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Chapter XI

Sourcing Practices

IT Outsourcing Performance

The rapidly increasing use of outsourcing for IT services, both in the public and private sectors, has attracted much interest from researchers and practitioners alike. While early studies of IT outsourcing were largely qualitative in nature, more recent studies have attempted to analyze the outcomes achieved in quantitative terms. Domberger et al. (2000) are consistent with the latter, but goes further by modeling the price, performance, and contract characteristics that are relevant to IT outsourcing. A two-equation recursive regression model was used to analyze 48 contracts for IT support and maintenance.

The results did not reveal any quantitatively significant price-performance trade-off, but did suggest that first-term contracts (i.e., the first ever contract awarded by a client for the provision of a particular IT service) were more expensive than repeat contracts. Although competitive tendering did not result in lower prices than directly negotiated contracts, it was associated with comparatively better performance. Well-defined expectations of an organization's IT requirements were also likely to lead to improved performance when the service was outsourced.

Domberger et al. (2000) measured IT outsourcing performance by both desired performance and realized performance. Clients typically have an expectation of service quality prior to awarding a contract. This can be referred to as desired performance. A necessary part of contract management involves an assessment of the realized performance of the

contract. The clients responding to the study were asked to rate the desired performance and realized performance of the contracts for each of the following eight service attributes.

1. Service availability and timeliness
2. Out-of-hours availability
3. Response in emergencies
4. Provision at expected cost
5. Delivery to expected quality
6. Accuracy of advise
7. Correctness of error fixes
8. Minimization of system downtime

The original scale for the desired and realized performance ratings was from one to four. A rating of 1 corresponded to not important for the former and unsatisfactory for the latter, while 4 corresponded to very important and excellent, respectively. Ratings that were not reported were filled with zeros to preserve the continuity of the scale on the assumption that they were considered irrelevant or very low in terms of desired or realized performance.

The eight service attributes listed were taken to represent measures of quality. For the purposes of analysis and estimation, a single quality/performance variable was sought. Here there were a number of choices. One possibility was to construct what is called principal components. The first principal component, which explained approximately 50% of the variation in the attributes, is essentially a simple average of the realized ratings. It turned out that the responses were all positively and highly correlated. Thus, the simple average of the ratings attached to the eight attributes represented a simple and readily interpretable choice for a single performance variable.

A second possibility was to consider the realized performance relative to the base, as represented by the desired performance ratings. Constructing a new set of attributes by subtracting the desired from the realized rating for each attribute and contract results in data that has as its first principal component a variable that is essentially the simple average. Once again, this accounted for approximately 50% of the variation in the data. Thus, a second possible proxy for the performance variable is the average of the eight realized minus desired attributes. Rather than choose between these alternative proxies, the results for both realized and differences were reported by Domberger et al. (2000).

Mean of the eight realized performance ratings was 2.97. This result can be interpreted as satisfactory, but not excellent, indicating that the average response by the 48 firms was that they found realized performance to be satisfactory. Mean of the realized minus desired performance ratings was -0.49. The negative mean for this performance variable indicates a slight tendency to under-perform relative to the desired levels of service quality.