Chapter 9

IT Outsourcing Success Factors: A Study of Large and Medium-Sized Companies

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ABSTRACT

In this chapter, the Success Factors (SFs) for IT Outsourcing (ITO) are explored. The research literature has a bias towards large companies, neglecting medium-sized companies. Moreover, no comparative studies regarding the SFs were found related to the size of companies. These circumstances force medium-sized buyers to turn to practitioner literature, which is dominated by guidelines produced by the providers. Therefore, this chapter identifies the research problem: the lack of knowledge about ITO SFs for medium size companies, including whether SFs for large companies, are applicable for medium-sized ones as well. The used case study research shows that medium-sized companies should use the SFs from large companies. However, 2 out of 11 studied SFs have better efficiency for large companies. This result helps medium-sized companies’ ITO decision makers understand the SFs of ITO and thus closes the research gap. Implementing the right SFs should improve the ITO performance.

INTRODUCTION

The companies that professionally work with providing IT services, or are involved in IT outsourcing, have created a much larger research literature than the outsourcer companies (Hodosi & Rusu, 2008, pp. 3-4). This is expected, because a company that has outsourced their IT has other priorities. Nevertheless, the following problem arises. As the buyers’ and providers’ target are different and the research literature is mostly based on the seller’s premises, the buyer could receive information that is favorable for the provider and not for the buyer. Therefore, this
research is looking only to the service buyer’s situation and tries to fill this gap. The study will explore the SFs for medium-sized companies and compare with the ones from the large companies. The whole research, including literature review and empirical study are exclusively based on the service buyer’s needs.

BACKGROUND

IT Outsourcing has been defined as “contracting with a third-party provider for the management and completion of a certain amount of work, for a specified length of time, cost and level of service” (Oshri et al., 2011, p. 7), also the ITO should support an efficient use of IT in all business areas including further development (Hodosi et al., 2013).

For the decision makers in large companies, there are specialists in several areas like corporate legal, strategic procurement, quality assurance, who can support them. Smaller companies often do not have these in-house facilities, which can be costly to buy in totally or partially (Jacobsen & Thorsvik, 2008). Anyway, it is plausible to suppose that small companies have a hurdle for using, not in house services and in this way, they have a smaller prerequisites to be successful in this area.

Nowadays, most large companies have outsourced a part or all of their IT. Official EU statistics (Ohnemus, 2007) shows that in 2007 about 58% of the companies in Sweden have outsourced their IT and about 76% in Denmark. In April 2012 it has been reported that the global ITO has declined by 22% and that only one megadeal which made use of outsourcing has been performed in Sweden (Wallström, 2012). The author supposed that this is a result of the global economic crisis. For 2013, on a global level Gartner estimated an increase of 2.8%, which is lower than their previous forecast. The economic crisis, especially in Europe and North America has been longer than estimated, which has considerably curtailed investment. The author expects an increase of Cloud Computing (CC) but a decrease of data center outsourcing. The mismatch of the forecast is challenged according to Danielsson (2013). A temporary declining of ITO trade does not reduce the overall need of knowledge in ITO. Outsourcing of IT will continue and because of continuously changing technologies, as well as changes in the business needs of IT, it is important to understand the actual ITO success factors.

According to Cambridge Dictionaries Online ‘success’ is described as “something that achieves good results” (Cambridge Dictionaries Online, 2014a) and ‘factor’ as “one of several things that affect or influence a situation” (Cambridge Dictionaries Online, 2014b). Based upon these definitions success factors (SFs) should be factors that achieve good results.

The focus in this study is large and medium-sized companies. The Swedish stock exchange (Stockholmsbörsen) is divided into three segments (Large Cap, Mid Cap and Small Cap), based on the companies’ stock market value (capitalization) according to Swedbank (2014). To become a member of the stock exchange, several financial metrics have to be fulfilled like liquidity, equity and they are continuously measured. Large Cap companies must have a value over one billion €, Mid Cap must have at least 150 million €, and finally, Small Cap can have a market value below 150€. Such a classification is used globally, with a different region and country-specific values.

The remainder of the paper consists of research methodology, literature review, data collection, data analysis, discussion, conclusion and future research and limitations.

RESEARCH METHODOLOGY

There are differences between large companies and medium to small companies. Some of them are economies of scale and scope, coordination costs (internal transaction costs), competencies in areas