Managing The Outsourcing Relationship: Does Management Really Know What They Are Getting Into?
Managing The Outsourcing Relationship: Does Management Really Know What They Are Getting Into?

A Thesis Submitted to the University Honors Program
In Partial Fulfillment of the Requirements of the Baccalaureate Degree
With Upper Division Honors

Department of Operations Management and Information Systems

by
John Petraitis
DeKalb, Illinois
August 10, 1996
Abstract (100-200 Words):

Outsourcing is the contracting out of some task to a vendor outside of the actual firm itself. It is now considered to be a world wide management tool for revitalizing and reestablishing a corporation. Outsourcing challenges the way top management thinks in terms of the traditional organization versus the more flexible organization consisting of exterior relationships focused on the long-term and an interior relationship which is focused around core competencies.

The research for this paper used a case study approach along with personal interviews of top level information technology executives that had recently completed an outsourcing contract. The primary goal of the research was to find what kinds of challenges today’s management faces when they first attempt to outsource a portion of work. A secondary point of interest was how the expectations of the contract met up with the outcome of the project. Other concerns were the advice the respondents would give to other companies, the criteria utilized to evaluate the vendor, and the factors that prompted the organizations to outsource in the first place.

Findings suggest that several problems do exist within the outsourcing relationship. The relationship should focus on long-term goals and not short-term cost savings. The decisions that are made must not be dominated by the vendor. The relationship must remain a partnership at all times.
I. Introduction

The term outsourcing has long been a “buzzword” to describe a trend forming in the world of business as we know it. Those days seem like they are behind us now. According to a report from the International Data Corporation, the global outsourcing market will surpass the $121 billion mark by the year 2000. In 1995 alone, businesses around the world spent $40 billion in outsourcing contracts. As far as information technology is concerned, one in every $12 spent in corporate America on information technology will flow through an outsourcing contract. Clearly, the concept of outsourcing is one that has become synonymous with successful corporations here in the US and around the world.

Outsourcing is now a worldwide managing tool for revitalizing and reestablishing the corporation. It challenges the way top management thinks in terms of the traditional organizations versus the more flexible organization consisting of exterior relationships focused on the long-term and an interior organization which is structured around core competencies. Outsourcing has traditionally become a viable option within every facet of the business -- from maintenance to payroll.

Through these outside relationships, organizations have actually restructured themselves and have manipulated the basic way that they do business. “Unprecedented levels of excellence and profitability have resulted from these efforts.” However, outsourcing has not always been seen in the same light that it is today. Once upon a time it was viewed as a short-term method to cut costs. Times have changed. As previously mentioned, outsourcing is now recognized as a powerful tool to promote growth within
an industry. It is not, however, a haphazard method of eliminating areas within an organization that are deemed otherwise tedious or bordering on unnecessary. The growth that organizations experience due to outsourcing "...is growth not based on investing in everything but on investing in the right things." The growth itself is based on specialization, expertise, and on overall excellence. This leaves the corporation to focus on what it does best, leading directly to a more successful business if done right.

Outsourcing information technology usually includes the areas of database management, network management, and systems integration. While outsourcing these areas may be a portion of a focused downsizing strategy for some, for most it is a potential method of growth. This growth may be attained by eliminating certain daily tasks and giving them to more focused organizations outside of the company, or by purchasing services that couldn't be performed by the existing staff. For example, many consulting firms have cashed in on the recent client-server phenomenon by using their expertise to specialize in this area to assist other companies in the transfer to this type of environment when the other companies lack the competency to do it on their own.

Several of the recent trends in information technology outsourcing are focused around smaller businesses located in the outsourcing market. According to a recent trade publication, just about half of the information technology market is dominated by small firms. Many benefits do exist for outsourcing work to a smaller firm. For one, smaller firms are much more flexible and often faster then the larger, powerhouse firms. They also can concentrate their full attention to a particular project, and are especially successful in helping a company focus on a niche market. Potentially the most important reason for such a trend is that an organization can have much more clout with a smaller
company, as their contract will represent a significantly higher percentage of the company’s overall business.

II. Definition of Outsourcing

Just what exactly is outsourcing? It is hard to hang a single definition on the term outsourcing. Perhaps this is due to the fact that the concept has become so widespread and that so many functions within an organization can actually be outsourced. Simply put, outsourcing is the contracting out of some form of work with an agency outside of the firm itself. The term can be loosely applied to payroll processing, recruiting, temporary agencies, building maintenance, etc. Perhaps a more specific definition of outsourcing would be the contracting out of areas within a firm that are familiar to the firm, but would rather not be done because of the potential for cost savings, time savings, and a certain degree of expertise, while shifting the rest of the firm’s focus back onto their core competencies.

III. Why Outsource?

What are good reasons for a firm to outsource? Through a series of studies conducted from 1991 until 1995, the Outsourcing Institute has released the ten top reasons (listed in order of importance from the least to the greatest) of why a firm should outsource. All of the more important reasons emphasize long-term strategies. Companies that develop an outsourcing plan with short-run business concerns at the forefront are most likely to be disappointed.
The tenth reason for considering an outsourcing contract is that a function is difficult to manage or is out of control. Most organizations who rate this as an important reason to outsource also stated that they were dissatisfied with the results of the outsourcing partnership. The Institute feels that a company that is truly in trouble in this area probably cannot understand the underlying causes that placed them in this situation. If this is the case, then they will likely not be able to convey to the outside party what the problem actually is, potentially making the situation worse.

The ninth reason for contracting out work is that some resources may not be available internally. Quite often a firm may want to use a certain amount of resources on a trial basis to see if they are worth investing into in the future. In addition, occasionally a firm may have just undergone a major restructuring where the parent company may have kept a certain function in-house, leaving the subsidiary without that function. Both are solid reasons for outsourcing.

The eighth-best reason is to reduce and control operating costs. This would be the single best tactical reason for outsourcing. Gaining access to an outside party’s overall lower cost structure (most likely due to economies of scale or specialization) can be a great advantage to the initial firm. Companies that attempt to do everything themselves tend to incur higher costs that are passed along to the customer.

The seventh reason for outsourcing is cash infusion. Quite often outsourcing involves the transfer of assets from the organization to the provider. The provider then uses the assets to provide the necessary services to the organization and often even to other clients. This “sale” often ends in a cash payment to the initial organization.
The sixth-best reason is to make capital funds available. Outsourcing is a great way to decrease capital fund expenditures in non-essential areas within the business. By doing this, more capital funds will be available for the core areas, thus making the business more competitive from an economic standpoint.

The fifth reason for outsourcing is to free up resources for other purposes. It is important for a firm to concentrate whatever limited resources they have in their most valuable areas. Outsourcing can allow this by taking the non-core tasks out of an organization. The Outsourcing Institute states that the most common resources that are needed to be freed up are people resources.

The fourth-best reason is to share risks. All organizations typically take risks to gain a competitive advantage within an industry. Sharing these risks with an outside agency allows the organization to be more flexible to meet the needs of the changing market. The Institute states that “outsourcing is...the management tool for becoming what is popularly called...the virtual corporation”.

The third-best reason for outsourcing is to accelerate reengineering benefits. Another common “buzzphrase”, business process reengineering (bpr), often creates outsourcing as a direct byproduct. An outside organization is typically needed for bpr to increase critical measures of performance such as cost, quality, service, and sped. Combining both bpr and outsourcing typically allows the firm to attain the benefits of both processes in a shorter time span than if each was done individually.

The second-best reason for outsourcing is access to world-class capabilities. Using an outside vendor that has specialized their expertise in a certain area can have several advantages. For one, an avoidance of the cost of chasing technology and the
training costs associated with each new technology. Another advantage is the highly developed methodologies, procedures, and documentation that outside vendors can often provide. Vendors also often offer an on-site staff to support their client’s needs.

The top reason for outsourcing is to improve the company focus. Usually by allowing another firm to come in and take away some of the tasks of lesser importance allows the original organization to concentrate on what they do best. When this occurs, companies tend to develop a clearer focus on meeting their customer needs, and therefore, becoming a more successful company.

IV. Goals

My research used a case study approach along with personal interviews of top-level information technology executives in local businesses that had recently completed an outsourcing contract. The main goal of this research was to find out what kinds of unexpected challenges organizations face when they attempt to outsource a portion of work. A secondary concern was how the expectations of the contract met up with the final outcome of the project. Other points of interest included the advice the respondents would give to other firms contemplating outsourcing, the criteria used to evaluate the vendors, and the factors that prompted the organization to outsource.

V. Methods

In order to achieve the desired results, I called various Chicagoland-based businesses that had relationships with Northern Illinois University’s Information Systems
department. Upon contacting these businesses, I attempted to confer with top-level management information system executives to find out if they had recently outsourced any work in their department, and if they would assist me in my independent study project. If a contact was successfully made, a later interview was scheduled according to convenience, upon which time a standard questionnaire was asked (see appendix A). Phone interviews took approximately ten minutes to complete. All names of companies contacted and outsourcing vendors have been suppressed. For information regarding respondent industry spread, years in existence, and number of employees, please refer to appendices D, E, and F, respectively. Of 59 contacts, 10 were successfully completed for a 16.95% response rate.

VI. Hypotheses

Hypothesis #1 is that all companies contacted will have experienced some form of challenge attempting to outsource their tasks. These challenges will encompass a vast array of answers. Hypothesis #2 is that organizational expectations will fall slightly short of realized benefits, as per the 1995 Deloitte & Touche survey (see appendices B and C). The Deloitte & Touche survey was performed on a sample size of 40 companies. Hypothesis #3 is that a majority of the respondents will use reputation as the main criterion utilized to select a vendor. Finally, Hypothesis #4 is that a majority of the contacts will have chosen gaining access to resources and gaining expertise (access to world-class capabilities) as deciding factors to outsource.
VII. Results & Discussion

Interview: A  
Industry: Technology  
Years in Existence: 102  
Number of Employees: 4000  
Corporate Mission: To develop long-term relationships between Company A’s customers and their 10 convenient locations.

Company A embarked upon their initial outsourcing agreement with the specific goals of gaining expertise and access to resources in mind. The contract with the outsourcing party was originally believed to allow the skill level of their current staff members to be upgraded in the long-term, while the specifications of the agreement were expected to be met in the short-term. The contracted work consisted of areas in the information systems department such as process analysis, programming, and development. The outsourcing vendor was hand picked from a vast array of potential organizations based on their previous reputation and well known experience in Chicago.

Company A believed that several challenges did arise over the length of the agreement. The largest of these was the resentment of the existing staff toward the outsourcing vendor. Employees of the information systems department in Company A strongly believed that they possessed the competency to perform the same tasks that the outside party was doing for them. More specifically, the existing staff believed that they were not receiving the recognition they deserved. Many members of the internal staff
reported that they had many of the same ideas of the vendors, but were ignored by management because they lacked the "mystique" of the vendors.

In addition to the general dislike of the outsourcing party by the existing staff, several members of the vendor’s staff did not meet the skill level they were initially sold as having, according to Company A. These individuals were quickly replaced by others within the organization who were a better fit for the needs of Company A. The only perk that developed from the initial contract was believed to be the personal relationships between Company A’s management and the vendor. These relationships turned into golf outings, luncheons, etc.

Although the initial contract was believed to have met all specifications and had been completed on time, the vendor seemed to continue to make work for themselves. One project consistently led to another and then another. Company A was left feeling that they had allowed the outsourcing agency to perform tasks that were unnecessary. Company A believed that other companies looking to outsource should have the project well defined and under strict time constraints, so that the project does not become open-ended. They also believed that it is important to make sure that the internal staff thoroughly understands their role.
Company B's decision to outsource was based on the need to share risks, free resources, and manage already difficult areas in the highly competitive telecommunications industry. The goals of the partnership with the outsourcing agency were to maintain the efficiency of their service and the integrity of their products, while gaining the specialized skills and cost-effective methods of the vendor. The vendor was chosen on their previous reputation in the needed areas and their outstanding references.

Initial challenges that blossomed over the course of the partnership mainly existed in the personnel decisions made by the outsourcing agent. Management of Company B felt that as the agreement began to change over the lifetime of the contract, so should some of the members of the vendor's staff to more appropriately meet the new needs of Company B. The vendor initially had a problem with making these changes, as the rest of their organization was already committed to other projects and clients. As these commitments became fulfilled, company B's requests were granted. No additional perks were mentioned.

According to Company B, all expectations of the initial contract were met and completed within the stated time frame. Company B suggested that companies looking to outsource should check into each of the members of the vendor's staff to make absolutely certain that they can perform as described by the vendor. "It is easy to make someone
look experienced without actually knowing what they are doing." It is also important to make sure that these members will fit into your company.
Company C entered their agreement with an outsourcing vendor on the basis of finding strategic relationships with other vendors on an as needed basis who could provide Company C with resources on an as needed basis (based on their growth). The goals of the contract were to make the agreement as mutually beneficial to both parties as possible, as both had much to gain from the reduced overall costs on a per transaction basis. Vendor selection for Company C was limited due to the fact that the agency needed was a sole-source supplier.

The challenges that arose were mainly time frame problems. The project that was initially agreed upon by both companies was much larger than expected, and would need more time to complete. The project was also much more of a sophisticated nature than expected. The vendor could not overcome the experience necessary, and thus needed to learn on the job. No additional perks were mentioned.

The project has grown so large that it is still not presently completed. However, all completed areas have conformed to project specifications. Company C believes that companies contemplating outsourcing need to find a vendor that they are comfortable with on all fronts. It is also important to Company C to be as upfront and honest as possible with all of the work force involved in the project. All companies must give as much information as early on in the process as possible.
Company D's alignment with an outsourcing agent stemmed from their need to make use of resources that were not available internally. The short-term goals of the contract were that the tasks were to be performed as quickly as possible and were to be done right. The vendor was selected based on their past history of work done in the area and Company D's existing knowledge of their previously done work.

A major challenge that occurred over the course of the contract came about when the vendor suggested that much of the work could have been performed outside of the company and then "dialed in". Company D was not comfortable in letting their vendor go ahead with the plan, feeling somewhat untrusting of the work that would actually get done off-site. The vendor proceeded to complete the work on-site to meet Company D's requests. In retrospect, Company D now feels that they would allow the vendor to work off-site. It was a problem with the culture that had previously existed at Company D. No unexpected perks were mentioned.

All work was done satisfactorily and fully met the specifications of the original contract. Company D believes that other organizations considering outsourcing should get a clear definition of the scope of the project and set clear milestones to be reached. They do not believe that software architects, in particular, should be held to a specific date in case the software cannot be utilized by then.
Company E entered the outsourcing arena to gain expertise that they could not find in-house. The goals of the outsourcing contract were to gain knowledge and to automate the areas that were necessary, and to become more leveraged on the resources internally. The vendor chosen by Company E was selected because of the outstanding references given by the manufacturer of network equipment used by Company E.

The only challenge that occurred according to Company E was that the project ran a little longer than expected. The delay was not unreasonably long, however. Unexpected perks included a long-term relationship with the outsourcing vendor who could be reached around the clock, as well as project cost estimates that were right on target.

All expectations were exceeded. Company E believes that organizations considering outsourcing should use companies similar in structure to their own. Most important, however, is the quality of people within these companies.
Company F began to outsource for the reasons of gaining access to resources not available internally, managing a peak in the workload, and to use outside personnel in a non-permanent area. Goals for the contract included the vendor getting the job done better and faster than Company F could do themselves, gaining skill transference, and to accomplish work in a shorter time frame for clients. The vendor was chosen on previous experience and best availability and cost. Work performed consisted of using contract programmers to help staff a new project.

The main problem that occurred between Company F and the outside contractors was that Company F’s information systems staff was actually slowing down the contractors. This brought along with it the question that if extra time was taken on the project, whose fault actually was it, and who should pay for the extra time? No answer was ever decidedly agreed upon, and left Company F with a bittersweet feeling of the relationship. In addition, one key individual of the vendor’s staff needed to be replaced to make the partnership work. No additional perks were mentioned.

All original expectations of the contract were met with the exception of time. Company F believes that those organizations considering outsourcing should bring in a vendor on a trial only basis at first. This will make certain that the vendor is receptive to the company’s needs. Each organization should also investigate on prices because they vary greatly.
Company G made the decision to outsource based on the need to accelerate the
due date on a specific project and to bring in expertise. Short-term goals were to bring
the project in on time with the quality necessary. All potential vendors were interviewed
for expertise and the types of software packages they typically installed. The outsourcing
agency chosen performed the exact same work for another organization previously.
Work consisted of systems design and application code.

The only challenge the project occurred was that it did take a little longer to
complete, but not unreasonably longer. Company G did believe that they had learned a
better way to manage the project from the vendor. In addition, Company G also learned
several new documentation techniques.

All expectations of the project were fulfilled. Company G believes that
organizations considering outsourcing should talk to all vendors before they are used, in
order to lay the groundwork of the project. The vendors should have a definitive game
plan and should show the organizations considering outsourcing what it is they will be
doing ahead of time.
Company H chose outsourcing as an option because they needed additional workers for the project that currently existed. The contract goals were to get quality programming done in a shorter amount of time than it would take Company H themselves to do. The vendor was chosen on their reputation and existing relationships. All work done was that of a programming nature.

One of the main challenges that developed over the course of the relationship was consistency, particularly in programming style. According to Company H, no two of the vendor’s programmers were alike in terms of style. This made it very inefficient for the next programmer to continue on where the last had left off, and near impossible the internal staff to do anything with the code. Usually the programs had to be completely reworked. This having been stated, Company H does believe that their internal staff of programmers gained knowledge from the vendors.

The vendors did meet the contract specifications, but Company H felt that the goals were reached in an inefficient manner. Company H still feels that outsourcing is a good idea. They felt that it is a particularly good idea when work needs to be done in a certain amount of time or if resources are needed.
Interview: I
Industry: Manufacturing
Years in Existence: 8
Number of Employees: 650
Mission Statement: To be a highly customer-oriented, high-tech, entrepreneurial corporation that will penetrate markets globally

Company I began to outsource in order to take advantage of the ability to deploy technology rapidly without gaining internal problems, using external resources, gaining expertise, and making use of highly specialized skills. Project goals were to bring the project in on time while gaining skill from the vendor. The vendor was selected through the use of existing relationships. The work performed was mainly application software development, hot-site and backup services, and problem-solving.

The challenges that occurred were of a technical nature. Several of the vendor’s staff did not possess the skills necessary to solve the problems Company I had. In addition, a few personality conflicts existed. Company I saw both of these problems as an advantage to outsourcing, as such personnel can be easily replaced. Company I found the a major perk in the fact that the vendor recommended Company I to several of their clients, leading to sales for the organization.

All expectations of the original agreement were fully met. Company I believes that organizations choosing outsourcing should do their homework. By researching vendors the organization can find a perfect fit for their company.
Company J decided to outsource when they first realized that they did not need to specialize in every area. They could get best-in-class services at lower costs by outsourcing. Short-term plans for the contract were to alleviate cost and time. Long-term goals were to increase the overall quality of the service while reducing costs. The selection of the vendor utilized interviews, references, and specialized matrices. Contracted work completed was mainly of a programming nature.

According to Company J, it was hard to establish an equally beneficial contract at first. Some of the things that Company J wanted the vendor to complete were deemed “incomprehensible” by the vendor. The vendor also became frustrated at the organization’s inability to produce revenue. No unexpected perks were stated.

Only 70% of the vendor’s completed work was considered to have met Company J’s expectations. The other 30% was a disappointment. Company J believed that other corporations considering using outsourcing as a tool should plan ahead through the use of networking with other firms that are doing similar things to their organization. These organizations have been down these paths before and can warn of potential dangers.
VIII. Conclusions

A brief discussion on the limitations of this paper. Although the sample size of 10 companies for the research contained in this paper is admittedly small, it is appropriate for a case study approach. This work was never intended to be an empirical study. However, for the purpose of comparing the hypotheses to the actual results, it will be discussed in such a manner.

As suggested in hypothesis #1, all respondents did incur some sort of major challenge over the lifetime of their contract with an outsourcing vendor. The responses were not as various as originally believed to be, however. 40% of all interviewed stated that individuals on the vendors staff had to be replaced at one time and 30% stated that the project did not come in on time (see appendix G). This suggests that the shuffling of the vendor’s staff and inappropriate estimates for completion time of a project may very well be common problems when first outsourcing.

Hypothesis #2 was proven to be false from the limited amount of data in this case study. Although the Deloitte & Touche survey found that upon completion, outsourced projects typically fall slightly under original expectations (see appendix B and C), the case study found otherwise. Only two of the ten respondents stated that the outsourcing project fell below expectations (see appendix H). 70% felt that the vendor completed all work as stated and 10% stated that the contract was not as of yet completed. These results may be directly related to the small sample size of ten respondents.

Hypothesis #3 was proven to be true by the case study. 70% of all surveyed listed reputation as the single-most important criterion in the vendor selection process (see
appendix I). Following reputation was references (30%), existing relationships (20%), and sole-source supplier (10%). Knowing the most crucial factor in choosing an outsourcing vendor can prove to be vital when it comes time to look at the potential candidates. Selectivity is now considered to be a major key to overall outsourcing success. It is believed to be easier to practice every day because the competition for outsourcing contracts has caused vendors to explicitly reveal their competencies in a more user-friendly manner.

Hypothesis #4 was proven to be true by the case study. Gaining access to resources was the top response of all surveyed at 60% (see appendix J). Right behind access to resources was gaining expertise at 40%. The fact that gained expertise was a top response suggests that organizations are not outsourcing areas that will never again be performed by the internal staff. The top response of gaining access to resources not available internally implies that organizations still outsource for cost savings and other short-term benefits.

IX. Extensions

Now that several of the challenges that firms attempting to outsource incur have been revealed, the focus must shift to how these problems can be avoided. Many warning signs exist prior to an outsourcing relationship becoming unsuccessful. The Outsourcing Institute defines three equally important warning signs.

The first warning sign is that financial and legal terms dominate the vendor-organization relationship. Quite often the real business objectives get lost in the financial
and legal terms debated upon by vendors and the organization. These terms should flow from the business relationship, not the other way around. Additionally, problems will surely exist if the vendor has too high of a level of involvement in the decision-making process. The relationship should be a true partnership on all levels.

The second warning sign is that the vendors were not prequalified on the basis of references, reputation or existing relationships. According to the Institute, far too many companies choose a vendor on the basis of the lowest bid. The most important factor may be the cultural fit the vendor will have with the new firm.

The third and final warning sign is that short-term benefits dominate the decision factors. The single-most important factor for deciding to outsource should be to improve the company focus. When short-term results become the focus of an outsourcing relationship, long-term results can easily become compromised.

X. Closing Remarks

Clearly, outsourcing has become a highly effective management tool. The trend of utilizing outsourcing in the area of management information systems can only be described as a phenomenon. For companies that have not yet outsourced, but are looking to outsource in the near future, the collective opinions of the respondents of this case study may prove to be helpful. When first selecting a vendor, use referrals from companies similar to your own. Additionally, make absolutely certain that the external staff can mesh with the culture of your own company, even consider using the vendor on a trial basis at first. When the contract is proposed, have the project fixed and well
defined, so as not to allow it to become open-ended. Set milestones for the project to be reached so that all expectations can be fully met. When the project has begun, make sure the internal staff fully understands their role. Conflicts only slow down the project.

Finally, give all involved as much information as early as possible in the process. The outsourcing relationship will only be successful when everyone involved contributes.
XI. Works Cited


11 "Drive a Hard Bargain With Network Outsourcers", Datamation, Ruber, Peter, November 15, 1995, http://www.datamation.com/PlugIn/issuses/nov15/11bsv100.html


XII. Appendices
Appendix A: Case Study Questionnaire

I. Background questions
   A. Interview letter?
   B. What industry is your firm in?
   C. How many years has your firm been in existence?
   D. How many employees does your firm currently have?
   E. What is your firm’s mission statement?

II. Focused questions
   A. What were your original expectations of the outsourcing relationship your organization had with the vendor?
      1. Short-term goals?
      2. Long-term goals?
   B. What were the factors that prompted your organization to outsource?
      1. Reduce & control operating costs?
      2. Share risks?
      3. Gain expertise?
      4. Function has become too difficult to manage?
      5. Make use of resources not available internally?
      6. Improve overall company focus?
      7. Free up resources for other purposes?
      8. Accelerate reengineering benefits?
      9. Make capital funds available?
     10. Cash infusion?
     11. Other?
   C. What was the specific criterion used to evaluate the vendor candidates?
      1. Reputation?
      2. References?
      3. Existing relationships?
      4. Other?
   D. Describe your relationship with the vendor during the contract?
      1. Did any challenges occur?
      2. Were there any unexpected perks?
   E. How did your original expectations of the relationship match the actual benefits received from the relationship?
      1. Short-term goals?
      2. Long-term goals?
   F. What advice could your organization give to companies that are current contemplating the possibility of outsourcing?
Appendix B: Deloitte & Touche Survey -- Data Center Outsourcing Benefits: Expected vs. Actual

- Expected Benefits
  - Operational Cost Reductions
  - Corporate Restructuring
  - Improved Service Levels
  - Speed Transition to New Technologies
  - Provide Focus on Core Business
  - Reduction of Capital
  - Operational Cost Reductions

- Actual Benefits

Benefit Level (0 is low, 5 is high)
Appendix C: Deloitte & Touche Survey -- Applications Development Outsourcing
Benefits: Expected vs. Actual

- Corporate Restructuring
- Improved Service Levels
- Speed Transition to New Technologies
- Provide Focus on Core Business
- Reduction of Capital
- Operational Cost Reductions

Benefit Level (0 is low, 5 is high)

- Actual Benefits
- Expected Benefits
Appendix D: Industry Breakdown of Case Study Respondents

Manufacturing 60%
Technology/Telecommunications 20%
Agriculture 10%
Medical Management 10%
Appendix E: Years In Existence for Case Study Respondents
Appendix F: Number of Employees for Case Study Respondents

![Graph showing number of employees for each company and average values.](image)
Appendix G: Percentage of Respondents Acknowledging Specific Challenges

- Could Not Establish Win-Win Contract
- Consistency in Programming Style
- Internal Staff Slowing Down Vendor
- Did Not Want Work Done Off-Site
- Project Too Complex
- Project Not Finished In Time
- Vendor Personnel Committed Elsewhere
- Replacement of Vendor Staff
- Resentment by Staff
Appendix H: Percentage of Respondents Project Results: Real vs. Expected

- Project Not Yet Finished: 10%
- Did Not Meet Expectations: 20%
- Met Expectations: 70%
Appendix I: Percentage of Respondents Acknowledging Criteria for Vendor Selection

![Bar chart showing the percentage of respondents acknowledging different criteria for vendor selection. The criteria include Sole-Source Supplier, Existing Relationships, References, and Reputation. The chart indicates that Reputation is the most acknowledged criterion, followed by References and Existing Relationships, with Sole-Source Supplier being the least acknowledged.](chart.png)
Appendix J: Percentage of Respondents Acknowledging Prompting Factors to Outsource

- Control and Reduce Operating Costs
- Accelerate Reengineering Benefits
- Manage an Already Difficult Area
- Free Up Resources
- Share Risks
- Access to Resources
- Gain Expertise

Prompting Factors

%