

# Information Systems Outsourcing Decision Making: A Managerial Approach

## Table of Contents

<i>Preface</i> .....	ix
<b>1 Introduction</b> .....	1
1.1 Renewed attention for IS outsourcing .....	2
1.1.1 Changes originating from the demand side .....	3
1.1.2 Changes originating from the supply side .....	5
1.2 Relevance of IS outsourcing .....	6
1.2.1 Size and growth .....	6
1.2.2 Relevance to client organizations .....	7
1.2.3 Relevance to IS suppliers .....	8
1.3 IS outsourcing decision making .....	8
1.3.1 Current practice .....	8
1.3.2 Available support .....	10
1.3.3 Evaluation of needs and available support .....	12
1.4 Narrowing the scope .....	14
1.4.1 Research objectives .....	14
1.4.2 Research questions .....	14
1.4.3 Limitations of the research .....	15
1.5 Research approach .....	16
<b>2 IS outsourcing framework</b> .....	18
2.1 Introduction .....	18
2.2 Information systems function .....	19
2.2.1 Definition of IS function .....	19
2.2.2 Classification of IS function .....	20
2.2.3 Classification of information systems .....	21
2.2.4 Classification of IS components .....	23
2.2.5 Classification of IS activities .....	24
2.3 IS outsourcing .....	26
2.3.1 Horizontal and vertical integration .....	27
2.3.2 Definition of IS outsourcing .....	28
2.3.3 Activities or resources .....	31
2.3.4 Market or hierarchy relationship .....	32
2.3.5 Internal or external IS supplier .....	32
2.4 IS outsourcing decision making .....	35
2.4.1 A systems theory perspective .....	35
2.4.2 Changing roles of variables .....	36
2.4.3 Decision variables .....	36

2.4.4	Situational factors .....	44
2.4.5	Goal variables .....	45
2.5	Conclusions .....	47
<b>3</b>	<b>Theoretical perspectives .....</b>	<b>48</b>
3.1	Introduction .....	48
3.2	Division of labor and coordination .....	49
3.2.1	Division of labor .....	50
3.2.2	Market coordination .....	51
3.2.3	Organizational coordination .....	53
3.2.4	Intermediate coordination .....	55
3.2.5	Application of division of labor and coordination to IS outsourcing .....	56
3.3	Transaction cost theory .....	60
3.3.1	Outline of the transaction cost theory .....	60
3.3.2	Application of the transaction costs theory to IS outsourcing .....	66
3.4	Agency cost theory .....	70
3.4.1	Outline of the agency cost theory .....	70
3.4.2	Application of the agency cost theory to IS outsourcing .....	73
3.5	Competitive Strategy .....	76
3.5.1	Competitive forces and competitive advantage .....	76
3.5.2	Core business and core competencies .....	79
3.6	Political model.....	84
3.6.1	Outline of the political model.....	84
3.6.2	Application of the political model to IS outsourcing .....	85
3.7	Conclusions .....	87
3.7.1	Situational factors .....	88
3.7.2	Intermediate variables .....	91
3.7.3	Decision variables .....	92
<b>4</b>	<b>Case studies .....</b>	<b>96</b>
4.1	Case study design .....	96
4.1.1	Research method .....	97
4.1.2	Research design .....	101
4.1.3	Organizations and cases .....	107
4.1.4	Data collection and analysis .....	108
4.2	Initial sourcing decision .....	111
4.2.1	Triggers for sourcing evaluations .....	111
4.2.2	Initial sourcing decision process .....	114
4.2.3	Alternatives and constraints .....	117
4.2.4	Goal variables and expectations .....	119
4.2.5	Analysis of initial situation .....	121
4.2.6	Results of sourcing decisions .....	122
4.3	Designing the outsourcing relationship .....	123
4.4	Selecting the IS supplier .....	123
4.4.1	Selection process .....	124
4.4.2	Call for tender .....	125

4.4.3 Selection of potential suppliers .....	126
4.4.4 Evaluation of tender responses.....	126
4.4.5 Negotiations .....	129
4.4.6 Contracts .....	131
4.5 Implementation, management and termination .....	133
4.5.1 Implementation of the outsourcing decision .....	133
4.5.2 Management of the outsourcing relationship .....	134
4.5.3 Termination of the outsourcing relationship .....	134
4.6 Consequences of sourcing decisions .....	135
4.6.1 Overall satisfaction .....	135
4.6.2 Costs .....	138
4.6.3 Lead time .....	139
4.6.4 Flexibility .....	139
4.6.5 Controllability .....	139
4.6.6 Continuity .....	140
4.6.7 Consequences for the IS staff .....	141
4.6.8 Short term versus long term consequences.....	142
4.6.9 Privatization goals .....	143
4.7 Situational factors .....	144
4.7.1 Information systems and IS function .....	145
4.7.2 Client organization and environment .....	148
4.7.3 IS market and suppliers .....	149
4.7.4 Public or private sector.....	150
4.8 Decision variables .....	152
4.8.1 Outsourcing relationship.....	153
4.8.2 Division among suppliers and contracts .....	156
4.8.3 Management structure .....	160
4.8.4 Operational structure .....	163
4.8.5 Internal organization of outsourcing coordination	166
4.9 Conclusions .....	169
4.9.1 Outsourcing decision making .....	169
4.9.2 Consequences of IS outsourcing .....	170
4.9.3 Situational factors for outsourcing .....	171
4.9.4 Decision variables .....	172
4.9.5 Developing a decision model for client organizations .....	172

<b>5 A Model for IS Outsourcing Decision Making .....</b>	<b>174</b>
5.1 Initial sourcing decision .....	178
5.1.1 Decide whether to initiate sourcing evaluation .....	179
5.1.2 Set up initial sourcing decision process .....	180
5.1.3 Determine goal variables .....	183
5.1.4 Assess current situation and changes planned ..	185
5.1.5 Assess situational factors .....	191
5.1.6 Determine attractiveness of outsourcing .....	196
5.1.7 Chose sourcing option.....	203
5.2 Designing the outsourcing arrangement .....	205
5.2.1 Design the outsourcing relationship .....	206

5.2.2 Divide work among suppliers and contracts .....	210
5.2.3 Design management structure .....	213
5.2.4 Design operational structure .....	217
5.2.5 Internal organization of outsourcing coordination	219
5.3 Selecting the IS supplier .....	221
5.3.1 Set up the selection process .....	221
5.3.2 Write call for tender .....	223
5.3.3 Choose potential suppliers to invite to tender .....	225
5.3.4 Evaluate tender responses .....	226
5.3.5 Write the contract .....	228
5.4 Implementation of the outsourcing decision .....	230
5.4.1 Transfer staff and other resources .....	231
5.4.2 Transfer systems and specifications .....	231
5.5 Management of the outsourcing relationship .....	231
5.5.1 Maintain internal capacity.....	232
5.5.2 Measure compliance to requirements .....	233
5.5.3 Enforce compliance .....	233
5.6 Termination of the outsourcing relationship .....	233
5.6.1 Prepare for early termination .....	234
5.6.2 Evaluate final deliverables .....	234
5.6.3 Transfer staff, resources and systems .....	234
<b>6 Strategies for IS suppliers .....</b>	<b>236</b>
6.1 Introduction .....	236
6.2 Marketing strategies .....	237
6.2.1 Specialist or total solutions provider .....	238
6.2.2 Market segmentation.....	239
6.2.3 Analysis of market segments .....	240
6.2.4 Strategies for entering or extending market segments .....	242
6.2.5 Internal organization .....	244
6.2.6 Marketing mix .....	244
6.3 Strategies for acquisition .....	246
6.3.1 Identifying potential clients .....	246
6.3.2 Approaching potential clients .....	247
6.3.3 Analyzing the client organization's situation .....	248
6.3.4 Determining the attractiveness of prospect .....	252
6.4 Strategies for tendering .....	252
6.4.1 Writing the proposal .....	253
6.4.2 Presenting the proposal .....	253
6.4.3 Awarding the contract .....	253
6.4.4 Contract negotiation.....	254
6.5 Conclusions .....	254
<b>7 Conclusions .....</b>	<b>256</b>
7.1 Research design .....	256
7.1.1 Pilot study.....	257
7.1.2 Developing a framework .....	257

7.1.3 Analyzing organizational theories .....	257
7.1.4 Case studies .....	257
7.1.5 Developing a decision model for client organizations .....	258
7.1.6 Developing strategies for IS suppliers .....	258
7.2 Research findings .....	258
7.2.1 Framework .....	258
7.2.2 Consequences of IS outsourcing .....	259
7.2.3 Situational factors .....	261
7.2.4 Decision variables .....	262
7.2.5 Outsourcing decision making .....	265
7.2.6 Strategies for IS suppliers .....	271
7.3 Further research .....	273
7.3.1 Testing the utility of the model .....	273
7.3.2 Outsourcing the use of information systems .....	273
7.3.3 A comprehensive method for IS management .....	274
References .....	275
Index .....	283
About the author .....	287

*The research project described in this book was supported by the Dutch  
Ministry of Internal Affairs.*