



**Masters in IT Management**

**Faculty of Technology, Policy and Management**

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# **Governance determinants in multivendor IT outsourcing**

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**EXECUTIVE SUMMARY**

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## EXECUTIVE SUMMARY

Many organizations are challenged to be effective at Governance of information technology (IT). The challenge is to improve Governance of IT which is outsourced to multiple vendors spanning different cultures, geographies and capabilities. Effective Governance of multivendor IT outsourcing is more than just flexible contracts, well defined service level agreements and vendor managers. Today, many organizations are left with chaotic blend of service relationships and contracts. Multiple vendors have created a complex web of interdependencies between each other and are often fierce competitors. Consequently, Governance has become a complex problem and often a critical success factor in multivendor IT outsourcing.

Some of the most prevalent Governance issues are related to complex interdependencies between vendors, poor communication structures, budget overruns and unclear roles and responsibilities. But what are the causes of these issues? How often do we look at what happens before the issues surface in the client organization? While major strides have been achieved in the last decade in improving our understanding of IT outsourcing and IT Governance, the focus of information systems and strategic management literature has been on a dyadic relationship. Today, there is a glaring lack of research on how multivendor IT outsourcing arrangements are governed.

The aim of our research is to identify determinants – factors that decisively affect Governance in multivendor IT outsourcing arrangements. This research explores the roots of Governance issues. The main research question, therefore, is as follows:

What are the Governance determinants in multivendor IT outsourcing arrangements?

We started by looking at the underlying differences between single vendor and multivendor IT outsourcing. Although most clients start IT outsourcing with single vendor, they move to multivendor approach over time. Single vendor IT outsourcing is less complex for the clients to manage however it increases dependency and risks of vendor lock-in. In a (semi-) globalized world, clients are required to spread risks and responsibilities. Moreover, forces such as vendor specialization, reduced transactional risks and technical expertise are rationales why clients are moving towards a multivendor IT outsourcing.

As literature lacks relevant and actual insights regarding Governance determinants that are applied in multivendor IT outsourcing, we reviewed and analyzed Governance holistically. These include corporate Governance, Governance of IT, Governance of IT outsourcing and Governance of multivendor IT outsourcing. From literature review we identified twelve Governance determinants which are categorized into four Governance modes. The key findings from literature review are structured into a “conceptual research model” that includes following determinants:

- Inter-organizational structure, strategy and motivation, and clear roles and responsibility are determinants of inter-organizational Governance mode.

- Commercial goal expectations, activity expectations and contractual flexibility are determinants of contractual Governance mode.
- Information exchange, trust and conflict resolution are determinants of relational Governance mode.
- Collaboration processes and tools and shared values and understanding and starting conditions are determinants of collaborative Governance mode.

The outcome of literature review is validated based on a carefully selected case study of multivendor IT outsourcing arrangement. The empirical evidence from the case study revealed two additional Governance determinants: knowledge management and power-dependency play. Consequently, the conceptual research model is adapted to include fourteen Governance determinants.

Next, effect of Governance determinants on the client's organization is explained. The strategies developed by the client to overcome the challenges are multidisciplinary and we observed that one change can trigger many changes. The conditions created by the client and the vendors do not work in isolation. In fact they are all connected like a big complex web of interconnections and feedback. We studied relationships between determinants and their effect on other Governance modes. We observed that clear strategy and motivation shapes inter-organizational structure and helps define clear roles and responsibilities. This improves the relationship with vendors and creates conditions for collaboration. A stable scope and a long term contract reduce vendor's risk which in turn enables them to invest in delivering innovative services and sharing information with other vendors. Investing jointly in collaborative processes and tools enable knowledge management, clear and faster escalation of issues and above all improves service performance.

The Governance determinants, conceptual research model, relationships between determinants and Governance modes are key contributions to science. This thesis is also useful for clients, consulting companies and vendors. In order to define and implement effective Governance in multivendor IT outsourcing arrangements senior managers in the client organizations will require multidisciplinary skills. By understanding and using these Governance determinants, clients can improve vendor relationships, manage complexity, improve performance and above all, establish strong control and oversight of its own multivendor IT outsourcing arrangement. All this together enhances the effectiveness of Governance and achieves the benefits of multivendor IT outsourcing.