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Drawbacks with It Outsourcing; Dealing with the End of the Contract

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DRAWBACKS WITH IT OUTSOURCING – DEALING WITH THE END OF THE CONTRACT

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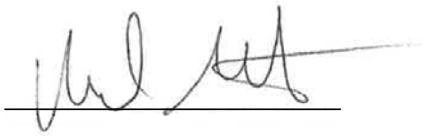

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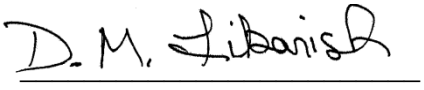

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Abstract

Many companies have looked to outsourcing Information Technology infrastructure and business processes as a means to save capital and streamline company business and assets. While companies initially approach outsourcing engagements concentrating on the migration of data and services to the vendor company, they rarely take into account potential issues that could possibly cause an outsourcing engagement to fail. Failure to address these potential issues within the contract can lead a business to be stuck in an outsourcing engagement that offers little to no benefit to the company.

This project presents the details of a survey performed at a business that recently undertook an outsourcing engagement. The findings from the survey detail certain areas of an outsourcing engagement that should be taken into consideration when a business begins the initial stages of contract negotiations. The overall results of this project are intended to make companies aware of any potential problems that could arise and how to address them to make the outsourcing engagement successful.

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Chapter 1 – Introduction

1.1 Statement of the Problem

In the last 15 years, research in the area of contract negotiation on IT outsourcing has evolved rapidly (Dibbern 2004). When companies decide to proceed with an IT outsourcing project, much care is taken with the planning and implementation process. Emotions can run very high during this time of transition, and attempting to ascertain how to proceed when the contract ends generally is not a high priority with companies choosing to outsource (Clark 2004). However, if the end of the contract phase is ignored, this can lead to very difficult times ahead. With so many items to take into consideration when planning a new outsourcing process, planning for the end of the contract is generally ignored (Koh 2007). Many risks of outsourcing generally do not appear until a company is in the midst of an outsourcing engagement. Once these risks are known, it can change the way a company views the state of the entire outsourcing process. At this point both the company and the vendor can be stuck in an outsourcing engagement that provides little or no benefits to either company, and due to the constraints of the agreed upon contract, it can be quite a while before renegotiations can take place.

1.2 Statement of Goals and Objectives

The goal of this thesis will be to illustrate potential issues involved with an outsourcing engagement and address ways in which to alleviate these potential issues. In addition, this project will highlight some specific tasks that should be discussed during negotiations, and ultimately be included within the scope of the agreement in order to protect not only the client but in addition the vendor providing the outsourcing support if and when the contract expires.

A survey has been prepared and will be given to key employees at a company in which an outsourcing engagement was recently undertaken. The results of this survey will provide key information that will detail a "lessons learned."

The main objective of this research is to expose issues that have been experienced during the initial negotiations and actual migration of infrastructure and processes between client and vendor. The survey that will be given to employees will outline steps that could be taken on any future contract negotiations for IT outsourcing in order to make the process run more smoothly. Furthermore, specific contract items will be detailed in order for the reader to have a better understanding of what points should be included in an IT outsourcing contract.

Chapter 2 – Review of the Literature and Research

IT outsourcing is a business action wherein different companies and businesses engage an external outsourcing vendor in order to leverage a specific skillset that the outsourcing company provides. The primary reason for this is to save money so a company can operate at a more efficient level (i.e.-doing what a company does best). This type of arrangement was initially introduced as a business approach.

2.1 Origins of IT Outsourcing

Before World War II, most countries were largely self-sufficient (Tyler 2004). These goods and services that countries produced were used and consumed locally. Some minimal trade was taking place with certain countries for certain luxury type items, but for the most part countries produced for the local population.

The way businesses operated at the time was also a "self-contained" operation. Companies owned and directly managed company assets. There was not an opportunity to engage in any type of outsourcing due to a lack of communications across countries and a lack of international trade agreements.

At the end of World War II, there was a growth in global trade. The force behind this was American businesses and the American Government (Tyler 2004). The primary reason was to import goods and services to Europe and Asia, where the war had ravaged many European and Asian countries.

During the 1950's and 1960's, a shift within the United States took place. Businesses sought to adapt to a change in business strategy by becoming more global. Businesses went

about this change through opening corporate offices in different locations across the world. In addition, Japan began to produce large quantities of dry goods and textiles for us in the United States (Aoyama 2007).

In the 1970's companies attempted to compete with each other by contracting out with more Asian companies due to lower costs involved. Overseas companies became more technology savvy and thus American businesses began to contract out for different types of goods and services such as cars and electronics.

The 1990's ushered in the beginning of IT outsourcing for American businesses (Kol, et al, 2007). The primary driver for this was competition from other companies that provided the same good and services – costs needed to be kept lower in order to compete. Certain business functions were outsourced to off-shore companies that offered services specifically tailored for certain business functions. This further lowered costs for American businesses and allowed these companies to concentrate on the processes that they best could provide in-house.

Today companies attempt to build strategic relationships for maximum return (Das 1998). The process of choosing IT outsourcing is generally based on who can provide a service at the most effective level possible, while still offering a cost savings. In the past, companies were hesitant to hand over processes that dealt directly with customers. As these external companies evolve, they become more proficient at core services such as customer interaction, and thus can offer strong customer service assistance as well.

IT outsourcing has become a primary focus for companies wishing to provide maximum efficiency and yet still be profitable in today's economy (Clark 2004). An added benefit is the

hope the established relationships that exist between these diverse companies could lead to mutual benefits for all involved.

Today there are a large number of companies that provide IT outsourcing. Many of these companies claim to provide excellent service while also claiming to keep costs at a minimum. Certainly these outsourcing companies can provide these benefits due to having a presence in the industry, they already possess certain tools, both software and hardware that make the transition to outsourcing run very smoothly (Melby 2003). While the initial transition period can be relatively problem free, thanks in large part to the expertise of outsourcing vendors, problems can arise after the outsourcing is well under way.

2.2 Types of IT Outsourcing

In recent years, many companies have begun to outsource information systems operations to third party vendors (Hayes 2003) in an effort to decrease operating costs. When a company makes the choice to outsource some or all of their IT processes, there are generally two different methods that these companies can use when beginning IT outsourcing projects (Hassler 2006).

The first method is "Facilities Management." With this method the outsourcing Vendor typically assumes support of the client's infrastructure but provides support for the client at the client's place of business (Hassler 2006). With this type of outsourcing, many of the Information Systems employees from the client simply change employers and begin working for the vendor yet they still support the same infrastructure as before.

The second direction that clients take is the "Remote Computing Services" method. With this method the vendor provides IS support at its own datacenter, either removing equipment

from the client or simply moving data and processes from client systems to vender systems (Hassler 2006).

The movement in IT outsourcing tends to favor this second point “Remote Computing Services.” There are a number of reasons for companies moving in this direction.

First, the direction of technology is shifting toward a model of downsized infrastructure, and the growing trend of distributed systems (Brancheau et al, 2006). In addition, quite a few companies are attempting to exchange mainframe architecture for distributed computing infrastructure, and many outsourcing vendors can provide this sometimes seamless migration.

Second, vendors can generally transfer a new client’s processing services to existing infrastructure already supported by the vendor. Generally this existing infrastructure is already in place as more than likely the vendor in question provides outsourcing services to other IS clients. This existing infrastructure tends to be streamlined in order to produce maximum results for strong efficiency.

Lastly, transferring technology to an offsite vendor allows for a business to reclaim office space that previously housed the IT infrastructure. This move will then allow for a business to concentrate on core business strategies.

2.2 Deciding on an Implementation and Beginning the Contract Phase

Outsourcing the services and processes for a business are pivotal steps in ensuring that the client can concentrate on the primary core businesses (Mezak-2005). Because of this, a smooth transition of services must be painstakingly planned in order to minimize future issues.

The second issue outlined above presents unique issues for a new IT outsourcing project. When the transfer of services begins, a parallel infrastructure must be created in order for processes to be migrated over. It is during this time of process and service migrations that problems can arise. One way to combat this potential issue is to run parallel processing for a predetermined time in order to verify that the output from both infrastructures match before the processing is finally moved to the vendor's site permanently.

If during this period of transition issues are encountered, the client can suffer loss of business and reputation (Bulger 2011). An outsourcing contract should take these possible scenarios into consideration, detailing the specific types of loss, and the action that the vendor needs to take to rectify these losses.

One area that needs to be defined in contract negotiations is performance measurements. Because services and processes are being moved to the vendor's infrastructure, which will no doubt be vastly different hardware than that of the client's hardware, counters needs to be determined in order to verify that the processing on the vendor's hardware offers a substantial improvement (Berman 2009). Defining these performance counters will take a very specific language, as the client will expect strong improvements to processing times based on their individual models, but the vendor may utilize a completely different method of measuring performance.

Determining a pricing structure can be based on many variances. Most common is the overall price the client paid in order to run and manage the IS processing (Braunstein 2004). This price may not include employee salaries, as this cost is non-transferable. Generally the vendor will already have on site an employee base that may be able to handle a portion of the

new business. New employees may be required, but this cost is paid for by the vendor. Certainly the monies for these new employees can be "indirectly" billed to the client via other means. Another aspect to take into pricing consideration is how to formulate a pricing decrease based on new technology introduced by the vendor during the course of the outsourcing agreement. Newer technology can obviously perform faster data processing than older equipment and thus, if data processing speeds decrease, should a price adjustment be awarded to the vendor?

One certain point to be included would be post termination assistance. If a contract is terminated, the client must have stipulated in the contract required assistance from the current vendor to the new vendor at ***no additional cost***. If proprietary software is being utilized at the current vendor's datacenter and the client's data processing is dependent on this proprietary software, certain provisions should be made, such as including a license to run this proprietary software at the new vendor's site until the migration of data and processes to the new vendor's infrastructure has been completed.

2.3 Length of Contract Issues

Many discussions take place over the length of an IT outsourcing contract. Generally the vendor wants to lock a client into a long-term contract. A vendor will claim that a longer contract generally offsets the initial high cost of the migration to an outsourcing vendor (McCray-2008). While this can be the case, other issues can arise with long term contracts.

The rapid changes in technology can make a strong case for a shorter contract. If a business gets locked into a long term contract, and because changes in technology occur much more quickly, then a business can be stuck utilizing a vendor's out of date technology due to

being locked into a long term contract. Long term contracts can also act as a lack of incentive for vendors. Vendors will not be worrying about the constant possibility of losing a contract and therefore not necessarily feel the need to put in 100% effort on a daily basis. In addition, automatic contract renewals should not be built into an existing contract negotiation. New contracts should be negotiated when an existing contract expires.

Negotiating a short term contract can also have drawbacks. A vendor might not be fully vested in the client's business due to the possibility of losing a contract after a short implementation. A vendor might not see the need or have the necessary capital to modernize its IT infrastructure if a contract does not offer long term security.

2.4 Issues that Arise after the Outsourcing Implementation

An outsourcing implementation can fail even if the best vendor is chosen. The primary reason for failure is poor Change Management Control and governance (McCray 2008). Even if valid goals are outlined during the planning process, the reason for failure tends to be due to poor planning and execution on behalf of both the client and vendor. A successful outsourcing implementation is not simply achieved by virtue of a beneficial contract, but rather the ongoing process of support and communication between both parties. Many problems can arise before and after the implementation due to poor communications between the client and vendor.

Perhaps the single biggest issue is the lack of understanding on the part of both parties after the contractual phase. In many cases clients and vendors rush to create a contract, but when it comes time to perform the support, both the parties do not fully understand the specifics required in order to provide beneficial support (Bendula-2004). At this point frustration on behalf of both parties is experienced, and ultimately expected results are not achieved. Clients

tend to assign a single team member to manage individual implementation activities, but these individuals tend to not fully understand their respective part of the overall management process. The result tends to be disinterested managers and certain functions do not get transferred to the vendor in a timely fashion.

Another major issue is the lack of support from the client's Senior Management team. When contracts are negotiated, Senior Management tends not to be involved during this phase (Sako-2010). The result is generally a passive resistance from the senior team.

Often when a business undertakes an outsourcing implementation, during the course of negotiations emotions can run high. Certain employees of the client may very well terminate their employment due to the lack of a clearly defined future of employment. This can cause serious issues for both the client and vendor. If any of these employees are Subject Matter Experts (SME's) and their expertise is required in order to assist the vendor with a certain amount of training in order to provide good support, some aspects of support can be clearly damaged. Often vendors that are put in this position attempt to reach out to these disgruntled ex-employees and attempt to hire them in order to provide training or even to take over support for certain functionality (Aubert-2005).

Even if employees remain with the company during the migration and after the migration is complete, they tend to not have the necessary skillset to work with a vendor in an outsourcing capacity. These employees have a difficult time making the transition from supporting the technology to managing an outsourced team that now supports that same technology. Many times the support personnel from the vendor rely on employees from the client's company for knowledge transfer. If these employees are not completely engaged during this period, key

information could get missed, causing the vendor's support team to not have the proper information in order to provide good support.

Often times a client will abort upcoming projects and spending while planning for an outsourcing implementation (Aubert, et al 2005). They tend to do this for a couple of reasons – the first being the assumption that the vendor will have the necessary expertise for these upcoming projects and have methods and procedures to implement these projects with greater efficiency and cost savings. Another reason is that the procedures and processes being considered for outsourcing might require a substantial cash infusion in order to provide dependable output. Therefore the client would rather wait and expect the vendor to provide the necessary configuration to produce these dependable processes. This can put a strain on the vendor, as the vendor is most certainly engaged in a planning phase and not necessarily taking into consideration these semi-hidden cost requirements.

Perhaps the most prominent issue with outsourcing is the lack of client acceptance on behalf of the employees (Clarke 2004). Many times employees are used to performing tasks and procedures in a certain way and with the introduction of a new vendor, certain processes may require that the employees change their "ways" in order to utilize the vendor's methods. Frustration among employees can mount to the point that employees simply go back to the old "tried and true" method, thus removing the vendor's methods all together.

Chapter 3 – Methodology

The primary research methodology used for this research is a case study. The research object in the case study is a company that recently entered into an outsourcing engagement. This company in question has completed and signed the contract and has migrated processes, services, and hardware to a new outsourcing vendor at the vendor's office. The outsourcing vendor has been providing support for approximately 6 months.

This researcher worked for this company and was a key employee for the outsourcing engagement, from initial contract negotiations all the way to the actual migration of the hardware and services to the outsourcing vendor. This researcher continues to work closely with the outsourcing vendor to provide after the contract support and to work out any issues related to support or contract specifications.

3.1 – Location of Survey

The research centered on an acquisition at a large financial institution. The IT administration contributed to the research by providing the background for the research. The financial institution in question is one of the nation's largest and most respected asset management companies. In addition, this company and its controlled affiliates offer a broad range of products and services to individuals, corporations, and institutions, including mutual funds, separately managed accounts, investment management for institutions, qualified retirement plans, and sub advisory investment management services. There are currently over 2200 employees at various offices spread out across the United States.

3.2 - Participants in Case Study

A case study requires active participation in order to obtain the necessary data. The researcher was able to line up a number of key employees to take part in the case study. The following employees were the participants in the survey portion of the case study:

- The main Project Manager and one Assistant Project Manager from the company
- Two Legal Assistants that were directly involved with initial contract negotiations
- One IT Manager and two Network Analysts

The researcher felt that the list above represented a strong cross section of employees that took direct part in the outsourcing engagement. All six employees were included in all facets of the outsourcing engagement on a daily basis, and thus had a vast wealth of information to provide to the researcher.

3.3 - Agenda

The researcher initially approached each participant for the survey individually and received their verbal consent. A consent form was then presented to each participant requiring a signature indicating that they understood the guidelines for the survey. Furthermore, participants will be identified by first name only, so as not to adversely affect each employee's work status.

Informal interviews took place between the researcher and two members of the IT department not included in the survey. Consent forms were not signed as no names would be used for these informal interviews so complete confidentiality would be assured. The purpose of these interviews was to obtain data using a more informal process of data collection. Questions asked during these informal interviews tended to be of a more unrestricted nature, allowing for data that might not otherwise be obtained using a questionnaire with a more official approach.

3.4 - Informal Interview Questions

- Did the Legal department negotiate a clear set of procedures for the outsourcing engagement?
- Were the initial procedures outlined by the Legal department and the outsourcing vendor attainable within the given timeframe?
- Where the necessary hardware resources available for IT Technicians at all times?
- If issues arose during the actual migration process, was assistance from the vendor readily accessible?
- Once a specific process was migrated to the vendor and moved to production, was further support required from IT technicians from the company?

3.5 - Sources of Data

There are three sources of data used in this study. The first set of data used is the data collected from the informal interview process with members of the IT department. These informal questions offered up information of a broader nature and were key in detailing the outsourcing engagement from an IT perspective. The second data set was the information gathered from the written survey that was presented to seven employees from different departments (listed above). This information provided data from different perspectives from within the company.

Chapter 4 - Analysis

The goal of this research was to evaluate the actual process of a business engaging in an outsourcing action. This goal led the researcher to identify key personnel of the business that had direct knowledge of the outsourcing engagement and ask that they engage in a survey in order to obtain detailed information in regards to their participation with the outsourcing process and understanding of the specifics of the contract. The premise that businesses do not necessarily take into consideration the end of an outsourcing engagement and therefore do not concentrate on specific contract items that address the end of the contract guided the review of this literature. In addition to the employee survey, other methods of data collection include a review of literature specific to outsourcing contracts and contract document analysis.

As detailed in the methodology section above, a cross section of employees for a company that recently undertook an outsourcing engagement were surveyed. The employees were from three different departments; two employees from the IT department, two employees from the Legal department, and two employees from the Project Management department. The surveys given to these employees had some questions specific to their skillset, but some questions were basically the same for all six employees.

In order to obtain a greater wealth of information from the surveys, the questions asked were of an open-ended nature as open-ended questions tend to provide detailed information that can greatly enhance the overall paper. Open ended questions also tend to include a person's feelings and attitudes of the subject in question. This allowed the researcher to understand the "true feelings" of all the respondents.

The six respondents that took part in the surveys are listed below (All respondents were initially asked their current department and length of employment)

4.1 - Survey Respondents

From the IT Department

- David – 9 yrs.
- Eric – 10 yrs.

The primary area of responsibility for David was Exchange email and all related messaging functionality. Eric's responsibility was the migration of all other data.

From the Legal Department

- Ann – 10 yrs.
- Mike – 12 yrs.

The primary area of responsibility for both Ann and Mike was recording data for contract information and negotiations.

From the Project Management Department

- Chris – 7 yrs.
- Greg – 8 yrs.

Greg was the overall Project Manager for the outsourcing engagement. Chris acted as a backup for Greg in Greg's absence.

4.2 - Data Analysis

An initial question asked of all respondents was “Were the specifics of the outsourcing engagement clearly defined from the beginning?”

Both Greg and Chris from the Project Management team attempted to provide specifics as early as possible in an attempt to make the outsourcing engagement flow smoothly. Unfortunately they quickly discovered that changes on an almost daily basis were required. Neither Greg nor Chris had ever been involved with an outsourcing project, and quickly discovered it was a learning experience from day one. Meetings had to take place on a daily basis, as they were discovering that when the specifics changed they needed to notify both Eric and David from the IT department quickly, as both were actively moving data for legal review. Many times data that had been moved and readied for review ended up not being needed, and much time was wasted on these data copies. There were even instances when entire sets of data were simply deleted due to the vendor lacking infrastructure for data storage.

From an IT perspective, although specifics were clearly defined from day one, these specifics changed on a daily basis. The vendor, working in conjunction with a set of employees from the business that were going to work for the vendor once the outsourcing engagement began, initially put a list together of “required” data that would be needed on a daily basis. The amount of data on this list was extremely large–terabytes of information–and this data could not be relocated to the vendor’s infrastructure due to lack of hardware.

According to David, the vendor asked for all current email (3 months) and 3 years of archives (PST files). The request for 3 months of current email could be fulfilled, but 3 years of PST’s would require 10+TB of disk space, and the vendor simply did not have this space

available. In addition, the vendor asked for data from 5 file servers going back 5 years. Once again this was not possible, due to the amount of available space required to store this data.

This would be a prime example of specifics changing on a daily basis. The vendor would make a specific request, and although it was ***initially*** agreed upon by the business and the vendor, further research indicated that the request could not be fulfilled and would need to be reduced in order to get the needed data.

The Legal department had a different take on the data that was being requested by the vendor. They were not concerned with the amount of data but rather the data itself, or what was contained within this data. Even though some data was going to be migrated over to the vendor's infrastructure, before any data could get moved the Legal department needed to analyze this data to make sure it was acceptable for the vendor to have and store on their equipment. Initially the Legal department had no method in place for analyzing data, so initially it was done manually, with Ann looking through the data before it was moved over to the vendor's infrastructure. This method only lasted a week before Ann realized that there was simply no way that she could go through all the requested data in a timely fashion.

At this point the Legal department needed to restructure their requirements in order to analyze the data in a timely fashion and not hold up the process. They set up a data scanning process to attempt to identify key words within these data sets–if the data set included any of the key words the Legal department would need to re-analyze the data manually to see if the data could be migrated over to the vendor's servers. Even with this method Ann realized that they were searching on too many key words and needed to decrease the size of the list in order to keep the process moving along. The process of reviewing the data finally got to the point where

the Legal department just stopped their review process as it was taking too long to complete. Ultimately this action required further contractual obligations on behalf of the vendor, as it was decided that the vendor, while in receipt of privileged data from the business, had to take extra precautions in order to protect this data from any external threats.

Another question asked of all six dealt with upper management and their involvement with the outsourcing engagement. All six felt that there was an initial lack of understanding and direction from upper management. Upper management did not sit in for the majority of the meetings at the beginning, and thus had a difficult time understanding the need for constant revisions. It was only after Greg from the Project Management team asked upper management to get more involved due to the complexity of the initial requests from the vendor that they begin to attend the daily planning meetings.

Both David and Eric were initially discouraged by the response of upper management. Certain managers could not understand why there was such a misunderstanding and why the process of data migration was proving to be so difficult. David felt that there was a lack of understanding on behalf of the managers as to what exactly the process was in order to get data migrated to the vendor's infrastructure.

As an example, management was under the impression that a "cut and paste" or DOS based copy commands would do an adequate job for data transfers, and as David quickly discovered, unfortunately this was not the case. When David approached Greg and explained the issues, Greg also did not initially understand the issues. The reasoning behind this was that while David and Eric (and IT Tech's in general) have a solid understanding of copy utilities and commands and know the specifics and necessary switches in order to obtain the correct data, the

managers were generally non-technical and had a very limited understanding of the capabilities of data copy and therefore become frustrated when certain requests were made of Eric and David that they could not fulfill. Nor did management understand the length of time necessary to copy large amounts of data. They were all under the impression that data could be copied (regardless of amount) in just a couple of minutes. Some of the data folders that needed to be copied were in excess of 800GB. In addition, not all of the data from a particular folder needed to be copied, so copy scripts needed to be configured very specifically with data inclusions and exclusions. The ramifications of these data copy changes experienced in the legal department by Ann and Mark were not show stoppers. Any time a change in the data copy specifics was made, a simple change in the scope of the contract was made. Upper management in the legal department was not heavily involved in these stages of the outsourcing engagement, choosing to wait until the majority of the contract specifics were outlined before they got involved with the completed contract review.

Upper management did tend get involved when major issues came to the forefront, and after a while began to play a much more active role on the outsourcing engagement. The consensus among employees taking part in the outsourcing engagement was that they realized that certain decisions could only be made by them, and in order to keep the project moving forward, as there was an aggressive timeline for completion, they needed to get more involved.

In reviewing Chris and Greg's response in regards to the initial project outline, they detailed the lessons learned during the course of this outsourcing engagement. Chris explained that this project was new to both him and Greg, and even though they had run multiple projects within this company in the past, this was the first outsourcing project that they were involved in,

and in the end they both indicated that there is much to learn when planning for an outsourcing engagement.

Both had performed some initial research before taking on this project, and although they both discovered a general idea of what to expect, in the end there was much complexity even with this project. Greg pointed out that because of the nature of the business they worked for, there were certain things that needed to be taken into consideration while creating the project plan. The company is governed by Securities and Exchange Commission, and the SEC puts forth specific guidelines that must be followed. These guidelines needed to be built into the outsourcing plan, and at times these guidelines required extra work and review by the legal team before certain tasks could be completed.

Both Greg and Chris felt the relationship with both the legal department and the IT department was very strong. When a change was required within the project plan, both the legal department and David and Eric from the IT department were always supportive and understanding, even if the change required additional work (according the Greg, the end result was always in focus, and everyone involved with the project wanted to see a successful implementation).

Ann and Mike from the legal department were asked if the initial requirements submitted by the vendor were initially agreeable. Having never been involved with an outsourcing engagement and associated contract review of this nature, Ann and Mike were generally open to the requests. (Per Mike, upper management within the Legal department did have some questions and concerns, but were unable to participate in this survey). Although both Ann and Mike took their direction from upper management within the legal department on many of the

requirements and requests from the vendor; within time they were able to make decisions and some changes on certain aspects of the outsourcing contract. Many of the questions revolved around what data the vendor could store on their servers, and what data they could not store but still have access to. Although this sounds like a very minor detail, in reality, when working with a company that is governed by the SEC, these types of details must be addressed.

One example, according to Ann, was that there was one specific set of data that the vendor was asking for, but according to Ann's manager, this data could not be offered to the vendor (to store on their servers). The end result was that the vendor could get access directly to this server via a hole punched through the firewall, but the entire dataset was configured with read only permissions so that the employees at the vendor's site could only read this data but not copy it off. One point that immediately came up: if the vendor's employees had read only access to certain data, they could still utilize the print screen process in order to make copies of this data. In the end management from the legal team felt that certain good faith agreements between client and vendor needed to be made to address these types of situations.

Overall both Ann and Mike felt that the vendor's initial requests tended to be somewhat broad in nature; they asked for much more than what they actually needed (and received). Ann and Mike felt that they asked for more than what they ultimately expected to get. Overstating demands is a negotiating tactic and provides some room for negotiations. (It is difficult to ask for something and then at a later date increase the amount asked for). In addition, it is remotely possible that the initial amount asked for will be offered. In the end the negotiating between the client and vendor was not a difficult process; it hinged mostly on the decisions of management within the legal department.

Although the initial requests from the vendor did not necessarily cause issues or major concerns, one aspect of the initial submissions from the vendor did present somewhat of an issue. The question of Service Level Agreements (SLA's) was initially raised by the vendor, but when initially submitted to the legal department Ann and Mike really had no idea how to address the question of SLA's. SLA's are a common practice within the business, but they had no idea how these SLA's would translate for an external vendor providing the same services.

For instance, before the outsourcing migration, if a dataset became unavailable from a Primary 1 server (there are 4 levels of servers with Primary 1 servers holding the most critical data) there was a set time that the dataset was expected to be available. Now after the outsourcing engagement, this type of issue changes in nature. Now the end user is not an employee of the business but rather the vendor, and this dataset now resides on the vendor's servers, so there is no way this can be directly monitored by the business. The primary reason this can become an issue–datasets on Primary 1 servers tend to be accessible externally–this is so external vendors have access to critical data. If the dataset becomes unavailable for an external vendor, it can cause serious issues for the business. Furthermore, the only possible way the business could even find out that a primary dataset became unavailable is if the external vendor reached out to the business and passed on the information, as the vendor would be hesitant to supply this information to the business. In the end, and even with the outsourcing engagement completed (the vendor has officially began running processes and hosting data), the discussion of SLA's is still ongoing, and both the business and the vendor are discussing ways in which to monitor and enforce certain SLA's so the business can be protected against any periods of downtime associated with data loss or unavailable datasets.

One issue that was raised by Greg during the initial contract negotiations was the fact that the vendor's primary computer system was dissimilar to the system used at the business. In order for certain datasets (primarily mainframe data but also some databases as well) to be imported to the vendor's system, certain re-coding changes needed to take place. According to the vendor, it would take anywhere from 6-12 months to re-code all mainframe data in order to load this data run on the vendor's system. Greg made sure to make the legal department aware of this so specifics could be negotiated in the contract. Greg, having gone thru this type of re-coding in the past (the business performed a major mainframe upgrade approximately two years ago) realized the amount of work necessary and wanted to make sure the business and especially the legal department understood the ramifications of the re-coding process.

Even after the outsourcing migration was initially completed, the main frame data still resided on the business's mainframe computer. A temporary hole was punched through the firewall so the vendor could have access for both daily work processing and also access in order to pull the data over and run certain conversions jobs on the data so it could eventually be loaded on the vendor's main frame computer. During contract negotiations the legal department made sure to include a time frame for the data conversion to be completed so the business could retire the primary mainframe computer and also so the firewall hole could be closed. Other data that required conversion was databases. Over the years the business did not necessarily keep up with the latest trends in database applications and software, and had many issues supporting older database platforms. The business did not staff a large team of DBA's, only one DBA on the team was on staff to support both Microsoft SQL and one DBA to support Oracle. If better support was required for either of the database platforms, the business contracted with an outside firm to bring in house a DBA for a short period of time in order to support any database issues.

On the other hand the vendor taking part in the outsourcing engagement was well versed in both Oracle and Microsoft SQL, having gone through database conversions in the past during other data migration projects. They have a staff trained specifically for database conversions (apparently this is a hot topic with outsourcing ventures). In addition, they had the necessary hardware to run large Oracle databases.

Before deciding on an outsourcing engagement, the business was considering a major upgrade to its Oracle infrastructure, but the final cost and staffing requirements, both full time and contractual, were simply too high for the business to invest in. The vendor already had a large Oracle grid infrastructure in place, and could convert the databases and then host them on this grid infrastructure for a fraction of the cost of the business performing the upgrade themselves.

From the perspective of the vendor, the database upgrade was different from the mainframe data upgrade. They already had the infrastructure and staff in place for the database upgrades. The mainframe data upgrade was different, as this upgrade required custom code for the migration to take place, and the vendor insisted on a separate item in the contract for the hiring of contractors in order to create the custom code to make the mainframe data conversion successful.

From a contractual perspective, the legal team made sure to specify the length of time the vendor quoted for both the database conversions and mainframe conversions to be completed. Although the vendor asked for a buffer (allotment of extra time just in case…) this “buffer” was not added into the contract, instead the legal department added extra time on to the original

estimate that the vendor supplied. The legal team felt this was a more secure way to address any potential overruns.

Another question asked of all six respondents was if they felt the vendor was open to frequent changes to the contract as requested by the business. Overall the belief from all six respondents was that the vendor did not really question any changes that the business requested. However both David and Eric felt that from an IT perspective the IT staff from the vendor's company was not necessarily happy as they continually questioned why contract changes were so frequent. Eric felt that the constant contract changes were due to project managers Chris and Greg not having an intimate understanding of certain IT functionality. During discussions with the vendor, Chris and/or Greg and the management team from the vendor would discuss criteria related to the outsourcing engagement and then make decisions based on these discussions. Unfortunately many times during these meetings nobody from the IT staff from either the business or vendor were present and many of these decisions had to be reworked, due to the lack of feasibility of the tasks in question. And before any of these tasks could be completed, they had to be added to the contract, so a written record of what was being done existed. After a couple of weeks of these changes, it was decided that the IT staff must attend future meetings, in order to offer an "IT perspective" and to explain in greater detail a when a certain task was being requested and its feasibility.

The legal team did not have as much of a problem with this as the others did. Granted, frequent revisions were requested, but there were other areas of the contract in which frequent revisions were requested, and as Ann explained, it was simply part of the overall contract revision process. In addition, the revisions had to get passed up to management within the legal

department, so management in the legal department was aware of the frequency of contract changes.

A question that was asked of the legal team was what, if any, provisions were being made to address a potential end of contract and possible migration of data and processes back to the business. Both Ann and Mike had answered that initially there was not talk of any possible end of contract issues. They were under the assumption that once the outsourcing engagement was complete that was the end of it.

Unfortunately this was the standard impression for most of the individuals working on this outsourcing engagement. This question was asked of other employees of the business (employees that took part in the outsourcing engagement but not the survey-it was more of an informal interview process) and a large majority did not even think about the end of the contract, they seemed to think once the migration was complete there was no turning back.

There was even a small department within the technical division that would actually be switching employment–leaving the company and becoming employees for the vendor. This was not a choice offered to this department; it was either move to the vendor or simply give notice and look for another job. This was all the more reason many employees felt that once the outsourcing migration was complete there was no turning back.

Naturally, a question comes to mind-how will the vendor be measured for performance? And if the performance is unsatisfactory, what are the ramifications for poor performance, and is there a risk of the vendor losing the contract?

Ann and Mike were asked this question. According to Ann, when the initial meetings started taking place there was no discussions as to provisions that should be included in the

contract to protect the business against vendor issues. The initial language for these first meetings was more of a planning phase as to how to get data and services migrated to the vendor. The vendor losing the contract due to poor performance was not discussed; it was never addressed by upper management, at least not to Ann or Mike.

Greg was also asked this question–being the overall Project Manager, one would think that he would need to address a potential contract reversal. According to Greg, however, his supervisors did not ask him to address this in the initial project meetings. The goal was to complete the outsourcing project and get the vendor up and running as efficiently as possible.

Upper management within the IT department had a different understanding–while they also did not take part in the formal survey questionnaire, they were questioned informally, and their responses were different from many others. One manager answered by leveraging SLA's. The outsourcing vendor was going to be measured primarily by SLA's. The specifics of these SLA's were not shared with the interviewer so it is somewhat difficult to ascertain exactly what could cause a reversal once the contract ended, but this did show that certain individuals within the business had detailed knowledge of the outsourcing project and what issues could cause the business to contemplate a serious look at the outsourcing project to determine if there are simply too many outstanding issues with the vendor over time. According to an Assistant Vice President within the Technical department, the name at the top of the letterhead is still the company name, so if issues arise with the outsourcing vendor, such as missed SLA's or other serious problems that could impede the capabilities of the business, the company will be the one that takes the hit, not the outsourcing vendor. This AVP did not go into detail as to what would happen if SLA's were missed, but he did say that there were some consequences for the vendor.

Chapter 5 - Results

It was quite evident from the onset that regardless of any issues that came up during the course of the outsourcing engagement, the issues would be solved (or they would be considered unimportant) and the project would move forward. There was very little discussion about provisions addressing the end of the contract. The emphasis was on the necessary steps to get services and processes migrated over to the vendor's infrastructure. In addition, the knowledge base on outsourcing engagements on the part of the employees from the business was somewhat limited. This was evidenced by the frequency of necessary changes to the project.

There was an initial level of excitement by the employees that were involved on this outsourcing project from the very beginning. As the scope of the project increased, it was evident that from a project level standpoint there was much "ad-hoc" work that was performed on an immediate walk up basis. This was due to the project management team not having a solid understanding of outsourcing engagements. It was certainly a learning experience for all employees involved.

When management did get involved, they did offer guidance and recommendations that turned out to be quite valuable. It did seem however that management expected the project management team (and all other employees directly involved with the outsourcing project) to handle this outsourcing project and see it to completion. Although the employees involved in this outsourcing engagement treated this project as their top priority, the business had many other important endeavors that needed to be addressed on a daily basis, and thus management tended to not get involved unless they were absolutely needed. There was no solid evidence of this, it

was suspected that management was not happy with outsourcing this certain IT functionality and therefore did not like getting involved.

The initial outsourcing engagement has been in motion for approximately six months. Unknown to the project team at the time but certainly known now is the necessity of revisiting some earlier process migrations. It was initially thought that the mainframe data would be transferred to the vendor's mainframe, but as time went on during the migration process, it was discovered that the work required to get this data moved would be much more difficult that initially thought. There is now a "Phase Two" and "Phase Three," and these phases address the migration of mainframe data to the vendor's infrastructure and the relocation of the vendor to new office space. The vendor is currently using office space in the building that the business currently resides in. The vendor was planning on moving to newly rented office space, but once again during the outsourcing process it was discovered that certain links between systems would take much longer to put in place, and so the vendor is temporarily housed in the same building. Another part of "Phase Two" is to get the network team from both business and vendor to design a WAN that can accommodate the vendor when they actually relocate to new office space.

Overall, management is pleased with the effort, and has shown great confidence in the project team to address outstanding issues in a timely fashion. The hope is that the vendor has relocated to their new office space by the end of the year (Phase Two). The mainframe data migration (Phase Three) will probably take another 2-4 months after Phase Two is completed.

Areas of Further Research

The research presented in this paper was primarily centered on the initial outsourcing engagement and work required to migrate data and services to a vendor company. This research does not offer any long term data in terms of outsourcing implementations, successful or unsuccessful. Continued outsourcing engagements should be studied at other businesses in order to obtain a broader knowledge base. In addition, other reasons to research other companies would be to measure both a success rate and a level of unsuccessful implementations that required a reversal of part or the entire outsourcing project.

It is important to note that the surveys were completed by individual contributors (non-management) of the business. Management did not take part in the survey, due to potential issues involving the compliance department. It would have also been beneficial for other areas within the IT Technical department at the business such as the LAN/WAN team or the Infrastructure Developmental Team to take part in the surveys.

Research has shown that companies taking part in an outsourcing engagement tend to concentrate more on the actual implementation for migrating the data and services rather than take into consideration any possible failures during the outsourcing period. While it is important for companies to create a detailed plan for outsourcing engagements, they should also take into consideration the possibility that the outsourcing engagement might fail on one or more levels, and they need to be able to address these issues in order to protect the assets of the company.

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