Minicase Overview. CPX Transport is a global shipping and freight company with offices in four major cities around the world. Since the 1980s, CPX had been running their transaction processing system on an IBM mainframe located in New York. Most of the systems development work was done in New York but there were many customizations done to the regional nightly batch streams for local business processes, to be responsive to governmental rules and regulations. The shipping business was good in the 1990s, when it especially started to take off in Asia. By the mid-90s, CPX began to feel a strain on their ability to hire local Japanese technologists who could speak both Japanese and English for their Tokyo office. Even if CPX could find multilingual technologists, they were still expensive to hire and retain.

In 1996, rapid growth was resulting in more IT work than the regional staff could handle. CPX decided to start using a German IT company, Info Technology Group, for supplemental staffing work for their Tokyo office. ITG sold the development language CPX used on their mainframe, had a product sales office in the Philippines, and was interested in starting a consulting services business. After a year, the ITG offshore team had grown to 13 but was struggling to grow further. New hires were brought in but others would resign. As a result, IT found it hard to move beyond their roots as a product company and make the transition into consulting services. In 1998, after some negotiations, the team was transitioned to a Philippines-based company, Computer Software International, which had grown into a 1000-person IT consulting services company. CSI's staffing numbers were growing, and they had several marquee U.S. clients and venture funding from large VC funds. There experienced only normal growth problems. Meanwhile, CPX's Hong Kong office added IS services demand of its own to the mix. But, Y2K work became a prime concern, as each regional operating unit was required to remediate its own systems.

By 2001, CPX had over 100 CSI staff working in the Philippines to support their Tokyo and Hong Kong systems. During this time, a majority of the CPX’s IT headcount growth in these regions came from their build-up of offshore consultants. CSI had also done well during this period, and was flush with cash in 2000. As a result, CSI’s CEO decided to make an expensive purchase of a U.S.-based call center firm. His plan was to build a U.S. component to the business and drive operational costs down by moving call center operations to the Philippines and cross-selling IT consulting services to CSI’s new customers.

After a mid-year review of CSI’s financials, it had become apparent to CPX’s Outsourcing and Vendor Management Group managers that there was cause for concern with their outsourcing vendor. CSI’s new contracts diminished dramatically, and CSI also was losing outsourcing contracts they had gained from their Y2K work. In addition, the call center business had begun to generate negative cash flow. The call center purchase was a sizable cash outlay for the firm, and now the operation had started to lose several hundred million dollars each quarter. At this burn rate, CPX’s managers estimated that CSI would be unable to continue to operate for more than 12 months before having to file for bankruptcy. As a result, they were contemplating pulling the plug on the outsourcing relationship, but were seeking useful input.

Break-Out Discussion Questions. Consider these questions for discussion in your breakout group.

- What are the key decisionmaking criteria? How to effect operational control in IS outsourcing?
- Is there some workable middle ground? Or should the decision be “all or nothing?” Why?
- How long before the decision should be made? What is the basis for your recommendation?