

A MULTI-STAGE MATURITY MODEL FOR LONG-TERM IT OUTSOURCING RELATIONSHIP SUCCESS

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ABSTRACT

The Multi-Stage Maturity Model for Long-Term IT Outsourcing Relationship Success, a theoretical stages-of-growth model, explains long-term success in IT outsourcing relationships. Research showed the IT outsourcing relationship life cycle consists of four distinct, sequential stages: contract, transition, support, and partnership. The model was built in three steps: creation of a suggested model; creation of a conceptual model based on survey data gathered from business and IT executives, managers, and professionals experienced with long-term IT outsourcing; and advancement of the conceptual model to a theoretical model. Subject matter experts were interviewed to assess the validity and completeness of the model, which may be used to examine both sides of the IT outsourcing relationships and their progress through time. Understanding the expectations of each partner at different stages of the relationship should minimize deficiencies, misunderstandings, and mismatched foci to result in better partnerships.

INTRODUCTION

Information technology (IT) outsourcing profits have continued to grow even during the present economic downturn. This trend has continued, in part, because “organizations still outsource for cost, efficiency, access to skills, focus on core business, innovation, modernization and even business transformation” (Young et al., 2008, p. 8). Of 20 megadeal outsourcing contracts signed in 2008, 14 (70%) were for IT, a strong indication that long-term IT outsourcing dominates the information system outsourcing market (Young et al., 2008). Seven of them were renewals or extensions of existing contracts. Thus, long-term partnerships comprised 35% of the repeat business with incumbent providers. Gartner (Young et al., 2008) indicated that for successful IT outsourcing, providers must offer specialized IT services at lower costs while making sufficient profits to sustain and grow their companies. Customers must be judicious in choosing providers because providers’ tools, skill sets, and cultural fit are crucial in managing customers’ IT. However, 65% of the announced outsourcing contracts in 2008 were new deals from first-time buyers. Thus, even with economies of scale, challenges to buyers’ satisfaction include technical advantage, cultural fit, low maturity, and misaligned expectations (Young et al., 2008).

Tightening contracts and using contract-balanced scorecards and service level agreements (SLAs) to prevent potential failure (Cullen, 2009; Simkova, 2005) have not

been particularly effective. However, problems with providers are almost always related to people (Rossi, 2007), successful outsourcing is more highly correlated with relationships between clients and providers than with tight contracts and SLAs. By improving their IT outsourcing relationships, partners can mitigate the most significant issues hindering success.

The Multi-Stage Maturity Model for Long-Term IT Outsourcing Relationship Success is a theoretical model based on the hypothesis that long-term IT outsourcing relationships change over time, reflecting various stages of maturity. During the life cycle of the relationship, partners’ expectations and perceived commitments differ from one stage to another. For successful outsourcing relationships, partners must agree to mutually developed expectations that are well understood by both parties. These expectations should be realistic, measurable, and timely. They must also occur at precise moments in the longitudinal life cycle of the contract. Only by understanding these stages and the criteria for ensuring success will partners develop the appropriate strategies to advance their maturity.

INFORMATION TECHNOLOGY OUTSOURCING

IT outsourcing is the contracting of an organization’s IT-related decision making and processes to a third party vendor (Dhar & Balakrishnan, 2006; Kern, 1997). Orga-

nizations may outsource to cut costs, access advanced IT capabilities, improve performance and reliability, and focus on their core business. Contracts specify services provided, monetary considerations, and length of time.

Researchers studying IT outsourcing have agreed that the reasons for outsourcing are complex. Lacity, Hirschheim, and Willcocks (1994) found financial reasons (i.e., cutting costs, improving cost control, restructuring IT budgets) were the main motivation. Other reasons included returning to core competencies, facilitating mergers and acquisitions, and starting new companies. Loh and Venkatraman (1992) found companies sometimes outsource to solve poorly run IT. Quinn (1999) added that companies use IT outsourcing to gap organizational divides in their internal structures that cannot be achieved otherwise. Lacity and Hirschheim (1993) suggested outsourcing decisions may result from organizational politics, conflicts, and compromises. However, the focus of most IT outsourcing studies has been clients (Gonzalez, Gasco, & Llopis, 2006).

Researchers have used a variety of economic theories to explain the motives for outsourcing and the outsourcing relationship (Gonzalez et al., 2006): agency theory, transaction cost economics theory, game theory, resource-based theory, and resource-dependence theory. In only a small percentage of studies did researchers use relationship as a unit of analysis, examining relationships primarily from a contract or economic perspective (Gonzalez et al., 2006). The primary theories used in those studies were transaction cost economics and agency theory in which clients and vendors have conflicting goals. The concern and the risk were that differences in goals may result in self-serving, opportunistic behaviors on the part of vendors. Consistent with this theory was the common theme based on the customer's point of view that successful relationships were dependent on well-structured contracts and other detailed material created by legal advisors. Closely related to this theme was service quality, a method to measure quality, and a way to assess value versus cost. However, inter-organizational relationship theories were underrepresented (Gonzalez et al., 2006).

Hyder, Heston, Paulk, and Hefley (2009) stated the imbalance between customer and provider perspectives in the literature may be because those perspectives are better presented in practice by the people involved. Knowledge gained from the provider's perspective is the provider's intellectual property and not easily accessed. Studying the financial success or failure of a contract from the vendor's perspective has also been difficult because most companies amortize fixed costs, gains, and losses or spread them across multiple contracts within their customer base. Kern and Willcocks (2002) believed ignoring the relationship

perspective in IT outsourcing is paradoxical because its impact may be the difference between success, moderate success, or failure. Therefore, research must be focused on the outsourcing relationship. Success is not sustainable if it is only one-sided. Contracts unfair to vendors eventually result in corner cutting, bad service, and disputes. Contracts unfair to customers result in resentment, distrust, and more dysfunction (Hyder et al., 2009; Loesche & Hefley, 2009).

Thus, long-term success of IT outsourcing relationships is dependent on how well parties manage and meet each other's expectations. These expectations may be verbal (i.e., lawful contracts and SLAs) or nonverbal (i.e., psychologically perceived commitments). Parties must be aware of these expectations and manage them so they are realistic, timely, and measurable. Expectations not meeting these characteristics cannot be mapped to success criteria.

However, success criteria cannot be fully discovered unless these relationships are fully explored from both client and vendor perspectives. To this end, this multi-stage theoretical model may be used to plan, manage, and govern IT outsourcing relationships for success.

CURRENT IT OUTSOURCING MATURITY MODELS

Four IT outsourcing maturity models currently exist. Lacity and Willcocks (2000) addressed the operational aspects of the outsourcing contract, focusing on primary activities, key factors, and intended outcomes in their six-phase model. Alborz, Seddon, and Scheeper (2003) examined IT outsourcing process and performance based on efficiency and effectiveness as perceived by stakeholders. They created a three-stage, eight-phase model to explain the IT outsourcing relationship. Cullen, Seddon, and Willcocks (2005) developed a four-phase life-cycle model, each phase composed of nine building blocks, with 54 key activities. Gottschalk and Solli-Sæther (2006) described the IT outsourcing relationship as a three-stage model. However, none of these models include both vendor and customer perspectives.

As business, technology, and outsourcing evolve, individual expectations change. Partners must understand these changes and plan accordingly. Both the 10-year, \$1.6-billion privatization contract between IBM and Indiana Family and Social Services Administration that ended when both parties sued each other (McGarrah, 2011) and the cancellation of National Health Service's (United Kingdom) \$1.75-billion contract with Fujitsu (Young et al., 2008) revealed the hostility, bitterness, and termination of relationships that may result from mismatched

vendor and customer foci. In contrast, healthy partnerships often result in contract renewal or extension.

THE MULTI-STAGE MATURITY MODEL FOR LONG-TERM IT OUTSOURCING RELATIONSHIP SUCCESS

Outsourcing contracts result in different types of management challenges for both providers and clients. Ever changing technology, the complexity of computer systems and their environments, and accelerating economic and social environmental changes may result in lower hardware and software costs but higher maintenance costs, obsolete systems that must be replaced, and rapidly changing rules of business. All may make contract conditions obsolete or undeliverable, which makes resource planning difficult. Thus, long-term IT outsourcing contracts must be carefully planned, governed, and executed so clients' IT infrastructure does not become obsolete. Because of these dynamics, both providers and clients must adjust their expectations constantly, revisiting their strategies to be successful.

Long-term IT outsourcing should be viewed not just as a contract but also as a relationship in which "client and vendor(s) are connected or related via individual managers for the duration of the contract period of an outsourcing venture" (Kern & Willcocks, 2001, p. 51). These relationships are complementary by nature (Kern & Willcocks, 2000):

- Both key actors have something of value to contribute.
- Both invest in each other and depend on each other.
- Both have open communication and are friendly toward each other.
- Both build their relationship on interconnections that cannot be easily broken.

These relationships are also marked by high levels of information sharing, communication quality, collaborative participation, trust, and commitment (Seo, Han, & Lee, 2005).

To manage long-term IT outsourcing relationships, both parties must meet or exceed each other's expectations. Dibbern, Goles, Hirschheim, and Jayatilaka (2004) stated success may be understood either as satisfaction, which includes a positive attitude toward the key actors involved and the realization of objectives, or the performance of activities being outsourced. Grover, Cheon, and Teng (1996) showed success criteria are directly related to the degree of satisfaction related to expected outcomes. Thus,

long-term IT outsourcing success criteria are a set of realistic, measurable, and timely expectations. Without these characteristics, success criteria are undeliverable, which constitutes failure.

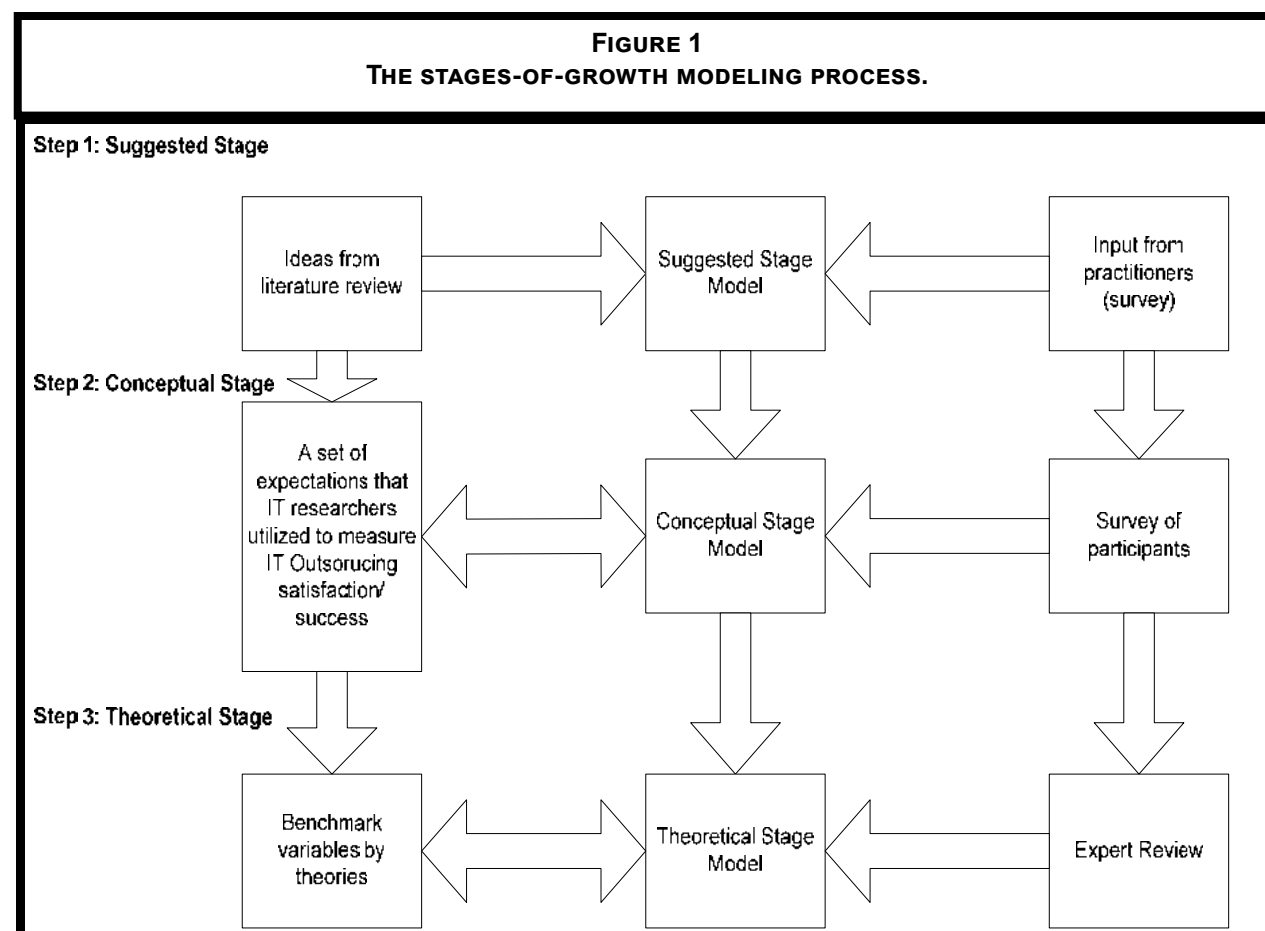
The Multi-Stage Maturity Model for Long-Term IT Outsourcing Relationship Success is a maturity model, not a capability maturity model. It reflects the growth of a cycle in stages, with one stage built on the previous stage to achieve higher maturity levels until the cycle reaches the final expected outcome.

CREATION OF THE MODEL

The first three steps of Solli-Sæther and Gottschalk's (2010) five-step process was used in building this theoretical IT outsourcing maturity model. The longitudinal nature of empirically testing, revising, and retesting theoretical models necessitated narrowing the scope of the present research to the first three stages (Solli-Sæther & Gottschalk, 2010). Thus, research began with the creation of a suggested model, which was transformed into a conceptual model and, finally, into a theoretical model (Figure 1-next page).

The target population was IT and business executives, managers, and professionals from private and public sectors, including both for-profit and non-profit organizations. These individuals were accessed through (a) the membership of the International Association of Outsourcing Professionals and (b) current and past associates of the researcher. Only individuals with direct experience in negotiating, executing, and managing IT outsourcing relationships were invited to participate. The contract profile used in selecting the sample was a minimum size of \$100 million and a minimum length of 3 years to ensure uninformed participants would not distort the data.

A sample of 134 practitioners was invited via email with an embedded URL to the survey site hosted by SurveyMonkey, a Web-based survey engine. This group was asked to complete questionnaires to identify and validate the four stages of the model and the expectations associated with each stage. The sample included men and women with extensive experience in outsourcing either as clients or vendors. They worked across the globe for U.S.-based companies in diverse industries, including banking, healthcare, wholesale suppliers, retailers, and government agencies. None of the participants had any vested interest in the research study other than a desire to contribute to the body of knowledge. Of the 134 individuals invited, 51 completed the surveys. However, many of these respondents answered questions concerning multiple stages; thus, actual units of analysis were much higher.



A second group of participants from the target population was selected through judgmental sampling to serve as subject matter experts (SMEs) to validate the final theoretical model. These individuals all had firsthand knowledge in negotiating, managing, and executing IT outsourcing contracts. Each SME participated in a one-on-one interview. Interviews ranged from 45 minutes to 2 hours in length.

Based on previous research (Alborz et al., 2003; Cullen et al., 2005; Gottschalk & Solli-Sæther, 2006; Lacity & Willcocks, 2000), this research describes and explains IT outsourcing success with a maturity model consisting of four stages: contract, transition, support, and partnership. These four stages represent a sequential hierarchical progression, involving both vendor and client, from the time of contract negotiation to the end of the life cycle.

The Suggested Model

The stages-of-growth-model perspective is one of the most common in management literature and has been used to explain how organizations move from initial development to ongoing viability (Drazin, Glynn, and Kazanjian (2004), Kazanjian and Drazin (1989). Gottschalk and Solli-Sæther (2006) indicated long-term IT outsourcing relationships have predictable patterns of change over time as the relationships evolve. If both vendor and customer are committed to succeeding, they may advance their relationship through the conceptualization of these patterns.

The Conceptual Model

Long-term IT outsourcing success criteria are a set of realistic, measurable expectations delivered in a timely fashion. In the second step of model creation, participants completed a questionnaire concerning expectations in IT outsourcing relationships. The survey consisted of 47 expectations derived from six classical and popular theories (i.e., transaction cost economics, agency theory, resource-based view, core competency theory, complementary relationship theory, and psychological obligation principles). The expectations were classified as either customer expectations (Table 1) or vendor expectations (Table 2). Participants ranked each expectation for each stage of the suggested model using the following scale: 1 = no impor-

TABLE 1
CUSTOMER EXPECTATIONS
DERIVED FROM THE LITERATURE

	Expectation
CE01	Customer can focus on core business.
CE02	Customer can obtain better and more technology (technology expansion) as business continues to grow.
CE03	Customer can obtain services and technologies not available internally.
CE04	It is less expensive for customer to outsource since vendor can take advantage of economies of scale.
CE05	Partners build comprehensive and complete contract and SLAs.
CE06	Partners build on effective inter-organizational team.
CE07	Partners build on flexible work practices.
CE08	Partners build short term contract that can be renegotiated and reinterpreted later.
CE09	Partners participate in knowledge sharing.
CE10	Partners share risks.
CE11	Staff reduction/redeployment for customer since vendor will support IT.
CE12	Vendor has adequate IT knowledge.
CE13	Vendor has adequate staffing.
CE14	Vendor has clear authority structure.
CE15	Vendor has clear and effective communication.
CE16	Vendor meets or exceeds SLAs.
CE17	Vendor standardizes services and technologies.
CE18	Vendor takes charge of the customers IT portfolio and resources.
CE19	Vendor does not overbill.
CE20	Vendor provides remedy for poor IT performance.
CE21	Customer can limit IT operation risks and improve business resiliency.
CE22	Vendor has financial strength.
CE23	Partners share financial success.

TABLE 2
VENDOR EXPECTATIONS
DERIVED FROM THE LITERATURE

	Expectation
VE01	Customer has adequate knowledge of business.
VE02	Customer has clear authority structure.
VE03	Customer improves discipline and accountability.
VE04	Customer is effective in knowledge sharing.
VE05	Customer pays for added technologies and services as scope and complexity of services increase.
VE06	Customer pays on time.
VE07	Customer provides clear scope of work.
VE08	Customer provides governance for contract and SLAs.
VE09	Customer relies on vendor for service and technological directions.
VE10	Customer takes ownership of projects.
VE11	Partners build comprehensive and complete contract and SLAs.
VE12	Partners build on effective inter-organizational teams.
VE13	Partners build on flexible work practices.
VE14	Partners build short term contract that can be renegotiated and reinterpreted later.
VE15	Partners participate in knowledge sharing.
VE16	Partners share risks.
VE17	Staffing and skills increase for vendor to enable required support for customer.
VE18	Vendor profits from the outsourcing deal.
VE19	Vendor provides competitive advantages.
VE20	Vendor gains domain expertise or competitive advantages as the results of the contract.
VE21	Cost saving or financial improvement for the customer.
VE22	Customer has clear and effective communication.
VE23	Partners share financial success.
VE24	Customer has financial strength.

tance, 2 = low importance, 3 = high importance, and 4 = great importance.

Participants could also provide expectations not included in the survey items. These comments were analyzed and, when appropriate, considered data for one of the expectations already listed on the instrument. For example, one comment suggested the expectation of data center consolidation in the contract stage. Because data center consolidation is an IT service provided by IT vendors, the comment was considered the same as CE03, "Customer can obtain services and technologies not available internally." If the respondent had already marked that expectation as being of great importance, no adjustment to the data was necessary. If the respondent had given it a lesser classification or no mark at all, then the data were adjusted to reflect the greater level for this expectation. Only two of the four additional expectations cited resulted in adjustments to the data.

The unit of analysis was the stage of relationship between the client and vendor in a long-term IT outsourcing contract. Analysis started with the examination of customer and vendor perspectives within each stage. Findings for each perspective were combined to draw conclusions for the unit and the overall theoretical model.

Contract Stage

Long before the contract stage, customers decide to outsource. They spend time to fully understand the ramifications of their choice: the effects on IT staff, IT services, business processes, and company financials. Because their decision has enormous implications, most companies seek outside legal and outsourcing consulting expertise in vetting vendors and negotiating contracts.

Outsourcing relationships start when customers and vendors begin contract negotiations. This stage includes formal competitive bidding, requests for proposals, due diligence, pricing, proposals, and contract negotiation and requires 3 to 9 months to complete. Lawyers, consultants, vendor company CEO, CFO, and CIO; client executives; and other senior managers negotiate the memorandum of understanding and the master outsourcing service agreement or the master contract. The master contract includes contractual terms, services, costs, and resources involved. Resources include human resources, hardware equipment, software, facilities, third-party contracts, and intellectual property. The duration of these initial IT outsourcing contract terms range between 3 and 10 years. According to the SMEs, contracts of any shorter duration may discourage parties from investing in the relationship, technologies, equipment, and resources because of prohibitive costs. After the initial term, customers have the option to

renew. Renewal terms are usually 3 to 5 years, as stated in the master contract.

The master contract also contains clauses (termination for cause; termination for convenience) to cover ending the relationship for any reason contract terms cannot be met. These clauses are typically tied to financial penalties, reimbursements, and even contract exit assistance. Thus, termination is generally expensive for the initiating party.

Besides the master contract, business and IT SMEs under the watch of legal counsel from both sides develop detailed work orders or statements of work for each IT service (e.g., helpdesks, system administration, database administration, and application support). These statements define the work activities, deliverables, and timelines vendors must execute in performance of specified work for clients.

Expectations

Twenty research participants completed the customer portion of the questionnaire; 12 completed the vendor portion. The top five expectations identified for customers, in rank order, were CE03, CE04, CE02, CE13, and CE12. Customers' top expectations were cost reduction, technology accessibility, and technology improvement. Customers expect vendors to have adequate staffing and IT knowledge to provide high quality, cost-effective outsourcing services. Customers expect access to services and technologies not available internally. They expect vendors to run customers' IT operations and to improve their use of technology. They expect vendors to provide new and better technologies to allow them to adapt to advances in technology, business processes, and business functions as their businesses grow and evolve.

The top five expectations identified for vendors, ranked in order, were VE18, VE20, VE19, VE21, and VE06. Investments in the early stages of outsourcing contracts are extremely expensive for both parties but especially for vendors because of the upfront investments required. Therefore, realizing a profit and timely payments are among vendors' greatest expectations. This is why vendors have a vested interest in their customers' success. Thus, their intention is not only expense and cost control but also enhancement of customers' revenue-generating abilities. The universal expectations are that vendors have the ability to perform, will continue to have such abilities, and will profit from their abilities and performance.

Financial and resource investments at this stage are significant for both parties; thus, early IT outsourcing failure is a significant loss for both sides. In negotiating the

contract, both parties must understand that both parties must make profits. Contracts must also be meaningful and enforceable because fair, meaningful, enforceable contracts are the foundation for the second stage, transition.

Cases

In 2005, Sears terminated its relationship with Computer Sciences Corporation (CSC) less than a year after signing the \$1.6-billion contract, citing failure to deliver (Bierce & Kenerson, 2009; McDougall, 2005). CSC sued, disputing whether the termination was for cause or for convenience, arguing the reason for the termination was the Sears-Kmart merger. When the court found in favor of CSC, Sears had to pay CSC tens of millions of dollars in termination for convenience fees. In 2007, the two companies settled out of court for an unspecified amount paid by Sears (Bierce & Kenerson, 2009).

Only months after Perot Systems and Triad Hospitals signed a \$1.2-billion, 10-year contract in 2006, Community Health Systems acquired Triad and cancelled the Perot Systems contract. Because Perot Systems had reported zero revenue, citing heavy upfront data center investment costs, Community Health Systems had to pay Perot Systems substantial fees to terminate the contract for convenience (CBR Staff Writer, 2007).

The \$5-billion cancellation between IBM and JPMorgan Chase in 2004 occurred 18 months after outsourcing. The companies issued a joint statement indicating the contract did not work well. The customer, JPMorgan Chase, considered the vendor's margins too high and wanted to be active participants in managing their technology because of its potential as a competitive advantage within its industry. The vendor, IBM, did not find the arrangement financially attractive. Both companies agreed to stop trying to make the contract work (Cowley, 2004; Kawamoto, 2004).

Although the first two cases show that failures are not always due to companies not doing their homework prior to signing contracts, the case of IBM and JPMorgan Chase does reveal what may happen when one or both parties do not conduct due diligence thoroughly. All three cases are clear illustrations that early IT outsourcing failure results in significant losses for both parties.

Transition Stage

In the transition stage, customers transfer services and resources to vendors. This stage requires 6 to 18 months to complete. The SMEs believed it is the most important stage of the entire contract relationship. In concept, this

stage does not start until the contract is signed. In practice, all stages are eclectic and pervasive. Although the parties plan for high-level transition in the contractual negotiation, details cannot be determined. Services, people, licenses, and resources are usually transferred between multiple vendors with relationships to the customer, not just between one vendor and the customer. These interactions result in another level of complexity, including additional contract agreements for matters not addressed during the contract stage.

SLAs must be designed to provide IT services on time, for acceptable costs, and in accordance with specified quality. Typically, partners have 90 days after the signed master contract to establish the SLAs.

Expectations

Twenty-seven participants completed the survey for the transition stage, 16 for the customer portion and 11 for the vendor portion. The top five expectations for customers, in rank order, were CE13, CE12, CE05, CE11, and CE15. The top five expectations for vendors, in rank order, were VE11, VE01, VE07, VE04, and VE02.

For both partners, transition is about transferring knowledge, creating organizational structure, defining roles and responsibilities, and establishing services and SLAs to complete the contract agreement. Customers expect vendors to be adequately skilled and staffed to accomplish the transition. They want their new IT to work seamlessly and transparently and be better and more cost effective than the old. Vendors expect not only financial rewards for delivering quality and service but also good reputations and expansion of their core skills. Some vendors create special teams of their most experienced professionals to perform transitions.

Customers must build organizations with in-depth knowledge of their business, provide necessary governance, and manage operation schedules. As responsibilities shift, they must create effective management structures with reduced staff. Vendors must build organizations with technical capability and learn their customers' business and IT applications and infrastructure.

Both parties must communicate clearly. Although important in every stage of the life cycle, it is crucial during this stage when interaction and knowledge transfer are more frequent. Having clear authority structures for both parties is another expression of this expectation. Both parties must also retain transferred knowledge throughout the remainder of the contract.

Unfortunately, many vendors believe transition is just another IT implementation consisting of project plans, ac-

tivity details within the plan, project meetings, and status and financial reporting. Many customers abdicate their IT responsibilities upon completion of contract negotiation, depending on third-party outsourcing management services to oversee operational schedules. These types of arrangements are the root of failures in this stage. Failure is also expensive for both parties due to high up-front investment costs.

Cases

The failed contract between IBM and the Texas Department of Information Resources (DIR) shows the expense of early failure and the increased losses to both parties due to delays in solving problematic contracts. This 7-year \$863-million contract signed in 2006 included consolidation of 28 DIR datacenters into two by 2009. However, the two organizations became entangled in conflicts, accusing each other of failing to uphold the contract. In 2008, Governor Perry ordered a temporary halt to consolidation because of concerns about data backup for the systems. In 2010, DIR hired Equa Terra (now KPMG), a consulting firm to perform an internal audit. Equa Terra found governance provisions in the contract ineffective and inappropriate (Towns, 2010). The firm urged an overhaul of the arrangement (Hoover, 2009). Although they cited misalignment of business intent with organizational, financial, and operational realities as the main problem, other problems included interagency dynamics and categorization and prioritization of workloads (Hoover, 2009).

In July 2010, the DIR CIO sent a notice to cure to the CEO of IBM. IBM had 30 days to correct these problems: (a) completion of only 12% of the transition, (b) failure to complete transformation services in accordance with the terms of the master contract, (c) failure to perform backup and recovery, (d) failure to deliver a disaster recovery plan, (e) failure to provide sufficient and suitably qualified personnel, (f) failure to implement data security, (g) failure to perform the services in accordance with applicable service levels, (h) failure to implement asset management, (i) failure to implement change management, (j) failure to implement system management, and (k) ineffective system monitoring (Miller, 2010). IBM disagreed with DIR, indicating DIR could terminate the master contract for cause. IBM also blamed the State, attributing problems to “fundamental changes in DIR’s approach to the project, its commitment to improve its governance of the project and its management of the other agencies involved” (Miller, 2010, 7). In March 2012, DIR announced a \$901-million, 8-year deal with Xerox and a \$127-million, 6-year deal with CapGermini for overall project management services (McDougall, 2012).

Neither IBM nor DIR met each other’s expectations. Regardless of the breeches DIR cited, Equa Terra found the contract unsustainable because DIR had no clear authority structure (Hoover, 2009). DIR also did not have adequate knowledge of the business. Lack of governance and management, coupled with lack of business knowledge, resulted in the inability of DIR to provide IBM with a clear scope of work (Towns, 2010).

Support Stage

This stage of the IT outsourcing relationship life cycle has received the most scrutiny in research studies, with practitioners’ documenting it prolifically. Success in the support stage is dependent on both customer and vendor competency.

Expectations

Thirty-three participants responded to the support stage survey, 19 for the customer portion and 14 for the vendor portion. The top five expectations for customers, in rank order, were CE16, CE17, CE01, CE19, CE02, and CE03. In this stage, SLAs are used to manage vendor performance and monitor the success of provided services. Customers expect elevated services and improved technologies at the negotiated pricing, not over billing or corner cutting that impacts service level or quality. They expect to benefit from the standards and procedures vendors established in the transition stage and through the SLAs. They expect access to services and technologies not previously accessible. They also expect delivery of new and better technologies to support their growing or evolving portfolios. However, customers must focus not only on their business but also on their skills in governing the relationship.

The top five vendor expectations, ranked in order, are VE08, VE05, VE02, VE03, and VE01. Vendors expect to do well by standardizing services and technologies offered and by getting paid on time. The master contract explicitly states how often invoices and payments are rendered; who pays taxes; and how exchange rates, duties, tariffs, levies, and governmental fees are handled. However, vendors expect customers to pay for added services and technologies necessitated by changes in technology or business but not stated in the master contract. They also expect customers to be responsible for their shop, to provide governance, to have clear authority structures, and to improve their expertise in outsourcing management. According to the SMEs, many contracts specifically include details regarding compliance and legal and regulatory accountability and liability.

Success is dependent on customer and vendor competency. Vendors must provide and continually improve the efficiency and effectiveness of quality services. Customers must understand not only their business but also governance of these relationships. Customers moving beyond rigid SLA measurements and adopting more innovative ways to measure these relationships, such as more flexible models that result in rewards to the vendors through additional business, also indicates success.

Cases

Owens & Minor and Perot Systems signed a 10-year, \$229-million contract in 2002 that, according to one SME, has been extended until December 2014. David Guzman, Owens & Minor CIO, stated Perot Systems has “a compatible culture to our own in terms of delivery to our customers” and “maintains a fixed, predictable price for excellent operations; and a variable arrangement for strategic sourcing, according to Owens & Minor’s needs over time” (Parry, 2004, 3). Because of this successful relationship, Owens & Minor has had time to focus on its core business, on “what’s strategic” rather than on “keeping the ship afloat” (Parry, 2004, 2). This will allow them to build a partnership focused on strategic value and speed to market.

Both customer and vendor have been doing what is expected to the best of their abilities. Therefore, Owens & Minor has been able to focus on the strategic value of IT, bringing continuous improvement to business processes and business innovation. This has resulted in a restructured contract containing a more flexible two-level pricing arrangement, one for fixed, predictable operational costs and one for variable costs (Parry, 2004, 3).

Partnership Stage

In the previous stages, both partners focused on effective procurement of utility technologies and services and their management through tight contract compliance and strict governance. However, over time, the relationship evolves. As partners become more sophisticated at what they do, they engage in mutually beneficial behaviors, their expectations having common objectives. The outsourcing relationship becomes a strategic partnership, a natural outgrowth of a successful relationship. Customers leverage vendors’ skills to take advantage of economies of scale and consider vendors strategic allies. Vendors develop or improve their expertise and skills, becoming more desirable both in their customers’ eyes and in the market place. Thus, strategic relationships change into complementary partnerships in which (a) both key actors have something of value to contribute; (b) they invest in each other and

depend on each other; (c) they have open communication and are friendly toward each other; and, (d) they build their relationship on interconnections that cannot be easily broken (Kern & Willcocks, 2000).

Expectations

Fourteen participants, eight for the customer portion and six for the vendor portion, completed the partnership stage of the survey. The top five expectations for customers, in rank order, were CE07, CE09, CE02, CE10, CE06, and CE23. The top five expectations for vendors, in rank order, were VE12, VE13, VE15, VE23, and VE16.

For customers, the determining factor in whether vendors are strategic partners is how well and how flexibly vendors adapt to customers’ growth. Previously, the most important aspects of vendors’ expertise were the efficient execution of utility technologies and services and the accuracy, availability, and reliability of their systems. As strategic partners, vendors must deliver technology expansion in preparation for business growth. Vendors must become integrated parts of customers’ organizations, sharing risks and successes. Vendors must also have joint expectations with customers.

Cases

Owens & Minor received the 2011 CIO 100 award for innovation for business growth. The annual award program, produced by CIO magazine, recognizes organizations that exemplify the highest levels of operational and strategic excellence in IT (“CIO100 2011 Companies,” 2011). InformationWeek twice ranked the company first in its annual listing of the 500 most innovative technology users in the United States (McGee, 2003). At the Dell World conference in October 2011, Rick Mears, Owens & Minor CIO, attributed their IT success to their partnership with Perot (now Dell):

We were technology limited for the things we wanted to get into. We needed a strategic partner who could help us align our business with technology. Dell not only proved that they have the know-how but also helped us to get that transformed and innovated technology implemented quickly and effectively in order for us to grow and expand the market. (“On the Case,” 2011)

Tenet Healthcare signed the first \$1-billion, 10-year IT outsourcing contract with Perot Systems in 1990. They extended it in 2001 for 10 years and again in 2006 for 10 years, making it one of the longest partnerships in the industry. Steve Brown, Tenet CIO, explained that early successes in their relationship allowed both companies

to pursue “mutually beneficial opportunities” and cited their “understanding of the people, capacities, and capabilities” (as quoted in PricewaterhouseCoopers, 2008, p. 4). The SMEs noted this partnership has not always been smooth. Tenet has constantly reevaluated the relationship and its collaborative model, renegotiating the contract four times. In 2003, when Perot Systems acquired Vision Healthsource, a billing and claims management company in India, to jump start their international expansion of their healthcare IT, Tenet was their first customer, sharing the risk and realizing the benefits of the global market.

Least Important Expectations

Survey respondents identified six customer expectations (CE08, CE14, CE18, CE20, CE21, CE22) and five ven-

dor expectations (VE09, VE10, VE14, VE17, VE22) as being less important. The literature indicated that, although these expectations are valid for some organizations and in some stages of the life cycle, they are not core characteristics of typical long-term IT outsourcing relationships.

The Theoretical Model

Analysis of survey results revealed 36 core expectations (17 customer; 19 vendor) that constitute characteristics of long-term IT outsourcing relationships. These core expectations neither remain static throughout the contract nor change completely from stage to stage. Whether their criticality increases or decreases is dependent on the particular stage involved. Results were further analyzed using Gregor’s (2006) analysis theory criteria to identify accu-

rate and credible benchmark variables for each stage in the model (Figure 2).

In the contract stage, three major concerns exist:

- Customer must achieve cost saving while vendors achieve financial improvement.
- Customers must gain in technology while vendors gain in staffing and expertise.
- Customers and vendors must both have possibilities for future technology expansion.

Resolving these concerns does not mean the parties have actually realized their intended expectations but that they are satisfied their expectations are being met. This satisfaction may be due either to clauses within the contract or to other negotiated agreements. When these concerns are resolved, the parties move to the next stage.

In the transition stage, although the importance of cost and technology still exists, new concerns emerge:

- Both parties must work together to build a comprehensive and complete contract and the SLAs.
- Both customers and vendors must build or maintain effective authority structures and organizations to support contract arrangements.

With the completed contract, the SLAs, and the appropriate organizational structures, including authority and escalation paths, in place, the parties may move to the support stage.

In the support stage, two new concerns emerge that concern core competencies and financial realization:

- Both parties must focus on what each does best.
- Customers must be prompt with their payments, while vendors must be fair in their charges.

When expectations are met and both parties feel the other is being fair, the relationship may progress to the fourth stage.

In the partnership stage, the relationship reveals characteristics of a complementary relationship:

- Partners build on flexible work practices.
- Partners share knowledge.
- Partners share financial success and risks.
- Partners become an effective inter-organizational team.

By design, companies enter long-term IT outsourcing contracts with the intention of building a partnership, much like a merger or a joint venture. This is evidentially based

on the cost, time and effort to vet vendors, due diligence, and plan and negotiate the contract. Thus, the tentative partnership matures over time into a partnership, passing through sequential and predictable stages.

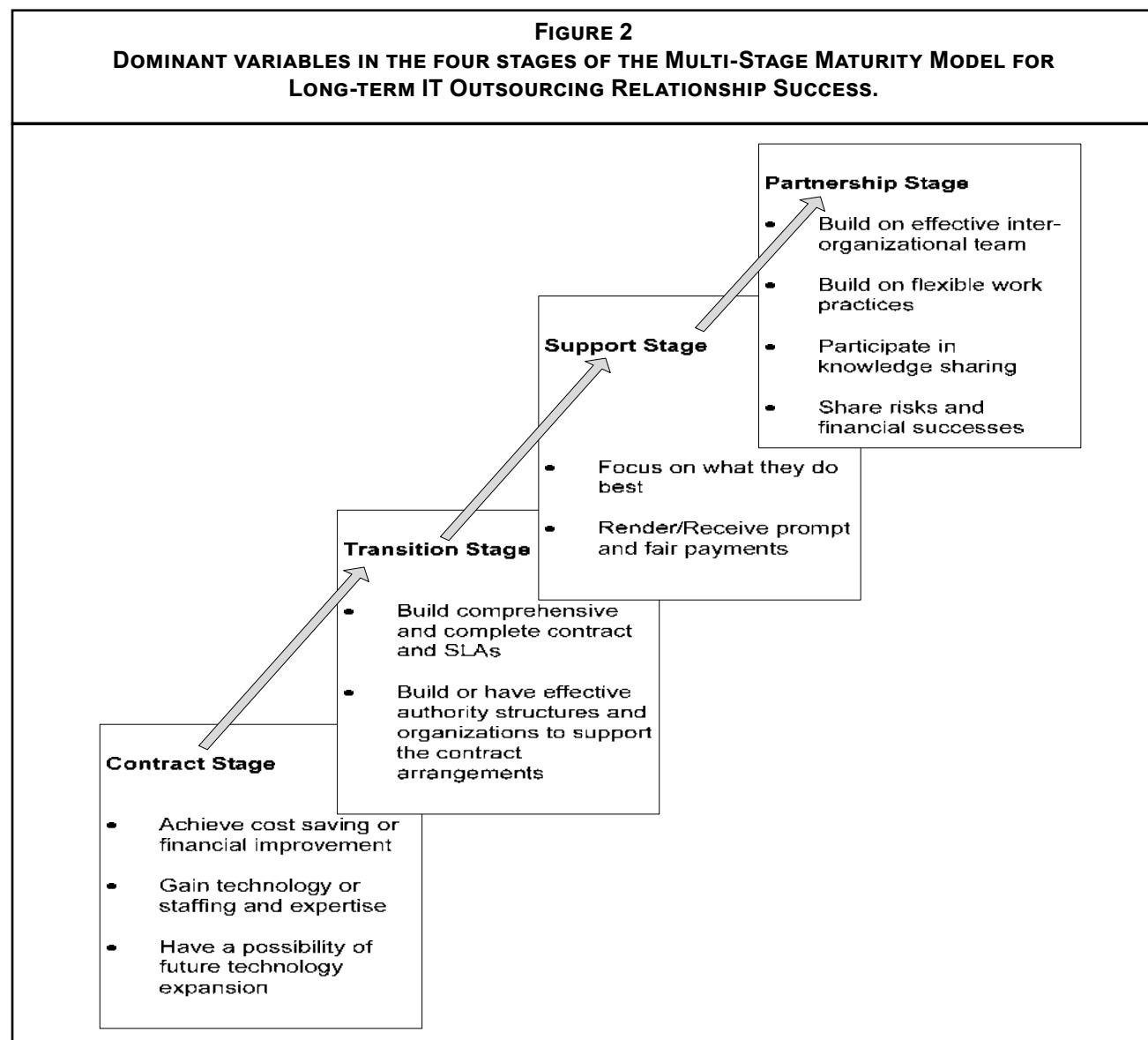
From the contract perspective, the stages of long-term IT outsourcing do not have obvious boundaries; they appear eclectic and pervasive. From a relationship perspective, the stages of growth develop sequentially, with each stage having distinguishing characteristics driven by dominant variables or concerns. Figure 3 is a summary of the four stages of the final theoretical model, including the five top expectations for each stage and the dominant variables that differentiate one stage from another.

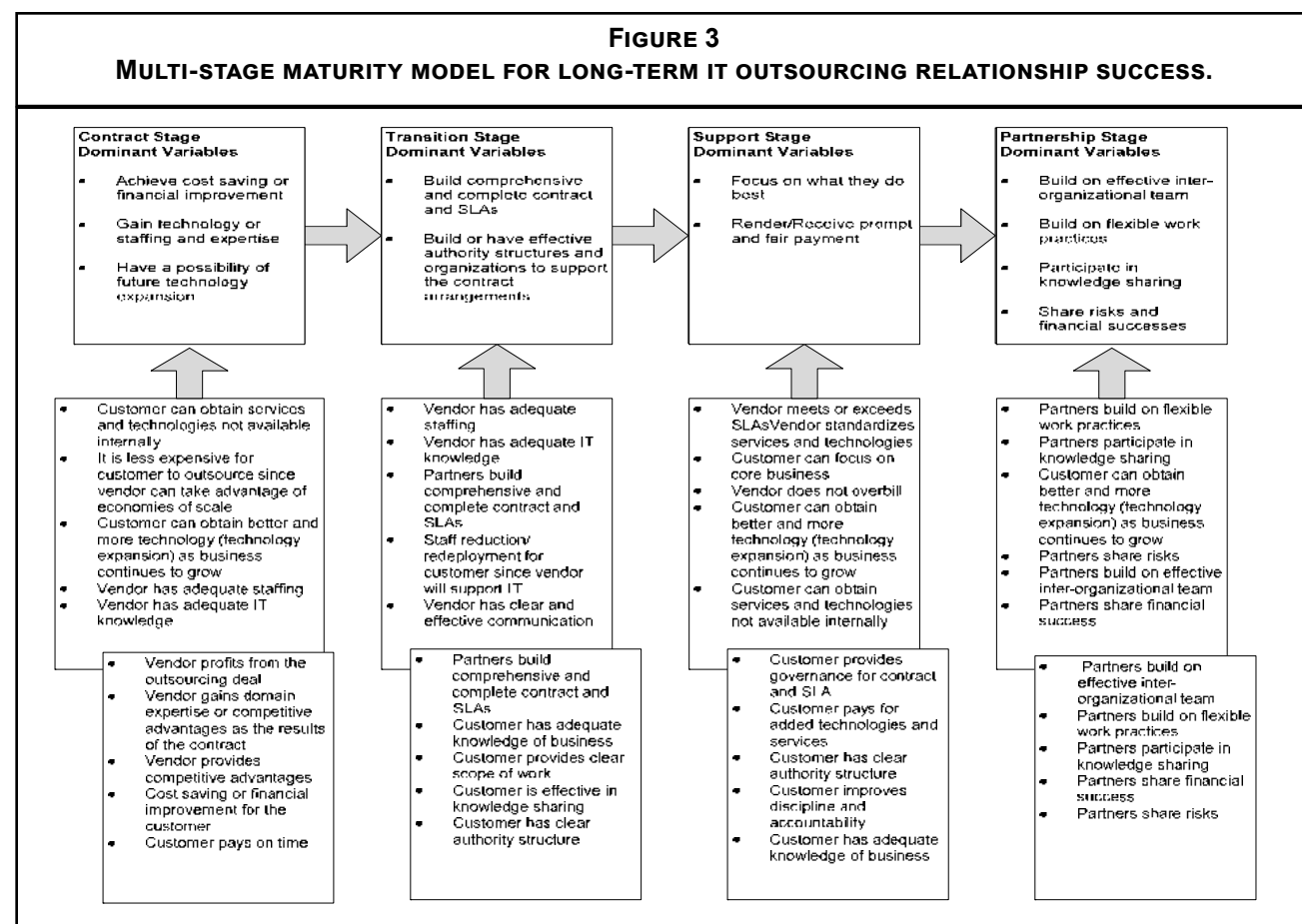
RECOMMENDATIONS

IT outsourcing consultants should use the Multi-Stage Maturity Model for Long-Term IT Outsourcing Relationship Success to help clients manage these relationships more holistically rather than legalistically. Prior to the contract, both parties must conduct due diligence to ensure a good match, both in supply and demand and in cultural fit. In the contract stage, the negotiated contract must result in saving costs for the customer and earning profits for the vendor. The contract should show the benefits of technology and the possibility of future technology expansion for both parties. Both parties must understand the cost of failures and prepare for them by including termination terms in the contract. Exit terms must be planned, as should transformations in the organizations due to global expansion, mergers, acquisitions, and new technologies. Thus, neither party should have to engage in expensive litigation or transfer costs should the partnership no longer be a suitable solution.

In the transition stage, both parties should behave as if involved in a merger or joint venture. Doing so will result in the convergence of effective governance, the business knowledge of the organization, and expertise in IT applications and infrastructure. Customers must remain actively involved and lead; vendors must build permanent operational organizations capable of retaining the transferred knowledge and skills.

In the support stage, customers must focus not only on their business but also on their governance skills. Vendors must become their clients’ enablers, offering them access to extended capabilities, technologies, standards, and best practices. In the partnership stage, transformation must occur to enable business optimization and growth. Both partners must drive greater strategic effectiveness and business value via collaboration, cultural alignment, and a flexible relationship.





Vendors and clients may use the model to identify the current stage of their contract relationships. They may also use it to evaluate both their partners' and their own expectations to ensure they are realistic, measurable, and deliverable in a timely manner.

However, although this research is based on mature IT relationships and on information from SMEs, 76% of IT relationships are first-time relationships (Young et al., 2008) in which partners may not have similar levels of organizational maturity. In addition, the model does not address cultural differences and global relationships. The research suggests that in global relationships, additional expectations may exist concerning data security, intellectual property protection, other privacy concerns, culture, and language. Partners must consider these constraints in determining whether the model is appropriate to use or whether they need to add their own expectations.

CONCLUSION

Long-term IT outsourcing success requires each partner to understand both parties' expectations in each of the four stages of the relationship life cycle. Failure to do so may result in the failure of the relationship at potentially

great cost for both parties. The theoretical Multi-Stage Maturity Model for Long-Term IT Outsourcing Relationship Success is a tool partners may use to increase their understanding of these expectations and to plan, manage, and govern their IT outsourcing relationships to success.

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