Reasons Leading to the Ineffectiveness of Information Systems Outsourcing in Minimising Costs

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ISBN: 1-58112- 37600
13-ISBN: 978-1-58112-376-0

Submitted in part fulfilment of the requirements for the degree of Master of Science in Management

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January 2006

ABSTRACT

This project is concerned with the factors that are responsible for the failure of Information Technology outsourcing in reducing the costs for companies. Even though there is a substantial amount of evidence in the literature that confirms the problem of IT outsourcing ineffectiveness, researchers and practitioners are still a long way from adopting a common view on the factors that can lead to inefficient outsourcing. This lack of understanding has serious managerial implications since it is hindering the ability of managers to make outsourcing decisions and manage their IT functions in a cost-efficient way.

Case study research, involving interviews with IT managers, was consequently undertaken in an attempt to shed more light on the complex issues that affect the effectiveness of IT outsourcing operations. A methodical investigation of the literature offered important insights on the research problem and formed the basis on which the interviews were structured. A pattern that emerged was that the lack of involvement of IT managers in the outsourcing process can have a negative impact on the cost efficiency of IT outsourcing. Such an involvement should be substantial and appropriate and should be present in all phases of the outsourcing deal. Before and after the outsourcing contract is signed, the IT manager needs to be actively involved with key issues such as vendor selection, contract preparation, vendor incentives and analysis of the activities that would benefit the most from an outsourcing arrangement. The insights of this research, therefore, contribute to the understanding of the cost effective aspect of IT outsourcing and encourage managers to take a more dynamic role in outsourcing management. Ultimately, each piece of research on the cost efficiency of IT outsourcing is a step forward in reducing outsourcing failures.

DECLARATION OF ORIGINALITY

"I declare that my work entitled "Reasons Leading to the Ineffectiveness of Information Systems Outsourcing in Minimising Costs" for the degree of Master of Science in Management, embodies the results of an original research programme and consists of an ordered and critical exposition of existing knowledge in a well-defined field.

I have included explicit references to the citation of the work of others or to my own work which is not part of the submission for this degree."

Petros Michaelides
January 26, 2005

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ACKNOWLEDGEMENTS

First and foremost, I would like to thank God for giving me strength and making the completion of this project possible.

I am particularly grateful to my supervisor Dr. Elmar Kutsch for his invaluable support and guidance. Without his knowledge and expert advice this project would never have been written.

Special thanks go to my wife Christiana for her continued support and encouragement.

ABBREVIATIONS AND GLOSSARY

IT: Information Technology

Vendor, provider, supplier, outsourcer: the company which offers outsourcing services.

Outsourcee, client, company, organisation: the company which seeks outsourcing services.

Core competencies: the company's functions that are strategically valuable, i.e. they provide a competitive advantage to the company.

Critical functions: functions that are critical to the daily operations of a company but do not yield a competitive advantage to the company.

Functions with high asset specificity: the company's functions that are unique or specialised and cannot be used by the outsourcing vendor in multiple situations.

1. Introduction

Reports on outsourcing trends have consistently shown that Information Technology is one of the leading activities being outsourced by companies (Domberger et al, 2000; Barthelemy, 2001). Moreover, surveys, such as the one conducted in 2003 by ITtoolbox, which queried more than 600 IT professionals around the globe, confirm that IT outsourcing will continue to increase steadily over the following years (ITtoolbox, 2003). Outsourcing is essentially, as many academics label it (Hayes et al, 2000; Jenster and Pedersen, 2000), a make-or-buy decision where a company needs to choose whether to buy services from outside providers or produce them internally instead.

Even though the media has portrayed Information Systems outsourcing as the answer to all the problems of a company, many academic studies and surveys have revealed quite the opposite (e.g. Lacity and Hirschheim, 1993b; Strassman, 1995; Aubert et al, 2001; Lacity and Willcocks, 2004). However, due to the complex nature of IT outsourcing, the reasons behind this inefficiency are not yet fully understood. This has serious managerial implications since it is hindering the ability of managers to make outsourcing decisions and manage their IT functions in a cost-efficient way. The current paper takes into consideration a number of Cypriot companies and aims to describe and explore the reasons that can lead to the ineffectiveness of IT outsourcing in minimising a company's costs. A contribution to the understanding of the abovementioned research problem is, consequently, attempted.

The paper commences with an examination of the existing literature and presents evidence regarding the cost inefficiency of IT outsourcing. Relevant research is then presented and the factors suggested by other academics as influencing the success of IT outsourcing in reducing costs are examined. Following the literature review, a qualitative framework, based on the semi-structured interviews of four IT managers,

was employed to conduct this exploratory research. From these interviews, a number of factors emerged as having a negative affect on cost effectiveness. These factors are dependent upon the level of involvement of the IT Manager in outsourcing activities, thus suggesting that cost-effectiveness is a, ultimately, a matter of overall management commitment. Finally a discussion of the study's managerial contribution is presented and recommendations for future research are suggested.

2. Literature Review

2.1 Introduction

This section consists of a critical review of the theoretical background concerning the cost-reduction aspect of IT outsourcing and examines the factors suggested as influencing IT outsourcing in minimising costs. At the end of this section, the contribution of the paper to the existing literature and the gaps that it aims to fill are discussed.

2.2 What is IT Outsourcing

IT outsourcing is defined as "the significant contribution by external vendors in the physical and/or human resources associated with the entire or specific components of the IT infrastructure in the user organisation" (Loh and Venkatraman, 1992:p9). Simply put, outsourcing refers to the purchase of products or services that were previously produced in-house (Lacity and Hirschheim, 1993b). Within the context of information technology such products or services can include software development, network/database administration, information security and maintenance (Alner, 2001). Typically, an outsourcing contract of an agreed duration is signed between the company and the provider, and the services to be outsourced as well as the fees are prespecified.

After the contract is signed, any additional services are charged by the vendor at an additional fee (Lacity and Hirschheim, 1993b).

IT outsourcing has been practised in simpler forms, such as data processing services, from as early as 1963 but has now grown into a complex activity which involves a considerable transfer of assets, resources and personnel to the outsourcing provider (Lacity and Hirschheim, 1993b). The milestone in IT outsourcing has been the agreement between Kodak and IBM in 1989, which meant that the entire IT operations of Kodak would be outsourced to IBM. The 'Kodak effect' proved to have had a great impact on firms, with IT outsourcing becoming a serious strategic choice and a major business decision (Loh and Venkatraman, 1992a).

2.3 The cost-reduction aspect of IT outsourcing

The literature identifies cost reduction as one of the main goals of firms that outsource their IT functions and many academics actually label it as the primary key driver of outsourcing (Loh and Venkatraman, 1992a; Loh and Venkatraman, 1992b; Lacity and Hirschheim, 1994; Smith et al, 1998; Antonucci and Tucker, 1998a; King and Malhotra, 2000; Alner, 2001). Outsourcing surveys, such as the in-depth survey of 25 world-class organisations conducted recently by Deloitte Consulting (2005), confirm this. Having in mind that information technology is one of the most expensive functions of an organisation to set up and manage (Barthelemy, 2001), it becomes apparent why companies seek cost reductions from outsourcing such expensive IT functions. However, the literature fails to provide concrete evidence that IT outsourcing is indeed effective in minimising the costs for companies. In fact, a considerable number of studies, presented below, have revealed that in real life IT outsourcing is not as cost effective as initially expected by companies or presented by the vendors and the media. Even though outsourcing failures are seldom reported due to the unwillingness of

companies to make them public (Barthelemy, 2003), there is still a lot of evidence in the literature which strengthens the argument that outsourcing projects generally fail. In a survey conducted between 1999 and 2000 and published by Templeton College, University of Oxford, only 16 percent of the 600 UK and US Chief Information Officers and senior IT managers which participated reported significant cost reduction as a result of outsourcing IT functions (Lacity and Willcocks, 2004). 47 percent of the correspondents achieved no cost reductions at all, and in some cases even reported an increase in cost. The Seddon et al study of Australian firms and the Aubert et al study of Canadian firms indicated similar unsatisfying results, with the latter one even reporting increased costs after outsourcing for 49 percent of respondents (Aubert et al, 2001). Furthermore, a more recent survey, the in-depth survey of 25 world-class organisations conducted recently by Deloitte Consulting (2005), has revealed an immense worldwide dissatisfaction with outsourcing. The results of the study are overwhelming: 70 percent of the companies have had negative outsourcing experiences, almost half of the participants did not experience any cost savings and 25 percent even decided to give up outsourcing and move back to in-house operations. Given the fact that the organisations that took part in the study have an annual spending of 50 billion dollars on outsourcing, then one can easily realise the importance of the findings. Consequently, even though many studies share an optimistic view on outsourcing and support that reduced cost is a key benefit of outsourcing Information Technology (McFarlan and Nolan, 1995; The Outsourcing Institute, 2001), the empirical research presented above demonstrates that the desired outsourcing cost benefits are not being achieved. A striking example of an outsourcing deal that has failed to meet its objectives, is the US finance giant JP Morgan Chase 5 billion dollar IT outsourcing contract with IBM, which came to an abrupt end almost 5 years before its expiry date

(Vernon, 2004). JP Morgan Chase eventually decided that moving back in-house would be more beneficial for the company.

A number of research studies have been made concerning the consequences of outsourcing and the reasons that may lead to the failure of IT outsourcing projects (e.g. Lacity and Hirschheim, 1993b; De Looff, 1995; Barthelemy, 2001; Barthelemy, 2003). The fact that academics are continuously conducting research in this area indicates that outsourcing is, indeed, an activity with numerous risks. However, as Lacity and Willcocks (1995) point out, researchers and practitioners are still a long way from agreeing on a common set of factors that can lead to unsuccessful outsourcing.

2.4 Vendor-Related Reasons Leading to Cost-Ineffective IT Outsourcing

In a study of fourteen Fortune ”500” companies, Lacity and Hirschheim (1993b) concluded that, contrary to what the media advertises, internal IT departments can be as cost effective as outsourcing providers. Based on their findings, Lacity and Hirschheim (1993b) state that the assumption of outsourcing vendors being more efficient than companies that utilise their own internal IT functions is often misleading due to a number of factors:

- Smaller companies can acquire cheaper hardware leases than outsourcing vendors because they can use older technology which large companies cannot use.
- Volume discounts offered to outsourcing vendors by hardware providers are not significant enough to result in huge savings for the outsourcers.
- Software licenses cannot be spread by outsourcing vendors over several customers, thus forcing the customers to pay additional licensing fees.

- Additional technical expertise provided by the outsourcing vendor can be expensive.

Consequently, it is implied that the failure of outsourcers to achieve lower software and hardware costs, as well as the 'emergence' of unexpected and hidden expenses for customers, can lead to ineffective IT outsourcing results in terms of cost reduction. Martinsons (1993) also supports Lacity and Hirschheim's view by suggesting that organisations with large IT departments may be able to achieve economies of scale comparable to the ones achieved by the outsourcing provider. However, Lacity and Hirschheim's study involved only a small sample of companies which, according to Saunders et al (2003), can increase the likelihood of errors in generalising. Unexpected and hidden costs are also identified by Barthelemy (2001) and Hormozi (2003) and include expenses associated with identifying, selecting and managing vendors, vendor coordination costs, transition costs in terms of the time period required for the knowledge to be transferred from the internal IT department to the external provider, and transition costs to move back to the internal function or to another vendor after the outsourcing agreement has ended. These vendor-related costs are also labelled as coordination costs by Williamson in his transaction cost theory (Lacity and Hirschheim, 1993a).

Research by De Looff (1995) and Barthelemy (2003) identifies a lack of formal analysis by companies during the selection process, often leading to the selection of the wrong vendor. Barthelemy's (2003) study of nearly 100 outsourcing projects in Europe and the United States concluded that choosing a good vendor, using the right criteria, is critical for avoiding outsourcing failure. The findings of Ketler and Walstrom (1993), as well as the article of Gupta and Gupta (1992), are in line with Barthelemy's conclusions, emphasising the fact that economic disaster can strike if the wrong vendor

is chosen. As it follows from the literature, good vendors should be qualified, reputable, financially stable, knowledgeable and suitable for the particular task that they are asked to outsource. Unfortunately, according to Barthelemy (2003), the qualifications of vendors, such as technical ability, experience, financial status and trustworthiness, are often neglected by companies, which are easily tempted by the vendors who submit the lowest bids. In some cases, an official bid process is not even carried out by firms (Bartell, 1998). However, the lack of formal vendor analysis by companies is not the only reason suggested in the literature as being behind wrong vendor selection. The decreasing number of available suppliers in the market due to mergers, identified by Antonucci et al (1998b), and the difficulty in obtaining data regarding the qualifications and expertise of vendors (Barthelemy, 2003) are also suggested to be of blame. It is worth noting that the methods used for obtaining information regarding a provider's reputation are both cost-intensive and time-consuming (Barthelemy, 2003). Given the expenses associated with detailed vendor analysis, it, therefore, remains unclear in the literature whether IT outsourcing failure is indeed a result of insufficient analysis. Too costly analysis prior to vendor selection, the unavailability of an adequate number of providers in the market, the difficulty in obtaining reliable information regarding the abilities of vendors, the temptation of low bids or a combination of the above could be the reasons for failure instead. Other studies, such as the one by Claver et al (2002) of Spanish universities, identify other possible reasons as well, including the cultural similarities between the company and the supplier. Further clarification on the vendor selection issues that can influence the cost-ineffectiveness of IT outsourcing is, consequently, imperative.

A further problem arises from the fact that, since information technology is a rapidly evolving industry, the prices and performance of computer resources progress at a much

faster rate than most other industries (Antonucci et al, 1998b). This implies that it is extremely difficult for companies to estimate the economics of IT over a period of time and, therefore, assess the costs of outsourcing bids (Antonucci et al, 1998b; Lacity and Willcocks, 1995). In practice, an outsourcing bid may appear as a low-cost option today but in 10 years time, which is according to McFarlan and Nolan (1995) the standard length of a contract, it will not be as cost-effective due to the falling prices of computer resources. Long contract duration, consequently, appears to be one of the reasons behind the inefficiency of IT outsourcing in minimising costs. However, common sense dictates that a short contract is likely to involve more frequent vendor switching than long contracts, thus raising the costs for the company. The literature is not precise on this matter and, as a result, it remains uncertain whether it is long contracts or short contracts that can lead to cost-ineffective IT outsourcing.

As it follows from the literature, the outsourcing decision is often made by the top management without any involvement of people who have detailed knowledge of Information Systems (De Looff, 1995) or the daily operations of the firm (Jenster and Pedersen, 2000). This could imply that the outsourcing decision focuses on cost reduction alone, without any consideration on criteria "such as quality, flexibility and competitive use of IT" (De Looff, 1995:p290). Welch and Nayak (1992, p30) assert that "companies that continue to make sourcing decisions based solely on cost will eventually wither and die, as many already have". However, De Looff's study comprised only 6 organisations and, therefore, justifies further research on the subject in order to verify the findings. Lacity and Willcocks (2004) mention Sears, a UK-based retail corporation, as an example of an outsourcing deal that has failed due to cost-centered, outsourcing decisions made by managers with little IT knowledge. Faced with financial difficulties, the company's top management signed in 1996 a 10-year

multi-million outsourcing deal with Andersen Consulting, without the IT people having significant input in the decision. 17 months later, the company's CEO had resigned and the contract had been terminated. However, since the outsourcing contract was also quite poor, it is not clear whether it was the contract itself, its length, the lack of IT input, the exclusive focus on cost, the financial situation of the company or a combination of all these responsible for the failure.

Hidden, unanticipated costs are also claimed to arise if not enough care is taken by the company in preparing and negotiating the contract with the outsourcing provider (McFarlan and Nolan, 1995; Lacity and Willcocks, 1999). As Barthelemy's (2003) findings support, writing a poor contract can lead to extra costs for companies since it may be lacking one or more of the following: precise cost and performance requirements to be met, appropriate incentives for the provider, flexibility in case of changing technological and business conditions, and the necessary balance to avoid one-sidedness in the contract. It is remarkable to note that a very large number of companies pay little or no attention to the contract. A survey conducted by KPMG showed that 46 percent of the participant companies had simply used the vendor's draft contract, with the obvious result of the contract not favouring the companies at all (Management Accounting: Magazine for Chartered Management Accountants, 1998). A loss of control over IT functions can also occur for the outsourcee as a result of a poorly-prepared contract, giving rise to the company's costs (Bartell, 1998). On the other hand, producing a good contract is an expensive activity and, along with the costs associated with finding a reputable vendor, can also lead to cost-ineffective IT outsourcing (Barthelemy, 2003).

A poor contract will also be deficient in contract termination provisions. Planning an exit strategy from the outsourcing deal is claimed as being a commonly-neglected issue

which can lead to outsourcing failure by costing millions of dollars to companies (Lacity and Willcocks, 2004; Seddon, 2004). This overlooking can be attributed, according to Barthelemy (2003), to the fact that managers are not expecting the outsourcing contract to fail and, therefore, do not plan sufficiently for that scenario. The complex nature of exit management can also be suggested as leading to inadequate exit strategies due to the fact that lawyers have to cope with the increasingly difficult task of making sure that all termination scenarios are included in the contract (Seddon, 2004). Exit provisions concerning the ownership of the outsourced assets, the liability and costs related to the termination, and the feasibility of moving back in-house or to another vendor all need to be part of the contract (Bartell, 1998). One can easily realise the amount of money and grief that can be avoided at the end of an outsourcing deal if such preventive measures are taken. The severity of the consequences that a company will have to face for failing to plan an appropriate exit strategy can be illustrated by Sears's case, which has already been mentioned above in another context. The company's exit from the outsourcing deal actually cost more than 15 million pounds due to poorly designed exit management (Lacity and Willcocks, 2004). However, it follows from the literature that exit management can be both time-consuming and costly due to its complex nature. If such is the case, it could be implied that too much time and money spent on exit provisions can outweigh the benefits that may be achieved at the end of the contract. Moreover, it could be suggested that, even though a lot of time and resources are spent on exit management, certain provisions might not be thought of and, therefore, not be eventually included in the contract. In such a case, the company would not only have to deal with the contract termination consequences, but also with the additional damages caused by the wasted time and money that was spent on devising an exit strategy that proved to be useless.

2.5 Company-Related Reasons Leading to Cost-Ineffective IT Outsourcing

Apart from vendor and contract related issues, the literature also reveals company-specific factors that can cause the failure of IT outsourcing in minimising costs. Kim and Young-Soo's findings (2003) indicate that the success of IT outsourcing can be adversely influenced by the degree of asset specificity. High asset specificity occurs when a company's assets are unique or specialised and cannot be used by the outsourcing vendor in multiple situations. Such assets may include customised software applications and hardware components, as well as IT staff trained to use only tailor-made applications, customised for their firm. The economies of scale, which are often cited as a vendor's main tool for cutting costs (Gupta and Gupta, 1992; Lacity and Hirschheim, 1994; Smith et al, 1998; Hayes et al, 2000; Alner, 2001), can, consequently, be claimed that are no longer achieved in situations of high asset specificity. On the other hand, the literature identifies the risk of the firm being forced to use outdated software and/or hardware systems in order for the outsourcing provider to achieve economies of scale (Ngwenyama and Sullivan, 2005). In this context, outsourcing seems to be a double-edged sword, eligible for success only in situations where commonly-used IT applications and resources are being used by companies. This view is supported by Barthelemy's (2003) conclusion that, in order to achieve cost reductions, non-core and easily-imitated activities should be outsourced in favour of valuable and unique to the company activities.

An additional key issue linked to the failure of IT outsourcing in minimising costs, as identified by Barthelemy (2003), is the selection of inappropriate IT activities to be outsourced. According to Barthelemy (2003), many companies choose to outsource their entire IT operations, including core functions that are unique to the company, thus

losing their competitive advantage and superior performance in the process. Core functions that are valuable for the company, known as core competencies, are suggested to be kept in-house in order prevent the handing-over of strategically important assets to the providers (Martinsons, 1993; Jenster and Pedersen, 2000; Barthelemy, 2003; Hormozi et al, 2003). Moreover, keeping the core activities in-house, while outsourcing non-core activities, is cited as enabling the organisation to focus on their core business (Antonucci and Tucker, 1998a; Smith et al, 1998; Kakabadse and Kakabadse, 2005). A few researchers, however, such as Peters (cited in Bartell 1998, p24), do not believe that core competencies should be kept in-house since this will prevent the company from benefiting from new ideas and resources. Moreover, a study of 40 companies in the USA and Europe revealed disappointing results when outsourcing non-core functions and keeping core competencies in-house (King and Malhotra, 2000). Such contradicting results in the literature do not provide conclusive evidence as to whether the outsourcing of core competencies is indeed a factor influencing the cost-effectiveness of IT outsourcing and, therefore, justify further research by the author of this paper. King's (1994) observation that companies are not always able to identify their core competencies correctly can be used, in conjunction with Peters's view, to explain why the outsourcing of core functions by firms is still being practiced. More specifically, managers may assume that a function at which the company performs well or that has been important for the company in the past is, by definition, a core competency (King, 1994). This is not always the case, however. Similarly, managers may consider their IT functions as not being core competencies whereas, in reality, they do constitute core functions (King, 1994). The inability of firms to correctly identify core functions implies that there is a certain degree of confusion and a lack of clarity concerning the term 'core competency' in the literature. Jenster and Pedersen (2000)

confirm this by presenting three different ways in which core competency is defined in the literature, whereas Kakabadse and Kakabadse (2005) confirm that there is an academic debate on what is core and what is non-core and whether there is a difference between core competency and core activity. What is clear, however, is that 'core competency' constitutes a complex and rather ambiguous term which encompasses a range of issues concerning the resources, processes and skills of a company (Jenster and Pedersen, 2000).

Even though core competencies are often not recommended in the literature, as already mentioned, as good candidates for outsourcing by academics, it is evident that other non-core functions, which are equally important for the future of the company, will be unavoidably outsourced. Outsourcing such key activities faces many risks since the company's well-being will depend on the vendor to a great extent and, in case of problems arising, the consequences may be severe and long term (Hussey and Jenster, 2003). The 1997 UK passport agency outsourcing case, presented by Hussey and Jenster (2003), is a good example of how things can go wrong when outsourcing critical activities of an organisation. The outsourcing provider failed to meet the passport agency's objectives and, by June 1999, there were 565,000 unprocessed passports and long queues of people outside the London passport office desperately trying to get a passport (Hussey and Jenster, 2003). The cost of this outsourcing failure, besides the obvious loss of customer satisfaction, was estimated at 12.6 million pounds, including compensations and money spent on extra staff and overtime work (Hussey and Jenster, 2003). It remains unclear, however, whether the outsourcing of critical activities in general or the outsourcing of too many critical activities at the same time is the real reason behind failures such as the passport agency's disaster.

Moving on to a different issue, the personnel of a company will almost certainly be affected by an outsourcing deal. Some employees will be assigned different roles within the company, some will be transferred to the vendor and some may even be laid off (Martinsons, 1993). If special care is not taken with these sensitive personnel issues then it is suggested by the literature and real life examples that the outsourcing company may have to face unpleasant consequences. Massachusetts Blue Cross and Blue Shield, a leading health insurance company, had to pay 7 million dollars as compensation in 1994, following a large outsourcing deal signed in 1992, due to the fact that their employees had been transferred to the vendor on a short notice (King, 1994). In another case, a European department store lost millions of Euros after a 48-hour strike by employees who feared, due to outsourcing rumours, that their jobs were under threat (Barthelemy, 2003). Such unexpected costs are not as uncommon as one might expect, and can be disastrous for companies that seek to reduce expenses through outsourcing. The abovementioned example by Barthelemy (2003) demonstrates how easily costs can arise even before an outsourcing contract is signed. However, apart from Barthelemy's study and a few other exceptions, there is little empirical research concerning the effect of human resources on the success of an outsourcing agreement. There appears to be a gap in the literature in general, identified by other researchers as well (e.g. Bartell, 1998), regarding the human resources aspect of outsourcing.

One of the most important, if not the most important, company-specific factors for outsourcing success is identified by the literature as the effective, ongoing management of the outsourcing contract after it has been signed. It is emphasised by researchers that monitoring and measuring the vendor's performance, managing the relationship between the company and the outsourcer at senior and lower levels, and coordinating the different tasks during the outsourcing period, as well as maintaining flexibility in the

outsourcing relationship are critical in order to avoid unexpected costs (McFarlan and Nolan, 1995; Kim and Young-Soo, 2003). A weak contract can negatively affect this management activity by lacking important provisions, such as performance measurements, and causing disputes (Lacity and Willcocks, 1999). Hence, it appears that IT outsourcing projects will almost certainly fail if the company counts on the vendor's good will by leaving the outsourcing activity completely in the hands of the outsourcing provider after the contract has been signed.

2.6 Summary of Literature

There is substantial evidence in the literature indicating that IT outsourcing is not always effective in minimising costs. The fact that companies are not willing to publicise outsourcing failures, as well as the fact that the media concentrate on projected, and not actual, benefits of IT outsourcing deals, have lead to the public impression that outsourcing is a heavenly gift which can solve all the problems of a company (Antonucci and Tucker, 1998a; Fowler and Jeffs, 1998; Barthelemy, 2003). This is not the case, however, and many companies unfortunately realise this only after their outsourcing deals fail to yield the expected cost benefits. As it follows from the literature review, IT outsourcing can be a risky business with a large number of complex issues that need to be dealt with prior, during and even after the contract period. As Barthelemy (2003) observes, a lot of expertise has to be built up by firms in order to assess the risks and avoid outsourcing failure.

The literature has paid a lot of attention to the wrong selection of vendors, as well as the poorly-written and not well-managed outsourcing contracts. Doing business with a non-reputable, opportunistic vendor or signing a contract which clearly favours the vendor are often cited as factors that can lead the outsourcing company to financial

disaster. As several academics suggest, the outsourcing providers and the outsourcees do not share common visions or goals, since the vendors are primarily interested in their own profits (Lacity and Hirschheim, 1993b; Barthelemy, 2003). In addition, managing the outsourcing activities effectively during the contract period is suggested by academics as essential for success. According to the literature, a great deal of coordination, monitoring and measurement needs to be performed by the outsourcee in order for the project to run smoothly and avoid any underperforming or opportunistic vendor behaviour. However, drafting a good contract and implementing effective contract management are expensive activities that can also lead to ineffective cost results.

Clearly, the vendor's behaviour and the contract provisions or management are not always cited as the reasons behind the failure of IT outsourcing deals. According to many researchers, the outsourcing-seeking company itself needs to assess the firm's situation prior to outsourcing and make critical decisions on matters regarding personnel issues and IT activities that would prove beneficial to outsource. Information Systems outsourcing failures could be the result of the company not identifying correctly its core competencies, thus contracting out functions that should not be outsourced or failing to contract out functions that could benefit from outsourcing. Moreover, reliance on the vendor when outsourcing non-core, yet critical, functions is also suggested as being risky since it can have catastrophic effects on the daily and long-term operations of a company should problems arise.

2.7 Research Implications

Even though, as seen in the literature review, a number of factors have been identified by researchers and academics as influencing the success of IT outsourcing, they are often contradicting or unclear and are, therefore, not fully comprehended. IT