Chapter 9
Aspects of Client Vendor Relationship and the Risks Therein

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ABSTRACT

Information Technology (IT) is an ever-growing industry. It, therefore, becomes imperative to understand what it entails, the key parties involved, and their relationship, along with the various risks involved. This chapter aims to delve into the underlying concept of service in the IT industry, the service receiver (client) and the service provider (vendor), which are the key parties, and the risks involved by taking a look at the main prevalent outsourcing models. Further, it nails out the major factors that can contribute in building a lasting relationship between the client and vendor. Through extensive literature review, it is observed that several studies have focused on the risks faced by service receivers, but there are very few that mention the risks that service providers also face. This chapter examines both aspects and aims to uncover the risks that service receivers and service providers face in outsourcing engagements. In addition, many articles talk about factors involved in building client-vendor relationship; however, they lack a comprehensive list of factors that, if taken care of, can lead to successful client vendor engagements. This chapter gives a comprehensive view of the main aspects of the IT industry covering the concept of service in IT Industry, the key parties, and the risks along with aspects that build into successful client vendor relationships.

1. INTRODUCTION

IT Outsourcing helps companies to manage their IT requirements in the form of product or application development/maintenance by externally hiring IT professionals without the need to manage an in house team and go through the process of recruitment and people management. More and more companies are taking advantage of this convenience, which they can get at a lower cost apart from being able to focus on their key area. According to Gartners report the spending on IT outsourcing services in 2012 is predicted to be $251.7 billion which is 2.1% higher than the ex-
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Expenditure in 2011 (http://www.cioinsight.com/c/a/Outsourcing/IT-Outsourcing-Services-Up-Up-and-Away-858296/). Also, the global IT spending has increased by 3% in 2012 to $3.6 trillion. Further, it is forecasted to grow 4.4% by 2013 (http://www.gartner.com/it/page.jsp?id=2074815). Firms which are small in size are also offshoring extensively (http://www.nasscom.org/Offshoring-set-to-be-an-integral-part-of-Market-Research-value-chain-Market-Research-Outsourcing-Buyer-Survey-55743). In 2012, expenditure on IT has grown by 5.4% even though economic growth is slow as reported in NASSCOM (http://www.nasscom.in/global-sourcing). Considering this trend, it is important to study how to ensure a sustainable outsourcing engagement. Recently, NASSCOM in a BPO summit has said that despite the economic slowdown, Indian IT sector is still expected to grow 16-18 per cent by 2012 (http://www.theoutsourcemail.com/2011/08/growth-of-it-industry-may-not-match-nasscom-prediction). The forecast for the period 2009-2013 is that IT Outsourcing will grow by 27.4% (http://www.live-pr.com/en/out sourced-it-services-market-in-india-r1049296593.htm). IT services spending increased by 1.4% in 2010 and IT outsourcing in particular grew by 2.4% according to Nasscom reports (http://www.nasscom.in/global-sourcing). IT outsourcing includes the following - IS outsourcing, Network and desktop outsourcing, Application outsourcing, Hosted Application Management (HAM), Managed Web hosting, Cloud/utility computing and Software as a service (http://www.outsourceforcescam.com/374/worldwide-and-u-s-is-outsourcing-services-2009-2013-forecast-update-november-2009/) which are services taken up by a vendor on the basis of a contractual agreement. In Information Technology Onshore/Offshore Outsourcing Model Information Technology (IT) Outsourcing will continue to grow despite periods of recession due to increased international reliance for products and services as part of globalisation. Managing client vendor relationship is imperative to sustain the engagement.

This article introduces the concept of service and then defines Information Technology Outsourcing. The key parties namely the Client and the Vendor are described followed by the outsourcing models and their dimensions in order to understand the risks involved for both parties. Also since IT Outsourcing market is expected to grow, the aspects that lead to a successful client vendor relationship are derived from the dimensions of outsourcing models and enlisted.

Various studies have been done on client vendor relationship but there is no comprehensive study that lays down the factors affecting a client vendor relationship and how they can be used to build the relationship. This paper aims to fill that gap.

This paper is one of the parts of a research being done to develop a sustainable global business framework for software outsourcing keeping the Indian perspective in focus. The research being done is in nascent stage and therefore the factors identified are through literature review. The methodology that will be used to develop the framework is under consideration. Findings of the research will be published later once data collection and analysis is done.

2. CONCEPT OF SERVICE

The concept of service has evolved over a period of time. It can be defined as “A vehicle by which a consumer’s need or want is satisfied according to a negotiated contract (implied or explicit) which includes Service Agreement, Function Offered and so on (CBDI)” (http://msdn.microsoft.com/en-us/library/aa480021.aspx). Globalisation had lead to birth of “service economies” (Mookherjee, 2007). Developed nations like USA are thriving on imports rather than self sufficiency. This change
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