Chapter XII

Governance in IT Outsourcing Partnerships

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ABSTRACT

An IT outsourcing partnership consists of an outsourcing relationship and one or more external IT suppliers and the relationship between them. Alignment of mutually set goals of the IT outsourcing relationship is a prerequisite to achieve governance. In order to achieve governance the management of IT outsourcing partnerships is also essential. Managing an IT outsourcing relationship requires substantial effort from both the outsourcing organisation and the IT supplier.

This chapter is based on 11 international IT outsourcing partnerships, five expert interviews and on literature. Three dimensions are described in a descriptive IT outsourcing partnership governance framework: outsourcing organization, the maintenance of the relationship, and the IT supplier. Eleven governance factors are detailed in the framework. These governance factors include guidelines for the implementation of the IT strategy and the information management. Furthermore, this chapter focuses on the IT outsourcing contract. The role of the contract management and account management of the IT suppliers and the implementation of global service delivery processes is also detailed in this chapter.
INTRODUCTION

Just as it is necessary to align the business strategy with the IT strategy (Rockart & Morton, 1984; Henderson & Venkatraman, 1992; Brown & Magioll, 1994), it is also necessary to align the IT strategy with the sourcing strategy (Quinn & Hilmer, 1995). Only a sound sourcing strategy will result in proper IT Governance (Dreyfuss, 2002) and solid IT outsourcing partnerships (Lacity & Hirschheim, 1993; Willcocks & Fitzgerald, 1994; Earl, 1996).

Organizations basically have two options for sourcing IT services: they can either provide the IT service themselves through their own internal IT division — insourcing — or use external IT suppliers — outsourcing. These choices are based on a “make or buy” decision whose essence is described by Coase (1937) and Williamson (1975).

The focus will be on the governance of IT outsourcing partnerships, not insourcing, and covers the governance of IT outsourcing partnerships from the perspective of both outsourcing organization and IT supplier. It aims to provide a better understanding of governing IT outsourcing partnerships by proposing a descriptive framework with governance factors.

The definitions of the most important concepts related to the governance of IT outsourcing partnerships and the positioning of IT outsourcing partnerships are detailed in first section. The second section sets out the research framework used. The third section explains the management of IT outsourcing partnership issues. A descriptive framework for the management of the IT outsourcing partnership is described in the fourth section and is further developed in the fifth through seventh sections. Future trends are developed in the eighth section. The final section contains the conclusions.

DEFINITIONS

The literature first devoted attention to IT outsourcing partnerships in 1990 (Gantz, 1990; Rochester & Douglas, 1990). An IT outsourcing partnership consists of an outsourcing organization and one or more external IT suppliers and the relationship between them. This definition is based on the work of Lacity and Hirschheim (1993), Willcocks and Chio (1995a) and Currie (1998). The IT services outsourcing market is still growing every year. Trend analysts such as Morgan Chambers, IDC and Gartner predict annual growth figures of approximately 10% (Morgan & Chambers, 2001; Lamy, 2001; Cox, 2002a). This growth is also confirmed by publications such as the OutsourcingProject (2002). In addition, market analyses carried out by Gartner indicate that more and more organizations are outsourcing IT services related to their primary business processes. Furthermore, outsourcing organizations are outsourcing complete business processes (Brown & Scholl, 2002). This increases the impact of the IT outsourcing partnership for outsourcing organizations and is further discussed. All of these factors make it essential that sufficient attention be devoted to the governance of IT outsourcing partnerships. Governance will be defined.

To position the governance of IT outsourcing partnerships, it is essential to properly understand the advantages and disadvantages of outsourcing and to further develop the elements of an IT outsourcing partnership.
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