Preface

Information technology outsourcing—the practice of transferring IT assets, leases, staff, and management responsibility for delivery of services from internal IT functions to third party vendors—has become an undeniable trend. In recent years, private and public sector organizations worldwide have outsourced significant portions of their IT functions to service providers onshore and offshore (e.g., Lewin & Peeters, 2006; Solli-Sæther & Gottschalk, 2007). Examples can be found in major organizations such as Scandinavian Airlines Systems, ABB, and Rolls-Royce. In a business perspective, outsourcing is motivated by the promise of strategic, financial, and technological benefits. The success of outsourcing, then, should be assessed in terms of attainment of these benefits (Lee, Miranda, & Kim, 2004). In a user perspective, outsourcing success is the level of quality of offered services.

This book is about managing IT outsourcing performance, focusing on relationship management, value creation and measurements. In addition to organizational and management issues, a number of other important topics and areas are covered in this book to shed light and generate new insights into the way forward for IT outsourcing. For example, value configurations may differ between outsourcing parties, creating challenges in connecting primary and secondary activities of client and vendor organizations.

This book offers a comprehensive literature review of IT outsourcing based research. It provides methods, tools, and metrics for relationship management and for value creation and performance measurement. In order to understand the inherent complexities and the underlying constructs of relationship and performance management, three internationally based outsourcing relationships are presented.

The mission of this book is to:

- Identify outsourcing opportunities and threats.
- Provide an overview of organizational and management theories and practices of IT outsourcing.
- Demonstrate that a holistic approach to IT outsourcing is needed that recognizes and emphasizes the combination of several critical success factors. The theory-based factors presented have both divergent and convergent implications for management.
- Define stages of growth model for IT outsourcing, which can be used by companies to learn the path to improved relationships. By identifying development stages, scholars and practitioners have a framework within which they can diagnose the current situation and plan for future improvements in their outsourcing relationship.
- Emphasize the important role of knowledge for inter-organizational learning and innovation. An outsourcing arrangement between vendor and client seems dependent of knowledge transfer. With the changing business environments, the locus of value creation is no longer within the boundaries of a single firm, but occurs instead at the nexus of relationships between the parties. Outsourcing can add to the enterprise using unique organizational resources of both tangible and intangible nature.
Classify company activities into value configurations for outsourcing. As people in the strategy field already know, the contingent approach to strategy implies that value chains, value shops, and value networks have very different value creation logic.

Provide a model for strategic planning for outsourcing initiatives. The Y-model describes the current situation and the desired situation, thereby evaluating a gap between current and desired that should be reduced and closed by means of a new strategy.

Provide an understanding of how a client company can benefit from outsourcing by explaining vendor value proposition, and further, explain how to manage the vendor relationship with an advantageous benefit/cost ratio. This includes a method for development and examples of how to measure IT outsourcing performance.

Identify frameworks for outsourcing governance to establish effective relationships. A number of important issues are presented in this book, enabling the reader to select an appropriate management control system for the outsourcing relationship. This is important as responsibilities of management change after an outsourcing decision.

The generalizability of the findings in this book to the entire IT outsourcing market might be found problematic by some readers. We as authors have mainly used case studies in the European area and surveys in the Norwegian area, and we have used those studies to generalize it to entire outsourcing market. Some readers may have a problem with that, primarily because outsourcing is a global business practice. As we are very well aware, companies and governments engage in global outsourcing relationships.

The target audience for this book includes (but is not limited to):

- Graduate students, MSc, early researcher, and first year PhD, in management information systems, who will need to get an overview of research conducted in this area.
- Undergraduate students in systems development, who should learn about the intricacies of not only technical aspects of IT outsourcing, but also organizational and managerial aspects as well.
- Information systems designers, developers and programmers in public and private software organizations, who want to think in the big picture of IT outsourcing as they might get affected by an outsourcing arrangement.
- Project managers in IT projects, who will typically get involved when companies are outsourcing information systems and technology.
- CIOs and IT managers, who are responsible for outsourcing project, and later, for the success of the outsourcing arrangement.

**INTRODUCTION TO CHAPTERS**

This book is concerned with opportunities and threats managing IT outsourcing performance. It shows how companies can handle the complex business process of outsourcing by addressing issues such as critical success factors, stages of growth in outsourcing maturity, knowledge transfer between client and vendor. This book shows that understanding of costs, benefits and risks, influence IT outsourcing performance. Further, this book suggests performance measurements and a model for outsourcing governance.

First, Chapter 1 starts out by defining and describing IT outsourcing. Based on a conceptual understanding of this important business process, we present a sourcing universe, and we discuss some key aspects of the important outsourcing decision.
Based on outsourcing definitions explored in the first chapter, Chapter 2 identifies eleven theoretical perspectives for IT outsourcing. The primary purpose is to guide readers in understanding outsourcing projects according to attributes like outsourcing focus, goals and objectives, unit of analysis, outsourcing philosophy, and critical success factors.

Chapter 3 builds on Chapter 2 by developing eleven critical success factors in IT outsourcing, one for each theory. The theory-based factors have both divergent and convergent implications for management of IT outsourcing relationship, which require a contingent approach to outsourcing decision-making.

Chapter 4 introduces the concept of value configurations. A value configuration is the way an organization creates value for its stakeholders and clients. Three alternative value configurations exist for organizations. First, the value chain is a value configuration for sequential operations producing goods and services. Next, the value shop is a problem solving entity working in a cyclical fashion. Finally, the value network is connecting parties that exchange with each other. A company’s value configuration may serve as a determinant and predictor for the extent of outsourcing. IT is not just another resource that should be managed like any other resource. Managing successful IT outsourcing implies that managers understand the specifics of any IT outsourcing candidate. Management has to understand the variety of IT activities, predict future needs, and understand IT economics. Furthermore, management has to identify sourcing options and analyze opportunities and threats associated with each of them. Such analysis should take place within the framework of strategic IT planning.

Chapter 5 introduces the evolutionary perspective of stages of growth models for IT outsourcing relationships. Such models are helpful to determine where an organization is, where it came from, and in what direction it is moving in terms of outsourcing relationship maturity. Stages of growth imply that there is a cumulative improvement over time, where continuous struggle and successes are more important than paradigm shifts.

In managing IT outsourcing performance it is important to understand costs, benefits, and risks as presented in Chapter 6. We discuss production and transaction economics, hidden costs and contract termination costs, and we will also take a look at benefits and risk behavior.

Chapter 7 discusses the importance of knowledge transfer in IT outsourcing relationships, both from a client, vendor, and relationship perspective.

In Chapter 8, we discuss the important issue of measuring IT outsourcing performance. In this chapter the vendor’s value proposition is presented because outsourcing outcomes are dependent on the vendor’s ability to create value for both parties in the relationship. A method for developing quantitative performance measurements is presented, and there are examples of scales measuring service quality, satisfaction, and the overall success of the relationship.

Building a governance model for successful management of IT outsourcing relationship in Chapter 9, we synthesize several of the perspectives discussed in previous chapters.

Finally, Chapter 10 is presenting an internationally based IT outsourcing case study in order to understand the inherent complexities and the underlying constructs of managing IT outsourcing relationships and the performance of these relationships.

This book has three sections. The first section, Chapters 1 and 2, provides background material to understand and analyze the phenomenon of IT outsourcing. This section covers topics such as outsourcing definitions, sourcing universe, opportunities (Chapter 1), and IT outsourcing theories (Chapter 2). The second section presents key topics in relationship management, value creation and measurement, as illustrated by Chapter 3 – 8 in the Figure 1. Managing IT outsourcing performance starts with a decision to outsource. To succeed in a relationship companies have to understand the critical success factors (Chapter 3), the stages of growth of the relationship (Chapter 5), and how to transfer knowledge between the parties involved (Chapter 7). Measuring IT outsourcing performance (Chapter 8) is based on a thor-
ough understanding of value creation (Chapter 4), and costs, benefits, and risks (Chapter 6). The second section of this book serves as foundation for the third section proposing an outsourcing governance model in Chapter 9, and finally for understanding of real world outsourcing cases in Chapter 10.

REFERENCES

