolving good-practice to address these challenges to be able to exploit the full spectrum of opportunity that the outsourcing ecosystem presents:

RQ3: *How are organisations making progress in repositioning their governance and risk management of their outsourcing ecosystem to more strategic levels, particularly the key challenge(s) experienced by organisations so far?*

RQ4: *How are these organisations overcoming the implementation challenges?*

The findings in response to RQ3 indicated a widening "execution gap" caused by leadership intent failing to achieve intended consequences. This gap related to people, processes and technologies underpinning the transition to strategic governance. Aligned to these findings, addressing RQ4 enabled the showcasing of how organisations were overcoming the implementation challenges, particularly the execution gap between strategy and execution identified above, together with capturing and summarizing the related good practices evolving.

The how and why of adopting a strategic governance and risk management approach to outsourcing ecosystems

Review of existing literature depicted the evolving multi-disciplinary perspective on strategic governance in the context of the outsourcing ecosystem across four key themes. First, it demonstrated *the changing perceptions of risk* over time towards recognizing the strategic nature of risk as an enabler

for value-creation, not just "bad things happening" (Funston & Wagner, 2010; Slywotzky & Drzik, 2005), and dealing with uncertainty (Samson, Reneke, & Wiecek, 2009; Carbonara & Caiazza, 2010; Marczyk, 2009; Elahi, 2013). This also included the recognition of the more strategic types of risk, in addition to traditional financial or compliance-related risks (McConnell, 2013; Weitzner & Peridis, 2011). Second, prior research reconfirmed that a *strategic repositioning of governance was taking place*, which was being driven by a closer alignment to (strategic and other) risks and integrated as a top-down Board-driven activity. Third, *emerging enablers for strategic governance* involve recognizing the increasing role of the Board in governance (McNulty, Zattoni & Douglas, 2013) and regulation as strategic enablers in this evolution. Lastly, *strategic governance and risk management mechanisms* were increasingly being applied from an outsourcing ecosystem perspective, rather than in the context of individual outsourcing contracts. Pursuit of organisational value and sustainable competitive advantage through a longer-term strategic focus on areas such as innovation, growth and scarce skills is continually driving organisations to evolve outsourcing strategies across their multiple third-party relationships. These strategies went far beyond merely fulfilling short-term objectives, such as immediate cost-savings, which cannot offer sustained competitive advantage or value, given their imitability (Porter, 1985; Porter, 1990). As a result, organisations were increasingly finding themselves as operating within an ecosystem of third parties as a fundamental means to transform them in the way they organize themselves to compete globally (Lewin & Peeters, 2006).

The literature review and empirical experience from the survey, enabled the **summarisation of four key operational implications** of organisations that demonstrate a *higher breadth of risk perception*:

- A stronger focus on aligning strategic decision-making around outsourcing to related risks by considering opportunities for value-creation that accompany these risks, while taking steps to mitigate the negative impact. This is in contrast to organisations with a lower breadth of risk perception that primarily focus on just avoiding "bad things happening" such as breach of data privacy or business interruption caused by the provider of outsourcing services.
- To be able to do so, these organisations established a holistic view of risks and compared that with the overall risk-taking capacity of the business to articulate clearly the leadership appetite for taking risks by outsourcing processes that created higher value for the organisation through

specialised technical knowledge or "best of breed" processes. This, in turn, also enabled them to ensure that the returns were commensurate with the risks taken.

- Having established this position, these organisations then established actionable data points to monitor performance, using analytical and predictive tools and technology.
- All these strategic activities were possible only with a top-level independent risk management function that works with the Board through all the stages of the outsourcing process, rather than an extension of existing compliance functions.

The research however indicated that progress in implementing this concept of leveraging risk for strategic benefit has generally been slow as risk management leaders have struggled to overcome the complexities of embedding the mechanisms mentioned above in their business, except where triggered by drivers such as regulatory action (e.g., in the FS industry) or extremely high levels of uncertainty and disruptive change (e.g., in HLS businesses). This, in turn, has established a continuum along which different businesses can be positioned from a narrower to a broader perception of risk.

Similarly, the literature review and empirical evidence from the survey indicated that organisations with a higher level of maturity were better able to align organisational behaviours, structures, processes and infrastructures to the changing spectrum of business risk to reliably and sustainably achieve a higher standard of risk management. Specifically, the following key attributes of organisations were identified that have been able to acquire a higher level of maturity or proficiency in enhancing their governance and risk management mechanisms over outsourcing:

- Governance and risk management was a Board-led initiative, which was enabled by institutionalised policies, processes and supporting infrastructure (including tools and technologies) throughout the organisation.
- Roles/responsibilities for outsourcing risk management were defined throughout the entire depth and breadth of the organisation, with a clear focus on risk training and competency development, supported by knowledge sharing on risks across various outsourcing projects.

These attributes enabled the organisation to establish a consistently disciplined process of decision-making and communication regarding outsourcing risks. Based on the breadth of risk perception and

maturity of governance processes, the researcher mapped the research organisations by industry segment to a two-by-two grid. This grid or framework can be used by organisations to understand their current positioning, as a first step towards developing plans for reinventing themselves as Astute Entrepreneurs who are able to maximize the opportunities while managing the risks with various outsourcing-related management initiatives.

Astute Entrepreneurs: The "best in class" organisations are clearly those that have a broad perception of risk, considering risk as an enabler of value rather than just "bad things happening". These organisations are mature in terms of implementation of top-down outsourcing governance, led by the Board. Such organisations are the best positioned to maximize the opportunities arising from outsourcing and innovate in outsourcing (Oshri, Kotlarsky, & Gerbasi, 2015). They are likely to outsource higher value processes (e.g., combining new technology such as the cloud or social media, leveraging industry with functional knowledge to reinvent processes), while managing a greater level of risks in a dynamic, agile and innovate way in their pursuit of business value. Based on the survey results, it appears that at present the representative organisations in the FS industry fall into this category.

Diametrically opposite to them are the organisations that continue to have a narrower perception of risk and have also not implemented, or matured in their implementation of governance mechanisms and practices. Such organisations are likely to face the greatest potential challenges to erosion of organisational value and are lucky to be surviving into the future. Accordingly, they can be classed as the *Lucky Survivors*. For such organisations, it is likely that any outsourcing initiatives are focused on lower value generating and less risky activities (e.g., basic transaction processing or accounting) and they may still face several threats and hazards in these limited pursuits of organisational value. Based on the survey results, it appears that at present the representative organisations in the BAPS industry fall into this category. Public Sector organisations were in this category in the past, and over the years they have evolved towards more mature governance processes.

Organisations that have a broader perception of risk are likely to aspire to greater organisational value without the requisite evolution in governance mechanisms to give them the required control and are likely to be unable to manage the various threats they face as they embark on outsourcing. They can be

called the *Great Gamblers*. The broader perception of risks in such organisations leads to greater risk-taking, typically by outsourcing critical and high value processes (e.g., supporting key managerial decisions such as advanced analytics or customer-facing processes) but without appropriate risk mitigation cover. Based on the survey results, it appears that at present the representative organisations in the HLS industry fall into this category. Financial Service organisations were in this category in the past but improved their governance processes and evolved into Astute Entrepreneurs.

Finally, *Perpetual Losers* are organisations that have limited perceptions of risk despite maturing in governance mechanisms, and practices are perpetually facing significant opportunity loss, leading eventually to threats of value erosion and survival challenges**.** In such organisations inability to perceive risks as a source of organisational value typically leads to significant opportunity loss in outsourcing by focusing on less critical or lower value processes (e.g., fundamental accounting processes) despite significant investment in risk mitigation. Based on the survey results, it appears that at present the representative organisations in the PS industry segment fall into this category.

A consistent path to excellence is evident as organisations in the four industry sectors aspire to evolve over time as Astute Entrepreneurs, who are the best positioned to leverage strategic governance around their outsourcing activities and beyond. The figure illustrates how each of the four industry sectors evolved over time, from post-financial crisis to their current positioning, and their future aspirations.

Specifically, the framework motivates organisations to answer two key questions. First, "Where are you today?" to assess where they are currently positioned in terms of maturity of strategic governance over outsourcing vis-à-vis their breadth of risk perception which drives their appetite to take higher risks. Second, "Which way should you be going next?" to determine a possible trajectory going forward to be able not just to manage risks but also fully exploit the opportunities that outsourcing can create. As illustrated by the exemplar case studies of four industries, there are different paths that organisations can pursue (e.g., horizontal, vertical or diagonal) in their attempt to develop into Astute Entrepreneurs, depending on their current positioning. For example, Perpetual Losers need to invest in broadening their risk perception, while Great Gamblers need to ensure that strategic governance is driven by the Board and seen as an institutional rather than project-level activity. Lucky Survivors, on the other hand, need

to develop both aspects, and this is more likely to be successful if made gradually – from engaging the Board, towards broadening risk perception.

Alignment to the dynamic capabilities theory

Review of literature related to the DC theory revealed how this theory emphasizes the flexibility and adaptability of organisations and their efforts to act strategically, embrace newer opportunities, and even shape the business environment (O'Reilly & Tushman, 2008; Teece, 2014). In Section 4 of this thesis, key principles from the DC theory were discussed and related to developing the two specific capabilities around risk management to transition to more strategic forms of governance and risk management of the outsourcing ecosystem and subsequently define the two axes of the 2x2 framework: (a) a broader perception of risk in outsourcing that continually recognizes the opportunities that these risks present in addition to the threats and hazards; and (b) mature risk-management mechanisms that enable organisations to mitigate the risks while maximizing the business opportunity from outsourcing.

The research revealed how both these new capabilities required the organisation to act strategically and with flexibility and adaptability in order to innovatively embrace the new opportunities by graduating from an ordinary capabilities mind-set to a DC mind-set. Similar to the difference between traditional forms of governance and risk management of outsourcing contracts to the more recent strategic approach to the governance and risk management of the outsourcing ecosystem, ordinary capabilities are about being efficient while dynamic capabilities are about learning and improving and about being innovative. The research revealed how strong DCs were therefore vital for firms facing dynamic competition and, possibly, significant disruption from competitive behaviour (Sidak & Teece, 2009). The other area of alignment of the proposed strategic governance and risk management framework to DC theory was observed to be the dual focus on recognizing threats along with the opportunities presented by its dynamic and competitive business environment (Teece, 2016). Thirdly, prior researchers in DC, such as Teece (2016), have defined innovation in general terms as creative ideas related to the generation and delivery of products or services that are new to the world or just new in a given context. These creative ideas can either:

- extend existing activities in some way (improved risk management processes, proactively "sensing" risks in the business environment, using emerging technologies to process real time data such as cloud, predictive analytics, visualisation of risks etc.) i.e. "*routinised innovation*"; and
- be completely new and create a new market and revenue streams, satisfy a previously unrecognised customer need or develop and commercialize a new approach to technology, i.e. "*independent innovation"*) (Baumol, 2002).

The research reconfirms that how well a firm fosters both types of innovation (in this thesis, through outsourcing) to simultaneously seek competitive advance, based on the strength of its dynamic capabilities (Beske, Land, & Seuring, 2014; Chen, Paulraj & Lado, 2004; Teece & Pisano, 1994; Teece, 2007). The earlier examples of innovative outsourcing, as well as the multi-industry perspectives in section 7, demonstrated this concurrence in practice. Finally**,** both the literature review and empirical research reflected similar views on ownership and accountability for implementing DCs in an organisation compared to establishing risk-management mechanisms for outsourcing, which once again establishes a common foundation in relating the two. Although led by Boards and organisational leadership, the ownership and accountability for developing and leveraging dynamic capabilities in an organisation resides, in part, with individual managers and the top management team (Adner & Helfat, 2003). The ability of board members and the top management team to have continued macro- and micro-level insight is important to reallocating resources to lead the firm forward. Teece (2016) is of the view that this is likely to be the most visible feature of the firm's DCs. To summarise, the table in section 6.2 aligned DC criteria proposed by Teece (2016) to the two axes of the framework and proposed extending the DC literature to develop specific risk-management capabilities forming the core focus of this thesis.

Going forward in an environment of environmental uncertainty and volatility, unconventional thinking capabilities of large global organisations that operate with a large ecosystem of third parties will continue to be of paramount importance. This is because the gains from running efficiently with rigid operating procedures can easily be negated if an unexpected scenario suddenly emerges. Strong

dynamic capabilities have an entrepreneurial and an "asset orchestration" dimension. They enable companies to do a better job of responding to (and shaping) unknown futures (e.g. the impact of new regulation such as GDPR in Europe or disruptive impact of new technologies including advanced cyber-threats in the more connected organisations) impacting interactions with their third-party ecosystem. For instance, if a firm has a good early warning system (i.e., can "sense" developments in the business environment quickly), it can have more time to respond to positive and negative shocks. Sensing capabilities more generally exercise the cognitive skills associated with sensing and sense-making that can benefit any organisation. Similarly, an organisation with strong seizing and transformation capabilities will be more resilient when shocks require rapid alignment or expansion. A culture of continuous renewal keeps organisations supple and responsive. The alternative is pursuing efficiency in the face of surprising and consequential events when it is a distraction from what the organisation should be doing (Teece, Peteraf, & Leih, 2016).

Implementation issues in transitioning to the new strategic governance and risk management framework

This part of the thesis showcased how future growth in outsourcing of IT and business processes will increasingly be driven through a longer-term strategic focus on value drivers such as innovation, growth and scarce skills for sustainable competitive advantage. In exploiting the opportunity this creates across multiple outsourcing engagements, organisations are increasingly finding themselves operating within an outsourcing ecosystem, comprised of multiple third parties, as a fundamental means to transform themselves in the way in which they organize themselves to compete globally. This transformation supports the call for strategically repositioning governance and risk management over the outsourcing ecosystem holistically at the Board and C-suite level to manage the new sets of risks that accompany the opportunities. In this context, current and emerging risk management and governance practices related to the outsourcing ecosystem were investigated through a survey conducted in collaboration with one of the global top tier consulting firms.

The survey reconfirmed the emergence of outsourcing value-drivers such as organisational agility, flexibility, scalability, innovation and process-improvement through the implementation of best

practices, reflecting organisational recognition of the strategic opportunity that the outsourcing ecosystem can create for them. Survey results demonstrate how this pursuit of value increases the criticality of the processes being outsourced across the outsourcing ecosystem, together with the growing dependence on the related providers, thus enhancing the severity of consequences on disruption or failure including reputational damage, erosion in shareholder wealth through a fall in share prices and regulatory enforcement including substantial penalties. The reality of this threat is established by a substantial majority of survey respondents facing a disruptive incident in the last 2-3 years with around a quarter of them facing major disruption. These changes are taking place at a time when risk management is increasingly being perceived to have a dual focus of value preservation (preventing "bad things happening") as well as value-creation (exploiting the opportunities that risks accompany).

However, against this backdrop, less than one in ten respondents had integrated or optimised their risk management systems related to the outsourcing ecosystem a year ago or earlier. However, these organisations were now being compelled to rapidly "catch-up" in taking a holistic and proactive approach to outsourcing risk, with more than seven in ten respondents expecting to be able to integrate and optimize their risk management system in the near future (a year or more ahead), with some aspiring to be "best-in-class". The survey reveals that the key challenge that organisations are facing in this journey is a disparity between strategic intent and ability, or in other words, an emerging "execution gap". This gap is the result of organisational commitment to risk management and governance over the outsourcing ecosystem not being supported by the ability of the related operational enablers including technology and processes to achieve intended results. The gap is potentially widened through increasing degrees of organisational decentralisation with over three-quarters of respondent organisations having a partial through to a high degree of decentralisation, presenting a potential challenge to a holistic and unified approach to outsourcing/third-party risk management that more centralised structures would have enabled, particularly when organisations are seeking to bring in consistency in the manner in which they establish uniform processes and technology for collectively managing their outsourcing relationships.

The concept of the strategy execution gap is not new to Strategic Management and has been researched in the past. The results of the survey reconfirms that organisational experience is very similar in the context of strategic governance of the outsourcing ecosystem in that the real strategic challenge is not the absence of a strategic vision or stakeholder buy-in but in the implementation of the strategy (Lepsinger, 2006; Minter, 2011). More recently, following the completion of the fieldwork for this thesis, Leinwand & Mainardi, (2016) found that found that high-performance organisations that were able to manage their execution gap spent nearly 20% more time (compared to low-performing teams) defining strategy (i.e., translating a high-level vision into clear actionable goals). These organisations also spent 12% more time aligning the organisation around that strategy through frequent internal communications and driving a consistent message downward into the organisation. Having done that, high-performing teams spend over 25% more time focusing the enterprise than their lower-performing peers. That time is spent establishing financial and operational metrics, aligning goals with overarching strategy, allocating resources, and reviewing key metrics. These high-performing teams also spend 14% more time checking their progress against strategic goals by reviewing key metrics and shifting resources accordingly. Senior leadership of these more successful senior teams create a permeable membrane between the organisation's mission and its day-to-day activities. They are also agile in course-correcting when the needs of the business change, and are more easily prepared to shift organisational resources to ensure that the strategy is executed (Wiita & Leonard, 2017). Apart from the factors identified in section 6.3.1 as contributing to the execution gap, many of the research informants indicated that due to changes in the business and macro-economic environment (including regulatory pressure), each organisation will need to establish what it considers to be its desired optimum state for governance and risk management of its third-party ecosystem, making it a moving target, with many organisations continuing to "catch-up" with the emerging set of strategic opportunities and related risks that third-parties continue to present. This includes, for instance, a broader set of support services delivered innovatively in a rapidly-changing external environment; a growing number of alliance and joint venture partners and an increasing proportion of third-parties in newer areas beyond the traditional focus on the direct supply chain (suppliers and vendors); and the increasing use of new technology (such as the cloud and cloud-based

applications) that facilitate collaboration and enable businesses to enhance their virtual boundaries will further accelerate this trend. It should also be noted that as good practice continues to evolve, the related goalposts are shifting too; hence in reality those that stand still are actually sliding backwards on the maturity curve.

The first step in achieving these actions is to escalate the accountability for outsourcing ecosystem governance to Board and C-suite levels. This would prioritize and enable the execution gap to be addressed with greater authority and commitment of resources for establishing the relevant management systems including processes, tools and technologies and monitoring mechanisms. It is encouraging to see this starting to happen with the Board or CEO responsible for outsourcing ecosystem governance in nearly half of the respondent organisations. Responsibility vested at organisational levels that are higher than individual functional levels also facilitates functional stakeholder buy-in and ensures consistency and mutually-supportive actions, one of the potential challenges created through increasing decentralisation of business units and underlying causes of the execution gap.

With a view to clarifying the strategic expectations in greater level of detail to the third-party providers in the ecosystem, the vast majority of respondent organisations were mandating common risk management standards to be followed by all their providers to ensure a consistent approach across business units. These respondents believed that this would go a long way in establishing a baseline for the enabling management systems, consistently across organisational levels and functions. With organisational confidence being low in the supporting technology and processes around governance of the outsourcing ecosystem, consistent risk management standards would also enable multiple methods of obtaining assurance to co-exist and followed by organisational risk management teams, based on a judicious mix of efficiency and effectiveness, aligned to organisational circumstances and budgets. The survey reveals that most of the assurance activity is based on internal controls reviews rather than analysis of the underlying data related to the activities of third-party providers in the outsourcing ecosystem. One of the reasons for this is clearly the lower confidence in organisational technology that would produce this data. In line with the research recommendations of Murray & Mohamed

(2015) with regard to the strategy-execution gap in general, governance of the outsourcing ecosystem must also increasingly involve the use of predictive rather than lagging indicators in the assurance process, given the growing ability of contemporary businesses to manipulate organisational data more effectively and meaningfully than in the past.

Whilst the survey establishes a clear need to increase monitoring and assurance activities over third parties in the outsourcing ecosystem, pre-contract activities such as clarity of business case, due diligence and disciplined contracting would also go a long way in addressing the execution gap with regard to the outsourcing ecosystem. To ensure appropriate focus and rigor related to outsourcing risk management and governance, almost six in ten respondents are establishing in-house centres of excellence while around three in ten respondents are still undecided on their future course of action in this regard. The concept of the centre of excellence reinforces organisational commitment to this important issue and enables consistent support at the execution level.

Addressing the Execution Gap in Governance and Risk Management of the Outsourcing Ecosystem

As indicated above, the survey results revealed that the key challenge that organisations were facing in their transformational journey to strategic governance of the outsourcing ecosystem was a disparity between strategic intent and ability, or in other words, an emerging "execution gap". This gap was the result of organisational commitment to risk management and governance over the outsourcing ecosystem not being supported by the ability of the related operational enablers including technology and processes to achieve intended results. Strategy researchers such as Lepsinger, 2006: p. 56 advocate that organisations should close this gap before the same broadens and becomes a "chasm" by addressing three key factors, which he refers to as the "Tripping Point Trio":

- Clarifying the strategy in greater level of detail by articulating what would be operationally required to implement that strategy and the priorities for action.
- Ensuring that the appropriate management systems are in place that would enable and support the achievement of the strategy.

- Confirming, through periodic senior management review and monitoring that the actions required for achieving the strategy mutually support each other across various organisational levels and functions rather than conflict each other.

The empirical research revealed that increasing decentralisation in large global organisations was the biggest cause of this widening execution gap, typically characterised by what prior research had referred to as "loosely integrated operations and decentralised decision making" (Rantakari, 2013; Lawrence & Lorsch, 1969). To address these challenges, broadly these organisations were adopting a three-pronged approach:

- Reviewing the role of the corporate centre, specifically its role in strategy and governance, to ensure that the need for agility to operate with all the attributes of a decentralised organisation discussed earlier in this thesis are balanced with the need for consistency to address the threats and challenges that organisations have suffered from. This is quite critical as the corporate centre cannot easily retract from the organisational journey to increasingly operate in a decentralised manner, having seen the benefits of organisational agility that it brings. The results of this research reveals that many corporate centre teams are therefore now trying to centralize specific elements of outsourcing governance to achieve this. For instance, elements of central oversight and management (through involvement in local management committee meetings in the decentralised business units) could help accelerate risk awareness and efficiency consistently throughout the global organisation. Accordingly, centralised elements in roles/structures and enabling technologies/processes are becoming more common-place.
- Establishing centres of excellence (CoEs) and shared service centres that are directly managed and controlled by the corporate centre, yet operated through innovative organisational models such as "hub and spoke" or "federated structures" that combine best-of-breed elements from the traditional centralised and decentralised structures. The current research reconfirmed that these organisations that are moving to internal CoEs and shared service centres are primarily driven by the need to regain organisational control and consistency over this critical activity. The researcher is of the view that this theme of balancing consistency with agility will continue to evolve in

future years with managed services solutions being offered by external vendors to help organisations address this "consistency with agility" agenda. Such a "managed services" option can enable an organisation to achieve the desired level of customisation it requires, while keeping the cost lower than that of an internal team. This research demonstrates that CoEs (together with the more futuristic option of end-to-end managed services models that emulate CoEs except that it is run by an external agency) enable setting consistent standards, defining uniform process, implementing common technology across business units with a longer term strategic focus, providing training, executing risk assessments and providing guidance. However, business leadership retains the responsibility for managing risks and governance. Further, another new breed of market utility models are heralding in a uniquely innovative approach where the members of the community (typically large global organisations with significant third-party ecosystems) work together to reduce duplication of effort in third-party pre-qualification and retention. The participating organisations agree common standards for third parties as well as performance data and collaborate to collect it. Such collaboration is often facilitated by external infomediaries (knowledge brokers) who are making these community information hubs available as market utilities via a subscription-based service. Using cloud-based or other agile technologies, the infomediary then provides access to an independent hub for validated data and analytics, which helps organisations assess and manage risk. In this way, the controlled sharing of non-confidential information can increase efficiency, raise compliance standards and reduce costs for the community as a whole. In addition to compliance with minimum standards for pre-qualification based on criticality of the third-party, potential areas where information related to ongoing governance and risk management of third parties can be shared include, for instance, data privacy and protection, cybersecurity, regulatory compliance, corporate social responsibility (CSR), ethics and sustainability, supply disruption and continuity, anti-bribery and corruption, safety and quality, EU procurement compliance and financial distress. Some of the available market utilities also offer independent audit capability and Significant Event Notification and Tracking (SENT), which allow member organisations to manage community-wide disruptive events proactively. However, community models are unlikely to take away the need for

organisations to continue investing in their own strategic governance and risk management frameworks and undertaking assessments specific to their standards and third-party arrangements.

- Last but not least, enhancing co-ordination between various parties ("three lines of defense") involved in governance and risk management across the entire depth and breadth of the decentralised organisation. This specifically includes the risk domain owners, business unit leaders, functional heads, legal and internal audit teams etc., and given the increasing complexities of the external environment as well as the internal organisation is likely to become the top organisational imperative related to the strategic governance of the outsourcing ecosystem, if it is not already. A Deloitte (2018) report published after the completion of the research interviews for this survey subsequently reconfirmed that "as extended enterprise risks grow, along with shareholder, political, legal, and regulatory activism, there is likely to be a greater demand placed on management and boards to be accountable for major risk events, whether the events occur within the organisation or across its extended enterprise. In this scenario, Boards in their governing (supervision and oversight) capacity should have deeper levels of engagement and more frequent reviews to ensure management has also roped in all the relevant stakeholders and internal experts to fully engage in this process supported by robust risk management mechanisms".

7. CONCLUSION: CONTRIBUTIONS AND LIMITATIONS

Section Summary: This section concludes the thesis, revisiting the contributions once again, acknowledging the weaknesses and limitations of the study and providing input for making recommendations for further research.

To summarise and recapitulate, the thesis explored the emerging change in mind-set and business practices around risk management and governance in large global organisations that were outsourcing IT and business processes to a progressively larger number of vendors (including some positioned as strategic business partners) forming their "outsourcing ecosystem" or "extended enterprise", amid a broadening of the scope of outsourcing to cover business services (Lacity et al., 2016) and a blurring of the boundaries with supply chain management, as in the case of organisations such as DHL who have traditionally been involved in the physical management of goods rather than the more virtual delivery of outsourced business services. This change in mind-set and action was considered to be highly strategic in nature, i.e. where specific responsibilities and behaviours led to the successful implementation of the organisational strategy.

The **first part** of the thesis **(RQ1 and RQ2)** attempted to gain an understanding of *how* and *why* such large global organisations are broadening their perspective and maturity over governance and risk-management around their outsourcing ecosystem, and the organisational capabilities that they need to develop to emerge as astute decision-makers in this regard, using primary research-based industry-specific case studies.

The **second** part of the thesis **(RQ3 and RQ4)** once again used primary data, but this time to capture the overall progress made in achieving this transformation, together with the related implementation challenges, and evolving good-practice to address these challenges and exploit the full spectrum of opportunity that the outsourcing ecosystem presents.

Over the last few years, the potential for enhancing organisational value through the outsourcing ecosystem, enabled by such strategic governance and risk management, had made it a Board and top leadership (C-suite) led imperative and led researchers to study this phenomenon with a value-

creation and competitive advantage lens. At the same time, the related organisations had also gradually increased their levels of dependence on outsourcing to unprecedented levels (Forrester Research, 2013; Gartner, 2014; Deloitte, 2015), exposing themselves to newer risks and hazards amid shifting business environments (Starbuck, 2014; Oshri, Kotlarsky, & Willcocks, 2015; Deloitte, 2016). Despite this development, over the last decade or so, there had been limited research on the ability of organisations to manage risks around outsourcing with a strategic and dynamic mindset to create value for organisations. Instead, most researchers had largely examined risk management around outsourcing with the goal of preventing "bad things happening". Further, their research had focused primarily at the level of contract managers and other members of middle/lower management rather than at strategic management or top leadership levels (e.g., Zhang, Liu, Tan, Jiang, & Zhu, 2018; Gupta, 2018; Lintukangas, Kahkonen, & Ritala, 2016; Tsan-Ming, Yulan, & Wallace, 2016; Christ, Mintchik, Chen, & Bierstaker, 2015; Słoniec, Kaczorowska, & Motyka, 2016; Alexander, & Stefan, 2016; Yu-Chih Liu, & Asri Rizki, 2016; Liu, Wang, & Huang, 2017). This missing evidence had obscured the full spectrum of potential opportunity that outsourcing could create for organisations, particularly those that were more radical or transformational in nature. This thesis addressed that gap and broadened the emerging perspective by gaining a better understanding of this strategic transformation **(RQ1)**, relating it to the development of newer organisational capabilities **(RQ2)** as well as identifying/addressing the challenges with implementing this new approach **(RQ3** and **RQ4)**.

The researcher believes that this thesis has made several **theoretical and practical contributions**. On the **theoretical** side:

- It has contributed to the growing body of outsourcing literature by focusing on strategic governance and risk management from a novel and emerging "outsourcing ecosystem" perspective. To that end, it has integrated and extended the multi-disciplinary perspective on risk and governance across diverse disciplines such as strategy, operations, finance, risk, insurance, legal and compliance, macro-economics etc. supported by empirical evidence and case exemplars to propose a forward-looking framework. This framework depicts a unique trajectory to enable

companies to foreground capacities for strategic advantage through outsourcing that challenges traditional thinking in this area.

- In addition to providing this multi-disciplinary perspective, this thesis related and extended DC theory to the need for a more dynamic approach to the outsourcing ecosystem. To do so, this thesis built upon earlier studies that have long recognised overall vendor relationship management ability of organisations as a DC. It now focuses specifically on two new capabilities (identified by the empirical research) forming an integral part of such overarching vendor relationship management activities: (a) the capability to have a broader perception of risk in outsourcing that recognizes opportunities that these risks present in addition to the threats and hazards; and (b) the "asset orchestration" capability to develop more mature risk management mechanisms that enable organisations to maximize the opportunity while addressing the risk.

This research also made a number of **practical contributions** by helping identify and address implementation challenges relevant to this transformational thinking, together with the 2x2 model or framework.

1. The framework that is proposed in this thesis is intended to assist organisations to align risk management with strategic governance and develop governance mechanisms that allow them to benefit from outsourcing opportunities. Specifically, the framework motivates organisations to answer two key questions. First, "Where are you today?" to assess where they are currently positioned in terms of maturity of strategic governance over outsourcing vis-à-vis their breadth of risk perception which drives their appetite to take higher risks. Second, "Which way should you be going next?" to determine a possible trajectory going forward to be able not just to manage risks but also fully exploit the opportunities that outsourcing can create. As illustrated by the exemplar case studies of four industries, there are different paths that organisations can pursue (e.g., horizontal, vertical or diagonal) in their attempt to develop into Astute Entrepreneurs, depending on their current positioning. For example, Perpetual Losers need to invest in broadening their risk perception, while Great Gamblers need to ensure that strategic governance is driven by the Board and seen as an institutional rather than project-level

activity. Lucky Survivors, on the other hand, need to develop both aspects, and this is more likely to be successful if made gradually – from engaging the Board, towards broadening risk perception.

2. The thesis extends past experience on managing the strategy execution gap and relates the same to the context of the outsourcing ecosystem with a Strategic Management focus as well as Information Management focus. From a practitioner perspective, members of the Board and C-suite as well as senior management in large global outsourcing (client) organisations can use this thesis to help them address the potential for emerging practices and mechanism to avoid or address the execution gap to maximize the opportunities that the outsourcing ecosystem can create for them going forward.

3. The current trend of increasing decentralisation in large global organisations presents a new set of challenges to achieving the transformational repositioning in the strategic governance and risk management of large global organisations. In response to this trend, this thesis highlights a three-pronged approach being used by large decentralised global organisations to address this challenge by revisiting the role of the corporate centre with regard to its strategy and governance functions; aligning outsourcing governance practices to the nature and extent of decentralisation and ensuring better coordination between those who perform governance and control functions across the business.

Practical contributions hold relevance for both organisations and individuals. The researcher considers that these practical contributions would be relevant for four categories of the latter category of users of the research presented in this thesis:

- Board/C-suite level leadership of large global organisations that operate with a significant outsourcing ecosystem (as well as key vendor or “provider” organisations in that ecosystem) in aligning their increasing governance-related responsibilities to the changing strategic paradigm.

- Senior and mid-management-led teams (risk, procurement, vendor management, internal audit, legal, technology etc.), who form the “three lines of defence” in large global organisations in aligning multiple risk management functions in an integrated manner and

accordingly being more coordinated in their approach, thus potentially helping to address one of the key challenges in this new approach to governance and risk management.

- Individuals responsible for contract management, including performance management teams to establish consistent and best-in-class processes for working with their providers with due focus on governance/risk management and a consistent approach for multi-provider scenarios.

- Regulators, lawmakers, future researchers etc. can also benefit from this thesis, by bringing in a practical perspective that is empirically tested and reflective of contemporary developments, both in the external as well as in the internal environments of large global businesses.

Finally, **methodologically speaking** the work shows the value of a flexible problematisation approach (Locke & Golden-Biddle, 1997; Alvesson & Sandberg, 2011) in investigating "messy" contemporary issues, characterised by multiple layers of change and related uncertainties in the external and internal environment of large global organisations. This perspective allowed the researcher a degree of freedom and subsequently led to the unexpected discovery of the aspirational path to excellence in the 2x2 framework presented in this thesis through a multi-stage approach involving exploratory interviews, qualitative and quantitative data collection in a range of organisational and industry contexts, and finally through follow-up work with executive level key informants to clarify meaning and prevent any misinterpretation of constructs. The combination of qualitative and quantitative data within this exploratory investigation provided both breadth (by studying responses to a diverse range of questions in a large-scale global survey spanning three continents) and a depth of focus (a small number of in-depth qualitative semi-structured interviews) to fully capture a range of issues and themes in a relatively under-studied field. Case study research was used in this thesis to fulfil a dual purpose: (a) use case study as a narrative for the industry perspectives to address RQ1 and (b) use the semi-structured interviews forming the case study as a device to provide empirical evidence to past research/literature review to construct the current reality to address RQ3 and RQ4 [Yin (2009): case study as a narrative vs. case study as a device for empirical evidence].

There is opportunity to develop this research in a number of different directions based on the findings of this study (for example each of the emerging solutions to address the execution gap can be further investigated in their own right, together with other emerging practices such as market utilities and managed services as an enabler going forward as these practices emerge more clearly in the next 2-3 years).

A **potential limitation** of this work is that it primarily reflects the outsourcing (client) organisation perspective for large global organisations that operate with significant outsourcing ecosystems, rather than also considering the related vendor or provider perspective. This high level client perspective, which formed the most salient feature of the scope of the study was, in turn, aligned to the objectives of the global consulting firm who sponsored the research and enabled the research access. The end-objective of the global consulting firm, as we defined this scope, once again in its turn, mirrored the expressed needs of its top tier global clients, most of whom were embarking on repositioning their governance and risk management mechanisms related to their outsourcing ecosystem. Therefore, rather than perceiving this solely as a limitation of this research, the researcher also perceives this research scoping as reaffirmation that the thesis addresses one of the most contemporary and relevant issues that represents a burning platform in the modern business world.

The fact that this does not address the vendor or provider perspective is clearly an area for future researchers to investigate. Finally, with most global organisations expected to address their transition challenges to migrate to strategic, holistic and integrated governance and risk management mechanisms related to their outsourcing ecosystems in the next 2-3 years, the focus of future research to build up on the current thesis is likely to extend to specific emerging technology and processes, including specialised technology-based solutions for outsourcing ecosystem governance and risk management (such as Aravo), market utilities that represent collaborative working (such as KY3P-Markit, Eco Vadis, Shared Assessments etc.) and the overall theme of exploring, once again, the implications of outsourcing key aspects of governance and risk management of the outsourcing ecosystem to another third-party through evolving managed services solutions.

Although researcher bias can sometimes be a potential limitation to exploratory research, this has specifically been addressed through rigorous processes of data collection and analysis described in section 2 of this thesis. However, the only key area that the researcher felt could not possibly be practically addressed was complete randomness in the selection of interviewees for the follow-on interviews following the large-scale global survey. As indicated earlier, these interviewees were selected on the basis of their availability for the interview and this is further subject to the risk that the organisations themselves may have had a role to play in influencing the final selection of participants for this study, as a result of their desire to represent their business through the more driven and aspiring employees, who were not necessarily representative of all the team-members in the organisation. Overall, this research is intended to be the foundation for many other lines of enquiry and ultimately illustrates how traditional assumptions and practices around governance and risk management of the outsourcing ecosystem are being challenged, with global organisations embarking on large transformation projects to achieve this change by new ways of working across contemporary organisational forms.

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Appendix-A: Identifying areas for Empirical Research based on the State of the Literature

Research step	State of the literature	Areas for empirical research
Changing Risk Perceptions: *Risk drives governance and accordingly, at the very outset, it is important to gain an understanding of the changing perceptions of risk, particularly in the increasing focus on strategic risk to set the stage for understanding the emergence of strategic governance, and then relate this change to outsourcing/offshoring organisations as well as their vendors/delivery organisations (captives).*	Risk has been traditionally been associated with "bad things happening" and risk management has focused on the downside of risk to minimize financial, operational and compliance-related matters that lead to losses, rather than an enabler for value creation. There is a positive and significant link between risk, uncertainty and complexity, which makes it difficult to pre-configure and fully structure risk management solutions in a predictive manner. This uncertainty and complexity is only likely to increase in future. Strategic risk is emerging not just as a new category of risk, but driving a change in the way in which risks are managed to focus on the upside by maximizing value rather than just managing the downside. Academic literature on strategic risk and the need to recognize this as a key business imperative is emerging; however this literature is extremely limited where it relates to ongoing strategic risk management in the context of outsourcing or offshoring.	• Examine the changing perceptions of risk relating to ITO and BPO, with a specific focus on confirming whether risk perceptions are broadening to include emerging strategic, operational, financial and compliance dimensions. Assess the above change from the perspective of outsourcing/offshoring organisations as well as vendors and delivery organisations (captives). • Identify and confirm the key elements driving any such change in focus. • Expect and validate a positive linkage between outsourcing/offshoring risk and uncertainty and examine how increasing uncertainty is driving any changes in approach to identification or management of risks in this area. • Evaluate whether outsourcing/offshoring organisations are focused solely on managing the downside of risk or whether they are actively exploring the upside of risk for enhancing organisational value and untapped opportunities. • On a related note, examine how these risk management mechanisms are being re-engineered or whether they continue to operate merely as extensions of audit and compliance management processes.

Appendix-A: Identifying areas for Empirical Research based on the State of the Literature

Research step	State of the literature	Areas for empirical research
Repositioning governance: *Having gained an understanding of the changing perceptions of risk, the next step is to evaluate how this changing perception of risk is leading to the need for a strategic repositioning of governance and compliance management mechanisms in outsourcing/offshoring organisations, driven as a risk-based top-down Board-driven activity. There is also a need to follow through to see how this is getting devolved to the relevant vendors and delivery organisations (captives).*	Risk-based approaches to governance are widely promoted as universally applicable foundations for improving the quality, efficiency, and rationality of governance across various domains. For governance to be focused and meaningful, the complete alignment of governance mechanisms to the risk-perceptions provides an objective method for establishing governance priorities, areas of focus and allocating scarce resources. In view of the compelling justification for risk driving governance, it is natural that the increasing strategic nature of risks will drive risk management activity and governance to more strategic levels, starting at the Board of Directors and the CEO. This would also enhance, on an ongoing basis, the collective relationship between corporate governance and strategic management in a new perspective, and ensure that decisions are taken and implemented ethically in pursuit of shareholder value, whilst protecting the downside. Academic literature is however meagre in relating this phenomenon to organisations that are outsourcing/offshoring as well as those engaged in delivering these outsourced/offshored services.	• Assess the extent to which governance mechanisms over outsourcing and offshoring operations are risk-based and driven by risk considerations. • Explore any related management dilemmas and goal conflicts, e.g. profitability vs. risk aversion, agility vs. structure etc. • Identify and confirm the level of management at which decisions relating to governance are taken, together with the extent of Board and leadership (C-suite) involvement. • Identify and confirm the processes by which any such Board-level interventions on risk take place. • Examine the relationship between strategic management and corporate governance in outsourcing and offshoring organisations. • Specifically identify how the broader considerations of ethical management and corporate social responsibility that are increasingly getting ingrained into corporate governance mechanisms are impacting outsourcing and offshoring organisations.

Appendix-A: Identifying areas for Empirical Research based on the State of the Literature

Research step	State of the literature	Areas for empirical research
Enabling strategic governance: *Enablers for strategic governance include global developments in the area of corporate governance, emerging regulation and a fundamental rethinking on the changing role of Boards. It is therefore important to evaluate how this is impacting outsourcing/offshoring companies and their vendors and delivery organisations (captives).*	Qualitative studies in corporate governance have grown in number since the 1990s, and these studies are mostly developed by UK and European scholars, published in European journals and tend to explore boards of directors more than other governance related actors and mechanisms. Key regulators and governance bodies now agree that the board plays a central role, in keeping with its fiduciary duty, to approve and monitor strategy. Existing models of corporate governance need to be modified to include formal extensions to the Board of Directors' traditionally conceived role, which has often been limited to financial oversight and not strategic management/strategic control. Changes in the regulatory environment are significantly impacting the Board's area of focus in several countries around the world and are likely to continue to do so. However, the literature is impoverished in relating these changes to organisations that are outsourcing/offshoring and how this is devolving on to their vendors and delivery units (captives).	• Examine the extent to which global developments around enhancing the governance-related accountability of the Board are impacting outsourcing/offshoring organisations. • Identify and highlight any emerging organisational processes to address the increasing impact of regulatory changes for such organisations. • Assess the extent to which the impact of regulatory changes is impacting Board and leadership behaviour around organisational governance for outsourcing and offshoring companies.

Appendix-A: Identifying areas for Empirical Research based on the State of the Literature

Research step	State of the literature	Areas for empirical research
People, technology and operational processes around strategic governance over outsourcing and offshoring: *The final step is to relate all this to people, technology and operational processes around strategic governance over outsourcing and offshoring arrangements, both from the user (client) as well as the provider (vendor) or delivery organisation (captive) perspective; compare and contrast vendor approaches from captives and identify emerging best practices.*	Over the years, researchers have examined the constructs of risk and risk management around outsourcing and offshoring. Most of this risk research has however been carried out largely from the perspective of an operational risk and the findings and recommendations have primarily been addressed to contract managers, outsourcing and offshoring team leaders and other members of middle management. Strategic risks, where researched, for example around choice of locations, structuring of relationships etc. have primarily been around initial structuring and decision-making, rather than ongoing activities around setting, managing and reviewing strategic risk in the context of the enhanced accountability of the Board of Directors discussed in the literature review. Limited research exists around holistically and cost-effectively implementing strategic governance in outsourcing and offshoring, in keeping with regulatory and other global developments, to be able to manage not just the downside of risk in preventing "bad things happening", but more importantly, to be able to exploit the upside of risk and leverage risk for strategic advantage on an agile and dynamic basis.	Identify and examine good practices in outsourcing and offshoring organisations, emanating from the repositioning of risk management and governance, relating to people (b) processes and (c) technology at the operational level around outsourcing and offshoring. Compare and contrast any significant variations in approaches related to the above between captives and third-party (vendor) delivery organisations.

Appendix-B: Sample Consent Form

Sample Consent Form

Aston Business School

Information for Research Participants

Study title: Strategic Governance in Outsourcing and Offshoring

I would like to invite you to take part in a doctoral research study on the emerging topic of governance and risk management from a strategic perspective, in the context of the increasing outsourcing and offshoring of information technology, finance and other supporting business processes. Before you decide whether or not to take part, it is important for you to understand why the research is being done and what it will involve. Please take time to read the following information carefully and ask any questions you may have.

Self-introduction of researcher
I am a doctoral researcher at Aston Business School in Birmingham, UK, having recently retired as Senior Director at one of the "Big4" global accounting and consulting firms, where I advised clients on managing risks and governance at the strategic and enterprise levels in the context of outsourcing and offshoring. I am therefore interested in strategic and operational issues impacting this phenomenon.

Objective and scope of the study
In this study, I will be focusing on *how* and *why* businesses that are outsourcing and offshoring are enhancing their view of risk management and repositioning their related goverance mechanisms to strategic levels.

I propose to achieve this objective through semi-structured interviews with individuals with the experience of working with large listed organisations that are outsourcing and offshoring technology and business processes, together with their subsidiary or vendor-managed service delivery organisations. The profile of interviewees will include Board members and C-suite leadership; heads of risk; internal audit; independent advisors and management consultants and others charged with governance of the outsourcing/offshoring; and service delivery organisations.

Why have I been invited to participate?
You have been selected to participate as you hold a position identified to be involved. You will also receive non-attributable thematic feedback collated after all the interviews are completed, with a view to enhancing your understanding of the views of other research participants on this subject.

What will happen if I agree to participate?
Should you agree to participate in this doctoral research study, you will be contacted to set up an initial interview, which is expected to last approximately one hour. Following this interview, a summary of key areas emerging during the discussion will be validated with you in confidence. On completion of the interviews, non-attributable high-level thematic feedback would be shared, with comparisons, as appropriate/relevant, to similar thematic feedback from other interviewees who have also participated in the research, maintaining individual and organisational anonymity.

Confidentiality
Confidentiality, privacy and anonymity of all interviewees or organisations will be maintained through the entire process of the study, from data collection through to storage and publication of research findings. All names of persons and organisations will be anonymised and any interview transcripts, recordings and consent forms will be securely stored either physically or in password-protected files for a period of five years, in keeping with the University's policy on Academic Integrity and not be disclosed to anyone else than the research supervisor.

What will happen to the results of the study?
The results will be presented in the dissertation in an anonymised and non-attributable basis and will be examined by my research supervisors and external examiners relating to the Doctorate of Business Administration (DBA) course. The dissertation may be read by future students on the course and a copy of the same would be available for the participants of the study.

Further conditions of participation
Participation is voluntary. As a participant, you can withdraw from your participation at any time, without giving any reason. Your consent form is attached.

Doctoral Research on Strategic Governance in Outsourcing and Offshoring - Sanjoy Sen – February 2015

Appendix-B: Sample Consent Form

Aston Business School

Consent Form for Research Participants

Title of the Project: Strategic Governance in Outsourcing and Offshoring

Researcher Name: Sanjoy Sen, Doctoral Researcher, Aston Business School, Birmingham.

	Please initial box
I confirm that I have read and understand the information sheet for the above study and have had the opportunity to ask questions.	X
I understand that my participation is voluntary and that I am free to withdraw at any time, without giving any reason.	X
I agree to the interview being recorded.	X
I agree to the use of anonymised quotes in publications.	X
I agree to take part in the above study.	X

Signed… [redacted] Date…11.2.2015…

(Participant Name)

Signed…… [redacted] …… Date…11 Feb 2015…

(Person taking consent)

Doctoral Research on Strategic Governance in Outsourcing and Offshoring - Sanjoy Sen – January 2015

Appendix-C: Global Third-Party Risk Survey Questionnaire

Global Third-Party Risk Survey Questionnaire

1. Organisational context: Global third-party ecosystems including, for example, suppliers, distributors, franchises and joint venture partners (known as extended enterprises in some organisations) have in recent years become important sources of strategic advantage for businesses. Please identify the major categories of third parties that your organisation uses:

Suppliers	
Contract Manufacturers	
Sourcing Agents	
Hardware and Software Vendors	
Technology Service Providers	
Human Resources (HR) Recruiters	
Payroll and Benefits Service Providers	
Office Facilities Providers	
Customer Support Service Providers	
Advertising Agents	
Sales Agents	
Distributors	
Franchisees and Loyalty Partners	
Research Facility Providers	
Licensees	
Joint Venture Partners	
Any others (please specify)	

On a scale of 1-5, please assess your organisational dependence on the third-party ecosystem. When making this assessment, you may want to consider some of the following factors:

- Number of third parties involved
- Proportion of business involving third parties
- Criticality of business involving third parties
- Impact of disruption in case of third-party-rated challenges or failure

Rating 1: Minor Dependence Rating 2: Low Dependence Rating 3: Moderate Dependence Rating 4: High Dependence Rating 5: Critical Dependence

Organisational dependence on the third-party ecosystem:

Past (More than a year ago)	**Present** (A year ago to a year ahead)	**Future** (More than a year ahead – as planned)
Rating (1-5)	*Rating (1-5)*	*Rating (1-5)*
Additional comments:		

Appendix-C: Global Third-Party Risk Survey Questionnaire

Key drivers for engaging third parties: Please select and rank the top 3 reasons for using third parties in your organisation:

Reasons for using third parties	**Past**	**Present**	**Future**
• Cost savings/cost reduction			
• Access to specialised skills			
• Flexibility and scalability			
• Manage operational risks			
• Enhance control over costs			
• Enhance control over financial risks			
• Difficult to develop capabilities in contracted area			
• Improve on overall quality parameters			
• Implement best practices related to specific processes operated by third parties			
• Product or service innovation by leveraging specialised third-party knowledge			
• Enhance competitive advantage			
• Enhance and protecting reputation			
• Access to new geographies			
Additional reasons or comments:			

Appendix-C: Global Third-Party Risk Survey Questionnaire

2. Key areas of concern with the use of third parties: Please list out and rank the top five areas of concern that you see with the use of third parties, based on the relative criticality or impact:

RISK DESCRIPTION	RANK				
	1	2	3	4	5
• Inadequate justification for involving third parties in a specific area.					
• Inappropriate overall mechanisms for identification and selection of third parties.					
• Incomplete or inadequate contract terms.					
• Reputational damage arising from third-party behaviour.					
• Failure of financial viability of third-party impacting delivery.					
• Financial fraud or exposure created by third-party behaviour.					
• Breach of regulation or law through third-party action.					
• Breach of information security through third-party action.					
• Inadequate resilience or business continuity arrangements covered by third parties.					
• Lack of competence or training of third parties.					
• Inadequate governance and management of third parties by retained organisation.					
• Concentration or other geo-political risks arising from the use of third parties.					
• Any other concern (please specify)					
• Any other concern (please specify)					
• Any other concern (please specify)					
Additional comments:					

3. Third-party Risk Management: On a scale of 1-5, please assess the level of overall maturity in your organisation's approach and processes for third-party risk management. In making this assessment, you may want to consider the following factors:

    - Structure of third-party management organisation
    - Clarity of related roles and responsibilities
    - Awareness and commitment to third-party risk management
    - Skills, bandwidth and competence in management of third parties
    - Process and supporting technology for third-party risk management

Rating 1: **Ad hoc**: None or very few of above elements addressed. Rating 2: **Basic**: Some of the above elements addressed. Rating 3: **Developing**: Consideration given to addressing all the above elements with significant room for improvement. Rating 4: **Established**: Most of the above elements addressed and evolved. Rating 5: **Optimised**: "Best in class" organisation – all of the above elements addressed and evolved.

Level of overall maturity in approach and processes for third-party risk management:

Past (More than a year ago)	**Present** (A year ago to a year ahead)	**Future** (More than a year ahead – as planned)
Rating (1-5)	*Rating (1-5)*	*Rating (1-5)*
Additional comments:		

On a scale of 1-5, please rate the extent of decentralisation in third-party governance and risk management in your organisation, where 1 = Highly Centralised and 5 = Highly Decentralised.

4. Accountability for Third-party Risk Management:

On scale of 1-5 as described below, how do you see Third-party Risk featuring on the Board agenda?

1- Not on the Board agenda.
2- Features intermittently on Board agenda with low importance.
3- Features reactively in the agenda in response to incidents.
4- Features periodically on the agenda with varying urgency.
5- Features consistently as a critical item on the agenda.

Rating (1-5): ☐

Who is the most senior person accountable for Third-party Risk Management in your organisation? Please select one of the following options and add any other optional comments:

- Member(s) of the Board
- Chief Executive Officer (CEO)
- Chief Finance Officer (CFO)
- Head of Risk or Chief Risk Officer
- Chief Procurement Officer or CPO
- Head of Vendor or Alliance Management
- Individual Vendor or Alliance Manager
- Head of Internal Audit
- Head of Compliance
- Other (specify)

Optional comments:

5. Level of confidence in Third-party Risk Management mechanisms:

Please rate your present level of confidence in the following areas impacting the effectiveness of third-party risk management in your organisation.	
Organisation of third-party risk management	*High/Medium/Low:*
Clarity of roles and responsibilities	*High/Medium/Low:*
Awareness and commitment to managing third-party risk	*High/Medium/Low:*
Skills, competence and training of risk management team	*High/Medium/Low:*
Quality of third-party risk management processes	*High/Medium/Low:*
Tools and Technology used for risk management	*High/Medium/Low:*
Management and monitoring mechanisms	*High/Medium/Low:*
Additional comments:	

6. Key initiatives to enhance the effectiveness of third-party risk management: Please rank up to five key initiatives that you are undertaking to reduce the risks associated with the use of third parties, based on relative urgency and importance.

KEY INITIATIVE:	RANK				
	1	2	3	4	5
• Supplier simplification					
• Enhanced business case and due diligence for involving third parties in a specific area					
• More disciplined contracting (e.g. centralised templates approach)					
• Proactive fraud management					
• Better coordination with legal teams					
• Enhanced monitoring of third parties					
• Enhanced training of third parties					
• Enhanced training and guidance for retained organisation					
• Addressing concentration risk					
• Enhancing visibility and transparency					
• Enhancing technology to manage third parties					
• Enhancing assurance activities over third parties					
• Any other initiative (please specify)					
• Any other initiative (please specify)					
• Any other initiative (please specify)					
Additional comments:					

7. Risk Incidents: Which of the following, if any, risk incident(s), have you experienced in the last 2-3 years with regard to the use of third parties in your organisation?

• No risk incidents experienced in the last 2-3 years	
• Complete third-party failure	
• A service disruption that you consider as major, in the context of your business	
• A service disruption that you consider as minor, in the context of your business	
• Lost business	
• Fines	
• Reputational damage	
• Financial or transaction reporting errors	
• Breach of sensitive customer data	
• Non-compliance with regulatory requirements	
• Other (please specify)	
• Other (please specify)	
• Other (please specify)	
Optional details:	

8. How do you get assurance over third-party risk management? (please select one or more of the following options)

• Visiting third-party locations periodically based on risk assessment	
• Control self-assessments by third Parties	
• Remote assessments with direct access to third-party systems and data	
• In-house internal audit	
• Outsourced internal audit	
• Using contractors for third-party assurance • Desktop audits	
• Other (please specify)	
• Other (please specify)	
• Other (please specify)	
Optional details:	

9. Organisational profile: Finally, some general questions to help us classify your organisation, so that you get more meaningful options.

What is your job title or its nearest equivalent?

- o Chief Finance Officer (CFO)/Finance Director/Head of Finance
- o Chief Procurement Officer (CPO)/Head of Procurement/Head of Supply Chain
- o Chief Risk Officer (CRO)/Head of Risk
- o Chief Compliance Officer/Head of Compliance
- o Chief Internal Auditor (CIA)/Head of Internal Audit
- o Chief Operating Officer (COO)
- o Other C-Suite, please write in: _____
- o Other, please write in: _____

Which of the following industry groupings does your organisation primarily operate in?

- o Aerospace and Defence
- o Agriculture
- o Automotive
- o Banking
- o Business & professional services
- o Charities & not-for-profit
- o Consumer products
- o Construction
- o Education
- o Food and beverages
- o Gaming and betting
- o Healthcare
- o Hospitality and Leisure
- o Infrastructure & capital projects
- o Insurance
- o Investment Management
- o Manufacturing

- Media
- Metals & Mining
- Oil and gas
- Pharmaceuticals and biotechnology
- Power & utilities
- Private equity
- Public sector – central or local government
- Real Estate
- Recruitment
- Retail
- Sports business
- Technology
- Telecommunications
- Transportation & logistics
- Travel & Aviation
- Other (Please specify)

What is the legal status of your organisation?

Organisation here refers to the entity on whose behalf you are completing these questions, which may be a subsidiary of a larger group organisation. Please ensure that you have answered all the questions consistently from this perspective.

- Group organisation
- Subsidiary/division of a group organisation
- Single company
- Government
- Not-for-profit
- Partnership
- Other, please specify: _____

What was the turnover of your organisation in the last financial year?

Please write in the number alongside the relevant currency, consistently with the previous question – for example, if you are completing these questions on behalf of a subsidiary of a group, please enter the subsidiary's turnover here.

- GBP _____
- EUR_____
- USD_____
- Other, please specify _____

What is the geographic reach of your organisation's operations, i.e. which countries does these operations cover?

Appendix-D: Semi-structured interview prompts
(To supplement, as applicable, the discussion on the survey completed by selected respondents)

Changing Risk Perceptions:

- Examine the changing perceptions of risk in the interviewee's organisation relating to ITO and BPO (as well as more generally within its third party/outsourcing ecosystem), with a specific focus on confirming whether risk perceptions are broadening to include emerging strategic, operational, financial and compliance dimensions.

- Identify and confirm the key elements driving any such change in focus. Specifically, bring up the impact of the macro-economic and business environment, increasing/decreasing dependence on third parties, organisational drivers (for instance, an organisation-wide awareness program on risks and the opportunities it opens up for businesses etc.)

- How does the interviewer's organisation assess their planned dependence on third parties. Bring up the factors to be considered in making this assessment, such as the number of third parties involved; proportion of business involving third parties; criticality of business involving third parties; impact of disruption in case of third-party-related challenges or failure etc.

- Evaluate whether the interviewee's organisation is focused solely on managing the downside of risk or whether they are actively exploring the upside of risk for enhancing organizational value and untapped opportunities through the use of their outsourcing ecosystem (ask them to provide visible examples of such behaviour), together with any other related activities that they are undertaking (e.g. articulating their risk appetite).

- Discuss how these outsourcing risk management mechanisms are being re-engineered to address this emerging "opportunity perspective" or whether they continue to operate merely as extensions of audit and compliance management processes.

Repositioning governance:

- Assess the extent to which governance mechanisms over outsourcing and use of third parties are risk-based (driven by risk considerations), capturing specific examples of how such alignment is ensured by the interviewee's organisation. In this regard, bring up the issue of decentralisation in the interviewee's organisations to understand its implications on governance of their third party ecosystem.

- Explore any related management dilemmas and goal conflicts, e.g. profitability vs. risk aversion, agility vs. structure etc. Bring up the issue of decentralisation once again here to now drive discussion on actions being taken to address any challenges to consistent governance of third parties.

- Identify and confirm the level of management at which decisions relating to the governance of third parties are taken (in particularly the alignment to organisational strategy, together with the extent of Board and leadership (C-suite) involvement and any structured processes by which any such Board-level interventions on risk take place.

Enabling strategic governance:

- Examine the extent to which global developments to enhance governance-related accountability of the Board is impacting the strategic governance of outsourcing/third parties.

Appendix-D: Semi-structured interview prompts
(To supplement, as applicable, the discussion on the survey completed by selected respondents)

- Identify and highlight any emerging organisational processes (including, for instance, greater involvement of the Board and executive leadership) to address the increasing impact of regulatory changes for such organizations, particularly where third parties are involved.

People, technology and operational processes around strategic governance over outsourcing:

- Identify and examine good practices in outsourcing organisations, emanating from the repositioning of risk management and governance, relating to (a) people (b) processes and (c) technology at the operational level around outsourcing and governance of third parties.

Appendix-E: Summarised description of key constructs and terms used in this thesis

Board-level activity: The term "Board-level activity" in this thesis refers to an activity of a strategic nature that is directed and monitored by the Board, while being implemented by the executive leadership including the CEO and other members of top management (referred to as the C-suite), under direct Board oversight. This research recognizes the role of the Board of Directors in large publicly-listed global organisations to be in keeping with fiduciary duties to shareholders. This includes providing strategic direction and monitoring organisational goals, together with related strategies and policies. The role of executive leadership, led by the Chief Executive Officer (CEO), is to run the organisation in line with the Board's direction by making operational decisions, keeping the Board informed, and providing information and recommendations to support the Board in policy-making, decision-making, and oversight.

Extended enterprise: The research in this thesis indicates that large global organisations are outsourcing IT and business processes to a progressively larger number of vendors (including some positioned as strategic business partners) who collectively form their "outsourcing ecosystem" or "extended enterprise". At the same time, adverse risk events originating outside of the legal boundaries of the organisation from the actions of these third parties can have a significant impact on shareholder value, brand and reputation, profit and loss, employee engagement, and operations. As organisations continue to evolve toward more complex ecosystems, these risks are likely to grow. Yet all too often traditional governance and risk management processes do not adequately consider these extended enterprise risks. Beyond financial and reputation losses, these risk events can demand a significant amount of time and focus on the part of organisational leadership to navigate and remediate the events, and sometimes even rebuild the organisation and its reputation. To protect and create value in the modern enterprise, management and boards need to reset the "front line of risk management" to include and focus on the extended enterprise. The outlines of this transformation of governance and risk management are already evident at many of the organisations covered by this research although few have completed the journey to create a coherent system with clear accountability for its execution.

Governance is concerned with directing and managing activities to maximize performance that meets the expectations of internal and external stakeholders, while managing risks and complying with applicable laws, regulations and obligations (Arora & Dharwadkar, 2011; Letza, Sun & Kirkbride, 2004). Researchers acknowledge risk-based approaches to governance as universally applicable foundations for improving quality, efficiency and rationality of governance (e.g., Rothstein, Borraz, & Huber, 2013). The alignment of governance mechanisms to risk perceptions provides an objective method for establishing governance priorities, allocating resources and rationalizing the practical limits of what governance interventions can and should achieve (Graham, 2010). Further, risk-based approaches create a potential convergence of the ways in which governance problems are framed and solutions sought across diverse domains and organisations (Hood, Rothstein & Baldwin, 2001). Power (2007) argues how risk-based governance practices offer bureaucracies defensive decision-making rationales that carry the "veneer of technocratic legitimacy" in the face of increasing scrutiny and legitimacy pressures. In line with this compelling justification that risk is driving governance, it is natural to expect that the increasing strategic nature of risk drives risk management activity and governance to more strategic levels, to be discussed and debated amongst the highest levels of management in the organisation, such as the Board of Directors and the CEO. Saltaji (2013) reiterates how this also enhances the ongoing relationship between corporate governance and strategic management in the pursuit of shareholder value, in keeping with the Anglo-American conception of a company as a device to further the wellbeing of shareholders. These emerging perspectives reconcile

the need to protect the downside risk to shareholders (managerial accountability), as well as to encourage managers to take risks to increase shareholders' value (Keasey & Wright, 1993).

Organisational transformation: The Business Dictionary defines organisational transformation as a significant shift in the ways of doing business in an organisation, resulting from a change in the underlying strategy and processes that the organisation has used in the past. Such a transformational change is designed to be organisation-wide and is typically enacted over a period of time. Specifically, this thesis explores the emerging change in mind-set (and related modifications in organisational behaviours, strategies and processes) around risk management and governance in large global organisations that are outsourcing IT and business processes to a progressively larger number of vendors (including some positioned as strategic business partners) forming their "outsourcing ecosystem" or "extended enterprise". These organisations consider this change to be highly strategic in nature, i.e. where specific responsibilities and behaviours lead to the successful implementation of the organisational strategy. In addition to cost-reduction, organisations are increasingly striving to achieve strategic benefits such as more flexible IT, access to global markets and talent, etc. making it important to understand sourcing projects and their governance within a more strategic context (Lacity, Khan, & Yan, 2016).

Organisational value: According to the Business Dictionary, organisations create value by performing actions that increase its worth to investors and other stakeholders. For instance, many organisational leaders focus on value-creation both in the context of creating greater usefulness or worth for customers purchasing its products and services (referred to as customer value), as well as for shareholders in the business who are interested in increasing the worth of their investment in the organisation (referred to as shareholder value). The phrase "business value" is often used informally to denote the overall health and well-being of the organisation, resulting from resources or other sources that confer certain advantages on the focal organisation over its competitors in the marketplace. For instance, this thesis discusses how strategic organisational pursuits focused on creating inimitable competitive advantage and organisational value has led to these organisations progressively increasing their dependence on outsourcing to unprecedented levels (Forrester Research, 2013; Gartner, 2014; Deloitte, 2015), exposing themselves to newer risks and hazards amid shifting business environments (Starbuck, 2014; Oshri, Kotlarsky, & Willcocks, 2015; Deloitte, 2016). As a result, the potential for enhancing organisational value through the outsourcing ecosystem, enabled by such strategic governance and risk management, has made it a Board- and top leadership (C-suite)-led imperative and has led researchers to study this phenomenon with a value-creation and competitive advantage lens.

Outsourcing: Outsourcing implies contracting with a third party (vendor) to accomplish some work for a specified length of time, cost, and level of service. Offshore outsourcing refers to scenarios where the third party is based at an offshore location, which usually means in a developing country and separated from the client by an ocean (Oshri, Kotlarsky, & Willcocks, 2015).

Outsourcing ecosystem: Synonymous to "extended enterprise". Please refer to summarised description above.

Risk is typically defined as a probability or threat of damage, injury, liability, loss, or any other negative occurrence, caused by external or internal vulnerabilities, which may be avoided through pre-emptive action (Law, 2006). Therefore, risk represents a potential for failure in terms of loss, harm or missed opportunity. In line with this view, risk management has typically been associated with mitigating adverse financial consequences of "bad things happening", including the use of

market insurance mechanisms (Harrington & Niehaus, 2003). "Risk" is generally linked with *uncertainty* (Samson, Reneke, & Wiecek, 2009). Indeed, leadership often has to make decisions without complete information and with the inability to specifically describe future outcomes (Carbonara & Caiazza, 2010; Krickx, 2000). Several definitions of risk consider the extent of uncertainty and the magnitude of potential loss, as the two essential elements of risk (e.g., Kaplan & Garrick, 1981). Regda (2007) defines risk as uncertainty, concerning the occurrence of a loss, emanating from lack of complete information about the future. Luhmann (2005) argues that risk, unlike danger and uncertainty, implies a domain for decision-making about the future. Therefore, risk management creates an expectation of decidability and management of uncertainty and opportunity (Power, 2007). Research on exploiting the upside or opportunity in risk is emerging as the world continues to realize that risks must be taken to seize opportunities, managed and not simply avoided for an enterprise optimizing its value and success, particularly in uncertainty and turbulence (Funston & Wagner, 2010).

Risk management is the discipline of improving one's chances of survival and success, particularly in uncertainty and turbulence. It is driven by the philosophy that risks must be taken to seize opportunities, and they must be managed not simply avoided. Therefore, by considering and managing risk, an enterprise can succeed in optimizing its value and success (Dictionary of Business and Management; Law, 2006). Risk management can significantly enhance competitive advantage, as advocated by Porter (1985) through cost advantage as well as differentiation. This is showcased by Elahi (2013) who explains how this can be achieved by being stronger in dealing with disruption when it hits everyone, seeking riskier businesses with higher potential profits, creating a resilient image and dealing more effectively with day-to-day fluctuations. On similar lines, Kaplan & Mikes (2012) reiterate the need for managing strategic and external risks, but emphasize that this needs to be accomplished in addition to managing the downside and preventing "bad things happening".

Third party (and related ecosystem): Throughout this thesis, the phrase "third party" is used consistently to refer to providers/suppliers of IT and business processes and services, collectively also referred to as the third-party ecosystem (discussed in detail in section 3.2 of this thesis), embodying the cumulative impact of these individual outsourcing relationships. Accordingly, "outsourcing risk management" refers to the process of managing risks related to the third-party ecosystem. In support of the growing third-party ecosystem in organisations, recent data published by Deloitte (2018) in their publication entitled "Extended Enterprise Risk Management (EERM) – Focusing on the Climb Ahead" indicated that more than 56% of large global organisations had more than 1000 third parties comprising their ecosystem or extended enterprise. Within this group, 27% managed anything between 10,000 and 50,000 third parties as part of their ecosystem while another 19% had more than 50,000 third parties forming their extended enterprise. This number is only expected to grow in the years ahead.