

**An Educational Enquiry: Why Organisations Need to
Manage Outsourced IT Contracts.**

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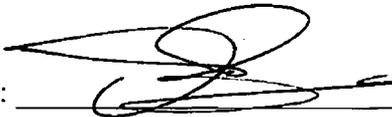
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DECLARATION

I hereby certify that this material, which I now submit for assessment of the programme of study leading to the award of BA (Honours) in Business is entirely my own work and has not been taken from the work of others save and to the extent that such work has been cited and acknowledged within the text of my work.

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ABSTRACT

Chapter 1 Introduction: In this chapter the author wanted to provide reasons as to why IT outsourcing and the need to manage contracts effectively was chosen as a topic.

Chapter 2 Literature Review: in this chapter the author introduced supporting literature that has been written in the chosen field of study

Chapter 3 Research Methodology in this chapter the author explored the techniques used in creating the medium to capture the data from research methods deployed

Chapter 4 Research Analysis in this chapter the author amalgamated the findings from the means used in the research stage of the thesis.

Chapter 5 Recommendations and Conclusion in this chapter the author suggested recommendations and concluded the thesis from the information gained while researching the chosen subject

DEDICATION

I would like to dedicate this thesis to my late father Daniel Breen he was a UCD graduate and a life long educator. I know he would have been very proud and probably have said about time!

ACKNOWLEDGEMENTS

I would like to thank my mother Margaret Breen, family and friends for their support and guidance over the years and also for believing in me. I would like to especially thank Sarah for all her support and not going insane from having to live with me during the stressful times.

I would like to thank the lectures and staff of The National College of Ireland for all their guidance through out the four years. I would also like to acknowledge Nora O’Gara for all her hard work and guidance in preparation of this thesis.

And finally to the friends that I made during the years, especially Gareth Dunne, James Johnston and Anthony Gorman they made the years and tasks seem a little easier.

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CHAPTER 1: INTRODUCTION

What is IT? IT is the abbreviated symbol widely recognised to mean information technology. IT has become entwined in business as much as the social gathering in business known as the meeting. IT is any technology that helps the organisation communicate or collect valuable information about its customers, partners, and employees. Most organisations have become so dependent on their own IT infrastructure that simply put, if IT fails for any reason, the organisation is left crippled without it. Organisations spend vast amounts of capital in disaster recovery solutions for their valued IT infrastructure. However IT is becoming increasingly complex, the result being that to keep IT fully in-house, it can cost organisations highly to manage the entire IT infrastructure.

Outsourcing IT to an external organisation that have the technological know-how to monitor systems, applications and in essence, take on the function of the in-house IT team has become very popular in recent years.

IT is no longer a standalone department that operates to 'keep things ticking over' Rather, it is the key to success of many organisations, and at the core of the business rather than on the periphery. Considering this viewpoint, it is imperative that organisations need to consider a) the decision to outsource and b) the selection of outsource partner extremely carefully. If outsourcing is considered solely as an cost-cutting exercise, the business needs to assess the other 'costs' that

are associated with outsourcing, such as potentially loss of control, lack of innovation and becoming too distant from the technology.

In this thesis the author will investigate how the IT Outsourcing contract, if managed properly can help to create sustainable competitive advantages in the now global competitive market. As a result of the investigative work on this subject, the author would like to research and present the gains from effectively managing IT outsourcing contracts.

CHAPTER 2 LITERATURE REVIEW

2.0 The Changing Landscape of IT Outsourcing

The business landscape is changing. Outsourcing is now a growing phenomenon (about 10% year on year globally) in which specific functions are subcontracted to specialist companies, sometimes elsewhere in the world. IT represents a particular case for outsourcing, both in terms of benefits and potential inter-organisational problems. Deciding whether to keep IT in-house or whether outsource it is a key management responsibility. Once a decision for outsourcing has been made, relationships with external provider(s) have to be established and managed (Ribbers P, pp.101, 2006)

As the general arena for outsourcing in business is vast, the author will be focusing on IT outsourcing and specifically on the need to manage the relationship between the organisation and the third party vendor. The author will analysis the framework in attaining key performance indicators that attribute to successful relationships, especially in the cases where cost cutting is not the main objective.

Advancements in the ICT (Information Communication Technology) industry are continuing to strive at an alarming rate. The mobile office is now a major buzzword in the business community. Organisations are now under pressure to keep up with technological leaps, to provide employees access to mission critical information, when and wherever they need to access this information. Some organisations however, feel that their core competencies are found within other disciplines other than the IT field. Therefore, the decision to outsource this business process becomes valid.

IT professional can be expensive to hire, IT managers salaries can reach on average €50,000-€80,000 range and IT support staff can range from €30,000 – 45,000 and usually a team is needed for larger and more complex organisations.

Maurice Mortell, CEO of DataElectronics an Irish based Tier IV data housing and managed services provider comments

“If you take that approximately 45% to 50% of calls to IT helpdesk support within organisations is often for password reset and general maintenance queries i.e. the printer is down. It seems the IT department and IT management is not being utilized for their skills, therefore become a repair centre instead of a support function for delivering IT policies in line with the organisational goals”

Maurice comments reflect the theory that outsourcing IT functions is more about freeing up time for IT professional to work on more important strategic projects, than merely saving money.

However, some organisations that partake in outsourcing may not fully appreciate the opportunity that with effective management, outsourcing can lead to more innovation and better ROI on their overall operation rather than just their IT function. The author will be discussing the Deloitte report on outsourcing on a global level where 300 executives were profiled on their experiences of outsourcing when annual spend on outsourcing was in the region of \$30m to \$50m. The results even though they are secondary data have major relevance to this thesis.

2.1 The History of IT outsourcing

IT outsourcing is not as new as most would imagine, Sparrow writes that when the first mainframe computers were invented, the size and complexity of these machines and the specialized environments that housed these giant computers encouraged outsourcing to be utilized so as to curtail the expense involved in purchase and management of this IT equipment.

Sparrow claims the first uses of IT outsourcing by organisations was to outsource the processing of payroll and other accountancy applications. Computer bureaus were established and would provide organisation that could not afford to invest the vast amounts of capital needed to purchase the mainframe computers. The organisation would purchase time on the bureaus mainframe computer, Sparrow claims that this was the first example of IT outsourcing. (Sparrow,E. ,pp.2,2003)

In the 60's and 70's with the introductions of mini computers and then micro computers and the falling price of hardware and the more advanced machines organisation could now afford to develop in-house computer systems. Sparrow also claims that as the organisation were investing in their own IT resources, this was leading the organisations to achieve a competitive advantage and Sparrow points out four reasons:

1. running all operations in-house was perceived to be beneficial;
2. there was little competition in the IT services market
3. the wide span of activities came through acquisitions and mergers
4. vertical integration was pursued as it was seen to give greater control.

As IT became popular, IT transformed from being viewed merely a way in which organisations could achieve competitive advantage alternatively managers started to view it as a viable business function.

2.2 The Evolution of IT outsourcing

Technology such as the internet has been a catalyst to the entire function of IT outsourcing. IT outsourcing is a multi billion dollar industry and covers everything from Business Process Outsourcing (BPO), Customer Management Outsourcing (CMO), Network Repairs & Responses, Call Centre's, IT Helpdesks, IT Maintenance and Server Hosting, all of which are a major revenue for outsourcing service providers. Server Hosting is where organisations that need many servers called server farms or clusters, like the old mainframe, when many servers are kept together they require specialized environments and very skilled technicians to monitor them. The internet and especially fiber optic cable technologies connected to complex telecommunication hardware has made it possible for organisations to outsource or offshore these activities to specialist third party vendors. (IBM website) The main focus has been as a cost reducing exercises.

While working for TechNiche Ltd, a company specializing in Network Solutions, the author was consulting and selling cutting edge technology, one of which was VMware, a US based software. This particular software is very much responsible for taking outsourcing to a new level. Now organisations can reduce the amount of high-end servers through the use of the VMware software, which essentially increases the overall efficiency of hardware, allowing the virtual server software of multiple servers in the one physical box.

Outsourcing was seen as a way of reshaping the organisation to create more flexible companies, focused on core abilities and improving relationships with customers. Sparrow points out other factors that supported the trend to outsource IT

- ☛ the global skills shortage
- ☛ a more mobile workforce
- ☛ increasing costs of in-house developed software
- ☛ the need to move fast, adopting new technologies quickly and speeding up systems development
- ☛ the explosion of internet technologies and services requiring a wide range of new skills and investments. (sparrow E, pp.2&3 ,2003)

IT Outsourcing has grown at a phenomenal rate over the past decade worldwide. It seems that periods of economic downturn causes an increase in outsourcing when organisation try to contain costs. Organisations try to lower unpredictable costs into fixed costs. IT outsourcing was also increased when Governments in the 1980's & 1990's wanted to radically change the way in which public sector operated. They wanted public sector to adopt the efficiency that was more commonly found in the private sector. In the UK the government created a programme called "market testing" where in-house services which included IT services, were compared in relation to value for money against external service providers. The result was that a large amount of the governments IT services were outsourced. (Sparrow E, pp.4,2003)

2.3 The Classical Approach to IT Outsourcing

Organisations have viewed IT outsourcing as a cost cutting exercise or to allow the organisations to focus on their main core competencies. One example is Scotiabank, who hired IBM Canada in an outsourcing deal worth \$578.3 million over seven years. IBM manages the bank's domestic computer operating including data centres, branches, automated teller machines and desktop PC's for 24,000 employees. Scotiabank decided to outsource key IT functions because it wanted to focus on its core business delivering financial services. (sparrow,E,pp.19,2003)

While working in TechNiche, the author came across a lot of companies that would outsource some functions of their IT; many of which would use TechNiche for day-to-day help, but not for help in innovation in IT, or advice on how IT could change the strategic direction of the company.

From the perspective of adding value from the outsourcing provider, areas such as disaster recovery, remote monitoring and software upgrades from older Microsoft packages seem to be the prevalent, all of which depend of the quality of the relationship between the two. In a report carried out by Deloitte Consulting firm, this sentiment seems to be echoed throughout the report. The research project where 300 top executives from globally operating firms were surveyed to rate their relationships with their respective outsourced provider. A great majority of the respondents achieved their return on investment goals, and a majority 70% stated that they were satisfied or very satisfied with their arrangements, Deloitte comment that this was the highest level reported.

However Deloitte's survey did discover some negative feedback in relation to the executives experience on outsourcing, 39% of 300 reported that they had terminated at least one outsourcing contract in their careers. Also all that had reported being dissatisfied with their largest contract whilst 50% had brought the function back in-house. A large proportion (60%) had reported problems that had to be escalated to senior management.

The findings that pay particular weight to this thesis is the theory that the management of outsourced contract has to go beyond financial reasons and transform from the 'provider' to the 'partner' to allow cross organisational innovation.

Deloitte uncovered in the survey that even though 70% of the respondents that answer 'satisfied' or 'very satisfied' to their outsourcing deals, just 34% of the executives reported that they had gained important benefits from innovative ideas or transformation of their operations which could be attributed to their outsourced provider. 35% of executives including 55% of executives who were not satisfied with their outsourcing deals wished their companies had spent more time on vendor evaluation and selection. Deloitte also asked if they could go back to the start of their outsourcing deals what would they do differently. 49% of the respondents said they would define service levels that better aligned with their respective company goals.

Also the executives surveyed that had been dissatisfied with their outsourcing contracts noted the following to be the main issues:

- underestimated scope
- higher than expected costs
- poor quality communications, service, and reporting from their service provider

The findings of the Deloitte report does add a lot of support to the theory that IT outsourcing can satisfy financial and ROI goals. However the classical approach taken by organisations is only really focusing on the cost cutting or time shaving aspects of IT outsourcing. The report did highlight that even though the majority of respondents were overall happy with their outsourced provider that these same respondents were not content with other areas of the relationship. Only 34% of respondents were happy that the outsourced provider was coming up with innovative ideas for their business and helping to improve the operational side of the business. However is it just merely up to the outsourced provider to spear head this?

The foundation for this thesis and the authors own research is to find out what clients in Ireland expect from their respective outsourced providers. From research, the author does not believe that the relationship is a one-way street and that it is the service providers duty to take it on their own back to come up with innovative ideas for adding value or changing operational procedures if the organisation is not meeting and assigning a team to actively manage and monitor the relationship. Therefore both organisation need to manage governance and relationships through cross organisational teams (Schouker,I,pp83,2008)

2.4 Analysis of management theory

In this next section of the thesis the author would like to investigate some of the management theories in relation to IT outsourcing.

2.4.1 Theory of Core Competencies

The Theory of Core competencies suggests that any activity within the organisation that is not classed as core should be outsourced to a best in breed third party vendor. (Hancock & Hackney 2000) This theory claims that employees in non core activities are surplus to value-added activities. For example, a website designer working for a law firm might be excluded by the lawyers as their activity would not be considered to be core by the lawyers. However Hancock and Hackney use the public sector as an example of how sometimes it is harder to distinguish what is non core or core. They also put forth that the government might try to discover what is their core competencies through what they termed a “residualisation process” outsourcing till the shoe string pinches or a political backlash is triggered.(Hancock & Hackney pp220, 2000)

It also seems that some organisations might value IT as a core competency, even though it might be well versed in the potential of IT. An ideal example is the Amazon.com mission statement which describes their vision to become the biggest online book store. However to achieve their goals not only would they need the expertise in what books to sell as the medium chosen to sell was via the web. Amazon would also have to know as much about IT as it would need to know about books. Hancock and Hackney claim that even if an organisation views IT as core and as a leading contributor to its advantage, it will still outsource its IT. This may be because IT can be considered core at the corporate level, but some of its aspects at lower levels might be commodities. In the Amazon example, Amazon specialize in Books online, so they need IT to achieve this. IT is a means to an achievement, so they do not necessarily the IT skills to succeed. Thus, the complexity of IT and it's (at least in part) core nature, may make the contracting out of IT a particularly challenging exercise. The ability to define IT requirements and to monitor their delivery by third parties may be some of the core IT competencies that any organisation must

have if it is to outsource IT successfully. It can even be argued that the very acts of specifying and managing supply contracts can themselves give competitive advantage Outsourcing of non-core competencies will continue to be important, as such arrangements place responsibilities, e.g. for IT, logistics or production functions, in the hands of the constituent most capable of performing these successfully (Hancock and Hackney, pp.223, 2000).

2.4.2 Transaction cost theory

Transaction costs arise because complete contracting is often impossible and incomplete contracts give rise to subsequent renegotiations when the balance of power between the transacting parties shift (Williamson, OE, pp. 242 1979) Gottschalk and Solli-Saether put forth five attributes of business exchange are positively associated with transaction cost:

1. the necessity of investment durable, specific assets
2. infrequency of transacting
3. task complexity and uncertainty
4. difficulty in measuring task performance
5. interdependencies with other transactions

They claimed that early investment in durable, transaction-specific assets given the example of human and physical capital will shift the balance of power between the transaction participants. As in later renegotiations these costs are sunk costs of the party that occurs them. They also wrote that infrequent transaction will enhance the opportunistic behaviour in later periods by reducing the threat of retribution. They claimed that when broader market reputation was at stake then infrequent transaction may be sustainable. Gottschalk and Solli-Saether did propose that long

term contracts do not provide a adaptation mechanism , and due to the inflexibility of the contracts delays will occur. The five transaction attributes indicate settings in which opportunistic behavior is likely. If transactions costs offset production cost advantages of the external supplier, the firm subsumes the activity –an outcome termed vertical integration or in-sourcing (Gottschalk& Solli-Saether). So we can see a link to the to Deloitte report when the dissatisfied respondents claimed higher than expected costs. This could be conceived as empirical data that inefficiently managed IT contracts can have a reverse reaction than the mainly perceived notion that IT outsourcing can cut cost. It also shows that uncertainty and inflexibility in the contract can lead to outsourcing becoming more expensive than carry out the function in house.

2.4.3 Contractual theory

An outsourcing contract provides a legally bound, framework in which each party's rights, duties and responsibilities are set out also the goals, policies and strategy underlying the agreement are laid out. An outsourcing contract propose is two facilitate exchange and prevent opportunism. The contract can also reduce moral hazards and also protect each parties intellectual property (Gottschalk and Solli-Saether et al). As with the outsourcing of IT both organisation will at some stage be privy to confidential information. Therefore the contract must provide guidelines and procedures on how the information should be treated by both parties. It provides a safeguard against ex post performance problems by restraining each party's ability to pursue private goals at the expense of common benefits. An incomplete contract may bring about ambiguity, which creates a breeding ground for shirking responsibility and shifting blame, raises the likelihood of conflict, and hinders the ability to coordinate activities, utilize resources, and implement strategies (Luo, Y, pp.910,2002)

Kerns and Willcocks quoted that third party legal experts have been rallying for comprehensive contracts as they are used as a reference point for how the client and vendor relate. Kerns

Key IT outsourcing contractual issues is such as service levels, transfer of assets, staffing, pricing and payment, warranty and liability, dispute resolution mechanisms, termination, intellectual property matters, and information security (Lee, MKO 1996).

2.4.4 Partnership and Alliance Theory

The Partnership and Alliance Theory is one of the base theories in IT outsourcing. Gottschalk and Solli-Saether claimed that it could reduce the inadequate contractual provision, they claim can be comforting for clients especially those entering into complex and high value IT outsourcing deals. They also wrote that the relationship between vendor and client, the client becomes too dependent on the vendor, and they suggest that goals are not conveyed or discussed openly. According to Lambe, Spekman and Hunt alliances are broadly defined as collaborative efforts between two or more firms in which the firms pool their resources in an effort to achieve mutually compatible goals that they could not achieve easily alone. Resources here are defined as any tangible or intangible entity available for use by a firm to compete in its marketplace. (Lambe, Spekmen, Hunt, pp.141-158, 2002) Gottschalk and Solli-Saether claim that inter-firm business relationships are collaborative, rather than adversarial in nature, a variety of types of these relationships may be classified as alliances, for example outsourcing. (Gottschalk & Solli-Saether).

In the next part of the thesis the author will discuss why building a relationship is the most vital aspect in business and also in successful managing IT outsourcing contracts.

2.5 Building IT Outsourcing Relationships

As with many aspects of life building relationships is a fundamental part of human life from childhood we develop social skills that will help us as we grow into adulthood. Relationships are the basis of every business-to-business transaction. The author has worked in sales for ten years now and the ole adage “people buy from people they like” is a very true synopsis. When a customer is looking into buying some product or service they sometimes are not fully aware of the product/service and can feel vulnerable or do not want to be lead up the garden path to coin a phrase. The customer needs to feel comfortable and trust the person/organisation that is telling them about their product/service. Trust, credibility, professionalism are key factors to building an initial relationship in business. IT outsourcing is a complex business arrangement and Sparrow claims a relationship built for the long term will be more successful than ones for a quick fix economy drive. (Sparrow E,pp.100,2008)

A lot of authors researching business relationships talk about the win- win scenario. The basis of this train of thought is that both parties concerned in the relationship should come out of it feeling that their own objectives were accomplished and neither party was left feeling they had the short end of the stick. Sparrow claims that there is a culture within some organisation, promoting a practice of “beating” down the supplier and completely focusing on getting the price down. Sparrow also comments if an individual is to look at the bigger picture in terms of service, reliability, innovation, is considered by management to be soft this can adversely effect the individual career prospects. During the author’s experience in sales, it is evident that there are times that one will try to pitch sometimes 10% over the best price so as to accommodate if the

client does try to negotiate, this will aid in closing the deal. The seller has succeeded by making the sale and hitting the target price, while the client feels they have got a fair reduction so both parties have won, hence the win-win scenario.

As reported in the Deloitte report, of all the respondent satisfied and dissatisfied felt that their outsourced provider was not coming up with innovative ideas to increase their operational process through IT. This is why building the relationship is so important to both concerned in the contract. Communication is a key factor; this will enable a forum with regular meetings to discuss more relevant ideas, new technology that could have an impact for the clients operating procedures. One example arose while the author worked for TechNiche; a client was unaware that TechNiche had the ability to completely monitor multiple sites that the customers had, even though this had been discussed at an early presentation. The initial persons attending the meeting felt that was not an important point, however further into negotiations with more senior management, the perception arose that TechNiche was unable to provide a complete multi-site server monitoring was causing barriers to the progression. This shows that building relationships is a key component to success, and as the follow up meetings progress, there is more time to discuss the specific aspects of the service. The outsourced provider can become more in tune with their clients unique business and learn how it operates. As the trust grows so does the clients comfort level to discuss issues that the outsourced provider might be able to solve through the already invested IT hardware and software. Building the relationship is not an easy task: it takes trust, communication, win-win scenarios and complete commitment from top management on both sides.

2.6 From Service level Agreement to Partnership

Service Level Agreements (SLA's) are the standard operating procedures used in outsourcing IT contracts. They are essentially the guidelines outlining the role of both organisations within the contract. They will point out every aspect of the partnership from standards to the hardware and software that will be outsourced. The service that will be provided, for example if a server crashes the outsourced provider will be on site in 2/4 hours to fix. The SLA also implements a plan of action in machine or system down scenarios. The SLA will instruct the client to level of service they will receive as mentioned the time frame from crash to an engineer arriving on-site. The SLA will also guarantee that only certified engineers will carry out the work. In circumstances where the server cannot be repaired, the supply of replacement equipment by the provider will be in the SLA. The escalation process will be identified in the SLA as most third party vendors will be able to attain better service from the OEM (Manufacture Warranty Work) due to the level of work submitted by the outsourced provider.

The SLA is an significant piece of the contract and most often contracts will be won on the strength of the outsourced vendors SLA, as services are intangible in sense cannot be physically examined and trying out the service on a trail version is more complex in larger organisation deals. Therefore the SLA can be the vital aspect in clinching the deal.

However most companies view detailed SLA's as the foremost concern in outsourcing. Schouker argues that the most compelling challenge for outsourcing is to genuinely mature as an effective tool in the management arsenal of sophisticated business he claims it has to be understood, planned and managed as a partnership.(Schouker I,pp.82,2008)

From the author's own experience and dealing with many IT managers, the author found that companies that provide training in addition to the main product selling, system integration and formal consultancy services seem to build better long standing relationships. As they carry out training their presence within the account is much greater. This leads to building credibility and also encourages repeat business. They also will be able to create informal relationships, which once managed, will give way to inclusion in the business-to-business vendor selection process.

This informal relationship encourages friendship with senior management, knowing about upcoming projects before competition becomes aware, and ultimately the supplier of choice.

This all seems straight forward but it is very difficult to go from a service level agreement to a partnership especially nowadays where technology has played a two fork approach. The advantage of business tools such as email, internet, video conferencing, webinars etc. is undoubtedly beneficial to businesses today, however, there is a flip side which results in a lack of social interaction between client and provider making the transition between the service provider to trusted partner very difficult to accomplish. A face to face meeting is too often regarded as a last resort, with preferential methods of contact being less personal and less favorable to building a solid relationship.

As mentioned earlier the author suggests a way to overcome such obstacles, training clients on the new technologies or new hire situation can help to cement the relationship and could be viable answer to the changing customs in business and epidemic of social phobia caused by the very tools being outsourced. Corporate Events also provide this opportunity and might be investigated.

According to Shouker he points out the following steps to transform the relationship from service level to partnership.

- ☛ Ensure clarity in value creation and coherence with corporate direction.
- ☛ Strike a balance between business and legal risk assessment
- ☛ Elevate the SLA into a charter and establish a culture of transparency and trust
- ☛ Manage governance and relationship through cross-organisational teams
- ☛ Plan evolution and scope restructuring upfront.(shouker I et al,pp.83,2008)

Shouker's figure 1 below gives a visual representation of Shouker's process from SLA to partnership by creating long term value. The example of offering training in the practical outsourcing is one way to create long term value.

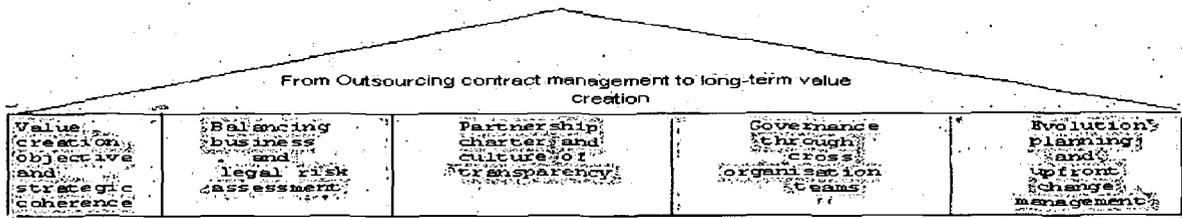


Table 1 sourced from Shouker

CHAPTER 3 RESEARCH METHODOLOGY

3.0 Research Objectives

The primary objective of this research is to determine what level of management exists in the relationship between clients and the IT outsourced providers.

The author intended in discovering how clients rated the relationship between the organisation and the third party vendor. In summary the objectives are:

- ✦ To identify clients opinions of the overall service being provided by their outsourced provider
- ✦ To establish the amount of time spent with the provider
- ✦ To gain insight into key drivers to outsource their IT function
- ✦ The level of management making the decision

3.1 Secondary Data

Emory and Cooper highlight how data obtained from secondary sources plays a number of important roles in any study. Secondary data e.g. studies made by others for purposes other than the researcher's specific project, provide the researcher with a background against which their own findings can be compared and contrasted. It helps the researcher appreciate what type of research can contribute the subject topic being studied and how past studies can make progress of the present study more efficient.

The secondary research in this thesis consisted of the relevant literature available from the libraries of the National College of Ireland, the online databases of Athens and EmeraldOnline.

The secondary data acquired came mainly from the periodical journals, books, online papers relevant to the topic. Independent reports from Ireach publications (an Irish Market intelligence agency) and also a survey from the Deloitte consulting firm.

The main focus of the secondary research was to source information on the usual trends in the area of IT outsourcing. The survey carried out by Deloitte consulting firm added huge significance to this thesis and the results proved to very beneficial in terms of getting the view points of executives that managed multi million dollar outsourcing contracts.

3.2 Limitations of Secondary Data

Secondary data can have many benefits to a research project however it is wise to note that there are limitations to the use of secondary data in any research paper. The following are some key limitations to secondary data.

- ✚ The data may be too old and outdated
- ✚ The data is non-specific
- ✚ The source of the information may not be accurate or reputable and there are limited methods of authentication
- ✚ The secondary research information can be biased and position the results in favour of their own thesis, book.

3.3 Primary Research

The main goal of my research was to acquire information to help the author understand the current relationship between clients and their perspective IT outsourced provider. There are many methods in which the data could be gathered. Qualitative methods using individual, group in-dept

interviews or focus groups. The nature of this type of research is exploratory and open-ended. Small numbers of people are interviewed in-depth and/or a relatively small number of focus groups are conducted. The author found that given the time constraints and what was hoping to be achieved from the research that the qualitative method was not a viable option.

Quantitative research is research involving the use of structured questions where the response options have been predetermined and a large number of respondents is involved. By definition, measurement must be objective, quantitative and statistically valid. Simply put, it's about numbers, objective hard data. (Emory, Cooper, PP104, 1995). The author decided to use a quantitative method, a survey as the main research tool for this thesis.

3.4 Surveys

A survey is a method for gathering all sorts of abstract information sought by researchers (Emory and Cooper, pp.269). As the main objective in this research was to get an overview of the types of relationships between client and third party vendor this method was deemed appropriate. An online questionnaire was developed and enrolled the services of SurveyMonkey.com. The author found the ability to create the survey online had many advantages over the conventional mail posting.

The fact the site created a direct web link to the website containing the questionnaire was a major factor as time constants existed. The survey could be distributed to the intended participant's email inbox in a matter of seconds. This meant that little or no effort was put in by the

participant. The respondents could easily access the survey and complete within five minutes. As the response rate for surveys using the conventional methods of typing out a questionnaire and sending in the post were low due to the fact the survey created work on behalf of the participant. The author was hoping to reduce the time and effort put in by the participant. This user friendly website would hopefully entice more responses.

SurveyMonkey.com allowed the author to restrict participants from skipping questions in the survey by adding a must answer field to the questions. The manageability console in the surveyMonkey website was very beneficial in assisting the author with the research. The author could at any time see and monitor current response rates. It also had the function to analyze the data collected and filter down to any variation the author wanted. The author found this aided him in analyzing the data collected. The author wanted the survey to be completely anonymous for two reasons: a) due the confidential nature of IT outsourcing and b) so that participants would feel free to give honest feedback. The author set up the survey on surveyMonkey.com to reassure participants that no company information would be saved or used, and that the survey was for purely academic purposes only.

3.5 Limitations to surveys

As mentioned in the last section the online survey had many advantages over the snail post methods of old. However some limitations were observed and the author felt they were relevant to note.

The main purpose of the research was to get the overall opinions of key executives that had outsourced some function of their IT infrastructure. The author selected IT, CIO, Directors and IT

managers. The author could not attain due to the fact the survey was completely anonymous that the intended participants were actually doing the survey. In some circumstances especially in the larger organisations targeted, there was sometimes up to 3 key contacts. Therefore it was hard to know whether all three were giving feedback or just one participant three times. The author also found that because some companies have strict IT security policies the emails containing the web links would be identified as spam. There was also the possibility that some companies would have restricted web access or proxy settings on their web servers. Proxy settings are policies put in place by IT administration to cut down on internet abuse, whereby if an employee needs to look at a web page for business reasons the IT department will unlock access. However if it was for more recreational means like social networking sites then it will remain locked as deemed inappropriate internet use.

The author had a contingency plan to counteract this potential issue – the creation of a plain text email with the questionnaire similar to the online version. This meant that the email could be sent to participants having issue with accessing the normal web page that contained the questionnaire.

3.6 Sample Size

For the purposes of the research the author decided that 100 companies ranging from SME to large corporate sized organisation would be asked to partake in the survey. The author selected the firms carefully to ensure that the level of organisations selected would be involved in some form of IT outsourcing was high.

3.7 Sample Testing

The author wanted to test the survey before the survey went live. The author sent 20 emails containing the web link to friends, co-workers to ask for honest feedback in terms of structure, clarity, ease of use or any problems they felt needed to be addressed. The author received constructive feedback and made several changes to streamline the survey or to expand on questions that were causing confusion. One example was the lack of instruction in question 3 so the author reedited the question to make it easier to understand.

3.8 Location of Participants

From the 100 hundred emails sent the location of the organisations broke down as follows. 75% of surveys were sent to organisations in Dublin, 10% were sent to organisation with locations in Cork. 15% of the surveys were sent to organisations in Galway. The author decided the three main city were the best option as with limitations to broadband access in many parts of Ireland. The author wanted to keep the research to the island of Ireland. The author felt that because of time constraints, so for ease of collection of research data it would also cut down on costs.

CHAPTER 4 RESEARCH ANALYSIS

4.0 Response Rate

The researcher was able to attain a response rate of 53%. Translating to 53 surveys completed out of 100 survey requests sent. The researcher feels that given the time to conduct the survey and collect responses it was an acceptable response rate. Measures were implemented in collecting responses such as phone calls asking participants to complete surveys.

4.1 Research Findings

Q1. Do you outsource any aspect of your IT?

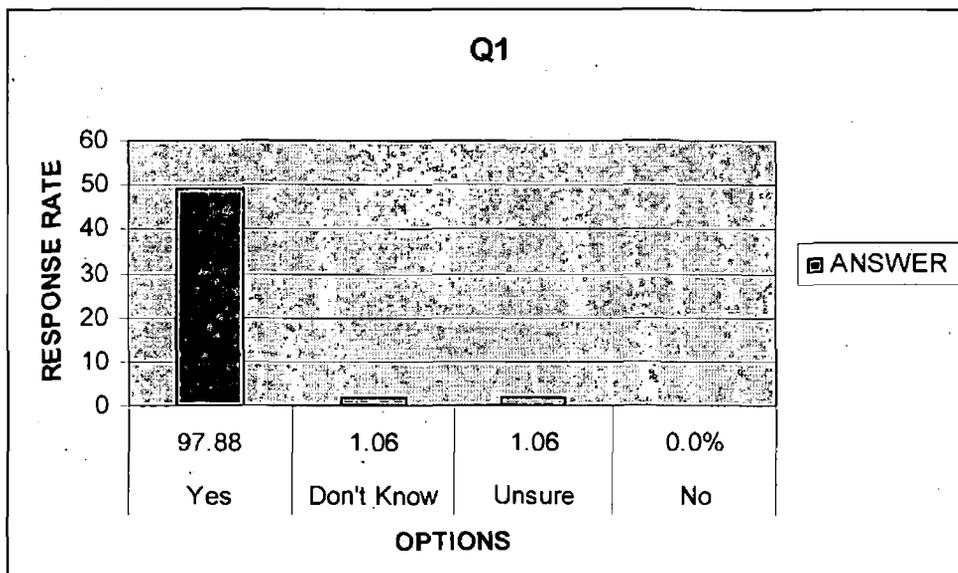


Table 2 Q1 RESULTS

The results show of the 53% of overall respondents, 97.88% did outsource some aspect of their IT. 1.06% of the respondents answered don't know and also 1.06% of the respondents answered with unsure.

The researcher was happy to see high level of yes in questions 1 as this was the main qualifying questions.

Q2. If Yes, which of the following do you outsource (Multiple answers allowed)

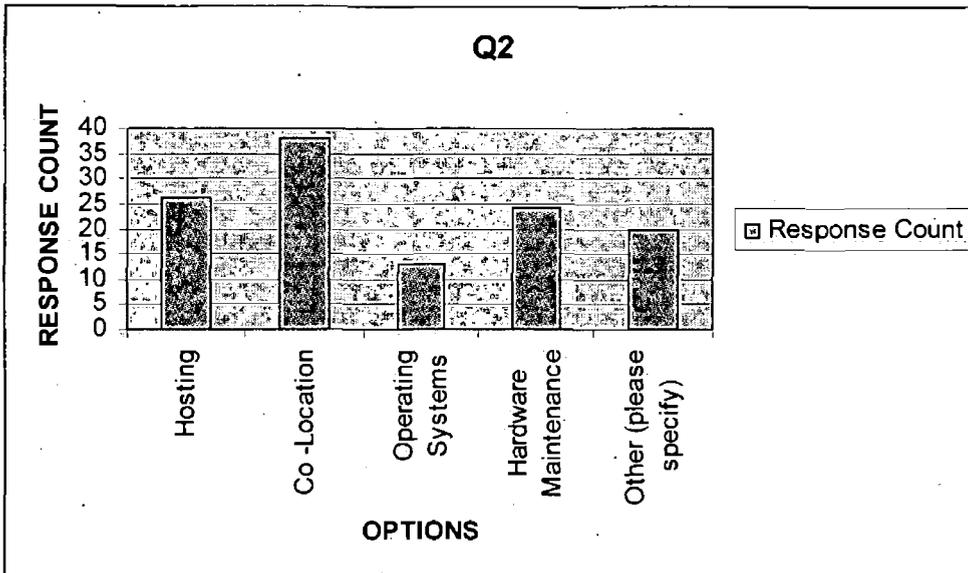


Table 3 Q2 Results

The results show that co-location was the highest IT function to outsource among the respondents. Co-location is whereby organisations house their main IT infrastructure, for example servers being housed in a data centre and managed by the outsourced provider. The results also showed high levels of outsourcing in the areas of hosting, hardware and other. The option for other gave the participants the choice to input manual to explain the respondents choice. The main area placed in other was for different varieties of software development for specific IT projects. The researcher noticed from the respondents answers that operating systems was not a major IT function to outsource. The researcher felt that this could have been attributed to operating systems being viewed by IT management as a core assets containing mission critical data therefore IT management would personally look after in house to prevent security breaches.

Q3. What are the foremost reasons you considered outsourcing? (Please rank these in order of importance , only one tick per choice)

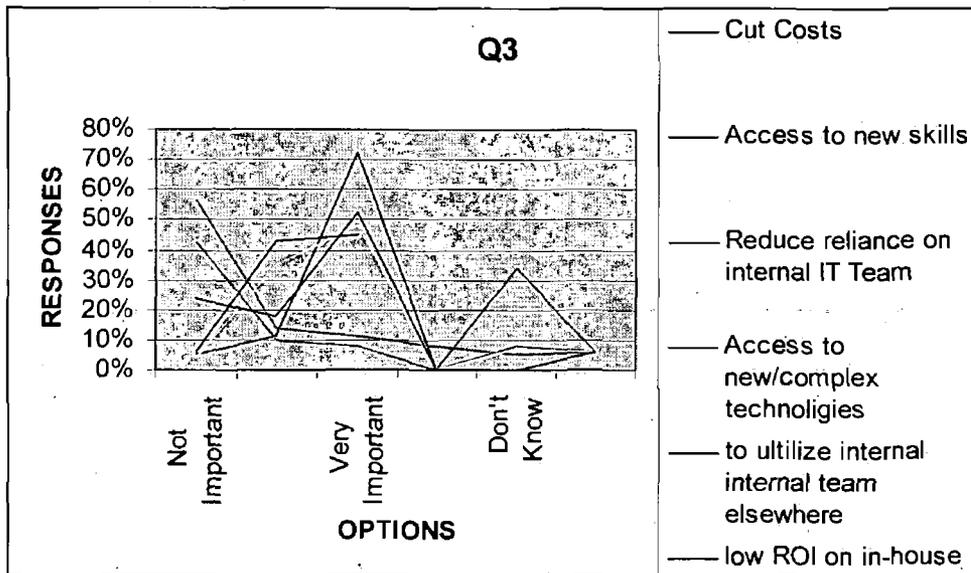


Table 4 Q3 Results

The data collected from questions 3 clearly shows that of the 53% of respondents surveyed 72% answered very important to cut costs was a major reason to outsource. This has direct correlation with the Deloitte report findings and also with the classical approach discussed in the literature review. The results showed that 52% of respondents answered very important to utilize internal team elsewhere .42% of respondents answered very important reduce reliance of internal IT team. 56% of respondents answered not important to access new skills/complex technology. 45% of respondents answered low return on investment as a major reason to outsource. This result link back to the classical approach of the literature review stage of the thesis.

Q4. Consider your IT outsource provider what was the main reason you chose them (multiple answer allowed)

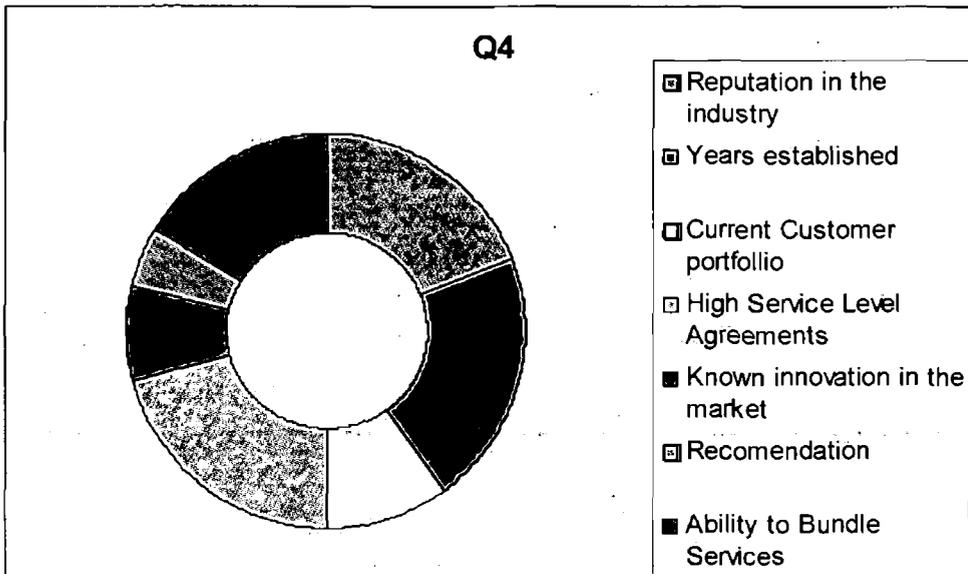


Table 4 Q4 Results

The data gathered showed that 78% of respondents felt that reputation in the industry was a reasons to chose their outsourced provider. 86% of respondents felt that the length of time the provider was in business was a major reason to select the outsourced provider. This was the highest answered option in the question. 42% of respondents answered that current customer portfolio was a reason to select. 85% of respondents also answered that the service level agreement was a key reason to select the outsourced provider.

This result shows the integral part that the service level agreement plays in IT outsourcing selection. 32% of respondents chose known innovation in the market as a contributing factor to selecting the third party vendor. 21% of respondents said that recommendation played a vital role in the selection process. The data also showed of all the respondents 67% claimed that the ability to bundle services was an important factor

Q5. How Often does your company meet with your outsourced provider

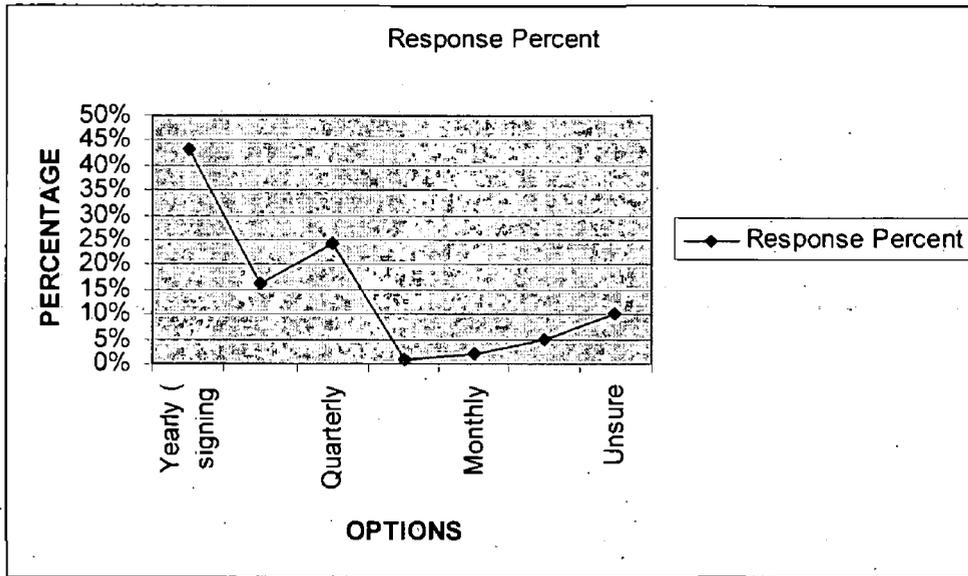


Table 5 Q5 Results

The data gained from question 5 showed that 43% of the respondents claimed they meet with their respective IT outsourced provider once a year. The researcher feels this result could suggest when the contract is up as mainly IT outsourced contracts are one year in duration unless specified in the contract as longer terms and with larger more complex deals the duration can be up to 10 years.

24% of the respondents answered that they met with their provider quarterly. 2% of respondents put the level of contact at monthly. 5 % of the respondents answered that they meet with their provider weekly. This could suggest a larger organisation with a complex and multi tiered IT outsourced deal. 10% of respondents answered unsure.

Q6. Are you happy with the level of contact between your organisation and the outsourced provider

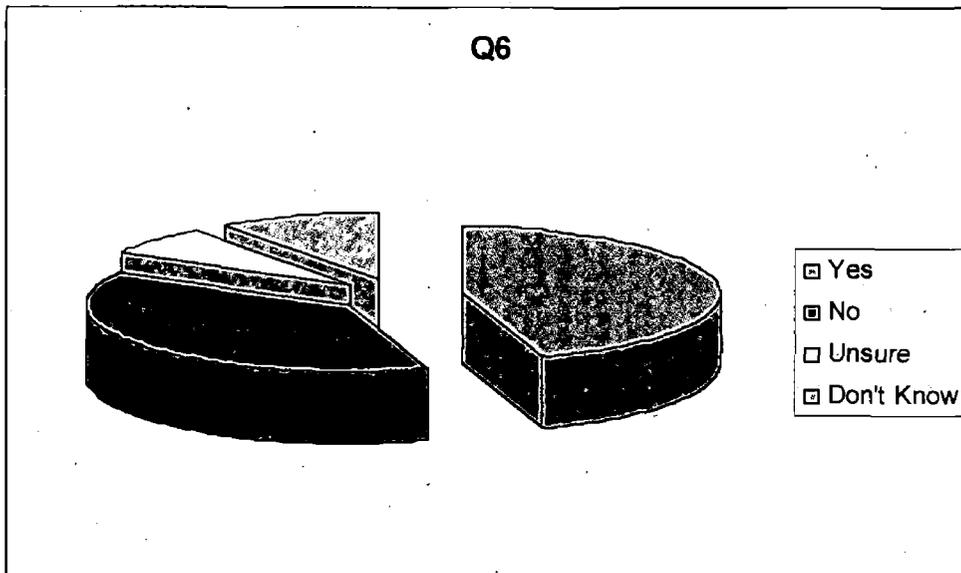


Table 6 Q6 Results

The data collected showed that 45% of the respondents were happy with the level of contact. On the other hand the data did also show that 38% of respondents were not happy with the levels of contact. 7% of respondents were unsure and 10% answered don't know. The data gather from this question does seem to suggest that the level of contact between organisation and third party vendor could be increased.

Q7. If no to the previous question how often would you like meetings to be arranged ?

The researcher decided to ask the respondents if answering no to question 6 then what was an acceptable level of contact between the organisation and the third party vendor. Of the 38% of the respondents that answered in question 6 that they were not happy. 95% of the unsatisfied respondent answered monthly and 5% of the unsatisfied respondents answered weekly.

Q8. Has there been an occasion when a SLA was not reached

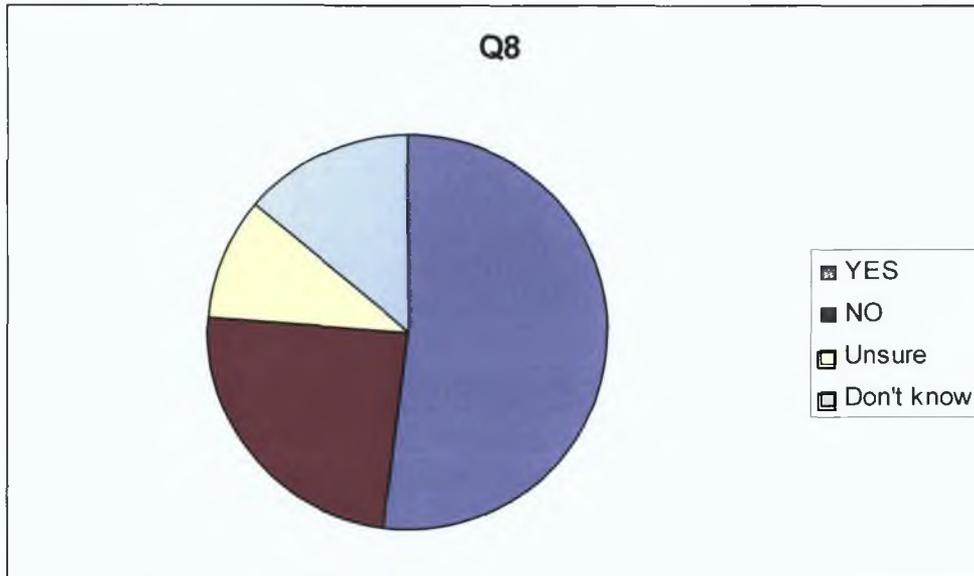


Table 7Q8 Results

52% of respondents answered that they had experienced a service level failure. 24% of respondents had answered no, while 10% of respondents answered unsure. 14% of respondent answered don't know.

Q9. If answered yes to previous question did the outsourced provider honour the agreement

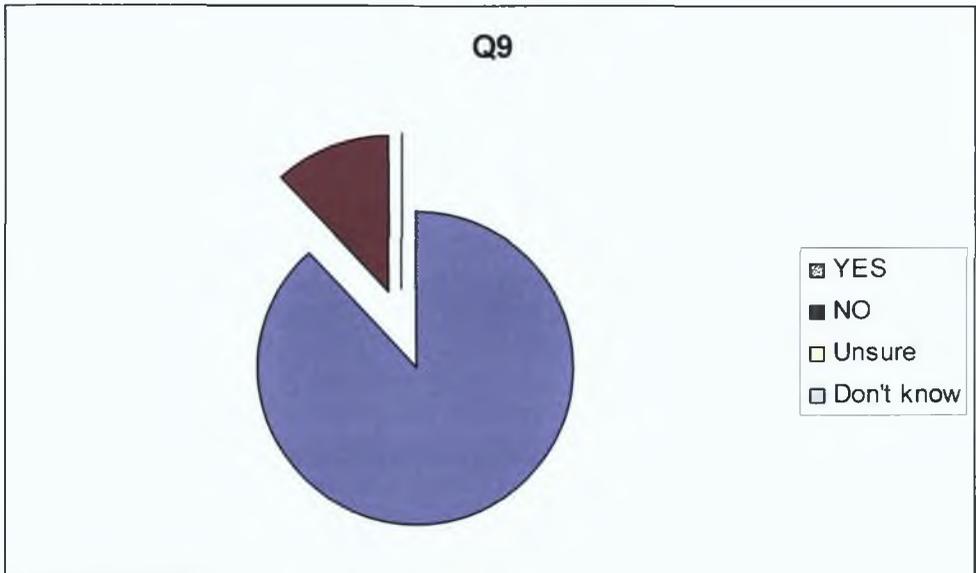


Table 8 Q9 Results

The researcher wanted to delve further into the reported service failures and see if the outsourced provider honored with what had been agreed in the service level agreement between the two entities. From the 52% that had reported a service failure in the previous question, 88% of those respondents answered that yes the service level agreement was honored. The results did show of those same respondents that 12% answered no, suggesting that the third party vendor did not honour the agreement. This has a direct correlation to the findings of the Deloitte report where some respondents felt that more time should have been spent evaluating and selecting on the grounds of the third party vendors service level agreement.

Q10. Who within the organisation was the pioneer to outsource

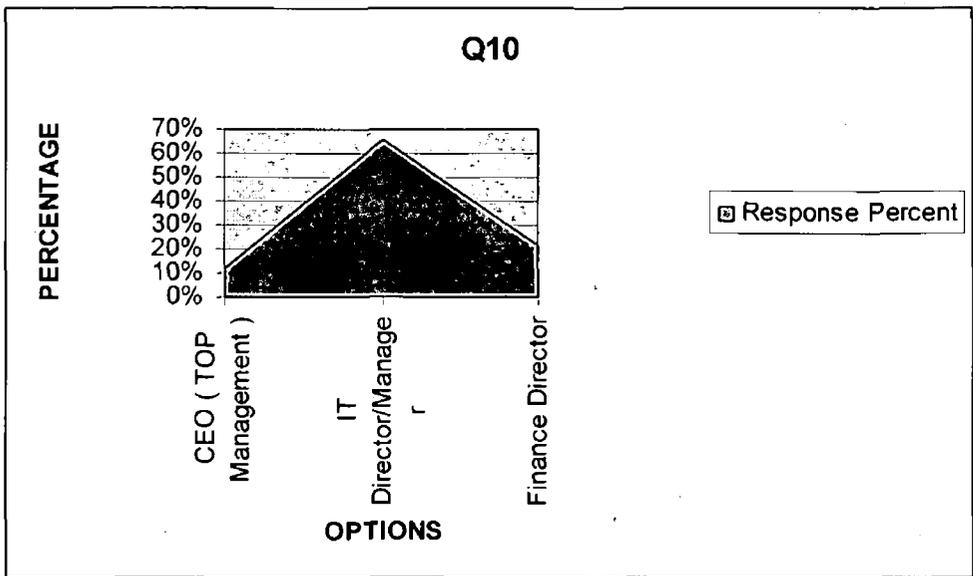


Table 9 Q10 Results

12% respondents answered that it was CEO or Top management that was the pioneer to outsource their IT. The majority of respondents 66% answered that it came from IT Directors/Management and 22% of respondents answered that it came from the finance director to outsource. This could have implications to the classical approach of outsourcing IT as a cost cutting activity.

Q11. Who within the organisation (if Any) monitors and actively manages the third party vendor relationship

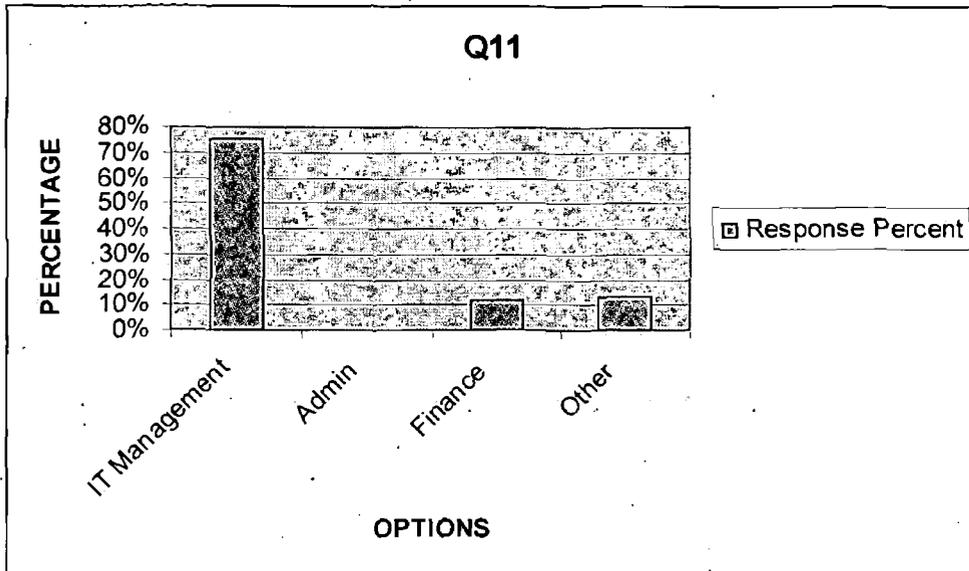


Table 10 Q11 Results

75% of respondents answered that it was the job of IT management to actively manage the relationship between the firm and the third party vendor. 12% of respondents answered that the finance department manages, the researcher felt that this could also suggest organisation just looking at the financial implications of outsourcing. 13% of respondents answered other however none of the 13% of respondents inputted their answer in the please specify field.

Q12. Do you feel your IT outsourced provider really knows your business and makes innovative suggestions to add more value to the relationship?

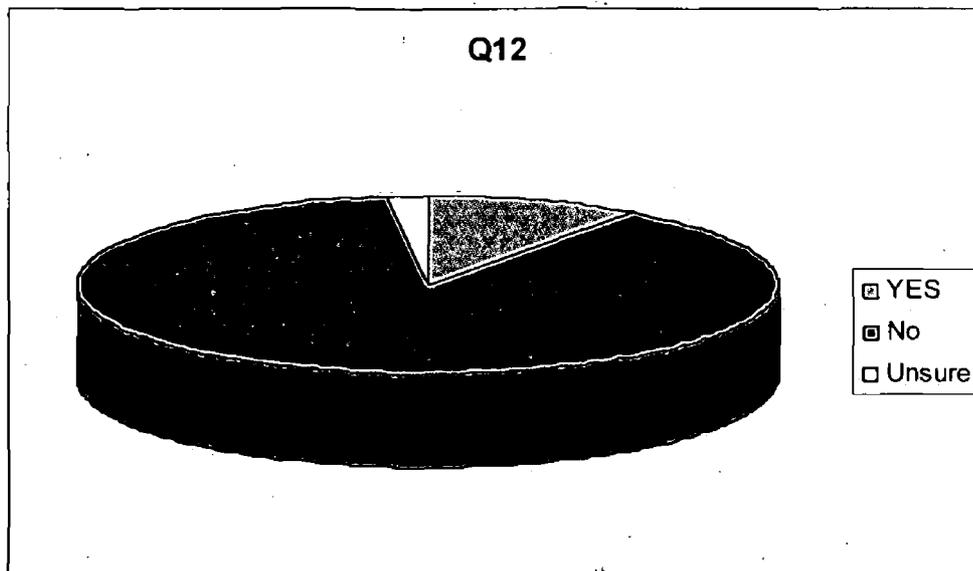


Table 11 Q12 Results

The researcher wanted to find out some important information regarding the current relationship between the organisation and the third party vendor. 10% of the respondents answered yes indicating that they felt their service provider was adding value through innovation. However and with greatest impact to the findings was that 88% of respondents answered no to the question indicating that they felt their provider was not adding as much value to the relationship through innovation. 2% of respondents answered unsure.

Q13. Overall are you happy with the current relationship and is it meeting the required goals that first made you consider outsourcing your IT

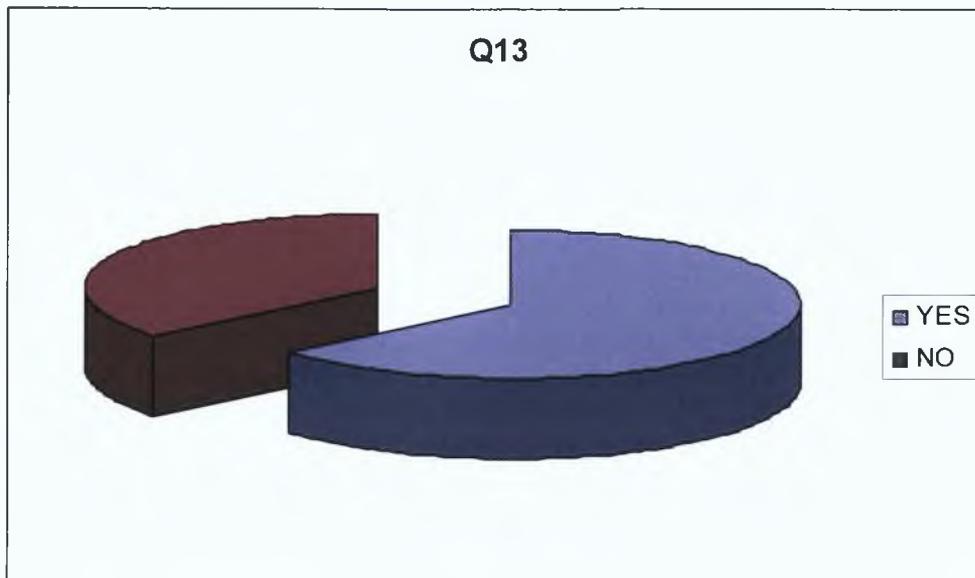


Table 12 Q13 Results

The researcher wanted to end the questionnaire with a question to try to encompass as much information about how the participants in the relationship felt about their current service provider.

64% of the respondents answered yes indicating that they were overall happy with the relationship and it was meeting the required goals. However, 36% of respondents answered no indicating they on the other hand were not happy with the current relationship. The findings in this question do have direct correlation to the findings published in the Deloitte report.

CHAPTER 5 RECOMMENDATIONS AND CONCLUSION

5.1 RECOMMENDATIONS

The data gathered from the author's primary research did highlight certain potential issues within the current relationship between the organisation and their respective providers. As the research was localized in the island of Ireland, any recommendations can only be suggested to organisation in Ireland.

The findings did suggest and had correlation to the executives surveyed in the Deloitte report. Even though overall the majority of organisations researched were happy with their providers. It seemed that the research showed that there was not enough communication between the organisation and the third party vendor.

The author would suggest that given the lack of communication between the vendor and the subject company, there is quite an apparent lost opportunity to bring innovative ideas to the table. This may result in loss in revenue for the seller and loss of control for the subject company. Both organisations concerned should create a team containing key employees from all departments to meet quarterly or more often as the need should arise. The teams would be a matrix type structure, as the management of the contract will not require daily tasks. Therefore, each member

of the team could be used only for the meeting and then for any changes that the meetings might bring around.

The research showed that the majority of IT outsourced contracts were managed by the IT management. IT outsourcing can and does affect other areas of the business , operations , finance, admin therefore representatives from these department could make up the team. It will need to be centrally managed by top management to ensure any projects conceived can be realistically implemented.

Organisation should take the time to research the IT outsourced providers carefully by selecting organisation on the merit of quality service level agreements, training capabilities for staff on new technology. Innovation and ability to add value to the relationship.

5.2 Conclusions

The author has examined a large diverse range of the literature available on IT outsourcing contracts. The research data gained did shed some light on the current relationship in Ireland between client and third party vendor. The research did highlight areas where improvement can be made. The author feels that the organisation would need to research and develop their IT outsourcing goals and explore all options available to add innovation to individual departments through utilization of their outsourced provider. The author feels to really add value to the organisations IT outsourced contracts it cannot be just left to the third party vendor. The organisation should be proactive in the evaluation and selection of a third party vendor. The third

party vendor cannot start the long path to transform from service provider to value adding partner on its own. The organisation needs to actively manage and create forums to allow the interactions between client and provider as an aide to creating innovation through IT instead of looking at outsourcing as merely a costs cutting exercise.

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APPENDICES



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Exit this survey >>

Managing IT Outsourced Contracts

1. Introduction

Thank you so much for taking the time from your day. I have compiled 12 questions to help me research the management of IT outsourced contracts. Most are multiple choice and others might need a little more information. The Test should take no longer than 5 minutes to complete.

No record of your company will be recorded and this is completely anonymous. The information is for academic purposes only.

Please now click onto to the next page to begin the test.

I would like to personally thank you for your participation

Next >>



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[Exit this survey >>](#)

Managing IT Outsourced Contracts

2. Default Section

*** 1. Do you outsource any aspect of your IT**

Don't Know
No
Unsure
Yes

*** 2. If Yes, which of the following do you outsource (Multiple answers allowed)**

Hosting
Co -Location
Operating Systems
Hardware Maintenance
Other (please specify)
<input type="text"/>

*** 3. What are the foremost reasons you considered outsourcing(Please rank these in order of importance , only one tick per choice)**

	Not Important	Important	Very Important	Unsure	Don't Know	Did not make the decision
Cut Costs	<input type="checkbox"/>					
Access to new skills	<input type="checkbox"/>					
Reduce reliance on internal IT Team	<input type="checkbox"/>					
Access to new/complex technologies	<input type="checkbox"/>					
to utilize internal internal team	<input type="checkbox"/>					

elsewhere

low ROI on in-house IT

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***4. Consider your IT outsource provider what was the main reason you chose them**

Reputation in the industry
Years established
Current Customer portfollio
High Service Agreements
Known innovation in the market
Recomendation
ability to "bundle" services

***5. How Often does your company meet with your outsourced provider**

Don't Know
Fortnightly
Monthly
Quarterly
Unsure
Weekly
Yearly (signing the contract)

6. Are you happy with the level of contact between your organisation and the outsourced provider

Yes
No
Unsure
Don't Know

7. If no to the previous question how often would you like meetings to be arranged ?

--

8. Has there been an occasion when a SLA was not reached

YES
NO
Unsure
Don't know

9. If answered yes to previous question did the outsourced provider honour the agreement

YES
NO
Unsure
Don't know

*** 10. Who within the organisation was the pioneer to outsource**

CEO (TOP Management)
IT Director/Manager
Finance Director
Other

*** 11. Who within the organisation (if Any) monitors and actively manages the third party vendor relationship**

IT Management
Admin
Finance
Other
Other (please specify)

*** 12. Do you feel your IT outsourced provider really knows your business and makes innovative suggestions to add more value to the relationship**

YES
No

Unsure
Don't Know

*** 13. Overall are you happy with the current relationship and is it meeting the required goals that first made you consider outsourcing your IT**

YES
NO
unsure
Don't Know

<< Prev

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