Governance in IT Outsourcing Partnerships

Erik Beulen
Atos Origin / Tilburg University, The Netherlands

INTRODUCTION

The literature first devoted attention to IT outsourcing partnerships in 1990 (Gantz, 1990; Rochester & Douglas, 1990). An IT outsourcing partnership consists of a service recipient and one or more external service providers and the relationship between them. The service recipient hands over the responsibility for the execution of the IT services to the service provider but remains the responsibility for managing the IT outsourcing partnership. The relationship between the service recipient and the service provider is defined in contracts describing the mutual obligations. The contract value of IT outsourcing partnerships is substantial, meaning over 10 million US$ or Euros. These contracts are also long-term contracts. The average duration of contracts is over 36 months (Cox, 2002). This description is based on the work of Lacity and Hirschheim (1993), Willcocks, Fitzgerald and Feeny (1995), and Currie and Willcocks (1998). The IT services outsourcing market is still growing every year, approximately 10% (Cox, 2002). Therefore, it is essential that sufficient attention be devoted to the governance of IT outsourcing partnerships.

BACKGROUND

Yet, not all organizations that have outsourced their IT services are satisfied. The reasons why outsourcing does not always result in success are legion. On the basis of both the literature, as well as actual practice, three important factors that influence the success of an IT outsourcing partnership have been identified: maturity of the service recipient, the degree of flexibility inherent in the contracts and the ability of the service providers to integrate the IT services taken over into their own organization.

Maturity

Service recipients with prior outsourcing experience are better able to implement the governance structure required for IT outsourcing partnerships (McFarland & Nolan, 1995). However, most organizations have limited experience with outsourcing (Willcocks & Fitzgerald, 1994), particularly outsourcing relationships that involve the management of multiple IT outsourcing suppliers (Currie & Willcocks, 1998).

Flexibility

Most outsourcing contracts are of long duration, however, and are not structured to allow changes in information needs to be easily operationalized (Klepper, 1995). This requires procedures for dealing with changes that lead to situations that are not covered by the contract: the Liaison Model (Burnett, 1998). This procedure is used as a basis for formulating agreements between both parties that complement the signed IT outsourcing contract: the concept of ex-post negotiations (Hart, 1995).

Integration

The service providers must integrate the IT services, including the IT professionals taken over, into their own organization. Objectives can only be realized through integration (Lacity & Willcocks, 2001). Many service providers have difficulty with this integration, however. In addition to management attention, initial investments constitute an important issue related to integration and result in an increase in costs (Beulen & Ribbers, 2002).

FRAMEWORK

In line with the definition of IT outsourcing partnerships, the descriptive framework for the governance of IT outsourcing partnerships contains three dimensions. The framework includes governance factors for the service recipient, the relationship between the service recipient and the service providers, and the service providers.

Table 1 contains a summary of the governance factors. These are further explained in the next three sections. The governance factors are based on the case studies analyzed – see Table 2 – the interviews with the experts, professional judgment and a study of the literature.

GOVERNANCE FACTORS RELATED TO THE SERVICE RECIPIENT

There are four management factors related to the service recipient: attention to IT within business units, a clear IT strategy, information management as the link between business functions and service providers and a properly

Table 1. Governance factors by dimension

Dimensions	Governance Factors
The service recipient	1.1 Attention to IT within business units=
	1.2 A clear IT strategy
	1.3 Information management as the link between business units and service providers
	1.4 A properly functioning Chief Information Officer
The relationship between the service recipient and the service providers	2.1 Mutual trust between the service recipient and the service provider
	2.2 Experience in establishing and maintaining IT outsourcing relationships
	2.3 Efficient and effective IT outsourcing contracts
	2.4 An audit & benchmark process in place
The service providers	3.1 Adequate contract and account management
	3.2 Adequate service delivery processes
	3.3 The availability of human resources to service providers

Table 2. IT outsourcing partnerships analyzed

Firm	Sector	# of Employees	Region(s)	Total Contract Value in US $	Contract Start Date	Contract Duration (Years)
1	Discrete Manufacturing	6,2	Europe	30 million	1992 (already renewed)	5
2	Utilities	1,8	Europe	23 million	1996	5
3	Discrete Manufacturing	200	Asia	21 million	1998	5
4	Services	200	Europe	40 million	1997	5
5	Process Industry	68	Europe/Asia/ North	Yearly revenues 90 million (750 employees)	1999 onwards	Purchase of internal IT division
6	Process Industry	68	Asia	0.4 million	1999	3
7	Tele-communications	100	Europe/Middle East/Asia	Confidential (> 20 million)	1997	5
8	Media	8	Europe	4 million	1995 (already renewed)	5
9	Discrete Manufacturing	2	Asia	1 million	2000	2
10	Utilities	2	Europe	100 million	2000	5
11	Discrete Manufacturing	200	Europe/Asia/ Americas	Yearly revenues 550 million (initially 1,500 employees)	1990 onwards	Purchase of internal IT division (various contracts)

functioning chief information officer (CIO). These factors are further explained in this section.

Attention to IT within Business Units

The outsourcing objectives of service recipients are often focused on cost savings (Outsourcingproject, 2002). This is not necessarily in line with the information needs of the business units of the service recipient. Building on this, business units should no longer judge IT on the basis of costs, but on the basis of its added value. A shift must take place from the minimization of costs to the maximization of business impact (Kotwica and Field,1999). When business management pays proper attention to IT, the organization is able to anticipate needs in a timely fashion. In view of the ever decreasing time-to-market, it is not an