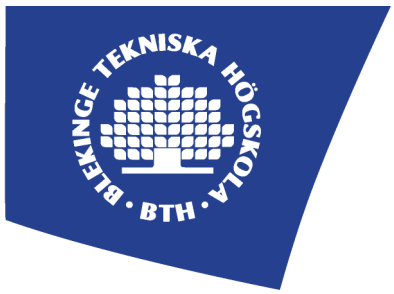

School of Management

An evaluation of the risks involved in onshore IT outsourcing –case study of Citiserve Limited, Lagos Nigeria

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Abstract

IT outsourcing has been, and will continue to be a widely accepted strategic option for organizations growth and attainment of its set objectives. It has brought about state-of-the-art technology in the form of improved business processes, a strategic focus on core competences and cost saving techniques amongst others. At the same time, it has brought with it the challenges that need to be addressed if the process was to fulfil its set objectives without impairing the goals and objectives of the firm. Due care and diligence should be taken to mitigate IT risks such as unforeseen escalated costs, vendor lock-in, confidentiality problems and so on.

In forestalling these challenges, the recipient is expected to ensure that the vendors are competent and guided by relevant professional ethics; here, certifications play an enormous role in assuring the service recipients they are dealing with the right vendors. It is crucial that the recipient set out in clear and concise terms, the conditions of the relationship using a detailed contract. This would specify the deliverables, service expectations and penalties or litigations.

Overall, the thesis is built on answering the research questions:

- Why do organizations outsource IT services?
- What are those risks involved in IT outsourcing?
- How can the IT risks be mitigated?

Leveraging on the case study of Citiserve Limited (Nigeria); this research made attempt to align the theories and the case in bringing to the fore the seeming trend emanating from IT outsourcing in service (logistics, distribution and marketing) industry.

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Particularly, also worthy of mentioning is the memory of my dear father (late); who independently prodded and encouraged me while he was alive towards the achievement of my insatiable desire for academic and professional qualifications. I love you and will always cherish our times. You are my best man and I will keep the torch alight for you.

Erstwhile, I would like to thank my wonderful wife, for her support and understanding while I pursued this academic program.

Above all, I am indebted in thanks to my project supervisor, Eva Wittbom her guidance and constructive criticisms.

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List of abbreviations

BCS	-	British Computer Society
IT	-	Information Technology
ITO	-	Information technology outsourcing
ISO	-	International organization for standardization
ITIL	-	Information technology infrastructure library
ISACA	-	Information systems and audit control association
SLA	-	Service level agreement
SMEs	-	Small and medium scale enterprises
OMMM	-	Outsourcing management maturity model
RMO	-	Relationship management office
MTTR	-	Mean time to repair
MTBF	-	Mean time between failures
TAT	-	Turn around time
TAMS	-	Terminal application management software
XYZ	-	The recipient company (case study)
XXX	-	The service providers (vendors)
PC	-	Personal computers

I Introduction

1.1 Preamble / Background of the study

Outsourcing, to a large extent, can be described as an arrangement whereby the provision of specific goods or services are rendered by third party specialists (otherwise called vendors) in exchange for money either directly or indirectly (Warren, 2004). In a situation where these services are rendered from the recipient's country of residence, the arrangement is referred to as *onshore outsourcing* (Erik et al., 2006).

Recent work (Erik et al., 2006) claimed that outsourcing has become a significant scenario in today's international business. Particularly, the sections of management and information technology (IT) represent a special scenario for outsourcing, especially in terms of benefits and eventual inter-organizational challenges (or risks).

Until recently, organizations would rather decide themselves which changes to make and when. Usually, when they decide to expand their market or introduce a new product or service, they would make small, carefully planned changes to their organization and strategy. If their intention was to modify their organization, they would slowly and carefully consider the consequences for their customers and employees, trying to keep a balance. Nowadays, they cannot afford such luxury; they usually encounter developments which consequently impact their competitiveness and at unpredictable frequencies (Reijniers, 2004).

The greatest challenge of an IT manager lies in explaining and justifying the impact of IT to top management of the business; it is very crucial to express IT initiatives in value-for-money and convince the business that the most cost-effective solution has been sought (Garry Langhan, 2009).

The aforementioned brings a call for concern because risk has become a critical part of IT businesses today. Practically, every business decision requires executives and

managers to balance risk and reward, especially in bringing IT objectives in alignment with the overall business objectives.

In a lot of business processes, IT risks are more often than not, overlooked. However, other risks (such as credit risks, market risks and operational risks) are being factored into the processes of decision-making of the company; whilst IT risk is being relegated to technical specialists outside the boardroom. This has consequently led to failure to achieve strategic objectives.

It is no more news that outsourcing has been a critical instrument adopted by most businesses in the last ten years to enjoy benefits like cost reduction, improved quality of service and access to state-of-the-art technology. These are some of the reasons why many organizations embraced IT outsourcing. A desire to focus on the core activities of the organization is another important reason why some organizations adopt IT outsourcing.

However, as impressive as the benefits of outsourcing IT projects and services sound, they are not without their side effects. In identifying the risks of IT outsourcing, several works of researchers and scholars will be examined. These shortcomings include, but not limited to unexpected escalated costs, disputes and litigations, lock-ins and loss of internal competence (Auburt et al., 1999; Bahli & Rivard, 2003a).

Consequently, many control measures have been discussed to mitigate these risks by scholars. Some of these are enumerated below (ISACA, 2009).

- Establishing goals that are shared and rewards that are quantifiable and partnership-enacted;
- With-holding some part of the business as an incentive or adopting several suppliers for the same service / project;
- Putting in place a cross-functional contract management team to check and balance events;
- Setting up contractual provisions for making changes to the contract to allow flexibility;

- Embarking on short-term contracts.

1.2 Aim of the study

The aim of this project is to critically evaluate the risks associated with information technology IT outsourcing.

1.3 Objectives

The objectives of this research will be attempting to answer the following questions:

- Why do organizations outsource IT projects?
- What risks (if any) are involved in IT outsourcing?
- How can the risks be mitigated?

1.4 Scope of the study

Although the term outsourcing is used extensively to describe many types of services provide by third parties, this research shall focus primarily on outsourcing of IT services and the human or physical services will be addressed, especially to the extent at which they influence IT. Particularly, the study will adopt the case of Citiserve Limited, Lagos Nigeria. The company's outsourced IT projects will be critically analysed and an attempt will be made on ways of improving the IT operations of the organization.

1.5 Significance of the study

It is of interest that most scholarly articles and research works carried out and published so far were focused on offshore (across borders of countries) IT outsourcing; that makes this work unique as its approach of IT outsourcing was in the context of Onshoring (within a geographical region –country). It is hoped that the outcome of this study will enable the researcher identify the causes of IT outsourcing risks in organization and related. Perhaps, this could form a basis of policy formulation in the company to help in mitigating the IT risks associated with its outsourcing processes. More so, the findings

of this paper could also serve as a good source of reference for interested researchers and investors.

1.6 Limitations

Earls (2008) explained that case study does not analyze applicability to other contexts. It does not report a full range of responses. The sample size used does not also give a diversification on how to analyze how or why differences occur. As such, this research is limited because it focused mainly on the activities of a company (Citiserve Limited) and although may be useful for other organizations of similar functions and capacity. It is to be noted that the outcome of the research may not be applicable to many other organizations, especially where IT Offshoring is being practised, as against Onshoring that is being focused on in this research work.

Also, due to limited time at the researcher's disposal, it was very difficult to achieve extensive work as desired.

1.7 Definition of keywords

1.7.1 What is Risk: Krutz et al (2007) defined risk as *a combination of the likelihood that a threat occurrence will result in adverse impact, and the severity of the resulting impact.* Also, risk can be defined *as the likelihood of a threat agent taking advantage of the vulnerability and the resulting business impact or the loss potential or probability that a threat will exploit vulnerability* (Shon, 2005).

Risk as an undesirable event: Under several circumstances, the term risk is employed to explain a possible negative event. Levin and Schneider (1997, p.38) defined risk as *"...events that, if they occur, represent material threat to an entity's fortune".*

Risk as a probability function: Instead of focusing on risk as being a negative event, some fields prefer to consider risk in terms of the tendency of the event happening in the first place. Let us take for instance, in medicine; they would choose to rather consider the probability of a disease (such as heart attack). The negative consequence of this

being death, and focusing on this effect would be useless since it cannot be reversed. The main element here would be the odds of occurrence. Usually, data will be employed to forecast what would have influenced those events (like smoking, cholesterol level, heredity and so on). In the definition of sentinel events (happenings involving death or serious injury), the Joint Commission on the Accreditation of Healthcare Organization explains risk as *the chance of serious adverse outcome* (Kobs, 1998).

1.7.2 What is IT risk?

IT risk is defined *as the potential for an unplanned event involving a failure or misuse of information technology IT to threaten an enterprise objective* (George and Richard, 2007, p.1).

1.7.3 IT outsourcing

Many confusions and contradictions have been attached to the literature as regards the definitions of outsourcing and IT outsourcing. To some extent, outsourcing has become the ***mot du jour*** and is applied to situations that are not strictly outsourcing arrangements. In Outsourcing: Evolving Towards Trust", Sweet et al. (2001) defined IT outsourcing as *"...the transfer of IT services or business processes from one company to another".*

1.7.4 Service level agreements (SLA)

Service level agreements SLAs (ISACA, 2009, p.107) *are a contractual medium of helping the IT department manage information services under the direction of a service provider*. SLAs highlight and assure a service recipient of their expectations from a service provider to the recommended standard and with required options. Apart from SLAs clearly stipulating the service levels and support options, they also make provisions for penalties and enforcement options in case of breach.

1.8 Summary of chapters

Chapter one will be describing the introductory chapter; it will discuss the preamble, aim and objectives and scope of the study. It will cover also the case study and definition of terms.

Chapter Two will focus solely on the review of relevant literatures. It will discuss critically previous scholarly works on the study from the broad perspective to the specific scope.

Chapter three will be made up of the methodological approach to the study and will explain the underpinning theory supporting the research standpoint. Also, a brief insight into the history of the case study will be discussed.

Chapter four will highlight the findings of the research. This will be in form of documentary feedback or evidence, as well as excerpts from the interview conducted.

Chapter five will discuss and / or analyse the findings obtained from the research and take cognizance note of learnings from the study.

Chapter six will be the conclusive part. The section will reiterate the relevant outcomes of the study and make notes of the challenges in recommending for future research on the subject.

2 Literature Review

2.1 Introduction

This chapter introduces the relevant literatures consulted in this investigation and discusses the history of IT outsourcing from the mainframe era (1960s) through the late 1980s when the practice came into limelight through Kodak breakthrough signing.

2.2 The early days of IT outsourcing

According to Warren (2004, p.181), electronic data processing systems were first developed in the mid-twentieth century for military and scientific purposes. They began to see limited commercial use in the 1960s. At that time, computers were physically large devices, typically being made up of dozens of single-function interconnected cabinets the size of large refrigerators. The computer equipment required special cooling, cabling and power systems.

Generally, the extent to which outsourcing took place at all was in the form of services from what are today referred to as ***application service providers*** (ASPs). It was not enough to say that an individual or organization had much choice in the matter. The few computers that existed were in the hands of the military or academic and scientific research organizations, so that everyone else with a need and the requisite funding had to request and buy time on someone else's computer (if available). Because computing power was such a rare commodity, applications were usually scientific and sophisticated in nature, and those persons requesting computer time were knowledgeable in the technical aspects of computing machinery and the software running on it (Warren, 2004).

Warren (2004) continued that during those early years of computing, organizations sprang up that offered to house and operate another company's computer systems. This kind of offerer was referred to as a "*facilities manager*". These days, the term used for such a vendor is "hosting services provider" (HSP). One seldom, if at all, hears the

mention of such term as facilities managers these days. In his example, he stated that his first exposure to digital computers (unlike the analogue computers he has worked with as an engineering student) occurred in an Algol 60 course taken in his electrical engineering studies at the University of Glasgow during the mid 60s. The only digital computer of the university was housed in the Chemistry department and excessively secured. When circumstance warranted it on the time table, the programming course would take place only in the classroom at the Chemistry department because the Chemistry department would not grant access junior engineers, or anyone else for that matter, near their jealously guarded machine.

Warren (2004, p182) stated further that during the time, he took a course in econometrics taught by a lecturer who commuted from Edinburgh –a distance close to fifty (50) miles. Then, they (the students) would write data on coding sheets, which the professor carried back to Edinburgh. There, the data was entered into a multiple correlation program running on a university computer. After analysis, the results of the correlation and regression analysis would then be taken back to students about two weeks afterwards. Back then, the turn-around times TAT of days or weeks were very common. Warren (2004, p.182) explained that in today's nomenclature, that computer facility situated at Edinburgh would rather be called an application service provider ASP, simply because it made available the use of a statistical analysis application to customers.

2.3 The advent of big time IT outsourcing

Recent work (Warren, 2004) explained that in the late 1980s, approximately about the time that we experienced the proliferation of personal computers PCs and the emergence of servers in the workplace, an IT outsourcing revolution emerged. This became a testament to the stability and measurability of the computers and their network operational functions that companies felt more comfortable in having a third party manage the computer and network factories that had evolved in the prior decades.

Remarkably, Warren (2004, p188) continued that in October 1989, Kodak signed a ten year contract valued at 250million dollars. The IT outsourcing deal was with the IBM Corporation, Digital Equipment Corporation (DEC) and Business-land Inc. (the latter two of which are now out of business). The Kodak deal was aimed at operating its data centres and support its personal computers (.PCs). Around ten years later, , Tom Field (1999) looked back to explain why Kodak was credited with having been the originator of the large scale IT outsourcing deal, despite the fact that Enron corporation had executed a deal of about three times the value in the same year. Field credited the fact that Kodak was the first well-known, Dow Jones Industrial Index company to have engaged in this type of outsourcing.

Warren (2004) continued that initially, the equivalent of outsourcing (that is, facilities management) was perceived negatively as a practice employed if organizations were not capable of running their own operations effectively. Why was this assumption made? Perhaps because the expectation of the users (or customers) was that a company should be fully staffed to offer the promised services. Although that view was still pervasive in 1989, Kodak was not seen badly managed at the time.

For about fifteen years after 1989, Kodak's deal was dwarfed by the outsourcing megadeals such as the J.P Morgan $2billion outsourcing arrangement with Pinnacle Alliance, a consortium consisting of CSC (Computer Sciences Corporation), Andersen Consulting (now Accenture), AT & T Solutions, and Bell Atlantic Network Integration (BANI), which was signed in 1996. By January 2003, the consolidated J.P Morgan Chase bank decided not to renew the Pinnacle Alliance contract, but instead signed a $5billion 7-year outsourcing deal with IBM Corporation (Warren, 2004, p188).

Furthermore, he (Warren, 2004) continued that a lot of IT professionals were affected directly by these outsourcing arrangements. However, on the average, the exercise was basically a zero sum situation whereby groups of IT professionals at outsourcers were, for the major part substituted for the client organization's personnel. Actually, in most of the arrangements, workers were moved from the client organization to the outsourcer. Let us take for instance the Kodak arrangement, 300 employees of Kodak were moved

to IBM and another 400 to Digital and Business-land. Such a move was possible because, in many instances, although the infrastructure changed ownership, it was not relocated physically. As such, client organizations were able to reduce their spending, save costs and were able to increase the value of shareholders dividends.

2.4 Sourcing practices

Sourcing practices (ISACA, 2009, p.104) explain the manner in which the organization will obtain the IT functions necessary to support the business. Organization can either choose to carry out all the IT functions in-house (termed insourcing) in a centralized fashion, or decide to outsource (contract out to third party or vendors) all functions across the globe. It is imperative for the organization (in choosing the sourcing strategy) to consider each IT function and select which approach best enable the IT function to meet the targeted objectives and goals of the organization (ISACA, 2009).

In the CISA review manual published by ISACA (2009), it was further explained that the delivery of the IT functions of the organization can include:

2.4.1 **Insourcing**: that is, the services are totally performed by the organization's staff.

2.4.2 **Outsourcing**: a situation whereby the services are fully carried out by the vendor's staff.

2.4.3 **Hybrid**: this a case whereby the IT functions are performed by a mix of the organization's staff and vendor's staff; which can also be described as a joint venture or supplement staff. In other words, this is termed *ïntersourcing* (Safire, 2004).

2.5 Types of outsourcing

There are various perspectives from which outsourcing can be classified. These can be location (offshore, onsite and offsite) or by the number of vendors (total outsourcing, multi-sourcing or joint venture other-wise called insourcing or ïntersourcing). Also, outsourcing can be classified according to the type of function being contracted out (this

includes, but not limited to infrastructure outsourcing, business process outsourcing BPO, application outsourcing, service integration and transformational outsourcing.

2.5.1 Onsite outsourcing –this is a situation whereby the staff work onsite in the IT department

2.5.2 Offsite outsourcing –this, also known as ***nearshore***, is a situation whereby the staff work at a remote location in the same location geographic area.

2.5.3 Onshore outsourcing – this is a combination of onsite and offsite outsourcing, in which case the processes take place in the same geographical location with that of the client's company.

2.5.4 Offshore outsourcing –here, the staff work at a remote location in a different geographic region (ISACA, 2009, p.104).

2.5.5 Business Process Outsourcing BPO: Business Process Outsourcing (John and Barbara, 2005) is the management of one or more specific functions (such as procurement, human resources, accounting, and call centre, asset or property management) by a third party, together with the IT that supports the process or function. It is being heralded in the market place as the next generation of outsourcing. The typical IT outsourcing deal focuses majorly on the IT component of business operations, such as data centre and desktop operations. For instance, the outsourcing of customer's data centre provides back office support to many business functions, thus creating a service that is shared by several, usually unrelated, business functions. Instead of providing IT support to various functions, BPO refers to the outsourcing of one or more specific business processes or functions to a vendor (third party), as well as the IT that supports the function(s). It (BPO) focuses on how an overall function or process is run – from manager to end user –rather than on the technology that supports such process or function. Simply put, IT is a function of the overall business process. As such, BPO can formally be defined as the delegation of one or more IT intensive business processes to an external provider, who, in turn, administrates and manages the selected processes, based upon the defined and measurable performance metrics (John and Barbara, 2005, p.512).

2.5.6 Infrastructure Outsourcing: IT infrastructure is the engine of the business. Any infrastructure operation needs to be efficient, scalable and secure. It is expected to resolve the conflicting end-user device needs, balancing flexibility and cost with innovation and future planning. It enables organizations to use optimised and highly secure data centres that underpin their business functions and applications. Through a robust integrated operations built on IT infrastructure library (ITIL) standards, proven technology solutions such as utility infrastructure and specialist technical expertise, infrastructure outsourcing is expected to successfully help organizations improve their use of the underlying core infrastructure (Capgemini, n.d).

2.5.7 Applications Outsourcing: Undoubtedly, the management of the applications that drive the business has become increasingly complex as organizations are expected to balance the support of their existing stack whilst continually changing to take advantage of the latest technologies. Keeping the old working alongside moving to the new, and doing it in a cost-effective manner, can be an arduous task particularly when factoring in resources constraints and business risk impacts (Capgemini, n.d).

2.5.8 Service Integration: IT outsourcing can deliver significant cost savings and improve an organization's competitiveness in the market place. Historically, about 50% - 60% of outsourcing partnership is usually seen to be successful. In order to achieve greater success, a robust IT governance and service management structure must be put in place between the service recipient and the service providers at the outset of any partnership. This is because 80% of the causes of failure are usually attributable to governance issues. In a white paper issued by Capgemini (n.d), *Governing Success* looks at the current state of IT outsourcing market and considers the historical causes of the problems in the market. This is used in identifying the best practice and proven techniques that have been shown to solve such problems by prevention or cure.

In the words of Frank Casale (the founder and Chief Executive of the Outsourcing Institute), "the biggest single mistake in multisourcing (or multivendor outsource arrangement) agreements is that companies do not take

into account how the vendors will have to work together" (ISACA Journal, 2010, p.1). This further substantiates the fact that governance is very critical towards attaining successful service integration.

2.6 The IT outsourcing process

In considering outsourcing solutions, it is imperative to factor into the equation the nature of the relationships involved and the services to be delivered. Erik et al. (2006) explained that the nature of the relationships involved is a factor of which IT services will be outsourced and to how many vendors. Choices can then be made selective and total outsourcing and between single and multiple outsourcing. Similarly, based upon the services required, organizations may choose business process outsourcing, infrastructure outsourcing or application outsourcing.

2.6.1 The nature of IT outsourcing relationships

Previous work (Currie and Willcocks, 1998) distinguished between single outsourcing, in which the recipient employs one vendor to supply it with the required IT service, and multiple outsourcing, in which a number of providers are involved. This distinction (Erik et al., 2006, p.12) may be refined by subdividing single outsourcing into multiple integrated IT outsourcing partnerships and joint IT outsourcing partnerships. In a situation whereby one of the client's suppliers serves as a systems integrator too, and the other vendors subcontract to it rather than contracting directly to the client, this setting is referred to as a multiple integrated IT outsourcing partnership. Nokia Siemens Nigeria NSN, Sony Ericsson (Nigeria) and Zain (Nigeria) are examples of companies that have set up this kind of arrangement. However, in joint IT outsourcing partnerships, the recipient and its principal contractor set up a joint venture which provides the system integration that the recipient needs but also offers its services to other customers (organizations) as well. Such an instance is found in General Motors and EDS and between Philips and Atos origin.

Also, Currie and Willcocks (1998) made another distinction between organizations outsourcing the whole of their IT services and those who outsource only some portion of

their IT services. This practice of total outsourcing, in business terms, was greatly criticized (Lacity and Hirschheim, 1995; Willcocks et al. 1995; Cullen and Willcocks, 2003) because the process renders the client entirely dependent on his vendor. Peppard (2003) claimed that this difficulty (of dependency) may be removed, at least partially, by outsourcing to several providers.

2.6.2 The nature of outsourcing services

In a research report released by the International Data Corporation (1997), it was stressed that outsourcing may be restricted to an organization's IT services or it may cover the entire business processes. In the former scenario, the recipient sets targets for the performance of the IT services only; it will itself remain responsible for the business processes in which these IT services are used. Business process outsourcing has a wider scope; here, targets are set for the entire business processes, of which the IT projects are only a part. As such, the service provider's responsibility or expectation will be much greater.

Erik et al. (2006) continued that companies outsourcing their IT services set up long-term contracts, transferring responsibility or partial responsibility for delivering the necessary IT services to their vendor. This vendor may also take over some or all of the IT department's property and staff. Examples of such relationships are data centre outsourcing, network operations outsourcing, desktop outsourcing, applications outsourcing services, helpdesk outsourcing and disaster recovery.

Business process outsourcing (Erik et al, 2006, p.13) means that the activities and knowledge required to perform a department's tasks, processes or functions are all provided by an external service provider. As such, the vendor shoulders also, the responsibility for non-IT related services. These tasks, functions and processes may be administrative (billing, share-holder services and pension plans) or involve customer care (customer services and call centres), finance (accounting, receivables and cash management) human resources (benefits administration, compliance regulation, workers' compensations, and expatriate welfare), logistics, marketing, manufacturing and sales.

2.7 Why IT outsourcing?

Before organizations consider outsourcing their IT projects and services, it took place usually after a series of internal discussions and arguments. For the purpose of this study, nine reasons will be considered. Arguably, Erik et al. (2006) explained that these reasons keep changing (no matter how insignificant) over time. As such, it is noteworthy to also mention that the order of importance of these arguments in favour of IT outsourcing varies depending on the service recipients. The business strategy and IT strategy both have an impact on the order of these arguments. Van der Zee and van Wijngaarden (1999) submitted that the most important reasons for IT outsourcing are decreasing the total cost of ownership of the IT services, increasing IT services flexibility and achieving IT services innovativity. Lacity and Hirschheim (1993) added that realizing a strategic focus on central competences and decreasing the total cost of ownership of the IT services are most significant. Meanwhile, Cadwell and Young (2003) from Gartner reported that solving the problem of not being able to recruit qualified IT staff is most remarkable. The arguments in favour of ITO are highlighted below:

1 decreasing the total cost of ownership of the IT services;
2 shortening time-to-market for new IT services;
3 increasing the flexibility of IT services;
4 achieving innovativity in IT services;
5 achieving a 'technological shift';
6 rendering the IT services costs variable;
7 improving the financial ratios of the company;
8 Realizing a strategic focus on core competencies;
9 Solving the problem of not being able to recruit qualified IT staff;

2.7.1 Decreasing the total cost of ownership of the IT services

IT services vendors are expected to render the services as the organization's IT department (if not better), but at lower costs. They can afford to achieve this based on

the economies of scale, both on the delivery side and by using their buying power to obtain better hardware and software prices (Buck-Lew, 1992). The condition for them to be able to do is that their clients allow them to standardize their IT services, which they probably will as long as IT needs are met (Klepper, 1995).

However, it was pointed out that the total cost of ownership (TCO) has been an important consideration since the 1990s. Consequently, the developments which made IT an integral part of the organization's business processes, has made the focus on the total cost of ownership to shift from IT services to business processes (David et al., 2002). As such, this implied that account must also be taken of the cost components that arise from IT outsourcing, an example of which is that for managing the IT service suppliers (Erik et al., 2006).

2.7.2 Shortening time-to-market for new IT services

Several organizations operate in markets whose already considerable dynamics have been raised by the outsourcing process. As such, IT departments must henceforth be able to respond quickly, which means having adequate resources available. This will consequently make it difficult for them to be cost-efficient. However, external vendors, who as a measure have many more clients, are better placed to handle fluctuations cost-efficiently (Cross 1995; Lander et al. 2004). Additionally, development and implementation often leave internal IT departments little time and resources to document the changes properly, thus making outsourcing attractive (Travis, 2003).

Achieving a short time to market is of significant importance, especially for software development and implementation. A way of doing that is setting up a portal to make available all information stored by the organization. By outsourcing the implementation and management of such portals, the time-to-market may be further reduced (Eckerson et al., 2000). Another possibility is provided by the enterprise resource planning (ERP) software and the like; using standard instead of customised software speeds up the process significantly (Goldsmith, 1994; Lander et al., 2004).

2.7.3 Increasing the flexibility of IT services

It is imperative that IT departments must be able to react to changes in the services requested, both with respect to the quantity of these services and their nature. Based on the organization's IT strategies, they may decide to change from one IT platform to another to another. Such flexibility is often required to maintain organizations' competitive edge (Buck-Lew, 1992) Nonetheless; attention should be paid to the IT department's staff: where will they go if the company changes platforms (Tayntor, 2001)?

2.7.4 Achieving Innovativity in IT services

In recognition of the fact IT services are increasingly developing technologically, IT departments thus face a growing complexity, certainly in companies operating on international markets. Thus, keeping organizations' business processes connected needs much of the IT function's attention and much Innovativity (Cross, 1995; Klepper, 1995). An example of the innovations facing companies is the rise of the internet and e-commerce. To keep up with these developments and to profit from them, outsourcing one's IT services may be of use (Kraemer and Dedrick, 2002).

2.7.5 Achieving a technology shift

Over the years, IT departments have applied their organizations' IT platforms –though it may be sensible at first, but not usually cost-effective in the long run. Legacy problems are usually the consequence. When the time comes to finally transform such platforms, it often involves drastic operations, needing enormous effort. Change will even be made more difficult by the fact that during the transition, two different platforms must be kept working. As a result, the risks to the continuity of the IT services delivery are significant (Lacity and Hirschheim, 1995; Cullen and Willcocks, 2003).

Let us consider the following case of an IT manager who stated that:

'Being a large, internationally operating airline, we are well aware of the need to be flexible, to be able to react quickly to changes. I am constantly trying to achieve that flexibility in my department. Often, our capacity is the bottleneck. Usually we are capable of doing the job but we simply have not enough people available. A hardware

platform change is an operation for which I could use double staff I have now: one team to run the existing platform and one to set up the new one. Obviously, that is impossible. Outsourcing became the solution. An external provider keeps the old platform in the air and makes sure our users get the information they need. Meanwhile, my people and I develop the new platform. Once that was ready, the old platform was decommissioned and the new platform became operational. If all goes well, our users did not even notice what was happening, and I would have managed a new platform without hiring extra staff'.

(Beulen et al. 1994, p.71)

Erik et al., 2006 cited that a useful example of a technology shift is the rise of m-commerce that requires new development platforms and connections with the organization's communication infrastructure, including GPRS standards. These connections must be capable of handling large amounts of data. The demands on the organizational architecture, in their turn, are very large as well (Frolick and Chen, 2004).

2.7.6 Realizing a strategic focus on central competences

IT services delivery is a support activity that contributes to the recipient's primary or core business processes. The added value is limited, as well as the organization's competitive advantage to be achieved with it (buck-Lew, 1991; Lacity and Hirschheim 1993).

The trend to focus on central competencies has passed the point where the question was whether information services should be considered core competences or not. Instead organizations ask how collaboration may be achieved. Increasingly, partner-based and global alliances are established, evolving from the client-centred view of outsourcing (Lee et al., 2003).

2.7.7 Rendering the IT services costs variable

As a matter of fact, an organization will be required to invest heavily on IT, if its IT department was made responsible for IT service delivery. Since the IT department has only that one company as its client, there is no way in which it can spread the investment

costs over several clients when the IT services demand fluctuates (Lacity and Hirschheim, 1993). The consequence of this is that IT costs are mostly fixed costs.
An example of rendering the costs variable is provided by application service providers (ASPs). These offer multiple users access to centrally managed applications which their clients can use via internet and on the basis of subscriptions (Kern et al. 2002).

2.7.8 Improving the organization's financial ratios

A large amount of listed organizations are basically assessed by analysts and investors according to their financial ratios, including but not limited to turnover, profit per employee and market to book value. Outsourcing IT services tends to improve these ratios (this is because the service recipient reduces their book value, and then has fewer staff, for instance) without affecting the organization's primary processes (Loh and Venkatraman, 1992).

2.7.9 Solving the problem of not being able to recruit qualified IT staff

Recent work (IT Governance Institute, 2008) titled *IT Governance Roundtable: IT Staffing* revealed the need for an IT manager to keep developing themselves continually because technology is dynamic. This was pointed out has having a direct correlation on why it is usually expensive to employ up-to-date IT professional. In order to attract potential IT staff, much attention is needed to be paid to continuing education (Schambach and Blanton, 2000).

2.8 Risks of IT outsourcing

It is very important that companies thinking of IT outsourcing must realize that there are also negative consequences. Similar to those factors in favour of ITO, there is no particular order in the arguments against it. Lacity and Hirschheim (1993) reported that majorly, an increased dependence on suppliers and a loss of knowledge and know-how are the main risks, whereas Cadwell and Young (2003) identified majorly (from Gartner) the confidentiality risk.

These risks (Erik et al., 2006) are enumerated as below;

1. Increased dependence on suppliers;
2. A loss of knowledge and know-how;
3. Higher costs;
4. Confidentiality risks;
5. Difficulty in selecting the right service provider.

2.8.1 Increased dependence on suppliers: The moment IT services are contracted to third party vendors; the responsibility for the service delivery is being handed to the service provider. This is a huge step for organizations, as it leaves them no option than to wait or rely on the service provider. Rather than manage the internal IT department, the organization now have to discuss with third parties. And the realization of these needs will be based on a contract, which narrows the recipient's elbowroom (Lacity and Hirschheim, 1993; Feeny 1997).

Catherine (2004) explained further a major outsourcing risk identified by academics and accounting firms was the issue of total dependence. This can be a major problem for organizations because, upon entering into the relationship, the recipient company turns over all control of its information systems to the IT service provider. Consequently, the organization's functions of IT cannot be performed, nor can changes be effected, without the cooperation and / or participation of the service provider (outsourcing firm).

More so, Catherine (2004) stated further that when IT functions are performed internally, the IT staff is able to tailor data processing, application usage, and so on to meet the needs of the company. The outsourcing company can however be ignorant of changes in the industry and as such incapable of tailoring to the specific needs of the company. Thus, the recipient company might have to spend money, time and energy convincing the service provider to utilize the new technologies available to the sector.

Furthermore, if the outsourcing firm is unable or unwilling to implement this change, the recipient organization is left at a huge deficiency. For instance, BP Exploration, the division of the BP group that explores for and produces oil and gas, chooses to outsource its IT functions. BP's outsourcers however, found it "difficult to keep up with BPX's radically changing technology base and service demands". Based thereon, BPX had to reduce contracts with its outsourcers because being on the cutting edge technology is crucial to the success of BPX (Lacity et al., 2001).

Worse still, if the outsourcing company does not perform its duties correctly, the organization's IT system could be damaged or destroyed. If this were to occur, the organization would not be able to deal would not be able to deal with the in-house failure because it would no longer have the expertise, which could cause major concern about the viability of the company. The amount of power and control held by the outsourcing firm is daunting and should be given a major consideration by organizations considering ITO (Lacity et al., 2001, p.2).

2.8.2 A loss of knowledge and know-how: In the process of IT outsourcing, the IT staff may also be transferred to the vendor company. As such, their knowledge and know-how have also left the recipient company and a lot of effort will be required acquire them again. This may suffice enough to keep one's IT services in one's own hands (Grover and Teng, 1993; Lacity and Hirschheim, 1995; Cullen and Willcocks, 2003).

2.8.3 Higher costs: A number of IT departments work with neutral budgets. Vendors, just like any other organization, are interested primarily in making money. Thus, contracting one's IT services to third party vendors means increasing costs (Ketler and Walstrom, 1993). Also, IT outsourcing needs contract management, a process that is not only new to organizations, but also is expensive an exercise to undertake. On a general note, these costs are estimated at 3-8 per cent of the costs of IT services performance (David et al., 2002).

2.8.4 Confidentiality risks: A reasonable amount of the organization's valuable information, including but not limited to strategic plans is being stored on computers. And such information (under any instance) is expected to be divulged into the hands of

competitors. As such, organizations prefer to keep their internal IT departments because of the security risks in contacting out one's IT service delivery (Willcocks and Fitzgerald, 1994; Klepper and Jones, 1998).

2.8.5 Difficulty in selecting the right service provider: An organization selects a service provider based on the requirements of today's IT needs. This, in carrying out, needs a thorough selection process that includes pre-defined goals of the outsourcing and expectations (Lacity and Hirschheim, 1993; Cullen and Willcocks, 2003). This places the service recipient in a difficult position to predict future information needs because might affect today's outcome of the selection process. Additionally, future consolidation (mergers and acquisitions) in the ITO service providers market might consequently influence today's outcome of the choice-making process. Equally, a modification in the service provider's strategy might impact the whole process.

2.8.6 The exit barriers: Another major criterion in the IT outsourcing arrangement is the risk of drawing conclusion to the relationship, either by choice or by force. If the recipient organization chooses to end the outsourcing relationship, it is noteworthy to remember that the outsourcing firm has become an expert in terms of the organization's IT functions, and the organization no longer has any such expertise. Thus, the outsourcing firm has a lot of power in exit negotiations.

Another possibility is that a larger company could buy the outsourcing firm. This larger firm may not be interested in continuing with the outsourcing function, thereby eliminating the company's outsourcer. This is really frightening situation, but not impossible in a real competitive environment (Catherine, 2004, p.2).

2.9 Risk management and IT governance in outsourcing

2.9.1 Risk management: It is very important that an organization should concentrate on organization risks caused as a result of IT outsourcing in order to enjoy to the fullest the benefits of the process. Over a decade ago, a limited number of companies are

experienced in the contracting processes (Klepper 1995; McFarlan and Nolan 1995). However, a lot of experience has been gained since then.

Having set up an IT outsourcing relationship, it is of more importance that the process is managed. Due to an increase in internet communications and IT systems integration, the risks (especially of service disruption resulting in information leaks and viruses spreading) have tremendously increased (Henderson and Venkatraman 1993; Cullen and Willcocks 2003). This is because once IT systems are outsourced; they are just a threat to only the internal organizations, but to the service providers' systems too. Although mutual trust is important between the two companies, but it is not enough; vendors must put in place processes and procedures (like ISO, ITIL, CMM) in order to be able to minimize risks (Sherwood 1997; Fenn et al. 2002). At the same time, service recipients are expected to set up agreements that will afford them the opportunity to evaluate and / or audit the services delivered or at least make it possible for them to be audited. By so doing, they (service recipients) will be at a vantage point as to service is needed to be continued or reviewed (Willcocks et al., 1995a).

2.9.2 Governance in IT outsourcing: As earlier mentioned, outsourcing (ISACA, 2009, p.108) is the mechanism that allows organizations to transfer the delivery of services to third parties. Fundamentally, in outsourcing, while service delivery is being transferred, it is the responsibility of accountability lies majorly with the management of the client organization –who must ensure that the risks are effectively managed and that there is a continued delivery of value from the vendor (service provider). Ownership and transparency of the decision-making process must lie within the purview of the organization.

Although, the decision to outsource is strategic (long term and taken by management), not merely a procurement, decision. When an organization outsources effectively, reconfiguring its value chain by identifying those activities that are key (core) to its business, retaining them and making non-core activities candidates four outsourcing. It is important to understand this in the light of governance, not just because a well-governed organization has been proved to increase shareholder value, but particularly,

because organizations are aggressively and increasingly competing in a dynamic and global market. (ISACA, 2009, p.108). The article continued that in establishing and retaining competitive and market advantage, the organization requires the organization to be capable of responding effectively to competition and dynamic market conditions. For organizations to be able to accomplish this, it must understand which part of its business truly creates a competitive advantage during outsourcing. Disaggregating these functions and giving them to a vendor must, in itself, become core competency because outsourcing is a strategic mechanism that allows an organization to constantly focus its effort and expertise. Accordingly, outsourcing must be governed as a strategic resource; not just about purchasing, but also about effective management and ensuring that both parties benefit.

The CISA Review Manual published by the Information Systems and Audit Control Professionals ISACA (2009) defined the governance of outsourcing as the set of responsibilities, roles, objectives, interfaces and controls required to anticipate change and manage the introduction, maintenance, performance, costs and control of third-party provided services. It is an active process that the client and service provider must adopt to provide a common, consistent and effective approach that identifies the necessary information, relationships, controls and exchanges among many stakeholders across both parties (ISACA, 2009, p.108).

Effective governance is required in making the decision to outsource and subsequently manage that relationship. Although, most organizations that conduct outsourcing contracts include basic control and service execution provisions, however, on e of the main objectives of outsourcing governance process, as defined in the outsourcing contract, is to ensure the continuity of service at the appropriate levels, profitability and added value to sustain the commercial viability of both parties. Experience has shown that many companies make assumptions about what is included in the outsource proposition. Whereas it is neither possible nor cost-effective to contractually define every detail and action, the governance process provides the mechanism to balance risk, service demand, service provision and cost (ISACA, 2009, p.108).

Specifically, the governance of outsourcing extends both parties' (that is, supplier and client) responsibilities to include, but not limited to:

- Inclusion of an explicit governance schedule to the contract
- Ensuring contractual viability through continuous review, improvement and benefit gain to both parties
- Identification and management of all stakeholders, their relationships and expectations
- Management of the relationship to ensure that the contractual obligations are met through service level agreements (SLAs) and operating level agreements (OLAs)
- Establishment of clear roles and responsibilities for decision making, issues escalation, dispute management, demand management and service delivery
- Continuous evaluation of performance, cost user satisfaction and effectiveness
- Allocation of resources, expenditure and service consumption in response to prioritized needs
- Ongoing communication across all stakeholders

2.9.3 Summary of the chapter

This chapter explains the history of IT outsourcing from the mainframe era (1960s) when computing was limited to academics and military personnel. Then, application services manager were referred to as facilities manger. The chapter discussed the IT outsourcing breakthrough of Kodak that brought the process into limelight. Also, scholarly works on the possible motivations of IT outsourcing, possible causes of IT outsourcing risks and probable measures that could be adopted to mitigate the risks. Also, the significance of governance and risk management in IT outsourcing were discussed.

3 Research Methodology

3.1 Introduction

This chapter introduces the study design and the critical approach adopted in attempting to successfully carry out the research. Also, it attempts to justify the rationale behind adopting the methodology, and describes in brevity, but clear and concise terms, the case study profile.

3.2 Empirical research design

The purpose of this study is to analyse the motives behind the urge of IT outsourcing in the context of Onshoring with particular emphasis on the distribution and marketing sector. This is expected to be achieved by juxtaposing the motives with strategies adopted in mitigating the risks involved in IT outsourcing consummated in the distribution and marketing industry. The overall objective is to find out whether the motives and strategies align with the stated intent of the recipient organizations and / or see if there is / are more to the process than meets the eye. In achieving this, primary data from the service level agreements SLAs and the interview will be analysed in comparison to the international accepted standards as outlined partly in the literature. This will subsequently inform the research approach that will be adopted in achieving the purpose of this study.

3.3 The research approach

The decision to select a research approach or methodology is often influenced by the chosen research questions, and thus, using either qualitative or quantitative (or statistical) or a combination of both is appropriate (Silverman, 1997, pp.12-25). That is, in other words, the choice of the research approach is greatly influenced by the purpose of the study or the research problems; the overriding principles however, is the consistency in the choice made. *Qualitative research* (Flick, 2007) seeks to understand, describe and in some cases, explain the social phenomenon of the world 'out there' from

'the inside' from a number of perspectives including: analyzing the experience of individuals or groups; or by analyzing the interactions and communications in the making; or by analyzing documents such as texts images, film or music.

The method adopted for this study is qualitative research approach, and it will be based on both primary and secondary data (also referred to as desk study research). Desk research, in the words of Jackson (1994) is the process of assessing published secondary data. Desk study research is an indirect data collect method and the first step involved is to locate the relevant sources of a research work. The most significant implication of secondary sources is that the information provided does not always meet one's specific needs (Emory, 1987).

Erstwhile, case study approach will also be employed to complement the desk study research. In the words of Ghauri (2004, 109), a case study is a *methodological choice but rather a choice of object to be studied*. As such, it is just but one of several ways of carrying out a research. Case study (Eisenhardt, 1989) is a research approach which focuses on the understanding of the dynamics which are present within single setting.

Case study research strategy could be categorized into three categories; exploratory, descriptive and explanatory strategies, and can be based on a single or multiple case studies (Yin, 1993, 4; Gummesson, 1988, 75). *Exploratory* studies look at what happens; aim at finding new viewpoints and phenomena, clarify rather unknown phenomena, and develop hypothesis. *Explanatory* (also termed causal) studies search for an explanation to the problem or situation, generally in terms of causal relationships, as well as identifying causal connections. *Descriptive* studies present detailed descriptions about persons, events or situations, and document central and interesting features in phenomena. Also, case studies vary in character because they could be used to *derive general conclusions* from a limited number of cases; or be used to arrive at *specific conclusions* on the basis of analysis of a single case study (Gummesson, 1988, 75).

For the purpose of this study, both exploratory and descriptive approaches will be employed; they are deemed suitable because the primary purpose of the desk study research is to look at what happened (the processes), find new viewpoints and

phenomena, and perhaps clarify the rather unknown phenomena (Yin, 1993, 4; Gummesson, 1989, 75).

In the words of Yin (1989, 14), *the distinctive need for case study arises out of the desire to understand complex social phenomenon.* That is, case study allows the investigator *to retain the holistic and meaningful characteristics of real life events –such as individual life cycles, organizational and managerial processes, and international relations amongst others* (Yin, 1989, 14). In addition, Yin (1988, 7) posited that some situations might warrant overlapping of two research approaches; such as when histories are done about contemporary events. Similarly, desk study research will complement case study in this project work.

Recent work (Earls, 2008) explained that the use of case studies enables the sample size selected to illustrate practical rather than theoretical issues. It also gives a record of a range of illustrative quotes including themes from the accounts of "many", "most" or "some" study participants. Earls (2008) continued that case studies provide rich data on the views or experiences of one person and provide insights in unexplained contexts. These thoughts guided the researcher in making a decision on how to answer the research questions.

3.4 Participants

The head of the IT department of the organization (adopted as a case study) was interviewed extensively, and the operations manager of the same company. These interviews were recorded using a voice recorder and the data later transcribed.

3.5 Resources

Primary data will be obtained from the interviews, as well from the copies of service level agreements SLAs that were obtained from the organization used as a case for the study (Citiserve Limited).

3.6 Procedure

The interview conducted was recorded and the transcribed data in addition to the SLAs will be critically analysed and compared (using approved literatures) to identify the shortfalls in the procedures and identify ways by which the IT risks involved in the IT outsourcing can be reduced to the barest the organization and in similar establishments.

3.7 Ethical issues

Assurance has been given to the organization used as a case study that the names in the confidential documents will be anonymized. Also, the researcher promised to provide the organization with a copy of the complete work upon completion. This is expected to help the organization in improving on the status quo of their modus operandi.

3.8 A brief insight into the case study

CITISERVE Limited was established in 2003 as a platform to provide alternative channels of distribution for product and services. It is the first company to bring the unique innovation of convenience services nation-wide to further enhance the lifestyle of Nigerians making life easier. CITISERVE, a subsidiary of VIGEO Holdings was developed to assure customers of greater convenience via efficient terminals at places of interests (termed links). These include but not limited to banks, companies, churches, schools, clubs and so on.

The organization has two major departments dubbed –Recharge and Refresh.

CITISERVE Refresh focuses on the distribution of refreshments via an automated channel, ranging from drinks to snacks, sweets and chocolates. This is achieved through the deployment of Automated Vending Stations (AVS), a self service electronic machine providing refreshment and convenience products to people on the move. It is designed to allow the purchase of refreshments at the push of a button.

Thus, the machine guarantees speed, availability and perfectly chilled drinks anytime of the day; once a customer selects the refreshment of choice from options provided, inserts money for payment and are assured of his / her product at the right temperature. This ensures total convenience and delivers satisfaction hence our service creed- "Convenience 24/7" is assured.

In order to make this service available to a wide spectrum of consumers, the company has strategically spanned its operations pan Nigeria. Currently, its vending stations can be found in Abuja, Lagos and Port Harcourt in various people-centred locations such as higher institutions of learning, hospitals, corporate organizations and government offices.

CITISERVE Recharge is anchored on the digital distribution of products, such as telephony airtime via CITISERVE customized mobile point of sales terminals, the ORANGE BOX.

The offering provides convenience in the distribution of airtime credits for Mobile Phone Networks, Private Telephone Operators (PTO), utility payments and other allied services for the benefit of both the operator and the end consumer. Running on its own nationwide electronic distribution network, the strategy is to provide an alternative channel with the use of a strong and widely spread sales force. The company has created a unique IT platform (outsourced) that covers its Recharge operations nationwide.

Central to the success of the chain of distribution is uninterruptible internet service, as well as functional telephone lines. These two services (internet service, telephone lines – internal and external) are contracted to external service providers.

Extracted from the company's webpage: www.citi-serve.com

3.9 Summary of the chapter

The chapter explained that qualitative methodology would be adopted for this thesis; this was selected because the sample size is small and expertise opinions would count more than generalised opinions. Further, the various types of qualitative methodology were

explained; these include exploratory, explanatory and descriptive. The basis for which both exploratory and descriptive methodologies would be adopted for this research was substantiated. The participants of the interviews conducted were defined, as well as the procedure and the resources employed (which composed mainly of service level agreements SLAs. The importance of ethics was stressed and the chapter closed with the profile of the case study.

4 Research Findings

4.1 Introduction

This chapter will present the transcripts of the interviews conducted with head of IT of the organization and the operations manager of the company. Apart from these interviews, the other findings are the service level agreements SLAs and they have been moved to the appendices; they will be discussed in the next chapter.

4.2 Interview 1

This is made up of the interview conducted with the Head of IT department of the case study.

Question 1: Why (in your experience) do organizations outsource information technology IT projects and / or services?

Response: *Generally, outsourcing of IT projects depends on the size of the company. Here, we outsource some services or projects that are especially recurrent –services like website design, network maintenance or management (that are not central to our business). Also, we outsource services for which we do not have internal competence. We believe there is no point incurring higher costs employing a specialist for these services as our full staff or spending huge amount of money putting the internal staff on specialized training –not cost effective.*

Question 2: What are challenges of IT outsourcing (from your perspective)?

Response: *To me, one major challenge we are facing has to do with the majority of the outsourcing companies we use; usually the have a key person spearheading the crew (the most knowledgeable) and the moment this person resigns from that company, the standard of the service drops. The outsourcing company either continues managing us with the less competent hands or in better cases employ a new hand with know-how and this usually takes some time. Furthermore, we encounter two major crises as a result of*

*using same company over a long period of time; the first one is that the service level would remain the same or outdated, as there might have been newer technologies that offers better result, but we are unaware of this having been stuck with same company over the years. The other challenge is that they eventually turn out becoming relatively more expensive**:** because we focus on our core services, having outsourced these services to them, we have little or no time to check out the pricing of other outsourcing companies (especially new, better and cheaper companies that would have emerged over time).*

Question 3: How do you handle these challenges (ITO risks) when they arise?

Response: *That (resolving these issues) can be an easy or a difficult task depending on the circumstance. In most cases, we accidentally find out of the risk. For instance, we contracted out our website development sometime ago and we were paying a fixed charge on a monthly basis for the same routine. Instinctively, some others professionals were invited by my office to submit quotations for the service and we were able to realize that we could get the service cheaper. This accidental discovery led us into re-negotiating with the web designer and we succeeded in bringing down the charges. Also, we had an issue with our Internet Service Provider. Usually, they provide us with excellent speed and bandwidth, but they have very poor customer service and from time to time, the service would just go offline. Their customer service department would not contact us before, during or after these fluctuations. So, after sending them several emails and no improvement, we just switched over to another ISP.*

Question 4: As fallout of your last response, are there no legal implications when you cancel a contract like that, no regulatory bodies, and litigations?

Response: *Like most organizations in this country, we have a company lawyer but just for formality sake. The same way there is a regulatory body. For most outsourcing companies, there are no regulatory bodies. However, for Internet Service Providers ISPs, there is a government parastatal (Nigerian Communications Commission NCC) that is expected to oversee their activities alongside telecommunications companies, and maintains a check and balance. But NCC has little or no time for them.*

Researcher: Thank you for your time.

Respondent: *You are welcome.*

4.3 Interview 2

This is composed of the interview conducted with operations manager of the company.

Question 1a: Why in your opinion do organizations outsource based on your experience at this organization?

Response: *Well, experience has shown that IT resources and personnel do not come cheap. Secondly, the question we usually ask ourselves the question: can we warehouse such experts? This is because we took into consideration the fact that we are not an IT organization, so recruiting IT persons will be diverting us from our main purpose. As such, we would rather contract out the services. Third, we outsource to get things done professionally; all we have to do is explain the challenges we have with an application or the modifications we want them to make and we expect to get results. The burden is being transferred from us to the vendor. Lastly, we use it to market our brand. When, we embark on campaigns, we use professionalism as a joker to win more customers that we have the best hands in the industry handling every one of our services. For instance, the orange box that our customers use to dispense pin numbers (used to recharge mobile phones), our customers knew that should there be any technical fault on the device (maybe they could not synchronize –to get more stock from the server), there would be help at the tips of their fingers once they called us.*

Question 1b: What kind of services do you outsource?

Response: *Basically, I am usually involved in the outsourcing of applications software (installation and support).*

Question 2: What risks do you encounter during IT outsourcing (from your perspective)?

Response: *The main risk we have always encountered in my eight years of being here was that you would not know that whether these outsourcing companies could actually deliver the services they have promised to deliver. In practical sense, it was always difficult realising they have the competence they always claimed. Also, you would not know from onset that you will be overpaying them for the services. For instance, we are expected to be available to our customers 24/7, but the best support service we have had so far from our vendors was twice in a week. In fact it has become a norm for them to respond to us only once in a week, whereas weekends support have become mysteries (and that was when our customers made most of their sales).*

Question 2b: Referring to your response to the last question, are these issues not spelt out in your agreements?

Response: *Em, em, you know, at times the issues were addressed by the agreement and at other times they were not. Besides, you know, there are some contracts or agreements you signed without really knowing what you were getting into. Mostly, we would have entered into the agreements before realising some things should have been otherwise.*

Question 3: How do you handle these challenges (ITO risks) when they arise?

Response: *Somehow, we usually found out –especially price-wise. A friend in another organization or a staff in-house would discover we have been paying more for less quality services. So, when these issues came up, we had to invite the representatives of the outsourcing companies and discussed the issue of re-negotiation giving them reasons why we could not continue paying the huge amounts. And usually, the meeting would end with the promise from them that they would discuss with their management and get back to us. The outcome would either be them bringing down their charges or we had to look for another vendor.*

Question 4a: From your last response, is there no regulatory body (ies) you could report them (your vendors) to when their level of performance was below the expected standards?

Response: *None that is effective.*

Question 4b: Are there no legal sanctions for you when you walked out of a contract like that without the vendor agreeing to terminate the contract?

Response: *No; we both walk away, and they too would not want any fuss. So, everybody would be happy.*

Researcher: Thank you for your time.

Respondent: *You are welcome.*

4.4 Summary of the chapter

The IT services that the company outsourced were identified to be internet service provision [v-sat dish, server, inverters, applications software (development and maintenance), website development, point of sales terminals POS, intercoms PABX, computers (laptops and desktops) and so on].

More importantly, the participants explained the main reasons why their organization embarked on the outsourcing of IT projects. One of them was that it would logical for them to contract out a service for which they lack expertise; the company, being a service organization would deliver better quality service concentrating on its core operations of marketing and distribution rather than seeking to understand the magic of IT. Two, it would be too expensive for the organization to embark on recruiting IT personnel that are among the highest paid in Nigerian economy. Rather than bearing the total cost of ownership of these services (personnel's wages, equipment, and implementation), it would cost less to just pay for the service and forget about the burden of replacement in case of breakdown.

More so, the participants unanimously agreed that IT outsourcing is not without its risks that they encountered from time to time. A very common challenge they encountered is that most of their outsourcing partners, in a bid to cut cost usually have one key expert supported by trainees; and when this expert leaves the company, the service quality level drops and this consequently has a great impact on the end users. An example of this was

in terminal (POS) application support that was agreed to be rendered 24/7, the vendor eventually turned out responding only once or twice in a week. At other times, there was guarantee risk; they found it hard to determine from the onset whether the vendors would be able to deliver the service leaves they have promised to maintain. Also, sticking to a particular vendor over a long term puts the recipient company at a disadvantage of not knowing whether the service they continued rendering have been outdated or maybe cheaper options have been introduced by other outsourcing companies.

On the issue of control measures they (service recipients) put in place or approaches they resolved to when these risks became obvious, the participants submitted that there were no formal processes. Once they got tired of their vendors, after an email or two to lodge complaints, they just switched over and that the vendors too (knowing that their performance was below par) would press no charges.

On a last note, the participants submitted that there were usually no legal implications when either party broke out of the arrangement and that there were no regulatory bodies (especially in the government) to call defaulting vendors to order.

5 Discussions

5.1 Introduction

In this chapter, an attempt will be made to discuss the service level agreements (which can be found in the appendices) that were mentioned in the previous chapter and critically analyse them in comparison to the accepted international standards as stated in the literature review.

The literature review (chapter two) has explained and justified the second objective of this study (risks involved in IT outsourcing). As such, this chapter would proceed to analysing the first and third objectives of this research, recalling that most aspect of the first objective (why do organizations outsource), and the better part of the second objective (what are those risks involved in IT outsourcing) have been justified in the literature review (chapter two).

5.2 Discussion / analysis of the IT risks in the SLAs

Considering the SLA-1 (see Appendix C, section 8, subsections 8.2, 8.3, 8.4 and 8.5) it can be deduced that the agreement favours majorly the financial interests of the service providers and little or no concern is made to address the gains of the service recipient. As would be expected, exclusive notes were made of the penalties that would be levelled against the service recipient in case of any delay in payment after the invoices have been raised; and this sanctions (monetary) increases exponentially over time and consequently could end in the termination of the contract. This scenario justifies the risk of **higher costs** (than budgeted) as mentioned in table 5 below. This partially justifies the second objective of this research (evaluating what the IT risks of outsourcing are). This finding contradicts the argument by Lacity and Hirschheim (1993) that decreasing the total cost of ownership of the IT services is most significant in ITO relationships.

Secondly, during the evaluation of the same SLA-1 (Appendix C, section 10); it could be deduced that the agreement failed to substantiate the required confidentiality clause.

Although, it was mentioned in the agreement that all confidential information received from service recipient (primarily) and vice versa shall not be divulged to unauthorized individuals, but no mention was made of any penalty in the event of breach. Thus, this mean that even though awareness is made of the importance of the confidentiality of information exchanged, there were no sanctions or even right to press for charges mentioned in case of violation of the confidentiality. This further explains the risk of **confidentiality** mentioned previously in chapter two. The SLA-2 in Appendix D although mentioned the confidentiality clause, but there was no also no sanction or penalty mentioned. How irrational could this be? What happens in the event that the outsourcing company is being purchased by a larger company who happens to be a competitor to the service recipient? Operational strategy would be compromised and the competitor could actually buy the service recipient out of the market! This is really about the most significant risk.

Also, it was observed in the SLA-1 (Appendix C) that there was no ***exit strategy*** indicated in the contract. Thus, in the event that the service recipient is dissatisfied with the level or quality of the application software, there was no legal provision made to opt out of the relationship without the risk od being sued. Consequently, this would further increase the *dependence of the recipient on the vendor.* This is also evident in the SLA-2 (Appendix D).

More importantly, it was of particular interest that the SLA-1 (Appendix C) failed to stipulate the mean time to return (MTTR) to normality in case of service disruption as a result of the failure of the application software. The service recipient is 24-7 service organization and a limit should be put so that provision can be made for such as appropriate.

5.3 How to mitigate IT outsourcing risks

Emphatically, the most fundamental of the three research question is: *how can these IT risks be mitigated during outsourcing?*

Excessive dependence on suppliers / lack of exit strategy: This ITO risk (also known as vendor lock-in) is usually predominant when an organization enters into a long term contract. From the onset, the two parties knew that no matter the duration, the contract had to end, someday. As such, Bahli and Rivard (2003) recognised that the parties should have prepared for this day. One further way recommended for the recipient to reduce or forestall this risk would be having multiple suppliers for the same service. By so doing, when one vendor is not measuring up, the number of contract given to the other vendor(s) with better performance metrics can be increased. Implementing short term contract is another to forestall the lock-in risk. This, when a service provider was not meeting up to agreed standard, it would be easy to change to a better vendor when the time arrived to renew the agreement.

Loss of internal knowledge and know-how: According to IT manager in the case study, he said in his interview, "my staff lacks the required competence"... this even made it worse to have even embarked on the IT outsourcing in the first instance. This is because the little or minimum knowledge required in the IT department is questionable to start with. So this risk has less effect on the company used in the study.

Higher costs: A major reason why organizations outsource IT service projects and services was to reduce cost. So, when the process eventually starts progressing with costs higher than expected, it becomes a challenge. This results because the vendors (like any other entrepreneur) are keen to make profits. As such, sort of Cost Control should be put in place to forestall this challenge. In mitigating this risk, it is pertinent for service recipients be made to clearly understand how service providers calculate their costs and raise their invoices. That is, the contract should have stated in concise terms which services are to be rendered and at what rates (price). This practice maybe difficult to monitor eventually, especially as services may change with time; the dynamism and cost risks can still be managed by adopting a service portfolio (Erik et al., 2006, 65-66). The portfolio would highlight a list of possible services and corresponding prices of the services.

Confidentiality risks: Generally, no company would be happy to have its strategic information available to outsiders or unauthorized person. As such every necessary measure must be taken to mitigate this risk. Burnett (1998) submitted that confidentiality must be addressed in contracts with guarantee that the critical information of the service recipient will be held secure. A further way of getting this taken care of (especially in the circumstance of this case study) would be to ensure that the service providers are certified by their corresponding international professional body. For instance, it would be essential that a vendor offering infrastructure management services has one of ISO, BS7799, and or / ITIL certification. The awarding bodies would not have awarded them these certificates if these organizations lack the requirement and in the case of professional misconduct, these bodies could revoke their (vendors') certificates if they were reported and confirmed guilty of accusations.

Difficulty in selecting the right service provider: This really is a significant risk and at the onset, there existed little chance of knowing that the service provider would render all promised services and as at when due. As such, a control is needed to be put in place. A way of addressing this would be to request for the company's profile and a report of previous similar jobs they have handled before. Due care and diligence should be ensured by making sure first that the negotiating team of the recipient company are knowledgeable so as to be fully equipped with the facts and figures needed to deal the service providers.

6 Conclusion and Recommendations

6.1 Conclusion / Summary

Here, the main priority is to evaluate how well the following research objectives have been met or not with the aid of the adopted methodology. Let us recall that the study objectives (with particular emphasis on Citiserve Limited, Nigeria) are:

- Why do organizations outsource IT projects?
- What are those risks involved in IT outsourcing?
- How can the risks be mitigated during IT outsourcing?

This study identified the risks mentioned in the previous chapters as the most threatening to the business of Citiserve Limited Nigeria and organizations of similar size and scope. As such it is paramount that such risks be given utmost consideration because the occurrence of one or more of the risks could jeopardize the success IT outsourcing practices of the company, and this will have a cumulative effect on the realization of the company set objectives. Adequate control and risk management process must be put in place to mitigate and forestall the possible IT risks before an organization would embark on IT outsourcing.

Particularly, it was deduced from the interview and analysis of the SLAs that the main reasons why the organization embarks on IT outsourcing are lack of internal competence, reduction of the total cost of ownership, and a desire to focus on the core business of the organization. For instance, the operations of the company is dependent largely on internet service and the organization found it cheaper to contract this out to an internet service provider (ISP) and this would consequent afford the recipient company the opportunity to focus on the core operations and worry less about the purchase of VSAT dish(es), hubs, cables and the likes that are though helpful but not key. Another instance to back this up could be found in the application software (from SLA, chapter 4); this costed over $300,000 to hire and this figure was estimated to be about ten

percent 10% of the cost of the software (with its license). Hence, IT outsourcing can be claimed to pay off in reducing the total cost of ownership TCO burden on the recipient company.

Also, the risks of information technology outsourcing (ITO) risks were discussed extensively in the literature review and chapter five discusses same in the specific context of the case study. These include increased dependence on supplier, higher costs, confidentiality risks, loss of knowledge and know-how, difficulty in selecting the right service provider and lack of exit strategy.

Mostly, it was deduced (from the interview and SLAs analysed) that the contract is usually silent about the exit strategy and the sanctions to be levied in case of violation. So, the service recipient leaves itself at a disadvantage when these critical factors are not properly sorted out in establishing the outsourcing relationship. Also, it was discovered that little or no recognition is given to professional affiliation and consequently the competence of the service providers. An outsourcing company offering internet service should not be deficient of ITIL, ISO and related standards that are key to the success of its project management.

More so, it was found out that there are no functioning regulatory bodies. As could found in chapter four, Nigerian Communications Commission NCC was expected to oversee the activities of internet service providers in the country, but are busy concentrating on other projects and programmes initiated by the government. So, when ISPs are falling short of their expectation in an outsourcing relationship, they enjoy the alibi that they could go scot-free.

However, an attempt was made in chapter five to proffer measures or controls that could be adopted to mitigate these information technology outsourcing ITO risks.

6.2 Recommendations

This research work can be improved in a variety of ways given more time and permission to research out to diverse samples. Having come this far in this research, it is hoped that the following recommendations if adhered to, will go a long way in mitigating to the barest minimum, possible the risks encountered in the process of outsourcing information technology (IT) services:

6.2.1 **Lack of exit strategy / too much dependence on suppliers**: A way of reducing the vendor lock-in saga would be to have several suppliers for the same service or project. Also, this menace can be reduced if the recipient organization embarks on short term contracts. This way, the duration of torture (having to stick with poor service) will be minimized.

6.2.2 **Confidentiality risks**: Organizations would not be happy to have their strategic information available to outsiders or unauthorized person. Based thereon, it is pertinent that necessary measure must be taken to mitigate this risk. In forestalling this, issues of confidentiality should be addressed when signing the contracts and adequate guarantee that the critical information of the service recipient will be held secure should be spelt out in the terms and conditions. Also, another measure of addressing this issue (especially in the circumstance of this case study) would be to ensure that the service providers are certified by their corresponding international professional body. For instance, it would be essential that a vendor offering infrastructure management services has one of ISO, BS7799, and or / ITIL certification. The awarding bodies would not have awarded them these certificates if these organizations lack the requirement and in the case of professional misconduct, these bodies could revoke their (vendors') certificates if they were reported and confirmed guilty of accusations.

6.2.3 **Difficulty in selecting the right service provider**: Implementing a control for this risk is very important, despite the fact that there is little chance of knowing that the service provider would render all promised services and as at when due

from the onset. A way of addressing this would be to request for the company's profile and a report of previous similar jobs they have handled before. Due care and diligence should be ensured, especially by making sure first that the negotiating team of the recipient company are knowledgeable so as to be fully equipped with the facts and figures needed to deal the service providers.

6.2.4 **Loss of internal knowledge and know-how:** It is recommended that the recipient organization should have at least a competent (certified and qualified) that will be involved in the IT outsourcing relationship. He will thus be appointed to oversee the ITO relationship.

6.3 **Remarks for further research:** It is hoped that if the underlisted points can be given due consideration, this research work can be repeated and with more detailed outcomes.

- ✓ Rather than use just one company as a case study, more organizations can be included in order to obtain diverse perspectives.
- ✓ Organizations can be picked from different sectors and different geographic zones within the country to allow for wider comparison.

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Appendix A

Arguments	Rationale
1. Decreasing the total cost of ownership (TCO) of the IT services	• The IT department regularly overspends • IT projects regularly overspends • The IT services are insufficiently standardized • The IT services levels are insufficiently standardized
2. Shortening time to market for new IT services	• The IT department is unable to deliver, on time, the IT services the business units need. • The maintenance of the current information systems takes up too much of the budget. • Most of the IT department's staff are occupied keep the current information systems working. • The IT department is too slow in realizing the connections between new information systems and their environment, which causes delays.
3. Increasing the flexibility of IT services	• The IT department is unable to improve the level of their services temporarily (for example, by keeping the helpdesk open longer when new applications are introduced). • The IT department is unable to increase the volume of their IT services temporarily (when a new ERP system is introduced, for instance). • The IT department is unable to maintain the many

	different technologies used by all departments. • The IT department is unable to deliver IT services cost-effectively in new company locations.
4. Achieving innovativity in IT services	• The number of IT department's staff is too small to assess the applicability of new technological developments. • The IT department's objectives focus on operational excellence. • The IT department's budget does not include innovation.
5. Achieving a technological shift	• The IT department lacks sufficient knowledge to implement new technologies. • The IT department lacks the capacity to implement new technologies while keeping current systems working. • The IT department cannot implement new technologies within the time limits set by the company's business needs. • The architecture of the current information systems hinders the implementation of new technologies.
6. Realizing a strategic focus on central competences	• The company's strategy includes focusing on central competences. • IT services are not part of the company's central competences.

	• The company collaborates with other enterprises in many fields already –in alliances, joint ventures and partnerships. • The company's business units all have their own profit and loss responsibility.
7. Rendering the IT services costs variable	• There are insufficient funds to invest in information technology. • The IT investments to be made are out of proportion to their use and utility. • The need for IT services will increase but is still limited. • The need for IT services is great but will soon diminish
8. Improving the company's financial ratios	• The number of staff in relation to the company's turnover is high in comparison with that of other companies. • The costs of IT services in relation the company's turnover are high in comparison with those of other companies. • The investments in hardware and buildings needed for the IT department have a serious impact on the company's balance sheet. • The company's cash position must be improved
9. Solving the problem of not	• Local collective labour agreements offer little scope for incentive schemes with which to attract scarce IT

being able to recruit qualified IT staff	specialists. • The company's salary structure offers little scope for incentive schemes (such as lease cars, bonuses) with which to attract scarce IT specialists. • IT experts find insufficient development and education facilities within the company's IT department.

2.1 Summary of arguments in favour of IT outsourcing (Source: Erik et al. 2006, pp.19-20)

Appendix B

Arguments	Rationale
1.Increased dependence on suppliers	• Managing the IT service delivery of service providers on the basis of contracts is more difficult and less flexible than managing an IT department by internal agreements. • Price changes during a contract period may significantly affect the recipient's total cost of ownership. • Companies performing their own information services delivery can independently decide to invest in technological innovations specific to their industry or situation; if IT services are delivered by third parties, these will have to be convinced of the need to make the investments.
2. A loss of knowledge and know-how	• By transferring IT experts to the service provider, knowledge of the business is lost as well as technical IT expertise. • Experts working for internal IT departments usually are an-all-round technicians with much knowledge of the business. • Staffs sent by service providers usually have a narrower technical expertise and much knowledge of the business; they are also generally quickly rotated between clients.

	• For a service recipient, it is difficult, costly and time consuming to acquire IT knowledge and know-how after the expiration of an IT outsourcing contract.
3. Higher costs	• Unlike internal IT departments, external service providers do have profit objectives. • Turnover taxes increase the costs of IT outsourcing for governments and financial institutions. • Managing service providers is more expensive than managing an internal IT department.
4. Confidentiality risks	• IT departments work for their own company only. Service providers may also work for the company's direct competitor, which causes serious security risks. • It service delivery may be too directly connected to the company's primary processes. • IT outsourcing, while it improves the service provider's competitive position, may decrease the company's competitive power.
5. Difficulty in selecting the right service provider	• Future information needs are unforeseeable for service recipient. • Future changes in the service provider strategy are unforeseeable for service recipients. • Future consolidation (mergers and acquisitions) in the IT outsourcing service provider market are

	unforeseeable for service recipient.

1.2 Risks of IT outsourcing (adopted from Erik et al. 2006, p.24)

Appendix C

SERVICE LEVEL AGREEMENT SLA-1

SERVICE LEVEL AGREEMENT

OF

TERMINAL APPLICATION MANAGEMENT SYSTEM (TAMS)

BETWEEN

XXX LIMITED NIGERIA

AND

XYZ LIMITED NIGERIA

This AGREEMENT (this "Agreement") is entered into this _____ day of ____ 20__, by and between: XXX LTD. NIGERIA, a company registered under the Companies Act, 1956, having its registered office at [redacted], Lagos, represented herein by its Managing Director, hereinafter referred to as "XXX", (which expression shall unless repugnant to the context thereof mean and include its successors and assigns) of the One Part, And XYZ NIGERIA LIMITED a company registered under the laws of the Federal Republic of Nigeria, having its registered office [redacted] Lagos hereinafter referred to as "XYZ", (which expression shall unless repugnant to the context thereof mean and include its successors and assigns) of the Other Part.

WHEREAS

A) XXX has developed a software application, called TAMS, which is utilized for EFT Transactions and Electronic Voucher PIN/PIN-less Vending purposes by Banking Operations and telecommunications network providers (hereafter referred to as "Software").

B) XYZ desires to take on license, the Software from XXX, for the purpose of Transaction processing (the said Purpose), and XXX has agreed to license the use of the Software to XYZ for the said purpose on the terms and conditions agreed to between the Parties as contained hereinafter.

Now This Agreement Witnesses as follows:

1 Definitions

1.1 **"Agreement"** means this Agreement entered into by both Parties

1.2 **"Current Subscriber Base"** refers to the Subscriber Base as prevalent at the time of entering into this Agreement as referred to in Schedule 1.

1.3 **"Executable Code"** means the executable image resulting from the linking one or more Object Code.

1.4 **"Initial License Fee"** means the initial fee payable by XYZ for licensing the Product under this Agreement as mentioned in Annexure 1 of the Agreement.

1.5 **"Network"** refers to the communication network being operated in a specific geographical area by XYZ as specified in Annexure.

1.6 **"Object Code"** means the machine-readable image resulting from the compilation of the Source Code.

1.7 **"Parties"** refers to XXX as one Party and XYZ as the other Party.

1.8 **"Product"** means the Software developed and created by XXX comprising computer programs, instructions and related material and includes the binary versions, the embedded software, the source code versions, the derivative versions and any improvement, enhancements or customization of the Software that are carried out by XXX or its representatives either on its own accord or upon the instructions of XYZ.

1.9 **"Software"** means the TAMS licensed by XYZ from XXX and does not include the Source Code and Object Code.

1.10 **"Software Support Services"** refers to the reporting, classification and resolution of questions and problems with the Software licensed to XYZ and the issuance of source maintenance releases containing resolutions to reported problems. Software Support Services are as described in Section 7.

1.11 **"Source Code"** means the fully commented source code, listings, flow charts, logic diagrams, software tools and support documentation related to the Software, suitable and sufficient to permit a reasonably skilled software technician to compile, link, build, enhance, improve, modify, maintain and support same.

1.12 **"Subscriber Base"** refers to the total number of subscribers who are active on the Network.

1.13 **"Warranty Period"** means a period of three (3) years from the date of acceptance **of** the Software by XYZ.

1.14 **"Applicable Ruling License"** means amount arrived at by adding the cumulative license fee paid and the amounts charged for all customisations, bespoke development and such other additions to the Software as on date of signing of the Support and Maintenance Agreement (SMA). Cost of all such customizations, bespoke development or such other additions, if made after the signing of the SMA, will be automatically included in the Applicable Ruling License for the subsequent periods or years, as the case may be.

2 Licence

2.1 *Grant of License*

XXX hereby grants, upon the signing of this Agreement and payment of the Initial License Fee, and XYZ accepts, in accordance with the terms of this Agreement, a non-exclusive and

non- transferable license (the "License") to use the Software for XYZ purposes of revenue assurance on its Network in accordance with the terms and conditions of this Agreement.
It is understood and agreed between the Parties that XYZ will not trade in, sub- license, resell, loan, rent, distribute or in any manner deal with the Software to any other third party, with the exception of any of its subsidiaries, group companies or affiliates. This License is specific and particularly granted to XYZ and XYZ shall not assign or otherwise transfer its rights or obligations under this Agreement to any entity without the prior written consent of XXX and such consent shall be on the terms and conditions to be agreed at such time. Further XXX retains and reserves all the rights, express or implied, in the Software that are not expressly granted hereunder in and to the Software, notwithstanding that the same are not subject matter of this scope of this Agreement.

2.2 *Term of License*

The term of this license granted hereunder shall commence upon the date of last execution of this Agreement and shall remain in full force and effect until terminated in accordance with Section 1.13

3 Title and Intellectual Property Rights

The ownership and the Intellectual Property Rights to and in the Product and any enhancements, improvements, customizations and amendments, including all trade marks, copyright, patents, designs and confidential information in and arising out of the specifications, documentation, Source Code, Object Code and Executable Code on account of the development of the Product by XXX, shall be vested in XXX. Further, any Intellectual Property Rights arising out of any modifications or customizations made for the specific requirements of XYZ during the implementation stage or support and maintenance stage shall also vest with XXX. Nothing contained in this Agreement will be deemed to convey to XYZ any title or ownership interest in the Product and/or the Software or the Intellectual Property Rights relating thereto other than the license to use as permitted under this Agreement.

4 Scope of the work

The scope of the work covered by this Agreement shall be the licensing, installation, and implementation of the Software in accordance with the Requirements laid down in Annexure 2 and agreed to between the Parties. The Parties may amend the scope of work by mutual consent in writing and on the terms and conditions to be agreed to between the Parties. If XXX is asked to render any improvement, enhancements or customization of the Software (hereinafter "customization") as required by XYZ, such works will be outside the scope of this Agreement and shall be done in accordance with the commercial terms agreed mutually by the Parties.

5 Testing and acceptance of the software

XXX shall deliver and install the Software on XYZ's Network as per the requirements laid out under Annexure 2 to this Agreement. After the installation of the Software in accordance with Annexure 2, the Software shall undergo an Acceptance Test as per the System Test Case Document as agreed between the Parties. This exercise will lead to the Final Acceptance of the Software by XYZ, which shall be evidenced in writing by XYZ.

6 Warranty

6.1 XXX warrants that the materials and workmanship of the Software will conform to the highest standards and, during the Warranty Period, will be free of material defects in materials and workmanship. During the Warranty Period, and upon XYZ's request in the course of the Warranty Period, XXX shall at its expense repair, replace or correct the Software which does not comply with this warranty;

6.2 The warranty period shall be a period of three (3) years commencing from the date of issuance of the Certificate of Acceptance.

6.3 Subject to the warranty, XXX warrants that the Software to be supplied under this Agreement shall comply with the specifications provided by XXX subject to any modifications requested by XYZ for a period of twelve (12) months from the date of acceptance.

6.4 XXX shall arrange to send an update maintenance release of the Software once in every 6 (Six) months during the warranty period. The update maintenance release will aim to consolidate all the defects, corrections reported in the Software brought to the notice of XXX up to 30 days before the date of release. All defects detected during the warranty period and attributable to XXX will be rectified on a free of charge basis.

6.5 This warranty is contingent upon proper use and maintenance of the Application Software by XYZ and XYZ's fulfilment of its obligations under this Agreement;

6.6 This warranty shall not apply to defects or failures to the Software which was subjected to: (1) accident, neglect or misuse; (2) the use of Software not provided by XXX or approved in writing by XXX for use with the Software; (3) improper use; (4) electrical static discharges; (5) modification, adjustment, repair, service or installation by any party other than XXX, or persons authorized and certified by XXX;

6.7 The foregoing warranties and limitations are exclusive of all other remedies and are in lieu of all other warranties, written or oral, expressed or implied, including, without limitation, any warranty of fitness for a particular purpose or merchantability.

7 Support and maintenance

XYZ may, at its option, enter into a comprehensive support and maintenance agreement (SMA) with XXX for the maintenance and upgrade of the software on the terms and conditions contained therein. Upon XYZ entering into such an agreement with XXX, XXX shall supply to XYZ any and all updates released for the software from time to time. The implementation and issue of updates is in accordance with the terms of the SMA and XYZ shall not be entitled to receive the same free of charge upon execution of this Agreement in the absence of the execution of the SMA. Upon signing of the SMA, XXX will provide annual software support services to XYZ on expiry of the warranty period. The terms and conditions above services will be as per the SMA.

8 Payments

8.1 The Parties agree that in consideration for the License granted under Section 2, and the installation and implementation of the Software subject to the conditions set forth elsewhere in this Agreement, XYZ agrees to pay XXX the fees and other applicable charges as mentioned in Annexure 1 of this Agreement.

8.2 XXX shall be entitled to invoice XYZ for the fees for licensing, installation and implementation as stated in Annexure 1 and payment shall be made within 30 days of receipt of a valid invoice. All payments shall be made in a manner agreed and acceptable to XXX and XYZ.

8.3 If any sum payable to XXX under this Agreement is in arrears for more than ninety (90) days after the due date, XXX reserves the rights, without prejudice to any other right or remedy, to charge interest on such overdue sum on a monthly basis from the original due date until paid in full at a rate of 0.5% above the LIBOR rate in force. XXX shall provide written notice to XYZ of its intention to charge such interest.

8.4 Any amount due and payable by XYZ to XXX under this Agreement that remains unpaid for a period of one hundred and eighty (180) days from the due date shall constitute a material breach. In the event of a material breach, XXX shall have the right to terminate this Agreement but such termination shall not relieve XYZ of its obligations to pay any amount due hereunder together with interest as laid out herein below or to comply with such terms of this Agreement as survive termination. However, XYZ shall be entitled to the continued use of the Software with the exception of any support or upgrades.

8.5 All sums payable under this Agreement shall unless otherwise so stated be exclusive of any applicable Value Added Tax (which shall be payable by XYZ subject to receipt of a VAT invoice); and subject to the deduction of withholding tax at such rate as may be stipulated by law. Where XYZ is required to deduct withholding tax, official receipts for such amounts as are properly deducted shaft be provided to XXX by XYZ.

9 Covenants of XYZ.

9.1 XYZ covenants that it shall procure and provide all the hardware, database software and other third party/ancillary software necessary and/or as informed / notified by XXX prior to the execution of this Agreement for the operation of the Software so as to facilitate the installation and implementation of the Software.

9.2 XYZ shall provide such personnel as may be required by XXX in order to install and implement the Software. Further XYZ shall inform XXX the name of its personnel / representative(s) who shall be designated by XYZ and trained by XXX to implement the Software. If XYZ desires to have training for additional number of employees over and above the personnel requisitioned by XXX then XXX will at an additional cost train such employees.

9.3 XYZ covenants that the media and programs provided by it to XXX for the implementation of the Software are legally licensed to XYZ.

9.4 XYZ shall permit the employees / agents / representatives of XXX to enter the premises of XYZ at all reasonable times in order to install, implement and customize the Software and to provide any enhancements / updates to the Software. Provided that such XXX personnel shall at all times wear reasonable identification cards and comply with all XYZ rules and regulations applicable to XYZ premises.

9.5 XYZ shall provide such other additional facilities as may reasonably be required by XXX to install and implement the Software on such terms and conditions as may be agreed to between the Parties.

9.6 The price of associated software (like OS, RDBMS etc.) and hardware necessary for operating the Software are not included in the consideration paid for the Software and XYZ will have to source these independently. The maintenance of such software and hardware and performance requirements thereof will be the sole responsibility of XYZ and/or the third party software supplier/developer. XYZ covenants that such associated software and hardware procured by XYZ are legally licensed to XYZ and that XXX shall not be liable either to XYZ or to the third party software provider, for any loss, damage, cost or expense, incurred or

suffered by such party, on account of such software being used or integrated with the Software.

9.7 XYZ covenants that the Software supplied by XXX under this Agreement will only be deployed and used in the geographical area laid down in Annexure 1. XYZ further covenants that the Software will not be copied to, deployed in or used in any other network, whether in the same geographical area or not and whether in a network owned and / or operated by XYZ either partially or fully or not.

9.8 XYZ covenants that the fees and other charges will be paid to XXX as mentioned in Annexure 1. XYZ shall not and nor permit anyone to decompile, reverse- engineer or disassemble the Software.

9.9 XYZ covenants to provide adequate and fully functional work space in the form of a separate office complete with computing facilities and high speed internet access to the implementation and/or support personnel of XXX at site. Further, the informed/notified by XXX prior to the execution of this Agreement for the operation of the Software so as to facilitate the installation and implementation of the Software.

10 Confidentiality

10.1 The Parties shall hold in confidence all Confidential Information received from each other and not divulge the Confidential Information to any person, including any of its employees, save for employees directly involved with the execution of this Agreement;

10.2 The Parties shall prevent disclosure of the Confidential Information, except as may be required by law;

10.3 Within 6 (six) months after the termination of this Agreement, for whatever reason, the recipient of Confidential Information shall return same or at the discretion of the original owner thereof, destroy such Confidential Information, and shall not retain copies, samples or excerpts thereof;

10.4 It is recorded that the following information will, for the purpose of this Agreement, not be considered to be Confidential Information:

10.4.1 Information known to the public or generally available to the public prior to the date that it was disclosed by either of the Parties to the other; or

10.4.2 Information which, either of the Parties, in writing, authorizes the other to disclose.

11 Indemnification

11.1 XXX agrees to defend, indemnify and hold XYZ harmless from and against damages assessed against XYZ by a court of competent jurisdiction as a result of any claim brought against XYZ alleging that any part of the Software or Documentation constitutes an infringement of any patent, trademark or copyright enforceable in Nigeria, provided: (i) XYZ notifies XXX promptly in writing of any such claim and gives full and complete authority, information, and assistance to XXX in the defence of such claim; (ii) XYZ does not make any admissions or otherwise respond to any such claim without XXX's written consent; and (iii) XXX shall have sole control of the defence of any such claim and of all negotiations for its settlement or compromise.

11.2 If an allegation of infringement of any intellectual property rights with respect to the Software or any part thereof is made, or in XXX's opinion is likely to be made, XXX may at its own expense either (i) procure for XYZ the right to continue to use such part, or (ii) modify the part so it becomes or remains non-infringing, or (iii) remove the part and refund the price paid by XYZ for such part.

11.3 XXX shall not have any liability to XYZ under this agreement if any allegation of infringement arises out of the interconnection, modification or use of the Software in combination with other hardware, software or other devices not furnished or specified in writing by XXX, or upon any Use of the Software for which the Software was not designed, or if the infringement arises out of compliance with XYZ,s specifications or designs, or out of modifications made to the Software unless such modifications are made by XXX.

11.4 The foregoing states XXX's entire liability with respect to infringement of patents, trademarks or copyrights by the Software hereunder.

11.5 XYZ agrees to indemnify and defend XXX from and against any and all damage arising directly or indirectly of any claim by a third party arising out of the usage of the software by XYZ except for claims related to intellectual property infringement made by XXX.

12 Entire Agreement

This agreement constitutes the entire understanding between the Parties with reference to the subject matter and supersedes all earlier agreements whether oral or written. The terms of this Agreement shall be modified or supplemented only in writing and signed by the Parties.

13 Assignment

XXX shall not assign, transfer, sub-contract or in any other manner make over to any third Party

the benefit and/or burden of this Agreement without the prior written consent of XYZ, while XYZ shall be entitled without the prior written consent of XXX to assign, transfer or in any manner make over the benefit and/or burden of this Agreement to its affiliate, subsidiary or joint venture partner.

14 Notice

Any notice required or permitted hereunder shall be in writing and shall be delivered personally or by courier or by facsimile or by e-mail or given by certified mail, return receipt requested. Such notice shall be deemed to have been given on the date that it is so personally delivered or on the date seven (7) days after it has been deposited in the mail or immediately upon transmission of the facsimile provided a confirmatory copy is sent by first class pre-paid post by the end of the next business day or by e-mail, provided a confirmation copy is sent by first class-pre-paid post by the end of the next business day, irrespective of the date appearing therein. Addresses for notice follow and may be changed by giving such notice.

For: XXX Limited

[redacted]

For: XYZ LIMITED

[redacted]

15 Waiver

No term or provision hereof shall be deemed waived and no breach excused, unless such waiver or consent is in writing by the party to charged. Any consent or waiver, whether express or implied, shall not constitute a waiver or consent to any different or subsequent breach.

16 Severability

If any part of this agreement is found by a court of competent jurisdiction or other competent authority to be invalid, unlawful or unenforceable then such part will be severed from this agreement and the remainder of this agreement will continue to be valid and enforceable to the fullest extent permitted by law.

17 Dispute Resolution

17.1 The parties shall use their best endeavours to settle any dispute arising from or in connection with this Contract amicably through mutual discussion failing which such dispute shall be referred to mediation to be conducted by their legal representatives or financial auditors, where financial matters are involved and where a resolution is not achieved after the above, or the resolution reached by the legal representatives and/or financial auditors is unacceptable to either of the parties, the dispute shall be finally referred to arbitration in accordance with the Arbitration and Conciliation Act (Cap. 19) Laws of the Federation of Nigeria, 1990, by one arbitrator appointed by the Chief Judge of the High Court of Lagos State. The arbitral award shall be final and binding between the parties except where there is misconduct on the part of the arbitrator or error on the face of the award.

17.2 The place of arbitration shall be the city of Lagos or any other place more suitable within Nigeria in line with the circumstances of the dispute, as may be agreed between the parties.

17.3 This Clause shall survive the termination of this Contract.

18 Incorporation of Annexures

Annexure referred to in this Agreement and attached hereto are integral parts of this Agreement and are incorporated herein by this reference.

19 Interpretation

The text of this Agreement written in the English language is the authentic text and any difficulties, uncertainties or matters of interpretation arising, shall be solved solely by reference to this text. Each of the Parties shall comply in all material respects with all- applicable laws, rules and regulations of any Governmental Authority in the performance of its obligations hereunder. Headings in this Agreement are included for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

20 Force Majeure

20.1 Neither of the Parties shall be liable for a failure to perform any of its obligations insofar as it proves:

20.1.1 That the failure was due to an impediment beyond its control;

20.1.2 That it could not reasonably be expected to have taken the impediment and its effects upon the party's ability to perform into account at the time of the conclusion of this Agreement; and

20.1.3 That it could not reasonably have avoided or overcome the impediment or at least its effects.

20.2 An impediment, as aforesaid, may result from events such as the following, this enumeration not being exhaustive:

20.2.1 war, whether declared or not, civil war, civil violence, riots and revolutions, acts of sabotage;

20.2.2 natural disasters such as violent storms, cyclones, earthquakes, tidal waves, floods, destruction by lightning;

20.2.3 explosions, fires, destruction of machines, factories and any kind of installations;

20.2.4 boycotts, strikes and lock-outs of all kinds, go-slows, occupation of factories and premises and work stoppages;

20.2.5 acts of authority; whether lawful or unlawful, apart from acts from which the party seeking relief has assumed the risk by virtue of any other provisions of this Agreement.

20.3 For the purposes of this clause "impediment" does not include lack of authorizations, licenses, permits or approvals necessary for the performance of this Agreement and to be issued by the appropriate' public authority.

20.4 Relief from liability for non-performance by reason of the provisions of this clause shall commence on the date upon which the party seeking relief gives Notice of the impediment relied upon and shall terminate upon the date upon which such impediment ceases to exist; provided that if such impediment continues for a period of more than (90) ninety days either of the Parties shall be entitled to terminate this Agreement;

21 Governing Law

This Agreement shall in all respects be governed by and construed and enforced in accordance with Nigerian Law, including all matters of construction, validity and performance.

22 Further Undertakings of XXX

22.1 In this Clause, the following definitions shall apply:

22.1.1 **"Applicable Laws and Regulations"** means and includes all laws and regulations in force in the Federal Republic of Nigeria which relate or are relevant to or affect XYZ and

its operations including the substantive anti- bribery and accounting provisions of the Independent Corrupt Practices Commission Act 2000, the substantive provisions of the OECD Convention on Combating Bribery of Foreign Public Officials in International Transactions dated 21 November 1997, and the standards established by the Financial Action Task Force on Money Laundering.

22.1.2 **"Designated Party"** means any person, entity or country (1) whose name is specified in or pursuant to, any resolution of or list issued by, the United Nations or the United States relating to the designation of a person as terrorist or terrorist organisation or blocking any assets of such person; (2) In respect of whom any person has received notice that all financial transactions involving the assets of such person have been or are to be, blocked; or (3) who is or was convicted, found guilty or against whom a judgement or order was entered in any proceedings for violating money laundering, anti-corruption or bribery, or international economic or anti- terrorism sanction laws, or whose assets were seized, blocked, frozen or ordered forfeited for violation of money laundering or international anti- terrorism laws.

22.1.3 **"Government Official"** means: (i) any officer or employee of a government, department (whether executive, legislative, judicial or administrative), agency or instrumentality of such government, including a regional governmental body or a government-owned or government-controlled business, or of a public international organization; (ii) any person acting in an official capacity for or on behalf of such government, department, agency, instrumentality or public international organisation; (iii) any candidate for a political or government office or appointee to such office; or (iv) any political party or party official. For purposes of this definition, an "instrumentality" of a government means any entity in which a government has direct or indirect majority ownership or over which it exercises affirmative control, directly or indirectly. A person does not cease to be a Government Official by purporting to act in a private capacity or by the fact that he or she serves without compensation.

22.1.4 **"Prohibited Payment"** means any offer, gift, payment, promise to pay, or authorisation of the payment of any money or anything of value (including charitable and political contributions), directly or indirectly, to a Government Official, including to or for the use or benefit of any other person or entity, to the extent that one knows or has reasonable grounds for believing that all or a portion of the money or thing of value which was given or is to be given to such other person or entity, will be paid, offered, promised, given or authorised to be paid by such other person or entity, directly or indirectly, to a Government Official, for the purpose of either: (i) influencing any act or decision of the

Government Official in his official capacity; (ii) inducing the Government Official to do or omit to do any act in violation of his lawful duty; (iii) securing any improper advantage; or (iv) inducing the Government Official to use his influence with a government or instrumentality thereof to affect or influence any act or decision of such government or instrumentality, in order to assist in obtaining or retaining business or in directing business to any party.

22.1.5 **"Prohibited Transaction"** means, among other things, any transaction (including any act of omission, commission, assistance to another, or aiding and abetting in furtherance of the transaction) that involves:

22.1.5.1 The receipt, transfer, transportation, retention, use, structuring, diverting, or hiding the proceeds of any criminal activity whatsoever, including drug trafficking, fraud, or the engaging in any transfer of funds or financial transaction to promote such an activity, including making a Prohibited Payment to a Government Official;

22.1.5.2 Engaging or becoming involved in, financing or supporting financially or otherwise, sponsoring, facilitating, or giving aid or comfort to any terrorist person, activity or organisation; or

22.1.5.3 Designated Party.

22.1.6 **"Substantive Violation"** means one or more of the following on the part of XXX:

22.1.6.1 a violation of, or conspiracy to violate, any of the Applicable Laws and Regulations;

22.1.6.2 the making of a Prohibited Payment or the commission of a Prohibited Transaction, a violation of, or an unreasonable refusal to provide, a certification requested by XYZ as required by this Code' or the provision of a false or misleading certification; or

22.1.6.3 a unreasonable refusal to permit an audit by independent accountants or other inspectors, investigators or auditors at the request of XYZ as required by this agreement.

22.2 XXX hereby undertakes and warrants that:

22.2.1 upon the request of XYZ, in its sole discretion, exercised in good faith, it shall permit independent accountants or other inspectors, investigators or auditors that XYZ reasonably

determines are suitably qualified, to have full access to, conduct a review of, and report any potential substantive violation of XYZ's terms herein with respect to:

22.2.1.1 the effectiveness of existing compliance programmes;

22.2.1.2 any books, accounts and records of XXX, and of any of its affiliates that assist in work performed for, or services or equipment provided to, XYZ;

22.2.1.3 any payments made with funds received from XYZ.

22.2.2 If XYZ , in its sole discretion, has a good faith belief that a Prohibited Payment has been offered, made, promised or authorised, either directly or indirectly, or that a Prohibited Transaction has taken place, XXX shall cooperate in good faith with XYZ and its representatives in determining whether such a violation occurred;

22.2.3 as a condition of being engaged or retained to perform work for, or provide services or equipment to, XYZ , it already has in place or will establish:

22.2.3.1 an effective compliance program that includes, among other things, anti-corruption, anti-money laundering and anti-terrorism provisions to prevent and detect violations of such laws and regulations; and

22.2.3.2 an effective education and training program for its employees who are assisting in the work performed for, or services or equipment provided to, XYZ about the requirements and prohibitions of such laws and regulations.

22.2.4 it accepts payment from XYZ for goods delivered or services performed, by wire transfer or other traceable instrument to a bank account in XXX's name.

22.3 XXX hereby certifies that:

22.3.1 duly incorporated under the applicable laws of India under the name M/s. XXX Systems Limited and is duly authorised by its const ituti

ng documents carry out this Agreement;

22.3.2 it shall comply with all Applicable Laws and Regulations and shall forbid Prohibited Payments and Prohibited Transactions by its employees, officers, directors and agents;

22.3.3 it shall disclose any connection it has with a Government Official;

22.3.4 it shall maintain reasonably detailed books and records with respect to funds received from XYZ , including actual and accurate third party receipts and invoices;

22.3.5 i

t	Implementation	Cost
1. s h	Implementation fee Once off (includes first Annual License)	USD$ 132,500

all submit to an independent and mutually agreed audit whenever reasonably required by XYZ at no cost to XXX; and

22.3.6 it has performed adequate due diligence on all its sub-contractors, consultants, agents and representation

ANNEXTURE 1

Implementation Cost

Annual Licensing

	Annual Licensing	Cost
1.	Annual License (25% of Implementation) - Maintenance and 24/7 Local Support hourly fee of $100	USD$ 33,125

N: B Open to Negotiation

Payment Structure

A 65% upfront payment and 35% balance upon completion and sign-off.

IN WITNESS WHEREOF, the Parties here to have set their hands and seals to these presents the day and year first above written.

The COMMON SEAL OF THE WITHIN NAMED ITEX INTEGRATED SERVICES LTD (XXX) NIGERIA was hereunto affixed in the presence of

_____ _____

DIRECTOR ***SECRETARY***

THE COMMON SEAL OF THE WITHIN NAMED XYZ NIGERIA LIMITED was hereunto affixed in the presence of

_____ _____

DIRECTOR ***SECRETARY***

Appendix D

SERVICE LEVEL AGREEMENT SLA-2

SERVICE LEVEL AGREEMENT

BETWEEN

XYZ LIMITED

AND

XXX LIMITED

FOR

INSTALLATION AND SUPPORT SERVICES OF AVAYA DEFINITY G3I R6.3 PABX SYSTEM

CONTACT:

[redacted]

[redacted]

DISCLAIMER

Information contained in this document may be proprietary in nature and / or protected by copyright. Please obtain permission from XXX before reproducing any part of this document, completely or in part.

SERVICE AGREEMENT

THIS AGREEMENT dated 9th September, 2009 by and between

1. **XYZ NIGERIA Limited** a Company registered under the Laws of the Federal Republic of Nigeria and having its registered office at [redacted]. ("**XYZ Nigeria**") and

2. **XXX Services Limited** a Company registered under the Laws of the Federal Republic of Nigeria and having its registered office at [redacted] ("**XXX**")

WITHNESSETH

WHEREAS**,** XYZ Nigeria is engaged in the business of providing alternative channels of distribution for product and services; and

WHEREAS, XXX is engaged in the business of Information Technology, Telecommunication and Network Support Services for which XXX has qualified and skilled personnel; and

WHEREAS, XYZ Nigeria appoints XXX to supply, implement and provide comprehensive support services to sustain its privately owned Avaya PABX voice network across its operations in Nigeria and XXX is willing to accept the appointment, as a solution service provider to support various end users within the voice network upon the terms and conditions set forth below;

NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

Article 1- Definitions

As used in this Agreement:

"Party" for the purpose of the foregoing shall mean "XYZ Nigeria" –XYZ Nigeria and "XXX"- XXX, depending on the context of use.

(a) "Intellectual property" means intellectual material to which clear ownership has been demonstrated, including all intellectual property rights: the trademarks, technical (including scientific) and commercial knowledge and information, all copyright, patents, know-how and formulae of the business, possessed by and which is applied in the conduct of the business of the party in question and all rights to acquire, technical (including scientific) and commercial knowledge and information for the conduct of the business.

(b) "Tool –of-Trade" for the purpose of the foregoing shall mean all XYZ Nigeria's Equipment for the operation of the Private Voice Network to which will be clearly marked XYZ Nigeria and all XXX's tools for which purpose is to carry out support services on XYZ Nigeria's Private Voice Network to which will be clearly marked XXX.

(c) "Territory" shall mean XYZ Nigeria's office working locations, be it within the Lagos and locations outside Lagos as captured in the location of XYZ's Private Voice Network (PVN).
"XYZ Nigeria " shall mean XYZ Nigeria
"XXX" shall mean XXX Services Ltd.

Article 2 –Scope of Agreement-Appointment

(a) XYZ Nigeria hereby appoints XXX in the capacity to function as supplied and comprehensive technical Support Provider for its Avaya definity G3I R6.3 PABX system, and XXX accepts, its appointment as XYZ Nigeria's supply and technical support provider for the management of its Avaya definity G3I R6.3 PABX system as covered within the scope of works of the agreement.

XYZ Nigeria acknowledges XXX shall at all times have the right to, either directly or indirectly, carry out its task to enable XYZ Nigeria have an up and running Voice Network at all times within the scope of work of the contract.

(b) XXX hereby accepts its appointment as XYZ Nigeria's technical Support provider for its Private Voice Network (PVN) as covered within the scope of works of the contract.

(c) XYZ Nigeria shall not appoint sub- support comprehensive service providers and or service providers within the scope of work of this contract.

(d) XYZ Nigeria shall be primarily responsible for promoting good and ethical working relationship with XXX by way of providing access to all tools of trade within the Private Voice Network (PVN) within

locations in Lagos and locations outside Lagos and other means and methods that promotes mutual working relations.

(e) XYZ Nigeria shall refrain from any and all unethical activities that will not promote mutual working relations with XXX. These unethical activities shall include; (i) Delay in relating fault calls to support engineer. ((ii) Undue delay in signing off fault dockets when it has been agreed by both the on-site engineer and the XYZ representative that the response to fault site and subsequent resolution of fault meets the agreed service level. (iv) Undue prejudice to the technical support engineer for personal or other reasons.

(f) XXX shall refrain from any and all unethical activities that will not promote mutual working relations with XYZ Nigeria. These unethical activities shall include (i) Delay in mobilizing personnel and tools, (ii) Delay in escalating end user requirements to 2nd level support if unresolved within agreed MTTR, (iii) Undue prejudice to XYZ caller or authourized representative for personal or other reasons.

Article 3 –Period of Agreement

(a) This agreement shall commence after the implementation and commissioning of the Avaya definity G3I R6.3 and the comprehensive support shall continue for 12 calendar months i.e. one (1) year ("the initial period").

(b) After the first contract year (the initial period), this agreement is subject to renewal by both parties for a successive one year period ("the subsequent period") unless terminated by either party giving to the other party not less than sixty (60) days or two (2) months prior written notice, to terminate prior to the end of the initial period or the relevant subsequent period, as may be applicable.

As used in this Agreement an "initial period" shall mean any period of twelve (12) months commencing on the effective date of contract.

(c) Notwithstanding termination of the Agreement for any reason whatsoever, any SLA of force and effect shall continue until such time as all outstanding obligations by both parties have been completed in respect of such SLA and the provisions of the Agreement, notwithstanding its cancellation.

Article 4 –Duties of XYZ Nigeria

(a) XYZ Nigeria shall use its best efforts to assist XXX meet the demand of the required implementation and support services for the Private Voice Network (PVN) throughout XYZ Nigeria's territory as defined in the Scope of Work (SOW).

(b) In performing his obligations under this Agreement XYZ Nigeria shall act in good faith and shall during the period of this Agreement perform its duties, adopting the best code of conduct on all issues as it concerns this contract.

(c) Provision is to be made by XYZ Nigeria-for transportation and accommodation when XXX is required to mobilize to sites outside Lagos.

(d) XYZ Nigeria shall provide ample work area at assigned office facility for one support engineer.

Article 5 –Duties of XXX

(a) In her relationship with XYZ Nigeria, XXX shall be fair and act in good faith.

(b) During the period of this Agreement XXX Services shall provide XYZ Nigeria, free of charge, with

(i) Documentation and up-dated technical documentation of moves, adds and changes in the cabling infrastructure as it affects users and other services interfacing with the PABX system within the Private Voice Network –PVN (Avaya definity G3I R6.3)

(ii) Preventive Maintenance-Define and Perform Routine Maintenance to capture

(c)Monthly cable management in all XYZ owned Telecomms Cabinets,

(d) Cleaning of all DTEs (desktop telephones)

(e) Corrective Maintenance- Resolve faults that may occur in the cable network and provide technical assistance to requests regarding moves, adds and changes for user desk phones, PSTNs(STARCOMS, NITEL etc) and ISDN PRI links.

(f) Evaluate users request and proffer resolution accordingly.

(g) Close fault logs or users requests by getting XYZ Nigeria support personnel to sign off.

(h) Escalate XYZ Nigeria's requirement for second level support if unresolved within stipulated Mean Time To Repair (MTTR).

(i) XXX shall also during the period of this Agreement maintain:

(j) Single point of contact for fault escalation /resolution

(k) Guarantee most effectively its response time to fault logs. (**XXX shall not respond at its earliest convenience**)

(l) Priority support (preference given to contract client over non-contract client)

(m) A log book containing details on the various problems escalated and treated will be recorded by XXX, reports of such activities will be made available to XYZ Nigeria upon request.

(n) Required toolkit necessary to resolve end-user PABX related problems.

(o) XXX's duties in line with the implementation and comprehensive Level Support services shall include, but shall not be limited to the following:

(i) Relocating table phones

(ii) Replacing faulty cable

(iii) Replacing faulty table phones

(iv) Quarterly inventory and stock keeping of all active and faulty table phones.

(v) Updating users data on PABX database

(vi) Maintaining good housekeeping of all voice cabinet.

(vii) Identify faulty voice points for necessary network task

(ix) Monthly cabinet check and cable management

(p) XXX's presence shall be required on-site during all replacement of faulty cable materials that are service affecting.

(q) The maintenance and support obligations shall cover both DTE (telephones) and cable infrastructure for all associated equipment covered under this Agreement.

Article 6 –Location of Work

For the purpose of the forgoing and the duration of this Agreement, services will be required at the Maryland office facility of XYZ Nigeria limited. **However, provision for fresh financials shall be made for inclusion of all new locations or regions to which XYZ Nigeria expands within the contract year.**

Services shall be centered in one core location as described in the Scope of Work, these include:

1. Lagos – XYZ Maryland office facility

XXX shall operate from Maryland office facility, Lagos. **Provision is to be made by XYZ Nigeria for transportation and accommodation when mobilization to sites outside Lagos is required.**

Article 7 –Performance Specification

During the course of the Agreement XXX shall observe the following time matrix given in the table below to respond to fault calls as logged by XYZ Nigeria's representative

SITES

S/N	LAGOS SITES	MTTR
1	**MARYLAND**	2 Hours

Article 8 –XYZ Nigeria relation to XXX

Notwithstanding anything herein contained, it is agreed that XXX is doing business on its own and that this Agreement does not constitute it as the legal representative of XYZ Nigeria for any purpose whatsoever. XYZ Nigeria is not granted any right or authority to obligate XXX in any manner whatsoever.

Article 9 –Payment Terms

(a) XXX shall invoice XYZ Nigeria the price for the comprehensive Support in Nigerian currency – Naira - on a quarterly or three (3) month basis, in advance i.e. an advance payment will be made available to XXX at the commencement of every quarter.
(b) XXX's invoice shall be issued to the invoicing address mentioned in the Purchase Order and shall specify the Order number and the date of issue
(c) XYZ Nigeria- XYZ Nigeria shall pay XXX 100% of amounts due it on quarterly basis for services rendered for the support and maintenance of its Private Voice Network (PVN) on receipt of XXX's invoice.
(d) Payments shall be made to XXX at the default 10 days after invoice receipt.
(e) All invoices and cost quoted XYZ Nigeria shall be inclusive of all applicable taxes barring Value Added Tax, which shall be indicated clearly in the body of the quote.

Article 10 – Assignment

This Agreement is specific to XYZ Nigeria and XXX, and neither party hereto shall assign or transfer the Agreement and/or any rights and obligations therein, whether in whole or in part, either voluntarily or by operation of law, without prior written consent of the other party, which shall not be withheld unreasonably.

Article 11 – General Provisions

Notices

All notices that are required to be given pursuant to this Agreement shall be given in writing and sent by registered mail to XYZ Nigeria's address set forth in this Agreement or to the latest address as communicated by XYZ Nigeria.

Amendments

Any amendment to this Agreement and/or waiver of any right or remedy herein approved shall be effective for any purpose(s) only when made in writing and signed by duly authorized representatives of all parties hereto.

Entire Agreement

This Agreement constitutes the entire agreement between the parties with respect to the subject matter of this Agreement and supersedes all prior agreements, understandings and representations. There are no other terms, conditions, obligations, promises, representations or warranties- whether express or implied- affecting this Agreement.

Unenforceability

In case a court of competent jurisdiction finds that a provision of this Agreement is invalid or unenforceable, such invalidity or unenforceability shall not affect the validity of the other clauses. Void clauses are to be construed in such a way that the business purpose of said clauses are envisaged by both parties can be realized in a lawful manner.

Governing Law

The substantive laws of the Federal Republic of Nigeria shall in all respects govern this Agreement.

IN WITHNESS WHEREOF, the parties have caused this Agreement to be duly signed on the _____ 2009.

For XXX Services Ltd	For XYZ Nigeria
Name……	Name……
Designation……..	Designation……...
Signature……..	Signature……...
Date……..	Date……...

Appendix E

SERVICE LEVEL AGREEMENT SLA-3

POS Terminals

Service Level Agreement 3

For

Sagem 930 Bio Terminals

Preamble

Whereas XYZ Limited of Nigeria ("XYZ LTD") are desirous of acquiring Technical Support Services ("the Service") for Equipment ("the Equipment"), as described in Annexure A.

And whereas XXX limited via its IT Subsidiary XXX Solutions Ventures ("the Company") is the Service Provider that will provide the Service, it is therefore agreed as follows:

Heading

The headings in this Agreement are for convenience and reference only and shall not constitute a part of or to be referred to in interpreting the Agreement

Language

Words expressed in the masculine gender and singular shall include other genders and the plural, and any reference to natural persons shall include legal persons unless inconsistent with the text.

Effective Terms

This Agreement represents the only Agreement between XYZ LTD and the Company and shall supersede all prior representations, promises and proposals, whether written or oral, save any such representation, promise or proposal explicitly referred to and attached to this Agreement as set out in Annexure A.

Any additional technical support services supplied by the Company to XYZ LTD in terms of this Agreement but not specified in Annexure A shall be subject to the same terms and conditions other than the Fees and payments stated in this agreement unless otherwise agreed in writing.

No variation of or addition to this agreement will be of any force or effect unless reduced to writing and signed by both parties.

No waiver on the part of either party of any rights arising from a breach of any provision of the Agreement will constitute a waiver of rights in respect of any subsequent breach of the same or any other provision.

Assignment

Neither party may cede, assign nor make over any of its rights or obligations under this Agreement, to any third party, without the prior written consent of the other party, which consent shall not be unreasonably withheld.

Confidentiality

Both parties agree not to use or disclose to any third party, except for the purpose of fulfilling this Agreement, any confidential information of the other party.

Neither party will use the name of the other party or their customer in publicity releases or advertising or other promotional purposes without securing prior approval of the other party.

Relief from Liability

Notwithstanding the performance penalties contained in this Agreement, neither party shall be liable for any delay or failure to perform its obligation hereunder by reasons of

force majeure including Acts of God, inclement weather, fire, explosions, floods, strikes, work stoppages, slow-downs or other industrial disputes, accidents, riots or other civil disturbances and Acts of Government.

In the event that either party is unable to perform any obligation hereunder due to such circumstances beyond its control and such circumstances continue for a period of at least 60 days, either party may terminate this Agreement by means of a written notice to the other party.

Contract Termination

In addition to any rights of termination which either party may have at common law, this Agreement may be terminated by one party if the other party is in breach of this contract and does not remedy that breach within twenty one (21) days after receiving written request to rectify the breach, from the other party, then the other party shall be entitled to go for arbitration to enforce compliance.

Termination shall not discharge either party from payment of any sums already due or becoming due by reason of the termination excepting any sums arising from performance penalties as defined in the Special Terms and Conditions pertaining to this Agreement.

Should the Agreement be terminated due to non performance by either party, then the other party reserves the right to claim all monies paid to the other party from the time of the non performance claim.

If either party commits an act of insolvency or compromises its creditors or goes into liquidation or under judicial management (whether provisionally or financially) or should either party's property be seized for non payment of any debt, the other party shall be entitled to cancel this Agreement forthwith without notice.

If any provision of this contract is adjudged to be invalid under applicable law, this Agreement shall be considered severable as to such provision and such provision shall be non operative and the remainder of this Agreement shall be valid, binding and of effect as though such a provision was not included herein.

If any invalid term is capable of amendment to render it valid the parties agree to negotiate an amendment to remove the invalidity.

Arbitration

In the case of any dispute or difference directly attributable to the non performance of any services as detailed in Annexure A, arising between the parties hereto as to the construction of their rights, duties or obligations under any matter arising out of or concerning this Agreement, the dispute shall, unless resolved among the parties, be

resolved in accordance with the Arbitration Act of Nigeria, as amended from time to time.

Any party to this Agreement may demand that a dispute determined in terms of this clause, be written notice to the other party.

This clause will not preclude any party from obtaining interim relief on an urgent basis from a court of competent jurisdiction pending the decision of the arbitration.

The parties shall choose a single arbitrator to arbitrate over the matter and where the parties cannot agree over a specific arbitrator they shall submit to the relevant professional body or the president of the relevant institute of Arbitrators to choose an arbitrator.

Both parties shall submit representations in writing to the said arbitrator within ninety (90) days after notification of his appointment as such, and shall furthermore cooperate with him and make all evidence and information he requires available.

Pending the outcome of the dispute, any monies to be paid in terms of this Agreement shall be deposited in trust with the aggrieved party's attorney whom the parties hereby authorize to invest in an interest bearing account which interest shall be for the benefit of the successful party.

The decision of the arbitration shall be final and binding upon the parties and shall be enforceable by any court of competent jurisdiction. Each party shall bear its own costs of the arbitration expenses.

Governing Law

The Agreement shall be governed by the laws of Nigeria.

Notices

All notices hereunder shall be in writing and addressed to the representative party at their written addresses set forth in this Agreement. Any such notification shall be deemed to have been given by either party to the other party by the dispatch of such notification by post within seven (7) days of posting or by facsimile transmission on confirmed receipt of that transmission.

Registered Addresses

XYZ LTD elects for the purposes of this Agreement the following address as its Registered Addresses:

_____

_____

The Company, elects for the purposes of this Agreement the following address as its Registered Addresses:

XXX Solutions Ventures,

[redacted]

[redacted]

Either party may change its Registered Addresses: provided that it shall notify the other party of any such change within not less than seven (7) days prior to such change.

Notwithstanding anything to the contrary herein contained a written notice or communication actually received by a party will be adequate written notice or communication to it, notwithstanding that it was not sent to or delivered at its Registered Addresses**:**

Technical Services

Sale

The Company sells Services to XYZ LTD and XYZ LTD purchases Services from the Company subject to the terms and conditions of the sale and other conditions as set out in this Agreement

Description of Services

Terminal Deployment & Management
Provision of Support for the POS

XXX-2 Repair Centre- Lagos

XXX-2 is setting up a repair centre in Ilupeju Lagos. The repair centre is equipped and manned with 4 trained engineers.

The centre is well equipped with all that is required to support and maintain all Xxx-2 and Sagem brands of POS terminals.

The Centre shall also stock frequently needed spare parts for the brands and models of POS's under the Xxx-2 brand.

All terminals purchased under this arrangement will be maintained at the centre

The centre will also be responsible for delivering all obligations of the manufacturer of the above named brands during the warrantee period which is typically 1 year.

Support

Our Terminal support agreements typically cover regular or preventive maintenance and corrective maintenance in cases of terminal malfunction.

1.0 Preventive Maintenance:

This covers:

1. Routine visits which shall be twice monthly. The under-listed shall also be covered:
    a. Replacement of faulty module
    b. Replacement of paper roll
    c. Response to distress calls

2. Fault calls: the support team shall be available to be contacted by telephone or by email from Monday to Friday between the hours of 0830hr (GMT+1) and 1800hr (GMT+1)

3. A support engineer shall respond and attempt a telephone-based assistance immediately, it the fault cannot be resolved remotely, a support personnel shall be at the client site within one (1) hour Lagos traffic permitting if the call was received before 1630hr (GMT+1) or the following day if the calls were received after 1630hr (GMT+1) depending on the distance of the location to our field personnel.

Fault calls will be logged in our helpdesk and communicated to relevant support personnel. The fault will be monitored until successfully resolved. Weekly report detailing the various support activities will be printed weekly and forwarded to the management of XYZ LTD.

2.0 Corrective Maintenance

The objective is to achieve Minimum **M**ean-**T**ime-**T**o-**R**epair (MTTR) and high **M**ean-**T**ime-**B**etween-**F**ailure (MTBF). The requirement to achieve these includes:

1. Trained technical staff
2. Well equipped workshop facility

3. Adequate stock of spare parts
4. Adequate number of spare terminals for temporary replacement to reduce down time.

All corrective maintenance will be done at the Xxx-2 repair centre in Ilupeju. No corrective maintenance shall be carried out at the client location.

Corrective Maintenance will be done typically within a Turn around Time (TAT) of 48 hours where the requisite spare parts are in store. In the event that requisite spares are not available the lead time for ordering them will have to be added to the 48hrs.

Swapping shall be done within 24hrs for POS's that do not involve open payment applications such as Visa and 24 hrs plus the lead time of the scheme owner in the case of terminals simultaneously carrying open payment applications.

Having worked with Xxx-2 and Sagem Brands of terminals for a while we can certify their ruggedness and reliability. We have previously implemented a project with the same Sagem biometric terminals and have utilized them successfully in the Nigerian environment.

After hours Services, outside of the Prime Period of Maintenance, shall be available to XYZ LTD on a CASUAL STANDBY or AS AVAILABLE basis.

Fees and payments

A fee of 15% of the purchase value of the terminals is payable to the Company. Payment may be made in Naira at the prevailing $1 buying rate.

Payment shall be made by XYZ LTD to the Company, quarterly in advance.

List of the equipment for maintenance and support will be reviewed on a bi-annual basis jointly by both parties to adjust for additions and retirements.

After the warranty period (one year) XYZ LTD is expected to pay for spares for any corrective maintenance work done.

The invoice is based on the Annexure C

Annexure A: Operating hours and response time

	Response time	Problem resolution time
Device is not operational (Hardware is faulty)	1 working Hr	5 working Hrs
Device is not operational (Software is faulty)	1 working Hr	6 working Hrs

1. Response time refers to the time during which a representative of the Company attends to the fault call.
2. Problem resolution time means time required for eliminating the problem.
3. Operating hours:

   Monday to Friday 08:30 – 17:30

   Saturday 09:00 – 13:00

4. Faults are being received only during working hours.
5. ALL faulty devices will need to be brought to the Xxx-2 repair center.

Annexure B: List of equipment with Serial #

Location		**Type**	**Serial Nr**	**Install date**

Annexure C

Device type	**Quantity**	**Value (USD)**	**Fees Payable (15%)**
BIO 930 GPRS			

SIGNED for and on behalf of **XXX Solutions Ventures** **Suite 3, Eti Osa Way** **Dolphin Estate, Ikoyi** **Lagos, Nigeria** • **Tel:** [redacted] • **Email:** **xxx@emeraldconsultingltd.com** **Name: xxxxxxxxx**	SIGNED for and on behalf of **XYZ** **Head Office,** **123 Mobolaji Bank Anthony Road** **Lagos, Nigeria** **Tel:** [redacted] • **Email:** **Name :**
(Authorized Signatory)	(Authorized Signatory)
Title: Chief Executive Officer (CEO)	**Title :** Managing Director/CEO
Place: Lagos, Nigeria	**Place:** Lagos, Nigeria
Date:	**Date:**