Topic 5: Reading – “The Coming Commoditization of Processes” (Davenport 2005)

Introduction

- All processes were generally performed by people within the organization
- 1970s and 1980s:
  - Improved processes with total quality management
- 1990s:
  - Business process reengineering using new technologies
- End of 20th Century:
  - Outsourcing to achieve more rapid benefits
- Information technology management has typically been the most outsourced function
- Beginning to see HR, administration, finance and accounting functions being outsourced
- Companies have begun to internationalize much of their outsourcing
  - Particularly to India, China, the Philippines
    - Because of low labour costs
- Most companies are skeptical of outsourcing, because of risks from lack of process standards
- Two criteria required for outsourcing:
  - 1) Faith
  - 2) Cost
- Lack of comparability increases the risks associated with outsourcing
  - Standards make it easier to compare service providers
    - Evaluate cost vs. benefit
- Once costs vs. benefit become so visible
  - Outsourced processes will become a commodity
  - Prices will fall dramatically

Three Types of Process Standards

- Variability in how organizations define processes makes it more difficult to contract for and communicate about them across countries
- Within a company:
  - Standardization can facilitate communications, enable smooth handoffs across process boundaries
  - Makes possible comparative measures of performance
- Across companies:
  - Can make commerce easier for the same reasons
- Organizations must evaluate 3 things in addition to cost: