Governance determinants in multivendor IT outsourcing

Kaushik Khakhar
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Current literature on Governance of IT outsourcing is largely focused on a dyadic relationship between a client and a vendor. While multivendor IT outsourcing arrangement is evolving as a dominant sourcing strategy there is a glaring lack of research on this topic. This thesis explores Governance in multivendor IT outsourcing arrangement. It broadens our understanding by looking beyond the traditional modes of Governance: mainly contractual and relational. We look at the roots of the Governance problem by identifying determinants from literature and an empirical case study. By understanding these determinants clients can assess current situation and develop strategies to improve Governance and achieve expected results from multivendor IT outsourcing. Our contribution to information systems (IS) and strategic management literature are the findings from this thesis which include four Governance modes, fourteen Governance determinants and the inter-relationships between them.
PREFACE

This Master thesis is last part of my study Masters in IT Management at Delft University of Technology, Faculty of Technology, Policy and Management, part of Delft TopTech. The Master thesis was conducted between October 2012 and September 2013.

First and foremost, I would like to extend my sincere gratitude and thanks to Dr. Albert Plugge for giving me the opportunity, direction and encouragement during the entire thesis project. Without the continued support and guidance of my supervisor and guide Dr. Albert Plugge, it would have been very challenging to complete this thesis.

This thesis is also incorporation of my learning's from the module IT Governance course that I could take as part of the Masters in IT Management program. I am extremely thankful to Dr. Gerard Wijers for providing me valuable feedback, guidance and clarity on purpose, which helped me make a sound and robust contribution to the IS community.

I would like to especially thank Ms. I.M. Graafland, Program Manager Masters in IT management for the constant support during the thesis project, scheduling group review meetings and answering my questions time and again.

Finally, I would like to thank my loving, caring and supporting wife: Dharmi. She supported and encouraged me throughout all these years in balancing work, family, social and studies. Her commitment and dedication as companion made it possible for me to accomplish every step and milestone on the way. I also acknowledge my parents for supporting my academic aspiration with their blessings and unconditional love. Without them, I would not be where I am now.

Kaushik Khakhar

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EXECUTIVE SUMMARY

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

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

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

What are the Governance determinants in multivendor IT outsourcing arrangements?

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

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

- Inter-organizational structure, strategy and motivation, and clear roles and responsibility are determinants of inter-organizational Governance mode.
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- Commercial goal expectations, activity expectations and contractual flexibility are determinants of contractual Governance mode.
- Information exchange, trust and conflict resolution are determinants of relational Governance mode.
- Collaboration processes and tools, shared values and understanding and starting conditions are determinants of collaborative Governance mode.

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

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

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

This Chapter aims to explain the motivation, research methodology and the relevance of this thesis. In order to understand the motivation behind research on Governance in multivendor IT outsourcing arrangement, it is important to understand both IT outsourcing arrangements and the need for Governance. To offer this understanding, we start with an introduction on outsourcing and various sourcing strategies that are available to the outsourcer (here-on referred to as the client). Then we outline the emergence of multivendor IT outsourcing, its definition and an important factor that determines its success, i.e. Governance. We address why Governance is an important, necessary and challenging field of research in multivendor IT outsourcing arrangements.

Next, we describe that success or failure of multivendor IT outsourcing arrangement mainly depends on Governance (Cohen and Young, 2005). Practitioners claim that Governance is even more important than the client’s outsourcing strategy itself. From a client’s perspective, Governance of multivendor IT outsourcing arrangement is still under researched, whereas its importance has increased significantly in the last decade. We refer to literature that highlights the need for further research in this field mainly because of its scarcity and relevance (Bapna et al., 2010; Huntley, 2013). This is the key motivation for this research project.

Towards the end of this Chapter, we present methodology on how the research is conducted. This includes a clear explanation of our research objectives, research questions and research approach. We highlight the relevance of this research to academia and describe the implications for practice (fondly referred to as the real world). This Chapter ends with a high level overview of the thesis structure which provides a mind map and reading guidelines.

1.1 MOTIVATION

Outsourcing is one of the most familiar concepts in the business world today. The use of third-party services has become common in the world of Information Technology (IT). At its most basic form, outsourcing is an arrangement in which one organization (the client) hires other organizations (the vendor) to perform a particular function on its behalf. Over the last two decades, outsourcing has evolved both from a client as well as from a vendor perspective. From the client’s perspective, their needs have evolved from simple cost savings to addressing strategic business issues through outsourcing (Linder, 2004). During the same time, vendors have evolved mainly because of their desire to move up the value chain, by offering increasingly complex services such as research and development, product innovations and complex business process services. The evolutions of both the client and vendor side has given rise to various kinds of sourcing strategies, such as off-shoring, outsourcing, near-shoring and on-shoring (Oshri et al., 2011).

From early 1990s to 2000s, clients heavily favored relying on single vendor to perform all related functions with respect to IT. However, the inherent risks and challenges that it posed forced client’s management to believe, there is no optimization achieved through working with a single vendor and as such it was better to hire multiple vendors to perform related tasks. Most organizations started to outsource IT functions to a single vendor and then gradually shifted to multivendor IT outsourcing.
Recent literature suggests that multivendor IT outsourcing is the most dominant strategy of organizations these days (Oshri et al., 2011; Vagadia, 2012b; Willcocks and Lacity, 2012).

In its most basic form, multivendor IT outsourcing is disciplined provisioning and blending of IT services and related business process, in order to find the optimal set of both internal and external service providers and vendors (Cohen and Young, 2005). Multivendor IT outsourcing offers an organization flexibility and adaptability when choosing outsourcing models as compared to the traditional outsourcing approach of utilizing one vendor.

However, there are problems and added costs associated with multivendor IT outsourcing approach. Some of the key problems are related to complex interdependencies between vendors, poor communication structures, Governance failure and unclear roles and responsibilities. The authors, Cohen and Young, argue that central to success of multivendor IT outsourcing is the creation of a sourcing strategy that is tightly linked to the overall business strategy and constantly monitored by an effective enterprise-wide Governance system (Cohen and Young, 2005). Given its nature of spanning boundaries across multiple organizations, multivendor IT outsourcing increases the need for effective Governance. Importantly, recent literature suggest that multivendor Governance has been moving up the outsourcing agenda in the last three years (Willcocks and Lacity, 2012).

Previous research on IT outsourcing largely focused on the role of contract and service level agreements in structuring and governing the client-vendor relationship (Bapna et al., 2010). Today, much of the literature on IT outsourcing remains specific to dyadic arrangements. During the past decade, the scope of IT Governance has evolved from a dyadic relationship, to an environment that includes multiple parties resulting in an increased complexity. Some of the increased complexity is related to geographically dispersed functions to guide, manage and control multiple vendors. However, research on Governance in multivendor IT outsourcing remains scarce (Bapna et al., 2010).

The challenges discussed above and the importance of multivendor Governance in determining the success of IT outsourcing relationships is the prime motivation of our thesis. In the following section, we explore the research problem on IT Governance of multivendor IT outsourcing arrangement in detail. We start with introducing a typical multivendor arrangement, it’s IT Governance, and the key challenges of IT Governance on the client side.

### 1.2 RESEARCH: CONTEXT, PROBLEM, OBJECTIVE AND QUESTIONS

In this section, we address the research methodology of our thesis. Before we address the research objective, it is important to establish the context of Governance in a multivendor IT outsourcing arrangement. Therefore, section 1.2.1 covers the research context, section 1.2.2 covers research problem that motivates the research objective of our thesis. In section 1.2.3 our research objective is translated into a main research question and sub-research questions.

#### 1.2.1 RESEARCH CONTEXT

In today’s global world, organizations use many IT Services (e.g. IT infrastructure, Application management, service desk, communication networks) most of which are outsourced to third party
vendors. Typically, each vendor has to offer a unique value to the business and, therefore, has set up a bilateral business relationship with the client for a given period of time. These relationships are not established at the same time but actually evolve progressively in the clients organization (Advisory, 2011). Figure 1 illustrates a client organization as part of a multivendor landscape, wherein the client has relationships with Vendor 1, Vendor 2, Vendor 3 and so forth to deliver and run a set of integrated IT Services. Reference to figure 1 below and for the thesis in general:

- An **organization** will be defined as a “company, corporation, firm, enterprise, authority or institution, or part or combination thereof, whether incorporated or not, public or private, that has its own functions and administration” (ANSI, 1994).
- The **client** is used to denote the buying organization, while the vendor refers to the company providing services under a contract.
- **IT Governance** is the responsibility of the board of directors and executive management. It is an integral part of enterprise Governance and comprises the leadership, internal and external relationships, organizational structures, processes and monitoring that ensure that IT sustains and extends the organization’s strategy and objectives while managing any associated risk (Brand and Boonen, 2004).

![Figure 1: IT Governance in multivendor landscape](image)

Fundamental to IT outsourcing is accepting that, while service delivery is transferred, accountability remains firmly within the remit of the client organization, which must ensure that the risks are managed and there is continued delivery of value from each vendor. Transparency and ownership of the decision-making process must reside within the purview of the client (Simmonds and Gilmour, 2005).

### 1.2.2 RESEARCH PROBLEM
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Some of the key challenges in multivendor IT outsourcing are increased coordination challenges between interdependent client and vendors, lack of clear motivation behind multiple outsourcing relationships, unclear roles and responsibilities and lack of multivendor Governance model (Cohen and Young, 2005; Unisys, 2009; Bapna et al., 2010; Banerjee, 2012). This leads to somewhat chaotic cooperation between all parties, strong degree of distrust among each other and impacts operational performance of vendors and third parties significantly.

 Governing a multivendor IT landscape is also challenging because IT Services may change over time including constant updating, change and innovation in order to create business value and business-IT alignment. Moreover, business strategy, people, organization capabilities and sourcing arrangement also change over time. Given the inter-organizational nature of multivendor arrangement, various IT Governance determinants affect both the client and its vendors. Consequently, contradictory to common misconception, multivendor IT outsourcing arrangements requires additional attention on interdependencies and coordination on strategic, tactical and operational level when compared with single vendor IT outsourcing arrangements. Remarkably, literature lacks insight on which and how Governance determinants affect multivendor IT outsourcing arrangements (Lacity et al., 2009; Bapna et al., 2010). Literature identifies (Bunyaratavej et al., 2011) IT Governance as one of the main management issues and highlights the need for future research both at organizational level and at inter-organizational level.

1.2.3 RESEARCH OBJECTIVE

Our research objective is to explore how clients can govern multivendor IT outsourcing arrangement by understanding the Governance determinants. As determinants are the factors that decisively affect the outcome of Governance: effective or ineffective, they are at the roots of Governance problem in multivendor IT outsourcing.

Research Objective: “Explore how multivendor IT outsourcing arrangements can be governed by a client organization”

Based on the research objective of this thesis, the main research question can be stated as follows:

Main Research Question: What are the Governance determinants in multivendor IT outsourcing arrangements?

The basic assumption that relate to our study is that both a client and its vendors are unable to directly control the IT Governance determinants by their self as they are mutually dependent on each other. Essentially, awareness of IT Governance determinants may enable organizations to restructure and strengthen existing relationships in order to create business value.

We answer the main research question using two methods. First, by conducting an in-depth literature review to identify Governance determinants and second, by conducting a case study to validate our findings. Therefore the main research question has been further divided into detailed sub-questions as below:
As literature lacks relevant and actual insights regarding Governance determinants that are applied in multivendor IT outsourcing arrangements we draw on IS/IT literature that also relate to dyadic outsourcing arrangements.

- **Research sub-question 1:** *Which Governance determinants can be identified in multivendor IT outsourcing arrangements based on existing IS/IT literature?*

  This research sub-question is answered in Chapter 3. Due to the limited attention on IT Governance in multivendor IT outsourcing arrangements from literature perspective, practice may reveal additional IT Governance determinants that effect multivendor relationships. This means that applying a qualitative approach may identify valuable additional determinants.

- **Research sub-question 2:** *Which additional Governance determinants can be identified in multivendor IT outsourcing arrangements based on empirical research?*

  In Chapter 4 we provide introduction to the case study. Research sub-question 2 is answered in Chapter 5 which provides an empirical validation of the Governance determinants as identified in multivendor IT outsourcing arrangement case-study. Clearly, there is a need to improve our understanding on how IT Governance determinants affect multivendor IT outsourcing arrangements. In order to structure our findings, we have defined our third research sub-question as follows:

- **Research Sub-question 3:** *How do Governance determinants affect multivendor IT outsourcing arrangement?*

  Research sub-question 3 is answered in Chapter 6 which provides empirical evidence based on a case study.

### 1.3 RESEARCH APPROACH

Due to the aspect of research-ability, this study focuses only from a client perspective. Consequently, the vendor side is deemed out of scope. Our focus is on the client side, therefore in this thesis we explore how multivendor IT outsourcing arrangements can be governed by a client organization.
Governance determinants in multivendor IT outsourcing

Figure 2 describes the demarcation using types of IT Outsourcing arrangements and domains of IT Governance. The demarcation helps to identify the scope of the thesis and to identify the theories that are studied. As described in Figure 2 the unit of observation in our research is multivendor IT outsourcing arrangements while the unit of analysis is IT Governance.

1.3.1 LITERATURE REVIEW

Based on a literature review we studied various topics that relate to our main research topic, namely: IT Governance, corporate Governance and IT outsourcing, multivendor outsourcing, and multivendor Governance. Second, to capture insights from practice about IT Governance in multivendor arrangements, we also searched for industry publications. Important practitioner sources (e.g. APICS, ITGI and ISACA) were studied as well. Theoretical findings are also gathered from scientific journals, company whitepapers and conference papers (e.g. global sourcing workshops). This thesis identified the topics on literature review based on problem statement and research demarcation. The list of key words used as search terms for literature review and scientific studies are covered in Table 1:

<table>
<thead>
<tr>
<th>Key Words</th>
<th>Relevant Scientific Research Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT Outsourcing</td>
<td>Information Systems, Computer Information systems</td>
</tr>
<tr>
<td>Global Sourcing</td>
<td>Information Systems (IS), Management</td>
</tr>
<tr>
<td>Multi-sourcing</td>
<td>IS, Management, Business, Management</td>
</tr>
<tr>
<td>IT Governance mechanisms</td>
<td>Corporate Governance, IT Governance, Coordination, Contractual Governance, Relational Governance</td>
</tr>
<tr>
<td>IT Governance Determinants</td>
<td>IS, IT Governance, Contractual, Relational, Cooperation and collaboration theories</td>
</tr>
<tr>
<td>Inter-organizational relations</td>
<td>Organization Theory</td>
</tr>
</tbody>
</table>
1.3.2 CASE STUDY

Due to the complex nature of multivendor IT outsourcing arrangements, we opted for an exploratory, case-study-based research. This should help us gain deeper understanding of the phenomenon under study (Yin, 2008). Case study research is one of the most common qualitative methods used in the field of Information Systems (Orlikowski and Iacono, 2001). The case study method is preferred when:

1. “What”, “How” or “Why” questions are being posed,
2. The investigator has little control over the events, and
3. The focus is on contemporary phenomenon within some real life context

The case study method is well established in IS Research, especially when it is used for “sticky, practice-based problems” such as determinants of IT Governance in multivendor landscape. Robert Yin’s comprehensive method covers all aspects of the case study method–from problem definition, design and data collection, to data analysis and composition and reporting. As part of the qualitative research, we performed an explanatory case study within European IT division of a large international retail organization.

1.3.3 RESEARCH FLOW DIAGRAM

This section provides a high level overview of research approach. It shows the research methods used, along with the outcome mapped to schematic structure of the chapters. Figure 3 below shows research flow diagram.

<table>
<thead>
<tr>
<th>Multi-sourcing Governance</th>
<th>IS, Business, Management, IT Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT Governance</td>
<td>Information System (IS) and Strategic Management</td>
</tr>
<tr>
<td>Reference Models and Frameworks</td>
<td>IT Governance, IT outsourcing reference models</td>
</tr>
<tr>
<td>Outsourcing Governance</td>
<td>IS Outsourcing</td>
</tr>
<tr>
<td>Multi vendor Governance</td>
<td>Organizational Strategy, Coordination theory</td>
</tr>
<tr>
<td>Cost and benefits of multi-sourcing</td>
<td>Economic Theories, Transaction Cost Economics</td>
</tr>
<tr>
<td>Relational Governance Multi-sourcing</td>
<td>Organizational, Relational exchange theory</td>
</tr>
<tr>
<td>Individual and organizational politics</td>
<td>Power and politics Individual &amp; Organizational theories</td>
</tr>
</tbody>
</table>

Table 1: Literature Review: Key Areas
1.4 RELEVANCE AND CONTRIBUTION

This thesis offers opportunities to make significant scientific contributions by developing insights into the managerial, social and operational aspects involved in Governance of multivendor IT outsourcing arrangement. Our research is scientifically relevant to literature addressing multivendor IT outsourcing and aims to contribute the following to IS research community:

- Governance modes and determinants in multivendor IT outsourcing landscape.
- Set of validated Governance modes and determinants that are based on empirical research.
- Describe the affects of Governance modes and determinants on the client’s organization based on empirical research.

By understanding the Governance determinants and their effectiveness in multivendor IT outsourcing landscape, practitioners will be able to:

- Selectively apply IT Governance determinants relevant to their own case
- Increase effectiveness of Governance in multivendor IT outsourcing arrangements
- Reduce complexity
- Improve satisfaction and relationships across multiple vendors
- Establish a framework to succeed in achieving end to end service performance

Additionally, practitioners can leverage the understandings and capabilities of IT Governance determinants to restructure business relationships between clients and vendors to obtain strategic advantage.

1.5 THESIS STRUCTURE

Below we provide an overview of the thesis structure.

In Chapter 1 we outlined the motivation, research methodology and relevance of this thesis. This Chapter highlighted a clear need for research on the subject: Governance in multivendor IT outsourcing arrangement. It also outlined the research approach by means of a flow diagram. Finally, the contribution of our research to academia and possible implications for practitioners is described.

In Chapter 2 we address the world of IT outsourcing to explain the concept of multivendor IT outsourcing. This Chapter starts with history, current status and trends in IT outsourcing. Key topics in multivendor IT outsourcing are described in more detail. This includes background, motivations, the shift from single to multiple vendors and its impact on the client and vendors. Importantly, we explain complexities and challenges of multivendor IT outsourcing and the need for its Governance from multiple angels.

In Chapter 3 we establish the foundation of Governance in multivendor IT outsourcing arrangement. This foundation is established through an in-depth literature review. This Chapter starts with basics
of Governance and moves on to advanced topics such as Governance modes and Governance determinants. These modes and determinants together are used to build a conceptual research model for Governance. We use this model as starting point for our empirical research using case study approach.

In Chapter 4 we introduce the case study. The aim of this Chapter is to outline our research approach using the case study. It explains key activities and methodologies used for data gathering and analysis. In addition, we explain client selection, interviewee selection and interview approach. Importantly, Chapter 4 describes the case including the client’s multivendor IT outsourcing arrangement, and the vendors involved.

In Chapter 5, we validate Governance determinants based on the case study. Based on the foundation developed from literature study in Chapter 3, we develop a conceptual research model to present our findings in the client’s multivendor IT outsourcing arrangement. The results from Chapter 5 are findings based on empirical case study and additional Governance determinants.

Chapter 6: describes how Governance determinants affect the multivendor IT outsourcing arrangement from a client perspective. Next, Chapter 6 provides strategies developed by the client to improve Governance.

Chapter 7: In this Chapter, we provide an overview of our main findings. Next, we discuss the contributions to the science and provide recommendations for practitioners. We conclude by discussing the main limitations to the study and provide directions for future research.
Chapter 2 focuses on the unit of observation for this thesis from sourcing perspective i.e. multivendor IT outsourcing. However, before diving into multivendor IT outsourcing, a good understanding of outsourcing is important. Therefore, this Chapter starts with introduction of outsourcing, covers IT outsourcing from historical perspective and outlines the key trends in IT outsourcing. The topic of multivendor IT outsourcing is then addressed in more detail including the key definitions, drivers and the risks involved in this arrangement.

2.1 IT OUTSOURCING

2.1.1 INTRODUCTION ON IT OUTSOURCING

As noted earlier, the main focus of our study is related to service outsourcing, more specifically IT outsourcing and not manufacturing outsourcing. Within the field of IT outsourcing, there are many different meanings and definitions of outsourcing. For this thesis, we examine outsourcing, rigorously defined, as contracting with an external organization for the ongoing management and delivery of a defined set of services to a prescribed level of performance. The services could be provided locally or in another country.

The exact source of origin of IT Service outsourcing cannot be traced back to a particular deal or the year. However, there are significant events and developments in management theory that lead to rapid adoption and growth in IT outsourcing. One of these development is related to a management article “The Core Competence of the Corporation”, which raised the key question “What business am I in?” for many executives (Prahalad and Hamel, 1990). The second is the management theory on “Reengineering the Corporation” (Hammer and Champy, 1988). By combining the strategy of core competency with theory of reengineering, business executives and managers started outsourcing throughout the 1990s (Cohen and Young, 2005).

Other major drivers of outsourcing include globalization and rapid advancement in technologies such as computing, telecommunications, storage and software. The outsourcing trend which started in early 1990’s has been expanding ever since. It expanded into domains beyond IT outsourcing and now also includes business process outsourcing, wide range of knowledge intensive and strategic services. In 2004, the concept of “Transformational outsourcing” was introduced. This concept has been an evolving concept ever since. The number of companies engaged in this arrangement is impressive. Transformational outsourcing is an arrangement with one or more vendors to achieve a rapid, substantial and sustainable improvement in the firm’s performance (Linder, 2004). Transformational outsourcing arrangement goes beyond cost savings. This arrangement can be seen as a strategic enabler of innovation and builder of competitive advantage for an organization to exploit market opportunities.

Today, estimates on total IT outsourcing spend vary considerably. According to Gartner, Global ITO services spend in 2012 was to reach $251 billion up from $134 billion in 2002 (Huntley, 2013).
While conservative estimates from other sources indicate that IT outsourcing spend will be $290 billion and its growth will be in the range of 5 to 8% per annum for the next 5 years globally (Kotlarsky and Willcocks, 2012).

### 2.1.2 DEFINITION OF IT OUTSOURCING

The term IT outsourcing in general has been defined in the literature in various ways:

"...a decision taken by the an organization to contract-out or sell the organizations IT assets, people, and/or activities to a third party vendor, who in exchange provides and manage assets and services for monetary returns over an agreed time period" (Kern 1997, p 37)

"... the handing over to a third party management of IT/IS assets, resources, and/or activities for required results" (Willcocks & Kern, 1998, p 2)

“Outsourcing is defined as contracting with a service provider for the management and completion of a certain amount of work, for a specified length of time, cost, and level of service” (Oshri et al. 2009)

Outsourcing involves choosing a third party or an outside vendor to perform a task, function, or process, in order to incur business-level benefits. Based on literature (Kern and Willcocks, 2000), we define outsourcing as follows:

> **Outsourcing** is a decision taken by an organization to contract or sell the organizational assets, people, processes and/or activities to a third party supplier, who in exchange provides and manages assets and services for monetary returns over an agreed period of time.

The keyword is that the third party (an external firm, legal entity) “provides and manages” services on an ongoing basis. Outsourcing is not just simple one-off project or hiring of external consultants – which is often referred as body shopping or staff augmentation. Example of IT Outsourcing services
Governance determinants in multivendor IT outsourcing

includes, but are not limited to, application development, application support, data center management, telecommunications and network management, end user computing and cloud computing. (Cohen and Young, 2005; Willcocks and Lacity, 2012). In the following section we look at the history of IT outsourcing and how IT outsourcing has evolved over the last 20 plus years.

2.2 HISTORY OF OUTSOURCING

While there are many different accounts of the history of outsourcing, they all paint a similar picture: an era of early adapters, followed by a rapid growth and transition into a mainstream management practice. Over the period of two decades the outsourcing strategy in many, if not all, organizations has evolved from a strictly cost focused approach towards more cooperative nature, in which cost is often secondary, decision-making criterion. In the following paragraphs we provide a summary of our understanding from historical accounts prepared by (Hätönen and Eriksson, 2009).

In the development of the outsourcing strategy, three broad and somewhat overlapping, yet distinct phases can be identified: the era of the Big Bang (or total outsourcing), the era of the Bandwagon effect, and the era of Barrierless outsourcing (Hätönen and Eriksson, 2009). Table 2 illustrates these three stages of outsourcing evolution and their respective characteristics. These key characteristics provide relevant perspective for each phase, for e.g., prime motivation behind outsourcing, choice of location, organizational arrangement, competencies, and key management theories.

<table>
<thead>
<tr>
<th>Time period</th>
<th>Big Bang - Total Outsourcing</th>
<th>Bandwagon - Main Stream Adaptation</th>
<th>Barrierless organizations - Multivendor (Global) Outsourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime motives</td>
<td>late 1980s to late 1990s</td>
<td>late 1990s to late 2000</td>
<td>late 2000 onwards</td>
</tr>
<tr>
<td>Buzzword</td>
<td>Outsourcing</td>
<td>Strategic outsourcing</td>
<td>Transformational outsourcing</td>
</tr>
<tr>
<td>Outs. location</td>
<td>Domestic</td>
<td>International</td>
<td>Global</td>
</tr>
<tr>
<td>Management of the outsourcing relations</td>
<td>Arms-length, transactions</td>
<td>Strategic alliances</td>
<td>Collaborative development</td>
</tr>
<tr>
<td>Organization</td>
<td>Efficient organization</td>
<td>Focused organization</td>
<td>Virtual organization</td>
</tr>
<tr>
<td>Core organizational competences</td>
<td>Management of key strategic business units (SBUs)</td>
<td>Key strategic competences (core competences)</td>
<td>Dynamic competences and network competences</td>
</tr>
<tr>
<td>Strategic rationalization</td>
<td>Profit maximizing</td>
<td>Strategic and competitive edge</td>
<td>Survival</td>
</tr>
<tr>
<td>Outsourcing objects</td>
<td>Structured and well defined turnkey manufacturing processes</td>
<td>Strategically important organizational process</td>
<td>Projects highly knowledge-intensive and creative in nature</td>
</tr>
<tr>
<td>Main theories*</td>
<td>Transaction cost theory</td>
<td>Resource/competence-based view</td>
<td>Organizational Theories</td>
</tr>
</tbody>
</table>

Table 2: Evolution of outsourcing (adapted version)

Phase 1: Total Outsourcing or Big Bang. This phase was mainly driven by early adopters of outsourcing. The name Big Bang also emphasis the manner and intensity with which outsourcing gained popularity. During this phase, managers and executives mainly focused on contracts and service level agreements as main mechanisms for structuring and governing the outsourcing arrangement. The practice of early outsourcing has its roots in Transaction Cost Economics (TCE)
(Coase, 1937; Williamson, 1975). TCE mainly focuses on the cost of transaction in externalizing an organizational activity through arms length contracting. There are some important differences between contracting out activities and outsourcing. While contracting considers buying as more or less arms-length transactions, outsourcing entails closer inter-organizational relations of various types. Outsourcing entails a long term relationship with a high degree of risk-sharing; contracting out refers more to work conducted by an outside vendor on a job-by-job basis; cost being the only decision-making criterion.

Yet another unique characteristic of Phase 1 is the location to perform outsourcing work. In early years of IT outsourcing, most of the work remained on-shore. It was not until Year 2000, (recollect Y2K problem), that offshore providers emerged on IT outsourcing landscape. The term off-shore outsourcing emerged in late 1990s and late 2000. The internationalization of outsourcing further increased its adoption into the next stage. The evolution to the next stage of outsourcing occurs mainly because managers focus on three key questions: What, When and How. These three questions provided an increasing number of choices available to managers over time. For example managers often focused on how to increase the value of outsourcing as a whole while reducing the risk.

Phase 2 of outsourcing was main stream adoption, called, Bandwagon phase. The impact from early stage outsourcing was large. Now the management decision of outsourcing went beyond make-or-buy. In fact, just in under a decade, literature referred to outsourcing as one of the great management ideas of the past century (Christensen, 1997). In this stage, outsourcing was not merely a strategy for cutting costs accruing from the hierarchical organization of activities; it was seen as means of acquiring superior resources, knowledge and competences from external sources, i.e. a resource-seeking strategy. Researchers examined outsourcing also in the context of Resource-Based View theories (RBV) of the firm. In contrast to Total outsourcing, more strategic functions were now being outsourced and thus arms length management of the relations became insufficient. As a result, firms started building closer relationships with their vendors. Organizations stretched their boundaries to gain competitive advantage through outsourcing. By the turn of the millennium, the popularity of outsourcing had led to the situation where outsourcing was no more seen as a competitive differentiator – it had become a norm (main stream) rather than an exception.

Phase 3: Barrierless organization. This phase can also be described by phenomenon of global multivendor IT outsourcing. Global access to vendors, falling interaction costs, and improved information technologies and communications links provided all companies a possibility to restructure their businesses. The global resource pool had, as well, come available for all companies, regardless of their industry, geographical location or the size of the company. Such developments led to the current phase in the outsourcing history – the era of Barrierless Organizations. This era traces an increasing trend towards organizational structures, in which the boundaries have become blurry and fading.

There has been significant academic research within outsourcing arena, a lot focused on the drivers and benefits of outsourcing. There has also been more recently a focus on the risks emanating from outsourcing and the role of relational exchanges. IT outsourcing can bring many benefits to
organizations, but it can also expose them to a number of risks. Most companies do not have a structured supply chain risk management and mitigation system. Nevertheless they do use a number of informal approaches to cope with risk. In the following section, we take a closer look at the risks related to IT outsourcing.

### 2.3 RISKS OF OUTSOURCING

From one of the recent academic insights on IT outsourcing, Vagadia (Vagadia, 2012a) describes that outsourcing is potentially a valuable strategy for firms, whether they view its use as tactical or strategic. However it is also a risky practice – this is also confirmed by many practitioner publications (Gonzalez et al., 2005; Dhar and Balakrishnan, 2006; Osei-Bryson and Ngwenyama, 2006). Literature on outsourcing reveals relevant rationales to start an outsourcing venture (Vagadia, 2012a). These rationales to outsource key tasks of a firm include: better focus on core business, cost reduction, benefit from vendor investment and innovation, increased flexibility and technology, and gain access to external competencies. Translating these rationales into benefits for an organization requires a good understanding of potential risks and mitigation strategies. Literature outlines these risks into strategic risks, operational risks, commercial risks, Human resources and communication risks (Vagadia, 2012a). Table 3 illustrates strategic, operational, commercial, HR and communications risks.

<table>
<thead>
<tr>
<th>Strategic Risks</th>
<th>Operational Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Not achieving the originally planned benefits</td>
<td>1. Dependency on the vendor</td>
</tr>
<tr>
<td>2. The loss of core activities and competencies</td>
<td>2. Diminished quality of service</td>
</tr>
<tr>
<td>3. Loss of skills and corporate knowledge</td>
<td>3. Loss of Management control</td>
</tr>
<tr>
<td>4. Loss of business flexibility and innovation capabilities</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commercial Risks</th>
<th>HR and Communication Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Security breaches</td>
<td>1. Loss of internal coherence and collaboration</td>
</tr>
<tr>
<td>2. Client lock-in</td>
<td>2. Lack of seamless communication</td>
</tr>
<tr>
<td>3. Costs increases</td>
<td></td>
</tr>
<tr>
<td>4. Transition and switching costs</td>
<td></td>
</tr>
</tbody>
</table>

**Table 3: IT Outsourcing Risks**

IT outsourcing can be perceived as a managerial decision that entails various risks and problems, so much so that numerous authors have identified an associated risk for each advantage suggested. First, we can encounter problems derived from the dependence this service generates. The dependence results from the fact that, in practice, firms find it difficult to quantify and define the information services they need, and besides, those services tend to evolve over time. Therefore, if these services had not been agreed in the original contract, they would have to be charged with an additional rate, thus increasing overall costs. The loss of critical skills and competences is another relevant problem. When a service is outsourced, the client loses its understanding of delivered services over time. Even though the vendor supplies innovative services to the client, a large part of
the new knowledge required remains with the vendor and cannot be transferred to the client immediately.

Yet another risk is the vendor’s lack of compliance with the contract. This risk is inherent to any contract: whenever an agent performs tasks for a principal, the principal always runs the risk of the agent not completing the task as expected or of being less vigilant than the principal. Consequently, performing cost benefit analysis on outsourcing is not an easy matter and translating them into monetary values is not easy either. For example, some issues include determining how to compare and translate potentially better service of an outsourcing vendor with the service provided by the internal IT department, and deciding how to measure in economic terms the consequences of an outsourcing vendor failing to deliver services or delivering unacceptable services. All these risks will become greater if clients opt for total outsourcing. One of the key findings (Gonzalez et al., 2005) suggests that total outsourcing can turn out to be a very dangerous strategy, mainly due to the dependence it creates. This is why IT managers should consider other alternatives such as having multiple vendors or resorting to selective outsourcing. The details of multiple vendor arrangement are covered in following section.

2.4 MULTIVENDOR IT OUTSOURCING

2.4.1 INTRODUCTION

This section introduces multivendor IT outsourcing arrangements. Multivendor arrangement is a relatively new form of IT outsourcing in terms of research into specific domains such as its Governance, relationship management and many other unforeseen future topics. Figure 5 depicts the emergence of multivendor IT outsourcing. Gartner’s IT and Business Process Sourcing Survey conducted in June 2012 concluded that 41% of companies outsource to fewer than five vendors, but the average stands at 31. Western Europe and North America drive this high proportion and Latin America reports using 51 vendors on average.

![Figure 5: Use of Multiple Service Vendors is the “Norm” and Increasing](image-url)
Governance determinants in multivendor IT outsourcing

Recently, as business environments have become increasingly complex, firms started combining relationships with multiple vendors as part of their sourcing strategy. This phenomenon ‘multi-sourcing’ (Cohen and Young, 2005) is particularly valuable when vendors with similar capabilities provide similar services towards a client (Levina and Su, 2008). In general, literature recommends that the optimal number of vendors for a given function (e.g. IT infrastructure, application management) is more than one and usually should be two or three depending on the client strategy.

In IT outsourcing firms have selected few strategic vendors. Single vendor megadeals of early ITO Outsourcing have declined (Oshri et al., 2009), and are replaced by small selective contracts, provided by multiple vendors. Research revealed that key rationales to engage in multivendor IT outsourcing arrangements result in cost savings and strategic and operational risk reduction (Cohen and Young, 2006). This is consistent with recent research (Plugge and Janssen, 2009; Oshri et al., 2009). Moreover, by adopting a multivendor approach, clients expect to increase their bargaining power and achieve a better performance. Multivendor IT outsourcing requires the “right” blend of sources for business and IT Services – whether internal or external – and is an integral part of enterprise strategy. It requires identifying the desired business outcomes and creating an organization, enterprise architecture, contracts, relationships, measurements, and Governance that support and enables those outcomes. The focus is on selecting the best of breed vendors for a given scope and scale of the client service.

2.4.2 DEFINITION: MULTIVENDOR IT OUTSOURCING

In 2005, Gartner first introduced the term “multi-sourcing”. While the basic concept of multiple vendors is not new and focuses on economies of scale, the multivendor IT outsourcing concept which focuses on services rather than on goods is beyond the scope of economies of scale mainly concerned with relationships (Levina and Su, 2008). Recent literature (Bapna et al., 2010) reveals that multivendor IT outsourcing can be defined as ‘the practice of stitching together best-of-breed IT Services from multiple, geographically dispersed providers’. For this thesis we apply the following definition (Cohen and Young, 2006)

“Multivendor sourcing is disciplined provisioning and blending of business services (often IT related) in order to find the optimal set of both internal and external service providers in pursuit of business goals”

Multivendor IT outsourcing has become the dominant sourcing model in recent years. It may potentially offer numerous advantages to the client’s organization in the form of innovative eco-system of vendors that can drive service excellence and improvements. However, it presents major challenges to the client’s organization in how Governance is structured and coordinated between the client and its vendor network. In particular, such Governance challenges come to the fore as task inter-dependency between the outsourced functions increases due to growth in client’s expectations for innovative delivery or due to increase in number of vendors.

2.4.3 SINGLE VENDOR SOURCING VERSUS MULTIVENDOR SOURCING
A one-to-one relationship is straightforward and has been assumed in most outsourcing research. The client relies on a single outsourcing vendor to satisfy all of its outsourcing needs, which might range from a simple task (e.g., service desk) to a more sophisticated task (e.g., application development). Most previous academic studies in IT outsourcing, particularly those that examined the contractual risks from the transaction costs economics perspective, have treated this one-to-one relationship as the default (Gallivan and Oh, 1999). Figure 6 describes the one-to-one relationship between the client and the vendor in the single vendor outsourcing model.

![Figure 6: Single vendor IT outsourcing](image)

However, a one-to-many relationship indicates that one client uses multiple vendors to achieve its objectives and that division-of-labor is jointly negotiated and understood by all parties to the agreement. Figure 7 describes the one-to-many relationship between client and multiple vendors in a multivendor outsourcing model. The figure highlights that using multivendor approach means that contracts will be more complex and their management even harder. The reason for using multiple vendors may vary. For instance, vendors change their business strategy or focus on a specific market or industry. On the other hand, clients want to mitigate risks by using multiple vendors. Applying a multivendor strategy means that the outsourcing relationships are becoming more and more complex as there is a need to employ collaborative relationships, e.g., using multiple vendors who work together to achieve the described results (Ilmo and Nahar, 2010).
Governance determinants in multivendor IT outsourcing

Organizations who intend to adopt multivendor approach should consider two important constraints. First, the coordination cost may increase as it requires large amount of time to coordinate various tasks and manage the relationships and second, contractual complexity because of the increased inter-dependencies between multiple vendors (Plugge and Bouwman, 2009). Second, many firms face considerable amount of difficulties in developing and maintaining the range of expertise and skills needed to be successful in strategic sourcing – especially when it involves sourcing from multiple vendors (Oshri et al., 2009).

Compared to a single sourcing approach, organizations may benefit from a multivendor approach. Those key benefits are summarized as follows:

1. Better use of core competency (not technology) of each vendor
2. Reduced lock-in (easier exit and transition)
3. Increase in negotiation power
4. Spreading of risks and liabilities. In case when one vendor fails, the other can take over
5. Better use of geographic presence, for example 24x7 operations
6. Systematic alignment of sourcing with business strategy to avoid ad-hoc compulsive sourcing
7. Introduce and leverage the economy-of-scope in IT Services supply chain
8. (When done correctly) a multivendor approach pushes vendors to increase innovation and deliver higher value
9. Enables differentiation to match varying market and business unit demands (for example, allows businesses to use either premium and free services based on their business requirements)

Figure 7: Multivendor IT outsourcing

[Diagram of multivendor IT outsourcing with Client, Vendor 1, Vendor 2, and Vendor 3 interconnected through FINANCE, CONTRACT, PROCESSES, and SERVICES]
The trade-off of a multivendor approach is that challenges may arise when applying this approach. The main challenges or considerations in adopting multivendor approach are summarized below:

1. Increase in coordination costs due to extra management efforts
2. Overlap and unclear responsibilities
3. Coordination of changes and incidents across different tools, processes and standards used by different vendors may lead to additional barriers for end-users
4. Multiple and poor communication structures
5. Existing Governance mechanisms and processes needs to be adapted
6. Integration between the application and infrastructure domains is problematic because of multiple-vendors
7. Interdependencies between vendors need to be managed consequently and frequently
8. Complex performance definition and measurement
9. Complex risk management

From a client’s perspective, choices should be made about capabilities and key staff required to manage IT outsourcing relationships. A theoretical framework described by (Feeny and Willcocks, 1998) is later adapted by (Oshri et al., 2011) to explain nine core capabilities that client organization should retain to ensure that it exploit the business advantage of IT over time. The authors identify four fundamental tasks of the IT function, namely, Governance, business and function vision, architecture planning and design, delivery of service (Oshri et al., 2011).

Coordinating multiple relationships increases management attention. Literature on coordination theory recommends identification of the interdependencies between tasks of different groups and the coordinating mechanisms that are used by these groups to coordinate their work (Crowston and Howison, 2006). When organizations adopt a multivendor approach a sourcing process is required to govern the relationships (Cohen and Young, 2006). Consequently, when applying a process-oriented perspective three basic types of interdependencies can be identified namely: flow dependencies, sharing dependencies and fit dependencies (Malone et al., 1999). These types of interdependencies can be managed by means of coordination mechanisms.

In multivendor IT outsourcing arrangement, Governance requires a set of organizational practices that facilitate evaluating vendors, developing vendor relationships, coordinating across vendors, and changing levels of vendor commitments’. Considering the complexity of multivendor IT outsourcing and rapidly changing needs of today’s business, an organization must have a comprehensive strategy and more importantly an effective Governance for how it can use sourcing to meets its long term goals (Cohen and Young, 2005). This topic is extensively covered in Chapter 3: Governance of multivendor IT outsourcing.

2.5 SUMMARY

This Chapter introduced IT outsourcing, its history, trends and the concept of multivendor IT outsourcing. As business environments become increasingly complex, organizations start to combine relationships with multiple vendors as part of their sourcing strategy. Multivendor IT outsourcing
combines short term contracts (1-3 years) with vendor competition during the term of the outsourcing arrangements. A multivendor arrangement requires a different skill set than traditional single vendor management. Since multivendor IT outsourcing arrangements have become more complex, regular communication between clients and vendors becomes more important. As such, multivendor IT outsourcing requires a new mindset and frameworks for communicating, interacting with and overseeing service relationships with multiple vendors. Our key learning from this Chapter is that multivendor IT outsourcing is sufficiently large part of total IT outsourcing industry and is of growing importance for the future of IT outsourcing. It requires new approach to strategy and Governance in order to be successful.

In Chapter 3 we address the topic of Governance in relation with multivendor IT outsourcing arrangements.
3 GOVERNANCE OF MULTIVENDOR IT OUTSOURCING

The objective of this Chapter is to answer the first research sub-question of our thesis:

Research sub-question 1: Which Governance determinants can be identified in multivendor IT outsourcing arrangements based on existing IS/IT literature?

Our quest for identifying and understanding Governance determinants in multivendor arrangements starts with existing literature from many relevant and important scientific research areas. As literature lacks relevant and actual insights regarding Governance determinants that are applied in multivendor IT outsourcing arrangements, we also draw on IS/IT literature that relate to dyadic outsourcing arrangements.

This Chapter starts with introduction and importance of IT Governance, including definitions of the terms used in this thesis. As next step, the topic of multivendor Governance is addressed in more detail. Given the nature of multivendor arrangements, the study of its Governance crosses many research areas. During our literature review we focused on finding relevant and important Governance modes and determinants. The key findings from IS/IT literature are structured into a “conceptual research model” which combines multiple determinants and Governance modes. This simplifies the complexity related to this multi-dimensional topic.

3.1 IT GOVERNANCE

In this section, we explain the importance and the need for IT Governance. In addition, we highlight the key definitions of corporate Governance and IT Governance. It sets the foundation for understanding Governance in multivendor IT outsourcing arrangement. In recent times, Governance of IT has become an important topic at board level because of investments, complexity and risks in IT continue to increase.

IT Governance directly influences the benefits generated by organizational IT investments (Weill, 2004; Weill and Broadbent, 1998). Many organizations are establishing IT Governance structures that encourage the behavior leading to achieving the organization’s business performance goals (Weill and Ross, 2004). As a result, IT Governance has become a fundamental business imperative and a top management priority because it is the single most important determinant of IT value realization (Peterson, 2004). Research shows that companies with effective IT Governance are able to achieve 20% higher profitability than similar companies (Weill, 2004). In other words, effective IT Governance doesn’t happen by accident as top performing enterprises carefully design Governance. This means that at senior management level design, implementation and communication related to IT Governance processes is essential. In general, organizations encourage particular desirable behavior that exploit and reinforce human resources, systems, and intangible assets that comprise their core competency in order to achieve their goals.

An additional important driver and function of Governance in IT Outsourcing is that of risk management. There are five possible disadvantages of outsourcing that directly link to risks. These
disadvantages are (1) the increased dependence on suppliers, which is related to the risk category, vendor lock-in, which is related to the ability of the client to switch vendors, (2) a loss of knowledge and know-how, which is linked to “business knowledge”, (3) higher costs that is linked to “cost control”, (4) confidentiality risks that have clear overlap with “confidentiality” and finally (5) difficulty in selecting the right service provider, which is a contracting risk instead of a managing risk (Beulen et al., 2010). Therefore, there is a need to prevent these risks to decrease the benefits of outsourcing and to mitigate these risks whenever they occur. This is achieved by improving the Governance of outsourcing arrangements.

### 3.1.1 CORPORATE GOVERNANCE

Organization of Economic Co-operation and Development (OECD) is an international organization helping governments tackle the economic, social and Governance challenges of a globalised economy. OECD defines corporate Governance as follows:

Corporate Governance is procedures and processes according to which an organization is directed and controlled. The corporate Governance structure specifies the distribution of rights and responsibilities among the different participants in the organization – such as the board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making.

Corporate Governance provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good Corporate Governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring. As the importance of Corporate Governance is recognized worldwide, it also raises the question whether IT used for supporting business process is adequately controlled. This has led to an increase in attention for IT Governance in many organizations. Consequently, the involvement of business and other stakeholders in IT Governance is crucial (Van Grembergen and De Haes, 2009).

IT Governance systematically involves everyone: board members, executive management, staff and clients. IT Governance is a subset discipline of corporate Governance focused on IT systems, their performance in adding value to the business and risk management. In the subsequent section we take a close look at IT Governance.

### 3.1.2 DEFINITION OF IT GOVERNANCE

From a practitioner perspective, a number of frameworks assist in definition and use of IT Governance. Among these frameworks, one of the most widely used is Control Objectives for Information and related Technology COBIT. The COBIT framework focuses on the process of IT Governance. On the other hand, Val IT focuses on an abstractive level and provide guidelines to the business side of an organization on how to manage IT (Brand and Boonen, 2004). In essence, the focus of Val IT is to create business value from IT investments. While there are many definition of IT Governance in the IS/IT literature and practice domain, we found that the following two definitions covers the breadth and depth of IT Governance.
IT Governance Institute definition is as follows:

“IT Governance is the responsibility of executives and the board of directors, and consists of the leadership, organizational structures and processes that ensure that the enterprise’s IT sustains and extends the organization’s strategies and objectives”

According to recent research (Haghjoo, 2012), which uses findings from 47 publications on this topic there are three core dimensions of IT Governance discussed in the literature: what (in 24 publications), who (in 27 publication) and how (in 42 publications). Haghjoo (2012) defines IT Governance as follows:

IT Governance is an organization’s framework for business-IT decision making. It involves specifying (a) in what domain(s) the decision-making process will be involved, (b) who makes the decisions and who has input to those decisions, and (c) how, i.e., through what mechanisms, these decisions should be made and supervised.

Both definitions above does not explicitly address IT Governance in IT outsourcing. The subsequent sections covers IT Governance from an outsourcing and specifically from multivendor arrangements perspective.

### 3.2 IT GOVERNANCE IN IT OUTSOURCING

In this section we look at IT Governance from an IT outsourcing perspective. While above definitions of IT Governance are focused on the internal management of the IT resources, some researchers do expand their perspective of Governance beyond organizational boundaries. This inter-organizational context is important and relevant for our research. For instance, in the context of IT outsourcing, Governance encompasses the management techniques employed to establish and maintain a cooperative relationship between the client and the vendor organization (Behrens, 2006).

Some authors (Cohen and Young, 2006) argue that although sourcing strategy is important, without Governance, it is impossible to achieve the desired results of outsourcing and, therefore, Governance has an even important role in success of outsourcing. As such this is a broad and multi-dimensional research topic which requires an ability to investigate, identify, understand and explain relevant topics from a broad array of research areas. In the following paragraphs, we highlight the work and their definition of some researchers who has made important contribution to this field.

Recently, (Majdán, 2012) focused on joint processes between the client and the vendors on operational level. He summarizes IT Governance as follows:

IT Governance has three main aspects: the structural aspect (e.g. the organizational structure for decision making), the process aspect (e.g. the planning, execution, evaluation, and feedback process) and the relational mechanism aspect (e.g. the executive committee, IT councils, service level agreements and process teams)
The definition addresses important key areas namely: inter-organizational structure, common processes, and relational mechanisms that all play vital role at operational level. As concluding remark Majdán (2012), mentions the following: “There is no Governance model that has a complete list of operational joint processes required in an outsourcing partnership. When selecting/creating a framework, one should rely on more sources and customize the Governance model according to the specific requirements of the partnership”.

Other researchers address the need to structure Governance by using a specific model in order to achieve coherence (Gewald and Helbig, 2006). Their definition of a Governance model is listed as follows:

A Governance model provides an overarching structure which helps to support the business objectives of the customers on the strategic, tactical and operational level. The Governance model defines “what to do”, “how to do it”, “who should do it” and “how it should be measured”. It addresses the rules, processes, metrics and organizational structures needed for effective planning, decision making, steering and control of the outsourcing engagement in order to mitigate the risks inherent in any outsourcing relationship.

The WHAT, the WHO and the HOW of IT Governance is complex to define and implement within an organization, where hierarchical Governance is prominent. Clearly it is far more complex and disorganized when it comes to definition and implementation of IT Governance in multivendor arrangement which transcends multiple independent organizations and geographies. Therefore, we acknowledge and emphasis that a multivendor arrangement is distinctly different when compared to other sourcing alternatives such as in-house IT arrangements or a single vendor arrangement.

The following section discusses Governance in multivendor arrangements. It discusses how it is a dynamic environment in which exchange of information needs to be organized by defining “what, who and how” resulting in collaboration between parties involved. In addition, it introduces an overarching multivendor Governance model based on key findings of our literature review. This model addresses the contractual, relational, collaboration and organizational Governance.

### 3.3 GOVERNANCE IN MULTIVENDOR IT OUTSOURCING ARRANGEMENTS

In order to understand Governance in multivendor IT outsourcing arrangements we start with highlighting our findings from literature review. Since literature on multivendor Governance is limited, we also draw on IS/IT literature that relate to dyadic IT outsourcing arrangements and other forms of inter-organizational Governance that are relevant and important to this project.

#### 3.3.1 HIGHLIGHTS FROM LITERATURE

The way in which Governance in multivendor IT outsourcing arrangements occurs is more than just contractual Governance. Based on our literature review, we identified multiple theories on manner in which Governance occurs or is done. While some researchers focused on contractual and relational Governance, others focused on collaborative Governance and inter-organizational Governance. In past, researchers have focused on IT Governance in outsourcing mainly from an
economic perspective. This is because from an historical perspective reducing cost has been a crucial success factor for outsourcing. Economic theories such as TCE and Agency theory have been widely used to analyze inter-organizational relationship. These theories focus on structuring and managing of outsourcing relationship by making use of contract as a primary Governance mechanism, hence the term contractual Governance.

Despite the importance of and the value of contracts, outsourcing research has acknowledged that complete reliance on legal contract alone is not sufficient. This is mainly due to the complexities of the real-life multivendor IT outsourcing arrangements and the rapid changes in the technology and organizational environments (Cohen and Young, 2005; Lee and Cavusgil, 2006; Oshri et al., 2009; Plugge and Janssen, 2009; Bapna et al., 2010; Herz et al., 2012; Rai et al., 2012). Specifying long-term exchange contracts is complex and inherently incomplete because they have to cover unanticipated obligations. Thus, governing beyond traditional contractual clauses toward a closer relationship-focused management that operates “within the spirit of the contract” is inherently necessary (Rai et al., 2012; Heitlager et al., 2010; Blumenberg et al., 2008; Lee and Cavusgil, 2006; Grandori, 2006; Claro et al., 2003; Kern and Willcocks, 2000).

A more interesting research finding is that contractual Governance and relational Governance serve as complements, in that both need to be strong to produce positive outsourcing outcomes. In general, contractual Governance and relational Governance are not substitutes in that a poorly crafted contract cannot be overcome with friendly, communicative, and trusting account manager (Lacity and Willcocks, 2012). Literature (Lacity and Willcocks, 2012) revealed that relational Governance was operational most frequently as effective knowledge sharing, communication, trust, and viewing the provider as a partner. In 94% of the findings, (Lacity and Willcocks, 2012) showed higher levels of relational Governance were associated with higher levels of outsourcing success.

Getting multiple vendors to work together is challenging and often the significant overhead on client’s retained organization. It is important that the client takes the lead in setting the collaboration guidelines and communicate the collaboration preferences to all the key vendors. In multivendor scenario, collaboration should be seen as a continuing strategy. Here stakeholders come together in collective forums to engage in consensus-oriented decision making. After reviewing 137 cases of collaborative Governance across a range of policy sectors, the researchers identify critical variables that will influence whether or not this mode of Governance will produce successful collaboration. These variables include the prior history of conflict or cooperation, the incentives for stakeholders to participate, power and resources imbalances, leadership, and institutional design. (Ansell and Gash, 2008).

Section 3.2, (Gewald and Helbig, 2006) covered a Governance model for managing IT outsourcing partnership from practice. Although the authors focus is on dyadic relationship and inter-organizational structure between the client and the vendor; it offers insight into elements of the Governance model established at all levels of both organizations. The three key levels discussed includes strategic, tactical and operational. Consequently, from IS/IT literature we identified additional Governance modes such as collaborative Governance and inter-organizational Governance which are equally applicable to the multivendor IT outsourcing arrangement.
Based on our literature review, it is clear that Governance in multivendor IT outsourcing arrangement is not just about contractual Governance. It also includes relational Governance, collaborative Governance and inter-organizational Governance.

### 3.3.2 INTRODUCTION GOVERNANCE: MULTIVENDOR IT OUTSOURCING

Governance in multivendor IT outsourcing arrangement differs from single vendor IT outsourcing arrangement. One of the most common differentiating denominators is the number of legally independent organizations who are jointly engaged to deliver on the objectives as set in a multivendor arrangement. Each and every stakeholder participates in this arrangement with the aim to create business value for his/her own organization. Although the internal organizational needs, conditions and options could be different for each stakeholder, they jointly need to govern the IT environment in order to deliver on a set of objectives. This may lead to tensions as the objectives of each stakeholder differ. Due to these tensions sound Governance is required to guide the common objectives.

Governance in multivendor IT outsourcing arrangements is dynamic in nature. This dynamic nature can be identified through key events in the multivendor IT outsourcing arrangement such as change in business strategy on the client or vendor side, transition of services from one stakeholder to another stakeholder and selection, promotion or demotion of one or more vendors. Consequently, applying a multivendor IT outsourcing arrangement leads to various modes of Governance one or more of which could be pre-dominant depending on the environment and the objective of the multivendor IT outsourcing arrangement. It is our understanding that while contractual and relational Governance in IT outsourcing are appropriate they are not sufficient. A multivendor IT outsourcing arrangement necessitates additional Governance modes including inter-organizational and collaborative Governance. As relationships between parties evolve and mature so does the structure (or manner) of applied Governance. We attempt to define multivendor Governance as follows:

Multivendor Governance can be characterized as dynamic environment in which exchange of information needs to be organized by defining what, who and how resulting in collaboration between parties involved. It is the whole system of rights, processes and controls established internally and externally over the current and future use of IT and its management with the objective of protecting the interests of the client. Multivendor Governance requires hybrid form of Governance that combines contractual, relational, collaborative and inter-organizational Governance.

Figure 8 highlights our understanding of multivendor Governance and the relevant modes. Governance in multivendor IT outsourcing arrangement can be seen as a set of relationships between various stakeholders at the client and multiple vendors. It provides the guidelines through which client objectives are set and the means to attaining those objectives and performance monitoring are defined. The key challenge for stakeholder’s lies in creating a balance by using different modes of Governance such as inter-organizational, contractual, collaborative or relational.
Therefore, it is important to understand each Governance mode separately and identify the determinants that affect it respectively.

**Figure 8: Multivendor Governance Model: IT Outsourcing**

In the following sections we focus on the identified Governance modes and its determinants: inter-organizational Governance (section 3.5), contractual Governance (section 3.6), relational Governance (section 3.7) and collaborative Governance (section 3.8)

Before we address the various Governance modes and determinants in more detail, it is important to establish the definitions of these terms. In the following two sub-sections we define Governance mode and Governance determinants.

### 3.3.3 DEFINITION OF GOVERNANCE MODE

A mode (noun) is a manner in which something occurs or is experienced, or expressed or done. Therefore, we define a Governance mode as follows:

**Governance mode is the manner in which Governance occurs or done.**

In our understanding, the classification of Governance modes is a basic concept which provides more analytical value to our research. We used these categories to present our findings in a structured way. In addition, these categories enabled us to study different determinants that are strongly relevant and important to each mode of Governance. To define Governance determinants, we operate from the premise that Governance is a broad-reaching concept that consists of multiple components and that researchers and practitioners collectively possess the knowledge and understanding necessary to derive a clear and agreed definition of the concept.

### 3.3.4 DEFINITION OF GOVERNANCE DETERMINANTS
A determinant is a factor that decisively affects the nature or outcome of something. Therefore, we define Governance determinant as follows:

**A Governance determinant is a factor that decisively affects the effectiveness of Governance.**

Figure 9 highlights the relationship between determinants and their effect on effective Governance.

![Diagram showing multiple determinants affecting Effective Governance](image)

**Figure 9: Multiple Determinants combine to affect IT Governance**

During our literature review, we found limited number of studies addressing Governance determinants that are applied in IT outsourcing arrangements. For example, we found determinants of relational Governance (Blumenberg et al., 2008) and contractual Governance (Rai et al., 2012) in IT outsourcing. However, we could not find any research on combination of these Governance determinants in a multivendor IT outsourcing arrangement. To the best of our knowledge, the current thesis is the first study explicating multiple Governance determinants in multivendor IT outsourcing arrangement.

In the following sections we look at four Governance modes and identify the relevant determinants for each of them based on IS/IT literature.

### 3.4 INTER-ORGANIZATIONAL GOVERNANCE

By now we have seen many drivers of multivendor IT outsourcing. It offers an organization flexibility and adaptability when compared to “total outsourcing” to one vendor approach. However, there are pitfalls associated with multivendor IT outsourcing. It creates complex interdependencies between vendors, poor communication structures, contracts that do not fit multivendor environment and Governance failure with unclear roles and responsibilities. As a result inter-organizational coordination challenges will arise that needs to be managed adequately.

One of the key success factors in this arrangement is the Governance levels of inter-organizational relationships. In Chapter 2, we looked at the history of IT outsourcing and how it moved from operational, to tactical and over time also to strategic levels of an organization. Figure 10 depicts a
In a multivendor arrangement, it is important that the client and multiple vendors engage jointly in planning, designing, implementing, and managing the IT landscape. This requires a collaborative engagement across the life-cycle of IT products and services used by the clients business and also vendors. Although a parallel can be drawn from above levels, the Governance levels of multivendor IT outsourcing arrangements requires careful design approach. This means that client’s strategy (and motivation) for selecting multivendor IT outsourcing requires planning and designing of a target operating model in which the structure, roles and responsibilities are used as basic design elements.

As an example, a firm may develop a target operating model in which a Service Integrator (SI) role is played by one vendor. In this model, the SI vendor takes the responsibility to integrate, which also includes the coordination between multiple vendors on behalf of the client. Alternatively, the client may develop a target operating model in which one or more vendor performs the role of Service coordinator, in which one vendor is responsible for one specific service – for example Help Desk or first line support. The service coordinator vendor is then responsible for coordinating across multiple vendors and provides a single point of contact for a given specific service. There are more alternative design models or archetypes for target operating models in multivendor IT outsourcing arrangements.
Governance determinants in multivendor IT outsourcing

Figure 11: Example of Target Operating Model in multivendor IT outsourcing arrangements

Figure 11, depicts a target operating model in which the client has chosen to be service integrator and perform the coordination function between multiple vendors. We argue that in multivendor arrangements, inter-organizational Governance is key requirement. As it determines how coordination of people, process, and technology across multiple vendors is arranged. In order to understand the complexities from its very nature, it is important to identify the key Governance determinants in the literature. In the following section we present our findings from IS/IT literature that identifies key determinants that influence inter-organizational Governance.

3.4.1 DETERMINANTS OF INTER-ORGANIZATIONAL GOVERNANCE

Determinants of inter-organizational governance (Gewald and Helbig, 2006; Plugge and Bouwman, 2009; de Jong et al., 2010; Kaiser and Buxmann, 2011):

**Structure:** means inter-organizational design or the target operating model that defines the engagement at all the three levels of clients and vendors organizations. This includes strategic, tactical and operational level. In the introduction of this sub-section, we highlighted inter-organizational Governance levels and touched upon possible archetypes or structure (i.e. service integrator, service coordinator).

**Strategy and motivation:** means the “why” and “what” that drives inter-organizational design. The strategy component consists of the planning and policy for the relationship. The motivational component consists of the reason for the relationship and the dimensions of a relationship structure. It ultimately defines the strategic role that the client wants to play in multivendor IT outsourcing arrangement. It can be argued that the client strategy of multivendor arrangement influences the structure of relationships.
**Roles and responsibilities**: means clear definition of roles and responsibilities. For this we look at the key characteristics for multivendor IT outsourcing arrangement and the definition of Governance framework. As we defined earlier, a Governance framework should address the questions “what to do”, “how to do it”, “who should do it” and “how it should be measured” (Gewald and Helbig, 2006).

The joint process fields describe the “what to do”, “how to do it” is described by the combination of those processes with the organizational structures into roles and responsibilities, the organizational structures define “who should do it”.

### 3.5 CONTRACTUAL GOVERNANCE

As discussed in section 3.3.1, contractual Governance is related to economic theory i.e. TCE. Transaction Cost theory is built on the premise that an organization has to incur costs for each transaction. These costs include, but are not limited to, drafting, negotiating and enforcing contracts. Given that different Governance mechanisms have different costs, the objective is to find the right Governance structure. In other words, a Governance structure that focuses on minimizing the costs of outsourcing transactions. Contractual Governance relating to transaction cost theory is defined as follows (Lacity and Willcocks, 2012)

Contractual Governance is the formal, written rules that govern client-vendor relationships.

In IS/IT literature, contractual Governance focuses on contract details. These details include, but are not limited to, the types of clauses, service level agreements, duration of the contract, value of contract, and contract pricing (for example fixed price, time and material, etcetera). Contractual Governance in outsourcing arrangement does not address all the problems. For example, rendering contracts is expensive, often inflexible and adaptation can be a costly exercise. Moreover contracts are often the root of misunderstanding when clients are not aware of vendors technical terminology used in the contract.

Most multivendor IT outsourcing arrangements evolve over time during which new vendors come onboard while existing vendors retire. Contractual mechanisms, which have played an important role in single vendor outsourcing, should still continue to be important because they legally define obligations and provide exchange parties with an instrument of control and escalation. However, contractual Governance alone is probably insufficient for multivendor arrangements as complete contracts are most effective when uncertainty is low and output measurability or task programmability is high. This is almost certainly not the case with respect to multivendor IT outsourcing arrangements (Rai et al., 2012).

During our literature review, we identified determinants affect contractual Governance. These are covered in the following sub-sections.

### 3.5.1 DETERMINANTS OF CONTRACTUAL GOVERNANCE

Determinants of contractual Governance (Miranda and Kavan, 2005; Osei-Bryson and Ngwenyama, 2006; Huber et al., 2011; Rai et al., 2012):
**Commercial Goal Expectations:** means the extent to which outsourcing objectives and goals have been agreed to and explicitly included upfront in the outsourcing contracts. The very nature of the contract is to provide a catalogue of promises that the stakeholders (client and vendors) have agreed on. It draws upon the classical contract law, by constituting legal rights for stakeholders that has informed current thinking on contractual Governance.

The goals of a multivendor IT outsourcing arrangement can be specified in the contract and can be used to achieve shared understanding about the expectations of the client and the vendors. For example, outsourcing contracts can specify key goals to cost reduction, service quality, and access to expertise, and may include clauses to provide specificity so that goals are unambiguous. By explicating overall goals and objectives in contracts, stakeholders can rely on agreed courses of action that are designed to generate benefits for all stakeholders. It should be noted that explicating goals and objectives does not mean creating rigid contracts that prevent adjustments in the face of contingencies that may arise. What it does mean is specifying goals and objectives so as to create a shared understanding of what is to be accomplished. Written goal expectations can serve as an explicated assessment criterion for evaluating the benefits achieved by the multivendor arrangement and can also help guide day-to-day operations.

**Activity Expectations:** means the degree of detailed and precisely defined service levels. The understanding of the service level objectives by both clients and vendors is important for contract fulfillment and client satisfaction. The client should determine and specify what is really needed based on the business demands and past performance. In many cases, service levels can be defined in collaboration with the vendors to ensure that they understand and are capable of fulfilling them. In some cases, an experienced IT Outsourcing vendor can also help in defining service levels.

**Contractual Flexibility:** means the ability to adjust quickly and easily to uncertainties and contingencies that emerge. More recently, researchers have begun to consider the role of non-contractual mechanisms such as trust and collaboration to improve multivendor Governance (Heitlager et al., 2010; Blumenberg et al., 2008). The need for relationship and collaboration modes of Governance rises mainly because multivendor IT outsourcing contracts cannot cover the dynamic nature of business. As discussed, these dynamism stems from new business strategy on the client side, emerging or new business models in the industry, new products, change in regulations, etcetera.

In addition to the contractual and relational Governance modes, which will be discussed in the following sections; there is also the need for collaborative Governance. This is because of the nature of multivendor IT outsourcing arrangement wherein multiple organizations have to work together and support each other to achieve their goals. Multivendor IT outsourcing creates new and unique demands in terms of collaboration between the client and the vendors, between multiple cultures, locations and time zones. Finally, organizational Governance also plays an important role.

3.6 RELATIONAL GOVERNANCE
Defining Governance from a relational view is different than that of the contractual Governance. Whereas contractual Governance incorporates formal rules; relational Governance comprises the informal rules that manage client-vendor relationships. Relational Governance is defined as follows (Grandori, 2006):

Relational Governance is a term with multiple and varying meanings, but centrally, it concerns the completion of incomplete contracting with extra contractual, relational means.

Relational Governance in multivendor arrangement exemplifies transaction cost economics (TCE). Client and vendors together sort out their differences through open discussion instead of legally defining them in a contract and seeking to enforce contractual obligations in case of conflicts of interest. Relational Governance ensures that motivation (for example profit or reputation) replaces the rule of law. It is important that the relational Governance should be structurally embedded into the multivendor arrangement. This means that, vendors should also form the quality and depth of relationship within themselves as the one with the client.

### 3.6.1 DETERMINANTS OF RELATIONAL GOVERNANCE

The key determinants that affect the quality of relationship in multivendor IT outsourcing arrangements are information exchange, trust and conflict resolution (robustness of relationship in the advent of conflict). In summary, relational Governance determinants are (Miranda and Kavan, 2005; Blumenberg et al., 2008; Rai et al., 2012):

**Information exchange**: means the extent of proactive sharing or exchange of meaningful and timely information between all the stakeholders (the client and the multiple vendors) engaged in an IT outsourcing arrangement (Rai et al., 2012)

**Trust**: means the degree of expectation that the all stakeholders (the client and the vendors) will act predictably, fulfill agreed obligations, and behave fairly even if opportunism is possible. Trust counterbalances the need for costly mechanisms to safe guard against opportunism (Claro et al., 2003).

**Conflict resolution**: means the extent of amicable agreement and joint resolution among all the stakeholders (the client and the vendors) in conflict situations (Rai et al., 2012).

Among the determinants of relational Governance “Trust” is one the key determinant because informal mechanisms of trust can affect the development and expansion of inter-firm relationships, and have strong impact on outsourcing success.

In their book “The outsourcing enterprise” (Willcocks et al., 2010), the foundations of mature outsourcing enterprise is discussed. The authors argue that mature outsourcing enterprise have moved outsourcing to strategic agenda by building the relationship advantage, selecting and leveraging vendors, keeping control through core retained capabilities and collaborating to innovate. To create and achieve the relationship advantage, practitioners need to engage in a continuous process of nurturing the collaborative processes. Given that multivendor arrangement mandates
close collaboration between the client and the vendors, the following section looks at the collaborative Governance in more detail.

### 3.7  COLLABORATIVE GOVERNANCE

In this section we look at why collaborative Governance is relevant and important in multivendor IT outsourcing arrangement. As multiple parties are involved in a multivendor arrangement, collaboration between the parties is essential to achieve IT outsourcing objectives. Collaboration is working together to achieve a goal. This is more than just intersection of common goals, but a deep, collective, determination to reach an identical objective by sharing knowledge, learning and building consensus. Teams that work collaboratively can obtain greater resources, recognition and reward when facing competition for finite resources which requires strong leadership.

Powell (1996) describes collaboration as “the medium that provides entry to field where relevant knowledge is widely distributed which cannot be easily produced inside the boundaries of the firm, but can be easily obtained through market transactions”. Moreover, collaboration occurs when a group of autonomous stakeholders of a problem domain engage in an interactive process, using shared rules, norms, and structures to act or decide on issues related to that domain (Powell, 1996).

From literature review, we define Collaborative Governance as follows (Ansell and Gash, 2008):

A governing arrangement where one or more agencies directly engage in a collective decision making process that is formal, consensus oriented and deliberative and that aims to make or implement policy or programs or assets.

The vendors in multivendor IT outsourcing arrangement are interdependent on each other to deliver the service. Therefore, performance in collaboration depends upon the nature and quality of the direct and indirect relationships a vendor develops with the client and the other vendors. Collaborative Governance brings stakeholders together in collective forums to engage in consensus-oriented decision making process (Ansell and Gash, 2008).

Pender (2008) summarizes the literature in collaboration and Governance structures and some of his key findings are: (i) degree of information sharing and extent of knowledge accessibility increases with the greater trust between collaborative partners, (ii) clarity in collaborative objectives facilitates the initial trust between partners, (iii) if initial trust level is greater, the initial monitoring and control costs due to collaboration decreases and initial reliance on social control increases, (iv) more extensive use of formal contracts diminishes the opportunity for development of inter-firm trust, and (v) repeated successful transactions between partners leads towards an increased level of inter-firm trust.

#### 3.7.1  COLLABORATIVE GOVERNANCE

An integral part of collaborative Governance is to define and structure the roles, responsibilities and procedures. Some of the key determinants of collaborative Governance are (Ansell and Gash, 2008):
**Collaboration tools and processes:** means stakeholders should perform (for example meet) in deliberative and multilateral process. In other words, processes must be collective and stakeholders should participate in all stages of decision making. Consultative techniques, such as stakeholder’s survey or focus groups, although possibly very useful management tools are not collaborative tools in the sense implied here. It is important that collaboration tools permit two-way flows of communication or multi-lateral deliberation (Powell, 1996; Ansell and Gash, 2008; Heitlager *et al.*, 2010).

**Shared Values and shared understanding:** means vendors collaborate not only with the client but also among themselves. Although managerial agencies may take account of stakeholder perspectives in their decision making and may even go so far as to consult directly with stakeholders, collaborative Governance requires that stakeholders be directly included in the decision-making process (Ansell and Gash, 2008; Oshri *et al.*, 2009; Willcocks *et al.*, 2010)

**Starting conditions:** means conditions present at the outset of collaboration which either facilitate or discourage cooperating among stakeholders. Three critical starting conditions are identified (Ansell and Gash, 2008). These are power-resource-knowledge imbalances (asymmetries), incentives for and constraints on participation, and prior history of collaboration or conflict (i.e. initial level of trust) (Ansell and Gash, 2008; Ilan Oshri, 2009).

At some point in the collaborative process, stakeholders must develop a shared understanding of what they can collectively achieve together. Shared understanding can be also described as “common mission”, “common ground”, “common purpose”, “common objectives”, “shared vision”, “shared ideology”, and “alignment of core values”. The development of shared understanding can be seen as part of a larger collaborative learning process. If prior cooperation is high and a long-term commitment to trust building is necessary, then intermediate outcomes that produce small wins are crucial. If, stakeholders cannot anticipate these small wins, then they probably should not embark on a collaborative path. Power (or resources, or knowledge) imbalances are commonly noted problem in collaborative Governance. If some stakeholders do not have the capacity, organization, status, or resources to participate, or to participate on an equal footing with other stakeholders, the collaborative Governance process will be prone to manipulation by stronger actors (Ansell and Gash, 2008). Ultimately, such imbalances produce distrust or weak commitment.

Incentives to participate depend upon stakeholder expectations about whether the collaborative processes will yield meaningful results, particularly against the balance of time and energy that collaboration requires. Incentives increase as stakeholders see a direct relationship between their participation and concrete, tangible, effectual policy outcomes. But they decline if stakeholders perceive their own input to be merely advisory or largely ceremonial. Incentives to participate in collaborative Governance will also increase if stakeholders perceive achievement of their goals to be dependent on cooperation from other stakeholders (Ansell and Gash, 2008).

### 3.8 CONCEPTUAL RESEARCH MODEL
Based on our literature review, the determinants influencing Governance modes in multivendor IT outsourcing arrangement vary widely in scope and application. We argue that it is essential to combine various Governance modes to study multivendor IT outsourcing in more detail. This means that the determinants that influence each Governance mode are also essential elements of the multivendor Governance model. Based on literature, we have developed a multi-mode Governance model that takes all the indentified Governance modes and Governance determinants in one holistic model. This model is referred to as conceptual research model.

Table 4 illustrates various Governance modes and their respective determinants that are identified from the literature review.

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<td></td>
<td></td>
<td>(Heitlager et al., 2010)</td>
</tr>
<tr>
<td>Collaborative Governance</td>
<td>Shared values and shared</td>
<td>(Ansell and Gash, 2008)</td>
</tr>
</tbody>
</table>
Figure 12 describes an integrated framework for multivendor Governance that attempts to capture the relationship between the determinants. This integrated model can be applied more effectively to realize control in multivendor IT outsourcing arrangements which consist of contractual, relational, collaborative and organizational Governance modes.

This model describes the results of our literature review. The outcome of our conceptual research model is used in the case study for empirical testing of the model. An important aspect of Governance in multivendor IT outsourcing arrangements is that it is contextual and often has to meet the paradoxical nature of IT services. This means that our model offers a comprehensive view on Governance modes and Governance determinants however it might require adaptations based on the clients business requirements and multivendor IT outsourcing arrangement.

### 3.9 SUMMARY

In this Chapter we described the outcome from our literature review related to Governance in multivendor IT outsourcing arrangements. We accomplished our goal of answering the research question: Which Governance determinants can be identified based on existing IS/IT literature? In order to answer the research question, we analyzed Governance holistically. We covered corporate Governance, corporate Governance of IT, Governance in IT outsourcing and finally Governance of...
multivendor IT outsourcing arrangements. In particular, our research identified a total of twelve Governance determinants based on existing IS/IT literature. We also identified four Governance modes: inter-organizational Governance, contractual Governance, relational Governance and collaborative Governance. Each Governance mode is decisively influenced by a number of determinants. Collectively these Governance modes and determinants form our conceptual research model for multivendor IT outsourcing Governance.

In Chapter 5, we will examine and validate each of the four Governance modes and twelve Governance determinants with the help of an empirical case study.
4 CASE STUDY

The purpose of Chapter 4 is to introduce a case study on multivendor IT outsourcing arrangement. In this chapter we describe our case study based on the key topics which includes an empirical research approach, data gathering and data analysis. In order to validate the outcome of our literature review we have carefully selected a multivendor IT outsourcing arrangement. Section 4.1 outlines the research approach and the selection of an appropriate (relevant) case. In section 4.2, we explain the approach used for data collection and various sources of data. Section 4.3 outlines data analysis. Section 4.4 covers a description of the case study including multivendor landscape, contextual information about the client and the vendors that are studied as part of an exploratory research.

4.1 RESEARCH APPROACH

In this section, we discuss the context of the case study describing background information on the client and outsourced IT environment under study. We introduce the multivendor IT outsourcing arrangement including key vendors along with some historical perspective on the current setup. This case study has been conducted over the period of six months with the help of client interviews and studying the contracts between the client and top three vendors. The interviews with key stakeholders at the client and the contracts are then analyzed.

As described in Chapter 1 desk research as well as qualitative research methodologies are applied. Next, both methodologies are explained in more detail.

4.1.1 DESK RESEARCH

The method of desk research was applied to gather more general information with regard to the case study. We studied multiple documents such as contracts, Governance structures, and presentations as described in the Master Service Agreements and Annexes. Background information also includes the size of the company, geographical dispersion, type of services, financial results, external communications and description of markets in which the company acts.

4.1.2 QUALITATIVE RESEARCH

As discussed in section 1.3.2, we opted for an exploratory case study based research which is one of the most common qualitative methods used in the field of Information Systems (Orlikowski and Iacono, 2001).

Applying an explorative case study contributes to our research by helping us validate Governance determinants identified in the literature and described in Chapter 3. In addition, we anticipate that it provides insights into actual Governance determinants as applied that might lead to additional determinants that are not identified based on literature. Especially, an in-depth understanding of the influence of Governance on multivendor IT outsourcing arrangements may reveal the consequences that are related to Governance on the client side.
4.1.3 SELECTION OF THE CASE STUDY

One of the key selection criteria for a case study is a client that developed a multivendor IT outsourcing arrangement. Another important criterion is that the client shows an interest on the topic of Governance of multivendor IT outsourcing arrangement. This interest include willingness to discuss the current challenges, access to key people for interviews, access to relevant documentation and ability to make use from the study outcomes.

The client arrangement under study is based on three key vendors. Two vendors act in the role of service integrator while the third vendor acts as a dedicated vendor. The multivendor IT outsourcing arrangement can be characterized as an international arrangement with focus on Europe. The client operates in a dynamic retail industry and is currently in third generation of IT outsourcing. The client already applies a global sourcing strategy and all three vendors are global players.

During the preliminary interview we noted the following remarks. The sourcing maturity of the client is high given the huge experience of sourcing from their retail business. Need for improvement was identified in implementation of single governance model (also referred as an operating model) and collaboration between three strategic vendors and the client. In the words of the procurement director “We need improvement in Governance and more importantly collaboration”.

The case study context is described in more detail in section 4.4.

4.2 DATA COLLECTION

Interviews has been used extensively in IS research (Myers and Newman, 2007). In order to gain a full understanding of the multivendor IT outsourcing arrangement we collected data by conducting in-depth interviews with various client staff members at multiple levels namely: IT executives, transition managers, service delivery managers, and experts positioned across the firm. To avoid “elite bias” we interviewed both management and employee representatives. This is necessary because respondents express their personal opinion about how they perceive the behaviour of, for instance, the organizational structure or trust. It is inevitable that their opinions contain a subjective account of actual behaviour.

The interviewees were selected from a strategic level as they are involved in decision making. They are capable of discussing the relation between Governance mechanisms, strategy, organizational structure and overall firm performance. Governance is an essential and important topic at this level, given the direct engagement of these interviewees in decision making process. In addition, due to their position they were able to look at their organization as a whole and identify the relations between the researched topics and processes that support them. The target groups who participated in the interviews were divided into four areas: executive, sourcing, solution delivery and service management. In this way we apply a cross-section within the organization to establish a holistic view.

Table 5 illustrates an overview of key stakeholders providing valuable inputs for this case study. All interviewed participants have been engaged in the IT outsourcing arrangement with the multiple vendors. This was to ensure internal consistency with the client organization. The different
Interviewees have varying backgrounds and association with the topic of IT Governance, Sourcing and Business Information Management. In order to ensure high quality and extensive research, a balanced set of interviewees were selected that represents different types of stakeholders involved in the process of IT Governance at the strategic, tactical and operational level. In-depth interviews were conducted with seven participants as shown in the Table 5.

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Information Officer</td>
<td>Executive, Member of the board</td>
</tr>
<tr>
<td>IT Managers</td>
<td>Senior Manager, IT Infrastructure and applications</td>
</tr>
<tr>
<td>Service Manager</td>
<td>IT Service Delivery (Run Business)</td>
</tr>
<tr>
<td>IT program manager</td>
<td>Large Program development and implementation</td>
</tr>
<tr>
<td>Director Sourcing</td>
<td>Sourcing strategy</td>
</tr>
<tr>
<td>Sourcing Managers (x2)</td>
<td>Sourcing strategy</td>
</tr>
</tbody>
</table>

Table 5: Stakeholders identified for the Case Study interview

The interview script, comprising of a number of open-ended questions, was used as a guideline to structure the conversations rather than restricting them. The goal here was to obtain a rich set of data surrounding the clients Governance practices, as well as capturing the contextual complexity of multivendor IT outsourcing arrangement. The interview questions were derived from the Governance modes as described in Chapter 3. During interviews, the preliminary questions also acted as quick map with check points where we felt that all possible options were covered. This means that the questions were used mainly as reference point for the semi-structured interviews and open up the additional questions.

As the interviews were confidential, company name of the client and vendors are kept anonymous. Interviewees were asked to describe their role during the outsourcing arrangement and specifically if they perceive Governance determinants. The interviews were audio recorded, transcribed and qualitatively analyzed by comparing and contrasting data in order to discover similarities and differences, build forms, or find sequences and patterns using triangulation. The exact content and questions for the interview was defined using the outcome of the literature review and a kick off meeting with key stakeholders at the client. The detailed interview script is described in Appendix A: Interview Questions. Interviews varied from 60 minutes to 90 minutes in duration. All interviews were carried out during the period January 2013 to February 2013.

Given the dynamic nature of organizations and IT in general; new data was allowed to be added during the entire analyses phase. Data for analyses is collected through reading contracts, company documents (public and confidential) and semi-structured interviews. Table 6 illustrates an overview of data sources used for analyses of IT Governance.

<table>
<thead>
<tr>
<th>Source</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract between Client and Vendor 1</td>
<td>Global Services Agreements, 2009 Schedules and Exhibits</td>
</tr>
<tr>
<td>Contract between Client and Vendor 2</td>
<td>Master Services Agreement, 2011 Schedules and Exhibits</td>
</tr>
<tr>
<td>Contract between Client and Vendor 3</td>
<td>Master Services Agreement, 2013</td>
</tr>
</tbody>
</table>
Table 6: Additional Data: Case Study on Governance of multivendor IT outsourcing arrangements

In the following section we describe data analysis followed for this thesis.

4.3 DATA ANALYSIS

Qualitative analysis (Myers, 2008) was performed to identify new insights into IT Governance and practices with respect to Governance of multivendor IT outsourcing arrangements. Yin (2008) describes two general strategies for analysing case study evidence: 1) developing a case description and 2) relying on theoretical propositions. As we have based our study on exploratory research and our theory on literature review, our research adopts both strategies (Yin, 2008).

The transcribed interviews were analyzed and coded in order to create lists of modes and determinants. The coding process grouped the data from interviews, where similar concepts were named differently. According to Miles and Huberman (1994), codes are used to organize data, by assigning units of meaning to information compiled during the study (Miles and Huberman, 1994). Since the data was captured mostly as transcripts from interviews (textual forms), codes were assigned to answers of the interviewees. Analyzing and structuring the humongous information available within the client organisation is a very challenging task. The analyses outcome is structured based on the conceptual research model of multivendor Governance derived in chapter 3.

4.4 CASE STUDY DESCRIPTION

This section provides contextual information about the client’s current multivendor IT outsourcing arrangements.

4.4.1 CLIENT CONTEXT

This case study is conducted at an international retail organization. In this case study, we refer to the retail organization as the “client” organization. Currently the client has more than 3,000 retail outlets across multiple countries in Europe and the United States of America. The core business is retail in which IT plays a key role because of two key reasons. First, automation plays a key role in the current business operations, which is enabled largely by IT. Second, convergence of retail outlets and online world dictates future retail strategy in which IT plays a critical role.

IT has given consumers almost limitless choices when it comes to what to buy, how to buy it, and how much to pay for it – and they are taking advantage of it in increasing numbers. Therefore, the client is broadening their offering by growing online businesses, developing store formats and improving assortment – to give clients shopping alternatives that meet their changing needs.
example: three new formats in which business is carried out have been added which include online food delivery, online non-food delivery and pick-up points.

The client is currently in the midst of business application transformation which involves transitioning from an “old IT world” with legacy software applications to a “new IT world” with software applications designed to support the new realities of the business (e.g. online-shopping) and future business strategy. Based on the interviews we find that the “old IT world” or “legacy” is critical and important to clients business because it enables running of day-to-day business operations. One example of such software application is the “warehouse application”; part of the whole retail supply chain management application, which ensures that all retail store has fresh products on the shelf.

The empirical setting for present study focuses on business relationships between the client and there key vendors. The client has developed IT outsourcing arrangements with three key vendors and 60 smaller vendors over a time-period of multiple years. Due to the research-ability of the case study we decided to focus on the three key vendors. To be precise, we studied the contract signed with vendor 1 in November 2009, the contract signed with vendor 2 in September 2011 and the contract with vendor 3 in 2012.

4.4.2 MULTIVENDOR IT OUTSOURCING LANDSCAPE

As depicted in Figure 13, our case study addresses a multivendor IT outsourcing arrangement that is based on system integrator model with a focus on European landscape. The service integrator role means that the client has the responsibility for end-to-end integration, orchestration and coordination of services provided by multiple vendors. In Europe, the client’s multivendor IT landscape is comprised of three key vendors (classified as Tier 1 Group) and 60 smaller vendors (Tier 2 Group).

Figure 13: Client’s multivendor IT Landscape in Europe
As shown in Figure 13, currently the client pursues multivendor IT outsourcing strategy. The client has established one to one contracts with each vendor for business needs related to IT products and services. Table 7 illustrates our focus on the vendor list to which the client has outsourced their IT environment. It is important to note that this is not the complete list of vendors; however, these vendors collectively cover more than 80 percent scope of outsourced IT environment.

<table>
<thead>
<tr>
<th>Type of Vendor (Headquarters)</th>
<th>Classified Tier</th>
<th>Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global IT Products and Services company (USA)</td>
<td>Tier 1</td>
<td>Global IT infrastructure, end user computing and Multi-lingual help-desk</td>
</tr>
<tr>
<td>Large IT Services company, Europe</td>
<td>Tier 1</td>
<td>Service (system) Integrator with 30 to 40 subcontractors</td>
</tr>
<tr>
<td>Large IT Services company, India</td>
<td>Tier 1</td>
<td>System Integrator Retail Software</td>
</tr>
<tr>
<td>Global Software company, USA</td>
<td>Tier 1</td>
<td>Full Suite of Business Applications</td>
</tr>
<tr>
<td>Local and regional IT Services, classified as third parties</td>
<td>Tier 2</td>
<td>Specific scope, classified third parties (major vendors) – for example Telecommunication services</td>
</tr>
</tbody>
</table>

Table 7: Current Vendors of the clients IT environment

As shown in Table 7, there are multiple other vendors which offers outsourced IT Service to the client. This is an interesting empirical setting because it provides insights in how the client and the vendors govern their landscape in an industry where an increasing numbers of organizations are moving towards multivendor IT outsourcing arrangements. The client has classified vendors into various tiers: tier 0 to tier 3. The aim of these tiers is to specify the hierarchical level of system integration services performed by the vendor. At Tier 0 is the client itself, which includes the clients internal Information Management function within the corporate centre. At Tier 1 is the vendor 1, indicating that the level of system integration services performed by vendor 1. Tier 1 and Tier 2 are classified as major vendors to the client, whereas Tier 3 includes all other vendors who may or may not be offering system integration services to the client.

In the old IT world, we have selected two key vendors. The first vendor plays the role of IT Infrastructure provider who delivers, manages and maintains all IT Infrastructure requirements including computing, storage and network. In addition, the first vendor offers first line “Help Desk” support service to the client. Moving forward, the IT infrastructure provider is referred to as “Vendor 1”. The second vendor has the role of a single service integrator who manages and maintains a large base of legacy applications. In this case study, we refer to the service integrator for old IT world as “Vendor 2”. The new IT world is under development and also includes multiple key vendors. We have selected one of the key vendors who has the role of “system integrator” (SI) and “implementation partner” (IP) for the new retail business application landscape. Hereon, we will refer to the third vendor as “Vendor 3”.

4.4.3 VENDOR CONTEXT
Vendor 1 is one of the top 5 global IT service providers which provide hardware products, software, solutions and services. The scope of client’s IT outsourcing with Vendor 1 includes range of products (both hardware and software) and services across all international operating companies. The business relationship; based on the binding legal contract; between the client and Vendor 1 was first established in 2005 and the whole relationship has been reinstated in 2009. This business relationship for IT outsourcing can be seen as long term relationship between the client and the Vendor 1. Based on the contract, Vendor 1 delivers IT infrastructure, application maintenance and support, and integration services to the client. In addition, a multi-lingual help-desk service is also offered to the client.

Vendor 2 is a European IT service provider offering IT services and consulting services. The service scope of the client’s arrangement with Vendor 2 includes system integration, application management and support services for Legacy environment. This IT outsourcing relationship between the client and Vendor 2 was first established in 2005 and the relationship has been reinstated in 2011. Based on the contract, the client transferred a set of services and responsibilities towards Vendor 2 regarding the Legacy Environment.

Vendor 3 is one of the top 5 Indian service providers providing both IT services and IT consulting services. The scope of client’s sourcing relationship with Vendor 3 includes consulting and system integration services. The outsourcing relationship is established in 2010. Based on the contract, the client has engaged Vendor 3 in implementation and maintenance of the software products which is selected for the New IT World.

### 4.4.3.1 MANAGING INTERDEPENDENCIES USING CONTRACTS

Interdependencies between the vendors are managed using so called “high level scope model”. A scope model is a color-coded matrix that maps: (i) certain Elements; (ii) the IT Value Chain Processes; and (iii) at each intersection of such an Element and such a Process, the identification, by color code, of the vendor with responsibility for performing the IT Value Chain Process with respect to the Element. For example: Where Vendor 3 is the designated party, the scope model describe certain Services that Vendor 3 is responsible for performing under the Agreement (i.e., the "What"), not the manner in which Vendor 3 is responsible for performing them (i.e., the "How"). The scope model is defined by the client and attached as exhibit to the contract.

### 4.5 SUMMARY

In this Chapter we discussed our research design that is applied to guide our qualitative research. We described research approach that consisted of desk research, qualitative research and selection of the case study. In addition, we outlined the data collection approach consisting of audio recorded semi structured interview and other documents like contracts. Based on our case study on multivendor IT outsourcing arrangement we outlined the current context at a global retail organization and the three key vendors. The information that is acquired from the exploratory interviews on Governance of multivendor IT outsourcing arrangement is described in Chapter 5.
5 KEY FINDINGS

In this Chapter, we answer research sub-question 2 with an aim to provide basic empirical evidence to our research.

Research Sub-question 2: Which additional Governance determinants can be identified in multivendor IT outsourcing arrangements based on empirical research?

We answer the above question in two steps. First, we validate governance determinants that are identified in literature review (as described in Chapter 3) based on the data collected and analyzed in the case study and underline our findings with relevant examples. Section 5.1 to section 5.4 addresses validation of governance determinants that are identified in literature review. Each section describes our findings from the client’s multivendor IT outsourcing arrangement following the structure of conceptual research model covered in Chapter 3. Next, we discuss additional governance determinants that are identified in the current case study. These governance determinants are also validated, explained and underlined with relevant examples.

5.1 INTER-ORGANIZATIONAL GOVERNANCE

In this section we present our findings for each determinant that is influencing inter-organizational Governance between the client and vendors. Based on a literature review described in Chapter 3 we identified three main factors that have influence on multivendor IT outsourcing arrangements significantly. These factors are: inter-organizational structure, strategy and motivation, clear roles and responsibilities.

The client’s IT organization is accountable for managing and coordinating the outsourced IT services while the vendors are responsible for the delivery of IT services. This means that there is a need for an inter-organizational governance model addressing client’s responsibilities to implement governance policies and procedures. Based on our findings described in Chapter 3, the client is affected by a lack of inter-organizational governance agreements which should include the governance structure and the client’s strategy and motivation for multivendor IT outsourcing arrangement. Below is an excerpt from interview:

In a single service integrator (SI) model, the SI was both responsible for SI and delivery of IT services. This model did not work well as the SI creates insights in the way of working (IT services, pricing, commercial information) of their competitors. The coordinating role and executing role of the SI provider were contradictory due to opposite objectives. (Source: Client’s Chief Information Officer)

5.1.1 INTER-ORGANIZATIONAL STRUCTURE

Our case study reveals a wide range of inter-organizational relationships that relate to the multivendor IT outsourcing arrangements, ranging from steering committees at strategic level to collaborative multivendor workgroups on operational level. One might expect to find a multivendor Governance operating model that describes the interdependencies and relationships between the client and each vendor including third parties (sub-contractors). However, we observed that the
client did not have a clear operating model for Governance with clear inter-organizational arrangements for each of the three vendors.

For example, the inter-organizational structure between the client and Vendor 1 is different when compared to the inter-organizational structure between the client and Vendor 2. This is because of historical reasons. Initially, the client started with a single system integrator model; however, that model did not work. We find that there was no contractual support to give the service integrator a mandate to interfere and interact with other vendors. Originally the single service integrator was the role of Vendor 1. An additional challenge was that other vendors did not interact with Vendor 1 as well. Finally, the vendors were not able to agree on a clear operating model when additional projects were initiated. One of the key sources of information is Governance Schedules which relate to the contract between the client and their vendors. We examined the Governance Schedule that is used in each of the three client vendor relationships. Although one might expect to find a common and consistent approach, in this case study we did not find a common and consistent inter-organizational structure applied across all three relationships. During an interview, one of the managers emphasized about the lack of common and consistent structure as follows:

“**We do not have a strong supplier management structure. What is strategic, what is tactical and what is operational?**” *(Source: Client’s IT manager)*

Even though Governance Schedules related to the contracts were defined towards each vendor, there was no single operating model (basic or preferred). While relationship with Vendor 2 focused on Governance using an inter-organizational structure, coordination mechanisms and escalation path, the relationship with Vendor 3 focused only on project Governance structure. This leads to confusion among the three vendors during critical problems, especially when the scope of services is not clear. An explanation might be service overlaps or service gaps arising due to an inconsistent operating model.

As there is no clear operating model, we observed that the service portfolio is unclear and no clear demarcations between vendors are outlined. The problem requires significant attention from client’s management team because it requires them to simplify the complexity on a case by case basis. Importantly, the problem is acknowledged by a senior executive within the client organization. When asked “How does organizational structure support the Governance of the multivendor environment?” the client’s CIO responded as following:

“**With increase in the number of providers and (operating) models; the complexity in managing and governing the various organizations (client and provider) increases. Suggestion is that we focus at least on one basic (preferred) model. We are working towards this**” *(Source: Client’s Chief Information Officer)*

The lack of a consistent inter-organizational structure negatively impacts the multivendor IT outsourcing arrangement because the client and vendors have to organize their selves on ad-hoc basis. This leads to unclear boundaries, confusion among vendors as to who is doing what and often leads to fierce discussions. In Chapter 6 we discuss the affects of this determinant on client’s
organization in more detail. In addition, we look at the key challenges and strategies that the client can use or is using to positively influence the relationship.

5.1.2 STRATEGY AND MOTIVATION

The second determinant examined in inter-organizational Governance mode is “strategy and motivation”. The strategy component consists of the planning and policy for the relationship. The motivational component consists of the reason for the relationship and the dimensions of a relationships structure. The case study shows that strategy and motivation is reflected on how closely the client’s businesses are aligned with IT, which also influences the multivendor IT outsourcing strategy. We find that the strategy as applied by the client to manage the multivendor landscape is not consistent. For example, the boundaries of the IT domains as agreed per contract were shifted regularly. In addition, coordination of new entrants (vendors and/or third parties) is based on an ad hoc approach. Below is an excerpt from an interview:

“Solution delivery is not aligned with the business. Business programs have relationships with business. The IT organization is running business programs; IT solution delivery and IT service delivery. Business program plans, IT Solution delivers, and IT Service delivery supports IT. Internally, these three silos are not managed end-to-end as all have different objectives. Business programs want solutions as fast as possible. Service delivery wants to deliver as cheap as possible” (Source: Client’s IT Solution Delivery Manager)

Moreover, there is no strategy on how to deal with major projects: execution by a selected regular vendor (e.g. Vendor 3) or by means of a technology vendor (e.g. Oracle, Microsoft). As a result, multiple misunderstandings occurred between the client and its vendors and among vendors as well.

5.1.3 CLEAR ROLES AND RESPONSIBILITIES

The third determinant that we identified in inter-organizational Governance mode relates to clear roles and responsibilities. As defined earlier, a Governance framework should address the questions “what to do”, “how to do it”, “who should do it” and “how it should be measured” (Gewald and Helbig, 2006). One might expect to find an operating model that describes the roles and responsibilities of each vendor and third parties; in our case-study it is absent. From a client perspective clear roles and responsibilities should lead to the following:

1. Clear and concise documentation of interactions / meetings
2. Timely Escalation in case of issues and delay in delivery
3. Clear scope, “who does what” (Source: Vice President Sourcing – Interviewee excerpt)

While reading contracts and schedules we noticed that much of the information is related to “WHAT” is required to be done (needed) and not “HOW” it is or will be realized. For example, while contracts specify that the client and Vendor 2 will need to setup meeting structure, there is no evidence found on whether or not and how it is implemented. Based on our interviews we could not identify any meeting structures. There are multiple interfacing points between most of the outsourced IT services
including their respective processes. Consequently, there is an interdependency and overlap between various services. This translates into multiple vendors, who are typically competing for the same service. However, in this case they are often required to work together. As a result, each vendor was dependent at-least on one vendor (usually Vendor 1) at the minimum while sometimes more vendors for the provisioning of his or her own contractual services to the client.

We found that the stakeholders within the client organization recognize and acknowledge the limitations due to lack of inter-organizational alignment. It was highlighted through one particular example when roles and responsibilities were fragmented across the entire multivendor IT landscape which was outsourced. After the transition phase, the entire IT landscape was not managed as a whole. It was not clear for the client what they can expect from a vendor even though the commercial goals, expectations, service performance and key performance indicators were specified in the contract. Interestingly, we also found that client’s originally transferred staff to Vendor 1 was re-transferred to Vendor 2 after two years to streamline operational activities (e.g. application maintenance). This ‘secondary’ TUPE (Transfer of Undertakings Protection of Employment) contributed to clear service boundaries and subsequently, an increased service performance.

### 5.1.4 SUMMARY OF INTER-ORGANIZATIONAL GOVERNANCE

In this section we re-cap our findings from the previous three sub-sections and provide a summary that validates the effect of the respective Governance determinants on multivendor IT outsourcing arrangement. Table 8 illustrates our findings on inter-organizational Governance determinants from this case study.

<table>
<thead>
<tr>
<th>Inter-organizational Governance Determinants</th>
<th>Validation and status from client’s perspective</th>
<th>Source and Additional Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-organizational structure</td>
<td>Inconsistent (or in some case lack of) inter-organizational structure</td>
<td>Recognized in multiple interviewees. Key stakeholders confirm that inter-organizational structure is neglected.</td>
</tr>
<tr>
<td>Strategy and Motivation</td>
<td>No clear strategy and motivation for multivendor IT outsourcing arrangement</td>
<td>Recognized as an important factor by the interviewees, and confirms lack of strategy and motivation</td>
</tr>
<tr>
<td>Clear roles and responsibility</td>
<td>No clear roles and responsibilities across multiple vendors</td>
<td>Recognized from interviews and contracts.</td>
</tr>
</tbody>
</table>

**Table 8: Findings Inter-organizational Governance Determinants**

In the following section we present our findings on contractual Governance mode and the respective governance determinants.

### 5.2 CONTRACTUAL GOVERNANCE

This section presents our findings for each determinant that influences contractual Governance mode between the client and vendors. Based on literature review, we identified that three main
factors influence contractual Governance mode in a multivendor IT outsourcing arrangement. These factors are: commercial goal expectations, activity expectations and contractual flexibility. The following sub-sections present our findings from the case study for each determinant independently.

### 5.2.1 COMMERCIAL GOAL EXPECTATIONS

Commercial goal expectations mean the extent to which outsourcing objectives and goals have been agreed to and explicitly included upfront in the outsourcing contracts. The goals of a multivendor IT outsourcing arrangement should be specified in the contract and are used to achieve shared understanding about the expectations of the client and the vendors. After reading and analyzing the master services agreements, schedules and exhibits between the client and three vendors, we found that key expectations such as services, pricing, legal and Governance are outlined in the contracts.

From a contractual perspective the client organization has created a shared understanding across multiple vendors using the scope models. These scope models are part of the contract schedule and or exhibits. Based on these findings we noticed that commercial goals and expectation of services delivered by three vendors are specified in contract.

The key characteristics as noted from three contracts that were studied are summarized as follows. First, the focus is on products and services delivered by the vendor. Second, the contracts are all based on dyadic contractual relationships. Third, the contracts are signed at different time periods. Finally, the content of the contracts is static over a longer period of time, on average more than 12 months. In other words, contracts are less frequently modified. Table 9 illustrates our findings from the master service agreements, schedules and exhibits:

<table>
<thead>
<tr>
<th>Findings: Client—Vendor contracts</th>
<th>Vendor 1</th>
<th>Vendor 2</th>
<th>Vendor 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>The client’s commercial goals (objectives) are specified</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>A shared understanding on what the client and the vendor have to do to achieve the goals</td>
<td>Using scope models</td>
<td>Using scope models</td>
<td>Using statements of work and scope models</td>
</tr>
<tr>
<td>Dyadic or Multi-party contracts</td>
<td>Dyadic</td>
<td>Dyadic</td>
<td>Dyadic</td>
</tr>
</tbody>
</table>

**Table 9: Commercial Goal Expectations in Contractual mode of Governance**

Based on our case study, we found evidence that the client goals and expectations towards the vendors are important determinants that belong to contractual Governance. However, identifying and addressing this determinant on the basis of dyadic relationship is necessary but not sufficient. Since agreements between the client and all three vendors are based on a dyadic relationship structure, agreements between vendors are not defined nor described. Remarkably not one, but all the contracts are based on a dyadic relationship. This also means that Governance on contracts is only setup between the client and a single vendor. We argue that the contract fails to capture dynamics and interdependencies between the parties in a multivendor arrangement. In response to our question “What form(s) of contractual framework is/are used by the client to govern the multivendor environment?” We recorded the following response from client’s service manager:
In more than one instance, the agreements were made explicitly abstract and as such details such as dependencies, steering mechanisms, key roles, and meeting structures were postponed to the transition phase. However, after close examination of the collected data, we found that during the transition phase these details were neither described nor implemented. The above can be summed up well in the words of the client’s Chief Information Officer (CIO):

“It is difficult to select the proper Governance model that fit with our informal way of working. We definitely need other capabilities to govern the relationship and delivery of IT services.” (Source: Client’s Chief Information Officer)

In Chapter 6 we will discuss our findings to create insights on which of the other capabilities to govern the relationship and delivery of IT services are missing or needs to be strengthened. This is based on the challenges in multivendor IT outsourcing arrangement from client’s perspective and the strategies developed by the client to address them.

5.2.2 ACTIVITY EXPECTATIONS

Activity expectations mean the degree of detailed and precisely defined service levels. A large set of activities performed by the vendor and the client including roles, responsibilities, functions, phases and service levels are captured in the contract. Not all activities require service levels. Consequently, service levels are not defined for all the activities.

We found that the client has developed scope models to clarify the expected activities performed by each vendor. In addition, the client has defined the service level agreements (SLA) with response times based on severity of the problem. Finally, we observed that the contracts covered most basis activities that are part of the life-cycle management of given service. However, in a multivendor IT outsourcing arrangement, interdependent activities are complex and often hard to describe completely in advance. For example, we did not find any evidence on third party management, in which the key Vendor’s has to manage the deliverables from third party as part of the end service delivered to the client.

The contracts that were studied, describe overall goals and individual activity expectations that the exchange parties (the vendor and the client) has agreed up on. Given the nature of the goals and activity expectations, it seems impossible to design contracts that address all future contingencies and uncertainties. This is consistent with our findings from our literature review, as described in Chapter 3, that not all goals and activity expectations can be controlled tightly in the boundaries of a legal contract.
As noted, the contracts did not address activity expectations for multiple vendors in complex cases such as transition management services and integration services. This is mainly because of the unknown and uncertain future activities needs to be jointly performed by the client and the multiple vendors. Reference to transcripts from one of the Sourcing Manager interviews we find that the client is well aware of this requirement:

“Recently, we decided to assign one resource (vendor manager) that focuses on setting up a Governance capability. Importantly, one of the new activities is to underpin that Governance result in a value add. Therefore, we start with baselining (actual metrics, meetings facts, ) after one year we can measure our value add by means of improved structures, shorter lead time, reduced the cost (waste) etc. In the end it is all about governing the relationship including all the aspects (contracts, relationship, collaboration etc.” (Source: Client’s Sourcing manager)

One of the key activities is service integration. Looking closely at the arrangement in “legacy environment” we find that the Vendor 2 acts on behalf of the client with regard to manage operations. From an activity perspective, the client is the service integrator. As such, the client is responsible for SLA alignment between all parties (i.e. coordinating the service chain). Interviews revealed that the client does not focus on this topic because of two reasons. First, the range of vendors and number of third parties is too wide. Second, due to lack of attention for service integration activity. As a result, service delivery of multiple vendors and third parties is stressed as multiple SLA’s are breached regularly resulting in a decrease of the service performance towards the client.

5.2.3 CONTRACTUAL FLEXIBILITY

Contractual Flexibility means the ability to adjust quickly and easily to uncertainties and contingencies that emerge. While outsourcing entails a long-term relationship with a high degree of risk-sharing, it also requires flexibility to change the scope of outsourced services, people and processes depending on the clients requirements.

In order to validate the clients ability to flexibly adapt contracts we got the following responses when asked “What is the degree of contractual flexibility to accommodate key developments (for example: exit of one vendor or on-boarding of new vendor) in multivendor environment?”

“I always try to use what we call the Utility model or Pay as you go model”. For Vendor 1 we use per image (UNIX or windows), per port, per gigabyte. We pay for the volume (at the last day of the month) we use per month. We can also quit volume at the end of the month.

Importantly, contracts are set up such that they deliver the service as much as possible. For example, I want to pay for email user (one user certain fee for the month). And then not for hardware and storage. We pay per use, if possible per month.” (Source: Client’s Vice President, Category Sourcing)

“Contract has total flexibility. There is no long term commitment. Shared Service is three year contract with 60 day termination contract. There is no financial commitment. Offshore vendors
The above is also verified based on various termination clauses in contracts we studied at three vendors. Therefore, we may conclude that within the contracts the client has insured sufficient flexibility.

### 5.2.4 SUMMARY CONTRACTUAL GOVERNANCE

Table 10 illustrates our findings of contractual Governance determinants. Based on these findings, we find the evidence that commercial goal expectations, activity expectations and contractual flexibility are important determinants that impact contractual Governance in multivendor IT outsourcing arrangements.

<table>
<thead>
<tr>
<th>Contractual Governance Determinants</th>
<th>Validation and status from client’s perspective</th>
<th>Source and Additional Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial goal expectations</td>
<td>Specified in contracts on the basis of dyadic relationship</td>
<td>Validated in contracts. Commercial goals, client expectations in terms of products and services.</td>
</tr>
<tr>
<td>Activity Expectations</td>
<td>Specified in contracts using scope models</td>
<td>Validated in contracts. However, did not cover complex multivendor interdependencies related activity expectations.</td>
</tr>
<tr>
<td>Contractual Flexibility</td>
<td>Specified in contracts</td>
<td>Validated in contracts. Pay-For-Use models and for services from three key vendors it is sixty days of termination notice.</td>
</tr>
</tbody>
</table>

**Table 10: Findings Contractual Governance Determinants**

Based on these findings, we observed that “contractual Governance” on dyadic relationship basis is necessary but not sufficient. Since the client has ignored or given little attention to contractual Governance across multivendor IT outsourcing arrangement, the traceability of service performance and vendor interdependencies has become a key challenge.

In the following section we present our findings on relational Governance mode and the respective governance determinants.

### 5.3 RELATIONAL GOVERNANCE

In Chapter 3, we have explained that based on our literature review there is a clear link between contractual Governance and relational Governance. Relational Governance ensures that motivation replaces the rule of law and as such serves as complement to contractual Governance. Both forms of Governance need to be strong to produce positive outsourcing outcomes. Based on our literature review, we identified three key determinants that affect the quality of relationship in multivendor IT outsourcing arrangements namely: information exchange, trust and conflict resolution (robustness of
relationship in the advent of conflict). The following sub-sections present our findings from the case study for each determinant independently.

### 5.3.1 INFORMATION EXCHANGE

Information exchange means the extent of proactive sharing or exchange of meaningful and timely information between all the parties, the client and the multiple vendors as engaged in a multivendor IT outsourcing arrangement. It is important to understand that the need for information exchange is across all key parties and not only between the client and the vendor. This means that information exchange is also required amongst the vendors who are jointly working towards delivering services to the client.

We examined contracts and interview data to identify the ease and level of information exchange between the client and its multiple vendors. Based on our data analysis we found asymmetric information exchange between key vendors and the client. We identified that in one case there was no proactive information exchange between Vendor 3 and the retail software vendor. This was essential for successful project completion, however, not done. In yet another example, we identified that on a contractual level scope models are used to exchange information between the client and Vendor 3. However, this model did not explicitly covered, rather assumed that the retail software vendor will deliver the required information to Vendor 3. During project execution, information exchange became a challenge when software vendor failed to deliver the required information. As one of the IT managers explained:

> "Commitment is not high on the agenda. We try to scope it on per project basis. There are Intellectual Property Issues, even for simple things like sharing “unit test” to do end to end testing. Vendors do not want to share information with each other." (Source: Client’s IT Manager)

The client and vendors could certainly cover processes, activities, roles and responsibilities for effective relationship Governance in the contract itself including information exchange. However, we did not find any explicit schedules or terms related to relationship Governance or its determinants in the contracts. We argue that comprehensive and well-specified SLAs will help both vendors and clients in building relational norms because their mutual expectations pertaining to solidarity, information exchange, and flexibility are explicitly addressed.

Lack of symmetry in critical information exchange between and among all the parties engaged in delivery of a service or a solution leads to sub-optimal outcomes. In one scenario we observed that, when the client splits design and test work between two different vendors (e.g. Vendor 3 and software vendor), there is no responsibility of functionally working solution on either Vendor 3 or the software vendor. In addition, this also impacted knowledge management of the solution because it is distributed across multiple organizations.

### 5.3.2 TRUST
Trust means the degree of expectation that all parties (the client and the vendors) will act predictably, fulfill agreed obligations, and behave fairly even if opportunism is possible. In essence, trust counterbalances the need for a costly safe guard mechanism against opportunism. Trust between the vendors is also important. As noted in previous sections, we found that there are many interdependencies between the vendors themselves. Here the need of mutual trust is high. Mutual trust connotes risk and vulnerability, a willingness to open oneself to harm, and the likelihood of being taken advantage of. The risks inherent in trust arise because people’s integrity and their propensity to cheat vary across relationships. Given that there was no contractual relationship between the vendors themselves, the level of trust between vendors was low. When asked “To what degree does the multivendor model effects the presence or absence of trust?” One of the client’s service managers responded as follows:

“I think it is little bit difficult. Vendors are afraid that other might take a bigger part of the pie. My opinion is that this arrangement is a little bit negative for the trust” (Source: Client’s IT Service Manager)

We observed that the level of trust between parties involved is influenced negatively because of more than one reason. For example, first, due to unclear strategic roles and responsibilities and second due to a lack of structure (e.g. meetings and escalation paths) the level of trust between client and vendors decreased significantly over time. Importantly, we did not find an explicit mention of trust in the contracts including Governance schedule. However, we found that some interesting remarks on trust were made during the interviews. According to the Chief Information Officer:

“The degree of trust is more related between the companies then between individuals. The latter can be replaced, the companies only at high switching costs and organizational complexity.” (Source: Client’s Chief Information Officer)

While the client strived to achieve partnerships with their vendors, the vendor’s behavior demonstrated the opposite (transaction-oriented arrangement). Of course, two vendors cannot behave similar nor they can develop a similar level of trust. According to the IT Service Manager responsible for Vendor 2 and Vendor 3:

“Depending on the vendor this (Trust) varies a lot. For example, Vendor 3 is very different when it comes to relationship. From operations perspective, we have very good relation with Vendor 3. On contractual level this may not be the case” (Source: Client’s IT Service Manager)

It is clear that the client realizes and acknowledges that trust between them and vendors of IT outsourcing services is one of the key ways to create values in outsourcing. However, it is also challenging to strike a balance between building and sustaining trust while meeting the budget or costs targets for IT outsourcing. In one of the interviews, “Vice President, Sourcing” clarifies this as follows:

“Trust and relationship are important in multivendor model. From our perspective, keeping in sync with our strategy and given budget (costs) is also important” (Source: Client’s Vice President, Sourcing)
The impact on level of trust and its influence on service performance were realized by the client’s organization and senior management. Therefore, in 2012 the client developed and executed on strategy to create clarity regarding strategic roles of all parties leading to an increase of the level of trust between the client and vendors. This topic is covered in Chapter 6 when we discuss the client’s challenges and strategies developed to overcome these challenges.

### 5.3.3 CONFLICT RESOLUTION

Conflict resolution means the extent of amicable agreement and joint resolution among all the stakeholders (the client and the vendors) in conflict situations. We observed that from a client perspective, one of the key challenges of multivendor IT outsourcing arrangements is conflict resolution. With more people from different organizations on board, conflicts are bound to rise. The nature of these conflicts required significant attention from the client’s management team. In most instances of conflicts, vendors preferred to engage and use client as mediator because there was no agreement between the vendors to support interdependencies unless it helped their cause (business).

In our case study, we found that conflict resolution is described explicitly in the contracts. For example, the master service agreement specified conflict resolution and the application of the laws of the country. The Governance Schedule covered conflict resolution including escalation paths, and the level at which it should be addressed within the client and the vendor organization. Although joint conflict resolution is common requirement in multivendor IT outsourcing arrangement, it is neither explicitly addressed by the client nor the vendors in the contracts.

Escalation to the client mainly happened when vendors were not able to sort out their differences on scope, responsibility or technical issues. Consequently, the client intervened and moderate discussions to sort out the differences. In addition, the client also tried to avoid similar future problems by developing processes that reduce misunderstanding between the vendors. In response to our question “How does the client cope with conflict resolution within the multi-sourcing IT arrangement? What methods and/or strategies are used to solve conflict resolution?”

> “By bringing the vendors together. The Client chairs this discussion. 95 percent of cases, vendor tends to solve the problem and agree themselves.” (Source: Client’s IT Service Manager)

An important aspect in conflict resolution is an established escalation process and escalation paths that allows critical issues to quickly come to light. Whereas these processes and paths are usually expected to be consistent across the client’s organization, in our case study we found an inconsistent understanding within the organization itself. For example, the following two excerpts from interviews highlight differences in understanding and experience regarding the escalation path and conflict resolution process:

> “We try to solve it on operational level, then management level of IM department, and if they cannot solve it, they come to sourcing department. The sourcing department tries to then solve it with account manager of the supplier” (Source: Client’s IT Manager)
Governance determinants in multivendor IT outsourcing

Whereas, one of the clients IT manager finds the following:

“(The client) sticks head in the sand and tries not to look at it. Or gives up not to solve it. Typically, in conflict, both vendors come to the client. And the client tries to mitigate. We are not the experts. We expect vendors to work together. When they cannot work on together, we have a problem. Example: who does functional design (Vendor 3 / software vendor) and who does QA (software vendor/ Vendor 3). We do not want to be involved in the conflicts. We do need to create much better image.” (Source: Client’s IT Manager)

We noticed that although conflict resolution is stated in the contract (including escalation mechanisms) the client did not want to interfere in the conflicts between vendors. This also relate to the client’s architectural responsibility to guard the boundaries of the IT domains. Consequently, this decreased the level of trust even further. For example, the demarcation point between data center and wide area network (which connects to warehouses and retail shops) or the demarcation between business applications and IT infrastructure were unclear and inconsistent.

We also learned from the client about the differences in approach taken by vendors during this topic. For example one vendor focuses on ‘solving the problems first while another vendor required client’s approval first’ to solve the problem. In addition, within the vendors who compete for same business, we noticed “struggle for power”. In one interesting case, Vendor 1 applied an “aggressive sales strategy” at the cost of their “competitors”, in order to tilt the client’s buying decisions in their favor. This resulted in multiple conflicts between the Vendor 1 and Vendor 2. Clearly, conflict resolution is an important Governance determinant in multivendor IT outsourcing arrangement. As a “referee” the client plays an important role in conflict resolution especially in case of escalations that leads to differences among vendors. On the topic of Governance KPI, the client’s vice president of sourcing responded:

“Clear escalation is nothing to be ashamed of. Problem just seat around for weeks which makes everybody upset. We need to be faster and better in escalating problems. We need to educate and train people on how to be quick in either solve a problem or escalate.” (Source: Client’s Vice President, Sourcing)

5.3.4 SUMMARY OF RELATIONAL GOVERNANCE

Table 11 illustrates our findings of relational Governance determinants.

<table>
<thead>
<tr>
<th>Relational Governance Determinants</th>
<th>Validation and status from client’s perspective</th>
<th>Source and Additional Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information exchange</td>
<td>Asymmetric information exchange</td>
<td>Validation in Interviews.</td>
</tr>
<tr>
<td>Trust</td>
<td>Trust exists on multiple levels and greatly impacts coordination between parties</td>
<td>Validation in Interviews</td>
</tr>
<tr>
<td>Conflict resolution</td>
<td>Required significant attention from managers at the client</td>
<td>Validation in interviews and contracts</td>
</tr>
</tbody>
</table>

Table 11: Findings Relational Governance Determinants
Governance determinants in multivendor IT outsourcing

Based on these findings we found evidence for the existence of information exchange, trust and conflict resolution as important determinants that influences relational Governance mode in multivendor IT outsourcing arrangements. In addition, we observed that trust exists on and affects on multiple levels.

In the following section we present our findings on collaborative Governance mode and the respective governance determinants.

5.4 COLLABORATIVE GOVERNANCE

Collaboration is working together to achieve a predefined goal. Based on our literature review, we identified three key determinants that affect the collaborative Governance namely: collaboration processes and tools, shared values and understanding and starting conditions. In the following subsections we present our findings from the case study for each determinant independently.

5.4.1 COLLABORATION PROCESSES AND TOOLS

Collaboration processes and tools mean that the parties involved in multivendor IT outsourcing arrangement should engage in deliberative and multilateral process using appropriate tools. In our case study, lack of collaborative process and tools were particularly noticeable from how vendors collaborate amongst each other. In addition, we also noticed the minimal extent to which the parties used collaboration processes and tools during the meetings. Interestingly, the collaboration arrangements including the processes and tools were different from each other in the client’s so called “new IT world” and “old IT world”. This is underlined by interview excerpt as follows:

“In the new IT world on operational level, in case of incident, the first party who is assigned the ticket is responsible for solving the problem. In this case, Vendor 3 and Vendor 1 are now working closely for operational collaboration. The client is the decision making authority when it comes to scope and responsibility determination. The clients remain accountable for end to end operational environment.” (Source: Client’s IT Manager, for new IT world vendor. i.e. Vendor 3)

We also noticed that the key drivers and focus for collaborative processes and tools are on the operational level.

“Coordination is very important. Incident especially critical ones impact very strongly. It is important to arrange who is responsible for which part. Vendor 1 is first level, and he/she knows where to go to. Vendor 1 knows problem is severity 1 and should be solved within the SLA. It is important that Vendor 1 knows where to go to and, therefore, coordination is very important....”(Source: Client’s Sourcing Manager for old IT world. i.e. Vendor 2)

Remarkably, most interviewees emphasized on the importance of collaboration. In addition, depending on their work field, they were able to outline collaboration processes and tools used to work together with multiple vendors. For example, in one of the interviews with Program Manager (Large IT Projects), we observed that during project planning and execution different processes and tools were used by the client and the vendors.
“Related to change, a project delivery framework is used as the leading principle to deal with complex change programs. This means that various topics are decided and agreed on before a program starts. Topics relate to: clear roles and responsibilities for all parties, a steering committee in which the vendors have a strong mandate, the quality and assurance of the program is established upfront, clear reporting lines and reposting moments (tollgates) are established, commercial aspects are covered sending invoices. Statements of Works of all providers are standardized and clear. This approach is successfully introduced in 2012. Also providers are happy and confident that the client is prescriptive in applying this approach as it mitigates uncertainty and additional (extra) costs.” (Source: Client’s IT Service Manager)

Based on information available in contracts and interviews we analyzed whether or not end to end service management processes is collective and whether relevant parties participate in all stages of decision making. In our case study, we found only two-way flows of communication and collaboration and witnessed significantly lesser degree of multi-lateral deliberation. For example, in order to achieve planned results the client’s retained organization wanted to have traceability of business requirements mapped to multiple IT services that are delivered by three key vendors. This means that the end-to-end responsibility for the collaboration remains with the client. However, in our case study, we found that certain parts of collaboration process are delegated further to the vendors. This in turn required that the client enables the culture of collaboration, offers collaboration processes and tools for multiple vendors to work together.

When it comes to the system integration role we noticed varying levels of responsibility regarding collaboration processes and tools. In Chapter 6 we look at some of the key challenges faced by the client due to limited collaboration between the vendors and the strategies developed by the client to address them.

5.4.2 SHARED VALUES AND UNDERSTANDING

Shared values and shared understanding means vendors collaborate not only with the client but also among themselves. We do not find any explicit mention of shared values in the contracts between the client and three key vendors. However, we validated in interview that the client finds it essential, and ensures the match during vendor pre-selection phase of the IT outsourcing.

When asked “How does the client seek and ensure compatible cultures, shared values, understanding and fairness to their vendors?” One of the IT service manager responded with the following:

 Mostly in pre-selection phase. The client’s corporate values as such are not explicitly shared with vendors however it is shared by our own behavior. From operations perspective, we bring the cultures and shared values together. (Source: IT Services Manager)

Although senior management may take account of stakeholder perspectives in their decision making and may even go so far as to consult directly with stakeholders, collaborative Governance requires that stakeholders be directly included in the decision-making process. For example, in case of data warehousing service Vendor 1 delivered IT infrastructure and Vendor 2 was responsible for the on-
going data warehouse application maintenance and support. As explained in section 5.4.1 this is important especially on the operational level of the multivendor IT outsourcing arrangement.

Based on input from interviewees we found that shared value and understanding was especially critical when more than a vendor participated in delivery of one service. In addition, joint value creation through establishing shared values and understanding is key part of one of the strategies developed by the client to overcome the current challenges. In Chapter 6 we explain the client’s strategies in additional detail.

5.4.3 STARTING CONDITIONS

Starting conditions means conditions present at the outset of collaboration which can either facilitate or discourage cooperating among stakeholders. Three critical starting conditions are identified. These are power-resource-knowledge imbalances (asymmetries), incentives for and constraints on participation, and prior history of collaboration or conflict.

We found that historical conditions present at the outset of collaboration have a strong influence on collaboration among the parties. For example, the client’s staff originally transferred to one vendor was retransferred to another vendor after two years to streamline operations. The key reason for the re-transfer was because the staff had all the information and knowledge of client’s IT operations. This contributed to clear service boundaries and subsequently increased service performance. The client recognized that current collaboration between parties involved is not sufficient and can be improved.

We want to improve collaboration. We recently started running a collaboration program with our key vendors based on a senior level open conversation. This is to increase commitment in relationship also between the vendors – so that they do not compete but work together. Moving forward, we will have collaboration ambassadors who will implement collaboration on the project level. (Source: Client’s Vice President, Sourcing)

In our case study we noticed that collaboration in multivendor IT outsourcing arrangements requires considerable amount of additional resources and organizational capacity to participate. Consequently, collaborative Governance process was mainly influenced by Tier 1 vendors (e.g. Vendor 1 and Vendor 2). One example of such instance was the ability of large vendors (for example Vendor 1 and Large Software Vendor) to gain direct access to board members and executives of the client, whereas vendors with limited resources did not have this privilege (for example Vendor 3). In turn, this lead to weak commitment or existence of distrust between vendors that hinders collaboration.

Interestingly, the client motivated vendors to participate voluntarily in collaborative sessions. From a client perspective, this was seen as privilege offered to the vendors. However, we did not find any explicit incentives for vendors to participate. In fact, we observed signs that vendors participation in collaborative sessions were often seen as pre-sales activities, wherein opportunities were discussed or scores need to be settled. In addition, we found that in order to collaborate among other vendors some additional incentive was required by a vendor. However from a client perspective, this was not
implemented contractually. We argue that a lack of incentive to collaborate could deter vendors from investing resources and time which will not deliver any economical benefit.

We discussed however never implemented “Pot of Gold” incentive mechanisms because it is contractually difficult. We have SLA’s. We do have penalty structure in SLA. We have more on punishing then on rewarding. If vendor does not reach SLA, then there is penalty. There is penalty earn back possible. When vendor offers good service for period of time, the vendor can earn back the penalty. (Source: Client’s Service manager, IT Domain)

These findings are somewhat counter-intuitive or paradoxical in nature. Whereas there are many interdependencies between the vendors to deliver the contracted IT services to the client, the vendors approach was to work unilaterally instead of collaborating.

5.4.4 SUMMARY OF COLLABORATIVE GOVERNANCE

Table 12 illustrates our findings of collaborative Governance determinants. Based on these findings, we find evidence that collaboration processes and tools, shared values and understanding and starting conditions are recognized as key determinants that influence relational Governance in multivendor IT outsourcing arrangements.

<table>
<thead>
<tr>
<th>Relational Governance Determinants</th>
<th>Validation and status from client’s perspective</th>
<th>Source and Additional Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collaboration processes and tools</td>
<td>Important at the operational level.</td>
<td>Validation in interviews. Required for tracking of requirements up to business value and service performance</td>
</tr>
<tr>
<td>Shared values and understanding</td>
<td>Important and to be addressed with new enhance collaboration strategy</td>
<td>Validation in interviews. Effects coordination and collaboration</td>
</tr>
<tr>
<td>Starting conditions</td>
<td>To be addressed as part of the new enhance collaboration strategy</td>
<td>Validation in interviews and contracts</td>
</tr>
</tbody>
</table>

Table 12: Findings Collaborative Governance Determinants

In the following sections we describe additional Governance determinants found during the case study.

5.5 ADDITIONAL DETERMINANTS

During analysis of data from the case study, we found two additional Governance determinants that affect Governance of multivendor IT outsourcing arrangement from client’s perspective. The first determinant is “power-dependency play” and second is “knowledge management”. This section describes these two additional Governance determinants and provides underlines our findings with evidence.

5.5.1 POWER-DEPENDENCY
An interesting determinant found from our case study is the client power-dependency play. This is underlined by considering the client’s primary motivation in applying power-dependency play. It is tactical in nature and it is aimed to achieve the lowest price through competition between the existing vendors.

As noted in previous observations, the client assumes the role of orchestrator and primary coordinator. This means that the client is in the center of give and take relationships. For example, joint coordination, conflict resolution, agreements on new ways of working and re-alignment for improvement has to be done via the client. As a result, we found that the aspect of power-dependence, skewed in favor of the client.

Our finding is underlined with the help of an example of power-dependency play that is played by the client. The example is as follows: the client initiated bidding for a new IT outsourcing project for all vendors based on the selection criterion of low price. In this case, the client adopted a contradictory approach to let vendors bid on new IT outsourcing project which raised conflicts of interest between vendors. Interestingly, the client down played the importance of additional selection criterion which enables a vendor to build upon existing scope, previously made commitment and hence create better position in managing interdependencies. This underpins how the client likes to play power-dependency towards the vendors.

We observed that such an approach leads to more unbalanced relationship between client and the vendor. In addition, this leads to unsatisfactory relationship because vendors are vulnerable to opportunism of the client. In essence, the client shows willingness to abandon the relationship and is less willing to reciprocate to sacrifices that are made by the vendor. This in turn decreased the level of trust between the client and vendors. We noted a paradox, in which the client required faster execution of new innovative projects, while at the same time, the client wanted to reduce the IT budget (spend). Therefore, we argue that the client created conflicting messages and perception in vendor’s expectation. While vendor may like to invest for long term relationship and improve execution time of innovative projects; there is also pressure to reduce the price, cut resources and limit long term investments. The balance between short and long term was not well managed by the vendors and we argue that this is partly due to ‘Power-Dependency’ play played by the client.

Based on our observation, power-dependency play has a direct effect on trust. And, therefore, also has a direct effect on the relational governance. When the client plays power-dependency play to his / hers own advantage, the level of trust on the vendor side decreases. This in turn impacts the willingness of a vendor to invest in building long term investments. An additional underlining fact remains, that indeed the client in our case study is in position to replace a vendor on short notice with maximum of 60 days of termination notice in the contact. In chapter 6, we highlight how power-dependency play influences the level of trust between the client and the vendor.

5.5.2 KNOWLEDGE MANAGEMENT

An additional important determinant found from this case study is knowledge management. We found several instances when knowledge management affected the client’s ability to control and
improve outsourced IT services. While not all effects can be attributed to knowledge management, we outline key instances which triggered us to argue that knowledge management is an important arsenal both for client and the vendor to successfully deliver on expectations from multivendor IT outsourcing arrangement.

The client realized that knowledge management is an important determinant to successful IT outsourcing. The first instance was described by the client’s CIO in the form of key challenge as follows:

**We definitely need other capabilities to govern the relationship and delivery of IT services. Compared to three years ago; not only the retained organization decreased with 50% but also the remaining employees changed by 50% : hire and fire. We therefore see the need for managing knowledge and competences across multiple sites. (Source: Client’s CIO)**

In another instance, while the client assumes the role of system integrator and orchestrator, the client acknowledges that knowledge management is essential to succeed in fulfilling this role.

**Our information management (IM) leadership has agreed with the business leadership that IM will have limited role in execution. However the SI role requires that we also have content knowledge. Therefore, knowledge continuity is a big issue for us. From development perspective, we do need people that have sufficient content knowledge and can also challenge the vendors. (Source: Client’s Sourcing Director)**

Based on our observation, we argue that knowledge management is one of the key driving factors for collaboration between the client and vendors. This is underlined by the fact that both the client and vendors took the initiative to set up knowledge management systems in order to record essential information. This information is mainly operationally oriented and enables service improvements through knowledge base developed over period of time. For example, a critical knowledge management related tools to help the helpdesk staff in accessing past trouble tickets resolution database and configuration management database.

### 5.6 CONCLUSION

The information that we acquired from the interviews on Governance of multivendor IT outsourcing arrangement revealed that there are various determinants that influence Governance. We understand that some of our observation is contextual to the case study. However, it is important to realize that various Governance determinants that influence the Governance modes will remain largely similar and as a result our findings from empirical research are reusable for future work in this domain. Table 13 illustrates the summary of our findings from the case study. It outlines the validation, with a short description of our findings on the twelve Governance determinants plus two additional Governance determinants.

<table>
<thead>
<tr>
<th>Governance Mode</th>
<th>Governance Determinant</th>
<th>Validation &amp; Source</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-</td>
<td>Inter-</td>
<td>Inconsistent (or in some)</td>
<td>The lack of or an inconsistent inter-</td>
</tr>
</tbody>
</table>
Table 13: Summary of findings from the case study on multivendor IT outsourcing arrangement

In Chapter 3 we represented four Governance modes and twelve Governance determinants collectively in a conceptual research mode. In this Chapter we have validated the presence of these Governance determinants and also identified two additional Governance determinants. In the Figure 14 we describe the adapted research model that reflects our findings. We have modified the conceptual research model by adding the power-dependency play determinant to relational governance mode and the knowledge management determinant to the collaborative governance mode.
In Chapter 6 we describe the effects of identified and validated Governance determinants on the client’s organization and also strategies developed by the client to improve Governance in this arrangement.
6 EFFECTS OF GOVERNANCE DETERMINANTS

In this Chapter, we answer sub-research question 3 with an aim to provide basic empirical evidence to our research.

Research Sub-question 3: How do Governance determinants effect multivendor IT outsourcing arrangement?

Section 6.1 describes the effects of Governance determinants on the multivendor IT outsourcing arrangement from a client perspective. We describe some of the key challenges as perceived by client and their effect on the client organization. Section 6.2 describes strategies that are developed by the client to overcome these challenges. In addition, we discuss strategies as developed by the client to overcome governance challenges. These strategies, combined with underlining findings and our analysis on cross affects of governance modes, are summarized in section 6.2.3.

6.1 FINDINGS ON EFFECTS OF GOVERNANCE DETERMINANTS

In Chapter 5 we discussed the findings from our case study from a client’s perspective that are related to Governance determinants. These findings provided evidence for the existence of specific Governance determinants.

In this section, we outline key challenges within the multivendor IT outsourcing arrangement as perceived by the client. These challenges highlights the effects of Governance determinants on client’s organization as for instance, the lack of a Governance determinant may cause effects.

6.1.1 INTER-ORGANIZATIONAL GOVERNANCE

Some of the key challenges related to inter-organizational Governance are as follows:

6.1.1.1 EFFECTS OF INTER-ORGANIZATIONAL STRUCTURE

In Chapter 5, section 5.1.1 we described that the client did not develop and implement a consistent inter-organizational structure at strategic level. This was underlined by findings from contracts between the client and the vendors. In this section, we present key challenges and effects on client’s organization that relate to a lack of consistent inter-organizational Governance structure in multivendor IT outsourcing arrangement.

The first effect on the client organization is that of a failure in implementation of multivendor Governance. For example, in order to control the multivendor IT outsourcing arrangement, senior managers need to understand governance policies, procedures and strategic roles and responsibilities of all parties. However, since senior managers do not have clear inter-organizational governance structure, they fail to implement appropriate governance policies and procedures. This is underlined by the interviewee ‘the client’s IT manager’ as covered in Chapter 5, section 5.1.1.
Governance determinants in multivendor IT outsourcing

The second effect on the client organization is an increase in complexity in managing and governing multiple organizations. The client’s CIO identified this challenge as part of the multivendor Governance. Over the years, the number of Governance structures and mechanisms increased with the number of vendors and as result the client had to deal with large amount of work with limited resources. Consequently, it became difficult to identify and use one single Governance structure to control and manage key vendors leading to underperformance in services and increased lead times.

On an operational level, the lack of Governance structure affects the client organization negatively when operational responsibilities are interdependent between the vendors and the client. Examples of issues include budget overruns due to ad-hoc coordination and end to end services were not delivered on time. This is underlined by the lack of joint proactive actions between the vendors due to which problems remain idle and unaddressed for longer period of time. This became a challenge, especially in cases where the client had to mediate changes for vendors to manage conflicts and solve problems that were mutually interdependent. This led to disputes between client and vendors regarding delays in service provisioning, or breach in service levels or unpaid ad-hoc invoices.

Based on our findings, no meeting structures were developed and implemented consciously. Meetings between the client and a vendor (Vendor 1, 2, and 3) are organized on ad hoc basis. Similarly, inter-organizational meetings are neglected. For example this had a direct impact on reporting (delays), problem status tracking and traceability of committed actions and results between the vendors.

Moreover, we found that the way the multivendor IT outsourcing arrangement is coordinated is predominantly based on financial rationales. Because of this rationale, the client faced difficulties in arranging appropriate coordination between multiple vendors. For example, joint meetings were either used by vendors to settle scores or discuss financial implications of changes and not on joint coordination or common goals. Without an inter-organizational structure between all parties engaged in delivery of interdependent services, collaboration becomes increasingly challenging.

6.1.1.2 EFFECTS OF STRATEGY AND MOTIVATION

In Chapter 5, section 5.1.2 we described and underlined our findings that client’s strategy and motivation are not consistent within multivendor IT outsourcing arrangement. One of the effects of an un-clear multivendor strategy and motivation is that the client makes ad-hoc IT outsourcing decision in which all vendors may bid on new IT projects. This in turn leads to decrease of trust between the client and existing vendors and consequences such as lack of commitment and collaboration.

Second effect of an inconsistent strategy and motivation is that it creates uncertainty both within the client organization and within the vendor organization. The interviews revealed, for example, that with regards to a new Oracle related IT project the client decided to hire an external consultancy firm instead of Vendor 3 who was formally selected as strategic vendor for Oracle IT services. The client neglected agreed guiding principles related to outsourcing for new Oracle related services. This in turn caused uncertainty for the solution delivery organization within the client and also within the
organization at Vendor 3. One of the effects of this uncertainty on the client’s organization was dissatisfied middle managers who faced challenges in managing delivery from Vendor 3.

We argue that shifting vendor’s responsibilities regularly could result in a relationship challenge between the client and vendor’s organizations. In turn, this affected the degree of collaboration between vendors as it is never clear which vendor will win a new project. In addition, on strategic level it is unclear which vendor is responsible for providing what type of IT services. We also argue that the client has to provide conditions in which the vendors are able to coordinate with each other. The client’s multivendor strategy and clear motivation are required to set the right condition in which all parties can work together.

Finally, an inconsistent strategy and motivation for multivendor IT outsourcing arrangement, discourages joint value maximization or processes by which key vendors can jointly create and claim value. From contract reviews we observed that the focus on value creation is limited to dyadic relationships between the client and a vendor. This means that a vendor offers specific products and services to deliver pre-defined business value to the client. Based on this we argue that the client’s focus is limited to dyadic transactions and value maximization strategy is based on transactions with one vendor independently and not jointly with or across multiple key vendors.

### 6.1.1.3 EFFECTS OF CLEAR ROLES AND RESPONSIBILITIES

In Chapter 5, section 5.1.2 we described and underlined our findings that roles and responsibilities across the multivendor arrangement, which include client and key vendors is fragmented and unclear. The lack of clear roles and responsibilities resulted in a situation in which services were not managed as a whole but rather in a fragmented way. Consequently, the client organization had to manage multiple interdependencies that resulted in various challenges. The three most challenges are: (i) an increase in lead time for provisioning of new IT services. This was not acceptable by client’s business as it impacted time to market for launching new business services, (ii) client received invoices which were unclear and could not be traced back to work or deliverables, and (iii) major new projects got delayed due to lack of an integrated project plan. This in turn impacted multiple other initiatives on client’s business roadmap.

The client’s procurement (or sourcing) organization identified three key internal challenges. These are as follows: (i) who owns the business relationship with the vendor. Is it information management or sourcing? (ii) what is the role of supplier management as designated formal function within information management team and finally (iii) Support from senior management on setting the right tone for relationship and reporting back internally within the client’s organization. For example: there was no interface between three-in-a-box (client’s sourcing manager, client’s information manager and a vendor manager) and the client’s senior management team.

The above challenges are neither un-noticed nor ignored by the client ex post. More importantly, the lack of clear roles and responsibilities of each party also caused multiple disputes between client and vendors. Table 14 illustrates summary of the affects of inter-organizational governance determinants on the client’s organization.


### Governance determinants in multivendor IT outsourcing

<table>
<thead>
<tr>
<th>Governance Determinant</th>
<th>Effect on multivendor IT outsourcing arrangement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-organizational structure</td>
<td>Lack of inter-organizational structure, had negative influence on client’s ability to effectively govern multivendor IT outsourcing arrangement</td>
</tr>
<tr>
<td>Strategy and Motivation</td>
<td>Un-clear strategy and motivation limit client’s ability to create joint value maximization between all parties.</td>
</tr>
<tr>
<td>Clear roles and responsibilities</td>
<td>Unclear roles and responsibilities led to significant scope, pricing and responsibility discussion.</td>
</tr>
</tbody>
</table>

**Table 14: Effect of Inter-organizational Governance determinants**

An important lesson learned during analysis of the effects of governance determinants is that they also affect other governance modes. For example, in section 6.1.1.1 we observed that a lack of inter-organizational governance structure impacts collaborative governance. This was also underlined by the lack of clear meeting structures which are specified in the contract but not implemented. Similarly, in section 6.1.1.2 we observed that an unclear strategy and motivation has impact on both collaborative governance and relational governance.

### 6.1.2 CONTRACTUAL GOVERNANCE

One of the key findings related to contractual documentation analysis from the case study is that all contracts between the client and the vendors are based on dyadic relationships. In Chapter 5, we discussed how dyadic contracts cannot fulfill the gaps for multivendor contractual obligations. This in turn created coordination challenges between all parties and increased barriers for pro-active coordination between the three key vendors.

### 6.1.2.1 EFFECTS OF COMMERCIAL GOAL EXPECTATIONS

In Chapter 5, section 5.2.1 we described and underlined our findings that the client has specified commercial goals and expectations in contracts with all three vendors. In addition, the contracts outline a shared understanding on what the client and the vendor have to do to achieve the goals. This is achieved by using scope models.

We observed that in a dyadic relationship between the client and a vendor commercial goal expectations in contracts were clearly specified. We did not find commercial goal expectations between client and multiple vendors in a joint contract. In addition, we did not notice or identified any explicit strategy to address contractual governance that goes beyond dyadic relationships. The affect on client’s organization is inter-dependencies between key vendors are not covered contractually which leads to extended discussion in case of conflicts. Based on our observations from the case study, we found that dyadic contractual relationship were necessary but not sufficient. For example, we did not find an integrated service level agreement. As a result the client’s organization was not able to jointly assess performance across a business service chain with multiple vendors. The impact was realized when business service outage occurred, while the key vendors (Vendor 1 and Vendor 2) still met their individual targets of service levels. Therefore, we argue that the client has
6.1.2.2 EFFECTS OF ACTIVITY EXPECTATIONS

In Chapter 5, section 5.2.2 we described and underlined our findings that contracts cover overall goals and individual activity expectations that the client and a vendor have agreed up on. Given the nature of the goals and activity expectations, it seems impossible to design contracts that address all future contingencies and uncertainties. We observed that activity expectations were prescribed and set up on dyadic basis and, therefore, failed to encourage integration and coordination activities between vendors.

For example, Vendor 3 in their role as service integrator could not perform coordination and service integration activities on behalf of the client; as Vendor 1 was not explicitly aware of client’s expectations. This resulted in an additional challenge for client’s organization because the role of orchestrator and service integrator was not clear. This required the client to acquire additional skills and competence which the client’s retained organization did not have.

6.1.2.3 EFFECTS OF CONTRACTUAL FLEXIBILITY

In Chapter 5, section 5.2.3 we described and underlined our findings that the client has arranged for contractual flexibility across all key vendors. For certain products (e.g. storage, memory and computing) and services (e.g. email services), the client has established a pay-per-use model and listed in the contracts. This means that the costs for this IT products and services were directly tied to the demand within the client organization. Using a pay per use model offered the client’s business managers flexibility to pay for the actual use of service and not for additional overhead. This resulted in a better control of IT costs which were often the target for annual costs reductions.

For other services the client has established contractual flexibility using termination notice period. Based on contract reviews, we find that a maximum of sixty days termination is agreed with all three key vendors. From a client perspective, interviewees perceive contractual flexibility as positive because it keeps vendors sharp to perform and deliver services efficiently. Second, flexibility is an essential part of the IT outsourcing arrangement in the current case because application development in new IT world and application retirement in old IT world means a constant change in scope and activities performed by the Vendor 2 and Vendor 3. New activities were added and existing activities were retired. Therefore, we observed that the client has arranged flexibility using contractual mechanisms even in case of a multi-year application transformation program.

However, we argue that this limits vendor’s commitment for long term investment. For example, in an application transformation program it is important that the client and vendor are engaged in a long-term relationship. This will help mitigate unforeseen risks and events that have significant impact on time, scope and or resources. Contractual flexibility in this case instills lack of trust as termination period is just sixty days, whereas the program is across multiple years.
While for some instances contractual flexibility delivered positive result: for example in pay-as-you-go model for processor, memory and storage capacity. On other instances contractual flexibility delivered unexpected results: for example in new projects related to application transformation the client often experienced longer lead times, scope discussion, increased spending and vendor opportunism.

One of the important observations, we find is that the contractual Governance also affects the relationship between the client and the vendor. For example, we found that vendors are not willing to invest in long term engagements based on short term contracts that can be terminated with a maximum of sixty days of notice period.

<table>
<thead>
<tr>
<th>Governance Determinant</th>
<th>Effect on multivendor IT outsourcing arrangement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial goal expectations</td>
<td>Dyadic contracts cannot fulfill the gaps for multivendor contractual obligations.</td>
</tr>
<tr>
<td>Activity Expectations</td>
<td>Activity expectations on dyadic basis are not sufficient as it fails to encourage integration and coordination activities between vendors.</td>
</tr>
<tr>
<td>Contractual Flexibility</td>
<td>Contractual flexibility is positive for the client as it keeps vendors sharp and limits client’s commitment. However, vendors are not willing to invest for long term engagement based on short term and flexible contracts.</td>
</tr>
</tbody>
</table>

Table 15: Effect of Contractual Governance determinants

Table 15 illustrates how contractual governance determinants affected the client’s multivendor IT outsourcing arrangement. In addition, we described how a certain Governance determinant can affect other Governance modes. For example, we found that contractual flexibility has an effect on the relationship between the client and the vendors. The results of contractual Governance determinants are summarized in the Section 6.3.

6.1.3 RELATIONAL GOVERNANCE

In this section we describe our findings on the effects of relational governance determinants on the client organization and multivendor IT outsourcing arrangement. In Chapter 5 section 5.3, we described our findings that relational governance and the respective determinants are important in multivendor IT outsourcing arrangement.

6.1.3.1 EFFECTS OF INFORMATION EXCHANGE

In Chapter 5, section 5.3.1 we described and underlined our findings that asymmetric information exchange between the client and vendors affects the client’s organization. First, the asymmetric information between client and three vendors negatively affects coordination in the multivendor landscape. Next, the client faces additional challenge when a vendor (in this case Vendor 3) refuses to share information on system integration tests (SIT) sighting intellectual property concerns.

Consequently, the budget for new projects increased over time while new service provisioning got delayed. The initial assumption made during the start of the project that vendors will exchange
6.1.3.2 EFFECTS OF TRUST

In Chapter 5, section 5.3.2 we described and underlined our findings that trust affects the overall multivendor IT outsourcing arrangement on multiple levels. This means that trust has a strong influence on the client’s IT service performance. Interviews revealed that lack of trust between client and vendors and also among the vendors have led to sub-optimal outcomes.

One of the key challenges is that when trust in the relationship decreases, vendors find it difficult “working together”. The lack of trust led to coordination and collaboration issues between all parties. As the client is accountable for IT services and for coordination between vendors, this became a key challenge for the client’s organization. For example, there was no joint collaboration between vendors, information exchange between vendors reduced and the client intervention to mediate conflicts between the vendors increased.

As a result the client’s organization experienced an increased demand to participate in operational level meetings and joint collaboration meetings with key vendors. This resulted in additional demand for resources within the client organization. To meet the demand, the client hired an additional vendor manager leading to increased costs.

6.1.3.3 EFFECTS OF CONFLICT RESOLUTION

In Chapter 5, section 5.3.3 we described and underlined our findings that conflict resolution is an important determinant for Governance of multivendor IT outsourcing arrangement because it affects more than one governance mode. For example, the client has explicitly addressed conflict resolution in the contracts. In addition, conflict resolution also requires that relationships between the involved parties are embedded to resolve conflicts fast and amicably.

Although covered in contracts, we found the client’s organization faced several challenges with respect to conflict resolution. The first effect was the need for clear escalation paths because problems often remained un-resolved for long periods. However, clear escalation paths were not designed and implemented, which hinder client and vendors to discuss it at the required levels. The second effect was that delays in problem escalations led to frustration between parties as the mean time to resolve problems was longer and this in-turn impacted SLAs and KPIs. This resulted into a negative perception of vendor’s service performance.

An additional effect is that the client perceives no control on outsourced IT services. The client has highlighted that Governance effectiveness is decreased when the total numbers of vendors increases. This is underpinned by multiple instances of critical service outages in which there is no single vendor who could be held responsible. In such cases, a critical business service is impacted however, the client could not trace this to a specific Vendor’s Key Performance Indicator (KPI).
Therefore, while all three vendors were able to meet their KPI as defined in their respective service level agreements (SLAs), the client experienced an outage in business services. Clearly, this was not an expected outcome for the client’s organization. Consequently, the client had to initiate a joint impact analysis in order to identify the cause of the problem, how they can avoid similar outages in future and also identify the vendor who should be responsible for solving similar problems in future. The joint impact analysis came at an additional cost to the client.

### 6.1.3.4 EFFECTS OF POWER-DEPENDENCY PLAY

In Chapter 5, section 5.5.1 we described and underlined our findings that the aspect of power-dependence is skewed in favor of the client. As an additional determinant identified from the case study, it affects multivendor IT outsourcing arrangement. The unbalance in power-dependency as caused by the client reduces the level of trust to vendors.

One might to be tempted to think that power-dependency play of the client affects only vendors; we argue that it also creates an opposite reaction in which vendors try to secure their business through fierce competition or use information politics in their advantage. As an example: one of the key challenges experienced by the client was called as “double dip in our pockets” – which meant that the client had paid twice for the same service.

Moreover we argue that the client’s power-dependency play creates additional complexity. This is because whenever an additional vendor is added, it will increase the number of vendors and hence the complexity of multivendor governance model. For instance, existing vendor (in one case Vendor 3) became skeptic about the client’s intention and felt insecure about future business. Consequently, we assume that vendors will try to balance the power-play by using various means such as limiting the amount of information exchange or reduce already nimble joint collaborations in fear of losing their position. We argue that it is likely to reduce the vendor commitment to invest in long-term engagement. Table 16 illustrates the summary of effects of relational governance determinants on the client’s multivendor IT outsourcing arrangement.

<table>
<thead>
<tr>
<th>Governance Determinant</th>
<th>Effect on multivendor IT outsourcing arrangement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information exchange</td>
<td>Asymmetric information exchange effects coordination between vendors and limits appropriate collaborative Governance to take place.</td>
</tr>
<tr>
<td>Trust</td>
<td>Lack of trust negatively impacted the client’s IT service performance because vendors found it difficult “working together”.</td>
</tr>
<tr>
<td>Conflict resolution</td>
<td>Poor conflict resolution performance due to lack of trust and coordination between the vendors.</td>
</tr>
<tr>
<td>Power-Dependency Play</td>
<td>The aspect of power-dependence is skewed in favor of the client however the use of this power negatively affects the relationship with vendor and increases complexity of the governance.</td>
</tr>
</tbody>
</table>

**Table 16: Effect of Relational Governance determinants**

As noted earlier, an important lesson learned during analysis of the affects of governance determinants on client’s organization is that they also affect other governance mode. As described in
section 6.1.3.1 we observed that information exchange impacts collaborative governance. Similarly, in section 6.1.3.2 we observed that lack of trust has impact on both collaborative governance and relational governance.

### 6.1.4 COLLABORATIVE GOVERNANCE

Based on the case study interviews and contract readings, we observed that the client did not implement collaborative Governance on a continuous basis. On a strategic level, we did not observe common goals across multiple vendors, or any collective determination to reach an identical objective. On operational level, the client identified lack of knowledge sharing across vendors and difficulties to track end to end performance of IT services. In the following sections we look at the affects of collaborative governance determinants.

#### 6.1.4.1 EFFECTS OF COLLABORATION PROCESSES AND TOOLS

In Chapter 5, section 5.4.1 we described and underlined our finding that there is lack of processes and tools for the client and vendors to collaborate amongst each other. This affects the client’s ability to ensure consistent performance matrix and reporting at the operational level. As a result, one of the key effects recognized by the client has been the expectation gap between the client’s business and IT.

From a client’s perspective, we observed that service level agreements are not aligned and as a result vendors do not collaborate to achieve overall business outcome. In this situation the clients retained organization has to initiate improvements that are necessary to close the gaps. One of the key requirements for these improvements well functioning is collaboration between the vendors, business and the clients retained organization which includes IT and procurement functions. This is underlined by an interview excerpt as follows:

```
“When we look at SLA structure, our business service managers have Business SLA for the IT Services they provide. They report on it. Business Service Availability and Incident Resolution KPI’s are the two main KPI’s.

Several contracts are below business services with vendors. SLA in individual contract does not completely support business services SLA. When gaps between business service and vendor SLA are identified, then an improvement process is initiated to close the gap.” (Source: Client’s IT Service Manager)
```

An interesting observation from the above excerpt is that collaborative Governance has also impact on contractual Governance. The improvement process that interlinks collaboration Governance with contractual Governance could, for example, ensure that (i) there is clear scope of IT services including roles and responsibilities, (ii) performance measurement, monitoring and reporting is implemented across multiple vendors, (iii) vendors jointly agree on deliverables with common goals and (iv) pricing structures and financial reporting create proactive and win-win structures.
In Chapter 5, section 5.4.2 we described and underlined our findings that the vendors in multivendor IT outsourcing arrangement are interdependent on each other to deliver the service. Therefore, shared value and understanding is essential. In the current state however, based on contracts and interviews, we observed that there are no shared values and understanding between the client and its key vendors. This has negative effects on the clients IT outsourcing arrangement. For example, it does not enable the client to create value jointly with the vendors, but only on one-to-one basis only. Next, it does not facilitate knowledge exchange and information sharing amongst vendors.

From a client’s perspective, we identified that the key challenge is to develop and establish shared goals and objectives across key vendors. This is because the client requires mutual willingness and commitment from all the key vendors to participate in collaborative governance mechanisms. We can reasonably assume that performance in collaboration will also depend upon the nature and quality of the direct and indirect relationships key vendors develops with the client and among each other. This means that the client has to initiate, develop and execute strategy to improve collaboration and develop it as enabling for the overall improvement of the multivendor governance.

An interesting observation is that collaborative governance affects relational governance and inter-organizational governance. We observed that shared values and understanding is required for establishing good relationships. Also, the client is required to define and implement an inter-organizational structure that supports effective collaboration with the key vendors.

### 6.1.4.3 EFFECTS OF STARTING CONDITIONS

In Chapter 5, section 5.4.3 we described and underlined our findings that three starting conditions affect collaboration between all the parties. These are power-resource-knowledge imbalances (asymmetries), incentives for and constraints on participation, and prior history of collaboration or conflict resolution.

The starting conditions for new projects (both for existing and new vendors) has been identified as one of the important challenges that should be addressed. As underlined in Chapter 5, starting conditions facilitates or discourage cooperation among parties in multivendor IT outsourcing arrangements. We argue that in this case, the client should address the improvement of collaborative Governance of multivendor IT outsourcing arrangement because the role of coordination and service integration was assumed by the client itself.

The effects of power-resource-knowledge imbalances were traced back to IT service performance. The underlying example here was the re-transfer of client’s staff to Vendor 2 that resulted in improved service performance. We observed that poor history of collaboration between the vendors affects the client organizations and the multivendor IT outsourcing arrangement in multiple ways. Much of the effects are already outlined in the sections 6.1.4.1 and 6.1.4.2 for example, a lack of deliverables based on common goals, lack of joint performance monitoring and reporting on end to end business service and lack of joint collaboration.

In its current state, collaborative governance is not part of the contracts. There are no incentives to participate and vendors shows tendency to work unilaterally instead of collaborate. We argue that
collaborative Governance process should be incorporated into multivendor contracts (not dyadic) as this presents an alternative mechanism for the client to ensure that vendors are committed to respect and honor the outcomes of collaborative processes. In addition, it should be part of the on-boarding preparation for new Vendors or even new members of the Vendor in order to improve the starting conditions.

6.1.4.4 EFFECTS OF KNOWLEDGE MANAGEMENT

In Chapter 5, section 5.5.2 we described and underlined our finding that knowledge management is an important determinant for successful IT outsourcing. One of the key challenges for the client was to distribute knowledge management across multiple sites, both within the client organization and towards the vendor organizations. Moreover, we found that inter-organizational collaboration requires knowledge of applied strategies, policies and approaches consistently across all vendors. Importantly, differences in collaboration between client and vendors and between vendors affect the operational performance of service delivery and the level of trust. For example, while Vendor 1 and Vendor 3 had contractually agreed to share knowledge, Vendor 2 had no such a contractual commitment.

We noticed that Vendor 1 committed in their contract to provide the client with latest insights and knowledge from transformation. Similarly, Vendor 3 agreed to transfer knowledge on application and process level to the client as part of their System Integrator contract. However, we also noticed that knowledge transfer is established between Vendor 1 and Vendor 3 to the client. The client’s organization should encourage vendors to exchange knowledge and if required support knowledge transfer from one vendor to the other. We argue that the client is not prepared for knowledge management because we did not find any system or processes in the client’s organization.

We observed a mechanism of ‘on-premises collaboration’, in which employees of both client and vendors exchanged information as they were all located on the premises of client’s, headquarter. Given this fact, employees were not hindered in sharing knowledge which resulted in an increase of level of trust between parties. Table 16 illustrates the summary of collaborative Governance determinants and its effect; on the client’s multivendor IT outsourcing arrangement.

<table>
<thead>
<tr>
<th>Governance Determinant</th>
<th>Effect on multivendor IT outsourcing arrangement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collaboration processes and tools</td>
<td>Lack of collaboration processes and tools made it difficult for the client to track end to end performance of IT services. Many of the challenges listed above are due to lack of collaboration between three key vendors, this itself translated into the major challenge for client that needed to be addressed.</td>
</tr>
<tr>
<td>Shared values and understanding</td>
<td>Consistency in quality of delivery is below expectation in new IT world. Results in delays and rework.</td>
</tr>
<tr>
<td>Starting conditions</td>
<td>Starting conditions discouraged cooperation among parties</td>
</tr>
<tr>
<td>Knowledge management</td>
<td>Ability to share knowledge across multiple sites and multiple vendors. Maintaining functional knowledge within the client’s organization</td>
</tr>
</tbody>
</table>

Table 17: Effect of Collaborative Governance determinants
In the following section we describe the strategies developed by the client to overcome Governance challenges.

6.2 STRATEGIES TO OVERCOME GOVERNANCE CHALLENGES

The interviews revealed that the client developed strategies to overcome key challenges as described earlier namely: a multivendor Governance operating model and an enhanced collaboration board. In the following sections we explain which strategies were developed to improve Governance in multivendor IT outsourcing arrangement.

6.2.1 INTER-ORGANIZATIONAL GOVERNANCE OPERATING MODEL

As part of the former strategic initiative we found that in 2012 the client developed a strategic multivendor Governance operating model which determine the scope of services (and major projects) of each vendor and third party for a period of two years. This approach, which was developed to create clarity of parties strategic roles and responsibilities resulted in stability and improved the level of trust between client and vendors. In addition, the client intends to implement a consistent meeting structure across all key vendors. This approach, should improve inter-organizational governance.

Figure 15 describes how some of the key challenges we highlighted in previous sections can be overcome by establishing an inter-organizational multivendor operating model strategy.

<table>
<thead>
<tr>
<th>Challenges in multivendor IT outsourcing arrangement, from a client perspective</th>
<th>Client Strategies to overcome challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Service overlaps/gaps, Fire-fighting, confusion on “who is doing what”</td>
<td>Multivendor Governance Operating Model</td>
</tr>
<tr>
<td>2. Vendor not willing to invest for long term, only short term profit maximization</td>
<td>1. Clear scope and stable (2 years) service scope for each vendor</td>
</tr>
<tr>
<td>3. Critical service outage in which no one Vendor could be held responsible</td>
<td>2. Joint roles and responsibilities for interdependent services across multiple vendors</td>
</tr>
<tr>
<td>4. Problems remain un-resolved and open for long time frames.</td>
<td>3. Mandatory on-boarding / starting conditions</td>
</tr>
<tr>
<td>5. Vendors unwilling to invest in building long term engagement / relationship</td>
<td></td>
</tr>
</tbody>
</table>

Figure 15: Strategies to overcome challenges using multivendor Governance operating model

Importantly, after introduction of the Governance operating model, in 2013 client’s annual IT budget has been decreased. The client offered all vendors the opportunity to ‘bid’ on new major projects. For new projects, vendor selection is not determined by a clear multivendor strategy using pre-defined scope models. The single decisive factor is that the lowest bid will win the deal.

As the client plays their ‘Power-Dependency’ game, their contradictory approach to let vendors bid on new projects raised additional conflicts between vendors and the client, and decreased the level of trust. Next, client’s dual behavior related to support both long-term goals (e.g. stability in the multivendor arrangement) and short-term goals (e.g. bid process) resulted in a tension between vendors and client as contradictory signals were sent. The tension resulted in additional financial oriented disputes and decreased the lack of trust between parties involved.
In order to decrease this tension, recently, the client decided to consolidate the multivendor landscape by decreasing the number of third parties. Their activities will be divided among the main vendors. Based on the above findings, we state that within contracts the client specifies the activity expectations from vendors and these activities also include Governance related activity.

### 6.2.2 ENHANCE COLLABORATION: THE JOINT COLLABORATION BOARD

In 2012, all parties agreed to establish collaboration sessions, which are chaired by the client, to align mutual goals and improve operations. This included an agreement on key Governance principles on how to collaborate. During the interviews, we were informed by key members of the client’s organization about an ongoing Governance improvement program. The strategic aim of this program was to jointly improve collaboration between key parties of multivendor IT outsourcing arrangement. These parties include the client and the key strategic vendors (Vendor 1, Vendor 2, Vendor 3 and the largest retail business software vendor).

One of the key planned milestones of this strategy was identified as the establishment of “Joint Collaboration Board”. The focus of collaboration board will be to discuss “How we work together” in the next 5 to 7 years with focus on improving the relationship between all parties. One of the key messages in “Joint Collaboration Board” was to “Work together”. After developing a longitudinal view of the client’s multivendor IT outsourcing arrangement we found how the client’s strategy of Joint Collaboration Board is targeted at minimizing multiple negative effects at the same time. Figure 16 depicts the key challenges to the client’s strategy of “Joint Collaboration Board”.

In order to overcome the challenges that deal with coordination more effectively, we identified some of the strategies. First, as formal meeting structures were neglected during the IT outsourcing arrangement vendors initiated inter-vendor meetings to align their service provisioning. Second, the client developed and explicitly outlined a strategy to improve the coordination of the multivendor landscape. As a result, vendors and third parties experienced stability whilst the degree of trust increased.

![Figure 16: Strategies to overcome challenges using Enhance Collaboration](image)

The client has initiated a collaboration program and established a collaboration board. The focus of collaboration board is to discuss with three strategic vendors “How we work together” in the next 5 to 7 years with focus on relationships. So we have mutual beneficial relationship in which there is
sometime give and sometime take for each party. The client ensured that traceability and accountability was embedded at the execution level. This included a responsibility on client’s internal manager to make and distribute meeting notes from collaboration board and from joint collaboration meetings at the operational and tactical level. In addition, the client identified clear need to improve performance of escalation process. Client’s service manager worked jointly with vendors on clear definition of escalation paths and implement measurements and improvements for escalation of issues and delays in delivery.

### 6.2.3 SUMMARY ON STRATEGIES DEVELOPED

Based on our longitudinal view into the current case study, we analyzed that the client struggles to balance the conflicting as well as joint interests of the vendors and of its own. Each of the three vendors must be motivated to carry out their part of responsibilities and their decisions and actions have to be coordinated in order to realize the planned outcomes and gains from a multivendor IT outsourcing arrangement. The client recognizes the need for improvement in coordination by using an appropriate, common and consistent multivendor Governance operating model.

The case study revealed that the client is required to think and act interdisciplinary with regard to Governance mechanisms or modes. This means that, in addition to contractual governance, the client’s organization is required to use relational, inter-organizational and collaborative Governance. We argue that strategies developed by the client are multidisciplinary and effects multiple governance modes. However, due to time available for research, we cannot conclusively claim the outcome of the client’s strategy.

We summarize our analysis of the effects of governance modes on each other. This is done in order to understand how client’s strategies will affect the four governance modes. In addition, the analysis allows us to develop our own view on what additional improvements the client could consider for improving the Governance.

The first strategy is introducing a strategic inter-organizational governance operating model with clear roles and responsibilities for all parties. We argue that this strategy will improve both relational and collaborative governance. This is underlined by findings in section 6.1.1.2 in which a determinant of Inter-organizational governance (i.e. Strategy and motivation) affects relational governance. This is also underlined by the client’s aims to set up strategic meetings to share the developed governance operating model. The key topics on agenda for these meetings include improvement of relationship between parties and rebuild trust.
Figure 17: Cross effects of Governance determinants on other Governance modes

We assume that the inter-organizational governance operating model will deliver a holistic Governance structure for the client’s multivendor IT outsourcing arrangement. Section 6.1.1.1 highlights how inter-organizational structure affects collaborative governance. Based on this finding we argue that the client’s strategy of multivendor governance model has synergies with the client’s strategy to enhance collaboration between the parties. From our case study, we have highlighted this relationship through findings in section 6.1.2.3 where contractual flexibility affects relational Governance. This is consistent with literature (Lacity and Willcocks, 2012; Rai et al., 2012). Similarly we highlighted that relational governance affects contractual governance in section 6.1.3.1. The client addresses improvement of relational governance by using both an inter-organizational governance operating model and by enhancing collaboration.

As described in the Figure 17, the client’s strategy to establish a collaborative governance board has affects on inter-organizational, contractual and relational governance. This is underlined by our findings and described in section 6.1.4.1 and 6.1.4.2.

6.3 CONCLUSION

This Chapter sheds new light on the subject of Governance in multivendor IT outsourcing arrangement by identifying the affects of Governance determinants on client’s organization. It also highlights the relationships between specific inter-organizational, contractual, relational and collaborative governance determinants. Our findings suggest that deficits as a result of neglecting governance determinants can influence certain governance modes, which in turn create challenges for the client.

These findings suggest that strategies that combine multiple governance modes may be particularly effective for improving governance of multivendor IT outsourcing arrangements.
7 CONCLUSION

In this Chapter, we provide an overview of our main findings. Next, we discuss the contributions to the science and provide recommendations for practitioners. We conclude by discussing the main limitations to the study and provide directions for future research.

7.1 RESEARCH OBJECTIVE AND MAIN FINDINGS

As discussed in Chapter 1, our research objective is to explore how multivendor IT outsourcing arrangements can be governed by a client organization. For this we identify and explain the fundamental factors that affect Governance in multivendor IT outsourcing arrangements. These fundamental factors are called Governance determinants. The research objective is achieved with the help of an extensive literature review and a qualitative research using a case study approach to provide empirical evidence.

7.1.1 MAIN FINDINGS

Main research question: What are the Governance determinants in multivendor IT outsourcing arrangements?

With this thesis, we have delivered insights into fundamental factors that affect Governance in multivendor IT outsourcing arrangements. In addition, this thesis broadened our understanding of Governance modes in IT outsourcing beyond widely researched contractual and relational modes. These insights include four Governance modes: inter-organizational, contractual, relational and collaborative Governance. We created deeper insights into Governance modes by identifying the origin of the Governance problem, i.e., the factors that have affected Governance. In total we found fourteen Governance determinants. The effects of deficits or lack of or ignorance in Governance determinants are underlined by findings in a client organization. Finally, we explained how Governance determinants and Governance modes affect each other. The thesis highlighted how each determinant influences the client’s overall Governance of multivendor IT outsourcing arrangement.

The findings of this thesis in answering main research question are as follows:

- Based on a literature review, Chapter 2 established the context of IT outsourcing. Multivendor IT outsourcing can be seen as the dominant sourcing strategy today, however, it is complex and requires clients to develop and maintain multi-disciplinary skills. It requires a new mindset within the client organization to Govern, coordinate, communicate and oversee service relationships across multiple vendors who are often fierce competitors.
- An extensive literature review on Governance covered in Chapter 3, provided insights into limitations of contractual and relational Governance modes in multivendor IT outsourcing arrangement. Literature findings showed that vendors must be motivated to deliver on their responsibilities, and in addition, decisions and actions of the vendors have to be coordinated in order to realize the benefits of co-operation. This required inter-organizational and collaborative Governance capabilities as well.
Governance determinants in multivendor IT outsourcing

- The key findings from our literature review on Governance revealed twelve determinants. We learned that Governance in multivendor IT outsourcing arrangement is not just about IT Governance, it is about a holistic approach to Governance. Consequently, Governance in multivendor IT outsourcing requires broader understanding of mechanisms and deeper insight into the determinants.

- Empirical results validated the Governance determinants from literature review based on a case study in multivendor IT outsourcing arrangement. Key findings from case study are the two additional Governance determinants: (i) Power-dependency play and (ii) Knowledge management.

- This study demonstrated that Governance in multivendor IT outsourcing arrangement is complex. This is further clarified based on how Governance modes and determinants affect each other. Consequently, the client organization have to take a holistic approach, mandating that senior managers think and act multi-disciplinary and client’s organization to focus both on strategy and execution capabilities.

7.1.2 ANSWER TO THE RESEARCH QUESTIONS

Answer to research sub-question 1: Which Governance determinants can be identified in multivendor IT outsourcing arrangements based on existing IS/IT literature?

We answered research sub-question 1 in Chapter 3 where we presented the output from our literature review related to Governance in IT outsourcing arrangements. We identified a total of twelve Governance determinants: inter-organizational structure, strategy and motivation, clear roles and responsibilities, commercial goals expectation, activity expectation, contractual flexibility, information exchange, trust and conflict resolution, collaboration process and tools, shared values and understanding and starting conditions. In addition, we identified that determinants affect contractual, relational, collaborative and inter-organizational Governance modes.

The key findings from IS literature are structured into a “conceptual research model” for Governance of multivendor IT outsourcing arrangement. We believe that the conceptual research model for multivendor governance can be used as the foundation for further research.

Answer to research sub-question 2: Which additional Governance determinants can be identified in multivendor IT outsourcing arrangements based on empirical research?

The answer to research sub-question 2 is provided in Chapter 5. We achieved our goal through validation of governance modes and determinants in an empirical research by means of a carefully selected case study. The interviews revealed information from historical perspective, current challenges and the factors which contributed to the current challenges.

The information that we acquired from empirical research provided an understanding that there are additional determinants that influence Governance. Importantly, in Chapter 5 we gathered two additional determinants: Power-Dependency Play and Knowledge management. These determinants can be seen as roots of the Governance problems in multivendor IT outsourcing and are reusable for future works on Governance in multivendor IT outsourcing.
Answer to research sub-question 3: How do Governance determinants affect multivendor IT outsourcing arrangement?

We have provided answers to research sub-question 3 in Chapter 6 based on empirical case study. From a client perspective, we observed that the negative effect of a lack of Governance determinants causes various challenges in multivendor IT outsourcing arrangement. We observed and listed many key challenges from a client perspective which required a multivendor Governance operating model. This Governance operating model enhanced client’s ability to implement Governance to control and maintain an oversight on outsourced IT services.

Our research revealed that Governance in IT outsourcing requires more than contractual and relational Governance. Some of the Governance determinants influence each other and, therefore, the client’s strategy and execution requires a holistic approach. Together, these determinants create and shape the conditions in which multivendor IT outsourcing Governance operates. As the client is accountable for outsourced IT, we believe that understanding these determinants can support clients to create conditions that improve Governance.

7.2 CONTRIBUTIONS TO SCIENCE

This study has been one of the first to consider the concept of Governance determinants in a multivendor IT outsourcing arrangement. As such, we provide an answer to calls raised by IS researchers to develop the Governance perspective for multivendor IT outsourcing arrangements. This thesis contributes to literature specifically, in the field of information systems and strategic management.

We have studied Governance within a multivendor environment rather than commonly studying dyadic relationships between a client and a vendor. An important contribution is that fourteen Governance determinants were found that influences a multivendor arrangement that relate to four modes. Future research can draw on our findings studying related topics.

We have shown that multivendor Governance does not solely rely on contractual governance, but also on relational, collaborative and inter-organizational governance. In addition, we have contributed to literature by identifying that the Governance modes and Governance determinants are inter-related. We found that Governance determinants influences each other and can affect multiple governance modes. This goes beyond previous literature on IT outsourcing arrangements that only underpin the relationship between contractual and relational Governance.

7.3 CONTRIBUTIONS TO PRACTITIONERS

This thesis also contributes to practitioners as it increases their awareness of the relevance of Governance determinants. Practitioners, more specifically clients, can use the insights of our study to manage and coordinate Governance in multivendor IT outsourcing arrangements more effectively.

Clients can use the insights of the study and translate the fourteen Governance determinants into practical improvement mechanisms. For example, clients can embed the exchange of information in
a multivendor Governance model, set up knowledge management and ensure collaborative governance in the contracts.

Clients can assess their current Governance model by using our adapted multivendor Governance model. By using a structured model, clients can reduce Governance complexities in their multivendor IT outsourcing arrangement and increase the value of multivendor arrangements. In addition, when client pays structural attention to coordinate the multivendor environment their satisfaction towards their multiple vendors may increase.

From a managerial perspective, our results suggest that monitoring, assessing and changing Governance requires an interdisciplinary view. This means that senior managers will be required to think and act on more than one topic that range across multiple disciplines.

The findings of our study also contribute to consultancy firms when advising clients during and after vendor selection process related to IT outsourcing. Management consultancy firms can benefit from our results by paying attention to the aspect of Governance modes and determinants. As the clients face challenges in building and managing capabilities to control multiple vendors, a more holistic approach is required to be successful. Consultancy firms need to deepen their understanding of the client’s by studying the extent to which the current Governance is effective.

On a more strategic level, this research highlights that a multivendor IT outsourcing arrangement can be approached by aligning strategy with execution. Key determinants of inter-organizational Governance are useful in setting the strategy, structure and defining clear roles and responsibilities. This will enable the client to improve existing and future contracts and also the relationships with multiple vendors.

7.4 LIMITATIONS

With regard to the limitations of our thesis we discuss the key topics. As described in Chapter 1, this thesis is limited to focus on Governance from client perspective. This means that the vendor side was excluded. As such, we did not have access to data on how governance was implemented within the vendor’s service delivery organization and what Governance determinants can be validated from a vendor’s perspective. Future research may focus on the relationship as a whole including client and its vendors.

Secondly, we have conducted a single case study related to multivendor IT outsourcing arrangement. Therefore, we are not able to compare our findings and results additional case studies. Comparing or distinguishing the determinants along with the level of impacts on Governance from multiple arrangements will enhance the depth of our understanding on this topic.

As this thesis is based on a single case study, generalization of our findings or the transferability to other outsourcing relationships should be empirically substantiated by future research. Hence, we call for replication studies that use multiple case studies in different industries in order to test or extend the Governance modes and determinants presented in this study. In addition, quantitative
research is required to find evidence for the causal relationships between the governance modes and related effects caused by or in regard of each determinant.

### 7.5 RECOMMENDATIONS FOR FUTURE RESEARCH

Future research can explore the gathering of Governance models made by companies in multivendor arrangement. This might give additional insights on which processes and structure are important for companies with certain backgrounds such as industry, knowledge intensity and experience with outsourcing. As outsourcing services are context dependent, future research may study other determinants such as geographical distance between the clients and vendors; organizational culture and vendor’s capabilities. Future research may reveal additional Governance determinants and place them in different categories of Governance modes. An empirically derived taxonomy of different clients and their underlying multivendor IT outsourcing motives and constitutive characteristics can be useful to derive recommendations on Governance strategies that address specific multivendor IT outsourcing arrangements.

Research has missed to link clients’ expectations to appropriate Governance determinants to successfully carry out multivendor IT outsourcing strategies. Therefore, future studies on Governance in multivendor IT outsourcing may examine control for multi-modal factors when attempting to explain governance, i.e. client’s expectations, sourcing strategy, sourcing process, number of vendors and starting conditions. Although maintaining such a holistic and dynamic perspective may raise several methodical and measurement issues, at the same time it will increase our understanding of the problem at hand.

Future research may validate the relationships between the Governance modes from a quantitative perspective by indentifying and validating inter-relationships between the various Governance modes.

![Multivendor Governance Model](image)

**Figure 18: Inter-relations between Governance modes (illustration)**

Although heavily promoted as an important area of research there is still a significant lack of empirical work directed towards an examination and analysis of multivendor relationships. For example, future research can address the question which determinants have maximum affect on
Governance determinants in multivendor IT outsourcing

Governance. In this thesis we identified and validated fourteen determinants, but there are many others. What about culture, distance and language? Our study can contribute to this area by analyzing a number of governance determinants based on time-varying organization-specific data. Because of the paucity of prior research, future research offers exciting opportunities to make significant scientific contributions by developing insights into the managerial, social and operational aspects involved in Governance of multivendor IT outsourcing arrangement.
Managing a business, studying for Masters in IT Management, consulting in the field of IT, family with two small kids and social commitments – says something. It says that I have come a long way since September 2010, when I started my Masters program in IT management. Below is a reflection focused only on the last and most challenging part of a three year journey – from the start to completion of the Master Thesis.

The search for a challenging subject for Master Thesis started in April 2012. A challenging subject to me was combination of sound academic research combined with a complex problem – recognized by practitioners in IT industry. In May 2012, I met Dr. Albert Plugge who had recently completed his PhD on the topic of IT outsourcing arrangements. While we recognized that there are several possible opportunities in the field that could trigger an assignment for thesis, some ground work was required to identify an academically relevant topic.

The topic for my Master thesis was identified and discussed in October 2012. The topic is related to Governance challenges in current IT outsourcing arrangements. We wanted to address the problem of insufficient understanding of the Governance determinants and it’s lack in the current academic literature. Once the topic was identified it was time to face the first challenge: Thinking academically. During the course in November and December 2012, Dr. Jolien Ubacht, Dr. Gerard Wijers and several other mentors and fellow executives shaped my thinking, provided tools and methods to prepare for the Master Thesis. Towards the end of December 2012, I had a challenging subject, an advisor and a well defined approach with timelines to move forward.

Reviewing academic research is easier said than done. It required a deep dive in to large amount of literature. While IT Governance and Multivendor IT outsourcing are broad topics, we also had to focus on the roots of the challenges; factors that are deeply embedded. I still remember the three weeks of year-end vacation when I collected and read three books, skimmed hundreds of literature documents and made notes from analysis of more than two dozen research papers. In January 2013, I realized that it was time to organize. Organize all the analysis from literature review and organize support from a client who would allow us to conduct a case study in their organization. Organizing both topics proved to be difficult than thought. On one hand, it was my mental blockade that could not synthesize all the Governance complexity and on other hand, one of the sponsors in client organization who could not garner sufficient support because of un-avoidable conditions. Thankfully, we could find a new client for case study within one week.

From here on structuring literature review, time management, conducting interviews, analyzing information from the case and structuring the case-study findings were most important aspects of thesis work. Structuring literature review work resulted in conceptual research mode. This served as a useful foundation for the case study. Studying and analyzing the information gathered: interview abstracts, contracts and client strategies and building a longitudinal understanding of the case was the most challenging part of the thesis. We worked hard and kept strong focus on quality of the analysis. Whenever required we discussed extensively and challenged information that could become part of our thesis. Consequently, client case study took more time than initially planned.
In June 2013, we had an opportunity to keep our preliminary findings and considerations in front of academic and practitioner community. Our research; in a preliminary stage; was presented in the TU Delft’s Delft TopTech rush hour event. The response of the audience, their questions and feedback provided us an additional confirmation that this work will contribute to both academic and practitioners in the field of IT outsourcing. This additional boost in confidence provided much needed energy to continue our journey and strengthen the results by looking at the effects of Governance determinants and answering research questions.

In July and August 2013, we completed writing our findings, review our thesis and write the conclusion chapter. The focus mainly was on editing, reading, and re-writing in order to create clarity, improve readability and eliminate redundancy. The consistency of written work included consistency check of formatting, citations and bibliography. I took help of three professionals and my wife who reviewed the work more than once. At each review step the thesis was improved. One of the most important reviewers has been supervisor Dr. Albert Plugge, who remained critical and continued to challenge the thought process up until the last moment; helping me narrow down and be very specific about the outcome presented.

Today, 9th September 2013, this thesis is complete. The research objectives, main findings and answers to the research questions along with contributions, current limitations and recommendations are covered in Chapter 7. This brings us to the closing remarks. I truly benefited from this challenging and adventurous journey in the past twelve months. It certainly increased my exposure and experience of academic literature review and writing. I am sure it will continue to help me and my clients solve complex Governance challenges in multivendor IT outsourcing arrangement. Finally, we sincerely hope that this thesis work remains useful to IT outsourcing academics and practitioners. Thank you indeed.
Governance determinants in multivendor IT outsourcing

REFERENCES


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APPENDIX A: INTERVIEW QUESTIONS

Organizational Governance
1. What is the rationale for the client to choose the current multivendor model?
2. How is the multivendor arrangement governed (example: integral by one party, fragmented)?
3. How does organizational structure support the Governance of the multivendor arrangement?
4. What are the consequences of the current model related to IT processes and roles between all parties?
5. Which key organizational challenges can be identified when applying a multivendor arrangement?

Coordination/Collaborative Governance
1. Who is end-to-end responsible for the coordination of the multivendor arrangement?
2. What coordination principles are used by The client to govern the multi-sourced arrangement?
3. What types of coordination requirements are imposed by The client to manage the vendors effectively?
4. To what degree does coordination affect the performance of provided end-to-end IT Services towards The client?
5. How does the client stimulate collaboration between its vendors?
6. What is the level of commitment of the vendors to mutual collaboration?

Contractual Governance
1. What form(s) of contractual framework is/are used by The client to govern the multivendor arrangement?
2. What is (are) common performance KPI’s to govern the multivendor arrangement?
3. What types of incentives are used to stimulate the collaboration between vendors?
4. How is the end-to-end delivery of IT Services, which may include multiple vendors, ensured on a contractual level?
5. How is interdependency between multiple vendors arranged on contractual level?
6. What is the degree of contractual flexibility to accommodate key developments (for example: exit of one vendor or on-boarding of new vendor) in the multivendor arrangement?

Relational Governance
1. What approach is applied by the client to manage stakeholders within the multivendor arrangement?
2. To what degree does the multivendor model affect the presence or absence of trust?
3. How does the multivendor model influence the relationships (e.g. strategic, tactical, and operational) between all parties?
4. How does the client cope with conflict resolution within the multi-sourced arrangement? What methods and/or strategies are used to solve conflict resolution?
5. How does the client create both overview and synergy from an architectural direction and strategy perspective to their vendors?
6. How does the client seek and ensure compatible cultures, shared values, understanding and fairness to their vendors?

Governance Determinants:

1. What key Governance determinants does the client recognize to manage the multivendor arrangement?
## APPENDIX B: OVERVIEW OF INTERVIEWEES

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<tr>
<th>Department</th>
<th>Position</th>
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<th>Interview duration</th>
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<tr>
<td>IT and Procurement</td>
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<td>1,5 hours</td>
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<td>CIO</td>
<td>13-feb-13</td>
<td>1 hour</td>
</tr>
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<td>Procurement</td>
<td>Sourcing director</td>
<td>27-feb-13</td>
<td>1 hour</td>
</tr>
<tr>
<td>Procurement</td>
<td>Sourcing manager</td>
<td>13-feb-13</td>
<td>1 hour</td>
</tr>
<tr>
<td>Procurement</td>
<td>Sourcing manager</td>
<td>13-feb-13</td>
<td>1,5 hours</td>
</tr>
<tr>
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<td>Programme manager large IT projects</td>
<td>13-feb-13</td>
<td>1 hour</td>
</tr>
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<td>13-feb-13</td>
<td>1 hour</td>
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<tr>
<td>Information Technology (IT)</td>
<td>Service manager (IT domain)</td>
<td>13-feb-13</td>
<td>1 hour</td>
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