Key Drivers for the Successful Outsourcing of IT Services

STUDYING THE CHALLENGES ASSOCIATED WITH OUTSOURCING OF IT SERVICES, INCLUDING OFFSHORING, FROM A LARGE IT CONSULTING COMPANY PERSPECTIVE

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**ABSTRACT**

**Background:**
Services are without doubt the driving force in today’s economies in many countries. The increased importance of the service sector in industrialized economies and its productivity rates are testified by the fact that the current list of Fortune 500 companies contains more service companies and fewer manufacturing companies than in previous decades. Many products today are being transformed into services or have a higher service component than previously.

In the development of this increasingly important bundling of services with products, outsourcing and offshoring play a key role. Companies have been outsourcing work for many years now appointing the latter a well-established phenomenon. Outsourcing to foreign countries, referred to as offshoring, has also been fuelled by ICT and globalization, where firms can capitalize on price and cost differentials between countries. Constant improvements in technology and global communications virtually guarantee that the future will bring much more outsourcing of services, and more specifically, outsourcing of IT services. While outsourcing and offshoring strategies play an important role in IT services, we would like to investigate the drivers that affect the successful outcome of an offshore outsourcing engagement.

**Purpose:**
The principle aim of the present study is therefore twofold: a) to identify key drivers for the successful outsourcing of IT services seen from the outsourcing partner’s perspective and b) to investigate how the outsourcing partner prioritizes these drivers.

**Method:**
In order to perform this study, a number of theoretical frameworks within the discourse of outsourcing of IT services were covered. After composing a relevant theoretical background, we applied these frameworks in a large, global IT consulting company. The study was conducted using a qualitative research approach in which the empirical data were collected in the form of an internet-based survey and by interviewing several key employees within the company.

**Result, Analysis and Conclusions:**
Several drivers play a significant role in successfully offshore outsourcing IT services. Our study revealed that the most important of them, in order of priority, are increase of profitability, high quality service delivery, increase of productivity, as well as awareness of the risks associated with the outsourcing engagement. By being aware of these drivers and by taking those into consideration before and after making an outsourcing decision, the outsourcing partner can increase its chances for achieving outsourcing success.
**Key Words:** Outsourcing, offshoring, IT services, profitability, productivity, service quality, risks

**ABBREVIATIONS**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ICT</td>
<td>Information and Communications Technology</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
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<tr>
<td>ROI</td>
<td>Return On Investment</td>
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<tr>
<td>SLA</td>
<td>Service Level Agreement</td>
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<td>TCO</td>
<td>Total Cost of Ownership</td>
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Last, but far from least, we would like to thank the personnel at our case company, who either let us conduct interviews or responded to our survey, and allow us to gain vital and invaluable information for our study.

Altogether, the process of writing this thesis has been an intriguing and knowledge-rewarding journey. We have gained insight into a problem area that is present in many companies today and is also an issue of current research. Hopefully, this thesis will encourage the reader to find out more about the complexity of the outsourcing and offshoring phenomena.

Thank you all.

Karlskrona, June 2012

Senadin Alisic  Eirini Karapistoli  Adis Katkic
CONTENTS

1. INTRODUCTION .......................................................................................................................... 6
   1.1 Background .............................................................................................................................. 6
   1.2 Research questions .................................................................................................................. 7
   1.3 Key definitions ....................................................................................................................... 8
   1.4 Thesis’ structure ..................................................................................................................... 9

2. THEORETICAL FRAMEWORK ................................................................................................ 11
   2.1 The role of IT services in developing countries ....................................................................... 11
   2.2 Reasons for outsourcing and offshoring ............................................................................. 12
   2.3 Offshore outsourcing generations ....................................................................................... 13
   2.4 Key Drivers to Successful Outsourcing of IT Services ........................................................... 14
      2.4.1 Quality of Service ........................................................................................................... 16
      2.4.2 Profitability .................................................................................................................... 17
      2.4.3 Productivity ................................................................................................................... 19
      2.4.4 Risk Awareness ............................................................................................................. 22

3. METHOD ...................................................................................................................................... 25
   3.1 The case study as a method of investigation ......................................................................... 25
   3.2 Research approach ................................................................................................................ 25
   3.3 Selection of the case company ............................................................................................. 26
   3.4 Selection of the questions ..................................................................................................... 27
   3.5 Sampling and data collection ............................................................................................... 27
   3.6 Unit and level of analysis ..................................................................................................... 28
   3.7 Validity, reliability and generalizability .............................................................................. 29

4. RESULTS AND ANALYSIS .................................................................................................... 30
   4.1 Descriptive statistics of the sample ..................................................................................... 30
   4.2 An overview .......................................................................................................................... 31
   4.3 Quality of service analysis ................................................................................................... 33
   4.4 Profitability analysis ............................................................................................................. 36
   4.5 Productivity analysis .......................................................................................................... 39
   4.6 Risk awareness analysis ....................................................................................................... 43

5. CONCLUSIONS .......................................................................................................................... 46
5.1 General overview........................................................................................................................................... 46
5.2 Limitations and further research .................................................................................................................. 48
6. REFERENCES .................................................................................................................................................. 50
7. APPENDIX I – SURVEY QUESTIONS ............................................................................................................. 53
8. APPENDIX II – INTERVIEW QUESTIONS ....................................................................................................... 59

LIST OF FIGURES

FIGURE 2. KEY DRIVERS FOR SUCCESSFUL OUTSOURCING - A VISUALIZATION OF THE DRIVERS PRESENTED BY THE OUTSOURCING CENTER MARKET SURVEY (2010). ........................................................................................................ 15
FIGURE 3. ANALYZED KEY DRIVERS FOR THE SUCCESSFUL OUTSOURCING OF IT SERVICES. ......................... 15
FIGURE 4. OUTSOURCING AND OFFSHORING COSTS ....................................................................................... 18
FIGURE 5. CREATIVITY MODEL ......................................................................................................................... 21
FIGURE 6. COMMON RISKS IN THE OUTSOURCING PROCESS ........................................................................... 23
FIGURE 7. KEY DRIVERS TO SUCCESSFUL OUTSOURCING AND THEIR ORDER OF IMPORTANCE ................. 24
FIGURE 8. SATISFACTION LEVELS FOR A) QUALITY OF SERVICE AND B) PROFITABILITY ................................. 32
FIGURE 9. SATISFACTION LEVELS FOR A) PRODUCTIVITY AND B) RISK AWARENESS .................................. 33
FIGURE 10. SERVICE QUALITY AND ITS MEASUREMENT CRITERIA WITHIN THE ANALYZED COMPANY .......... 34
FIGURE 11. TRADING OFF QUALITY OF SERVICE FOR PRICE .......................................................................... 35
FIGURE 12. SLAS AND KPIs WITHIN THE ANALYZED COMPANY ........................................................................ 35
FIGURE 13. OUTSOURCING AND OFFSHORING AND THEIR EXPECTATION IN REDUCING CLIENT’S COST ....... 37
FIGURE 14. OFFSHORE DELIVERY AND ITS IMPACT ON CLIENT SATISFACTION LEVEL ................................. 38
FIGURE 15. MEASURING PRODUCTIVITY WITHIN THE INVESTIGATED COMPANY ............................................ 40
FIGURE 16. INVESTIGATING WHETHER THE COMPANY HAS ABILITY TO ADAPT TO CHANGED CONDITIONS .... 40
FIGURE 17. INNOVATION AND ITS IMPRESSION ON PRODUCTIVITY IMPROVEMENT ........................................ 41
FIGURE 18. INVOLVEMENT IN THE IMPLEMENTATION OF INNOVATIVE IDEAS ............................................... 42
FIGURE 19. RISKS RELATED TO PEOPLE AND THEIR EFFECT ON THE OUTSOURCING ENGAGEMENT .......... 43
FIGURE 20. CULTURAL RISKS AND THEIR EFFECT ON THE OUTSOURCING ENGAGEMENT ............................ 44
FIGURE 21. CONTRACTUAL RISKS AND THEIR EFFECT ON THE OUTSOURCING ENGAGEMENT .................... 44
FIGURE 22. RISKS RELATED TO SCOPE, COST AND TIME ESTIMATION .......................................................... 45

LIST OF TABLES

TABLE 1. DEMOGRAPHIC CHARACTERISTICS OF THE SAMPLE – GENDER STRUCTURE ....................................... 30
TABLE 2. DEMOGRAPHIC CHARACTERISTICS OF THE SAMPLE – POSITION IN THE COMPANY ............................ 31
1. **Introduction**

1.1 **Background**

Services are without doubt the driving force in today’s economies in many countries. The increased importance of the service sector in industrialized economies and its productivity rates are testified by the fact that the current list of Fortune 500 companies contains more service companies and fewer manufacturing companies than in previous decades. Many products today are being transformed into services or have a higher service component than in previous decades. In the development of this increasingly important bundling of services with products, outsourcing plays a key role (Davies, 2004).

The outsourcing term arose as a result of the global competition between companies of all fields. In addressing the need for business efficiency, companies are narrowing down their field of business to the so-called core-business by turning over activities performed internally in the company to an external part, which for payment provided the organization with the activities during an agreed period of time. The main reason for outsourcing is to concentrate their efforts on the core-business, however, there are also other reasons, for instance sometimes the companies do not possess the knowledge and expertise needed to carry out certain functions of their business and thus, need to appoint this to an external consulting company. Moreover, the fact that outsourcing could mean cutting the costs down for a company has boosted the outsourcing trend (Weidenbaum, 2005).

One of the largest markets for outsourcing is the Information Technology (IT) industry. The IT department was one of the first parts of organizations that were outsourced and for many years selected IT functions and projects have been turned over to specialized companies, which provide the services at a lower price.

In the last decade the IT outsourcing industry has faced substantial changes due to the digital revolution and the dramatic increase in international telecommunications (Aubert et al., 2004). The global society that has emerged makes it easier for companies to communicate around the globe and to transfer money, goods, and personnel over borders at reasonable costs.

The new situation has created a trend in IT outsourcing called offshoring. Offshoring is the term used when referring to outsourcing to another country, commonly low-wage countries such as
India and China. The primary driver of offshoring is the low labor cost in these countries and consequently the ability to carry out the same tasks at a cheaper price than at the country of origin. Other benefits are improved flexibility, longer operating hours and reduced time to complete the work due to the ability to take advantage of the time difference in various regions around the world (companies usually quantify these benefits in the form of an expected return on investment (ROI)).

Today many companies have realized the cost benefits of offshore outsourcing to low-cost locations and the trend is becoming a part of modern management. This is especially true for international companies specialized in IT outsourcing, such as our case company which will be described in Chapter 3. Despite the expected benefits, for the investigated company and other IT outsourcing companies, the trend of outsourcing and offshoring has also created new situations and challenges for managers and employees within the companies. Outsourcing itself is not a simple process and the offshore element makes it even more complex. The situation aggravates if we consider that the outsourcing client’s expectations are exceptionally high, and the positive outcomes are expected in short time-span. These expectations stress the outsourcing provider’s organization, which in turn struggles to meet the expectations despite the numerous challenges it faces.

Although a number of studies have been made on the decision to outsource offshore or not, post-studies on how to manage offshore projects successfully are rare. Our thesis deals with the challenges that occur for managers and team members in working with offshoring projects. It also aims at identifying the key drivers for the successful outsourcing seen from the outsourcing partner’s perspective, and to investigate how those key drivers are prioritized within the case company.

In the search for offshore projects’ efficiency the ‘Outsourcing Center’s Best Practices Series’ (Outsourcing Center Market Survey, 2010), concluded that several key drivers can lead to outsourcing success. Amongst the determinants that can drive an outsourcing engagement to success (please read Chapter 2.4 for further details), we chose to dedicate our study to just four of them, namely profitability, service quality, productivity and risk awareness. This is because these factors are mostly related to the outsourcing provider to whom we have access to, as otherwise this investigation would not be possible.

1.2 Research questions

As already revealed, the principle aim of this research is to identify the key drivers for the successful outsourcing of IT services. Accordingly, this study implies several underlying questions. The principal idea is to find out what factors need to be fulfilled in order to consider
an outsourcing as successful. It is important to state that the associated factors might be quite different depending on the viewpoint, namely if viewed from the client’s or the outsourcing partner’s perspective.

The research questions that will be investigated more closely are:

1. **What are key drivers for the successful outsourcing of IT services seen from the outsourcing partner’s perspective?**
2. **How does the outsourcing partner prioritize those drivers?**
3. **What implications the identified key drivers have on the outsourcing and offshoring success?**
4. **What risks need to be considered before and after making an outsourcing decision?**

Answers to the research questions are relevant for management of outsourcing companies. They should give guidance around identified subset of drivers that needs to be considered prior to outsourcing engagement. It should be helpful in making decision if organization is capable to deliver expected quality of service. Having that condition in mind, managers should have sufficient knowledge about organization’s productivity in order to achieve expected profitability. Profitability itself is not sufficient, but it needs to be set in relation to risks. This study should enlighten some of the risks and increase management’s risk awareness when it comes to large outsourcing engagements. However the study is covering all the drivers or the drivers. There are other important drivers that should be considered and that are important as well.

In answering these questions, a thorough literature review will be conducted, and a number of theoretical frameworks within the discourse of IT services outsourcing will be studied. After composing a relevant theoretical background, we will apply these frameworks in our case company, which is a large, global IT consulting company. The study will be conducted using a qualitative research approach in which the empirical data will be collected in the form of an internet-based semi-structured survey and by interviewing several key employees within the company. At the latter stages, a thorough analysis will be applied on the collected data that will in turn enable us to answer our research questions and to gain insight into the area of outsourcing and offshoring.

### 1.3 Key definitions

According to ITIL v3, the **IT Service** is defined as the service provided to one or more customers, by an IT Service Provider. An IT Service is based on the use of Information Technology (IT) and supports the customer’s business process. An IT Service is made up from a combination of people, processes and technology, and should be defined in a Service Level Agreement (SLA).
**Outsourcing** is the transfer of business activity or function to an external contractor or vendor, who takes control of the activity’s inputs, then performs that function off the company’s balance sheet, and sells the activity’s function back to the company (Tadelis 2007).

**Offshoring** is where a company outsources a business activity to a contractor in a foreign country (Tadelis 2007).

**Backsourcing** refers to the action of bringing an outsourced service or good back in-house (Tadelis, 2007).

**Productivity** is a measure of the efficiency of production. It is considered a key source of economic growth and competitiveness and, as such, it represents basic statistical information for comparisons and performance assessments (Saari, 2006).

**Profitability** is the efficiency of a company or industry at generating earnings. It is often measured by price to earnings ratio (Albrecht, 1983).

**Service Quality** is a term that describes the conformance to customer requirements in the delivery of a service (DeLone & McLean, 2003).

**Outsourcing partner** is another term used throughout the study. Another similar term is the outsourcing vendor. Yet, there is an important difference between the two terms. According to Gommes-Casseres (2006), partnership implies more of an alliance relationship between the two parties of the outsourcing engagement. It is suitable for transactions involving deliverables and tasks that cannot be easily defined up-front. This kind of relationship requires open-endedness that is imposed on the parties by the nature of the transaction. Moreover, governance model is quite different in these two cases. Partnership relation requires a flexible governance structure that allows dealing with things later in cases where it is not possible to do so up-front. This means also that partners meet more often to coordinate and make joint decisions; autonomous action by each party is bound to lead to waste or conflicts.

### 1.4 Thesis’ structure

According to the objectives of this research, the present thesis has been organized into five chapters. **Chapter 0** outlines the aim and objective of the research. **Chapter 2** reviews the outsourcing and offshoring phenomena in relation to given drivers in IT services. **Chapter 3** discusses the methodological approach to conduct the research and explains the underpinning theory supporting the research standpoint. **Chapter 4** highlights the findings of this research
together with a detailed analysis of them. This will be in the form of qualitative analysis of the collected survey data, as well as excerpts from the conducted interviews. **Chapter 5** concludes the thesis, reflecting upon the lessons learned while conducting the research. It also provides suggestions for future research. At the very end of this thesis, the sources of reference and the bibliography are embodied together with the appendices that supplement the authors’ findings.
2. **Theoretical Framework**

2.1 The role of IT services in developing countries

Simply defined, services are a diverse group of economic activities not directly associated with the manufacture of goods, mining or agriculture. They typically involve the provision of human value added in the form of labor, advice, managerial skill, entertainment, training, intermediation and the like. Services play a key role in today’s economies, accounting for over 60% of total economic activity in most developing countries (OECD, 1999). Technology has been a key to such service adoption. The reason that we see a services economy today, and gather to talk about it and recognize its importance is because technology has allowed service industries to gain the operational leverage that manufacturing achieved 100 years ago.

The most rapidly growing service sectors are finance, insurance, real estate and IT services (OECD, 2005). IT services, on which we will focus in the remainder of this thesis, and which include computer software and information processing services, R&D services, marketing services, business organization services and human resource development services, have shown rapid growth and strong employment generation in recent years. The growth, which is part of a more general shift in economies to services, has been driven by a wide range of factors, including:

- Outsourcing and/or offshoring by established firms of many of their former activities.
- The growth of smaller production units and firms which use external services to supplement their internal resources.
- The need for greater flexibility within firms.
- The rise of knowledge-based economies, which rely on expertise and specialized service inputs.
- Specialization and increased division of labor in many areas.

Because of its dynamism, the IT services industry is widely regarded as strategic because of its contribution to the economic growth, productivity and efficiency of both large and small firms. Indeed, standard indicators of labor productivity show that IT services make a contribution to overall productivity growth that is satisfactorily high compared with the size of the sector (Maroto-Sanchez, 2010).
2.2 Reasons for outsourcing and offshoring

Outsourcing and offshoring have been present as a part of the corporate restructuring activities for a long time, but nowadays these phenomena are occurring increasingly in business and IT services too (Sako 2006). Outsourcing of the service occurs when firms choose to buy rather than make things in-house and involves greater specialization as firms switch from sourcing services internally to sourcing them from separately owned suppliers (Sako 2006).

Offshoring occurs when firms move productive activities overseas whether they are carried out by separately owned suppliers or by fully owned subsidiaries (Sako 2006). Reasons for this shift include pressure on corporations to concentrate operations on core competencies, reduce costs and exploit external, specialized expertise more effectively.

The decision to outsource business and IT services is typically taken at the top management level in order to reduce the costs and improve the return on assets as a part of a wider corporate restructuring and the extent of business-service outsourcing depends on the nature of corporate strategy and structure. The outsourcing by client firms results in employment growth and greater specialization, a fact that increases productivity (Sako 2006).

Aron and Singh (2005) explain that many CEOs realize that it’s not easy to make money by simply offshoring business or IT processes. Instead, company will benefit only when they pick the right processes, calculate both the operational risks, and match organizational forms to needs. In the last five years, many companies have experimented with offshoring strategy to reduce costs, become more efficient, and gain a competitive advantage. Several studies show that half the organizations that shifted processes offshore failed to generate the financial benefits they expected to (Aron & Singh, 2005). This uncertainty shapes new trends insourcing and inshoring, which have been as popular as much as offshoring and outsourcing.

According to Aron and Singh (2005), the most common mistake that companies do while offshoring is that they put their effort on selection of countries and price negotiation instead of spending time on evaluation of what processes they should or should not offshore. This can be performed by using standard methodologies for process differentiation that can help organizations to identify the core processes that must be controlled in house, the critical ones that might be bought from best in class vendors and commodity processes that can be outsourced.

Most organizations don’t take into account all risks that accompany offshoring. The decision is usually based on cost/benefit analyses which is not good enough (Aron and Singh, 2005). The
risks that need to be taken into consideration could be of operational or structural character. Operational risk is hidden in the fact that service providers won’t be able to execute business process as well as their employees perform them-in house at least not for a long time. A lot of errors can be made and tasks will be performed more slowly than companies’ employees do which can result in lower customer satisfaction.

The benefits from outsourcing are not always the same, but in particular depend on the characteristics of the firm and industry in question. According to Görg and Hanley (2004) large firms may be in a better position to achieve higher benefit from outsourcing. In parallel the large firms usually face lower search costs as they may be better established in the market. They also have better knowledge of competitors and suppliers than small establishments.

Görzig and Stephan (2002) also examined the benefits of outsourcing and they find that firms that engage in materials outsourcing experience benefits, in terms of increased returns per employee, while services outsourcing induces a negative effect on measured returns. They believe that firms that increased external services relative to internal labor costs, thus outsourcing service functions previously provided within the firm, performed worse. They also found that firms tend to overestimate the benefits accruing from outsourcing of services previously provided internally. According to Görzig and Stephan (2002), the main reason for poor performance is the non-transparent way in which outsourced services are priced.

2.3 Offshore outsourcing generations

Offshore outsourcing has evolved during the last decades. In the book Outsourcing and Offshoring in the 21st Century, Harbhajan & Singh (2006) define the four generations of outsourcing. The first generation in the evolution of offshore outsourcing is recognized by onsite staffing, where offshore professionals were brought onsite and were paid at lower rates. The potential for labor savings was limited because of the need to import high skilled professionals.

The second generation of the offshore outsourcing is known as offshore production with small regional offices near major customers, while sending work offshore. It was more cost effective than first generation offshore model, but limited to less complex engagements where functions did not require extensive project management.

The third generation in the evolution of offshore outsourcing is based on the emerging onsite and offshore models with adding local project management to improve daily coordination and problem resolution with project sent offshore. Complexity of management is higher than
previous two generations and this model is in use for high complexity systems that require frequent change.

The fourth generation of offshore outsourcing combines the traditional benefits of offshore development with sophisticated program management and in-depth local consulting presence. Business strategy and reengineering is emphasized together with system integrations. Providers need to have processes, expertise, competences and ability to manage multiple high complex projects while helping clients to refine and adapt strategies and their executions (Harbhajan & Singh, 2006).

As such the fourth generation offers true Integration with the client’s business and people demonstrating Business Agility. Value is derived from innovation, speed to market, risk sharing and focus on providing the appropriate Total Cost of Ownership (TCO).

2.4 Key Drivers to Successful Outsourcing of IT Services

The key drivers for successfully outsourcing IT services, including an offshoring component, and viewed from the IT service provider’s perspective is the main focus of this study. In order to identify key drivers for outsourcing it is necessary to define successful outsourcing. According to studies in ‘Outsourcing Center’s Best Practices Series’ (Outsourcing Center Market Survey, 2010), the key drivers to successful outsourcing are (see also Figure 1): Achieving the projected cost reduction; Delivering best-in-class services; Achieving the SLAs and KPIs; Decreasing cycle times and time to market; Achieving initial and continual process improvements; Achieving successful implementation; Achieving increased business agility; Increasing innovation; Working together seamlessly despite ongoing change; Achieving approved customer satisfaction.

Viewed from outsourcing partner’s perspective IT Service outsourcing can be considered as successful if:

- IT Service is delivered according to client’s expectations. In practice, this means that quality of service is satisfied according to predefined Service Level Agreements (SLAs), which are measured by Key Performance Indicators (KPIs).

- The outsourcing engagement results in increased profitability for both the client and the outsourcing partner, while keeping the risks at expected levels.
Figure 1. Key drivers for successful outsourcing - A visualization of the drivers presented by the Outsourcing Center Market Survey (2010).

In our work we reformulate those key drivers by moving the perspective from the client to the outsourcing partner. Having that in mind we identify the following key drivers that enable successful outsourcing:

- **Quality of service**, referring to the conformance to customer requirements and needs in the delivery of a service.
- **Profitability** that is ability to generate profits and is in close relation with cost reductions generated largely through the offshoring component of outsourcing and via reducing time to market cycle
- **Productivity** achieved by process improvement and increased business agility and innovation.
- **Risk awareness**.

Figure 2. Analyzed key drivers for the successful outsourcing of IT services.
In the subsequent sections we analyze in detail each of these key drivers and specify how these actions can improve a company’s chances to succeed within its outsourcing strategy.

2.4.1 Quality of Service

Quality has been regarded as one of the major drivers of competitive strategy in every industry (Carmel & Agarwal, 2002). There is no exception to the IT services industry. Service quality, defined as the conformance to customer requirements in the delivery of a service (DeLone & McLean, 2003), has been shown to result in significant benefits to firms, such as profit level increases, cost savings, and increased market share (Parasuraman et. al, 1995). Firms assign considerable significance to service quality as evidenced by some firms’ use of service quality to strategically position them in the market (Brown et. al, 1989).

Service quality is considered to be of high importance for achieving successful outsourcing. According to Grover et al. (1996), service quality has a direct effect on IT outsourcing success. The authors found that the higher the acquired level of service quality, the greater the satisfaction perceived by the ‘service recipient’ and the ‘service provider’. Similarly, McFarlan and Nolan (1995) suggested that service quality in an outsourcing relationship is positively associated with outsourcing success and that constant service quality improvements are a key requirement in modern outsourcing engagements.

On the other hand, outsourcing success can be negatively affected if providers trade off price and service quality. The service providers often face a dilemma: delivering higher levels of service increases the provider’s costs, which then raise the price of service. Thus, the provider loses the deal in the beginning if the client organization focuses too much on cost, or the provider loses the customer later to a new competitor if the customer is more sensitive to price than level of service. The alternative, i.e. reducing service quality to reduce costs and thus offer a lower price, equally leads to the vulnerability of losing the customer to new competitors, if the customer is more sensitive to service levels than price.

If the service providers overlook one or the other factor, this can have long-term implications to the outsourcing engagement, as outsourcing has an inherent necessity of maintaining a long-term relationship in order to capture optimal value. Understanding this fact and not trading quality for price is critical to success in outsourcing. Indeed, outsourcing is a symbiotic relationship. Customers and providers need to structure their outsourcing agreements for optimal value creation, i.e. they need to structure a relationship where both parties look out for each other’s best interests.
Having this in mind, and based on the expectation of receiving higher quality services from the outsourcer than from internal staff, firms decide to outsource. This expectation is often based on the knowledge that there will be an explicit SLA in place, which can be enforced by the customer and which might bear remedies against the outsourcer for nonperformance (Lee and Kim, 2003). In other words, successful outsourcing is dependent on not only how well you define your customer requirements, but how well you can measure how they are being met. This may sound basic and obvious however, measuring the quality in service delivery has proved difficult due to three unique natures of services (Ma et al., 2005; Kettinger et. al, 1994):

- **Intangibility** - service cannot be measured, tested and verified in advance of sale;
- **Heterogeneity** -the consistency of service from a personnel is difficult to measure; and
- **Inseparability** - the difficulty in separating consumption from production.

Despite the difficulties, few simple criteria can be used to judge the quality of an outsourced IT process. These criteria, which follow the SERVQUAL model proposed by Parasuraman, Berry, and Zeithaml (1985, 1988) and which have been consistently ranked by customers to be most important for service quality, regardless of the service industry, are:

- **Tangibles**—appearance of physical facilities, equipment, personnel, and communication materials
- **Reliability**—ability to perform the promised service dependably and accurately
- **Responsiveness**—willingness to help customers and provide prompt service
- **Assurance**—knowledge and courtesy of employees and their ability to convey trust and confidence
- **Empathy**—the caring, individualized attention the firm provides its customers.

### 2.4.2 Profitability

The growth in outsourcing of business services and its economic implications is well-covered subject but still there are no general definitions or measurements of outsourcing. Outsourcing may provide a viable strategy if firms aim to save on labor costs, exploit production differentials both within the services sector and between services and manufacturing or take advantage of globalization (Görg and Hanley 2004). Görg and Hanley investigated whether outsourcing is value enhancing and, in particular, whether the firm that undertakes outsourcing shows higher profitability as a result. According to them, recent evidence from practitioners casts some doubt on the benefits to outsourcing. In their survey with focus on the benefits accruing to firms from offshoring services, they found that 68 percent of firms outsource at least some services, the main motivation being cost reduction. They also explain that 56 percent of IT
specialists claimed that outsourced IT work was at least inferior to that produced in-house. More worryingly, 11% reported that the outsourced work actually induced a setback to the firm’s production. Accordingly, in the popular press one appears to have arrived at a point where experts begin to question the validity of outsourcing as a long-term strategy or even short term as a cost reduction exercise.

**Outsourcing and offshoring costs** are important components of profitability. According to Tadelis (2007), every outsourcing relationship implies an underlying conflict of interest. Customer is looking for a better service than delivered from in-house, and at the lower price. Outsourcing partner, on the other side strives to profit maximization.

Viewing an outsourcing engagement from the outsourcing partners’ side, Figure 3 shows the importance of cost reduction. Based on that, one possible conclusion is that the major possibility for profit comes from cost reduction or higher productivity compared to customer in-house operations.

As described previously, the main reason for outsourcing is the cost saving. However according to surveys of 25 organizations in various industries as much as forty-four percent of the companies reported that outsourcing did not save any money and the main reason given were the hidden costs of outsourcing (Tadelis, 2007).
Tadelis (2007) argues also that **opportunistic bidding** is a cost that arises when the contract is not waterproof and vendor bids under with anticipation to be able to profit by using the gap in the contract.

Definition and implementation of **performance measurement** is essential for successful outsourcing. In cases when this measurement is inaccurate the vendor might exploit it in order to cut own costs while staying within the limits of contract.

**Knowledge transfer** is usually a high cost in outsourcing of IT. The more complex outsourced function is the higher upfront investment for vendor is required. At the same time, it requires long-term contracts in order to be profitable for the vendor.

A long-term contracts increases likelihood that contract will not meet future requirements. It is extremely hard to predict the needs over the lifespan of the contract. Unless this kind of flexibility is built-in in the contract customer will need to renegotiate the contract with all associated costs.

Offshoring even extends the costs of outsourcing. Most commonly, the costs are associated with geographical distance, language and cultural differences, regulatory, policy and legal differences.

### 2.4.3 Productivity

In general, little is known about the drivers and many issues over the quality of data and measurement difficulties have prevented serious investigation (Sako 2006). In his work, Sako focused on the phenomenon of outsourcing and offshoring to account for the simultaneous growth of productivity and employment in business services. In particular he observed outsourcing and offshore as a corporate strategy for restructuring and the sources of productivity that drive from standardization of processes on the one hand and customized services and solution on the other.

Measuring service performance has proven difficult largely due to the fact that production and sales occur simultaneously and because the service provided are heterogeneous (Klassen, Russell and Chrisman, 1998). In their work they presented an approach that allows evaluation of the efficiency and productivity at any number of different resources and any number of different services at the same time. This approach focuses on high contact segments of services and is concerned with time-based resources and is based upon three indicators: **efficiency, productivity** and **effectiveness**. By combining those three measures a firm can get a good idea of performance over time and across outlets.
Efficiency is the way to minimize inputs for a given level of outputs. Converted into a measure this definition becomes the standard for comparing of performance: (hours earned / hours paid) (Klassen, Russell and Chrisman, 1998).

In order to measure productivity, the overall capabilities need to be considered and not only a single set of costs (Chew, 2001). The calculation of the productivity index is a very basic idea dating back to Adam Smith (1976). It shows the ability of the company to take a pile of raw materials, bunch of machines, stack of paperwork and groups of employees, and to turn it out into useful service (Chew, 2001). It is a simple relationship between physical inputs and outputs and can be calculating by using the following formula:

\[
\text{Productivity} = \frac{\text{Units of output}}{\text{Units of Inputs}}
\]

This formula shows explicitly that the company producing more with a given set of inputs (labor) or using fewer inputs to produce the same output has advantage over the company that produce less (Chew 2001). This means that primary mission of productivity index is to illuminate how a business can get more units of output per labor hour.

**Business agility** is another important factor to consider for successful outsourcing. IT services are complex and require management attention, especially when supporting core business. Companies having in-house IT department spend substantial time in planning new IT projects, requirement management, hiring competent personnel, delivering IT projects, application management, infrastructure planning etc. Once outsourced not all of these activities disappear but major number of them are most certainly reduced, releasing the resources and directing management focus on core business. Reduced time to market cycle is also important for business agility itself. An IT solution, delivered in short cycle from idea to implementation, increase business agility, and provides possible business advantage over competitors.

For a successful outsourcing partnership it is also important to consider **innovation**. Innovation means creation of new ideas and their implementation or commercialization (DuBrin 2010, p. 349). Dubrin also argued that creativity and innovation are the most important factors in establishing and maintaining a competitive advantage.

Innovation can be seen as a process of creating and implementing new ideas thus leading to creativity, profitability and growth in organizations. Creativity should be an important property of employees, because creative people usually recognize the opportunities that others might
miss (DuBrin 2010, p. 349). He wrote that the creative thinking enables to contribute novel insights that can open up new opportunities. He also state that the creativity is most important factor in establishing and maintain a competitive advantage.

Amabile (1989) describes creativity as a function of three components: expertise (is, in a word, knowledge-technical, procedural, and intellectual), creative-thinking skills (determine how flexibly and imaginatively people approach problems), and motivation (an inner passion to solve the problem at hand leads to solutions far more creative than do external rewards, such as money).

We believe that each organization that wants to improve innovation, it needs to find the way to influence these components and this can be done through workplace practices and conditions (Amabile 1998). For example, regular seminars and professional conferences can increase the expertise in related fields. Both Amabile (1989) and DuBrin (2010, p.359) mean that training in brainstorming, problem solving, and so-called lateral thinking might give the employee some new tools to use in tackling the job.

Meisinger (2007) also believes that the concept in which groups and organizations can function creatively reflects the growing importance of creativity as a driver of innovation and organizational success.

In order to enhance innovation and move to excellence, the case company could apply the creativity process shown in Figure 4. This model presented by DuBrin (2010 p 350) and it devises creative thinking into 5 stages:

![Creativity model](image)

**Figure 4.** Creativity model

According to DuBrin (2010) creative problem solvers adapt those steps below the level of conscious awareness. DuBrin (2010 p350) means that when being aware of these steps while faced with a challenging problem, will often increase the probability of finding a creative solution.

Opportunity or problem recognition is the starting point where opportunities or problems are recognized. In the *Immersion* step of the process the individual concentration on the problem
and collecting relevant data dreaming up all possible alternatives (DuBrin 2010, p350). The third step, incubation in which a person keeps the assembled information in mind for a while and his/her subconscious mind is actively working on it. Insight is the step where the ultimate solution to the problem flashes or something clicks. The final step should be verification and application.

Google is a company that puts a lot of effort in innovation, which showed to be a good strategy and innovation is underpinned by the plenty of intellectual stimulation (Iyer and Davenport 2008, pp 67). Google believes that continuous innovation is requirement for competitive advantage. Google constantly seeks innovation in how to improve the way to secure customer data, reduce downtime etc.

The reason way they succeed at innovation is that Google **budgets for it in employee time.** The management at Google is aware of the fact that ideas are created by employees from bottom up, in a prescribed system of time allocation. Technical employees are required to spend 80% of their time on the core search and advertising business and 20% on technical projects of their own choice (Iyer and Davenport 2008, pp 63).

Indeed, by adopting innovation, the “Google” way, the company experiences a rapid growth and keeps employees satisfied and motivated (Iyer and Davenport 2008).

However, how does innovation affect productivity? Vivero (2002) investigated the effect that a measure of the process innovation performance of a firm has on its labor productivity growth. He demonstrated that the innovation has a positive and significant effect on firm’s productivity growth. Vivero (2002) also argues that this is logical because the effect of a process innovation is to reduce the unit cost of production of the good or service (a fact that implies productivity improvement), and to shift the corresponding demand curve rightwards (a fact that results in vertical product differentiation allowing the firms to charge a higher price-cost margin).

### 2.4.4 Risk Awareness

Undoubtedly, whenever there is an outsourcing decision, there is an inherent risk associated with it. Indeed, several researchers (Dhar et al., 2004; Earl, 1996; Jurison, 1995; Overby, 2003) emphasized that a number of factors shown in Figure 5, including hidden costs, unexpected outcomes, phantom benefits, and broken promises, might be used to argue against a decision for outsourcing IT services. Hence, prior to outsourcing, and in order to improve a company’s chances of outsourcing successfully, it is necessary to consider and assess the associated risks.
According to a prediction paper for the IT outsourcing market by Gartner (2009), focusing excessively on cost reduction, this can result in business disruption at a percentage as high as 30% of the outsourcing engagement. This risk is very high and can be increased if the client outsources core processes in contrast to commodity support functions. This is an important notion for vendors to consider when making decision to bid and offer outsourcing to the client. In case of outsourcing of core processes and with focus on cost reduction mainly, the risks for the outsourcing partner are substantial and it is probably a good idea to consider if a deal is worth the risk.

Figure 5. Common risks in the outsourcing process

An outsourcing engagement implies several risk factors for the outsourcing partner. Risk assessment factors can be classified on different bases such as people, knowledge, cultural, political, financial, quality standards, measurement, scope cost and time estimates, company specific risks, legal contracts and intellectual property, security, disaster recovery, contract management, relationships and alliances, geographic location and multi-vendor arrangements (Dhar and Balakrishnan, 2006). This study focuses on a subset of these risks and on the organizational awareness related to these risks:
• People, transition and management costs. These risks arise from lack of expertise within management, domain, technology and outsourcing activities. Usual hidden costs related to this risk are management, governance, internal politics and knowledge transfer costs.

• Cultural risks arise from communication skills, language, performance, motivation, team spirit, customer-orientation, decision making, ethics etc. and these risks are considerable in the case of global outsourcing and offshoring with distributed teams.

• Contractual, measurement and financial risks. Outsourcing partner is measured according to in contract predefined Service Level Agreement (SLAs) and Key Performance Indicators (KPIs) that might be inadequate. IT services measurement is difficult business and based on methodology results may deviate. Also results are usually connected to penalties that constitute considerable financial risk for the outsourcing partner.

• Scope, cost and time estimates is related to outsourcing partner’s ability to formulate scope of the project and provide accurate time and cost estimations.

• Relationships and Alliances. Global outsourcings are long term relationships between the client and outsourcing partner. Success of the outsourcing is dependent on ability to manage relationships, alliances and interfaces between two parties on different levels in contrast to internal politics and blame games.
3. **Method**

This chapter presents an outline of the methodology used in this current research. It begins with the selection of the method of investigation, followed by the identification of the research approach, and concludes with the justification, reliability and validity of the study. As such, it provides a broad overview on how the research was carried out and on the data used.

3.1 **The case study as a method of investigation**

There is a multitude of designs that can be used by the researcher as a method of investigation, including a cross-sectional design, a longitudinal study, a case study, or a comparative study. Among the available options, we chose the case study approach to answer our research question. In explaining what a case is, Yin (2008) suggests that the term refers to an empirical inquiry that investigates a contemporary phenomenon within its real life context using multiple sources of evidence. According to the author, there are three major types of case study research, namely exploratory, descriptive, and explanatory. Our study is aimed at what Yin calls the explanatory case study\(^1\), as this approach “develops more clearly concepts, operational definitions and establishes priorities”.

3.2 **Research approach**

There are two methods the researchers may choose between when conducting their study, i.e., when gathering the empirical material. These are the quantitative and the qualitative methods. The quantitative and qualitative methods represent different research strategies, and they are clearly separated in their views of the role of the theory and which scientific approach they use (Lindlof & Taylor, 2002).

The quantitative approach most often entails a deductive reasoning\(^2\) and quantitative data analysis, such as statistical data analysis (Blumberg, 2008). The qualitative method instead, entails a more inductive reasoning\(^3\), and a more subjective data collection or analysis. As such, this method focuses on the collection of words, through interviews, as empirical material, rather than quantifiable data, and on generating new theories, thus linking it with the inductive

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1. Explanatory case studies are mainly used for doing causal investigations.
2. Deduction is based on logic where a logical conclusion is drawn and considered valid if it is connected logical
3. Induction is based on an empiric, who implies that general conclusions are drawn upon empirical facts
approach (Blumberg, 2008). The choice of method depends on the actual topic researched, the perspective of the author and the availability of information. Very often, they are combined in order to give broader or more precise information on findings (Goddard and Melville, 2007).

In the present study a qualitative approach has been chosen in gathering and analyzing the collected material based on personal interviews and internet-based questionnaires. A qualitative interview is often called unstructured or non-standardized. This puts a lot of demand on the researcher to make methodological decisions on the spot during the interview as for which questions are to be asked, on which to elaborate upon and how to guide the interview. This type of design is better suited for our study, since we can obtain very case-specific information that later can benefit our analysis by providing deeper insight into the topic, and that is what we are aiming for. Furthermore, since conducting a case study and not a survey-based study, the qualitative approach seems to fit this work much better. It would also be possible to combine the two, using both qualitative interviews and statistically quantifiable surveys, and thus gain greater depth to the study. For the scope of this thesis however, we have chosen not to do this, but rather limit ourselves to the use of qualitative studies.

3.3 Selection of the case company

In order to be able to apply the theories we have chosen for outsourcing and offshoring in the IT business sector, we thought that a company with a clear position in the international IT market would be suitable for us. Furthermore, since our theoretical framework resolves around many different theories, it was important that the organization be of a large size with global reach so that we would be able to compile the empirical and theoretical material into one coherent context. When searching for interesting IT companies that could fit our study, we became more and more interested in the one specific company. The company is a unique IT service provider and holds a high position in the global IT industry. Moreover it won major outsourcing deal in Scandinavia in 2011 with world’s largest furniture retailer. The study is focused on this specific client and outsourcing engagement. The company positioned itself as strategic outsourcing partner in delivering IT services which includes new started development projects, major and minor enhancements of existing services and applications and also application management within framework of the outsourcing engagement. However, even if the selected company is prioritized, it is still exposed to competition of two other companies. This fact makes it very suitable for our study for several reasons such as:

- Phenomena’s such as opportunistic bidding can occur but is not preferable because the company wants to see itself as outsourcing partner and not just vendor.
- Quality of service can be compared to that of two competitor companies.
- Productivity is essential in order to offer more for less money.
• Profitability is an issue because the company cannot dictate prices due to exposure to competition.
• Several risks exist with this constellation which also makes it interesting for our study.

3.4 Selection of the questions

The questions asked in the survey are designed so that they correspond to our conceptual definitions outlined in section 1.3. From the survey questions, we expected to get insight about the case company’s maturity in outsourcing, offshoring and service quality. As expected, the answers that have been analyzed using the theoretical framework, illuminated the strong connection between innovation, productivity and service quality.

3.5 Sampling and data collection

Collecting evidence involves collecting formal and informal evidence that are contrary to or in agreement with theories or ideas from the preparation (theoretical) stage. According to Yin (2008), typical approaches involve interviewing managers, acquiring documentation and observing meetings. As noted by Yin, questionnaires⁴ and interviews are amongst the most important sources of information in a case study. Our questionnaire was conducted in the form of an internet-based survey (see Appendix I - Survey Questions). Concerning the secondary data needed for the analysis, interviews were conducted with key personnel of the investigated company. We have designed our interview template based on the theories that we have compiled so that the interview would be thematic and thereby congruent with the purpose of the study allowing at the same time the easy relation of the answers to the respective theories (see Appendix II – Interview Questions). The questions are often more of suggestions than exact formulations, or are questions that are open for follow-up questions and more narrative in nature. As such, the respondent has more freedom to speak from personal experience and the researcher can clarify or deepen the information gathered from previous questions.

Concerning the sampling procedure, since it is virtually impossible to observe everything and interview everyone connected to the subject, some kind of sampling procedure had to be done. As the choice of respondent has great effect on the results, especially on qualitatively based research, special consideration was taken when deciding which sampling procedure to use. Kinnear and Tyler identify two types of sampling procedures: probability or non-probability procedures. Probability sampling gives each element of the population an equal chance of being selected. The non-probability procedure on the other hand, implies that the selection of elements is dependent on the estimation done by the researcher and are therefore selected

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⁴ “Questionnaire is a structured technique for data collection consisting of a series of questions, written or verbal, that a respondent answers”, (Malholtra and Birks, 1999, p. 326).
based on its suitability for the study. Due to the specific character of this research the non-probability sampling procedure is used. In this way, only respondents believed to give relevant and interesting information was chosen. The selections of the respondents have been made out of the following factors:

- Good experience or knowledge of the specific issues connected to IT offshoring
- Responsible for controlling projects or teams related to or located in an offshore location, or working as an offshore resource
- Available for personal interview in the region

Based on these factors, three interviews were conducted with managing directors within the company, while the respondents of the questionnaires were employees with significant involvement with the outsourcing/offshoring process. The main reason for selecting management personnel for interview is our expectations that they might have more insight into outsourcing. Most of the personnel in the studied company are technicians. Interviewing them would constitute a risk since their knowledge on the field would give a narrower view. We assumed that managers are more open for discussing their observations and that their observations might come from a better perspective.

It is important to state at this point that the secondary data from the interviews was mainly used as a supporting material, as the amount of questioned personnel, does not support generalization. However, we used summarized conclusions of each interview as well as quotes, in order to give deeper and more personal perspective on the subject of research.

3.6 Unit and level of analysis

In defining the design for the case study, it is also essential to determine the level of analysis used inside the case. Both single and multiple case study designs can vary in the number of levels of analysis. Especially in a single-case design, there can be more than one level of analysis (Yin, 2008). In an embedded case study design there is more than one level of analysis through which the case is analyzed. In a holistic design only one level of analysis is defined. This study represents an embedded case study with multiple level of analysis. One of the most important reasons for choosing this kind of design is the complexity of the case. Often in a holistic research design, there might be a threat of conducting the case analysis at an abstract level without any clear measures of data (Yin, 2008). To avoid this in studying the case market in this study, we have chosen to use multiple level of analysis. An essential reason for having multiple levels of analysis is their availability, i.e. the sub-levels in the case market can be eloquently defined and analyzed.
3.7 Validity, reliability and generalizability

When collecting data for a thesis it is very important to consider the internal/external validity and reliability of the data. Validity is the degree to which a measurement actually measures or detects what it is supposed to measure. The validity has many dimensions. One of them shows how well the result coincides with reality, while other dimensions shows to what extent the results would be transferable to other areas than were originally intended.

In order to establish internal validity, the models and theories used in this thesis have been carefully discussed within the group and with our tutor and supervisors to ensure that they are relevant to practice. By constructing the questions so they would be able to connect to our theoretical framework we hope that our analysis will be valid. Nevertheless, though our aim has been to conduct a study as valid as possible, one should not neglect the possibility that we are not analyzing what we are claiming. Our purpose is, as earlier mentioned, to evaluate problems connected to the specific offshore activity. However, chances are that our results spring from issues concerning standard organizational behavior rather than to this specific activity.

It is also important to understand the external validity of the presented information. External validity “refers to the generalizability of the results of a research study” (Mitchell & Jolley, 2001). Our study shows sufficient external validity as it can be generalized not only to companies which mostly outsource/offshore their IT functions, but also to other transactional tasks for instance in finance, logistics, business travel, purchasing, business intelligence, etc. This is because, the information received from the primary sources as well as the one collected from the interviews, allows us to cover the research area of service outsourcing and show high validity on the scale of SMEs and their offshore outsourcing processes.

On the other hand, reliability refers to how reliable the research method and the techniques for collecting data are. This means that a high reliability study will have a result that is fairly unchanged if it was to be conducted a second time. High reliability is a requirement for a research study to gain acceptance.

As explained earlier we have tried to be as objective as possible when collecting and evaluating the data. However, there are no absolute truths when evaluating and analyzing issues of this nature. We have collected information from respondents at different positions of the company in order to seize the full perspective of the area of interest. What we are presenting in the following chapters is therefore our impression and interpretation of the issue rather than hard facts. Consequently, a repeated study might well be used to further ground these interpretations.
4. RESULTS AND ANALYSIS

The objective of this chapter is to present the main findings of our research. In achieving this objective we will disassemble the empirical data collected through the internet-based survey and the interviews. In achieving this objective, this chapter begins by presenting the descriptive statistics of the sample, followed by a comprehensive analysis of each of the investigated key drivers that contribute to the successful outsourcing of IT services for the investigated company.

At this point and prior to the analysis, it is important to state that the outsourcing partner, namely our case company that is being studied has been doing IT outsourcing globally for several years. Offshoring has become an integral part of its business strategy and the successful marketing offshore to India.

Our case company and outsourcing engagement analyzed is the third generation and as such it provides competitive advantage sustainable only in short term. In order to achieve long term and sustainable competitive advantage it must be shifted towards the fourth generation. Our case company is well aware of this fact and tries to work towards the generation shift. But it requires client’s maturity and willingness to make the shift.

4.1 Descriptive statistics of the sample

The proposed structure of the sample has already been presented in Chapter 3. The demographic characteristics of the actual sample are summarized in Table 1. As it can be seen, the 65% of the respondents were male, and only 35% were female.

<table>
<thead>
<tr>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>6</td>
<td>17</td>
</tr>
<tr>
<td>Percentage</td>
<td>65%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Table 1. Demographic characteristics of the sample – gender structure

The second demographic characteristic is presented in Table 2. In this table, the structure of the sample is organized by taking into consideration the position of the respondents within the investigated company.
As it can be seen from this table, the 23.5% were team managers and middle managers, while the 11.8% of the respondents were program managers. Finally, the 5.9% of the total number of
the respondents were consultants working with outsourced applications within the case company.

<table>
<thead>
<tr>
<th>Position</th>
<th>Percentage</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultant working with outsourced applications</td>
<td>5.9%</td>
<td>1</td>
</tr>
<tr>
<td>Team Manager</td>
<td>23.5%</td>
<td>4</td>
</tr>
<tr>
<td>Project Manager</td>
<td>5.9%</td>
<td>1</td>
</tr>
<tr>
<td>Middle-Manager</td>
<td>23.5%</td>
<td>4</td>
</tr>
<tr>
<td>Program Manager</td>
<td>11.8%</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>29.4%</td>
<td>5</td>
</tr>
<tr>
<td>Respondents</td>
<td></td>
<td>17</td>
</tr>
</tbody>
</table>

Table 2. Demographic characteristics of the sample – position in the company

4.2 An overview

Prior to analyzing each of the investigated key drivers separately, it is important to obtain a general picture of the key driver adoption level. The following figure gives us an illustrative overview of the importance by which the respondents assess each of these key drivers.

The respondents arranged the key drivers by importance (1 being the most important, 2 the less important, and so forth). As it can be seen, the 47.1% of the respondents believe that profitability is the major driver to successful outsourcing. This finding is very important since it consolidates the general viewpoint that without profitability there would be no reason for the outsourcing partner to engage with an outsourcing project.

Second in the order of importance comes the quality of service delivered to the outsourcing client, collecting a percentage equal to 29.4%. Productivity, by gathering the 17.6% of the responses, is considered the third key driver to successful outsourcing. Finally, only the 5.9% of the total respondents believe that risk awareness contributes to successful outsourcing.
Figure 6. Key drivers to successful outsourcing and their order of importance

Getting deeper into the analysis, from the following figures, we obtain the level of satisfaction each of the investigated key drivers enjoys. More specifically, in Figure 7a, we can see that the 94.1% of the respondents believe that the quality of service delivered to the outsourcing client is satisfying and can be improved, and only the 5.9% is poor and there is room for improvement. The same level of satisfaction is attained for the profitability that follows the outsourcing engagement (see Figure 7b). This is an important ascertainment for our case company because it reveals that the company’s outsourcing engagements are satisfactorily profitable, however, they can be improved.

From Figure 8a, it is interesting to witness that only the 52.9% of the respondents believe that the productivity achieved within the outsourcing engagements is satisfying. An almost equal percentage of the respondents (namely the 47.1%) believes that productivity is poor and should be improved. This finding highlights the need for our case company to focus more on the area
of productivity for its future outsourcing engagements to further succeed. As far as the fourth driver is concerned (see Figure 8b), its level of satisfaction is high if we consider that the 11.8% of the survey participants believe that the investigated company is aware of the risks associated with its outsourcing engagements and that this knowledge can contribute to outsourcing success. The numbers are also flattering for the 76.5% of the survey participants who responded that the risk awareness for engagements undertaken as part of the outsourcing delivery is satisfying.

![Figure 7. Satisfaction levels for a) quality of service and b) profitability](image)

![Figure 8. Satisfaction levels for a) productivity and b) risk awareness](image)

In the subsequent sections we provide a separate and in-depth analysis of each of the investigated key drivers.

### 4.3 Quality of service analysis

As already revealed from Figure 6, the 29.4% of the survey participants acknowledge the quality of service as the second major driver to IT outsourcing success. Indeed, the satisfaction perceived by the ‘service recipient’ and the ‘service provider’ is high, when the acquired level of
service quality is high, and this is a key requirement in any outsourcing engagement. This association is also enforced by the responses gathered from Q.7. Every single survey participant was confirmative about the importance of quality in service delivery towards meeting the outsourcing client’s requirements and strengthening the outsourcing engagement. Understanding this fact is critical to success in outsourcing, and the employees of the investigated company are well aware of that.

Going one step ahead in our analysis, and in congruence with what we stated in the theory part, namely that ‘successful outsourcing is dependent on not only how well you define your customer needs but how well you can measure how they are being met’, we questioned whether service quality is measured by well-established criteria within the analyzed company (Q.10). In analyzing the relevant responses, it was interesting to witness that the majority of the respondents, and more specifically the 52.9%, are aware of the criteria that are being used to judge the quality of the investigated company’s outsourced IT process, namely tangibles, reliability, responsiveness and assurance. However, it is discouraging to see that a high percentage of the survey participants (equal to 23.5%) are uncertain of these criteria, and an equally high percentage of them responded that quality of service is not well measured within the investigated company. This finding may be worrying and its associated concern needs to be addressed if our case company wishes to strengthen its future outsourcing engagements and produce more satisfying outsourcing results.

**Q.10. Service quality is measured by well-established criteria**

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I totally agree</td>
<td>0.00%</td>
</tr>
<tr>
<td>I agree</td>
<td>52.900%</td>
</tr>
<tr>
<td>I am not sure</td>
<td>23.600%</td>
</tr>
<tr>
<td>I disagree</td>
<td>23.500%</td>
</tr>
<tr>
<td>I totally disagree</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

**Figure 9. Service quality and its measurement criteria within the analyzed company**

Now, in questioning whether quality in service delivery should be or should not be traded off with price, the survey drew some interesting conclusions. As shown in Figure 10, the 58.8% of the survey participants disagrees with that notion, probably because they believe that such a
Trading can have implications to the outsourcing engagement and accordingly to the IT outsourcing success.

**Q.8. The quality of service should not be traded off for price.**

<table>
<thead>
<tr>
<th>%</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>I totally agree</td>
<td>5.900%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I agree</td>
<td>52.900%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am not sure</td>
<td>29.400%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I disagree</td>
<td>11.800%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I totally disagree</td>
<td>.000%</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

**Figure 10. Trading off quality of service for price**

The 11.8% of the respondents on the other hand, seem to be fewer idealists and do not worry if the outsourcing provider trades off service quality for price. Perhaps, these respondents also think that the inherited risks of such a trading might not affect the outsourcing outcome in a great extent. Uncertain about the aftermaths of this tradeoff is the 29.4% of the survey participants, which is high enough, and shows that these respondents are not aware of the SLAs and KPIs that are defined within the analyzed company. It is the same respondents that disagree with the fact that these two performance indicators add value to the company and to the relationship between the Service Provider and the Service Consumer (see Figure 11).

**Q.9. I know what KPI’s are used in our outsourcing deals and I know how they add value to the investigated company**

<table>
<thead>
<tr>
<th>%</th>
<th>0%</th>
<th>5%</th>
<th>10%</th>
<th>15%</th>
<th>20%</th>
<th>25%</th>
<th>30%</th>
<th>35%</th>
</tr>
</thead>
<tbody>
<tr>
<td>I totally agree</td>
<td>23.500%</td>
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<td></td>
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<tr>
<td>I agree</td>
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<tr>
<td>I am not sure</td>
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<td>I disagree</td>
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<tr>
<td>I totally disagree</td>
<td>5.900%</td>
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**Figure 11. SLAs and KPIs within the analyzed company**
The interview respondents also explained their view on quality of service in outsourcing engagements. According to them, service quality consists of three components: people, technology and processes.

The people component is about expectation management from the client, previous client employees that are transferred and employed by the outsourcing partner as part of outsourcing, and outsourcing partner’s employees working with outsourcing engagement. Contract knowledge on all levels is essential for successful expectation management since questions arise about service agreements. Missing knowledge creates extorted expectations and risk to make impression that quality of service is not on satisfying level even in cases when supplier actually delivers service according to the agreements.

The process component is needed for efficient delivery and meeting client’s expectations. The investigated company has well-defined processes defined in own frameworks such as The Way We Work (TW3). However, interaction with new client creates disturbances and requires adaptations of the processes, which is challenging in the beginning of the outsourcing. Also, not all employees and especially new joiners are aware of existing processes and sometimes act on their own, a fact that creates tensions. Overall, however, the interviewed participants agree on the fact that existing processes are on satisfying level but still can be improved. Processes are in many cases useful and might increase quality of service. However customer expects shortened time to market for its services. Interviewed participants agreed that in some cases it is necessary to find short-cuts in order to achieve expected business agility. It is a sensitive balance exercise to use processes and still cut them short when necessary.

Technology is the last component and it is considered to be the least challenging. Technology is the main business of the company and it is not considered as component that might cause any large disturbances.

**Bottom line:** service quality is measured by the Client Satisfaction Index (CSI) and the investigated outsourcing engagement has contractually defined CSI to be performed and reviewed. It is very important since it gives a good indication on whether the client is satisfied with service delivery and if the outsourcing partner meets client’s expectations.

### 4.4 Profitability analysis

As illustrated in Figure 6, the 47.1% of the survey participants responded that profitability is the most important driver for successful outsourcing. It is common perception that outsourced IT projects are profitable for outsourcing partner as well as for the client. Interviewing consultants working in outsourced projects however, gives a somewhat unclear impression. This is because
the investigated company makes profitability calculations based on offshore grade, where the minimum offshore grade both onsite and offsite is given to achieve required profitability. Offshore grade is measured by percentage of Indian resources versus native resources from given country, in this case Sweden. Projects within outsourcing engagement are then given directives with minimum number of offshore resources needed in the project in order to achieve the required profitability. However, in several cases, this kind of KPI or measurement results to inadequate incitement. Interviews revealed situations where Indian resources lacked required competence and did not contribute to overall profitability in the project due to low productivity. In some cases they did not even contributed at all. But they still were not removed or replaced by native resource so that offshore grade requirement is fulfilled. In cases with several unproductive Indian resources overall profitability could be questioned even though KPI measurements would indicate good profitability. Even more important project delivery success might be risked especially if project is sold as fixed price project. It is that safe to conclude that offshore grade is an insufficient measurement for profitability and must have other KPIs as well to complement the profitability calculations.

So, let us get back to the profitability analysis. As analyzed in section 2.4.2, the main reason that leads to an outsourcing decision is the cost savings. As such, we are keen to understand whether outsourcing and offshoring enable the expected cost reduction for the outsourcing client.

**Q11. Outsourcing and offshoring will enable expected cost reduction to our clients?**

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>I totally agree</td>
<td>29.400%</td>
</tr>
<tr>
<td>I agree</td>
<td>55.800%</td>
</tr>
<tr>
<td>I am not sure</td>
<td>11.800%</td>
</tr>
<tr>
<td>I disagree</td>
<td>0.000%</td>
</tr>
<tr>
<td>I totally disagree</td>
<td>0.000%</td>
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</table>

*Figure 12. Outsourcing and Offshoring and their expectation in reducing client’s cost*

The survey results were more that encouraging since the 88.2% of the respondents were confirmative of this highly anticipated expectation (see Figure 12). Only a small percentage, equal to 12%, are uncertain of the reduction in the cost, possibly because of they are aware of the hidden costs associated with the outsourcing engagement. Another important ascertainment is that the survey participants consider that besides cost reduction, by using
offshore delivery the company meets the client’s expectations (see Figure 13). However, the 65% of those participants who responded ‘sometimes’, seem to raise their doubt, and this is a consideration the company needs to take into account in the future.

| Q.13. By using offshore delivery the company meets the client’s expectations |
|-------------------|---|---|---|---|---|---|---|
|                    | 0% | 10% | 20% | 30% | 40% | 50% | 60% | 70% |
| Always             |    |     |     |     | 35.300% |     |     |     |
| Sometimes          |    |     |     |     |     | 64.700% |     |     |
| Never              | .000% |     |     |     |     |     |     |     |

Figure 13. Offshore delivery and its impact on client satisfaction level

As already revealed, profitability in the outsourcing engagement is driven by reducing the costs and increasing the productivity. Accordingly, the main cost for the IT service provider is the skilled workforce. Cost reduction from the outsourcing partner’s perspective is achieved by having high degree of offshore in deliveries, but also by trying to reduce costs of the onshore resources. The investigated company emphasizes on pyramid thinking, where consultants engaged in the project are mixed based on their seniority level. It is considered of high importance to have more junior consultants and less seniors and experts but still being able to deliver expected quality of service. Previous experiences show that this is possible if adequate processes for working in teams are in place and winning team spirit also exists.

Interesting notion is that profitability is considered as the most important driver from the outsourcing partner’s perspective 47.1%. On the other hand, interview with managers with a good insight into the outsourcing agreement revealed that the outsourcing client stated that profitability was not its main driver. It was more interested to secure the domain knowledge, technical competence and support its planned growth. Because of this judgment, the main focus of the outsourcing partner should be quality of service.

The poor offshore staffing process affects the cost and the quality of the delivered service. This process in some cases takes up to two months, which means that the team that delivers service during that time cannot be fully productive. This directly affects the quality of the service because the time line for delivery will be pressed and the decreased quality will affect the client satisfaction in the end.
Interviews revealed that profitability might suffer due to high knowledge transfer costs. In many cases, customer is not willing to pay for these costs while putting requirement on outsourcing partner to train consultants in customer’s specific knowledge. This kind of knowledge is quite often not possible to obtain without special training. This cost is very specific for outsourcing since the customer would not have the same expectation if the consultant service was procured in own arrangement.

4.5 Productivity analysis

We now shift our focus on analyzing productivity and on identifying in what extent it leads to IT outsourcing success. In doing so, the monitoring of several key productivity measures is necessary to ensure that the investigated company can be realistic in its outsourcing performance expectations. However, in an era of tight budgets and increased outsourcing, getting a good measure of an organization’s productivity is a difficult task.

The relationship between innovation and productivity growth has also been at the epicenter of continuing interest in academic research mainly because the productivity growth is a major determinant of economic welfare. We believe that process improvement brought out through the innovation improves performance and productivity and we argue that the innovative activity such as new or improved services, improvements to production efficiency contribute to productivity growth. If this is true, and how big is that contribution, is out of the scope of this research, but it is an interesting question for our further work.

For the case company the important mechanism that connects innovation and productivity is continuous improvement. It is simply implemented through creation of new or improved services (leading to increased demand for firm’s products). Another mechanism that we observed is the process and organizational standardization, which lead to efficiency gain in service delivery.

This is substantiated by analyzing the results we obtain from Q.15. As depicted in Figure 14, only half of the survey participants use proper methods to measure and improve productivity in their daily work. The rest of the respondents are unaware of them or even disagree with how productivity is measured within the company. This result is quite worrying, and the company needs to deal with this situation if it wishes to succeed in its future outsourcing engagements. We get the same worrying picture if we analyze the answers to Q.16. Only the 35.3% of the survey participants believe that the processes related to staffing, knowledge transfer and offshore collaboration, which are known to increase productivity, are well defined within the investigated company. Most of the respondents, namely the 64.7%, believe that improvements need to be made.
Figure 14. Measuring productivity within the investigated company

Following on, and analyzing the company’s business agility, we see that according to Figure 15, the majority of the survey participants, namely the 64.7%, were confirmative about the company’s ability to adapt to rapidly changing conditions in order to meet clients' demands. However, on the question “if offshored work reduces time-to-market” (Q.14), solely the 47.1% of the participants responded positively. One possible conclusion of this marked difference between the two questions might be that in order to achieve business agility less offshore should be used. However, offshore is recognized as a very important factor in reducing the costs and increasing profitability and this is confirmed by the fact that the 94.1% of the participants responded positively in Q.12.

Figure 15. Investigating whether the company has ability to adapt to changed conditions

As analyzed in the theory part, innovation is one of the most important elements for enabling productivity. This is also affirmed by the survey results illustrated in Figure 16, where the 76.5% of the survey participants acknowledged that if the company encourages innovation it can boost its productivity levels. Indeed, productivity can be increased by working smarter and
incrementing output, while reducing input, which is usually referred to as industrialization in the way of work and delivery. However, for making great leaps of productivity, increasing innovation is essential. The company examined in this study is an IT company, and as such, most innovations are commonly related to processes, tools and way of working rather than new innovative products.

Q.18. I believe that innovation improves productivity?

![Graph showing the percentage of responses to 'I totally agree' is 41.200%, 'I agree' is 35.300%, 'I am not sure' is 11.800%, 'I disagree' is 11.800%, and 'I totally disagree' is 0.00%]

Figure 16. Innovation and its impression on productivity improvement

The company’s business today not only requires a demonstration of proven industrialization skills but also clear leadership in providing innovative solutions and tools to the clients. Some of the innovative processes, tools and solutions used within our case company are:

- The Accelerated Solutions Environment (ASE) - World-class facilitation capability and exceptionally productive environment to rapidly resolve complex business challenges.

- RAIN (Rapid Innovation) - Collaborative environment to help organizations re-define their IT as a “service” through the radical development and adoption of new technologies and business services, enabled by Intel.

- Rapid Design and Virtualization - Agile methodology for prototyping new business applications platforms.

- Crescent - Retail Solutions Center (India) has industrialized leading practices in retail to help companies reach their objectives more quickly, reduce risk, lower costs, while improving the overall quality of the solution.

- Communications Transformation Platform (CTP) in Telecom - Integrated set of systems and business processes that gives a company the power to change the way it works, so that the enterprise can become something different, something new, something better.
Clinical Data Transformation for Life Science - Industrialized solution, clearly driven by needs of the business, to transform both business processes and IT delivering tools to automate the solution (removing multiple hand-offs and manual processing) and eliminating data redundancies.

The survey analysis indicates sufficient level of innovation, or at least, a perception of innovation on level where knowledge workers do recognize innovation in their daily work (see Figure 17) despite the fact that effective spreading of the knowledge about innovations across the large-sized global company is quite difficult.

Q. 19. Have you been involved in the implementation of any innovative idea(s)?

![Figure 17. Involvement in the implementation of innovative ideas](image)

According to the interviewed participants the basis for high productivity is business and technology knowledge as well as ability to perform. Moreover, one team with common goals, structure, ownership and responsibility are considered of high importance for high productivity. Avoiding different agendas, having clear common goals and responsibilities also eliminates a lot of unneeded work and increases productivity. It is however proven to be difficult to measure productivity in IT business and this claim is confirmed by interview participants. Usual unit of input is hours but output is hard to define. There are some thoughts about using function points as output unit, but at the moment this is out of the scope of this investigation.

Productivity can be improved by implementation of “lean” ideas within organization. From our experience “lean” implementation and waste elimination in combination with innovation improves not only the own revenue and profit, but also the customers satisfaction. For one of our clients the testing of software developed (regression testing) usually took up to 24 hours and in some cases up to 48 hours because of poor hardware performance. The product was developed by 17 teams (6 team members in average) which mean that client spent 17*24 *6 hours each time the testing was performed and in this case it was on weekly basis. We captured waste and isolated it from development time (not productive time contra productive time) and...
we presented the result for the client. The client rapidly changed the testing process and created something they call “on demand testing” which reduced the time to 3h instead. The client was more than happy and invested now in 25 teams instead, which reduce the time to market for that specific product.

4.6 Risk awareness analysis

In this section, we analyze the fourth major driver to successful outsourcing of IT services, namely the risk awareness. While only the 5.9% of the total respondents believe that risk awareness contributes to successful outsourcing, still the survey analysis revealed several interesting points that worth mentioning. Looking back to the analysis in the theory part, the risk assessment factors this study focused on are the risks relevant to people, transition and management costs, the cultural risks, the contractual, measurement and financial risks, the scope, cost and time estimates, and finally, the risks related to relationships and alliances. We analyze the obtained results for each of these risk factors below.

As already revealed in Chapter 2, the risks related to people, transition and management costs arise from lack of expertise within management, domain, technology and outsourcing activities. According to Figure 18, a large number of the survey participants credit that the company’s outsourcing consultants have adequate level of experience and training to avoid the inherited risks, and accordingly, can deliver services with expected quality. However, there also exists a worrying percentage, equal to 18% of the respondents, suggesting that this is not the case, and definitely this is something the company needs to take into consideration.

<table>
<thead>
<tr>
<th>Q.20. Our consultants have sufficient level of experience and training in order to deliver services with expected quality.</th>
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<tbody>
<tr>
<td>0%</td>
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<tr>
<td>----</td>
</tr>
<tr>
<td>I totally agree</td>
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<tr>
<td>I agree</td>
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<tr>
<td>I am not sure</td>
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<tr>
<td>I disagree</td>
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<tr>
<td>I totally disagree</td>
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Figure 18. Risks related to people and their effect on the outsourcing engagement

As illustrated in Figure 19, the majority of the survey respondents (94%) believe that the cultural risks, which arise from differences in the communication skills, language, motivation, decision making, ethics etc. amongst the outsourcings partners, add risks to the outsourcing
This notion is amplified by the fact that the 69% of the survey participants in Q.20 believe that globally distributed teams with different skills and experience contribute to risks.

Q.22. I find that differences in culture (between outsourcing partner and client) add risks to outsourcing deals.

<table>
<thead>
<tr>
<th>Percentage</th>
<th>I totally agree</th>
<th>I agree</th>
<th>I am not sure</th>
<th>I disagree</th>
<th>I totally disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>28.400%</td>
<td></td>
<td></td>
<td></td>
<td>0.000%</td>
</tr>
<tr>
<td>10%</td>
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<td>64.700%</td>
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<td>20%</td>
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Figure 19. Cultural risks and their effect on the outsourcing engagement

Now, in the case of the contractual, measurement and financial risks, as expected, the majority of the survey participants, namely the 81%, are confirmative about the fact that poorly defined contracts are connected to penalties that constitute considerable financial risk for the outsourcing partner. Only the 12% of the respondents do not agree with this notion, while an equally small percentage (6%) are not sure about it.

Q.23. Poorly defined contracts that include penalties constitute financial risk for engagements that are part of our outsourcing deals.

<table>
<thead>
<tr>
<th>Percentage</th>
<th>I totally agree</th>
<th>I agree</th>
<th>I am not sure</th>
<th>I disagree</th>
<th>I totally disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>29.400%</td>
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<td>0.000%</td>
</tr>
<tr>
<td>10%</td>
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<td>52.900%</td>
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<td>20%</td>
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Figure 20. Contractual risks and their effect on the outsourcing engagement

Finally, we were thoughtful to witness that most of the survey participants, namely the 70.3%, acknowledge that the scope, cost and time estimation factors, all pose challenges to the outsourcing engagement, if not properly defined. This is strong evidence that the investigated
company needs to act promptly by properly defining these factors if it wishes to succeed in its future outsourcing projects.

**Q. 24. Within our outsourced engagements we experience challenges with the definition of scope, cost and time estimation.**

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<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I totally agree</td>
<td>17.300%</td>
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<tr>
<td>I agree</td>
<td>52.900%</td>
</tr>
<tr>
<td>I am not sure</td>
<td>17.500%</td>
</tr>
<tr>
<td>I disagree</td>
<td>11.600%</td>
</tr>
<tr>
<td>I totally disagree</td>
<td>0.000%</td>
</tr>
</tbody>
</table>
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*Figure 21. Risks related to scope, cost and time estimation*

The conducted interviews also gave us an insight into the area of risk awareness. As stated earlier, one of the identified risks is related to people and transition costs. Interview results exemplified several cases of the risks of this kind. During transition period a list of key consultants from other suppliers (subcontractors) are created. Our case company was not able to replace all these key resources since they have domain and technical knowledge acquired during the long period working within the specific area. Predictions were made about the time required to replace the subcontractors until than the contracts would be signed with the subcontractors to continue working on their previous positions. However, it is proven to be quite hard to replace the subcontractors for several reasons: their domain knowledge that is not easily acquired as well as their unwillingness to share the knowledge which is reasonable since it implies their replacement.

On the question about foremost risks, the interview respondent explains his believing about financial risks associated with underestimation of the complexity of the engagement. The company has done quite advanced People Projection Matrix prior to participating in the bid that is used as a base for resource planning.
5. **Conclusions**

This chapter summarizes the major findings and impressions gathered from this study. The conclusions are based on the analysis performed in Chapter 4. In doing so, we first answer the research questions and then we give a broad perspective on limitations experienced by us during the research process.

5.1 **General overview**

**Subquestion 1: What are the key drivers for the successful outsourcing of IT services seen from the outsourcing partner’s perspective?**

As already analyzed, in an ever more competitive world, companies need to take full advantage of the tools at their disposal - and offshore outsourcing is a significant one. Through our research we have come to the conclusion that the drivers that play the most significant role in successfully offshoring and outsourcing IT services are a) increase of profitability, which comes from high offshore grade, b) productivity increase achieved through lean processes, c) high quality service delivery, and d) awareness of the risks associated with the outsourcing engagement. Based on the findings of this research we suggest that the outsourcing partner should be aware of these drivers and should take them into consideration before and after making an outsourcing decision, if the company wishes to increase its chances for achieving outsourcing success.

Our study also highlighted that while globally the 68% of the firms outsource at least several of their services, and the main motivation behind this action is cost reduction, this is not the case for the analyzed outsourcing engagement where the outsourcing client stated that the main goal behind resorting to outsourcing is to support expansion. Still, the survey results showed that assumption is that profitability including the cost reduction is more important than quality of service probably driven by some general idea that outsourcing is primary driven by cost reductions. This is an important finding that should be addressed by the outsourcing partner in order to meet client’s expectations.

As discussed within the theoretical framework, the company will benefit by outsourcing only when they pick the right processes, calculate both the operational risks, and match
organizational forms to the needs. We would also like to add that client usually outsource the core processes implicitly through the outsourcing of IT service because those core processes are usually implemented and supported through IT service deliver process. When outsourcing IT processes, the clients actually outsource the core processes and indirectly puts a lot of pressure on the outsourcing partner. In order to generate expected benefits to the client and in same time prevent insourcing, we believe that outsourcing partner needs to find best way to identify core processes, identify IT services and products that support client’s core services and to invest in knowledge related to maintenance and improvement. In this way, the outsourcing partner will be in a position to improve the service and its quality, which could in the end increase productivity for the client, a fact that is important for successful outsourcing.

As discussed in section 4.4, the offshore staffing process affects both the productivity as well as the quality of the delivered service. We believe that improvements in this area can result in both higher productivity and quality of the offered service. Such improvements can in turn increase the customer satisfaction.

Innovation is the key idea that is shaping corporate life and enables us to see potential acquisitions through different lens, looking at them not just from a cost perspective, but also as a means of accelerating profitable top-line revenue growth and enhancing capabilities. Simply stated innovation affects productivity in a positive way. From our observation innovation improves creativity through the enablers that allow employees to work with right challenges (right people are matched to the right assignment), and choose the best method for that challenge, supervisory encouragement (develop a permissive atmosphere), and organizational support (organization and manager should support creativity) which in the end improves productivity (see Section 2.4.3). In a further study, the authors would like to investigate in what extent productivity is affected by innovation.

Subquestion 2: How does the outsourcing partner prioritize those drivers?

Overall, the conducted survey analysis indicated that the majority of the respondents acknowledge that profitability is the top priority in guaranteeing outsourcing success. Second in the order of importance comes the quality of service delivered to the outsourcing client, with productivity being considered as the third factor that positively impacts the success or failure of an outsourcing engagement. Finally, risk awareness is prioritized last, since the least number of the interviewees and survey respondents believed that the awareness of the risks associated with the outsourcing engagement contributes to successful outsourcing.
Subquestion 3: **What implications the identified key drivers have on the outsourcing and offshoring success?**

The general impression from the conducted interviews and the collected survey data is that all the identified drivers have a positive effect on the outsourcing and offshoring success, but at a different extent. As such, profitability has a first-order impact on the success of an outsourcing engagement, with productivity being recognised as the second factor in the order of affection. Quality of service delivered to the outsourcing client comes third while the fewest survey respondents believed that risk awareness contributes to successful outsourcing.

Subquestion 4: **What risks need to be considered before and after making an outsourcing decision?**

The conducted research showed that the most challenging risks that need to be considered before and after making an outsourcing decision are those relevant to people, transition and management costs, the cultural risks, the contractual, measurement and financial risks, the scope, cost and time estimates, and finally, the risks related to relationships and alliances. Rushing into the outsourcing decision without taking into account these risks can result in misaligned expectations, increased management overhead, and end-user satisfaction issues, putting the entire outsourcing project at risk.

Overall, this research claims that the outsourcing partner companies should consider all the identified drivers prior to making a decision to engage in outsourcing. Profitability is considered as the most important driver, but in order to achieve profitability, productivity increase is implied and offshoring is in most cases a necessary factor. Risks in every outsourcing engagement are substantial and need to be assessed prior, during and after the outsourcing process. Quality of service is a hygiene driver and without delivering the client’s expected level of outsourcing cannot be considered as successful. It is however not unusual that outsourcing partners focus on profitability and assume that cost savings are client’s main reason for the outsourcing. It is not necessary the truth because it is shown in this study that client might have different priority between the drivers. These four drivers are very important but not only the ones that must be considered.

5.2 Limitations and further research

As already revealed, the main contribution of this study, concerns the identification of the key drivers for successfully outsourcing IT services from the outsourcing partner’s perspective.
Despite being the first attempt to actually analyze the outsourcing phenomenon and its associated key challenges from the outsourcing partner’s standpoint, additional work needs to be done. As such, it would be interesting to investigate the same drivers of success from the client’s perspective and how they could be matched with those of the outsourcing partner. It would also be nice to find out if there is a gap between the drivers associated with these two different perspectives.

Additionally, during our study we discovered that many challenges including financial considerations (taxes, inflation, and currency fluctuation), disaster recovery, quality control, knowledge transfer, security and data privacy and governance are affecting the offshore service delivery. Those challenges are also in direct relation with the key drivers that we investigated within our study. Therefore, an interesting topic for further investigation would be to analyze how exactly those challenges are affecting the identified key drivers that lead to successful offshore outsourcing of IT services.
6. REFERENCES


OECD (1999), Strategic Business Services, Paris.
The aim of this survey is to investigate the level of the Company X’s outsourcing excellence. The study and the questions in the survey are based on what outsourcing clients define as key drivers for successful outsourcing. The key drivers covered in this study, and which relate to service delivery, are:

1. **Quality of Service** (meeting SLAs and KPIs)
2. **Profitability** (based on cost reductions and time to market cycles)
3. **Productivity** (based on process improvements, increased business agility and innovation)
4. **Risk Awareness** (including risks associated with people, knowledge, culture, finance, scope, cost and time estimation, contract management and relations with the client at different levels)

We believe that this study will give us a brief understanding on which areas Company X can improve as an outsourcing partner.

**Important Note!**
This survey and results will be anonymous. Neither the outsourcing partner (vendor) nor the client will be mentioned by the name.

**Questions:**

1. What position do you currently hold at the company?
   - A. Consultant working with outsourced applications
   - B. Team Manager
   - C. Project Manager
   - D. Middle-Manager
   - E. Program Manager
   - F. Other (Please explain)

**Key Drivers adoption**

2. Arrange key drivers for successful outsourcing by importance:
   - A. Quality of Service
   - B. Profitability
   - C. Productivity
   - D. Risk Awareness
3. The quality of service delivered to our client is:
   A. Excellent
   B. Satisfying
   C. Poor

4. The profitability within outsourcing engagements (projects) is:
   A. Excellent
   B. Satisfying
   C. Poor

5. The productivity within outsourcing engagements (projects) is:
   A. Excellent
   B. Satisfying
   C. Poor

6. The risk awareness within outsourcing engagements (projects) is:
   A. Excellent
   B. Satisfying
   C. Poor

Service Quality

7. Quality in service delivery is important for meeting our client’s requirements.
   A. I totally agree
   B. I agree
   C. I am not sure
   D. I disagree
   E. I totally disagree

8. Service quality should not be traded off for price.
   A. I totally agree
   B. I agree
   C. I am not sure

9. It is universally acknowledged that effective services management requires a well-defined, properly scoped and thoroughly understood set of Performance Indicators. Those key indicators, KPI’s, will form the bedrock of the contractual relationship and the Service Level Agreements (SLAs) that are typically an integral part of the design of
Shared Service processes and of the framework for the on-going supplier/client relationship for both Shared Services and Outsourcing.

I know what KPI’s are used in our outsourcing deals and I know how they add value to Company X and to the relationship between Service Provider and Service Consumer.

A. I totally agree  
B. I agree  
C. I am not sure  
D. I disagree  
E. I totally disagree

10. In our organization, service quality is measured by well-established criteria (tangibles, reliability, responsiveness, assurance and empathy).

A. I totally agree  
B. I agree  
C. I am not sure

**Profitability**

11. Outsourcing and Offshoring will enable expected cost reduction for our client?

A. I totally agree  
B. I agree  
C. I am not sure  
D. I disagree  
E. I totally disagree

12. The offshore delivery is important for meeting client’s expected cost reduction.

A. I totally agree  
B. I agree  
C. I am not sure  
D. I disagree  
E. I totally disagree

13. By using offshore delivery we meet client’s expectations regarding to cost reductions.

A. Always  
B. Sometimes  
C. Never

14. By using offshore capacity we are able to reduce time to market for client services.

A. I totally agree
B. I agree  
C. I am not sure  
D. I disagree  
E. I totally disagree

**Productivity**

15. In our organization, productivity is measured by well-established methods? In an era of tight budgets and increased outsourcing, getting a good measure of an organization’s productivity is a persistent management concern. Unfortunately, experience shows that no single productivity measure applies in all situations for all purposes. Instead, organizations must craft productivity measures appropriate to their processes and information needs.

I use proven methods to measure and improve productivity in my daily work?

A. I totally agree  
B. I agree  
C. I am not sure

16. In order to increase productivity the processes related to staffing, knowledge transfer and offshore collaboration must be well defined.

Our general processes related to staffing, knowledge transfer and offshore collaboration are well-defined (no need for improvement).

A. I totally agree  
B. I agree  
C. I am not sure  
D. I disagree  
E. I totally disagree

17. Business Agility – Our organization has ability to adapt rapidly to changed conditions and requirements in order to meet client demands.

A. I totally agree  
B. I agree  
C. I am not sure  
D. I disagree  
E. I totally disagree

18. I believe that Innovation improves productivity?

A. I totally agree  
B. I agree  
C. I am not sure
D. I disagree
E. I totally disagree

19. Have you been involved in implementation of any innovative idea?

A. Yes
B. No

Risk Awareness

20. Our consultants have sufficient level of experience and training in order to deliver services with expected quality.

A. I totally agree
B. I agree
C. I am not sure
D. I disagree
E. I totally disagree

21. Globally distributed teams with different skills and experience contribute to risk.

A. I totally agree
B. I agree
C. I am not sure
D. I disagree
E. I totally disagree

22. Differences in culture add risk within global outsourcing.

A. I totally agree
B. I agree
C. I am not sure
D. I disagree
E. I totally disagree

23. Poorly defined contracts that include penalties constitute financial risk for engagements that are part of outsourcing deal.

A. I totally agree
B. I agree
C. I am not sure
D. I disagree
E. I totally disagree
24. Within our outsourced engagements we experience challenges with definition of scope, cost and time estimations.

A. I totally agree
B. I agree
C. I am not sure
D. I disagree
E. I totally disagree

25. Inability to define and implement customer-vendor interface at executive and working levels and failing to establish long-term alliances constitute risk in global outsourcing.

A. I totally agree
B. I agree
C. I am not sure
D. I disagree
E. I totally disagree

26. Do you believe that the client organization will benefit from our current outsourcing strategy?

A. Yes
B. No
8. APPENDIX II – INTERVIEW QUESTIONS

Name:

Role:

Questions:

1. Describe and explain your knowledge and understanding of outsourcing?

2. Quality of service is one key driver for outsourcing. How is it secured in the current deal? How is it measured and followed up? Do you have any thoughts about quality of service for this engagements or parts of it?

3. Profitability. Many pieces need to fall in place for achieving profitability in outsourcing engagements such as having competent but still affordable consultants, having good productivity with lean processes, getting paid from client, dealing with subcontractors, including offshore in high degree, avoiding penalties, delivering quality etc. How is profitability secured, measured, followed up? Do you have any thoughts about profitability of this engagements or parts of it?

4. Productivity is important for achieving profitability. Do you recognize some important processes or areas where profitability is exceptional or insufficient? What are the reasons for it?

5. What are the three foremost outsourcing risks that your company is concerned with? How are they being addressed?