Chapter XI
Outsourcing and Escalation Issues in VLITPs

ABSTRACT

VLITP escalation has been documented to be a widespread phenomenon in the 21st century. Nearly every research in this area has portrayed escalation as an irrational decision-making process whereby additional resources are plowed into a failing project. This chapter examines the possibility that some of these escalation issues could be appropriately managed by avoiding irrational actions and rationally responding to various situations that may occur in a VLITP. Later on in the chapter, the author dispenses popular belief that VLITP outsourcing is in the nature of partnership and strategic alliances. It exposes that VLITP outsourcing vendors do not share the same profit motives as the host organization who is meant to enjoy the benefits of the VLITP and therefore baring the full cost of the implementation. It further suggests that a tight contract is the only mechanism to ensure that expectations of the host organization are met. Host organizations must negotiate and agree that the contract contains a number key issues including a successful outsourcing relationship between the host organization and the outsourcing vendor.

INTRODUCTION

Outsourcing some or all of VLITP is a common policy being encouraged by host organizations mainly because it saves money and human resources. But if outsourc-
ing is not managed properly, it also could lead to expensive mistakes, unmet expectations and even failure of the VLITP (Lacity and Willcocks, 2006). There are several issues involved in outsourcing VLITP that can go dramatically wrong. VLITP outsourcing is the subcontracting of a part or all of the VLITP implementation by the host organization to one or more an external IT service provider (Guah, 2008; Mahnke et al, 2008). The degree of subcontracting involved may varies across the whole spectrum ranging from just one part of the programming task to the wholesale outsourcing of an entire business function of the host organization. Due to the need to reduce cost and maintain continuous performance by the host organization while implementing a VLITP, outsourcing has gained tremendous momentum in the VLITP environment.

The common practice by most host organizations in regards to outsourcing contracts is the passing of one or more implementation, infrastructure management and/or operational responsibilities from an in-house IT department to an outsourcing vendor through a contract. Such contract quite often involves complicated business and legal issues, and is fraught with risks for both the host organization and the outsourcing vendor. Lacity and Willcocks (2006) suggest that outsourcing vendors and the host organization are not partners because their profit motives are not shared. As a result the host organization cannot expect the outsourcing vendor to act in the best interest of the host organization in situations where a conflict of interest arises. Such situation necessitate a written outsourcing contract; thus, making the contract the most important instrument for defining the fights, liabilities and expectations of both parties which guides the behaviours of both parties concerned (Agrawal et al, 2006; Lee, 1996). It is therefore important for top management of host organization to have some understanding of the complicated business and legal issues involved in VLITP outsourcing and have some awareness of how these issues should be addressed in the contracts concerned.

An outsourcing contract often includes a collection of related agreements covering a variety of issues such as service level, transfer of assets staffing, pricing and payment, warranty and liability, dispute resolution mechanism, termination, intellectual property matters, and information security—very extensively explored by Lee (1996). More than a decade later, very few outsourcing contracts in VLITPs are problem free. There seems to be simply too many things that can go wrong, too many parts of the VLITP that need to be carefully overseen, and too many aspects of the contract to be delicately negotiated to prevent the host organization from becoming mired in some sort of management issue (Di Romualdo and Gurbaxani, 1998).
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