Success factors in IT Outsourcing

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Abstract

To survive and respond to the everchanging business world companies are seeking new ways to concentrate and improve core competencies, as well as improve their competitive status against the market. Companies are exploring how to exploit the core competencies of other companies. The goals of the partnership might differ depending on the scope of the partnership. The goal might be one or many of the following: cost reduction, access to higher quality service, access to technology and/or know-how.

Even if the first IT outsourcing was done around 30 years ago by Eastman Kodak and General Dynamics and the area has been studied quite heavily, the topic seems to be still difficult for companies to grasp the wanted benefits. As the IT outsourcing is widely used option in the business world and the results are not firm, I feel the topic is still relevant to study. The research question for the study is: "What factors affect the success of IT outsourcing relationship?"

The research question is answered through the literature review. From the literature review eleven high level success factors can be identified. In some cases, some factors are combined. The success factors are Cost and Quality, Trust, Alignment to business strategy, Culture, Communication, Contracts, Strategic Partnership, Governance, Management support, Infrastructure, and Know-how. How important each individual factors are in outsourcing engagement in question depends on the sort of the partnership.

The theoretical implications are very limited, but the practical implications regarding communication, trust and governance should be considered when companies enter IT outsourcing partnerships. Putting an emphasis on setting up proper governance functions and people who are good at communicating with the other party will pay the efforts back in success of the relationship.

Keywords
Partnership, Outsourcing, IT Outsourcing, Success factor

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PhD, Associate Professor, Marianne Kinnula

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1. Introduction

Heavy global competition has compelled companies to seek new ways to improve their core competencies to be able to survive and respond to the challenges in turbulent business world (Chen & Wu, 2007). Companies are forming partnerships with increasing speed to be able to maintain their current competitive advantages, which probably could not have been done by acting alone (Mohr & Spekman, 1994). Partnership in this thesis is defined as two individual companies seeking for better success by remaining legally independent, but sharing benefits and managerial control, and by contributing in one or more strategic areas to the partnership. There are different forms of partnerships which require different contribution from partners, but the main goal remains the same, mutual benefits. (Mohr & Spekman, 1994; Todeva & Knoke, 2005.)

Fairchild (2004) defines outsourcing IT as "the practice of one company hiring another one to run an IT aspect of its business, such as maintaining its PC or managing a data center." IT outsourcing has been studied quite heavily during the past decades and there's bulky amounts of information about it (Lacity et al., 2011). Dibbern et al. (2004) identified five research caps, one of them is supplier perspective and another one is supplier-client relationship. Lacity et al. (2011) did a thorough literature survey on IT outsourcing studies. On their study the authors state that in the sample of 164 papers only 11 include only supplier participants and 28 papers both parties, which altogether represents only 24% of the stack of papers. Even if authors state that there have been more studies done on these two areas since 2004 when Dibbern et al. (2004) proposed their caps, to me the split seems rather uneven.

In this thesis I define outsourcing as hiring a company to run a defined set of operations on behalf of the customer operation. In essence there are two different approaches to outsourcing a function. First one is operational, where the corporations seek for short-term perks from procuring a service or product from another company. The second one is more strategic, where the goal is to gain long-term gains with longer cooperation with another company. (Todeva & Knoke, 2005.) IT outsourcing can somehow be seen as both, because one of the main goals is to gain cost reductions but also amongst other things to get access to higher quality, technology, and know-how. The beginning of the 90's Eastman Kodak and General Dynamics are known to be the first ones to outsource their IT functions (Earl, 1996). Earl (1996) states that outsourcing an IT function should be treated as any other business outsourcing.

Today outsourcing IT is more or less de facto on all industries, therefore investigating the success factors is important. To this thesis, I am reusing the definition of success factor for partnership from Mohr and Spekman (1994), "the characteristics of partnership that are associated with its success." The research area is interesting to me as I have been selling IT outsourcing services for more than ten years and I have seen various customers, customer teams and status of their relationships, as well as how they talk about the other when the other party is not present. Therefore, I feel that it's interesting to try to understand, from academic perspective, what factors really make the outsourcing relationship flourish. Lacity and Willcocks (2012) state that IT outsourcing has been seen a problematic since Eastman Kodak and General Dynamics did the first trials in the 1990's. Therefore, it will be an interesting and ever-growing area to research also in the future (Lacity et al., 2016; Lacity & Willcocks, 2012).

The research question for the study is: "What factors affect the success of IT outsourcing relationship?" The research question is answered through the literature review. I'm

concentrating only on the pure one-to-one IT outsourcing relationship and exclude all possible other outsourcing partnering forms. By pure IT outsourcing relationship, I mainly refer to IT infrastructure, end user or application maintenance and development services. Same factors may, however, be important to other kind of relationships as well. All kinds of multi-vendor relationships are excluded even if I agree that they are currently very common and there should be cooperation between vendors. I'm concentrating on the pure IT outsourcing partnering form as that's what I have been selling and I would like to understand the theory behind a successful relationship. Fairchild (2004) states that there are plenty of maturity models presented in the literature, like SPICE, Project Management, People, or ITIL, de facto in IT service business. They refer to maturity of the activities performed by parties. While maturity of the operations surely is an affecting factor, it's excluded as such from the study. However, the ability of either party is listed as one of the success factors, which is introduced and discussed, but reasons behind ability are not. Also, the approach of the thesis in general is positive and therefore I will look at the success factors as enablers of success, as opposed to reason for failure.

The theory is split into two separate sections. Chapter two discusses about partnering, partnering success factors as well as outsourcing characteristics and success factors. The third chapter talks about IT outsourcing and success factors. The success factors are summarized in a table on chapter 3.2. On chapter four I will contemplate about the success factors individually or in pairs. The chapter five summarizes the theses.

2. Partnership, outsourcing and what makes them successful?

Because the competitive environment is becoming less fixed companies search for economic benefits and partners to share the risk with (Lee & Kim, 1999; Mohr & Spekman, 1994). Early research on partnering relationships concentrates only on concept of exchange relationship. Both parties need exchange of money and products or services, and necessary social interaction and other interactive processes. When services are being exchanged the interdependency between parties is different than in traditional product exchange relationship. (Halinen, 1994, as cited in Holmlund, 2004.)

There are two fundamentally different approaches in developing partnerships. The first is operational, where the corporations seek for concrete short-term perks from procuring a service or product from another company, like cost reduction. The second is strategic, where the goal is to gain long-term gains with longer cooperation with another company. The sought after benefits can be direct, like on operational partnerships or indirect, like access to resources or technology. (Todeva & Knoke, 2005.)

Partnering or alliance relationship may be formed among competitors or non-competitors. It may be tied because of operational or strategic reasons. Example of non-competitive partners can be industrial buying organization and their suppliers. In such relationships the focus is on improving the operational procedures and efficiency. This sort of relationship can be called a cooperative relationship. When companies develop new products, services and/or technologies together the relationship can be characterized as a collaborative relationship. (Ellram & Hendrick, 1995). Companies form partnerships and rationale their cooperation relationships with economic and competitive advantages. The idea is to gain vertical benefits without the risk of owning the operations, like for instance HR, IT, or stock. (Ellram & Hendrick, 1995.) Bleeke and Ernst (1993, as cited in Todeva & Knoke, 2005) state that reasons for partnering are: access, scale, skills, money, or some combination of the reasons. They also state that it doesn't matter what industry the companies are the reasons stay the same.

Since decades there has been a tendency to form vertical and horizontal alliances when companies are trying to learn how to be more competitive. The alliance formation is done on local and international scale. The alliances lower autonomy of individual companies but can however give massive benefits in terms of sales, scale, reach and lower the risks. (Pett & Dibrell, 2001; Prahalad & Hamel, 1990.) Mohr and Spekman (1994) state that usually companies within manufacturing channel establish partnering relationships with up- and downstream distributors and other manufacturing parties to establish more efficient supply chain. Also, distribution relationships are tied to increase penetration in different markets and to provide better customer service to their end customers.

High-tech companies' business environment differs very much from traditional manufacturing companies (Chen & Wu, 2007). For instance, high-tech companies strive for fast innovations (Deeds et al., 2000), a shorter product lifecycle, quickly transforming business world, and their products are extremely reliant of complex technologies. Urge to develop core competencies in both traditional manufacturing and high-tech companies is the same and the underlying reason is the same; to be more competitive. (Chen & Wu, 2007; Todeva & Knoke, 2005.) Partnerships can grant access for companies to enter new markets with new products or services. Partnership also gives access to R&D information from different business areas completely, which then may speed up the product

development process and with that the time to market. Many companies pursue having more and more strategic partnerships, but the success rate is not impressive. (Mohr & Spekman, 1994.)

2.1 What makes the partnership successful?

Mohr and Spekman (1994) and Todeva and Knoke (2005) state that characteristics of a successful partnership is not evaluated properly. La Londe and Cooper (1989, as cited in Ellram & Hendrick, 1995) state that futuristic orientation, Win-Win/Risk Sharing, and communication issues are the most important factors to focus on in relationships. Authors also argue that in their research they found out that buyers and suppliers are expecting same characteristics from partnering relationship. The most desired attribute by both parties to improve in a long run is communication.

When thinking about success factors of partnership you eventually will ask that what does the success of partnership mean (Mohr & Spekman, 1994). Todeva and Knoke (2005) tell that business literature has identified several aspects of successful partnership like better return on equity and investment, and higher success rates, when comparing to the corporations who have bought a company or merged into each other. Mohr and Spekman (1994) state that successful relationship can be measured based on objective indicators for both parties, i.e., how well the performance expectations are met. In partnering relationship, the parties have a mutual agreement of the characteristics of a successful partnership, i.e., characteristics are the same for both parties. Even though the partnership would be going very well both parties have ideas how to improve the relationship. It is also common that the things to be improved, how and how much are seen similarly (Mohr & Spekman, 1994). Väyrynen & Kinnula (2012) state that to ensure success of the relationship, the expected path to be taken, outcome and goals should be defined at the very beginning.

Today's buzz word continuous improvement was recognized in partnering relationships already in 1990's. Companies see that it's the only way of having a partnering relationship. (Ellram & Hendrick, 1995.) Kern and Willcocks (2000) state that successful relationship mainly comes from high customer satisfaction, achieving the expectations and objectives of the cooperation. Lee and Kim (1999) state that successful partnership means that both parties reach their organizational objectives, which are relative to the partnership, and can build a competitive advantage that neither of the parties could have been able to achieve on its own. The authors also characterize the success as adequacy between customer's expectations and outcomes. They specifically want to separate the quality and success of the relationship. They state that high relationship quality can be a vital requirement of a successful relationship, but it doesn't mean that it's the only prerequisite, i.e., if a goal is to reduce costs and the quality of partnership is excellent, it doesn't anybody if the partnership fails to hit the planned cost reductions. Authors also argue that the most remarkable factor towards successful partnership is quality.

Mohr and Spekman (1994) state that key factors affecting partnership success are: commitment, coordination, interdependence, and trust. Commitment means that both parties are willing to put enough effort for greater mutual good. Coordination can be understood so that tasks related to the relationship are done by the party, which is expected to do them. Like for instance, in supply chain/just-in-time environment if somebody fails to do its task the whole process might fail, and a lot of money and time is lost. Interdependence refers to committing to shared goals so that both parties benefit from all the efforts that are done. Trust in this case indicates that both companies have be

capable to count on the other party without a doubt. According to authors high level of trust, coordination, interdependence, and commitment are seen in characteristics of successful relationship more often and on higher level than in an unsuccessful relationship. They also state that mutual commitment is one of the most vital factors in relationship. A high level of commitment by both parties for relationship will lower the problems in short term and amend possibility for long term goal accomplishment. It is very important for both parties to understand that for successful relationship the efforts made by both parties affect the success rate. If one party acts too opportunistically the relationship tends to fail but if both parties acknowledge their mutual dependency and if they are willing to work together towards success the relationship may work. (Mohr & Spekman, 1994.)

2.2 Characteristics of an outsourcing partnership

As already described earlier, Todeva & Knoke (2005) state that there are two different models to partnerships, one of these is strategic. Outsourcing relationships can be characterized as a strategic partnership. Outsourcing relationships are set up in search of longer-term gains. (Todeva & Knoke, 2005).

Companies want to focus on their core competencies and assign personnel to produce ultimate unique value for their customers. Companies strategically outsource every other function to those whose core competence it is, so that the actions provided by third parties are as cost-efficient as possible and on top of the game. There are four reasons for doing this: first one is that companies want to concentrate their resources into actions that bring value to customers. Second is that concentrating on core competencies companies hinder their competitors entering the market. Third one is the leverage of third party's investment, know-how and innovations which is in practice impossible to follow without investing huge amounts of resources. Fourth is simply the need for change in turbulent business environment. (Quinn & Hilmer, 1994.)

Outsourcing is not any more seen only as a way of cutting costs and improving strategic focus. In business world today companies are looking for new ways of using other companies' core competencies to achieve more effective ways of doing business. Therefore, the most important goal for outsourcing parts of one's company is to obtain competitive gains for the business. For example, companies can get access to larger pool of innovative IT solutions, which can then benefit the company in product development and give competitive advantages by shortening time-to-market and reducing development costs. (Fjermestad & Saitta, 2005.)

Competitiveness, in a long run, comes from ability to build or produce with as low cost as possible and to be faster than competitors. The seed for success is core competencies and the ability to change in fast paced markets in sense of skills and products. To be able to be competitive managers must identify the skills within the company and try to understand which of those can be used in some innovative way in the future. This gives competitive advantage also in the future. Good example of such companies could be Asian companies who have started as developer of low-cost components. When they have mastered the component development, they moved to complete product development; and when they do – they are not only low-cost players anymore. To be able to develop core competencies managers need to have a roadmap for core competence development which helps them to understand the strategy and resource allocation of a company. (Prahalad & Hamel, 1990.)

Prahalad and Hamel (1990) use tree metaphors to symbolize the core competences of a company. They state that core products are the trunk and major branches, and the smaller branches are the business units, and the leaves and fruits the different configurations of the core products i.e., end products. They state that core competences are the root system. When you focus on your core competencies it means that you are creating unique value to your customers which can't be copied. Companies have usually five or six core competencies that should be preserved. Authors state that when a company has found out company's core competencies it should embrace and develop them. The core competencies are usually something insubstantial i.e., skills that are possessed by bunch of people. The problem with skills is that they must be practiced and evolved to be able to do them and most of all to keep on the edge of developing something new. These people should not be bound up but rather set free and therefore the internal and external resource circulation is important so that the skills will get new influences to develop. Core competencies are usually cross-unit skills and abilities, and competitors will have hard time to imitate them if not impossible. Therefore, the sharing of information and know-how is important to be able to be competitive. Core competencies do not wear out by using but they evolve as they are used and shared, or you might say that core competencies are the ones that keep the world changing. (Prahalad & Hamel, 1990.) Companies must see three core areas: core competencies, and core products and end products. If a company is winning now in core products, it doesn't mean that it'll be that way forever. If, however, the company is losing the battle in end products but ahead in core competencies it will win its competitors in the future in the sense of new product feature development or cost-efficiency or even in both. (Prahalad & Hamel, 1990.)

Beyond focusing on core competences and cost reduction, other reasons to outsource are that the functions are not the core competence of the company, access to skills/expertise, need to improve processes, access to leading edge technology, and political reasons (Lacity et al., 2011). Baldwin et al. (2001) support the statement that traditionally the reason to outsource has been financial and costs, but nowadays the reasons may vary from personal to political and strategic. Of course, all companies have their own ways of doing business and being unique which should be reflected into what, how and why they outsource. The reasons can be reduced costs, more superior quality of services, and access to resources and technology. In addition, companies seek higher flexibility and competitive edge to improve their overall performance. Currently companies are moving their people from operations of IT to the business side of IT where they can concentrate on supporting the ever-changing business needs better. (Baldwin et al., 2001.)

Lee and Kim (1999) did an outsourcing satisfaction study on two levels, on business and end user. The conclusions are that the satisfaction of these groups is based on somewhat different factors as end user satisfaction is gained when quality of the relationship is high, but the business satisfaction is achieved by getting strategic, economic, and technological benefits, i.e., the end users don't necessarily see the big picture.

Lonsdale (2001) states, that there are several risks discussed in literature about outsourcing. The risks are pre- and post-contract. These of course are dependent on the characteristics of the outsourcing relationship. Especially the risks rise if the outsourcing relationship requires physical asset investments. Also, if the outsourcing includes, as the author states, transaction-specific investments the companies can find themselves in so called locked-in business relationship, which gives one party dominant position and can violate the other party's business severely. These sorts of situations are more common in traditional Supply Chain Management (SCM) situations where a company is handling the whole supply chain but it's very dependent on the parts along the way which other companies provide for the supply chain. According to Fjermestad and Saitta (2005) other

negative effects of outsourcing can be loss of in-house know-how, loss of control and data security.

Håkansson and Ford (2002) have proposed three paradoxes concerning business networks and interaction within them. Their third paradox concerns control. The paradox is: the more a company gets control over a network, the less effective and innovative it will become. The ambition to develop one self's network position is a change force of a network, but if a single company achieves dominant position, it influences the whole network negatively. Mohr and Spekman (1994) argue that there are several things that companies oversee when forming relationships: increased complexity, lower autonomy, and information asymmetry. There's a certain irony in outsourcing since managers may feel that they are just shifting from one set of risks into a different set of risks (Mohr & Spekman, 1994).

3. IT outsourcing

Even though IT outsourcing has been researched from 1990's the companies are still realizing the possibilities, and most are only 2nd or 3rd generation outsourcers, some of course are early adapters and are on their 4th generation of outsourcing. The decision to outsource has originally cumulated from fundamental question: make or buy? (Lacity et al., 2010.) It is acknowledged that IT has become the core that strongly supports organizations (Dibbern et al. 2004). On the turn of 1990's Eastman Kodak and General Dynamics started the wave of outsourcing IT functions to third parties. Depending on the motives companies have outsourced or smart sourced, e.g., selectively outsourced, their IT, i.e., management and operation of legacy systems, or non-core systems. (Earl, 1996.) The IT outsourcing has been seen useful from small and local firm to big global multi-national company point of view (Dibbern at al., 2004).

Earl (1996) suggests also that if IT operations are already efficient then outsourcing shouldn't be considered as an option. If, however, the performance is low, and the value for business is high then at least benchmarking or even outsourcing should be seriously considered while searching for options to improve. Earl (1996) also says that before going to outsourcing managers should examine why it makes sense or why it'll work. According to Earl (1996) companies should consider if the risks of outsourcing are manageable and if the risks take place, are the benefits greater than the downsides. Lacity and Willcocks (1998) agree with stating that companies that compare internal and external bids are more likely to success when making the sourcing decision. Earl (1996) also argue that outsourcing IT is not an absolute value but should be treated as any other business enabling support function. Lacity and Willcocks (1998) state that when directors and IT management conclude who and what to outsource, it brings more successful sourcing results than if just one group makes the decision alone.

Lee and Kim (1999) present that there are two ways to outsource IT: asset and service outsourcing. Outsourcing assets refers to transport of assets (like hardware) and personnel to the service provider. Outsourcing services means system integration and system management services, i.e., no assets are transferred. Companies have also pondered what degree of outsourcing they should be doing and what sort of contracts they should be making. In addition, the decisions about sourcing locations have been wondered. Also, one reason for outsourcing is increased service levels with the same cost. (Lacity et al., 2010.) Lacity and Willcocks (1998) argue that selective outsourcing has been proven to bring more successful outsourcing results in IT than full outsourcing or insourcing. Baldwin et al. (2001) tells that within their research the company who did selective outsourcing in early 90's and even with poorly detailed contract was nevertheless able to reach out its goals. According to Lacity and Willcocks (1998) short-term contracts archive higher success rates than long-term contracts. On their study Lacity and Willcocks (1998) found out that newly signed contracts were more successful of reaching the cost savings goals than the old contracts. This may reflect that customers are learning and able to negotiate better contracts. The authors also discovered that the size of the IT operations didn't really affect the success of outsourcing on financial side.

At first, the reason for outsourcing IT was purely cost reduction (Gallivan & Oh, 1999). It is stated that it's still the most important reason for outsourcing (Lacity et al., 2010). But the cost reduction is not only reducing monetary budgets but rather being more efficient, doing more with the same money. Also, it's very important to be able to do the right things, i.e., if you are doing the wrong thing very efficiently, it doesn't help the

business. (Luftman & Zadeh, 2011.) Outsourcing has been especially practiced in information technology (Lacity et al., 2011). Because of the business environment is constantly changing, companies are searching for external IT service providers who can provide the services cheaper, better, and with better performance, and more innovatively. Because of substantial business impact of IT, the focus of traditional chief information officers (CIO's) has been transformed from IT management to active contract management. (Ye, 2005.) By contracting properly companies try to avoid paying several types of transactional costs (Todeva & Knoke, 2005). The technology development is providing companies constantly new possibilities as sourcing models like for instance cloud computing, application service provisioning, and business process outsourcing (BPO) (Lacity et al., 2011).

The BPO market is still quite new as it requires quite a bit non-IT know-how from the vendor, but it remains quite interesting to companies seeking possibilities to outsource to gain benefits (Baldwin et al. 2001). In near past companies have been outsourcing their business processes to external service providers. BPO market is relatively smaller than IT outsourcing but it's growing at greater pace. BPO means basically that non-core processes are managed by external supplier to reduce costs and therefore the buyer doesn't have to concentrate on improving the competence of standard functions of a company like for instance HR related or other admin processes. (Lacity et al., 2011.)

Earl (1996) states that getting competitive advantage from outsourced IT require continuous efforts to find and implement new ways of using IT. Companies seek IT-based business enhancements that directly affect their business performance. For instance, such could be logistics optimization, customized marketing, dynamic forecasting, or product offerings. (DiRomualdo & Gurbaxani, 1998). However, the improvements need to be done without affecting production too much, as if the production needs to be run down only because of new innovative usage of IT the benefits may slip away completely. (Earl, 1996.) According to Dibbern et al. (2004) companies' senior executives don't see IT functions any longer as their core competencies, and they understand that IT vendors can provide the same services in robust and more efficient way because IT vendor's know-how and scale for economics. IT is seen as an essential part of company's support functions, but then again, it's also seen as an overhead. As IT is not seen any more as part of core competences and it's more seen as a cost burden the outsourcing wave has become more and more common. However, several companies have paid enormous sums to get out of IT outsourcing relationships and re-constructed their own internal IT, but the trend is more the opposite, i.e., to outsource IT to third party vendors. (Dibbern et al. 2004.)

Reason for vendors to sell IT outsourcing is simple: deals give them reasonably long-term solid revenue stream, and they are enablers of longer relationships. This may be on the contrary to IT consulting relationships, where revenue stream may not be as long-term but again companies try to get more profit from shorter sprints. It's a known fact by both parties that at least part of the contract will be renegotiated during the contract term. It can be the prices, content, terms, all, or subset of these. (Dibbern et al., 2004.)

There are also few negatives to IT outsourcing decision like concern for security or fear of losing control. The bigger the worry for both, the bigger the chance is that IT outsourcing is not done. Also, the performance of the IT department affects the willingness to outsource – if the performance of IT department is low the willingness to outsource is bigger than if the performance is at least reasonable. (Lacity et al., 2011.) Earl (1996) presents how to define what to outsource and what not to. He presents that if the part of IT is commodity and the performance of current (in-house) operations is low it should be outsourced, however if the efficiency of that commodity IT is already high

there can be areas which could be smart sourced. When the part of IT at hand is close to core business and (in-house) delivery is facing problems with efficiency the area should be benchmarked within the market. Although if the efficiency is already high and the area is close to core business it should be kept as in-house. Research has pointed out few other downsides on outsourcing IT, like for instance lock-in relationship, reduced service quality, loss of flexibility or control, and dependence on vendor. (Antonucci et al., 1998; Araujo, 1998; Barthelemy, 2001; Lei & Hitt, 1995; Longsdale, 2001). In addition, the possible business risks may occur which may cause notable business drawbacks, like production line forced to be shut down and losses in money can be substantial (Baldwin et al., 2001).

3.1 IT outsourcing success factors

In this chapter I'll introduce the factors identified in literature affecting success of IT outsourcing relationship. The affecting factors are also described individually in more detail later in the chapter.

Lee and Kim (1999) state that to be able to achieve success through partnership, the parties should try to establish and cherish high quality relationship by concentrating on improving intimacy of the partnership. They also argue that partnership factors affecting positively on quality are communication, participation, information sharing and, top management support. Harmfully affecting factors are age of partnership and mutual dependency. Authors also elaborate that traditionally a long relationship is a strength, sign for stability and successful relationship. But they also point out that it also is weakness. At least, if the contract is longer than 5 years and can cause dissatisfaction between parties.

Fjermestad and Saitta (2005) introduce in their article The Information Technology Outsourcing Framework. The authors argue that success factors are: "alignment to business strategy, management support, culture, infrastructure, contracts, strategic partnership, governance, cost and quality." They also state that the goal of outsourcing is cost, and quality, and the effect of the components are dependent on the nature of the engagement. The components of the framework are not meant as individual success factors but might vary from relationship to another depending on the form and shape of the relationship. As an example, if the relationship is only a small software integration project, then not all factors are relevant (Fjermestad & Saitta, 2005). According to authors' literature research aligning the IT outsourcing with business strategy was the most evident success factor. Lee and Kim (1999) have identified factors that fabricate cooperation quality. They are "trust, business understanding, benefit/risk share, and commitment".

According to Väyrynen and Kinnula (2012) focusing on core competences, mature service provider assessment process, controlling decisions regarding IT, selective outsourcing, risk/reward sharing, service quality, trust, communication, cooperation, company values and understanding the total cost of ownership in outsourcing are identified as success factors. In addition, their research lists other important factors like culture, management support, governance, and contracts. Authors state that according to their literature research the success factors of IT outsourcing are both soft and hard. Trust and communication being soft factors and contract and personnel know-how hard ones. The biggest risks at relationships can also be seen as success factors. If the risks can be avoided or mitigated, it'll help the relationship strive.

In the next chapters I have made a deep dive into success factors identified in Fjermestad and Saitta's (2005) The Information Technology Outsourcing Framework, as well as others which have been pointed out as important in the literature.

3.1.1 Economics: Cost and Quality

Fjermestad and Saitta (2005) tell that companies should first figure out the full costs of providing IT services before a proper comparison can be made. They also refer to previous research on economics of IT outsourcing which states that companies should first strive for internal development and only after that think about outsourcing possibilities. Authors also repeat that former research argues that outsourcing doesn't automatically bring cost reductions, higher quality, or competitive advantage. Lacity and Willcocks (1998) state that in their research the most cited goal was cost savings. The authors also state that mostly used success indicator was reaching the cost savings. In addition, they argue that it is the easiest factor to verify.

When trying to leverage the possible economies of scale of IT vendors capabilities, the environment, scope, and strategy may influence the possibilities, especially if the environment differs from industry standards (Lee and Kim, 1999). However, Baldwin et al. (2001) argue that a careful balance of cost and quality is the best way to success as opposed to only going for low-cost selective outsourcing. The authors also state that by doing the balanced approach into outsourcing ensures the best strategic benefits as vendors can utilize their innovativeness to produce additional value and avoid pitfalls.

Fjermestad and Saitta (2005) state that outsourcing doesn't necessarily derive into longer term cost reductions, but the real value may be the access to better services and capabilities. However, the outsourcing may seem cheaper option due to financial engineering. The outsourcers should try to see past the preliminary savings to the total cost of ownership. The dilemma cost versus quality has been studied quite a lot. When a company is thinking about outsourcing some portions of their IT, they should first try to identify full and complete internal costs of that functions before making a cost comparison. It should be kept in mind that IT outsourcing isn't absolute value for competitive advantage, higher quality services and costs savings. Often, they are completely opposite targets. There are various models to provide certainty for the buyer about suppliers' quality, like CMM/CMMI and ITIL. CMM/CMMI is a way to measure the disciplines of a software development maturity of a company. (Fjermestad & Saitta, 2005.) ITIL (Information Technology Infrastructure Library) is not a standard but can be identified as group of best practices of service management processes that are connected to each other. The processes can be divided into two areas: service support and delivery processes. (Marquis, 2006.)

Often financial and cost aspects are put as priority when outsourcing but nowadays other factors also are starting to rule. As the decision-making is done based on other factors than cost the process is getting more complex. There are political, human, and organizational aspects involved. In addition, there's always the risk and uncertainty of managing one's own IT environment. From management point of view there's also considerable business possibilities and risks involved in short and long-term. Even though wide number of companies have outsourced their IT as a strategic choice and therefore the know-how on outsourcing has improved the circumstances vary in sense of time and company. (Baldwin et al., 2001.) Despite of improved understanding on outsourcing it's yet important to understand and manage the total cost of ownership (TCO) of an outsourcing engagement. The TCO consists of transaction costs, scope and contract

growth control costs, hidden management costs, transition costs, potential cost savings. (Aubert et al., 2005; Ho et al., 2003; Kern & Willcocks, 2000.)

3.1.2 Alignment to Business Strategy

Alignment to business strategy means that IT outsourcing strategy needs to strive from company business goals. The IT strategy needs to start from vendor selection and outsourcing approach, i.e., when selecting a vendor, what are the most significant factors in vendor selection, cost, or contribution to strategic goals? In the academic literature several of them are reporting the significance of business alignment and creating value for it. In addition, there has been identified enablers and inhibitors and supplier maturity levels to be able to align with customers business strategy. (Fjermestad & Saitta, 2005.) Kohli and Deveraj (2004, as cited in Fjermestad & Saitta, 2005) present four steps to measure IT value impact to business investments: communication, involvement, analysis, and alignment. Fjermestad and Saitta (2005) also state that business strategy should be re-defined or even re-engineered after the possibilities of IT has been an understood. McLean and Luftman (2004, as cited in Fjermestad & Saitta, 2005) argue that the most important concern for IT management was business alignment and the biggest inhibitor for proper alignment was lack of executive support. They also state that the best enabler was vendor understanding of the customer's business environment.

3.1.3 Trust

Trust is identified as very important factor in relationship. In this context, it means that either party's word can be trusted, and they will act according to it as has been stated formally or informally (Mohr & Spekman, 1994). Sabherwal (1999) defined trust as "each party's perception of the motives of the other party". Kern and Willcocks (2000) argue that as the trust is listed as critical factor to relationship it's not clear if it's meant as confidence or trust between individuals i.e., communication and transparency. They also state that it takes a while to develop trust between parties and it often comes with high quality service delivery.

Sabherwal (1999) states that there are four types of trust: calculation-based, knowledge-based, identification-based, and performance-based. Calculus-based trust originates from structural behaviour regarding delivery. This also roots from vendor's willingness to make a structural contract. Knowledge-based trust points to each party knowing another party. This type of trust can be gained by experiencing series of events together as companies but nevertheless the trust upwells from the individuals. The identification-based trust is gained by understanding other party's goals. By gaining this trust both parties can support the other party towards its goals and by doing so the goals are mutual. The identification-based trust is usually nurtured by joined team-building efforts. Performance-based trust is dependent on performance at the early stages. Reaching the agreed goals in the beginning of the relationship seems to have positive effect on trust and cooperation. Therefore, the first accomplishments are good thing to celebrate with joined teams. The performance-based trust is extremely important when the customer and vendor are geographically far away from each other, i.e., offshored delivery.

Sabherwal (1999) states that in his studies he has seen lack of trust cause bad performance and vice versa. It's usual that lack of trust ends up to finger pointing what the other parties have done or not done to cause the problems within the delivery, as all parties are only interested in their own benefits as opposed to getting the job done. Sabherwal (1999)

states that the trust issues can be mitigated by careful 3rd party selection. But careful selection doesn't take you all the way, but it requires work among the parties to reach mutual trust.

When a formal contract is crafted, everything can't be written down. Thus, when the written contract is born there's always a psychological contract born at the same time consisting of all the expectations of each party about the obligations and prerogatives. They tend to vary from contract or relationship to another and the parties are not usually aware of them. Simple and short projects can normally be run even without any written contract, i.e., based only on communication and trust (Sabherwal, 1999).

3.1.4 Culture

A widely accepted key success factor on IT outsourcing is culture, especially on offshore outsourcing engagements. It withholds written and verbal communication, time zones, and political and social factors. Mitigate actions can be considered as communication and training for both parties. Some vendors for instance train their staff on religious differences, language accents, as well as social activities to decrease the possible gap. However, the cultural training shouldn't be considered as a simple task and when we also consider industry specific government requirements like the U.S. Patriot Act or SOX (Sarbanes Oxley). (Fjermestad & Saitta, 2005.)

Authors Ellram and Hendrick (1995) and Mohr and Spekman (1994) argue that even though companies' organizational cultures were alike it doesn't ensure success in partnership. Companies must dedicate their efforts into reaching mutual goals, i.e., they must have mutual futuristic orientation. Also, Lee and Kim (1999) argue that the cultural fit doesn't affect that highly into the outsourcing success. They however admit that it may be a factor at first but once the initial state of outsourcing relationship is passed it doesn't play a big role anymore.

3.1.5 Communication

To be successful in a relationship communication behaviour is essential. This means mutual high-quality communication, participation in planning which includes goal setting, and other kind of formal and informal information sharing. (Mohr & Spekman, 1994.) Authors also illustrate communication as the vitality of relationship. Parties should be very open regarding goals and strategic choices to each other, but the problem is that it's not natural for traditional manager to be open regarding the listed issue with another company. This is to be learned by doing and when parties find the mutual understanding of each other's goals they can way easier hit mutual goals. Authors also state that the problem with outsourcing relationships is companies internal – how to develop company's internal management culture to support outsourcing actions; to see that when driving mutual goals, the company's own goals are more likely to get achieved.

There are two forms of communication between parties: the formal, i.e., service performance reports which are traditionally in a way, or another defined in contract. The second form of communication is informal, i.e., day-to-day interactions between parties. To make the informal communication successful the actors, managers from both parties, need to be skilled in communicating with each other and to different levels of each company, i.e., technical and business. (Kern & Willcocks, 2000.) Kern and Willcocks (2000) state that an important factor to be considered is the informal communication of

the top management of each party. According to the authors these inter-company relationships are essential especially in conflict situations.

3.1.6 Contracts

Making a contract in outsourcing is habitually seen as clench done in the beginning of the relationship (Kern & Willcocks, 2000). On outsourcing contract, the roles, responsibilities, requirements, and run-phase performance measurements need to be defined properly, otherwise they will change as people tend to change and it'll cause unnecessary ambiguity. Even though the contract is important to be precise it's likely to change due to various reasons, which may be for example long contract term, rushed signing or vague definition of responsibilities. Even though incomplete and vague contracts are warned about, yet they are very common and when they are communication and understanding of both parties' business is emphasized to be a key factor to a successful business relationship. In addition, one important part of contract, on top of the already listed ones, are SLA's (Service Level Agreements) and attached penalties. The SLAs should be measured and reported properly. (Fjermestad & Saitta, 2005; Lacity & Willcocks, 1998.) What's written in the contract about governance, SLA's, KPI's (Key Performance Indicators), and other official controls is presented in the literature as formal governance. The formal contractual governance guides parties in formal manner how to cooperate, what's acceptable behaviour, as well as not to act too opportunistically and ruin the possible success of the engagement. (Lioliou et al., 2014.)

There might be several different problems in IT outsourcing like for instance: hidden costs, failure to produce cost savings, failure to implement new innovations, disputes about contract terms, different understandings of performance indicators. To be able to avoid these companies have been very careful with contract terms and conditions. (Gallivan & Oh, 1999.)

It is evidenced in literature that the most difficult and the most important task in IT outsourcing is contract crafting so that it maximizes the control and yet flexibility and minimizes the agency problem (Ye, 2005). Agency problem refers to theory called agency theory. The agency theory means that if the outsourcer wishes to achieve specialization benefits it delegates the work to a specialized agent, i.e., vendor. Agency theory focuses on reducing IT outsourcing costs with tight contracting. The problem appears when the outsourcer and the agent have different targets, and the measurement of agents' doings is too hard or expensive for outsourcer. (Eisenhardt, 1989, as cited in Ye, 2005; Ye, 2005.)

The contract and attached service agreements normally withhold in detail legal terms and conditions, content of services, financial matters, service execution and monitoring methods, ways to communicate, key personnel and multi-level conflict management methods (Kern & Willcocks, 2000). However, problem with air-tight contract is that in IT world there are usually a lot of unknown things and components which cannot be incorporated in the contract, for instance it's impossible to predict the future (Ye, 2005). Ye (2005) propose that outsourcers should consider doing short-term contracts which can be renegotiated and broken off if needed. Lacity et al. (2009) state that the contract should be detailed enough but still have enough flexibility. Lacity and Willcocks (1998) argue that companies should be aware of what do they want to outsource, ensure that their procurement know-how is high enough, and make sure that the purchased service is aligned with requirements, i.e., flexibility, service scope, length of the contract, price, and other possible known demands. Companies also need to contractually ensure that they have enough control over their IT related decisions (Lacity & Willcocks, 1998). Lacity et

al. (2011) state that there's substantial evidence that higher monetary valued, more precise, and shorter-term contracts have notable effect on more positive outcome of the outsourcing engagement.

A good contract does not secure profitable relationship (Kern & Willcocks, 2000). The contract can be read word by word without capturing the spirit of the agreement, which may lead into failure of the relationship. By following the contract, the delivery or the requirements of the services are often seen as black and white, which leads easily to incomplete delivery and inflexible relationship. Therefore, Kern and Willcocks (2000) argue that even though the contract is important, understanding the contract is more important to have successful relationship.

3.1.7 Strategic partners

Companies tend to search for strategic partnership in IT outsourcing but hardly any fulfil the description of such relationship (Gallivan & Oh, 1999). Strategic partnership is defined by Fjermestad & Saitta (2005) as "…collaborative efforts of both a vendor and a client in the attainment of a mutually beneficial goal." The idea is that parties extend beyond traditional buyer/seller roles. Currently in outsourcing companies seek for strategic partnerships as a long-term strategy opposed to cost reduction, which has been the most significant motivator to outsource. The savings as the goal has changed to on-demand and utility-based services, flexibility to change according to business needs, innovativeness, time to market, and strategic solution building. (Fjermestad and Saitta, 2005.)

We often misuse the term partnership as fee-for-service contracts are characterized as partnerships (Lacity & Willcocks, 1998). The authors also argue that companies should see if there are more favourable options like: flexible-priced, performance-based, or strategic alliance-based contracts available, where the risk and rewards can be shared.

Kern and Willcocks (2000) have identified three areas where the client-supplier relationship can be improved. The first is a mutual understanding that the supplier is part of clients' business environment. Second, is joined view of high customer satisfaction. Third is the commitment of common long-term goals. The achievement should be that the vendor will have common objectives, develop more intimate relationship, and to nourish better integration. Lee and Kim (2003) argue that when the relationship reaches strategic partnership mode it will be constantly changing to maximize the mutual benefits. Kaiser and Hawk (2004, as cited in Fjermestad & Saitta, 2005) add that when partnership is in even more mature mode it's a natural way of behaving that the vendor will dispense customer's IT competencies, which will then support customer personnel's career development. Fjermestad and Saitta (2005) state that value of a strategic partnership can't be measured clearly.

Mohr and Spekman (1994) argue that one important factor for successful relationship is interdependence. It means that when companies that join forces understand that their business success is mutually dependant on efforts of both parties and the goal is to achieve such results which either party can't achieve acting solo (Mohr & Spekman, 1994). Kern and Willcocks (2000) argue that in IT outsourcing the contract puts the customer very reliant state on the service provider's delivery capabilities. However, according to Lacity et al. (2016) on the other hand the service provider relies on the ability of the customer to steer the provider as well as raise up to challenges when they occur. Kern and Willcocks (2000) state that after the relationship hits so called steady state, and the daily operations

run smoothly the additional value can be gained by understanding of each other's business. Therefore, both parties need to have the skills and put in the efforts to make the engagement successful (Lacity et al., 2016).

3.1.8 Governance

According to Fjermestad and Saitta (2005) and Kaiser and Buxmann (2012) governance is one of the most frequently listed success factors in IT outsourcing literature. Fjermestad and Saitta (2005) state that there were five important elements identified on the governance area. They are conflict management, bi-directional communication, contract management, coordination across companies and control mechanisms. Authors suggest that strategic intent should be the underlying goal to outsource IT. The governance practices should be described in the contract high enough detail (Lioliou et al., 2014). Even though if the contract between contractors is good it doesn't ensure good relationship. Companies must agree on social norms between parties and for a successful relationship the partnership needs to be active in sense of social communication and the relation rather partnership than supplier/buyer in nature. (Ye, 2005.) A proper governance should be built, i.e., processes, relationships, communication, and common visions, which can't be contractual items as they vary depending on the person and the party (Kern & Willcocks 2000). Also, the parties need to actively try to improve the situation even if there's no problem within the relationship. The participation of both parties affects directly to the duration of the relationship. If a party doesn't participate actively and it affects another party to achieve set goals, it affects negatively to the relationship. (Lee & Kim, 1999.) The authors also state that participation is strongly related to trust, business understanding and commitment. Lioliou et al. (2014) argue, the rigid contractual writing should not be followed to the grave, but rather if both parties agree they can act against the contract if parties are able to gain mutual benefits. To lower the risk profile of activities done, the contracts should be changed to reflect the reality.

For outsourcer to success in outsourcing relationship it is a must to possess sourcing competencies and capabilities (Kaiser & Buxmann, 2012). Outsourcing relationship can be managed by two ways: 1) formal governance, e.g., contracts 2) relational governance, e.g., day-to-day governance. It is believed that outsourcer's organizational customer facing, and internal structure must be defined to align strategy for outsourcing engagement to be successful. Obviously, it's clear that the organizational structure can't alone bring success but with right processes, information flows, collaboration and partner it makes it more likely. (Kaiser & Buxmann, 2012; Lacity et al., 2016.)

From buyers' perspective it has been recognized that successful IT outsourcing is only reached by good supplier management. Yet, the companies are unable to verify how many people are needed to manage the suppliers successfully. This is partly because the people who are contributing to the management process are from different parts of organization and their set up skills vary but it's dependant on the nature of the contract. (Kaiser & Buxmann, 2012.) Kaiser and Buxmann (2012) suggest that companies should centralize and streamline their vendor management processes and organization to get better visibility on the overarching costs spent.

Coordination, a very important factor, means defining the relationship boundaries, what's governed annually, monthly, or daily (Lee & Kim, 1999; Mohr & Spekman, 1994). The governance boards are the formal body to support alignment to business and ensure IT choices support business strategy. The committee is also to align with key decision makers on both parties all the decisions and progress. There are several different levels

needed on governance so that for example day-to-day actions are not managed on strategic level of the governance committees. (Fjermestad & Saitta, 2005.) Weill (2004) presents that a formal process for governance amends the outsourcing relationship and enforces the decision-making towards operational, tactical, and strategic goals. Fjermestad and Saitta (2005) state that in these boards the parties can ensure the necessary support for business alignment and safeguard that IT and business strategies are supported by the outsourcing relationship. The authors continue that the joint governance should include risk analysis, security issues, privacy, and cost analysis.

The governance processes influence atmosphere and socio-psychological quality of the relationship as well as to the efficiency of everything. How parties use power and communication influences the other party's attitude. The best baseline is being open and fair. Parties' openness and fairness are especially measured in conflict situations. (Möller & Wilson, 1995.) Even so, in outsourcing relationship there are always conflicts and how the conflict situations are handled is critical for both parties. The impact of conflict situation handling can be productive or destructive. Many companies try usually to dominate the other one in conflict situation so that the other party would use their process in handling of the conflict which can be easily destructive but if both parties are open-minded the situation is more likely productive for both parties. (Deeds et al, 2000; Mohr & Spekman, 1994.) Lee and Kim (1999) argue that when parties enter a conflict situation that high level of individual participation influences positive into the full relationship. Lacity and Willcocks (2017) present that there have been three different conflict types. 1) commercial conflicts, which refer to monetary disputes. 2) service conflicts, they are regards to service quality, slowness, or errors within the service content. 3) Relationship conflicts, which means disputes between people. The conflicts can be solved in various ways. In general, whatever approach the parties end up with, the result has three options: 1) vendor wins, customer loses, 2) vendor loses and customer wins, or 3) both win/lose. The wanted option is obviously the latest but to get there it usually requires some sort of sacrifice from both parties. (Lacity & Willcocks, 2017.)

3.1.9 Management support

In this context the management support in the literature seems to be two-fold. Firstly, the change management leadership and support. Secondly proper participation on outsourcing procurement and engagement leadership. And of course, management need to ensure that the planned endeavours follow corporate strategy. Management support has been proven to reduce change resistance. The nature of the change doesn't really matter. Regarding IT, the change can mean for example a new IT system or an outsourcing engagement. When outsourcing decision is done, the management needs to communicate in time and truthfully to ensure smooth transformation. Change management leadership in outsourcing scope refers to employee satisfaction work, securing needed know-how, and other possible training of personnel. (Fjermestad & Saitta 2005.)

According to the literature review by Fjermestad and Saitta (2005) beyond change management, the management support refers to actively taking part in the procurement process for the outsourcing, setting up the newly accomplished partnership and continuously steer and participate in governance boards. It's important to have the senior executives involved all the way with the partnership to steer the relationship into right direction to be able to achieve the business goals and address possible lower-level unsolvable issues.

Carmel and Agarwal (2002) propose that IT executives should address three steps to be taken regarding outsourcing and internal changes. Firstly, an outsourcing should have strategic importance, and therefore the top management involvement is a must. Secondly, suppress the fears of the employees by being replaced, as well as worries about managing a partner delivery from offshore. The fears are suggested to be addressed by extensive and coherent communication. Thirdly, it's recommended by authors to promote internationalization on all levels. Company should be urged to hire employees from various cultures, backgrounds, education programs and possibly utilize the overseas exchange programs.

3.1.10 Infrastructure

For a company to be able to run proper e-business model the infrastructure is a key underlying element on top of business model, and other more business-related issues. The same can be applied to IT outsourcing, i.e., the infrastructure needs to be solid to be able to execute proper IT strategy and part of strategy may be outsourcing or smart sourcing. One of the most vital technical functions is telecommunications infrastructure. The infrastructure refers to physical infrastructure elements as well as software components, corporate IT setup, used communication standards between systems, scalability, and maintainability. (Fjermestad & Saitta, 2005.)

3.1.11 Know-how

Infrastructure in my mind refers to fundamental setup, like hardware, software and processes described above but also to know-how across the board. When companies outsource the key roles to have in-house are all essential roles of management, architects, business analysts, business enhancement, technology know-how, project, and supplier management (Earl, 1996; Morello, 2003, as cited in Fjermestad & Saitta, 2005). The roles as such however are not silver bullet to have in-house but rather the ability to shift from managing people and processes to help the vendor with input and output. Being able to manage and avoid possible issues and risks in the new setup and environment is proven also to be critically important. (Fjermestad & Saitta, 2005; Lacity et al., 2010; Lacity et al., 2011.) The vendors technical and non-technical ability to deliver services is listed in the literature a success factors of an outsourcing relationship. Technical ability refers to technical skills on the domain that's being outsourced. The non-technical skills refer to ability to govern the work internally as well as with the customer. (Lacity et al., 2010; Lacity et al., 2011).

The research presents (e.g., Fjermestad & Saitta, (2005), Väyrynen & Kinnula, 2012) the contract is an important success factor in IT outsourcing relationship. Therefore, it's obvious that procurement knowledge is an important skill to possess when drafting the contract. However, the knowledge of business, it's processes and requirements is important as well. (Lacity and Willcocks, 1998.)

3.2 Summary of success factors of IT outsourcing

Here is a summary of the success factors found from literature presented in this thesis, including chapters 2, 2.1, 2.2, 3 and 3.1, i.e., partnership, outsourcing and IT outsourcing success factors. They are combined with success factors in Fjermestad and Saitta's (2005) The Information Technology Outsourcing Framework. The factors are all related to each

other, and they are identified in literature as important and connected to each other. Factors found from literature with same underlaying gist have been coupled. The overarching title has been kept the same than Fjermestad and Saitta (2005), e.g., TCO is coupled under factor Price & Quality.

Many studies also state that importance of individual factors depends on the relationship. Even if all the success factors are covered, it will not ensure positive outcome from outsourcing. The outsourcing will still be troublesome. It's not a quick fix to save money and gain resource access. IT outsourcing requires different approach to management than managing your internal delivery, and it requires hard work from both parties to gain the possible benefits (Lacity & Willcocks, 2012). The success factors are combined listed in Table 1 below.

Table 1 Success factors of IT outsourcing relationship

Success Factor	**Author(s)**
Price & Quality - Total Cost of Ownership (TCO)	Fjermestad & Saitta (2005), Lee & Kim (1999), Baldwin et al. (2001), Lacity & Willcocks (1998), Gallivan & Oh (1999), Lacity et al. (2010), Luftman & Zadeh (2011), Aubert et al. (2005), Ho et al. (2003), Kern & Willcocks (2000), Earl (1996), Lacity et al. (2011)
Alignment to Business Strategy - Selective outsourcing	Fjermestad & Saitta (2005), Lacity & Willcocks (1998), Väyrynen & Kinnula (2012), McLean and Luftman (2004), Earl (1996)
Trust	Mohr & Spekman (1994), Kern & Willcocks (2000), Lee & Kim (1999), Sabherwal (1999), Väyrynen & Kinnula (2012)
Culture	Fjermestad & Saitta (2005), DiRomualdo & Gurbaxani (1998), Lee & Kim (1999), Väyrynen & Kinnula (2012)
Communication - Information Sharing	Mohr & Spekman (1994), Ellram & Hendrick (1995), Kern & Willcocks (2000), Lee & Kim (1999), Väyrynen & Kinnula (2012)
Contracts - Contractual governance	Fjermestad & Saitta (2005), Lacity & Willcocks (1998), Gallivan & Oh (1999), Ye (2005), Väyrynen & Kinnula (2012), Kern & Willcocks (2000), Eisenhardt (1989, Todeva & Knoke (2005), Lacity et al. (2011), Lacity et al. (2016), Lioliou et al. (2014)
Strategic Partners - Benefit/Risk Sharing - Business Understanding - Interdependence	Fjermestad & Saitta (2005), Lee & Kim (1999), Mohr & Spekman (1994), Gallivan & Oh (1999), Lacity & Willcocks (1998), Kern & Willcocks (2000), Lioliou et al. (2014)
Governance - Coordination - Commitment - Intimacy - Conflict management - Participation	Fjermestad & Saitta (2005), Ye (2005), Mohr & Spekman (1994), Weill (2004), Möller & Wilson (1995), Lee & Kim (1999), Deeds et al (2000), Väyrynen & Kinnula (2012), Kaiser & Buxmann (2012), Lacity et al. (2010), Kern & Willcocks (2000), Lioliou et al. (2014), Lacity & Willcocks (2017)
Management Support	Fjermestad & Saitta (2005), Lee & Kim (1999), McLean and Luftman (2004), Väyrynen & Kinnula (2012), Carmel & Agarwal (2002, Lacity & Willcocks (1998))
Infrastructure	Fjermestad & Saitta (2005)
Know-how	Fjermestad & Saitta (2005), Lacity et al. (2011), Lacity et al. (2010), Earl (1996), Lacity and Willcocks (1998)

4. Discussion

I'll start with the research question and a short answer to it. The rest of the chapter will discuss about the factors found in literature and how I see their importance in practice. The factors are discussed in pairs or individually. At the end I'll conclude with a short summary.

The research question for the study has been: "What factors affect the success of IT outsourcing relationship?" The research question was answered through the literature review. From the review can be identified eleven success factors: Cost and Quality, Trust, Alignment to business strategy, Culture, Communication, Contracts, Strategic Partnership, Governance, Management support, Infrastructure, and Know-how. How significant each individual factor is in an outsourcing engagement depends on the nature of the affair. The identified success factors in the 1990's have stayed the same until today, as Lacity et al. (2016) present on their latest study. The factors have been split into more concrete level, but the higher-level success factors have stayed the same. We have the hard factors, like know-how and contract, and then we have the soft factors like trust, communication, management support as well as combination of soft and hard, i.e., governance practices and processes.

The initial goal for outsourcing IT has been to gain cost-benefits on non-core activity (Fjermestad & Saitta, 2005; Mohr & Spekman, 1994), which IT to most companies is (Ye, 2005). Even if IT is partially their core competence, the maintenance of their business systems might not be. Also, even if IT might be part of the products the non-product related IT or even the manual labour or producing the IT might not be sensible to produce inhouse. Therefore, the cost and quality as a goal for outsourcing seem rather given, gain cost benefits and get better quality. Grover et al. (1996) present that there is a strong connection between service quality and successful outsourcing. I however think that you can't have success without delivery that is of high quality and therefore it's rather a fundamental matter to even establish or continue a partnership. Mohr and Spekman (1994) state that the success of a partnership should be measured with indicators that are same for both parties. I think though that it's probable that vendor has different view of success criteria than the customer has. They probably have some similar success criteria on high level, but some will differ, e.g., vendor wants to get as much money as possible with least efforts done, but most likely customer doesn't want the same. The criteria of course depend on the nature of the contract and delivery and may vary along the way.

According to the literature, the two most important soft factors are trust and communication (Kern & Willcocks, 2000; Mohr & Spekman, 1994; Sabherwal, 1999). Communication goes across all activities (Kern & Willcocks, 2000), and trust is reflected in it as well. I believe that if the trust is not there, the communication will likely be inefficient and incomplete. Parties tend to drive for their own benefits only and the vicious circle is ready. If the communication is true and honest, it's likely that it'll strive for trust. On the other hand, if communication is malicious and one-sided it's likely to lower mutual trust, i.e., what goes around, comes around. Trust is many times formed between individuals at first and might be formed between companies as well. However, I believe we humans don't tend to trust in faceless companies.

Governance refers to communication, way of working, reporting, conflict resolution, and other possible cooperation processes. While the daily, weekly, monthly, and annual activities are important to setup the conflict resolution can bring the most benefits or problems (Deeds et al, 2000; Mohr & Spekman, 1994). Conflicts in IT outsourcing

relationships are unavoidable and therefore a pre-defined formal process is extremely important. The process needs to be flexible enough to work in all possible situations. In conflict resolution situation the trust and communication are also crucial factors. The governance is in most literature reported as a critical success factor in the IT outsourcing partnership, but I think that it should be coupled with trust, communication, and conflict resolution.

Management support and alignment to business strategy to me go together, as if the outsourcing isn't aligned with business strategy it probably doesn't have management support either. However, even if the initiative has management support, it doesn't mean that it's aligned with business strategy. So even if the outsourcing has management support and seemingly succeeds, but if it's producing wrong result regards to business strategy it possibly can't be considered as success. Therefore, I believe that lack of either of the factors will cause failure of any engagement. Normally the outsourcing engagements are so risky that they require high up approval and signatures, and therefore it seems rather strange that the management support would not be in place. And if the management board or manager approving the engagement is professional, they'll make sure that the outsourcing endeavour is aligned with the business strategy.

The alignment to business strategy can be taken even further with setting up a Strategic Partnership with the outsourcing vendor. This can happen in theory at least. However, the vendor-client relationship is hardly ever a strategic partnership. Yes, they both might pursue for the goals of the other party, but if the parties can reach only one party's' goals, it's always the customers' goals. Also, often the individual outsourcing engagement with a customer is not strategic to the vendor. Therefore, I think that the strategic partnership factor doesn't usually really fit in. The IT outsourcing relationship is a partnership, as is any other exchange setup where services and money are exchanged but outsourcing is hardly ever strategic. There might be possible situations where customer wishes to purchase an industry specific system and vendor is keen on entering the market, and their strategic goal is to develop an industry specific software. Then the relationship can be strategic to both parties.

Culture can be understood on many ways. In the literature it's mainly seen as cultural difference between countries, tribes, and continents (Fjermestad & Saitta, 2005). I believe that's one side of the coin which should be considered especially when changing the vendor. However, the cultural differences between companies should also be considered as all companies have different ways of doing things, communicating, and cooperating. As an example, a traditional pulp & paper company has most likely very different corporate culture than a newly accomplished consultancy company. If the cultures don't clash too badly, after the initial learning period the effect diminishes to very low level (Lee & Kim, 1999). Therefore, I would say that in the very worst case the cultural differences can be a deal breaker but on average it shouldn't be an issue in the modern world.

Being involved with plenty of contracts drafting processes in IT outsourcing I feel that when the contract is created and signed, it reflects the current view of the world from both parties, with a twist of the world as it stands during the contracting. Especially this is the case when parties continue their partnership but draft a new contract. Which is very common in IT industry. The new contract shows the past of the relationship as well as future as both parties see it. The customer will force things that they have had problems with, or they fear into the contract. Also, the vendor will not agree upon the matters into the contract they have had problems within the past. I agree with the literature that it's important to be precise with what's written in the contract and make sure that all relevant

things are in place (Fjermestad & Saitta, 2005; Kern & Willcocks, 2000; Lacity & Willcocks, 1998). However, I don't think I have ever seen a contract that hasn't been done in haste and therefore something always needs to be modified later. Therefore, working change management process is more important than getting the complete contract just right for both parties during negotiation phase. As a customer, instead of concentrating on the contract as such I would focus on making sure that what's being bought is exactly what's required, i.e., understanding of customers business, scope, systems setup, and procurement know-how is rather important. Even the best procurement personnel can't purchase the right thing if the scope, systems setup, and customer business understandings are not available.

Infrastructure as a success factor refers to all components in the customers complete environment. Obviously, the infrastructure refers also to the vendors infrastructure but usually that's not an issue. The literature states that infrastructure is a crucial success factor (Fjermestad & Saitta, 2005). In today's world most of the companies have their IT environment set up according to the standards. However, what's not addressed in the literature is the technical debt that customer corporations might have on their business systems, especially in traditional industry, where they have in-house built legacy systems close to production. The systems might have been developed during 1990's or even earlier and they are still running the same programs. The corporations feel that they are too scared even to touch the programs as they have been functioning so good for so long. However, the know-how of those systems is scarce, documentation might be out of date or completely missing, they might have impossible infrastructure requirements, and be far away from object-oriented present-day programs which can be lifted and shifted from operating system to another and be impossible to be replicated to another computer and therefore can't be used in high availability system setups. So, yes, I believe that infrastructure is crucial to be in place, but no, I don't believe that it's a problem beyond the legacy systems that some corporations might still be running.

All in all, most of the factors in practice seem rather important but I would not consider all of them critical for all relationships. I would remove infrastructure, strategic partnership and possibly also culture from the success factor list. Infrastructure should be removed because most vendors and customers environments are up to date. Strategic partnership should not be there because I don't believe that IT outsourcing relationships are hardly ever strategic partnerships for both parties. Also, culture seems rather overplayed after the initial setup, which should include joint trainings and governance setup. Then again, the culture between corporations might differ; that difference can't be fixed with any training. However, the difference can be mitigated by the governance if they are skilled enough, so that the relationship is bearable. Contract though seems rather important, but I would rather concentrate on change management process, trust, and communication, as well as procurement skills over contract as such. Lioliou et al. (2014) describe that the psychological contract, which is formed between parties, is more binding than formal governance and overtrumps formal contract. So, in other words the soft values are more important than the any formal document. However, relying on psychological contract solely might cause issues when trouble appear. If the personnel on either party change, the informal contract might be misunderstood (Lioliou et al., 2014). The research altogether states that strong formal and hard success must be there, but they will not make the relationship successful without the soft success factors.

5. Summary

The research question for the study has been: "What factors affect the success of IT outsourcing relationship?" From the review can be identified eleven success factors: Cost and Quality, Trust, Alignment to business strategy, Culture, Communication, Contracts, Strategic Partnership, Governance, Management support, Infrastructure and Know-how. How important each individual factor is in an outsourcing engagement depends on the sort of the partnership.

Theoretical implications of the study are very limited, but the practical implications regarding communication, trust and governance should be considered when companies enter IT outsourcing partnerships. Putting an emphasis on setting up proper governance functions and people who are good at communicating with the other party will pay the efforts back in success of the relationship.

The study is a literature review of the articles I happened to find and read. I have most likely missed some important papers that should be present here and reflected to the results and therefore I would advise some caution regarding the results. Then again, plenty of literature ended up presenting the same factors, just from a slightly different angle. and the factors have been studied empirically by other researchers already and therefore the results should be solid in general. However, as the partnerships are all different and the world is different since some of the research has been conducted the emphasis on what's important might have shifted.

Based on the literature review I have identified few points of view that could be further studied. For example, it would be interesting to investigate through an empirical study which factors are critical, and which are nice to have. Also, as there are two parties in an IT outsourcing relationship it would be good to understand what factors are critical from vendors point of view, and if they differ from customer's view.

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