The overall objective of this chapter is to concentrate on the important issues of strategy, structure, and management of IT outsourcing arrangements. Using well-known theoretical perspectives described earlier in this book and experience earned from several business case studies in this book, we present a governance model for successful management of IT outsourcing relationships.

IT outsourcing governance can be defined as specifying the decision rights and accountability framework to encourage desirable behavior in the IT outsourcing arrangement, where resources are transferred from one party to the other in return for resources controlled by the other party. Governance is not about making specific decisions — management does that — but rather determines who systematically makes and contributes to those decisions. Governance reflects broader principles while focusing on the management of the outsourcing relationship to achieve performance goals for both client and vendor. Governance is the institutional framework in which contracts are monitored, adapted, and renewed. Effective outsourcing governance encourages and leverages the ingenuity of the vendor’s and client’s people in IT usage and ensures compliance with both enterprises’ overall vision and values.
Our governance model is illustrated in Figure 17.1. It consists of five elements (contracts, principles, resources, activities and managers), two main links (terms-exchanges link between contracts and resources, and norms-relationships link between principles and activities), and four local links (roles between contracts and principles, capabilities between principles and resources, efficiencies between resources and activities, and outcomes between activities and contracts).

Contracts provide a legally bound, institutional framework in which each party’s rights, duties, and responsibilities are codified and the goals, policies, and strategies underlying the arrangement are specified. Principles define decision rights concerning general IT principles, IT infrastructure, IT architecture, business application needs, and IT investments. Resources define decision rights concerning human assets, financial assets, physical assets, IP assets, information and IT assets, and relationship assets. Activities define decision rights concerning transactions, projects, problem solving and reporting. Managers are classified into stakeholder groups of client business management, client IT management, vendor business management, and vendor account management.

Exchanges of resources occur through transactions based on contracts. Terms for use of resources are defined in contracts. Norms create expectations of behavior and imply a certain action and are shared by the actors. Norms are based on principles and they occur in activities. Norms are concerned with flexibility, solidarity, mutuality, harmonization, and power. Relationships frame activities based on principles and norms.

**Figure 17.1. Governance model**