Article: The Information Systems Outsourcing Bandwagon  
Author: Mary C. Lacity, Rudy Hirschheim

In recent years, information system outsourcing has become so pervasive after the successful case of Kodak and IBM. Many practitioner, academics, and consultant now advise executives to outsource their IS, and saving of 10% to 50% off their IS expenditures. This paper will briefly discuss the risk of outsourcing; it does not mean the outsourcing is bad; just some ideas of how to prevent outsourcing fail and define the risk.

What is IS outsourcing?
Outsourcing, can be think as the service which previously provide internally, normally outsourcing companies will provide service include data processing services, contract programmers, time-sharing, and purchase of package software. The vendor charges a fixed fee for a pre-specified number of services, known as the baseline, for services not included in the baseline may be purchased from the vendor for an excess fee.

IS Outsourcing myths
First, assume outsourcing vendor are strategic partners, but the fact is outsourcing vendor are not partners because the profit motive is not shared. When a client’s costs increase, so do the vendor's profits. Client may sign a loose argument. After the agreement goes into effect, the vendor may not provide the level of service the customer expect because the vendor may refer to the written contracts as the only source of obligation.

Second, believing that the outsourcing venders are more cost effective than internal IS development. But, small companies also can achieve hardware costs comparable to those of an outsourcing vendor. Because hardware vendors typically sell equipment 9% to 17% below list price. And security is also a very big issue because IS department store all the information about the company, so it means when company outsourcing, it also provide the opportunity for vendor to see these information.

Finally, believe that saving of 10 % to 50% can be achieve only by outsourcing, but the true is, the hardware value decrease very fast, and the vendor can profit a lot in 3 to 5 years period. Companies may also reduce costs by optimizing current resource use. IS department can decrease costs by implementing cost controls such as chargeback system allow users to see everything that you ran for that month, monthly software release can help to reduce the maintain fee because the IS department staff
do not need to change the production code daily, and user feedback system can define the most pertinent issues.

**Undesirable outcomes of IS outsourcing**

There are 3 areas of undesirable outcomes, they are:
- Hidden costs
- Contractual difficulties
- Service debasement

The hidden cost which are normally the biggest problem of outsourcing, the hidden transition costs include setup costs, redeployment costs, relocation costs, and parallel-running costs, and so on. The hidden management costs refer to the human resources that have to be put into managing an outsourcing contract. And the hidden service costs, that is, those costs that the client assumed were included in the contract (baseline), but which, in fact, were not.

Contractual difficulties, Contractual amendments are often necessary, either because the client's needs are changing, or because most contracts are indeed incomplete. As a result, several firms have seen their outsourcers charge client high fees for such new services or changes. Disputes also occur over the meaning of contractual terms: services to be provided, service level, personnel expertise, etc. Finally, once the contract been signed, the client has been lock-in for around 5 to 10 years, during the period of contract client will normally have difficult in renegotiating contracts.

Service quality and service costs are two major issues in IT outsourcing. The problems often include outsourcing: poor response time, poor turnaround time, late updates of software, applications that do not meet the requirements, and so on. Often, parallel to service degradation, service costs rise. It will normally cost 3 times more than internal IS services.

**Negotiation strategies**

So. In order to prevent these problems, Lacity and Hirschheim suggest 14 things to be consider before signing the contract with the vendors.

1. **Discard the vendor’s standard contract**
   The vendor’s standard report always protect its own internet, so never sign the contract which is prepare by the vendor.
2. Do not sign incomplete contract
Because of the long time of planning, so sometimes vendor will ask the company to sign the contract first, and will provide other service later, but without the legal agreement, vendor normally won’t provide the extra services.

3. Hire outsourcing experts
When signing the contract, company should hire a technical expert to measure the baseline. And a legal expert will ensure the customer’s wishes are documented in contract.

4. Measure everything during the baseline period
Customers must measure every service during the baseline period to ensure that these services will be included under the fixed-fee obligation.

5. Develop service level measure
The customer or vendor may wish to add, combine, improve, or delete measures. Baseline measures merely provide a yardstick for the vendor’s obligation during the arrangement.

6. Develop service level report
Companies may spend a long time developing measures but fail to require the vendor’s to report on these measures.

7. Specify escalation procedures
Vendor will request that fault be determined for each missed measure. This will protect the vendor’s interests. But this missed measure should not be punishing as customer’s error.

8. Include cash penalties for nonperformance
Customer should have a penalty agreement when the vendor’s nonperformance, because this will get their attention.

9. Determine growth rates
Most outsourcing contract includes a growth rate whereby the customer gets a certain amount of growth for free. The reason is that the cost of a unit of processing decreases every year, and the customer deserves to share the benefits of price-performance improvement.
10. **Adjust charges to changes in business**
Customer should also include a clause for severe volume fluctuations caused by acquisition, mergers, or sales of business units.

11. **Select your account manager**
The account manager is indeed a special character, because who is the one will be dealing with the vendor directly.

12. **Include a termination clause**
The termination clause will protect both vendor and customer from being affect by another party.

13. **Watch out for “change of character” clause**
Change-of character clause provision states that the customer will be charged for any changes in functionality. For example changing the word processing software is only changing software not changing functionality, because the function word processing had not changed.

14. **Take care of your people**
The IS employees will be affected by the outsourcing, so make sure the company treat these people fairly
Reference

