

Chapter 11

Conclusion

Achieving superior performance in IT outsourcing relationships is both a demanding and a rewarding activity. To perform well managers need to understand outsourcing opportunities, critical success factors, company value configuration and maturity for outsourcing, the need for knowledge transfer, and management and control of outsourcing arrangement.

Outsourcing opportunities can be derived from resource-based theory, transaction cost theory, activity theory, agency theory, or other theories of the firm. Based on such opportunities, companies develop business-oriented enter strategies. A strategy defines vision, mission and objectives of the firm. It includes changes in electronic business and other important business areas that impact future use of information technology. The strategy analyzes business direction, information management strategy, and ambition level for IT outsourcing.

The theoretical and empirical based *critical success factors* serve as recommendations for what to outsource and how to succeed in managing IT outsourcing relationships.

Outsourcing business functions, managers must first understand – the underlying business logic of their firm, the company's *value configuration*, and how resources such as information systems affect the performance of various component activities.

The *maturity model* can be applied for strategic planning to understand both state and direction of development in client-vendor relationships. To guide developmental energies at lower levels of orienta-

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tion, which provide additional understanding of the transitional events, individuals and organizations have to accumulate experience in order to move and grow from one stage of development to the next, i.e., from cost stage, through resource stage and into partner stage.

Knowledge management is important to strengthen know-what, know-how and know-why at both the vendor and the client. Knowledge transfer mechanisms have to be installed to handle troubleshooting, technology upgrades and emerging business needs.

Cost controls include both production and transaction economics. Hidden costs are of particular interest, as well as contract development and management costs. To appreciate the cost benefit ratio of outsourcing, both planned and unplanned benefits have to be included in the equation.

Managing IT outsourcing performance is concerned with exploiting outsourcing opportunities and avoiding outsourcing threats. We should remind our self of some of the outsourcing threats suggested by Barthélemy (2003) to avoid them. Outsourcing activities that should not be outsourced can be avoided by thorough understanding of business goals, company boundaries and resources. Selecting the wrong vendor can be avoided by exploring both contractual and relational reactions of potential vendors. Writing a poor contract can be avoided by organizing a qualified contract team that includes a good lawyer. Overlooking personnel issues can be avoided by retaining key employees and securing transfer of employees to the vendor. Losing control of the outsourced activity can be avoided by complementing vendor management skills with technical skills. Overlooking hidden costs of outsourcing can be avoided by identifying search and contracting costs, vendor management costs and other potentially hidden costs. Failing to plan an exit strategy can be avoided by explicitly anticipating the end of an outsourcing contract before it is signed.

An important part of managing successful IT outsourcing relationships is to secure strategic, economic, and technological benefits. This cannot be achieved and controlled without some kind of *performance measurement*, e.g., in terms of service quality, client satisfaction, partnership quality, and overall success of the outsourcing relationship.

Transparent *governance structures* may be based on the interaction approach. Management control systems have to be implemented, including regular performance measurements. Partnering relationships have to be defined, and acceptable partnership quality has to be achieved. All stakeholders have to be considered and included in the governance structures. Both hard and soft sides of outsourcing have to be included in the governance structures.

Effective handling of personnel issues includes humane and predictable human resources management in times of IT staff reduction and transfer, employment protection, pension considerations and handling of persistent managerial expectations. For example, transferred IT personnel from client to vendor may not be employed to work with the previous employer. Rather, a contingent approach can imply that transferred personnel are trained in new areas to serve other vendor clients.

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