Chapter VI

The Case for Centralized IT Contract Management: A Four Force Model

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Abstract

In this chapter a model is developed that describes four forces that move organizations toward centralized IT contract management. Specifically, the model illustrates how centralizing IT contract management enhances organizational performance in four areas. First, centralizing IT contract management allows for a corporate level view of technology, which supports not only interoperability, but also optimizes software license inventory. Second, it combats vendor opportunism by creating a set of contract negotiators who have as much knowledge as the vendor’s contract negotiators. Third, it enhances information retrieval, but locates the physical contracts in a central location, which allows the legal department,
project managers, and senior managers to quickly and reliably locate contract details. Fourth, it provides the proper motivation to project managers and contract negotiators by rewarding each job separately rather than by lumping the rewards for timely project completion together with the rewards for efficient contract negotiation.

Introduction

Senior executives used to be concerned with whether or not to outsource information technology (IT) resources. Now they are more concerned with figuring out how to efficiently manage the portfolio of IT resources that they have outsourced. From hardware to software, and from help desk to temporary help, organizations today have dozens, or even hundreds, of active IT outsourcing contracts.

Outsourcing of IT is an important area of study since over 90% of U.S. companies outsource some activity and the total outsourcing market in 2004 was over $350 billion (Study, 2004). This explosive growth in the volume of contracts offers an excellent opportunity for cost savings. However, in order to maximize cost savings, contracts must be negotiated, enforced, and renewed or canceled at the appropriate time.

There are two basic ways an organization can manage contracts. The organization can use a decentralized approach where project managers negotiate and manage contracts. Alternatively, an organization may form a central contracting authority that receives requests from project managers then negotiates and manages the contracts centrally.

In this chapter we briefly review the organizational structure literature and then develop a model that describes four forces that move organizations toward centralized IT contract management.

Organizational Structure

Jackson and Morgan (1978) define organization structure “as the relatively enduring allocation of work roles and administrative mechanisms that creates a pattern of interrelated work activities and allows the organization to conduct, coordinate, and control its work activities.” The major theoretical dimensions of organizational structure that are of interest in technology-structure research are complexity (including vertical and horizontal differentiation), centralization
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