Operational managers handbook to information technology outsourcing

Chester Johnson
Operational Managers Handbook
 to Information Technology Outsourcing

by

Chester L. Johnson

Thesis submitted in partial fulfillment of the requirements for the degree of Master of Science in Information Technology

Rochester Institute of Technology

B. Thomas Golisano College
of
Computing and Information Sciences

Thesis
Rochester Institute of Technology

Information Technology
August, 2001
Thesis Approval Form

Rochester Institute of Technology

B. Thomas Golisano College of Computing and Information Sciences

Master of Science in Information Technology

Student Name: Chester L. Johnson
Project Title: Operational Managers Handbook to Information Technology Outsourcing

Thesis Committee

Name                  Signature    Date

Timothy Walls
Chair

Edward Holden
Committee Member

Robert C. Meyers
Committee Member
## Table of Contents

1. INTRODUCTION ................................................................................................................................. 1
   1.1 ABSTRACT .......................................................................................................................................... 1
   1.2 ABOUT THE AUTHOR ....................................................................................................................... 1
   1.3 EXECUTIVE SUMMARY .................................................................................................................... 1

2. APPROACH ........................................................................................................................................... 2
   2.1 SECTIONS ......................................................................................................................................... 2
      2.1.1 Motivation for Outsourcing ....................................................................................................... 2
      2.1.2 Outsource Planning .................................................................................................................. 2
      2.1.3 Contract Development and Negotiation .................................................................................... 2
      2.1.4 Effective Contract Implementation, Management, and Monitoring ........................................ 3
   2.2 POINTS OF EMPHASIS OR NUGGETS OF KNOWLEDGE* .......................................................... 3

3. MOTIVATION FOR OUTSOURCING ................................................................................................. 3
   3.1 FINANCIAL ..................................................................................................................................... 3
   3.2 OPERATIONAL/STRATEGIC ........................................................................................................... 3
   3.3 BUSINESS ISSUES ....................................................................................................................... 4
   3.4 MYTHS OF OUTSOURCING [2,5] .................................................................................................... 4
   3.5 PROS OF OUTSOURCING ............................................................................................................... 5
   3.6 CONS OF OUTSOURCING ................................................................................................................ 5
   3.7 THE RISKS OF OUTSOURCING AND NOT OUTSOURCING .......................................................... 6
      Nugget #1 ............................................................................................................................................ 7
      Nugget #2 ............................................................................................................................................ 7
   3.8 OUTSOURCED FUNCTIONS AND APPLICATIONS ......................................................................... 7
      Figure 1 - Outsourcing Applications ................................................................................................ 7
   3.9 OUTSOURCING EVALUATION TOOL ............................................................................................ 8
      Figure 2 - Outsourcing Assessment Factors .................................................................................... 8
      Nugget #3 .......................................................................................................................................... 9
   3.10 ACADEMIC RESEARCH RESULTS ............................................................................................ 9
   3.11 APPROACH .................................................................................................................................... 10
      Nugget #4 ........................................................................................................................................ 10
   3.12 INTERNAL BUSINESS ASSESSMENT .......................................................................................... 11
   3.13 BUSINESS PROCESS FAILURES .................................................................................................. 12
   3.14 ORGANIZATIONAL STRUCTURE .................................................................................................. 13
      Nugget #5 ........................................................................................................................................ 13
3.14.1 Organizational Culture and Politics ................................................................. 13
Nugget #6 .................................................................................................................. 13

3.15 CHECKLIST FOR MANAGING THE POLITICAL PROCESS .................................. 14
Nugget #7 .................................................................................................................. 14

3.16 SENIOR MANAGEMENT LEADERSHIP ............................................................... 15
Nugget #8 .................................................................................................................. 15
Figure 3 - Organizational System ............................................................................. 16
Nugget #9 .................................................................................................................. 16

3.17 BUSINESS STRATEGY ......................................................................................... 16

4. OUTSOURCE PLANNING ......................................................................................... 17

4.1 STAFFING SKILLS SET ....................................................................................... 17
Nugget #10 ................................................................................................................ 17

4.2 THE PROJECT MANAGER .................................................................................. 17

4.3 TEAMS ................................................................................................................ 18
Figure 4 - Outsourcing Team Composition ............................................................... 18
Figure 5 - Master Communications Document ...................................................... 19

4.3.1 Team Dynamics ............................................................................................. 20

4.4 OUTSOURCE PLANNING SUMMARY ................................................................. 20

4.5 SOURCES OF OUTSOURCING VENDORS ......................................................... 20

4.6 REQUEST FOR INFORMATION (RFI) ................................................................. 21

4.7 REQUEST FOR PROPOSAL (RFP) .................................................................... 22

Figure 6 - Sample High Level RFP Format .............................................................. 22
Nugget #11 .............................................................................................................. 23

4.8 VENDOR SELECTION ....................................................................................... 23

4.9 EVALUATE THE PROPOSALS ......................................................................... 23

4.9.1 Qualitative Factors ....................................................................................... 24

4.9.2 Quantitative Factors .................................................................................... 24

5. CONTRACT DEVELOPMENT ................................................................................. 25

5.1 OVERVIEW .......................................................................................................... 25

5.2 CONTRACT SUCCESSES AND FAILURES ......................................................... 25

5.2.1 Success Factors ............................................................................................ 25

5.2.2 Failure Factors ............................................................................................. 26

5.3 CONTRACT PREPARATION AND PLANNING ...................................................... 26
Nugget #13 .............................................................................................................. 27
FOSTERING COOPERATIVE RELATIONSHIPS ........................................................................................................... 27

5.4.1 Cultural Assessment ................................................................................................................................. 27

Nugget #14 ..................................................................................................................................................... 28

5.4.2 Vendor Meeting Processes and Topics ...................................................................................................... 28

5.4.2.1 Before the Meeting .............................................................................................................................. 28

5.4.2.2 During the Meeting .............................................................................................................................. 28

5.4.2.3 After the Meeting ................................................................................................................................. 28

5.4.3 Meeting Topics .......................................................................................................................................... 28

5.4.4 Contract Outline [4,8,28] ......................................................................................................................... 28

Figure 7 Outsourcing Contract Clauses [4,8,28] ............................................................................................... 29

5.4.5 Services and Payments and Fees including Benchmarking ..................................................................... 30

5.4.5.1 Controlling Costs [2,28] ....................................................................................................................... 30

5.4.5.2 Other Cost Considerations [2,28] ......................................................................................................... 31

5.4.5.3 Benchmarking [8,12,28] ......................................................................................................................... 31

5.4.6 Turnover & Performance Standards, Incentives and Penalties including Risk Mitigation .............. 31

5.4.6.1 Turnover ............................................................................................................................................ 31

5.4.6.2 Performance Standards ......................................................................................................................... 32

5.4.6.3 Risk Mitigation .................................................................................................................................. 32

5.4.6.4 Disputes ............................................................................................................................................ 32

5.4.7 Legal Boilerplate - Indemnification, Warranties and Limitations of Liability and Miscellaneous Provisions [4,8,28] .............................................................................................................. 32

5.4.8 Term and Terminations ............................................................................................................................ 34

5.5 PERSONNEL STRUCTURE AND STAFF SKILLS .................................................................................... 34

6. EFFECTIVE CONTRACT IMPLEMENTATION, MANAGEMENT AND MONITORING ........................................ 35

6.1 PLANNING MEETING ................................................................................................................................. 35

6.2 CONTRACT PERFORMANCE ..................................................................................................................... 36

6.3 CONTRACT CHANGES ............................................................................................................................... 36

Nugget #15 ...................................................................................................................................................... 36

6.4 RISK MANAGEMENT .................................................................................................................................. 36

6.5 PERFORMANCE INFORMATION ................................................................................................................ 37

6.6 PERFORMANCE CHECKLIST [5,7,13,28] ............................................................................................... 37

6.7 CONTRACT MANAGEMENT ....................................................................................................................... 38

Figure 8 Contract Problem Resolution Matrix ................................................................................................ 38

Nugget #16 ...................................................................................................................................................... 38

7. SUMMARY ......................................................................................................................................................... 39

7.1 CONCLUSIONS ............................................................................................................................................. 39
Introduction

1.1 Abstract
The academic, consulting, and business community is inundated with books, articles, web sites, and consulting services devoted to IT Outsourcing. As the technology advances and the business community gains practical experience in the area, outsourcing options require constant updating. This handbook provides the sequence of business process steps along with numerous guidelines, checklists, and detailed descriptions for developing a successful outsourcing contract. What is unique about the handbook is that it synthesizes the organizational, cultural, and political aspects of the enterprise that form the underpinnings for the development of a successful outsourcing function within the enterprise. The handbook then delves into the formation of a successful contracting team describing the skill set of the team members and their organization from the planning through the implementation stages of the outsourcing process. Last, the handbook provides the content detail and rationale of the three stages of contract formulation - Request For Information (RFI); Request For Proposal; and the Contract itself.

1.2 About the Author
Chester Johnson has over 25 years of business experience. He has been involved with all aspects of the outsourcing continuum [outsourcing assessment, vendor selection, contract development, vendor management, operational implementation and on-going support]. He has held positions in business operations and development, business planning, finance, marketing, and information technology. He has worked for General Electric, a Wall Street brokerage firm, and the Overseas Private Investment Corporation (OPIC) as a Presidential Exchange Executive. He currently is employed by Xerox Corporation. He has an undergraduate degree in electrical engineering from the University of New Hampshire; an MBA from Columbia University; and a Masters in Information Technology from the Rochester Institute of Technology.

1.3 Executive Summary
Successful outsourcing is composed of a number of building blocks:

<table>
<thead>
<tr>
<th>MOTIVATION</th>
<th>PLANNING</th>
<th>DEVELOPMENT</th>
<th>IMPLEMENTATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Structure</td>
<td>Staffing</td>
<td>Planning Meeting</td>
</tr>
<tr>
<td>Operational</td>
<td>Culture</td>
<td>RFI</td>
<td>Performance Monitoring</td>
</tr>
<tr>
<td>Business</td>
<td>Politics</td>
<td>RFP</td>
<td>Risk Mitigation</td>
</tr>
<tr>
<td>Myths</td>
<td>Leadership</td>
<td>Contract</td>
<td>Problem Resolution</td>
</tr>
<tr>
<td>Pros &amp; Cons</td>
<td>Strategy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Successful outsourcing requires:

- Consistency in approach. Focus on economies of scale, technical expertise, and IT management processes.
- Change management competency, reengineering skills and process know-how.
- The enterprise ensure it has the capabilities required to manage an outsourcing relationship
  
  - Project management
  - Deal making
  - Negotiating
  - Conflict resolution skills

2 Approach

This paper melds the outsourcing experiences of myself and those of my many colleagues and RIT classmates with extensive readings and research. This handbook will provide insights for those busy operational managers who are looking for approaches, guidelines and recommendations for navigating the outsourcing process and tactics for avoiding management pitfalls.

2.1 Sections

The handbook is divided into four main sections:

1. Motivation for Outsourcing
2. Outsource Planning
3. Contract Development and Negotiation
4. Effective Contract Implementation, Management and Monitoring

2.1.1 Motivation for Outsourcing

The first part of Motivation for Outsourcing, discusses the pros and cons, risks, and provides an assessment of successful implementations from the study of case histories. The second part of the section provides an understanding of the organizational factors that are the underpinnings for successful outsourcing. This section is the most important part of the handbook. Failure to understand the firm’s culture, politics, leadership style as well as the enterprise’s ability and readiness to undertake an outsourcing venture will result in a failed outsourcing attempt.

2.1.2 Outsource Planning

Outsourcing Planning describes the infrastructure and readiness activities required for successful outsourcing. Once all the internal assessment and preparation is complete the enterprise must select the outsourcing staff, identify some possible vendors and develop a Request For Information (RFI). Next the various evaluation factors and approaches for the selection of a vendor or vendors is discussed with emphasis on the Request For Proposal (RFP).

2.1.3 Contract Development and Negotiation

This section provides an extensive outline and explanation of the various contract clauses that should be part of either an outsourcing or joint venture contract with explanations regarding their relevancy and importance.
2.1.4 Effective Contract Implementation, Management, and Monitoring

Once the contract is finalized, implementation and the on-going management tools are required to ensure the objectives of the outsourcing contract are fulfilled.

2.2 Points of Emphasis or Nuggets of Knowledge*

Throughout the manuscript are key learning points that have been encapsulated in rectangles to emphasize their critical importance to successful IT outsourcing.

*Phrase coined by Professor Reyno Niemi of RIT

3 Motivation for Outsourcing

Outsourcing generally is defined as contracting with outside vendors to do various IT functions such as data entry, data center operations, application maintenance and development, disaster recovery, network management and operations [1 adapted].

There are a number of financial, strategic and operational reasons for outsourcing [2,3].

3.1 Financial

- Cash infusion
- Asset minimization
- Streamline cash flow
- Reduce and control/operating costs
- Reallocate internal resources to focus on core competencies
- Realize reengineering benefits
- Share development and operational risks

3.2 Operational/Strategic

- Sharpen company focus
- Develop world-class capabilities
- Gain control of hard to manage or out of control systems functions
- Access to specialized resources not internally available
- Mandated by CEO or Board of Directors
- Forced by a merger or acquisition

It is generally agreed that the strategic intent of the Information Technology (IT) organization is to assist in significantly improving critical aspects of business performance. However, the rapid change in technology requires that IT must continually create new capability. New systems, reengineering work practices, reskilling developers, and fostering an entrepreneurial culture while maintaining and improving the status quo is the challenge. This is very difficult to achieve. Most IT organizations lack the technical talent, management skills, and financial resources to address all these aspects simultaneously.

Further, as users become more aware of the possibilities and limitations of information technology, they tend to become more critical of the internal IT functions. A recent study revealed [3 p.3] that a majority of senior managers viewed their companies' IT functions as cost burdens rather than as strategic resources. They also perceived internal IT departments as being outdated, inflexible, expensive, unmanageable and lacking a customer orientation.
The objectives of outsourcing have evolved with the changing business climate. In the beginning, the primary reason given was cost savings. Cost savings could usually be achieved because outsourcing vendors often had advantages of economies of scale and experience. This approach worked when information products and services were commodity-like and not central to the competitive success of the business or could be easily separated from the rest of the business. Now, the contractual aspects have changed. Agreements are emphasizing shared risks and rewards tied to tangible business results. Success factors are now more business oriented than technical [3 p.4].

3.3 Business Issues

More recently, outsourcing is addressing other business issues such as [3,4 adapted]:

1. Freeing up of financial resources and management attention. Outsourcing can support the operation and maintenance of existing systems until they can be replaced and supply technical and business know-how to augment new initiatives.

2. Providing organization flexibility in a rapidly changing global economy. Companies must be flexible enough to adapt to a business environment in constant flux, so their IT functions have to respond quickly to changing demands. Vendors often can tap a wide range of resources, skills and capacities while an internal IT staffs may have limited capabilities.

3. Providing access to state-of-the-art technology. The volatility of information technology quickly makes IT skills obsolete. Outsourcing specialists are usually better trained and are more up-to-date with state-of-the-art technology than internal IT staffers.

4. Ensuring job security for regular employees and a career path for staff with legacy skills. Companies often hire outsourced staff with the understanding they’ll be employed for a limited time. They can more easily drop or add people to the workforce without jeopardizing the company’s reputation as a stable employer. More importantly, the use of outsourced workers buffers regular employees from fluctuations in demand and enables the company to establish a stronger relationship with its workforce.

So it is not surprising that IT outsourcing has experienced rapid growth. Nevertheless, there is no conclusive proof that outsourcing always will lead to more focused organizations, higher flexibility, lower costs and staffing levels, and economies of scale. In fact, research suggests that outsourcing is not for every company or client [3 p.3].

At first, IT resisted outsourcing fearing intrusion into its turf. Once this resistance was shattered, led by the Kodak/IBM outsourcing contact in 1989, the floodgates opened. Outsourcing was now viewed as the panacea for curing any and all of a firm’s management challenges. This created the myths of outsourcing, some of which are listed below.

3.4 Myths of Outsourcing [2,5]

1. You can outsource with no investment
2. You can buy essentials you don’t possess
3. You can buy market share using a vendor
4. Outsourcing solves staffing problems
5. Outsourcing reduces management needs
6. Outsourcing reduces problem complexity
7. Vendors need to know your core business
8. Everyone says, “it’s the right thing to do”
9. Outsourcing lowers overall costs
10. Vendors will not do for others what they do for you
While some of these justifications still appear in a firm's news releases, they are more window dressing than substance. There is now sufficient experience and more rigorous analyses and research that have enabled the outsourcing community to identify the pros and cons of outsourcing. While there is still some debate on whether some aspects are a pro or con, the majority of the factors have general consensus. The major pros and cons are enumerated below [2,3,4,5,6,7,8,9,10].

3.5 Pros of Outsourcing

- Innovation - sophisticated suppliers can arrive at solutions that fragmented internal sources could never imagine.
- Let's management focus on strategic applications and business issues
- Reduces the need to recruit staff in a tight labor market
- The organization is relieved of the responsibility for management of those IS functions that are taken over by the outsourcing vendor.
- The outsourcing agreement should reduce expenses for the organization, at least in the near future.
- If carried out selectively, the outsourcing arrangement allows the IT department to concentrate on the most critical issues in the organization. The sections requiring less high-level expertise (e.g., technical support and the data center) can be relegated to the outsourcing vendor, allowing the in-house IT staff to focus on applications development concerns.
- The outsourcing contract can generate some revenue for the organization indirectly, through the sale of data center assets (e.g., disk drives and the mainframe).
- The contract provides an opportunity to reduce the IT department headcount.
- Economics of scale and shared costs

3.6 Cons of Outsourcing

- Outsourcing removes some control of the information processing function from the IT department, which could seriously affect that department's mission-critical functions.
- The short-term savings provided by the outsourcing contract could be negated in the future, should the organization decide to reintegrate the outsourced function.
- The outsourcing vendor may not feel obligated to keep the outsourced function up-to-date and may use outdated technology to save money.
- Outsourcing can create morale problems in the IT department, particularly if in-house employees begin to fear that their function will be outsourced as well.
- Any contingency not addressed in the original agreement must be renegotiated.
- Post-contract negotiations are likely to be troublesome and costly for the client.
- Vendor stability cannot be guaranteed.
- Predicting the future of an organization is at best difficult, and predicting the effects of a current outsourcing contract on the basis of unknown future changes is even more difficult.
- Hidden agendas can create a disadvantageous situation for the unwary client. The organization should exercise extreme caution when examining an outsourcing contract, paying special attention to possible ulterior motives on the part of the vendor.
- Harder to quickly respond to market changes
- More expensive than doing work in-house
- Requires internal project management and negotiating skills to better manage contractors
- Lessened direct control
3.6 Cons of Outsourcing continued

- Higher costs
- Exposure of confidential information
- Dropping employees lowers morale of remaining employees
- Limits a company’s effectiveness
- Inflexibility

3.7 The Risks of Outsourcing and Not Outsourcing

In Beyond the Information Systems Outsourcing Bandwagon [10], the authors concluded that managers often reported glowing success stories during the honeymoon period when the outsourcing contract was first signed. At that point, the client and vendor possess high outsourcing expectations. Projected savings often make the headlines while exorbitant fees for amendments to contracts are not made public because few companies wish to advertise their mistakes. [3 p.3]. Even though there are advantages cited earlier in the paper, IT is not easily outsourced. Because IT permeates an entire organization, it is not like other resources. Some experts say IT outsourcing cannot be compared with outsourcing of security, logistics, legal services, advertising or the procurement of raw materials and components [3 p.3].

Some specific risks are: [3,11 adapted]

1. The cost of contract switching is high. As mergers and shakeouts take place among IT vendors, fewer suppliers will survive making it more difficult to shop for price.

2. Loss of control. Critics of IT outsourcing argue that no outside vendor can match the responsiveness and service levels offered by an in-house function largely because the outsider is not subject to the same management direction and control as employees. In addition, concerns exist with outside vendors about confidentiality of data, strategic applications and provisions for disaster recovery.

3. Employee morale. Outsourcing often results in layoffs or the transfer of existing employees to the IT vendor. Such displacement can set morale into a tailspin and cause even talented staff to fear for their employment security.

4. Less flexibility. The outsourcing vendor provides the level of IT services specified in the contract using the technological platform it deems appropriate. Unless specifically spelled out in the contract, a company may lose the flexibility of moving to new operating platforms.

5. Being held hostage. IT professionals argue that outsourcing allows the user to become a "hostage" of the vendor so the company may lose technical staff and be locked into the vendor’s proprietary software and hardware. In a long-term contract, the customer has more leverage in negotiations, but the vendor has more leverage after outsourcing is under way.

6. Subcontractors. Companies that outsource often are unpleasantly surprised to find that their vendors aren't working on their projects - someone else is. Outsourcing vendors in search of hard-to-find technical skills often subcontract portions of their computer system work to small, unknown companies. [3 pp. 3-4] Turnover rates in vendors are 15-18% [12]. The cost of losing an IT professional can be between 100-250% of the departing person’s salary. The most common remedy is money. The trick is to force through a contract clause for the vendor to forfeit 4 to 6 weeks of transition billing time for a replacement to get up to speed or negotiate a lump-sum penalty for turnover exceeding a normal level due to either resignations or resource balancing.
The old rule of thumb was to outsource the routine stuff and do the strategic applications in-house. However the Internet and e-commerce has forced a reassessment of this thinking.

The rapid change in technology provides new strategic business opportunities. These new opportunities must be implemented rapidly. This requires a close collaboration between the strategists who understand the business requirements and the developers who must constantly update these applications. Many corporations believe the first to market will gain a strategic advantage and capture the bulk of the market potential. However, early adoption has risks. But many businesses have concluded these early-to-market risks and start-up risks outweigh waiting for either the technology to stabilize or the market to prove viable. Working at the edge of innovation is believed to have many advantages. The experiences gained from the marketing probes are sufficient payback. Does this mean everything must be done in-house? Not necessarily, but maintaining the collaborative relationships and experiences between the marketing and technical community shortens the learning curve and communications pathway between the groups and thus shortens the ongoing applications releases. It’s the stability of the core team that, over time, provides the strategic advantage. It’s probably easier to retain the core team if they are within a single organizational umbrella. It has been demonstrated that compensation is the key driver of worker retention. This is more easily administered within a single organization structure.

In summary, the goal is to outsource rote utilities while retaining the expertise to develop a strategic infrastructure, information architecture, and a suite of strategic systems. But this objective must be weighed against the long-term loss of expertise, a sophisticated notion of core competency, a serious assessment of potential and future key success factors, and a realistic assessment of the new problems that outsourcing is likely to create, and the alternatives that are available.

### 3.8 Outsourced Functions and Applications

A list of operational applications currently being outsourced [2, 13] is shown in Figure 1.

| Data Center | Application systems | Internet access |
| Telecom communications | Systems management | Network management |
| Disaster recovery | Facility management | Security and firewalls |
| Data entry | Help Desk | Web services |
| Equipment installation and maintenance | Strategic IT planning | Electronic commerce |
| Printing and mailing | Email | Package (COTS) implementation & support |
| Computer leasing | Server Farms | Portal development |
| Seat management | Training | Security certificates |
| Legacy system operations | PC procurement | Asset Management |
| Remote access | Process reengineering | ASP development and support |

Figure 1 Outsourcing Applications
3.9 Outsourcing Evaluation Tool

Is outsourcing a consideration for your enterprise? Andrew Lang [14] developed the following checklist for associations. It can be adapted to a company's particular situation by adding or subtracting to the list. More sophistication can be added to the tool by prioritizing the concerns and assigning weights based on their importance to the enterprise.

<table>
<thead>
<tr>
<th>Score = 94</th>
<th>Benefit</th>
<th>Hindrance</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Non-core</td>
<td>Core</td>
</tr>
<tr>
<td>7</td>
<td>Stability</td>
<td>Instability</td>
</tr>
<tr>
<td>5</td>
<td>Lower Operating Costs</td>
<td>Higher Operating Costs</td>
</tr>
<tr>
<td>7</td>
<td>Increased efficiency</td>
<td>Inefficiencies</td>
</tr>
<tr>
<td>8</td>
<td>More flexible</td>
<td>Less flexible</td>
</tr>
<tr>
<td>7</td>
<td>Lower risk</td>
<td>Higher risk</td>
</tr>
<tr>
<td>6</td>
<td>New ideas</td>
<td>Stagnant ideas</td>
</tr>
<tr>
<td>7</td>
<td>Variable costs</td>
<td>Fixed costs</td>
</tr>
<tr>
<td>8</td>
<td>Easy to maintain</td>
<td>Difficult to maintain</td>
</tr>
<tr>
<td>8</td>
<td>Cutting-edge skills</td>
<td>Base skills</td>
</tr>
<tr>
<td>8</td>
<td>Ability to grow</td>
<td>Inability to grow</td>
</tr>
<tr>
<td>7</td>
<td>Small capital requirement</td>
<td>Large capital requirement</td>
</tr>
<tr>
<td>6</td>
<td>Easy to outsource</td>
<td>Difficult to outsource</td>
</tr>
</tbody>
</table>

Figure 2 Notes:
Assign greatest weight (10) to potential benefit and 0 where situation would be difficult or problematic (hindrance) to outsource
70 and below do not outsource
Approaching 100 consider outsourcing
100+ Outsourcing should be beneficial

For example, the score totals in the above table is 94 so you would not outsource.
It's evident the outsourcing decision process has many components and constituencies. Senior management usually perceives the entire IT function as a corporate utility supplying its various internal users with cost effective services. The corporation directs the IT function using cost-based metrics and various financial hurdle rates. The users however view IT as a critical support resource and measure IT on Level of Service (LOS) and customer service excellence. Each user also has a unique array of hardware and software configurations and utilities, facilities requirements, and disaster recovery requirements. They also require dedicated support. In other words, there is a polarity between what the corporation directs IT to supply (minimum service levels) and what the user demands (gold-plated services).

This dichotomy is played out in many ways. One approach is the business unit funds IT resources from its operating funds bypassing IT. The local requirements are met but not necessarily integrated into the corporate IT architecture. Total IT costs are now “hidden” So the corporate goals seem to be achieved and the business units remain satisfied. At some point, due to any number of business-driven changes this scheme is uncovered. In this case, outsourcing is the trigger mechanism.

A recent outsourcing study of CIOs by PriceWaterhouseCoopers [15] identified the following areas for their dissatisfaction:

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor Planning</td>
<td>50%</td>
</tr>
<tr>
<td>Poor Execution</td>
<td>34%</td>
</tr>
<tr>
<td>Poor Results</td>
<td>16%</td>
</tr>
</tbody>
</table>

The survey is an anecdotal indicator of what general areas led to their frustration with the outsourcing process. It's also interesting to note that the support for outsourcing varied by job type:

- 80% of top executives
- 50% of middle-management
- All hourly employees opposed

These results have to be considered when implementing the outsourcing plan.

### 3.10 Academic Research Results

To conclude the assessment of outsourcing successes and failures, a more rigorous academic assessment has been conducted by Lacity et al. [16] of 61 outsourcing contracts. The conclusion of their study was to postulate that the chance of success is significantly increased if selective aspects of the IT functions were chosen rather than outsourcing a majority, in revenue terms, or a minority of the IT outsourcing functions as shown below. However, if the data is categorized solely by successes and failures, approximately 33% were failures.
3.10 Academic Research Results continued

Outsourcing Decisions

- 14 outsourced 80% or more of IT
  - 3 failures, 9 at risk of failing
  - 2 successes (large data centers)
- 15 outsourced 20% or less of IT
  - 5 cost/benefit failures
  - 10 successes, but many users felt otherwise
- 32 outsourced selectively (approx. 40%)
  - 3 failures, 9 too early to tell

3.11 Approach

Perhaps the most important step in identifying outsourcing possibilities is to gain agreement on its business intent.

The following questions may assist in evaluating the viability of outsourcing a particular business process [17]:

1. What is the impact and the strategic importance - if any - of the service?
   IT services that are of particular strategic importance (for example e-business initiatives or supply chain automation) may be provided in-house in order to maintain control, retain key employees, etc.

2. How well are the services currently being delivered by internal sources?
   It is important to evaluate internal performance in order to determine if cost savings or advanced capabilities can be achieved by outside vendors.

3. Can the processes be reengineered, consolidated or standardized?
   These questions illuminate the various options that are available in today’s environment. The next step is to develop and document the outsourcing mission, strategy and goals. This documentation should sum up the organization’s outsourcing intentions and rationale for outsourcing. The document should include the following information:

   - Process to be outsourced and the broad objectives for outsourcing
   - Relationship of outsourcing to the overall corporate strategy
   - Links between the outsourced process and the company’s core competencies
   - Strategic forces that are driving the enterprise into considering outsourcing
   - Breadth of coverage (international, across business lines, etc.)
   - Critical outsourcing risks
   - Duration of relationship

Last, develop a value proposition for outsourcing [17]. A value proposition should describe the value that the outsourcing arrangement will bring to the firm. In addition to helping senior executives understand why they want to outsource the process in question, the value proposition also helps IT managers determine expectations and more effectively evaluate vendors. The value proposition should include the following information:

1. Impacts on specific target customers (internal or external) with regards to how the outsourcing relationship will make the customer more: successful; profitable; competitive; efficient; effective; productive and satisfied.
2 Explicit, quantified benefits
3 Date when measurable success is expected
4 Feasibility of reaching goals
5 Advantage of outsourcing versus other arrangements

In developing the value proposition, strive for clarity and brevity. For example, the value proposition could state “Our help desk resource transfer will be completed by the vendor by December 2001. The annualized cost reductions from the 2000 baseline will be 10% in 2002 and 20% in 2003”

3.12 Internal Business Assessment

Start with an internal analysis and evaluation. Clarify the organizational goals in relation to outsourcing. Identify areas that will be most effectively served by outsourcing. Determine non-core competencies that can be outsourced and evaluate the current return on investment comparing that to the return that outside vendors may offer. Develop a long term strategy to manage the effect outsourcing will have on current and future employees.

Five Questions to Ask Yourself Before You Outsource [13]:

1. What are your core competencies?
2. How does your IT organization help enable corporate strategy?
3. What IT skill sets will you need in the future?
4. Can a vendor provide your current service levels at a lower or variable cost?
5. Does upper management support your outsourcing decision?

To do this, begin with the business strategy or business requirements. Too many times IT has developed a systems architecture that does or can constrain the business requirements or too narrowly limits the business alternatives. An example is a packaged financial control system. Restructuring your accounting systems to conform to the package structure may or may not result in placing limitations on future business flexibility such as pricing, utilizing third party financing or factoring receivables or limiting partnerships or joint ventures where billing must be integrated and costs consolidated into a joint subsidiary.

If you are undertaking a multi-million dollar systems project to standardize on a COTS package or database design, you should have first examined and documented your current business processes and identified a desired state. This identifies business efficiencies that can be obtained through reengineering the process to take advantages of productivity alternatives inherent in the new technology e.g. workflow, automated process linkages, normal and exception related processing requirements, etc.

It is far too common that executives fall into the in-flight magazine syndrome. The executive reads a success story or sees an add relating to the latest application innovation which describes all the positive business impacts gained from utilization of this new process/package. The idea and inherent enthusiasm comes flying down the food chain for immediate consideration or implementation. Obviously this is an indication of a company lacking a structured planning process or business strategy.

The IT infrastructure strategy and architecture should be an integral component of the corporation’s business strategy/plan. It is a layered support strategy. Various aspects can be common across the enterprise such as network, server and client operating systems. The goal is commonality and standardization.
3.13 Business Process Failures

To properly analyze what specific aspects of the outsourcing process led to these results; I developed a more specific list from the outsourcing literature, discussions with professionals associated with various aspects of outsourcing implementations, and my personal experiences. I have categorized the causes for failure and the associated detail into four broad groupings: Organizational Structure; Outsourcing Planning; The Contracting Process; and Operational Implementation.

1. Organizational Structure - Can upper management support outsourcing?
   - Unclear corporate vision and business objectives regarding outsourcing
   - Under communicating the new vision
   - Not removing obstacles to the new vision
   - Changing market place and technology
   - Outsourcing decision lacking senior management support
   - Business units have too much power
   - Chargeback schemes are problematic
   - No sense of urgency
   - No powerful guiding coalition
   - Not putting in sufficient effort to make outsourcing succeed
   - Not anchoring changes in the culture
   - Internal politics dictating what can and cannot be implemented

2. Outsourcing Planning - Can a vendor provide the current service levels at a lower or variable cost?
   - Baselining of current systems not done or incomplete
   - Failure to properly analyze the economics of the deal
   - Core project management team skills not understood or identified
   - Poor planning
   - Poor project management
   - Purpose of outsourcing not made clear
   - Planning framework not developed
   - Framework not operationalized
   - Lack of requirements specificity
   - Unrealistic customer expectations
   - Lack of skilled resources

3. The Contracting Process
   - Poor contract development
   - Vendors not validated
   - Insufficient and/or inappropriate performance metrics

4. Operational Implementation
   - Lack of vendor technical and management skills
   - Cost shifts and postponement instead or real cost reductions
   - No risk mitigation procedures
3.14 Organizational Structure

The causes for failure begin with the organization structure. If these issues are not understood and resolved, the outsourcing project will fail. So, if you cannot get closure on these aspects of the project STOP. Unfortunately, stopping the project at this level is not easily accomplished as will be evident as we review what is required for success.

Politics and culture are the two critical areas that dictate success.

They are the "soft" areas of organizational behavior that ebb and flow as executives migrate through the organizational hierarchy and various programs dollars are traded off and business priorities shifted over a timeframe that is usually shorter than the outsourcing lifecycle. So it is a wonder that these programs survive at all.

There are three aspects of the organization structure that have a significant impact on outsourcing. They are:

1. Organizational Culture and Politics;
2. Senior Management Leadership and

So before you begin you must undertake this corporate-level assessment.

3.14.1 Organizational Culture and Politics

Culture stems from individuals or, said another way, individuals make up a culture. Culture is a set of beliefs and assertions that embody the needs and aspirations of the group's members. The individuals are part of a community composed of diverse skills and defined roles and responsibilities integrated by a common set of beliefs. Each person's ideas, feelings, and information form these beliefs. These beliefs give us our perspective. We take in information and process it against this "value" paradigm. That is why people unconsciously "filter out" or repress sentiments and information that are inconsistent with their value system. Consequently, a person's actions follow from their beliefs and assumptions.

A culture that admits a wide range of human expression is known as a high context culture. One that limits this range has a low context.

Politics is the relationships within a group which allow particular people to have power over others [18]. Extending this concept further, politics is the interactions that occur between organizations and people to persuade people to their point of view. Per se, it is amoral - neither good nor bad. Political interaction is unavoidable and inevitable - we all do it.

One of the biggest problems that arise in managing large software development projects is politics. Putting politics over results is fatal. Politically oriented teams finish dead last in the results race [19].

Over time, all organizations develop their own culture. At one of the end-points of the continuum is high authority control with a strong leader as the CEO. This person, in most instances, is the founder or one of the company founders. He/she possesses strong opinions and shapes the company to their management philosophy. The structure is highly centralized and can be dictatorial. Everyone knows
who is boss and failure to follow direction often results in resignation or termination. Politics is highly centered around pleasing the boss, making sure the boss knows you always do what you are told, and avoiding the blame when the boss’s projects go awry. At the other end of the spectrum is the highly decentralized organization. Power is concentrated with division heads that have profit and loss responsibility. Some central control is retained but it is mostly administrative. The power is with the division heads. Consequently, attempting to implement a corporate wide ERP/CRM program that requires some uniformity across financial or manufacturing systems, for example, can be difficult or impossible to implement.

Between these two extremes are various combinations of the two. You must review your organization structure and determine where you are on this continuum.

Within these structures are other activities that can be very detrimental to implementation and can result in gridlock. It is equivalent to a filibuster. I call it The Right of Infinite Appeal. Usually what happens is a staff function examines and proposes a change to a process. Some segment of the organization (read Special Interest Group) is opposed to the change because it would upset their power base or result is some type of decrement to their pay and perks. Once the decision has been made at an intermediate level within the organization charged with managing these processes, the action is appealed up the food chain. Through a very articulate spokesperson (read lobbyist), the decision is overturned. Once this process succeeds, everyone jumps on the bandwagon with their opposition to a project they don’t support knowing, most likely, they will prevail in the higher court of senior management. This behavior is a vicious corporate cancer. As its use spreads, innovation and change wither, status quo prevails, and, in the end, the patient dies i.e. you no longer are a factor in the marketplace. Always maintain vigilance for this behavior. Early detection and treatment will keep the disease from spreading.

3.15 Checklist for Managing the Political Process

1. Plan, Plan, Plan [20]. If there is no plan with milestones and dates, beware. Good planning is characterized by strong up-front assessment of the task to be accomplished and the schedule to support timely development.

2. Active risk management [20] identifies, addresses, and eliminates sources of risk before they become a threat to successful completion of a project. It is important because projects typically spend 80% of their money fixing 20% of their problems [20].

3. Use a change control board to break all politics.

4. Have a functional champion to support the IT project manager.

5. Learn something about systems besides buzzwords - this is readily evident to the development group. If the technical community can’t put it in English don’t feel stupid. Make the technician communicate in metaphors, at a minimum. You are a senior manager and there is nothing that affects your business that you can’t understand. I have seen the most brilliant scientist for a world renown research lab take a marker and transparency and reduce the most complex scientific discussion about lasers into concepts and terms a layman could understand. Let’s call this the Mr. Wizard (an old TV show) approach to understanding technology. Also many good professors do this in classrooms across the nation. Demand this communication ability.

6. Show interest and commitment. Mentor an IT person. The IT person learns the business and you learn technology. GE has instituted this concept across their divisions.

7. Encourage presentations that have meaning. Don’t encourage slide shows having process and results measures that do not naturally come from the project management plan.
8 Realize that business and process problems are solved jointly by management and the development team. There is no technology “silver bullet” that can fix business problems. Business and process problems are best fixed by the development team and management working together.

9 Modify people’s behavior using rewards - including compensation and promotion.

10 Encourage cross team communication and interaction. This will encourage positive teamwork. Develop a strong organizational commitment process. An organizational commitment process requires that [21]:
   a. All commitments are made by the functional senior executive - political capital in the game.
   b. Commitments can only be made after successful completion of a formal review and concurrence process.

3.16 Senior Management Leadership

A culture evolves and takes on the characteristics of its leaders. This Narcissus complex is reflected in dress, personality, and even physical characteristics of the founders/leaders. This selection and socialization process evolves over time. However, the organization can only marginally adapt to its environment. A company that maintains a defensive solidarity against external adaptation will eventually falter. And a company that changes but loses its sense of continuity will fail to learn from its experience and sustain itself. A culture’s bias is usually its Achilles’ heel.

Anyone trying to change an organization faces the following hazards [22]:
   1 What individuals reveal, the group will deny
   2 Dilemma unearthed may trigger simmering conflicts
   3 The old paradigm will attack any prospect of a new one

Viewed from this perspective, culture can be a barrier to changes in business process, diversity, and to mergers and acquisitions.

Because employee morale is also crucial to maintaining corporate culture, the most important role of a leader is to manage the culture, to set the vision and performance standards, and to manage the communications to ensure all groups work in harmony [19].

To do this, a leader must be a master of managing conflict. If the conflict can be presented as a choice between equally unacceptable alternatives (a dilemma), then neither side will be quite so prone to attack each other. The goal is to maintain polarity between the conflicting choices - the concept of both/and versus either/or. These dilemmas must be dealt with before they become social conflicts otherwise they will poison the entire culture.

So leaders must be masters of paradox. How it is achieved is just as important as what is achieved. Social anthropologist Gregory Bateson [23] used to say they are the “differences that make the difference”.

The leader should begin by examining the current business paradigms and see whether these exclude the sort of information or processes that increasingly are seen as factors of business success [24]. Information age business is different from the machine culture. So the learning systems have to be different.
As shown in Figure 3 [25], the center of an organizational system is leadership.

Leadership is the center of every interaction, decision, communication, and action within an organization.

Gibson, Inancevich, and Donnelly [26] define leadership as an attempt to influence or motivate individuals to accomplish some goal. It is the behavior of managers and executives that provide direction and encourages others to take needed action. It's leadership that directly impacts the four most important functions with the firm: structure, culture, mission and strategy, and managerial practice. Leadership indirectly influences policies, procedures, and work climate [26]. Understanding these complex interrelationships is important in creating an organizational system that promotes growth and renewal and allows for increased performance.

3.17 Business Strategy

The critical business strategy components that must be in place are written documents that establish the enterprise's [24]:

1. Vision and business goals;
2. Critical success factors;
3. Informational needs, from three major viewpoints: the external, strategic, and operational;
4. Technologically based strategy for improving the company's business;
5. Processes to formulate and carry out projects to accomplish the strategy.
The business strategy coupled with any financial criteria are inputs to the outsourcing decision. Too many times IT has developed a systems architecture that does or can constrain the business requirements or too narrowly limits the business alternatives. An example is a COTS (Commercial Off-The-Shelf) financial control system. Restructuring the accounting systems to conform to the packaged structure may or may not result in placing limitations on future business flexibility such as pricing, utilizing third party financing or factoring receivables.
After examining and documenting the current business processes, identify a desired state that defines business efficiencies that can be obtained through reengineering the processes to take advantage of productivity alternatives inherent in the outsourcing strategy.

4 Outsource Planning

4.1 Staffing Skills Set
Usually the enterprise does not recognize the number of resources and the new skills required to manage the outsourcing activity. The mistake is further compounded by putting IT in charge of the outsourcing operation. The skills required to manage an outsourcer are not the skills that are in abundance in an IT function. The skills required to supplement the normal IT technical expertise are negotiation, contract administration, financial analysis, and vendor relationship management

Not having a dedicated and properly staffed core team to manage the outsourcing process is a major cause of project failure.

4.2 The Project Manager
The project manager needs to be a business generalist who can lead and coordinate the activities of a wide variety of team members who have a greater degree of expertise in their specialties that the project manager does not have. The project manager is responsible for:

1. Managing contractor performance
2. Resolving relationship problems and ensuring appropriate communication between the parties is maintained
3. Maintaining a lookout for new ideas and opportunities that enhance the contracting process outputs
4. Ensuring both the supplier and internal customers adhere to the contract's requirements

To perform these tasks, a project manager should possess the following specific leadership and interpersonal traits:

1. Demonstrated project-management skills
2. Ability to embrace and champion change
3. Ability to manage virtual teams
4. Desire to manage, not to do
5. Possess strong communications and negotiation skills
6. Proven experience in organizational development
7. Sound people management skills
8. Social skills
4.2 The Project Manager continued

9 Subject-specific expertise including knowledge of, and skills related to:
   - Enterprise business(es) being outsourced
   - Procurement
   - Contract law
   - Financial management
   - Human resource management
   - Requirements management

4.3 Teams

It would be rare to find all these skills and experience in a single individual. Given the skills pool of the firm, an approach that can be successful is to break the structure into 4 or 5 teams with a particular subject matter person heading each team.

A recognized industry practice is to break the groups into an overall steering/ negotiating committee with various sub-teams relevant to the area(s) to be outsourced inputting their information into the steering committee. This team is the interface to the vendor. All the other teams provide information to this focal point. It is the clearinghouse for the negotiation as it contains the most important element - contract cost.

As talks progress, document all interactions and ensure all changes and updates are in writing. Since successful relationships are based on trust, avoid the legal aspects of the contract in the day-to-day negotiations until all the details have been resolved.

Individual and team incentives are also important to both parties. Some organization structures foster motivation by tying project success through pay-for-performance plans and P&L center metrics. Ensure both parties understand and agree to the contract. Specify expected outcomes in objective, quantitative terms.

The various subteams are usually vendor negotiation, systems, finance and functional teams that represent the areas to be outsourced [13]. The composition of these teams is shown in Figure 4.

<table>
<thead>
<tr>
<th>Negotiation Team</th>
<th>Finance Team</th>
<th>Systems Team</th>
<th>Functional Team(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Outsourcing Project Manager</td>
<td>• Cost Accountant</td>
<td>• Chief architect</td>
<td>• As appropriate</td>
</tr>
<tr>
<td>• Chief negotiator - highly skilled in face-to-face negotiation</td>
<td>• Operational financial analyst</td>
<td>• Systems manager from each outsourced area</td>
<td></td>
</tr>
<tr>
<td>• Attorney</td>
<td>• Asset Manager</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Procurement</td>
<td>• Manpower analyst</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• HR manager</td>
<td>• Systems financial analyst</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Senior functional representative</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Senior system representative</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 4 Outsourcing Team Composition
The process steps usually follow a structured methodology similar to the one outlined below:

1. Identify the Customer Requirements and Business Processes affected.
2. Determine the Inputs and Outputs.
3. Have each team break down their key processes and document the Current State, Future or Desired State, and the change required to migrate to the Desired State.
4. Consolidate the information provided by the sub-teams into an integrated process workflow diagram.
5. Explore strategic implications, current and futures structures, and analyze cost and performance. This step is most critical and is an iterative process. Done well, it provides a very detailed roadmap and communication vehicle for everyone involved.

The coordination of these teams is achieved through a master communications document. This document is initiated by the systems team. It is essentially a super flow chart of the current work processes and associated times, cost, and effort metrics. Categories of the flowchart process could be file sizes, run times, data elements, processing costs by type i.e. compute, labor, telecom, etc. See Figure 5 for a typical layout.

The initial effort to create such a schedule can take hundreds of hours. However, it provides all the necessary information required to understand the current business state. It becomes a key component of the process baseline.

<table>
<thead>
<tr>
<th>Functions</th>
<th>Sequential Steps in Work Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer</td>
<td>2. Present to Customer</td>
</tr>
<tr>
<td>Sales Rep</td>
<td>1. Develop Proposal</td>
</tr>
<tr>
<td>Order Entry</td>
<td>4. Order Validated</td>
</tr>
<tr>
<td>Order Fulfillment</td>
<td>5. Various Inventory, Checking,</td>
</tr>
<tr>
<td></td>
<td>Pick, Pack, Ship Functions</td>
</tr>
<tr>
<td>Installation</td>
<td>6. Installation Functions</td>
</tr>
<tr>
<td>Billing</td>
<td>7. Billing Functions</td>
</tr>
<tr>
<td>Customer Care</td>
<td>8. CRM</td>
</tr>
</tbody>
</table>

Some companies also add external consultants who have particular expertise in outsourcing preparation, strategy, and/or negotiation. Consultants can also be used if a particular skills shortfall exists within the subteams that does not require in-depth knowledge of the company's operations. Examples would be the development of various clauses in the contract such as contract pricing options, performance and penalties and general negotiation strategy.

The initial outputs of these teams are:

1. A current state profile of the potential outsourcing activities - baseline
2. An assessment of the effectiveness and efficiency of the current operations and recommendations for improvements prior to outsourcing. (research has shown that much of the outsourced savings could have been achieved by internal improvements of the current processes)[16].
3. Information required to develop the Request For Proposal (RFP)

---

Operational Managers Handbook To Information Technology Outsourcing © Rochester Institute of Technology
4.3.1 Team Dynamics

Team dynamics focuses on how the work should be performed. The team members must establish common norms, respect and accountability for each other. Basic knowledge of group psychology is therefore important. Training in team dynamics will make the team members aware of the problems they can encounter and give them a better understanding of why people act as they do. When possible obstacles are identified and better understood the team will be able to deal with the problems more effectively. When the team works together as a whole, the synergy among the team members will increase resulting in increased performance and productivity.

But sometimes teams that are given all the possible opportunity and support continue to perform poorly. These problems are often associated with team dynamics. Some people cannot work together no matter what support they get. The only solution for this problem is to place these people in different teams or remove them entirely. When team composition is changed performance often decreases during an initial period but rebounds once group cohesiveness is reestablished.

4.4 Outsource Planning Summary

At this point in the process the following have been accomplished[2]:

1. A firm understanding of the business processes and the IT operation has been analyzed "inside out" to identify internal economies
2. Internal political agendas have been addressed
3. A non-defensive environment has been established enabling an offensive mindset
4. An environment focused on planning, communication, and measurable outcomes has been established
5. Retaining control over long-term IT planning has been agreed upon
6. A detailed financial analysis has been performed which includes:
   - Cost/benefit and ROI studies
   - Life cycle budgeting models
   - Financial sensitivity analyses
   - The business case for IT services has been clearly articulated

In a nutshell, the appropriate planning, communication and metrics have been established.

4.5 Sources of Outsourcing Vendors

One place to start the outsourcing search is with a current list of IT suppliers[5]. Consider traditional outsourcing vendors as well. Talk to your personal industry contacts as well as other CEOs/CIOs and members of professional associations which you are a member. This informal network often provides invaluable insight that is outside the formal communications channels.

Some typical questions to ask your contacts are: [5]

1. How did you choose the vendor?
2. How has the outsourcing relationship helped achieve your business strategy?
3. In what ways has the vendor met and not met its commitments?
4. What value proposition did the vendor sell you versus what it ultimately delivered?
5. How has the vendor handled change and conflict?
6. How has the vendor delivered on its promises?
7. How have your people fared in the new environment?
8. Now that you’ve gone through the outsourcing process once, what would you do differently?
Also, find current references in your industry so that you can determine how responsive the outsourcer has been to changes and conflicts in the relationship. Ask open-ended questions that get at the core issues. If you can get ex-customer references, find out how the outsourcer behaved at contract termination.

As you interview vendors and check references, you'll start to get a feel for one of the most important aspects of successful outsourcing: culture fit. Once this initial inquiry is complete send a request for information (RFI) to a mix of tier-one and tier-two players and gauge their interest in the job. The respondents constitute your long list. You then need to rely on due diligence to winnow this down to a short list.

What you are attempting to determine is what are the strengths of each vendor and do they have sufficient personnel on their staff to do the job. Following up with face-to-face discussions as part of the RFI, you want to know where they are investing their resources and how they interact with your team to ensure there is a cultural fit. It's also a good idea to visit a vendor site to assess their personnel and get a feel for how they treat customers. Reference checks are also a part of the initial screening process. Some vendors may not be willing to do this. If this is the case, drop them from consideration.

4.6 Request For Information (RFI)

The contracting process usually begins by meeting with a few prospective outsourcers to discuss the assignment. At this stage, the enterprise is represented by the senior executive of the firm, its senior negotiator, the project manager, legal council, and perhaps an outside consulting firm hired by the enterprise to assist with the negotiations. This segment of the process is known as the RFI (Request For Information). The enterprise provides the objectives of the program and the functions to be outsourced. The outsourcers will respond with various queries. These meetings permit the enterprise to gain a feel for the competencies, approaches, and a glimpse at the culture of the perspective outsourcers. At this stage, the enterprise should be dealing with the senior managers of the outsourcing firms albeit more related to their marketing and sales functions. However, a senior technical consultant for the outsourcer may be present. This dialogue provides the enterprise with a base for constructing the RFP.

When it comes time to make your final selection, send a detailed request for proposal (RFP) to a short list of three to six vendors. The RFP spells out exactly what service levels and costs you are attempting to achieve as well as the expectations of what will happen to your current staff. One of the first decisions you’ll confront is the choice between "full-service" and "selective" outsourcers. The right answer is very much an organization-specific choice, says Michael Corbett, managing partner of Michael F. Corbett & Associates, a Poughkeepsie, N.Y. based strategic outsourcing consultancy [5]. Know why you are outsourcing and how much of a management role you want to assume, Corbett advises. For example if, like Xerox, you want to focus on core IT strategy while someone else worries about day-to-day operations, then maybe you want an EDS - a full-service systems integrator.

There are other factors to weigh in the full-service/selective choice [5]. What are your outsourcing priorities? If it’s important that the vendor acquire the company’s physical IT assets, then a full-service outsourcer is better positioned to help you. But if you’re looking to beef up a specific function or technology, then selective outsourcing allows you to choose from the best in that particular niche. Also, if the bottom line is important, choose a full-service vendor who can offer a lower cost because of size and economies of scale. However, if you opt for selective outsourcing, you’ll find a more competitive vendor marketplace that may pay off in a greater service level and contract flexibility. It’s not necessarily an either/or proposition.
4.7 Request For Proposal (RFP)

An RFP is a highly structured document that specifies minimally acceptable functional, technical, and contractual requirements, as well as the evaluation criteria that will govern the contract award. Generally, the vendor who is most compliant with all of the RFP's specifications, terms, and conditions wins the contract.

The RFP must be structured to allow assessment and comparisons to be done in a meaningful way. To do this it must:

1. Define requirements in complete and measurable terms
2. Describe the type of relationship that the company is seeking
3. Explain the problem(s) that the organization hopes to solve
4. Ask specific questions about the vendor's culture
5. Describe current state operational costs
6. Specify service levels

The RFP consists of:

1. Project background
2. A situational analysis with appropriate financial details
3. Written functional specifications and flow diagrams
4. Project segments and milestones
5. Proposed team and qualifications
6. Schedule
7. Cost and Payment details
8. Terms and Conditions all wrapped in the appropriate enterprise procurement and legal boilerplate

A sample structure is shown in Figure 6.

Figure 6 - Sample High Level RFP Format
Insist the RFPs adhere to the response format described in the RFP. This will make internal comparison easier.

Best-in-class firms optimize contract execution by retaining full responsibility for outsourcing planning through the three stages of an outsourcing relationship: Initial needs analysis; Contract negotiation and; Ongoing relationship management.

A survey [27] has shown that 35% of application selection teams that report high or moderate level of confidence with RFP selection effort, decision, and the vendor’s ability to deliver promised functionality. But 64% of application selection teams report a low level of confidence with RFP selection effort, decision, and vendor’s ability to deliver promised functionality. Why is this? There is a dearth of objective data concerning vendors and products as a result of the interconnectedness of the IT and consulting worlds. Marketing presentations and promotional material are obviously skewed in favor of the vendor. Even in a face-to-face product demonstrations the answer is always "we can do that". It's only when you request a demonstration using your data attached to your infrastructure and architecture does the vapor cloud start to dissipate. Further, the focus of the outsourcing project is sometimes constrained to limited sets of criteria and decisions are then based on internal politics or 'gut feelings'.

Putting together the teams we discussed in section 4.3 can tie up 15 - 20 employees from 6 to 12 months while developing an RFP, gathering and evaluating product data and interviewing vendors and references.

There are many means to mitigate outsourcing failure. We have already discussed the most important: internal assessment and preparation.

This means the enterprise has a solid understanding of its outsourcing goals and objectives and has evaluated its current IT capabilities and taken action to address any deficiencies. The outsourcing teams have been assembled and research completed on potential outsourcing vendors.

4.8 Vendor Selection

Performing the RFP assessment and selecting the winner can be done with the enterprise's internal resources, hiring external consultants to do the vetting, or a combination of the two. The choice is dependent on the in-house expertise available but make sure you have someone with outsourcing experience on the vendor selection team.

When formal proposals come back, set up meetings with the actual vendor personnel who would be assigned to your account and focus on these three key issues: capabilities, culture and cost [5].

4.9 Evaluate the Proposals

Evaluating the RFPs comes in two parts, qualitative and quantitative. In addition, when dealing with the Federal Government and other government entities both the RFI and RFP evaluations have very specific regulations and guidelines for assessing the submissions. This paper does not address government procurement specifically. The topic is too far-reaching and extensive to be addressed in a handbook. Also, there are many books, websites, and government publications that already provide guides through the process and, of course, many consultants that specialize in government procurement. These regulations can be found at the Federal Acquisition Regulation website [http://www.arnet.gov/far/far_faqframe.html]. The evaluation criteria are found in FAR - Part 15 [http://farsite.hill.af.mil/archive/Far/1997/15.htm].
Regardless if you are a public entity that requires open disclosure of your evaluation process, it is good business practice to at least inform the vendor of the quantitative criteria to be used along with some "business judgement" that will be used in the selection process. In this way, prospective bidders can then determine if they want to participate in the competition given the assessment criteria.

A common methodology used in the assessment process is to use a selection committee. The committee is given the qualitative and quantitative criteria along with a weighted point scale to record their assessment. Each person does their assessment separately and then meet to discuss their findings and reach a consensus on the scores.

The first step is to determine is whether the outsourcers are capable. Use the following checklists[12,28].

4.9.1 Qualitative Factors

- Is the solution viable?
- Can it be managed better by the outsourcer than the enterprise?
- Have all the RFP requirements been met?
- Does the outsourcer have a sound transition plan?
- Are the two parties culturally compatible?
- Is the transition plan viable?
- Is the pricing reasonable?
- How are the risks addressed?
- Can the vendor successfully integrate with the company’s culture?
- What is the work environment - button down or informal?
- What is the vendor’s vision for partnership?
- How will the vendor’s staff relate to company’s IT staff?
- How high is the vendor’s level of interest in your outsourcing needs?
- Does the vendor show the flexibility to respond to business and technology changes?
- What are the career paths, retention rate and compensation of their own employees and those of past outsourcing customers? Ensure they are capable via references and demonstrations.
- Are they candid regarding their commitments and capabilities.
- What can they do and not do well?
- Is there on-site management with decision-making authority or is management centralized? Communication is vital in an outsourcing relationship, and it can make a big difference if vendor managers are easily accessible.
- How are issues resolved? Recall the RFI negotiation process to gain insight into the vendor’s negotiation approach. The interactions at the negotiation table are telltales of the on-going relationship dynamics and issue-resolution process.

4.9.2 Quantitative Factors

- Management and Integration
- Cost or Price
- Technical Factors
- Personnel and Experience
- Vendor Experience and Facilities
4.9.2 Quantitative Factors continued

- Past Performance
- Transition Plan
- Financial Viability
- Diversity of vendor’s employees’ skills
- Relationships with other outsourcing suppliers
- Vendor Strategy (mission/vision; growth; product strategy)

Usually weighting factors are assigned to the quantitative portion of the assessment factors prior to the assessment. An evaluation scale e.g. 1-10 is used for each factor. Even though the factors identified under the quantitative umbrella are not hard and fast they are more visible and somewhat more tangible and therefore provide the more “factual” aspect of the criteria to assign a hard score. When the voting is complete and consensus is reached on the winner, the detailed contract negotiations can begin.

5 Contract Development

Many books, articles, and consultants emphasize the importance and value of a sound legal contract [4,8]. Certainly having some written framework to reference is important. However, an over emphasis on the legal aspects is detrimental to what is to be accomplished - delivery of a product within a certain time at a certain price. Vendor reputation and credibility together with the relationships and trust that is developed by the principals of each party is far more important then any ex post legal remedies.

This perspective is further reinforced by Stralkowski and Billion [29] who emphasize that a contract on its own is neither self-enforcing nor self-adjusting.

The success of a relationship relies chiefly on the level of customer satisfaction, decreased cost, increased quality of services, and, more importantly, longevity of the venture.

5.1 Overview

Contracts define[12,13,28]:

1. What is to be delivered within a specified timeframe
2. The costs
3. Length of service
4. Various performance metrics and
5. Risk allocation and dispute resolution mechanisms

5.2 Contract Successes and Failures

As previously mentioned in Section 3.10, 33% of IT outsourcing were considered a failure. What then, are the key factors to be considered when outsourcing? The following sections summarize the research findings and experiences of outsourcing enterprises and vendors of the main contributors to their success or failure.

5.2.1 Success Factors

- Contract team properly staffed and funded
- Due diligence and second opinions exercised by customer
5.2.1 Success Factors continued

- Contract matches the skills and culture of the customer with the supplier
- Contract is tight and carefully defined
- Contract is written to share risks and benefits
- Contact contains a renegotiation option
- Outsourcing specific functions not related to core business
- Outsourcing efficient functions

5.2.2 Failure Factors

- Vendors not pre-qualified based on references or existing relationships
- Finance, legal staff, or vendors dominate the RFP and evaluation process
- Short-term benefits dominate decision factors
- Loose contracts

Contracts for outsourcing and even for the more narrow view of software development are the cornerstone for managing the agreed to deliverables. Certainly with outsourcing, where the magnitude of the deal is in the millions of dollars, it is mandatory. Experience has shown, that even with small software development efforts, the time spent to at least jot done and initial the requirements portion of the process prevents many of the misunderstandings regarding the delivery date and the core deliverables. It can also place boundaries around the inevitable scope creep.

Contract development and management is a comprehensive checklist of activities that you manage like any large project. The keys to success are also the same [13]:

1. Contract preparation and planning (defining the outcomes)
2. Fostering of cooperative relationships
3. Appropriate personnel structure and staff skills
4. Effective Contract Implementation, Management and Monitoring (Section 6)

5.3 Contract Preparation and Planning

It may take many months and involve many parties from both within and outside of the contracting organization. Careful planning is an investment in getting the contract right. Case studies have revealed a number of key steps for managers to follow during the planning period, many of which need to be addressed in the contract [13]. They are:

1. Analyze the business to identify the type of service or product required
2. Determine the level of performance required and ensure that it can be measured
3. Consider the risks associated with contracting and how they will be managed
4. Ensure a smooth transition within the organization by paying early attention to the cultural and staffing issues
5. Provide assurance to customers that services will not diminish
6. Plan for a relationship with the provider based on trust, commitment and cooperation
7. Ensure the best service providers are attracted by a well planned proposal process, and
8. Design a contract that will address all relevant issues

To begin, review your Internal Business Assessment as described in Section 3.12. This plan included setting the strategic goals, defining the scope of services, and establishing a scorecard of results.
These qualities will best enable a potential vendor to satisfy the deliverables identified in the project RFP. You must be able to clearly quantify your results and pinpoint responsibility and accountability.

Tools must be in place to monitor the performance criteria to ensure they are being met. Only when the measures are established and available can you write an enforceable outsourcing contract.

Bring your negotiating team together. Their responsibility is to set negotiation goals and strategies and review your previously developed contract planning guide. Also confirm, review, discuss or decide on the following [2,12,13,28]:

- Reaffirm the outsourcing objectives with the executive committee
- Maintain a dynamic "discussion document" to form the basis for the final contract
- Identify "smoking guns" that could be used to disadvantage the enterprise during the negotiation
- Restrict initial communication with the vendor through the negotiating committee
- Agree or reaffirm the mechanisms to chart vendor progress and correct poor performance
- Limit the use of third parties or the use of a general contractor to conduct the negotiation
- Consider resetting the contract after six months when both parties are more knowledgeable about actual requirements
- Include legal counsel in planning and negotiations
- Develop communication procedures for internal personnel, prospective customers, and the media

5.4 Fostering Cooperative Relationships

5.4.1 Cultural Assessment

Before the contract negotiation meetings begin, the negotiation team should discuss and prepare a list of behaviors and observations of the outsourcer to ensure an aspect of the "soft" metrics, namely culture, are not a showstopper. Below are some items for consideration [2,5].

1. What is the work environment - button down or informal?
2. Is there on-site management with decision-making authority or is management centralized? Communication is vital in an outsourcing relationship, and it can make a big difference if vendor managers are easily accessible.
3. How are issues resolved? Observe the contract negotiation process to gain insight into the vendor’s negotiation approach. The interactions at the negotiation table are telltale of the on-going relationship dynamics and issue resolution process.

If the vendor advocates for solutions to benefit all parties in the relationship, this is a positive sign. If there is always a partisan view benefiting the vendor, be wary.

If you are choosing to go the multiple vendor route to avoid being held hostage at renegotiation time, another determinant is how well the outsourcers work with each other. The common saying of share information and compete on execution is the mode of operation you are seeking. The result will be superior customer service.
In the end, cost, level-of-service metrics, risk sharing, and acceptance criteria are the quantifiable aspects of the contract. Because they are “hard” rather than “soft” aspects of the relationship, both parties will strive to ensure their requirements are met. This is usually the most time consuming and difficult part of the negotiation. How the process is conducted is a harbinger of the on-going relationship.

5.4.2 Vendor Meeting Processes and Topics

When two different enterprises are going to work together for a period of time it is beneficial to review each other’s methods of conducting business. Meetings are one of these processes. Ensuring there is an agreed to process at the onset avoids misunderstandings that can surface in the future. The following outline is a suggested approach for conducting successful meetings.

5.4.2.1 Before the Meeting

1. Provide a proposed agenda with topics and timeframes
2. Distributed any pre read a day or two prior to the meeting
3. Identify the purpose and the desired outcome
4. Ensure participants can create the desired outcome

5.4.2.2 During the Meeting

1. Share expected outcome
2. Use interactive skills - initiating, reacting, and clarifying
3. Appoint a facilitator, timekeeper, and scribe
4. Keep on topics and use a “parking lot” to capture off-topic issues
5. Keep time agreements
6. Review session’s outcomes and agree on the process by which the outcomes are implemented

5.4.2.3 After the Meeting

Communicate the results of each meeting and follow a process by which the meeting outcomes are implemented i.e. who is affected; ensure compliance with direction; follow up on action items.

5.4.3 Meeting Topics

Each person or group will have their list of “hot topics”. Usually people will not listen or actively participate in discussions until their itch is scratched. So it can be helpful to get these “hot topics” addressed as soon as possible. Having each group submit a list of critical discussion items and then agreeing on a timeframe to discuss them can diffuse some of these “got-to-know-now” situations. So ensure the agenda is flexible.

Once these issues are addressed there is a natural progression of topics.

5.4.4 Contract Outline [4,8,28]

Contract specifics vary by the type of outsourcing activity e.g. data center, software development, telecommunications, etc. The process of subteams feeding information to a centralized negotiating team that was used in developing and assessing the RFPs is also applicable here. However each outsourcing contract should contain a set of clauses regardless of the type as shown in Figure 7.
<table>
<thead>
<tr>
<th>Article One - Purpose and Definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Purpose</td>
</tr>
<tr>
<td>1.2 Definitions</td>
</tr>
</tbody>
</table>

**Article Two - Services**

<table>
<thead>
<tr>
<th>2.1 Description of Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.2 Omission In Services</td>
</tr>
<tr>
<td>2.3 Growth In Services</td>
</tr>
<tr>
<td>2.4 Additional Services</td>
</tr>
</tbody>
</table>

**Article Three - Payment and Fees**

<table>
<thead>
<tr>
<th>3.1 Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.2 Fee</td>
</tr>
<tr>
<td>3.3 Fee Adjustment</td>
</tr>
<tr>
<td>3.4 Most Favorited Nation</td>
</tr>
<tr>
<td>3.5 Productivity</td>
</tr>
<tr>
<td>3.6 Benchmarking</td>
</tr>
</tbody>
</table>

**Article Four - Turnover**

<table>
<thead>
<tr>
<th>4.1 Turnover of Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.2 Schedule of Events</td>
</tr>
<tr>
<td>4.3 Liaisons</td>
</tr>
<tr>
<td>4.4 Existing Information Systems</td>
</tr>
<tr>
<td>4.5 Employees</td>
</tr>
<tr>
<td>4.6 Existing Software Licenses</td>
</tr>
<tr>
<td>4.7 Assignment of Existing Hardware Related Agreements</td>
</tr>
<tr>
<td>4.8 Existing Hardware Maintenance Agreements</td>
</tr>
<tr>
<td>4.9 Asset Transfers and Equity Infusions</td>
</tr>
</tbody>
</table>

**Article Five - Performance Standards, Incentives and Penalties**

<table>
<thead>
<tr>
<th>5.1 Performance Measures, Standards, and Metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.2 Remedies for Defective Performance</td>
</tr>
<tr>
<td>5.3 Production Schedule</td>
</tr>
<tr>
<td>5.4 Resource Schedule</td>
</tr>
<tr>
<td>5.5 Ownership of Data and Removable Media</td>
</tr>
<tr>
<td>5.6 Continuity During Dispute</td>
</tr>
<tr>
<td>5.7 Correction of Processing Errors</td>
</tr>
<tr>
<td>5.8 Right to Audit</td>
</tr>
</tbody>
</table>

**Article Six - Disputes**

<table>
<thead>
<tr>
<th>6.1 Dispute Resolution and Escalation Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.2 Non-Binding Mediation</td>
</tr>
</tbody>
</table>

**Article Seven - Indemnification, Warranties and Limitations of Liability**

<table>
<thead>
<tr>
<th>7.1 Vendor's Warranties</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.2 User's Warranties</td>
</tr>
<tr>
<td>7.3 Limitation of Liability</td>
</tr>
<tr>
<td>7.4 Infringement</td>
</tr>
</tbody>
</table>

**Article Eight - Term and Terminations**

<table>
<thead>
<tr>
<th>8.1 Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.2 Expiration</td>
</tr>
<tr>
<td>8.3 Renewal</td>
</tr>
<tr>
<td>8.4 Termination for Breach</td>
</tr>
<tr>
<td>8.5 Termination for Convenience</td>
</tr>
<tr>
<td>8.6 Termination Upon Acquisition</td>
</tr>
<tr>
<td>8.7 Termination Upon Divestiture</td>
</tr>
<tr>
<td>8.8 Change In Control</td>
</tr>
<tr>
<td>8.9 Procedures Upon Expiration or Termination</td>
</tr>
<tr>
<td>8.10 Turnback</td>
</tr>
<tr>
<td>8.11 Continuing Rights to Use Certain Vendor Software</td>
</tr>
<tr>
<td>8.12 Change of Character and Substitution</td>
</tr>
</tbody>
</table>

**Article Nine - Miscellaneous Provisions**

<table>
<thead>
<tr>
<th>9.1 Assignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.2 Modification</td>
</tr>
<tr>
<td>9.3 Compliance with Laws</td>
</tr>
<tr>
<td>9.4 Nonpublicity</td>
</tr>
<tr>
<td>9.5 Governing Law</td>
</tr>
<tr>
<td>9.6 Confidential Information</td>
</tr>
<tr>
<td>9.7 Force Majeure</td>
</tr>
<tr>
<td>9.8 Notice</td>
</tr>
<tr>
<td>9.9 Venue</td>
</tr>
<tr>
<td>9.10 Integration of Agreement</td>
</tr>
<tr>
<td>9.11 Modification of Agreement</td>
</tr>
<tr>
<td>9.12 Legal Construction</td>
</tr>
<tr>
<td>9.13 Waiver</td>
</tr>
<tr>
<td>9.14 Binding Effect</td>
</tr>
<tr>
<td>9.15 Authority</td>
</tr>
<tr>
<td>9.16 Captions</td>
</tr>
<tr>
<td>9.17 Expenses for Enforcement</td>
</tr>
<tr>
<td>9.18 Taxes</td>
</tr>
<tr>
<td>9.19 Misspellings</td>
</tr>
<tr>
<td>9.20 No Agency</td>
</tr>
<tr>
<td>9.21 Subcontractors</td>
</tr>
<tr>
<td>9.22 Compliance With Laws</td>
</tr>
<tr>
<td>9.23 Hiring of Other Party's Employees</td>
</tr>
<tr>
<td>9.24 No Conflicts</td>
</tr>
<tr>
<td>9.25 Ethical Standards</td>
</tr>
<tr>
<td>9.26 Bankruptcy</td>
</tr>
<tr>
<td>9.27 Headings</td>
</tr>
<tr>
<td>9.28 Severability</td>
</tr>
<tr>
<td>9.29 Counterparts</td>
</tr>
<tr>
<td>9.30 Entire Agreement</td>
</tr>
</tbody>
</table>

*Figure 7 Outsourcing Contract Clauses [4.8.28]*
Using this outline, the subteams can be divided into:

1. Services and Payments and Fees including Benchmarking
2. Turnover and Performance Standards, Incentives and Penalties including Risk Mitigation
4. Term and Terminations

A complete description of each clause and its purpose can be found in the appendix. These descriptions should be thoroughly read and understood before you begin contract negotiations. Some of the “technical” aspects of a contract as well as some critical legal terms and terminology will not be discussed in the following section. This section is oriented towards an operational manager’s perspective. However, it is critical that a knowledgeable contract manager and lawyer be part of the team that reviews and approves the final contract, not so much in the operational areas, but in the obligations and commitments the contract entails for the enterprise.

5.4.5 Services and Payments and Fees including Benchmarking

5.4.5.1 Controlling Costs [2,28]

The negotiation of the contract with regards to price is important. But vendors can have an advantage in contract negotiations if you do not have an internal procurement specialist who deals with vendors as part of their job responsibilities. The “art-of-the-deal” is a skill honed through experience despite the many “how-to” books on this topic.

Costs are dependent on the deliverables as detailed in the requirements document. The project manager’s responsibility is to provide the most complete requirements specification document as possible. All outsourcing books, articles, and practitioners emphasize the importance of a detailed requirements document. The document should be exhaustive and unambiguous. However, this is a very ambitious goal to achieve. Part of the difficulty in drafting these descriptions is determining the inter-relationship between existing services, the new services you want to add, and the services to delete or to keep in-house.

Having good requirements enables the team to list the entire major outsourcing deliverables and tasks. These tasks can then be sized (how big) and quantified as to effort (how much). Assumptions for each estimate are also documented. This exercise provides an estimate of the cost of the outsourcing tasks to compare against the vendor’s quote. Given some industry average rates, you can determine the reasonableness of the vendor’s quotes and discuss the rationale of the bid and negotiate the price for the various tasks. Without doing this type of internal exercise, you have no reference point for determining the reasonableness of the vendor’s bid. This aspect of the negotiation is the most critical. If the quotes are always “out of the ballpark” you will probably want to terminate negotiations and select another vendor. If the quotes are reasonable, you then can proceed to discuss other aspects surrounding these base costs.

Depending upon the effectiveness and efficiency of the potential outsourcing operation, there may or may not be easily captureable savings through modification of the current work processes that are not costly to implement.

Costs have three main components [12] - price variability, flexibility and shared risk.

Variability is what you want in a pricing structure. Rather than the fixed costs of maintaining current investments, say, in legacy systems and staff, you want a sliding, pay-as-you-go structure.
But also look for built-in flexibility so that when your IT environment changes, your vendor can accommodate the change with minimal fuss or restructuring of costs. Beware the low-ball bid. The low price today isn’t always the best value tomorrow. When you look at a vendor’s projected costs, watch for hidden costs for services that aren’t covered in the contract and consider how they’ll escalate during the life of the agreement. In actuality, there is often a world of difference between a vendor’s quoted price and the ultimate bill. As for shared risk, outsourcing vendors are in the primary business of selling IT services. Some vendors view partnership and profits as a tradeoff. The true test of partnership is whether outsourcers are willing to share their customers' business objectives and risks in a so-called “co-sourcing” arrangement. The good news about cost is that the finalists’ bids will be fairly close together. So the determining factor will come down to your personal comfort factor regarding cultural fit.

5.4.5.2 Other Cost Considerations [2,28]

One of the easiest aspects of ensuring the lowest cost is to insert a “most favored nation” provision. This provision guarantees the prices charged to you are the lowest prices charged to any customer under similar market conditions and volume.

Technology costs are very volatile due to the rapidly changing advancements in hardware and software. You do not want to be locked into costs that can significantly decrease during the contract term. So explore means to index technology costs and/or establish an annual renewal provision coupled with price adjustments. Another alternative is to agree on profit sharing provisions associated with the implementation of cost saving tools. Along these same lines define and establish a “technology refresh” program that reduces the cost of the operation. Also insert a cost protection clause if the vendor relocates or a subcontractor is replaced.

There will likely be situations where the deliverables do not meet the agreed to specifications so establish clear responsibilities for non-performance and cost overruns now. Last, if the project fails, identify termination costs. As a matter of good business practice, always make progress payments and never pay in advance.

5.4.5.3 Benchmarking [8,12,28]

A benchmark is a test that measures the performance of a system or subsystem on a well-defined task or set of tasks. Benchmarks are commonly used to predict the performance of an unknown system on a known, or at least a well defined task or workload. However, without knowing what a benchmark measures, you can’t translate benchmarks to your specific situation. This is a dilemma because the measures are not available so many outsourcers resist benchmarking. So you must use benchmarks with caution.

The decision to outsource is often made because the IT environment is in poor shape. In this case benchmarks can provide an estimate of the size of the investment required to bring the function up to standards and provide a baseline for charting improvements to the outsourced environment over time. So if benchmarking is included as a performance standard, the measures must be comparable.

5.4.6 Turnover and Performance Standards, Incentives and Penalties including Risk Mitigation

5.4.6.1 Turnover

Turnover of an operation to the outsourcing vendor requires the same attention to the level of detail as in the requirements exercise with a focus on the operational procedures associated with the current business practices and processes. Many times there are administrative manuals that provide this documentation.
If not, the Subject Matter Expert (SME) for each area must provide the written process. The SMEs should also review the current documentation and make any updates to bring it current with actual practices. Once the base procedures are documented, a detailed transition plan including contingencies for potential problem areas is developed along with procedures for problem management escalation processes with stated timetables. Also procedures for handling the ownership of intellectual property and protection of confidential information require resolution.

5.4.6.2 Performance Standards
Performance standards for the current operation can be used as the baseline for the new procedures. Review the current standards and make adjustments to ensure the measures make sense. They must be measurable and trackable in order to document vendor performance. Develop a schedule to review performance regularly with the executive committee and vendor. Amend the contract’s level of service provisions in advance of anticipated needs.

5.4.6.3 Risk Mitigation
Risk can be reduced by building renegotiation into the contract. So ensure there is a clause that allows renegotiation if various “trigger points” are encountered such as continually missing dates.

As the project progresses, periodic top-level review meetings should be established with the executive committee. Knowing there will be people “looking over their shoulder” has a way of addressing and resolving issues as they occur and eliminates foot dragging and excessive haggling.

Clarity and specificity will avoid many aspects that can come into play if the contract is silent on the topic. Some areas where this occurs is personnel, so ensure both key customer and vendor personnel are identified by name and their length of commitment to the project. Identify with key performance metrics when an application will be transitioned back to internal support personnel where applicable. Similarly, ensure what tests or client personnel must attain certification before the training is considered fulfilled. Last, attempt to incorporate “dragnet” clauses into the contract that state services, which are not explicitly defined, are to be delivered by the vendor wherever possible thus placing any unforeseen or overlooked risks back on the vendor.

5.4.6.4 Disputes
The severity of the penalty and triggering mechanism as well at what point in time the penalties are imposed are the key points causing disputes. As these become a concern, they should be raised as an agenda item for the Management Committee to discuss. Non-binding mediation is the next step in the escalation process for resolving issues that arise which cannot be resolved without some type of third party intervention. The last step would involve more formal litigation involving legal council and the formulation of defenses supporting each party’s viewpoint.

5.4.7 Legal Boilerplate - Indemnification, Warranties and Limitations of Liability and Miscellaneous Provisions [4,8,28]
It does require effort and attention to detail to develop a solid contract. But much of the development is in the requirements and falls to the functional owners. The remaining clauses can be found in a book on outsourcing contracts. Your legal council, who you should insist specializes in outsourcing arrangements, can also provide you with a starting point.
In addition, there are IT consulting services such as Gartner Group, that will review your contract and provide advice on its viability.

There are a number of other provisions that round out a solid contract. None of these should be overlooked. It always seems it’s the one that, at the time, seems insignificant that can be your downfall. It’s true the devil is in the details. To illustrate why it is important that you receive specialized assistance and ensure you are represented by a strong negotiator, let’s go through a few examples.

To begin with, a vendor will probably want to use their standard outsourcing contract. If you have done your homework, you will realize that this contract shifts the majority of risks to your enterprise by being silent on many situations and vague in the details regarding performance measures.

There are also economic, technical and business risks to consider [12].

Economic risk is the risk of paying the outsourcer more than expected for the services performed. This usually takes the form of “hidden costs” that show up as additional services not covered in the original contract [8]. This is an example of where vagueness or the lack of definition as to what constitutes additional services. One method of preventing this type of “overlooked” activity is to insert in the contract wording regarding the omission in vendor services. Words like “if a service provided by user’s IT department prior to the effective date is omitted from both the prior services and the excluded services, then such omitted service shall be deemed to be included within the scope of vendor services and shall be provided by the vendor at no additional charge”

Technical risk is the risk of being inhibited from gaining additional productivity by old technology or obsoleted by versions of underlying software that are no longer supported or render the process inoperable. For example, if a software vendor provides a new release that significantly improves the functioning of a work process of which the software is an integral part, the outsourcer should be required to incorporate these releases into the system at no charge to the enterprise. Words such as, “As required by new releases of the underlying software, the vendor agrees to enhance the affected software at its expense to enable the software to work with such updated versions and releases” should be added. Also these new releases can require “tweaking” or more significant rewrites of some system interfaces. This is not uncommon with ERP or CRM software. Make sure it is clear whose responsibly it is to make these changes and who pays for the effort. Such issues are found under the Change of Character and Substitution clause.

An example of a business risk is the loss the capability to make quick decisions with respect to IT or unable to close or convert a contract in case of a merger or acquisition. The need to make quick decisions is a common issue that is driven by the business environment where reaction time is crucial. This is an example where contract flexibility may be more important than price.

A clause within the Performance Standards - Performance Measures, Standards, and Metrics would include a performance measure relating to the outsourcer providing a minimum response time to assigning resources to a business critical requirement. An added performance incentive can be built into the requirement as an additional incentive. Another approach that has worked is to contract for a group of maintenance personnel that can also be prioritized to do enhancement and development work. If the maintenance work is slow or the defects are not critical, resources can be diverted of the more critical business enhancements.

For merger and acquisitions, the clause usually gives a certain period of time from the merger to terminate the contract. Also for a divestiture of more than a certain percent of the outsourcing services, the contract can also be terminated.

Another interesting business risk is Force Majeure or “acts of God” [8]. Your first reaction, based on your homeowner’s insurance, is to think “acts of God” are not insurable.
Think again. The enterprise must decide what events are acceptable as a Force Majeure rationale for the vendor’s failure to perform. Good lawyers will devise mechanisms to mitigate the Force Majeure clause. Just think about all your daily transaction processes. Even if those events are acceptable reasons, how long should the enterprise tolerate the vendor’s inability to perform before finding other sources of outsourcing services. For example, how long will disaster recovery be performed before user can seek an alternate vendor? Work in this area will force the outsourcer to ensure adequate disaster recovery mechanisms are in place so your company can function as close to business-as-usual as possible.

One last common example, your data, who owns it [8]? In what form? How are you entitled to receive it? These questions reinforce the necessity for being as detailed and specific as possible in removing all possible ambiguity. If a dispute arises and you find yourself before a less knowledgeable third party, the wording within the contract will be the only guidelines available. A third party’s “common sense” may not be sufficient. This is why, in this instance, you would want words like “vendor will provide a copy of user’s data and software data on magnetic media specified by user and the description of the data’s layout or electronically transmitted to the user’s facility in accordance with user’s instructions”.

5.4.8 Term and Terminations

The best time to address the mechanics of terminating a contract is at contract initiation where there is still negotiating leverage and the proper attention and resolution of the details will receive proper consideration. The reasons for termination are:

1. Term of agreement is reached
2. Vendor has not performed adequately
3. Current contract lacks flexibility
4. New vendor or change in ownership
5. Change of focus or technical requirements
6. Ability to capture greater savings or other advantages with another vendor

The objective is to balance termination risks with the disadvantages of continuing the relationship. The goal is to have low termination costs and/or risks. Clauses that should be included are:

1. A change clause
2. Disputes resolution clause
3. Indemnity clause to protect from any claims or damages resulting from the vendor’s errors or omissions.
4. Annual renegotiation provisions

5.5 Personnel Structure and Staff Skills

Outsourcing will cause disruption, displacement and possible termination of current employees [2,12,28]. Don’t pretend that it’s business as usual. Acknowledge employee loss of identity. Establish employment, training, and placement services for displaced employees. Also establish training programs for the remaining staff.

For those employees migrating to the outsourcer, focus on the opportunities for career mobility, training and job stability in the new environment. Review and establish benefits packages if your benefits differ from those of vendor. To ease the transition, have the vendor work with the redeployed staff prior to changeover.
Conversely, run comprehensive reference checks on the vendor’s staff to prevent unacceptable personnel changes and to ensure you have the right to approve vendor team members. And lastly, insert a right of refusal clause for subcontractors that states under what conditions the vendor may hire subcontractors to perform various contract deliverables.

**6 Effective Contract Implementation, Management and Monitoring**

6.1 Planning Meeting

Once the contract has been negotiated and signed, it’s time to bring the customer and supplier teams together to begin implementation. The first step is to bring the contract personnel from both the customer and supplier together for a contract/project orientation meeting. This should be a collaborative effort. Getting off to a good start ensures that habits formed at the beginning are carried throughout the project. Validating with the team the purpose and objectives of the outsourcing project will avoid unsatisfactory performance and deficient outputs. Roles, responsibilities, resolution authorities, interfaces, etc. are understood early to prevent miscommunications.

The overall goals of the start-up meeting are to:

1. Orient the team
2. Describe the goals of start-up
3. List start-up activities
4. Restate the project deliverables
5. Motivate the team
6. Enhance communication
7. Clarify project requirements
8. Establish the:
   - Project environment
   - Contract interfaces
   - Contract control processes
   - Project plan requirements
   - Project environment
     a. Facilities
     b. Systems
     c. Tools
9. Organization Processes
   - Frequency of status meetings, attendees, data measurements
   - Methods for setting priorities
   - Methods for resolving conflicts or issues
   - Method for tracking expenditures and project status
   - Formal reporting and review procedures
   - Informal reporting and review procedures

The initial planning meeting can take 3-5 days. Once these team building activities have taken place and the administrative processes resolved, the next steps are to:

• Review Contract
6.1 Planning Meeting continued

- Identify and resolve any planning issues, discrepancies, clear up any misunderstandings - What? When? Where? Cost expectations?
- Confirm the key participants/interfaces
- Review the acceptance criteria
- Develop major milestones
- Identify potential risks and develop a Risk Mitigation Strategy
- Develop problem escalation procedures

In summary, starting right avoids a lot of subsequent frustration.

6.2 Contract Performance

The core work of the team is the implementation and management of the contract deliverables by monitoring performance. There a number of key metrics to be provided in order to track contract performance. They are:

- Budget
- Schedule
- Contract Changes
- Technical Activities
- Risks

These budget and schedule metrics and timeframes are an outcome of the contract negotiation and were developed as a tool for identifying and measuring progress and quality. Also, some were established to verify performance and the criteria for the awarding of fees or penalties. Don’t use metrics to assign blame.

6.3 Contract Changes

This is a shared responsibility. The supplier has the prime responsibility for managing changes to requirements. But where do most of the changes come from? The customer.

Managing contract changes is therefore the most collaborative process that must be followed.

First, changes to the contract must be controlled. The impact of changes must be evaluated as to plans, work products, activities and risks. Then they must be monitored and tracked to completion. These changes are usually expensive and should be kept to a minimum. The contract should indicate the mechanisms for changes and the costs. Sometimes changes are due to a customer oversight and other times a vendor implementation error. At times there may be disagreement as to the cause for the change. The dispute resolution mechanism covers this process. If contract changes occur frequently, this is a cause for concern. Either the contract was poorly constructed and failed to define all the requirements - poor initial planning and analysis on the part of the customer and/or inadequately detailed documentation of the customer requirements.

6.4 Risk Management

Some common risk situations encountered in contract management are [28]:

- The organization is inexperienced in implementing outsourcing functions
- More stringent and precise performance requirements than previously implemented
- Significant deviations to plans (staffing, resources, schedule)
6.4 Risk Management continued

- High staff turnover, especially key personnel
- Early schedule slips to be “made up” at a later date
- Unrealistic schedule, budget and personnel shortfalls (numbers, skills, experience, dedicated time)
- Over-extending the performance envelope

In order to detect risks, some activities need to be performed to make these concerns visible. Some valuable methods for risk detection include:

- Weekly/monthly status reports
- Tracking accomplishments vs. plans
- Staffing reports
- Assurance reports (both process and product)
- Performance shortfalls

6.5 Performance Information

Performance information may come from various sources and can be both objective and subjective. Although it is desirable to have objective performance information, the value of subjective feedback from customers should not be underestimated.

Performance information includes:

- Service quality standards for timeliness, accuracy, courtesy, customer satisfaction
- Existing benchmarks in the industry or an active benchmarking process
- Accreditation of the provider (if applicable)
- Setting up a monitoring committee with stakeholder representatives
- Site visits by the enterprise
- Performance against targets agreed between customer and vendor

6.6 Performance Checklist [5,7,13,28]

The performance information is a combination of hard and soft information. This information can be utilized to determine if the project may be faltering.

The following is a checklist of factors that assist in determining if corrective action is required.

- How are the activities planned on the project?
- Is the project within budget and schedule?
- What are the current risks on the project?
- How is the quality of the product being ensured?
- Is the customer satisfied?
- Is the project training adequate (if applicable)?
- Is the vendor performing as expected?
- Are deliverables late or the project is behind schedule?
- Is the project out of control?
- Is performance not to specification?
- Are the deliverables (documentation) inadequate?
- Are communications strained or difficult (related to team efforts)?
- Are review meetings not productive?
6.7 Contract Management

If the checklist indicates problems are surfacing, take the following actions.

- Identify the possible reasons
- Confirm them
- Review available metrics for trends
- Determine immediate solutions
- Determine avoidance strategies (current and future)

The following matrix is also helpful for problem identification and resolution.

<table>
<thead>
<tr>
<th>Problem</th>
<th>Validation</th>
<th>Metrics</th>
<th>Solutions/Fixes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schedule Problems</td>
<td>Investigate schedule progress variance</td>
<td>Schedule variance</td>
<td>Assess and manage risks. Provide or suggest training.</td>
</tr>
<tr>
<td></td>
<td>Planned vs. Actual.</td>
<td></td>
<td>Allow contingencies in schedule.</td>
</tr>
<tr>
<td>Cost and Size Problems</td>
<td>Check size and cost variance over lifecycle</td>
<td></td>
<td>Perform estimate to complete. Develop a Risk Management Plan.</td>
</tr>
<tr>
<td>Project Out of Control</td>
<td>Workers are in firefighting mode. Managers are under inordinate pressure/ stress. Workers at work until late at night</td>
<td>Progress metrics Training (planned vs. actual)</td>
<td>Objective third party analysis</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Develop a proper plan and follow it</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Training</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Collect and analyze measurements for decision</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Develop a risk management plan</td>
</tr>
</tbody>
</table>

Figure 8 Contract Problem Resolution Matrix

In summary, the obvious two remedies when things don’t work are changes to process or personnel. At the extreme, vendor termination may be required so ensure there is no lock-in clause in the contract.

Nugget #16
7 Summary

7.1 Conclusions

In summary, outsourcing requires a set of skills and approaches to formulate a contractual relationship [31]. These are reflected in the key components of the outsourcing contract:

- Contract type
  - Pricing provisions
  - Reward and penalty mechanisms
  - Performance measures
  - Nonpricing provisions

Be consistent in your approach. Focus on economies of scale, technical expertise, and IT management processes.

Business impact requires change management competency, reengineering skills and process know-how.

Last, the enterprise must also ensure it has the capabilities required to manage an outsourcing relationship. It must have project management, deal making, negotiating, and conflict resolution skills. The operating styles and cultures of both organizations must be compatible at all levels.

Since the intent of outsourcing may change over time as business conditions dictate this must be anticipated and built into the contract.

The chance of success is increased when the strategic intent is well understood and the relationship is managed to address the contractual aspects that are critical to success.

Remember, no outcome is certain especially when there is no historical data that can be brought to bear. This is the case with any new development project - it has not been done before. There are similarities but the subset of components and their linkages are unique.

There is usually more than one technical alternative to solving a problem. Technical alternatives are no different than any other functional business discipline. If you are not presented with alternatives, ask why not or ensure your customer requirements stipulate that you want a full vetting of the alternatives with their pros and cons. The usual boundaries of people, time, scope, and money are the typical tradeoffs.

If you don’t think this can happen in a real world situation, just review the documented situation Xerox finds itself with a lawsuit brought by its outsourcing vendor, EDS, regarding their multibillion dollar, multi-year outsourcing contract because Xerox failed to [30]:

- Adequately define service levels
- Adequately outline billing requirements for a number of critical projects
- Clarify terms pertaining to critical desktop support and LAN managed projects
- Formalize performance measures
- Develop adequate dispute-resolution mechanisms

7.2 Best Practices For Managing an Outsourcing Contact [5,12,13,27]

To avoid problems, enterprises should study the following best practices in outsourcing evaluations, vendor selection, contract management and ongoing management of the deal:
7.2.1 Contracting Principles

- Behave ethically and honestly at all times and require the same standards of the provider
- Show good will towards vendor
- Communicate regularly and effectively with the provider
- Manage the expectations of the end users
- Learn how to manage continual change
- Be reasonable and fair when dealing with the provider but enforce the contractual terms and conditions when appropriate
- Plan for the day when all participants to the contract negotiations will be gone
- Take care of your people
- Involve internal support staff from beginning to end
- Do not shift responsibility to the outsourcing vendor
- Get everything in writing
- Use experienced legal counsel
- Ensure the enterprise can live the results

7.2.2 Contract Prework

- Identify the scope of the outsourcing project
- Appoint an internal project manager
- Create project time lines and required end results
- Understand compensation of vendor project manager
- Use benchmarking to determine market rates

7.2.3 Contact Negotiations

- Understand the contract and what is required of all parties
- Perform rigorous due diligence
- Do not sign incomplete contracts
- Avoid long-term deals
- Renegotiate when necessary to improve the deal for both sides
- Ensure the contractual obligations of both the enterprise and the provider are fulfilled
- Identify the particular risks faced by the contract and monitor events to limit their effect
- Seek professional contracting/legal advice when warranted
- Anticipate the need to deal with new services. Put in place procedures to quickly and effectively negotiate for new services. Put clause in contract that specifies the process.
- Ensure variations to the contract are justified and not improperly used to escalate price and/or diminish what has been contracted for.
- Document clearly defined goals and objectives
- Outline the responsibilities, milestones and deliverables
- Document skills transfer
- Document penalty and termination clauses
7.2.4 Contract Implementation

- Conduct weekly review meetings for status updates
- Hold periodic meetings to document and resolve all outstanding issues
- Be proactive in contract management, don’t allow minor problems to become major ones
- Be prepared to shift/migrate contracts due to changing needs and/or under performance
- Regularly review the suitability of the deliverables and the provider’s performance
- Perform annual audits
- Partner internal and external resources to transfer expertise
- Provide incentives to maintain targeted dates for milestones and completion
- Assign rewards for early completion and penalties for late completion
- Measure rewards for early completion and penalties for late completion
- Develop service-level measures
- Develop service-level reports
- Specify escalation procedures
- Include cash penalties for nonperformance
- Include a termination clause.

8 Appendix

8.1 RFP Detail [28]

<table>
<thead>
<tr>
<th>Article One - General Information</th>
<th>Article Two - Project Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Terminology</td>
<td>2.1 Overview &amp; Scope</td>
</tr>
<tr>
<td>1.2 Intent of RFP</td>
<td>2.2 Statement of Work (SOW)</td>
</tr>
<tr>
<td>1.3 Vendor Inquiries</td>
<td>2.2.1 Project Description</td>
</tr>
<tr>
<td>1.4 Important Dates</td>
<td>2.2.2 Delivery Approach</td>
</tr>
<tr>
<td>1.5 Pre-Proposal Vendor's Conference</td>
<td>2.2.2.1 Major Tasks and Delivereables</td>
</tr>
<tr>
<td>1.6 Exceptions to the RFP</td>
<td>2.2.2.2 Technical Architecture</td>
</tr>
<tr>
<td>1.7 Supporting Materials</td>
<td>2.2.2.2.1 Application Architecture</td>
</tr>
<tr>
<td>1.8 Withdrawal Notification</td>
<td>2.2.2.2.2 Data Architecture</td>
</tr>
<tr>
<td>1.9 Process for Proposal Evaluation</td>
<td>2.2.2.2.3 Infrastructure</td>
</tr>
<tr>
<td>1.10 Acceptance of Vendor Proposals</td>
<td>2.2.2.2.4 Proposed Technical Approach</td>
</tr>
<tr>
<td>1.11 Vendor Selection</td>
<td>2.2.3 Level of Service Requirements</td>
</tr>
<tr>
<td>1.12 Proposal Preparation</td>
<td>2.2.4 Project Management</td>
</tr>
<tr>
<td>1.13 Contract Negotiations</td>
<td>2.2.5 Project Schedule</td>
</tr>
<tr>
<td>1.14 Demonstrations and Benchmarks</td>
<td>2.2.6 Personnel</td>
</tr>
<tr>
<td>1.15 Documentation</td>
<td>2.2.7 Assumptions</td>
</tr>
<tr>
<td>1.16 Non-Collusion</td>
<td>2.2.8 Project Costs</td>
</tr>
<tr>
<td>1.17 Statement of Confidentiality</td>
<td>2.2.9 Other Project Expenses</td>
</tr>
<tr>
<td>1.18 Duration of Proposal</td>
<td>2.2.10 Added Scope</td>
</tr>
<tr>
<td>1.19 Disclosures</td>
<td>2.2.11 Project Change Control Procedure</td>
</tr>
<tr>
<td>1.20 Account Manager</td>
<td>2.3 Technical Ability</td>
</tr>
<tr>
<td>1.21 Payment Terms</td>
<td>2.4 Applicable Documentation</td>
</tr>
<tr>
<td>1.22 Vendor Background Information</td>
<td>2.5 Training</td>
</tr>
<tr>
<td></td>
<td>2.6 Maintenance</td>
</tr>
<tr>
<td></td>
<td>2.7 Pricing</td>
</tr>
<tr>
<td></td>
<td>2.8 Acceptance Criteria</td>
</tr>
</tbody>
</table>

Figure 9 RFP Detailed Outline
ARTICLE ONE - GENERAL INFORMATION

1.1 Terminology
Lists various definitions and terms used in the proposal. Vendors should make every attempt to use terminology in their proposal that is consistent with that of the enterprise. Comparable terminology may be substituted where appropriate if the vendor provides clear and concise definitions.

1.2 Intent of RFP
Outlines the purpose and scope of the RFP. States this is not intended to be a detailed requirements document.

1.3 Vendor Inquiries
States where any inquiries should be directed and any preferences in communication media e.g. email. Also states format of inquiry i.e. refer to specific number within RFP. All vendors receiving RFP will be notified in writing of any changes or additions. Responses to inquiries will be compiled into a single document or presentation and distributed to all vendors.

1.4 Important Dates
Lists the date issued, bidder demonstrations (if required), submission date, final vendor selection notification and target project start-up. States proposals received after submission date may not be accepted and extensions will not be granted.

1.5 Pre-Proposal Vendor’s Conference
States if and when any conferences will be all with all prospective vendors for the purposes of reviewing and clarifying RFP

1.6 Exceptions to the RFP
Vendors may find instances where a solution/alternative does not function in a manner consistent with the RFP specifications. In such a case, it is permissible to take exception to the RFP. Exceptions should be clearly identified and written explanations for the exceptions should be included in the scope of the exceptions, their ramifications, and a description of the advantages to be gained.

1.7 Supporting Materials
If supporting materials are provided, label them by the specific RFP section.

1.8 Withdrawal Notification
Vendors receiving an RFP who do not wish to bid should reply with a “No Bid” letter. The RFP must be returned with the withdrawal correspondence. The RFP is the sole property of the supplier and may not be reproduced or distributed for purposes other than proposal submission without written consent of the supplier.

1.9 Process for Proposal Evaluation
Vendors’ proposals will be evaluated using a comprehensive set of criteria including completeness of each vendor’s response to the proposal.
1.10 Acceptance of Vendor Proposals
The enterprise reserves the right to accept or reject any or all proposals, to accept additional proposals after the proposal submission date, to take exception to the specifications or to waive any formalities. Vendors may be eliminated from further consideration for failure to fully comply. Following submission of the proposal, the number of vendors may be reduced to a “short list” Vendors may be asked to present the proposed solution. Final vendor selection will be based on the vendor’s responsiveness to the project objectives.

1.11 Vendor Selection
The enterprise reserves the right to make a vendor selection based solely on the proposals or to negotiate further with one or more vendors. The vendor selected will be chosen on the basis of the greater benefit to the firm as determined by its management and not necessarily on the basis of lowest price.

1.12 Proposal Preparation
The vendor shall wholly absorb all costs incurred in the preparation and possible presentation of the proposal and vendor demonstrations. All supporting documentation and manuals that are submitted with this proposal would become the property of the enterprise unless otherwise requested by the vendor. The vendor will conform to the reply format and criteria set by the enterprise. Failure to comply can void the submission.

This clause is common in many RFPs. Its purpose is to ensure the enterprise can easily compare the bids and eliminate unnecessary internal reformatting of the bid to enable bid-to-bid comparisons.

1.13 Contract Negotiations
The proposal contents of the selected bid shall be considered as contractual obligations. Failure to meet obligations could result in the cancellation of any contracts. This paragraph ensures what is submitted in the RFP is implementable and does not overstate the vendor’s capabilities to gain an edge on the other vendors’ submissions. The enterprise reserves the right to negotiate contracts with the selected vendors. These contracts may include methods of hardware procurement such as rental, lease, purchase, lease-purchase, and/or any combination, and for hardware and software maintenance. And, at enterprise’s discretion, a third party financial institution or contract negotiating team may be involved in contract negotiations. This paragraph provides flexibility to the enterprise regarding its financial options and third parties it may use during contact negotiations.

1.14 Demonstrations and Benchmarks
The enterprise reserves the right to require any vendor to demonstrate and/or benchmark any hardware or software in its proposal. After initial evaluation of the proposals, vendor demonstrations may be requested at the enterprise’s option. It is expected that the vendor will be able to demonstrate every process and/or requirement stated as “available” in the proposal. This clause is an attempt to prevent any “vaporware” from slipping into the proposal.

1.15 Documentation
As part of each bid, the bidder will provide a complete breakdown of costs e.g. labor, facilities, management, overhead as well an the startup costs.
1.16 Non-Collusion
Vendor must sign document that states it did not collude with another supplier in submitting this bid in an attempt to fix prices.

1.17 Statement of Confidentiality
The RFP and all materials submitted by the enterprise must be considered confidential. The enterprise requests that this RFP not be forwarded to any third party for evaluation or for any other purpose without the express written consent of the firm. When submitting confidential material to the firm, the bidder must clearly mark it as such.

This clause prevents the RPP falling into the hands of an enterprise's competitor. And conversely, if the bidder has used a confidential or propriety process in the response to the RFQ that the enterprise should not divulge, these documents should be clearly marked confidential.

1.18 Duration of Proposal
Tells the bidder how long the enterprise wants the bid to be valid. Sufficient time should be given e.g. 120 days to ensure the enterprise can assess and gain the proper internal approvals.

1.19 Disclosures
States the vendor is not authorized to make public or cause to be made public any disclosure relative to this RFP without the written approval of the enterprise. All information contained in the RFQ is to be treated as the enterprise's proprietary information.

1.20 Account Manager
The account manager will be available to the customer management during the normal business hours. The vendor will provide a resume, background information and references for the account manager and his or her backup.

1.21 Payment Terms
The vendor must propose the terms of payment in its proposal. There are usually paragraphs that also state whatever payment terms are demanded by the enterprise that the vendor must be in compliance such as method of payment, timeframes, and currency.

1.22 Vendor Background Information
  
  - Relevant project experience on similar projects
  - Technical experience / expertise
  - Financial statements

ARTICLE TWO - PROJECT DEFINITION

2.1 Overview and Scope
Describes the purpose and intent of the RFQ. Provides some background of the current state of the business process/application and outlines what is the desired state of the business after the work described in the Statement of Work (SOW) is completed. Briefly states what the SOW does and does not cover. The scope paragraph defines the breadth and limitations of the work to be done (not how to do it). The use of an introduction, background, or both is preferred. Background information should be limited to only that information necessary to acquaint the vendor with the basic acquisition requirement.
2.2 Statement of Work (SOW)
The purpose of a SOW is to detail the work requirements for the project.
A well-written SOW will:

1. Specify requirements clearly to permit the enterprise and vendors to estimate the probable cost and the vendor(s) to determine the levels of expertise, manpower, and other resources needed to accomplish the task.
2. States specific duties of the vendor in such a way that the vendor knows what is required and completes all tasks to satisfy the contract.
3. Written so specifically that there is no question of whether the vendor is obligated to perform specific tasks.
4. References only the minimal specifications and standards pertinent to the task. Selectively invokes documents only to the extent required to satisfy the existing requirements.
5. Cites only the minimal applicable specification and standards, in whole or in part, and is tailored or scoped downward to limit costs.
6. Separates general information from direction so that background information and suggested procedures are clearly distinguishable from vendor responsibilities.

2.2.1 Project Overview
The overview is a high level description of what is requested and a brief description of the current and desired states. For example, The (name of program) program has been initiated to design, develop, produce, and deploy an improved (name of system) system that will fulfil the _______ requirements as specified in the requirements document. The new system will replace the XYZ system.

2.2.2 Delivery Approach and Project Delivery Methodology
The project delivery methodology creates a road map from beginning a project where the business requirements are defined through to the systems implementation and deployment phases. The outline below represents a typical methodology schema.

- Major Tasks and Deliverables
- Technical Architecture
  - Application Architecture
  - Data Architecture
  - Infrastructure
  - Proposed Technical Approach

2.2.3 Level of Service (LOS) Requirements
The purpose of this section of the SOW is to specify services to be supplied by the vendor and to specify standards that must be in the provision of those services. For example, in an IT outsourcing transaction, a service may be "to provide computer system support services". The corresponding standard may be that "the computer system must be available for 99.5% of the time in any calendar month".

2.2.4 Project Management
This section describes the processes, tools, and methodologies used by the vendor. For example, some vendors have internal processes that follow the various CMM practices that aid in linking with firms that also have adopted CMM if the project is software development.
2.2.5 Project Schedule
The project schedule would indicate the start and end dates and the key milestones along the project path.

2.2.6 Personnel
This section would describe the various skills and expertise of the personnel that would be required to implement the project along with the personnel background usually in the form of a resume. The vendor will identify key personnel in managing the project at the point of contract initiation. In the event that resources identified by the vendor are reassigned for any length of time, the vendor agrees to provide advanced notification to the enterprise. The vendor further agrees to obtain prior management approval from the enterprise before engaging replacement personnel on the project.

2.2.7 Assumptions
With any RFP, there will be areas where the level of specificity will not be sufficient at this level of project formulation. The vendor must make some interpretations at this junction and these are documented in the assumptions. The pre-proposal vendor’s conference is the forum where some of these questions can also be clarified.

2.2.8 Project Costs
The project costs are shown in this section to the detail level requested in the RFP. It is important the RFP specify the level of detail of the cost breakout both from an understanding of the major cost drivers as well as to compare line item costs by vendor to assist later in the contracting process negotiations.

2.2.9 Other Project Expenses
These expenses usually consist of travel expenses of the program team and various meetings associated with the project.

2.2.10 Added Scope
Any additional items above and beyond those included in the initial requirements for the project will be considered added scope for which additional cost and schedule compensation is required.

2.2.11 Project Change Control Procedure
Provides a detailed process to follow if a change to the Statement of Work (SOW) is required. This process may be modified to meet the approval of both the customer and supplier. Approval of changes must be obtained prior to any changes taking place.

2.3 Technical Ability
The vendor must remain current and up-to-date on all products outlined in the project definition.

2.4 Applicable Documentation
   - Specifications
   - Standards
   - Other documents
   - Industry/Institutional documents
   - Availability of documents
   - Location of documents
Documentation comes in many forms. Outlined above are the typical types of documents associated with a software development program and the administrative aspects of those documents.

2.5 Training
Any training requirements that are applicable

2.6 Maintenance
Roles and responsibilities regarding on-going maintenance and enhancements if required.

2.7 Pricing
As part of each bid, the bidder shall provide a complete breakdown of costs. In addition, vendors will specify all associated startup costs.

The bidder is to Identify what pricing arrangements are available. A copy of the vendor’s standard contract should be attached. What penalty charges (as a reduction to the vendor’s contract) are applicable in the event that the deliverables are not completed on time or SLA metrics are not attained? What termination charges are applicable in the event the contract is canceled?

2.8 Acceptance Criteria
One of the most important but often overlooked aspects of a project is the definition and understanding of when a project is complete. The acceptance criteria are a list of guidelines to validate the results of the project from the enterprise’s perspective. It provides the list of criteria and activities that have to be met before the enterprise accepts the project.

8.2 Contract Detail
8.1 ARTICLE ONE - PURPOSE AND DEFINITIONS
1.1 Purpose
1.2 Definitions
The purpose describes what the agreement (contract) is about and who the agreement is applied to i.e. the customer and supplier organizations. For example, the agreement is for outsourcing services for telecommunications or data center. It could also be for consulting services or new application development.

Sometimes a sentence or two called No Commitments is also incorporated into this section. This is essentially a disclaimer regarding the nature or volume of services ordered under the contract.

The definitions section lists all the common terms used through the contract with a specific definition attached to each word or phrase. This section is particularly important so no misunderstanding or misinterpretation can be attributed to what can become an ambiguous term.

An example is documentation. A definition would specify that it is all written text and not limited to manuals, specifications, brochures, and in what media and form i.e. electronic, printed, camera ready, etc.

Another example is Termination Assistance Services. If you are going to discontinue the vendor’s contract there should be a tacit understanding the supplier will cooperate with the customer to effect an orderly transfer for services to the customer or a designated third party.
8.2 ARTICLE TWO - SERVICES

2.1 Description of Services
2.2 Omission In Services
2.3 Growth In Services
2.4 Additional Services

The Description of Services specifies the contract deliverables and who has ownership i.e. who has title and rights to any direct and/or derivative work product that is developed, and the ownership to any copyrights if applicable.

In an outsourced agreement there may be a process that is currently done but omitted in the Description of Services. The Omission In Services specifies that the supplier will do all the processes that are currently done even if they where not specified in the contract and at no extra cost. Of course this favors the customer. The purpose is to avoid every oversight being labeled by the supplier as additional services and new charges being added. In negotiation parlance, this is known as the nibbling strategy. Often a vendor submits a low bid to win the contract knowing in advance the "final" contract will have to be adjusted for these omissions and usually at very favorable rates (recall the cost of the $400 government hammer or toilet seat!). If the oversight becomes significant, an adjustment should be made to the fee.

Nothing is usually static over the recommended 3-year timeframe of an outsourcing deal. Growth rates (or declines) should be specified in the contract and priced accordingly.

Additional Services are new activities that are usually the result of unanticipated changes to the business. How these are priced is discussed under Fees.

8.3 ARTICLE THREE - PAYMENT AND FEES

3.1 Payment
3.2 Fee
3.3 Fee Adjustment
3.4 Most Favored Nation
3.5 Productivity
3.6 Benchmarking

Payment deals with various administrative aspects of the fees. Examples are use of purchase orders, frequency of invoice submissions and once an invoice is deemed to the correct and valid, how the payment will be done i.e. bank transfer and within what timeframe e.g. 45 days. Payments will also indicate when the vendor will be paid e.g. on a percent completion basis and the number of installments. It is prudent business practice to always hold some significant payment until the customer has agreed the terms of the contract have been fulfilled. The contract may also state all services will be billed in US currency.

Fees are the heart of the contract so expect to spend some time jointly working with the vendor to gain agreement.

First there is the overall fee. Customers like detail by each task that gives effort in hours and the bill rate. Vendors like to provide as little detail as possible. You will meet somewhere in between. Customers must do their homework. You should/must understand what the activity is costing you now. This is called baselining.
You must include every cost associated with the deliverable so this is usually not an easy budget center exercise. A good financial analysis is mandatory. You will probably find you are not as efficient as you could be. Take out the “fat” to arrive at what an efficient operation would cost. This is what you should pay plus some profit for the vendor.

The payment milestones must also be determined.

Fee adjustments can relate to a number of factors, the most common being for travel reimbursement and various out-of-pocket expenses. These should be defined within the contract. They should also require preauthorization and conform to what is reasonable and customary to the customer.

Most Favored Nation means the vendor guarantees the prices charged to the customer are the lowest prices charged to any customer under similar market conditions and volume.

Technology changes rapidly and usually results in lower costs. The customer should insist on a share in these savings. Also there should be some agreement to achievement of year-over-year cost productivity improvement. If should be agreed these cost reduction programs are part of the contract and perhaps penalties assessed if not forthcoming. How the savings should be shared must also be specified. This cost savings/cost increase sharing concept is a key component of the Risk Mitigation strategy.

Benchmarking is used to ensure the vendor’s prices are competitive. A third-party benchmarking firm is agreed to by both parties as well as the methodologies, metrics and method of data collection. The vendor agrees to adjust the prices to the benchmark level at agreed to periods of time e.g. annually. The contract also states who is to pay the cost of the benchmarking activity. The can be a sticking point in the contract negotiations. But it can be an effective leverage point in ensuring competitive prices over the term of the contract.

8.4 ARTICLE FOUR - TURNOVER

4.1 Turnover Of Operations
4.2 Schedule of Events
4.3 Liaisons
4.4 Existing Information Systems
4.5 Employees
4.6 Existing Software Licenses
4.7 Assignment of Existing Hardware - Related Agreements
4.8 Existing Hardware Maintenance Agreements
4.9 Asset Transfers and Equity Infusions

The turnover portion of the contract is composed of two main areas: the disposition and transfer of assets, licensing agreements and any cash back to the customer from the transfer of the assets to the vendor and; a turnover plan and timetable including the impacts on the affected personnel.

The sections outlined above are a typical breakdown of the tasks required.
8.5 ARTICLE FIVE - PERFORMANCE STANDARDS  INCENTIVES AND PENALTIES

5.1 Performance Measures, Standards, and Metrics
5.2 Remedies For Defective Performance
5.3 Production Schedule
5.4 Resource Schedule
5.5 Ownership Of Data And Removable Media
5.6 Continuity During Dispute
5.7 Correction Of Processing Errors
5.8 Right To Audit

Another important aspect of the contract is the ability to monitor progress against various timelines using some agreed to measurements. The metrics must be realistic, reasonable to capture and monitor, and not be so numerous as to be overwhelming. By this point, through due diligence, reference checking, and assessment of the interpersonal chemistry of the participants, the vendor selection has been narrowed to those vendors that are both reputable and have the right "fit" to work with your team. Trust built though relationships are what will make the contract successful.

That said, all projects have risks. Risk is the possibility of suffering harm or loss. Risks come in three forms: those imposed by others; those imposed on yourself; and acts of nature. So it is important to understand a project's risks and identify where mitigating risks will have the most effect before a crises develops. These identified risks are then incorporated in the measures, standard, and performance metrics as well as remedies for defective performance. In this way risks are identified at the onset and, if not mitigated, at least the consequences are shard between the vendor and customer.

The world of technology is very dynamic, and any contract should define the process and penalties for not achieving acceptable performance. Having agreed on the performance measures, reporting against these measures is a given. Invoking this clause is usually a sign of serious trouble both in the operational aspect of the program as well as a breakdown in the relationship structure.

Production and Resource schedules document the agreed to timeframe, personnel, and support tools necessary for project implementation.

Ownership of Data and Removable Media identifies who owns what and in what format. Ownership rights should be spelled out with great specificity in this clause.

Continuity During Dispute states how the operations and activities are conducted when there is a dispute. Usually this boils down to who is going to pay for what. Under these circumstances the activities under dispute should be documented and measured with the mechanisms agreed to by both parties. They should be auditable if further litigation is required.

Correction of Processing Errors refers to errors in job stream processing that require running to correct the defects. It is usually agreed these costs are absorbed by the vendor.

The Right to Audit gives the customer the right to inspect the various records of the vendor to validate what has been contracted for has been done in conformance with the terms of the contract.

All these schedules keep the project on track.
8.6 ARTICLE SIX - DISPUTES

6.1 Dispute Resolution And Escalation Procedures

The severity of the penalty and triggering mechanism as well as at what point in time the penalties are imposed are the main points that must be incorporated within this clause. Before reaching this level of severity, there are usually early warning signs of performance deterioration. As these become a concern, they should be raised as an agenda item for the Management Committee to discuss. Senior management on both sides will usually direct that immediate action be undertaken to get the performance back to standards. The escalation procedures usually set the timeframes for the escalation and identify, by name and location, the parties that are involved.

6.2 Non-Binding Mediation

Non-binding mediation is a prudent first step for resolving issues that arise which cannot be resolved without some type of third party intervention. The atmosphere remains more open to exploring alternatives to resolving the dispute and leaves the door open for the parties, after the dispute is resolved, to continue their working relationship.

The next step would involve more formal litigation involving legal council and the formulation of defenses supporting each party’s viewpoint. This is a chilling effect on the relationship and is very difficult to resume business as usual at least in the short term. Relationships become more formal and activities are done “by the book” The usual give and take that that is required in any relationships is now hampered. The result is more time is required as everyone ensures their T’s are crossed and I’s are dotted.

8.7 ARTICLE SEVEN - INDEMNIFICATION, WARRANTIES AND LIMITATIONS OF LIABILITY

7.1 Vendor’s Warranties

7.2 User’s Warranties

7.3 Limitation Of Liability

7.4 Infringement

These clauses define the extent either party waives or disclaims the ability of their product to perform as claimed.

The aspects covered are:

1. If the product or process does not work whose responsibility is it to fix and in what timeframe?
2. How long does the warranty last?
3. What will the vendor do if the product fails?
4. Does the warranty cover “consequential damages”? Many warranties do not cover damages caused by the product, or the time and expense in getting the damage repaired.
5. What are the conditions or limitations on the warranty?

No infringement states that the vendor warrants that the performance of the services will not violate any third party rights in any patent, trademark, copyright, trade secret, or similar right.

At the end of these clauses there is usually a blanket disclaimer statement that reads something like the following. “Except for the express warranties set forth herein, vendor hereby disclaims and purchaser hereby expressively waives any and all implied warranties, including, but not limited to, any implied warranty of merchantability or fitness for a particular purpose”
8.8 ARTICLE EIGHT TERM AND TERMINATIONS

8.1 Term
8.2 Expiration
8.3 Renewal
8.4 Termination for Breach
8.5 Termination for Convenience
8.6 Termination Upon Acquisition
8.7 Termination Upon Divestiture
8.8 Change in Control
8.9 Procedures Upon Expiration or Termination
8.10 Turnback
8.11 Continuing Rights to Use Certain Vendor Software
8.12 Change of Character and Substitution

The various termination clauses state the length of the contract and particular circumstances that would override the agreed to contract term.

At the end of the contract, the procedures for exiting the contract by the vendor are stated to ensure an orderly transition back to the customer or to a new vendor. These terms are very important and should be quite detailed. If a competitor wins the contract renewal and not the incumbent, the turnover, transition steps, roles and responsibilities and accountably must be established to affect a smooth transition.

The rights to use certain software are usually in the name of the vendor. These rights should be transferable to the customer or a new vendor and the license fees, if this should occur, should be understood at the onset of the contract. Many vendors get a price break from the software vendor because of their large purchasing power and they may not grant that same price to a single or a smaller size user.

Change of Character and Substitution deals with the various changes make to software i.e. versions and the use of a similar product that may produce the same result.

The former is important because changes and software upgrades can cause various interface problems to other aspects of the application that will require rework. The question is who is responsible for the payment of the systems adjustments required to keep the application functioning? The customer should insist this is the responsibility of the vendor. Many times the vendor receives the benefit from the upgrade in faster response times or other characteristics that reduce the operating costs. Unless the contract states otherwise, the vendor pockets these savings.

8.9 ARTICLE NINE - MISCELLANEOUS PROVISIONS

9.1 Assignment

This is a transfer of property rights from one person to another or the unconditional transfer of all rights contained in a copyright from the vendor to purchaser. These may not be assigned or transferred by either party without the prior written approval of the other party, which approval shall not be unreasonably withheld.
9.2 Modification
This states that the agreement may not be modified except by a written agreement signed by duly authorized agents of each party.

9.3 Compliance with Laws
States that the vendor represents and warrants compliance will all Federal, State and Local laws, ordinances and regulations applicable to this agreement.

9.4 Nonpublicity
States that the vendor without prior written consent of the purchaser make any news release, public announcements, denial or confirmation of the agreement or its subject matter or advertise or publish any facts relating to this agreement.

9.5 Governing Law
States under which State's laws govern this agreement.

9.6 Confidential Information
State how confidential information shall be handled and how long the vendor is obligated under this agreement to keep the information confidential.

9.7 Force Majeure
This is a clause in an agreement that excuses performance in the event that a force majeure makes the performance impracticable or impossible. A force majeure is an event e.g. war, labor strike, extreme weather or effect that cannot be reasonably anticipated or controlled. This is especially important with data centers where site disaster recovery procedures are assumed to be common business practice and should be specifically excluded from being covered by a force majeure. The point is for every aspect like a power failure caused by lighting or a data center destroyed by a tornado, the vendor should have taken adequate backup procedures to recover from these issues and have the center back up and running including running the enterprise on another set of computers. If these requirements are not specified, the enterprise could be in serious jeopardy.

9.8 Notice
In this instance this would refer to the purchaser letting the vendor know, especially if this is a software development contract, of any action or claim lodged by a plaintiff regarding the said software.

9.9 Venue
The location, usually the state of the purchaser’s headquarters location or its state of incorporation. If the purchaser were in New York and the vendor California, legal proceedings would take place in New York.

9.10 Integration of Agreement
States that this contract and any exhibits constitute the entire agreement and that no other oral or written agreements or understandings between the parties on this topic at the time of execution of this contract exists.
9.11 Modification of Agreement
States the processes and circumstances under which the agreement can be modified.

9.12 Legal Construction
States that if any part of this contract is found to be invalid, illegal or unenforceable, it shall not affect any other part of the contract.

9.13 Waiver
States that the failure of either party to require strict performance by the other party of any provision shall not affect the first party’s right to require strict performance thereafter. Waiver by either party of a breach of any provision shall not waive either the provision itself of any subsequent breach.

9.14 Binding Effect
States that this contract is applied to and binds the parties to this contact and their successors and assigns.

9.15 Authority
State that the signatures on the contract have the power to execute the contract

9.16 Captions
States the heading and titles or articles and paragraphs in the contact are inserted for convenience only, and shall not affect the construction or interpretation of any provision.

9.17 Expenses For Enforcement
States that the party found in violation of the agreement pays the litigation costs.

9.18 Taxes
States who is responsible for various taxes arising from the agreement.

9.19 Misspellings
States that misspellings do not impact the proper execution of the contract.

9.20 No Agency
States that the principal (customer) is not responsible for the acts of the agent (vendor).

9.21 Subcontractors
States under what conditions the vendor may hire subcontractors to perform various contract deliverables

9.22 Compliance With Laws
States that the contract is in compliance with applicable laws governing the terms of the agreement. If a certain portion of the contact is found not to be in compliance then only that portion of the contact is void not the whole contract.
9.23 Hiring Of Other Party’s Employees
States under what circumstances and conditions either party can or cannot hire their employees with the applicable laws regarding employees right to employment.

9.24 No Conflicts
States that the vendor or its employees will not engage in any activity that would jeopardize the rights of the purchaser.

9.25 Ethical Standards
Mainly discusses that gifts and other favorable treatment not be given or offered to the purchaser’s employees and shall be deemed breach of contract.

9.26 Bankruptcy
States that the non-defaulting party may terminate the agreement if the other party goes bankrupt.

9.27 Headings
States that the headings are inserted for convenience only and shall not effect the construction or interpretation of any provision.

9.28 Severability
States that if one part of the agreement is voided by law such invalidity shall not effect the enforceability of any other provisions not held to be invalid.

9.29 Counterparts
States that the agreement may be executed in one or more duplicate originals, all of which shall be deemed one and the same agreement.

9.30 Entire Agreement
States that the agreement along with its attachments is the entire agreement and supercedes any and all prior written or oral memoranda, understandings and agreements regarding said subject.
9 References


[2] Horgan, Barbara, University of Washington Tacoma; McCord, Alan, University of Michigan; Boone, Morell, Eastern Michigan University
"Outsourcing IT Services: Why, What, When and How?"
EDUCAUSE99 October 26, 1999 (c) 1999 Horgan, McCord and Boone

[3] Lederer Antonucci, Yvonne
"The Pros and Cons of IT Outsourcing"

Outsourcing Information Technology, Systems, and Services
Upper Saddle River, NJ Prentice Hall PTR 1999

[5] Field, Tom
"An Outsourcing Buyers Guide Caveat Emptor"
CIO Magazine, April 1997

Information Systems Outsourcing Myths, Metaphors and Realities
John Wiley & Sons, 1993

[7] Williams, Oakie
Outsourcing, A CIO's Perspective
Change Management Group, Jamestown, Ohio
St. Lucie Press, 1998
ISBN 1-57444-216-3

Computer Outsourcing - Managing The Transfer Of Information Systems
Prentice Hall, 1995

[9] Vining, Aidan and Globerman, Steven
"A Conceptual Framework for Understanding the Outsourcing Decision"

[10] Quinn, James Brian
"Outsourcing Innovation: The New Engine of Growth"
Sloan Management Review Summer 2000

"The Risks of Outsourcing IT."
Sloan Management Review, Spring 1996 v37 n3 p26 (7)
"Managing Outsourcing Deals"
Gartner Group January 1999

[13] Lacity, Mary and Hirscheim, Rudy
Beyond the Information Systems Outsourcing Bandwagon

[14] Lang, Andrew S
"The Art of Outsourcing"
Association Management, February 2000

[15] PriceWaterhouseCoopers
"1999 Outsourcing World Summit Survey"

[16] Lacity, Mary C. and Hirschheim, Rudy
Beyond the Information Systems Outsourcing Bandwagon, The Insourcing Response
John Wiley & Sons, 1995,
ISBN 0-471-95822-0

"IT Outsourcing Overview, Issue Snapshot"
April 2001

[18] Hampden -Turner, Charles
Creating Corporate Culture
Addison-Wesley, 1990

[19] Constantine, Larry L.
Constantine on Peopleware

Rapid Development
Microsoft Press, 1996

[21] Humphrey, Watts S.
Managing the Software Process
Addison-Wesley Publishing Company, 1996

[22] Shein, Edward
"Organizational Culture: What it is and how to change it" Human Resource Management in International Firms; P. Evans et al, eds.
[23] Bateson, Gregory  
*Steps to Ecology of Mind*  
New York, Ballantine, 1975

*The New Paradigm in Business: Emerging Strategies for Leadership and Organizational Change*  
The Putnam Publishing Group, 1993  
ISBN: 0874777267

[25] Gilley, Jerry W.; Maycunich, Ann  
*Beyond the Learning Organization*  
Perseus Books, Cambridge Massachusetts, 2000


[27] Lebinski, Jim,  
Decision Drivers, Inc. Survey; “ERP Customers to Vendors: Prove it First,”  
Byte, March 1998.

[28] Colleagues, classmates, personal observation

[29] Stralkowski, C., and Billion, S. A.  
“Partnering: A Strategic Approach to Productivity Improvement,”  

"Imperatives of Partnership - Understanding the IT outsourcing Commitment" February 1998

[31] DiRomualdo, Anthony and Gurbaxani, Vijay  
"Strategic Intent for IT Outsourcing"  
Sloan Management Review Summer 1998