A Risk Based View of Influential Factors in IT Outsourcing Relationship for Large Multinational Companies: A Service Buyer Perspective

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ABSTRACT

Information Technology Outsourcing (ITO) is well spread among large Multinational Companies (MNCs) in Europe, and it is expected to increase even more. The authors’ focus is the service buyer company who needs a well working relation with its ITO supplier for handling emergent issues, daily operation and events that have not been foreseen. In the last years, an increasing attention has been paid to improve ITO relationship. Reviewing the research literature, they have not found any studies about Influential Factors (IFs) that could improve the ITO relationship, nor, how risk factors are interrelated to ITO relationship. Therefore, the authors address this issue by providing 15 IFs that could improve the ITO relationship for large MNCs and their providers and could help the service buyers companies’ to concentrate on these IFs. Additionally, the authors developed a framework that could support the ITO decision makers in both mitigating the risks and improving the ITO relationship.

Keywords: Influential Factors, Information Technology, Multinational Companies, Outsourcing, Relationship, Risk Factors, Service Buyer Perspective

INTRODUCTION

Large costs and risks are involved in Information Technology Outsourcing (ITO) decisions for both private and public sector. Relationship between the service buyer and the service receiver has nowadays received high attention, and it is treated as a factor that could reduce risks and costs. In this paper, our focuses are service buying organizations and large Multinational Companies (MNCs). In fact, an unsuccessful ITO relationship obstructs the collaboration, negotiation, innovation, working environment etc., between the service buyer and provider. In
worst case, the contract can be ended (Beimborn & Blumenberg, 2007). However, what is ITO? According to Kern (1997) it is “a decision taken by an organization to contract out or sell the organization’s IT assets, people, and/or activities to a third party supplier, who in exchange provides and manages assets and services for monetary return over an agreed time period.” Moreover, ITO should support the business in using IT technology in the best way for a service buyer organization, which is the focus in this study. Within the European Union ITO is well spread and about 58% of the companies in Sweden have outsourced their IT and about 76% in Denmark (Ohnemus, 2007). Gardner published a report, written by Rådmark (2010), who states, that in the next years ITO will increase in the European countries, and smaller companies are expected to increase their ITO three times more than the years before. In addition, cloud computing which is a form of ITO is expected to increase quickly. From the review of research literature, we have noticed that ITO relationship is an interdisciplinary topic that is including IT management, strategic procurement, contracting theory, economics, sociology, psychology etc., abstract, and context dependent, but it is necessary for a successful ITO solution.

However, not all ITO solutions have been successful. For example, Lacity et al. (2008) estimate a 30% failure of ITO for the next years. Their study is based on back-office services, which is a good indication for other ITO services. According to Kern and Willcocks (2002a, p. 1) ITO relationship is: “The state of being connected or related; the mutual dealings, connections, or feelings that exist between two parties, countries, people, etc.” But, as we have noticed the definition does not state if the relationship is good or bad. This relationship should enable to provide business expectations in an ever-changing environment.

On the other hand, Beimborn and Blumenberg (2007) have noticed that the relationship quality is important for a successful ITO, and in the authors’ opinion 25% of the bad relationships lead to a breakdown of the ITO relationship that in worse case leads to termination of contract. Additionally, Kern and Willcocks (2002a) have shown that a good relationship is correlated to successful ITO. Moreover according to Williamson (1985) the incomplete contract enables both parties to exploit the “holes” in the contract in opposite to a cordial relationship where the parties are more likely to help each other (when uncertainties occur) that will lead to a successful ITO (Alborz et al., 2005).

RESEARCH BACKGROUND

The relationship in ITO has to cover the whole life cycle of the ITO, from contract negotiation to handling unexpected and unpredictable events as well as to create efficiently working climate on all working levels. There is no doubt that contracts are always: incomplete, the content is limited, and the available knowledge when designing the contract is restricted to the current known facts Williamson (1975, 1985). Therefore, contracts should be updated continuously to cover the actual demands, as well as to open for future business requests. However, this does not mean that the contracts can be open, as the risk of opportunistic behavior by the supplier must be safeguarded against to avoid negative consequences. This balance among limited size of contracts, enough flexibility to provide improvements and disclose opportunistic behavior combined with enough incentives for both parties open a wide field for ITO relationship to be practiced in a successful way.

The economics of the idiosyncrasy is our focus, which is more complex than the standard ITO. On the other hand, even the classical contract law has its limitations in an imperfect market, as, for example, monopoly (Williamson, 1979). We also want to mention that around 1990 much effort has been invested to regulate outsourcing by designing more complete and detailed contracts; however, that did not lead to the expected outcomes (Fitzgerald & Willcocks, 1994).

As we have noticed ITO relationship research, comes from different areas. One is coming from Transaction Cost Theory (TCT)
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