Chapter XV

Contract, Control, and “Presentation” in IT Outsourcing: Research in Thirteen UK Organizations

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Information technology (IT) outsourcing continues to experience phenomenal growth, with an estimated market size of over $100 billion in 2000. Its adoption by some of the largest international corporations has seen outsourcing become considered a key component of the information management agenda. Critical to this agenda is the formulation of comprehensive contracts. For this, legal experts and/or advisors can be consulted, but enforcement depends very much on client and vendor account managers. A theoretical analysis of the contract contrasted with empirical data from client and vendor post-contract management practice revealed that the contract has a number of purposes beyond its sole legal nature, outlining a number of control dimensions both parties aim to enforce. This paper presents findings from 13 UK-based organizations on the role of the outsourcing contract and its purpose for ensuring control over the client’s outsourcing destiny.

INTRODUCTION

Information technology (IT) outsourcing continues to experience a phenomenal growth rate, especially in North America, Europe, and more recently Australia. Ever since the Kodak watershed deal in 1989, IT outsourcing has continued to mature to a status where nowadays it is considered a viable management option, making it an integral component of the information management agenda (Feeny & Willcocks, 1997; Rockart et al., 1996; Rockart & Appear in Journal of Global Information Management, vol. 8, no. 4, 2000. Reprinted by permission. This chapter appears in the book, Advanced Topics in Global Information Management by Felix Tan. Copyright © 2002, Idea Group Publishing.
Ross, 1995). This agenda in many circumstances deems it prudent to compare the performance of the in-house IT department with the services available externally (Willcocks et al., 1996). IT outsourcing is broadly defined as a decision taken by an organization to contract out or sell the organization’s IT assets, people and/or activities to a third-party vendor, who in exchange provides and manages assets and services for monetary returns over an agreed time period (Loh & Venkatraman, 1992; Lacity & Hirschheim, 1993).

Research so far has shown that the client-vendor relationship is indeed more complex than a mere contractual transaction-based relationship (Kern, 1997; Klepper, 1994, 1995; McFarlan and Nolan, 1995; Willcocks and Choi, 1995; Willcocks and Kern, 1998). A major complexity is the near impossibility of presentation of future requirements in long-term deals such as outsourcing, due to the volatility of information technology and the likely changes in user and company requirements. Suggestions have thus been made that the client-vendor relationship has to include relational contract and/or partnering dimensions (Kern, 1997; Willcocks and Kern, 1997). However, research and industry best practice has clearly shown that a central focus has to remain on the contract and hence its enforcement in the post-contract management stage (Lacity & Hirschheim, 1993; 1995).

So far, little to no research has focused on explaining which contractual dimensions are eventually operationalized. Such information would allow practitioners to better understand and prescribe the contractual dimensions of the client-vendor relationship. Moreover, we conjecture that these dimensions essentially define the client company’s, and to some extent the vendor’s, control agenda over whether the major objectives of the outsourcing arrangement are being achieved. Pilot analysis of two IT outsourcing contracts revealed a number of dimensions that pervaded the post-contract management agenda. In each case the client attempted to maintain control through two detailed contractual clauses/schedules, acting essentially as a third-party judicial entity. By control we mean the process by which the client company initiates activities to assure contractually agreed terms are by the vendor’s company delivered in full and according to expectations and objectives. “Control, in other words, is aimed at ensuring that a predictable level and type of performance is attained and maintained” (Child, 1984, p. 136).

In this paper we discuss and analyze the role of the contract in IT outsourcing to elucidate the post-contract management agenda. This agenda essentially prescribes the operationalization of the contract and the control dimension in IT outsourcing. Drawing upon two precedent contracts, we highlight some of the clauses being effectuated. Next, we present findings from an exploratory research study into the client-vendor relationship that reveals how organizations attempt to enforce the contract. The ensuing discussion identifies five different purposes of the contract in the client-vendor relationship, which allow us to infer that a number of contractual dimensions also define the control agenda for the client in the post-contract management stage.

**IT OUTSOURCING CONTRACT**

The contract in outsourcing has been described as a mechanism that establishes the balance of power between the client-vendor (Lacity & Hirschheim, 1993). Contracts essentially have to be as “airtight” as possible (Lacity & Hirschheim, 1993; Fitzgerald & Willcocks, 1994abc; Saunders et al., 1997), because research has shown that vendors tend to refer to it as their chief source of obligation. Vendors, however, would prefer to see the contract as a working document (cf. EDS lawyers Hartstang & Forster, 1995), giving them flexibility to suggest improvements and new services. Clearly, this is in the interest of most vendor companies, for their goal is one of profit margins.
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