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SWITCHING IT OUTSOURCING SUPPLIERS: ENHANCING TRANSITION READINESS¹

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Executive Summary

As IT outsourcing continues to gather momentum and mature, the decision to change suppliers at the end of a contract, or even earlier, has become an inevitable reality for many. This article sheds light on the management challenges associated with transitioning from one outsourcing supplier to another. Based on the “painful” experience of a large public-sector organization that chose not to renew its contract with a supplier that had operated its online portal and call center for five years, we provide insights into what makes a client organization “transition-ready.” We then describe the actions an organization can take before, during, and at the end of an outsourcing arrangement to prepare for vendor switching. These actions will help client organizations to reap more of the benefits from leveraging the outsourcing market in the long run.

SWITCHING OUTSOURCING SUPPLIERS WILL BECOME MORE COMMON

IT outsourcing is now a mature industry and continues to capture the attention of management, despite the current economic slowdown. Worldwide, many organizations remain eager to embark on new outsourcing contracts to gain the advantages of lower costs, better quality, and greater innovation. Sourcing advisory consultancy TPI, for example, noted that IT outsourcing contracts worth 7 billion euros (\$9.8 billion)² were awarded in the first three months of 2009 in the European, Middle East, and Africa (EMEA) region alone.³ As outsourcing continues to grow and as more organizations embrace outsourcing as a key management strategy, there will be a growing trend for organizations to switch from one supplier to another as they continue to search for greater value from outsourcing.

Organizations may decide to switch IT outsourcing suppliers when contracts are terminated or expire. As the initial wave of outsourcing contracts matures, there will be a significant volume of contract terminations or renewals. A 2006 industry survey,⁴ for example, showed that 47% of organizations engaged in outsourcing terminated their contracts prematurely. The *Financial Times* predicted in 2007 that up to £7 billion (\$9.9 billion) of contracts in the U.K. alone would be up for renewal by early 2008.⁵ As outsourcing contracts are terminated early or come up for renewal, we would expect to see more cases of organizations switching supplier.

The decisions to replace a current outsourcing supplier could be due to various reasons. Problems could arise from pricing disputes, performance quality, or relationship tensions. In addition to performance disappointments, other reasons for supplier replacement are driven by:

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- 1 Jeanne Ross was the accepting Senior Editor for this article.
- 2 U.S. dollars are used throughout this article.
- 3 *Computer Weekly*, May 5, 2009 (www.computerweekly.com).
- 4 *Global IT Outsourcing Study*, Diamond Management Technology Consultants, 2006.
- 5 Thomas, K. “Outsourcing is more than just saving money,” *Financial Times*, May 9, 2007.

- Dynamic changes in the customer landscape (e.g., the client organization may have outgrown the supplier)
- A shift in management's risk tolerance
- Changes in the supply market (e.g., emergence of new or specialized players)
- Supplier rationalization (e.g., consolidation to enhance bargaining power).⁶

Some organizations pursue a deliberate strategy of supplier switching. For example, a contract manager at British Aerospace noted that "it is unhealthy to perpetuate the same relationships for too long because you then know each other so well that you very rarely bring a new perspective onto things."⁷ A fresh pair of eyes from a new supplier is an opportunity to improve service delivery by injecting new ideas or new competencies. Yet others have suggested the need to cultivate and manage a set of outsourcing vendors,⁸ or to regularly seek new bids⁹ as strategies to keep outsourcing costs down and to encourage innovation.

Inevitably, many outsourcing client organizations will decide to switch suppliers and will be faced with transitioning from the old supplier to the new. Although organizations spend considerable amounts of time and money selecting, negotiating, and contracting with outsourcing suppliers, they tend to overlook the need to prepare for and manage switching costs once the contracts take effect. Willcocks and Lacity (2006) have noted that "the single most threatening aspect of outsourcing is the substantial switching costs."¹⁰ This is particularly problematic for the many firms that have moved beyond basic outsourcing and have negotiated more sophisticated engagements. The scope of outsourced processes that are considered to be highly "specific" or "valuable, rare and non-imitable resources"¹¹ is continually expanding, as bigger and more complex business operations are being outsourced. Left

unmanaged, the switching costs of such outsourcing deals can be enormous.

The IT outsourcing literature, in general, has not kept pace with the increasing trend to supplier switching. In particular, the accompanying transition issues tend to be glossed over.¹² Other than papers on back-sourcing¹³ or measuring switching costs,¹⁴ case studies of supplier transitions in IT outsourcing are rare. Practitioner publications also lack a depth of understanding of supplier transition.¹⁵

Understandably, the scarcity of case information is probably due to the sensitive nature of such transitions. This article goes some way toward redressing the balance by describing the experience of an anonymous large public-sector organization in Singapore (referred to as "Client"). This organization transitioned a major Internet portal and call center from one outsourcing supplier to another¹⁶ at the end of a five-year contract (more details about the research methodology are set out in the Appendix).

CASE STUDY: TRANSITIONING FROM ONE IT OUTSOURCING SUPPLIER TO ANOTHER

In aligning itself with Singapore's e-government vision "to delight and connect citizens," Client actively leverages its online portal and call center to serve the information, communication, and online transaction needs of over 440,000 users. The portal offers a portfolio of 110 e-services to users—for example, personal bio-data update, appointments or facilities booking, various online transactions, and e-payments. On average, there are about 500,000 transactions per month. In addition, the call center handles close to 30,000 calls every month. In its attempt to tap external expertise "to create positive end-to-end user experiences," Client signed a five-year outsourcing contract with "Old Supplier" to

6 Thomas, P. and Nandakumar, A. *Switching Vendors: An Outsourcing Reality*, Cognizant Technology Solutions, 2006.

7 Willcocks, L. P. and Lacity, M. C. *Global Sourcing of Business & IT Services*, Palgrave Macmillan, 2006.

8 Poston, R., Kettinger, W., and Simon, J. "Managing the Vendor Set: Achieving Best Pricing and Quality Service in IT Outsourcing," *MIS Quarterly Executive* (8:2), 2009, pp. 45-58.

9 Beinecke, R. H. and DeFillippi, R. "The value of relationship model of contracting in social services re-procurement and transitions: Lessons from Massachusetts," *Public Productivity & Management Review* (22:4), 1999, pp. 490-501.

10 Willcocks, L. P. and Lacity, M. C., op. cit., 2006, p. 4.

11 See Williamson, O. E. *The Economic Institutions of Capitalism*, The Free Press, 1985; and Barney, J. B. "Firm resources and sustained competitive advantage," *Journal of Management* (17), 1991, pp. 99-120.

12 Willcocks, L. P., and Lacity, M. C., op. cit., 2006.

13 The process of bringing IT operations back in-house after they have been outsourced as the outsourcing contract expires or is terminated.

14 For more detailed analysis, see Whitten, D. and Leidner, D. E. "Bring IT back: An analysis of the decision to backsource or switch vendors," *Decision Sciences* (37:4), 2006, pp. 605-621; and Whitten, D. and Wakefield, R. L. "Measuring switching costs in IT outsourcing services," *Journal of Strategic Information Systems* (15:3), 2006, pp. 219-248.

15 One exception is Huntley, H., Maurer, W., and Cox, R. A. "Outsourcing transitions: Assign the right resources now or pay later," (G00129562), Gartner, 2005.

16 Organizations mentioned in this case study are disguised. Figures mentioned are also rounded up.

develop, operate, and manage the portal and call center (including the provision of commercial or lifestyle content). Old Supplier dedicated about 50 people on-site to support the portal, and the total contract value was close to \$80 million.

The Decision to Switch Supplier

Client decided not to exercise the option to extend its outsourcing contract with Old Supplier when the five-year contract expired. This decision was largely driven by Client's desire to derive greater value from outsourcing and a general discontent with Old Supplier. The consensus was that Old Supplier was meeting the contractual service-level agreements but was not performing as a strategic partner.

“The contract with Old Supplier lacked flexibility ... It was not componentized. We didn't have much control over the service-level agreement, as it was tied to the main contract. Quality was not a strong factor and the qualitative KPIs [key performance indicators] were very vague. It was the minimum standard in the contract. [An analogy is with] a light bulb that isn't working; you cannot ask Old Supplier to change it even though it's not very bright. It's not in the contract. The light bulb is still working.” (Client IT Supplier Selection Manager 1)

Due to the rapid advancement of Internet technology, Client expected a faster rate of innovation, but Old Supplier lacked the motivation to “wow” Client with fresh ideas:

“Old Supplier had the incumbent advantage, but it behaved like civil servants. There are new ways of doing things, and we feel that Old Supplier didn't have the incentive to do things better. It asked for the price of a Mercedes Benz but delivered a [Toyota] Camry.” (Client IT Supplier Selection Manager 2)

Toward the end of the five-year contract with Old Supplier, Client invited new bids for the multimillion dollar contract for the operations and maintenance of the online portal and call center, and “New Supplier” was eventually chosen from four bidders. At the core of New Supplier's bid was a state-of-the-art portal, offering services and features beyond that of the old portal. In addition to greater personalization (e.g., auto-alerts) and self-help services, the portal's e-services would also be accessible anytime, anywhere, and from multiple devices, including PDAs and cell phones. As well as news updates, the

portal would continue to provide commercial and lifestyle content (e.g., tips on health and fitness, movie reviews) and promotions of products and services relevant to users (e.g., PDAs, distance learning courses). It would also serve as a cyber-clubhouse for these users.

Embarking on Supplier Transition

The transition involved about 30 people from various departments in Client, a few dozen consultants from both Old Supplier and New Supplier, and staff from two existing subcontractors who were maintaining some of the e-service applications. The transition project involved setting up a new dedicated data center, developing and implementing a new portal, transferring 200 domain names/URLs, migrating 110 e-service applications and their related databases, and re-establishing the 35-person call center.

Figure 1 shows the overall system architecture. The call center is equipped with workstations that provide access to the portal and a customer relationship management (CRM) system. The CRM system enables staff to respond to calls and to register complaints and other feedback from users. Data for the CRM system is extracted weekly from relevant Client back-end databases. Another key component of the call center is the Interactive Voice Response System (IVRS). This system provides automated responses to callers (supported by IVRS call flow) and captures their phone input to update the relevant e-service databases (through the IVRS broker module).

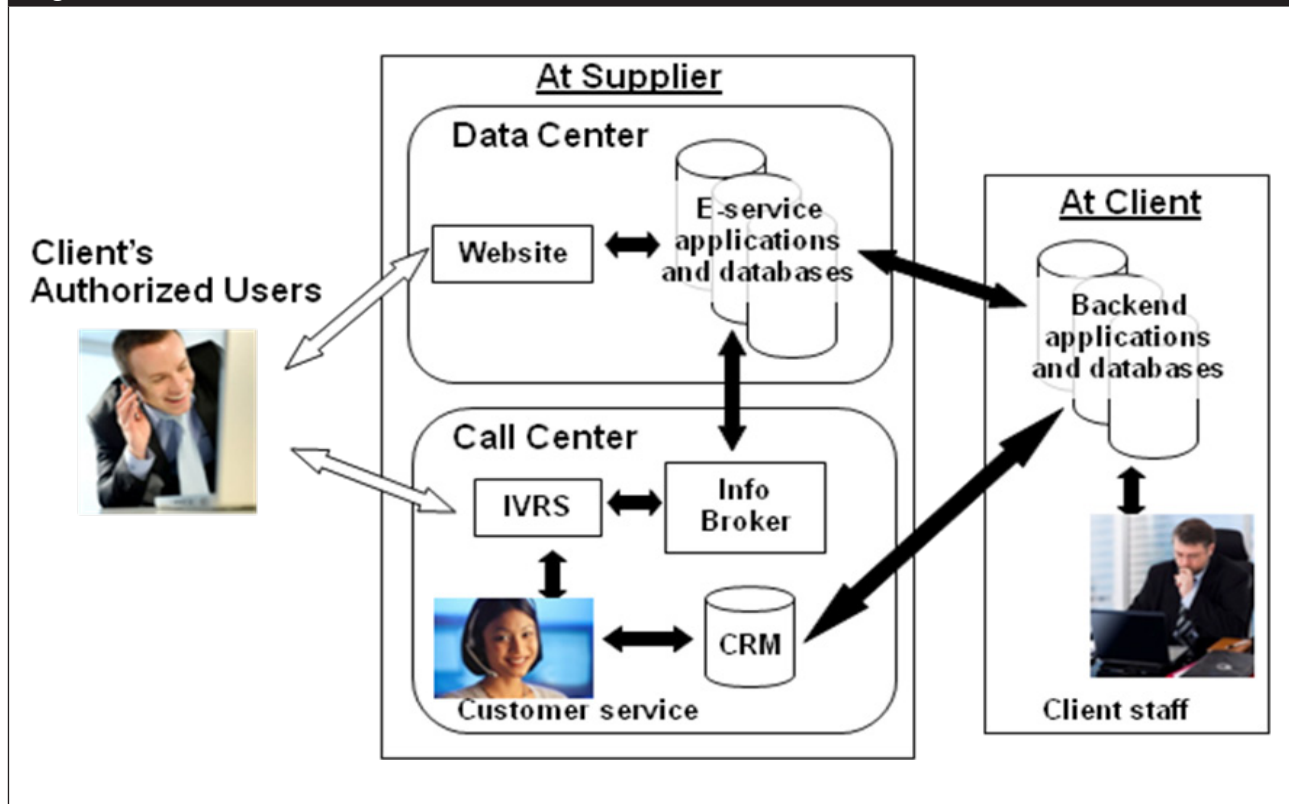
The transition from a seemingly standardized outsourcing contract arrangement, however, threw up some unexpected challenges: the interfaces between Old Supplier and Client were more “sticky” than expected.

Challenge 1: Muddled Ownership of Key Resources

A key source of the “stickiness” was the muddled ownership of key resources.

Portal Domain Name. One example was the ownership of the online customer access platform. In its fervor to roll out the original portal in the shortest time possible, Client had allowed Old Supplier to purchase the domain name on its behalf. Efforts by Client to repurchase the domain name failed because Old Supplier was asking for a prohibitively high price. Client, therefore, decided to purchase a new domain

Figure 1: FIT Framework For IT Recruitment



name, but the change in URL had a rippling effect system-wide, requiring related websites that linked to the portal to be redirected to the new URL.

Login IDs and Passwords. Although Client's portal was set up to deliver e-applications and other services to its users, the outsourcing arrangement allowed Old Supplier to expand the portal to pursue its own commercial interests by offering other lifestyle-related services. This partnership arrangement was intended to bring more value to Client's users. Users signed in using the same ID to access the services offered by Client as well as the commercial services provided by Old Supplier. Client argued that it owned the customer relationship, including the login IDs and passwords. However, Old Supplier claimed that this information could not be transferred to New Supplier, because the same IDs served its commercial interests as an e-commerce company. Old Supplier contended that Client's users were also its customers, hence should continue to have access to the lifestyle and commercial services it offered.

After some high-level negotiation, Old Supplier finally agreed to transfer the IDs and passwords but demanded that New Supplier sign an undertaking for full assurance on data privacy and security. The transfer of IDs and passwords was done as a snapshot exercise, with new IDs and passwords being issued as

users visited the new portal operated by New Supplier. This whole exercise not only put substantial demands on transition efforts but also raised security and privacy concerns from the users—e.g., their personal data remaining with Old Supplier. Client had to mount elaborate publicity efforts to inform and explain to all users about the shift to the new portal, manage their expectations, and painstakingly address their individual concerns.

Technical Interface Scripts. Ownership issues with other critical resources were also problematic. For example, the ownership to the technical interface scripts (implemented as Java-based brokers) developed by Old Supplier to host Client's e-service applications was not prespecified. These scripts linked the portal to relevant e-service applications (residing in Client's internal systems) for capturing data, generating information, sending text messages, creating alerts, etc. Old Supplier claimed intellectual property rights to these software interfaces and was reluctant to share them with New Supplier.

"It was not clear what belonged to whom and what Client could and could not release. It was very vague. Old Supplier said that since it had developed the brokers, it owned the IP. It argued that it was not contractually bound

to pass them over.” (Client Applications Team Leader)

The lack of access to the interface scripts was particularly problematic for Client as the back-end e-service applications were developed and maintained by a separate team of subcontractors. These subcontractors had previously set up their technical connection (e.g., in accessing the e-service database) with Old Supplier. The complexity of transition was raised unexpectedly because the subcontractors had to work with New Supplier to recreate the interface specifications from scratch. The cost of specifying these requirements all over again and the related negotiation on who should bear the costs was a thorny issue between New Supplier and the various subcontractors.

Security Specification. Similar intellectual property problems arose because of the unique security specification for Client’s portal infrastructure. Old Supplier had customized the infrastructure of the old portal specifically to meet Client’s stringent security requirements. It was unwilling to share infrastructure security information and provide patches developed to close holes detected in prior security incidents. Old Supplier claimed that divulging such information might lead to security compromises in its own infrastructure. As a consequence, New Supplier had to reconstruct the entire security infrastructure for the new portal, piecing together the complex security requirements from the various departments of Client.

Challenge 2: Loss of Process Knowledge Over Time

In the original outsourcing engagement, Client had left the operations and management of the online portal and call center completely to Old Supplier. Although it had provided inputs to and received outputs from the portal, Client had little understanding of how the portal system worked. As a result, efforts to recapture the underlying business rules, transaction flows, and portal operations/management experience became problematic at the termination of the contract.

System Documentation. The problem was aggravated because Old Supplier was reluctant to provide access to system documentation. Even if access was given, it would be under the condition that Client and New Supplier review such documents only at Old Supplier’s premises. Moreover, the system documentation was incomplete and inconsistent with the actual production environment. New Supplier faced significant difficulties as it often had to

“discover” such errors or inadequacies. A Client IT manager noted:

“Old Supplier had limited staff resources. So it only gave the minimum documentation. We still couldn’t see its day-to-day running of the applications [in the old portal]. We didn’t know what was underneath the system—e.g., the parameters needed, the buffer, or working files. So New Supplier had to start from ground zero. It was a big challenge.” (Client IT Transition Manager 1)

IVRS Call-Flow Documentation. Similar problems occurred in migrating the call center. The migration was seriously hampered by Old Supplier’s poor documentation for the IVRS call-flow application, leading to substantial frustrations and difficulties for New Supplier.

“The length of the call-flow document was 150 pages! It took us a lot of time, but despite our best effort, we didn’t get what we wanted from Old Supplier. There were errors and omissions. The call-flow had business rules, and the logic was not always obvious. So we had to work around. We had to engage the relevant parties directly, and they knew better. Along the way, we also found out that some announcements (automated voice response) in the IVRS were outdated. So we had to clean up the IVRS call-flow as well.” (New Supplier Call Center Team Leader)

The information provided by Old Supplier tended to be “piecemeal ... and the process of verifying the completeness of the information given was time-consuming and painful.” As a last resort, New Supplier had to reverse-engineer the requirements for the IVRS broker module from scratch. New Supplier approached the Client project managers for input, since they had previously furnished the IVRS interface requirements to Old Supplier. The effectiveness of this effort, however, proved to be marginal as even the business managers or subject matter experts could not recall much of what they had earlier specified to Old Supplier. Over the years, some of the requirements for changes to the IVRS flow had also been communicated by different people at different time, directly to Old Supplier. A few key managers had also already left their positions and were not available to provide the required information.

Eventually, after Client’s intervention, New Supplier agreed to contract with and pay Old Supplier to document the specifications for the IVRS in greater

detail. New Supplier was, however, resentful and noted that:

“Rightfully, a lot of such information should have been made available to us as part of the project documentation, but it seemed like New Supplier was paying for things which Old Supplier had not done.” (New Supplier Project Manager)

Add-On Functionality Developed by Old Supplier.

Old Supplier had also developed various add-on functionality (e.g., for searching for an address) and external collaboration tools (e.g., online map applications) for the portal, in response to feedback from Client’s users to enhance ease of use and convenience. To ensure the continuity of a similar user experience, New Supplier was also expected to incorporate these add-ons into the new portal. New Supplier needed detailed information on the add-ons to develop the software, but Old Supplier was reluctant to provide this, arguing that the added functionality was the results of its own innovation.

“Old Supplier said that it could not reveal the full source codes as they use them [in systems] for other customers too. We had to bring senior management from Old Supplier and New Supplier together to resolve this matter.” (Client IT Transition Manager 2)

Challenge 3: Relationship Tensions Between Client, Old Supplier, and New Supplier

The muddled ownership of key resources and Client’s loss of process knowledge led to significant relationship tensions during the transition. As Client strived to develop a new collaborative relationship with New Supplier, Old Supplier was perceived as uncooperative and even scaled down resources devoted to portal operations as the cut-over date approached. The resource reduction meant that non-operational tasks, such as cleaning up the system documentation, were not a priority:

“Old Supplier didn’t see a significant flow of future business from Client, so it did not need to leave with a good impression. It was even pulling out core resources, as it had just won another tender [bid].” (Client Call Center Team Leader)

There were other episodes of relationship tensions. For example, New Supplier’s attempt to recruit existing call center managers triggered a strong reaction from Old Supplier. It accused New Supplier

of “poaching” staff. With Client’s senior managers acting as mediators, the top management of Old Supplier and New Supplier met and discussed this sensitive issue, and agreed that Old Supplier’s staff could join New Supplier—but only one day before the actual cut-over.

The active mediation and involvement of Client was crucial in resolving many deadlocks in the “commercial negotiations” between Old Supplier and New Supplier:

“We mediated. We had to be neutral. We tried to understand what the requirement was, why it was necessary, and if it was fair and reasonable to charge New Supplier. We had to be professional in facilitating such negotiations.” (Client IT Manager Transition 1)

In other cases, Client had to actively assert its rights to service from Old Supplier. For example, Old Supplier consultants did not attend project meetings regularly, resulting in delays. Client demanded their presence at the project meetings and adjusted the meeting dates to suit Old Supplier’s schedule. It also changed the meeting format so that all issues requiring Old Supplier’s inputs were given priority and discussed first.

Where the issues were difficult, Client’s senior management would bring top executives from Old Supplier and New Supplier together for negotiation. The good working relationship at senior management level between Client and Old Supplier was a key lever. Similarly, the senior management of Client and New Supplier also knew each other well. Indeed, New Supplier had worked with Client on previous IT projects (including an outsourced contract for ERP operation and maintenance) and was already familiar with its business operation. The ability to leverage these relationships was a key factor in enabling the transition to progress instead of getting stuck in legal tussles and other roadblocks. Although initially cautious, the relationship between Old Supplier and New Supplier became smoother and more positive as the migration progressed:

“Initially, during the first two months, Client’s facilitation was very important [for the two suppliers to work together]. Subsequently, we were more willing to deal directly with each other. It became easier for us to understand the position of Old Supplier. They, too, didn’t want to see the migration project fail.” (New Supplier Call Center Team Leader)

Transition Completed Successfully—but with Significant Costs

With less than a month to cut-over, Client's transition plan was hit by an unexpected "bombshell" when the government imposed a major requirement that Client had to implement for its 440,000 plus users. The resulting potential surge in portal and call center traffic (e.g., information update and query) was a significant risk that could jeopardize the transition. Caught off-guard, the transition team had to switch to a more aggressive cut-over plan and escalate its resources to ensure *"no hiccups—even 0.01% would not be acceptable."* The transition team even established an elaborate round-the-clock command center operation to manage and monitor the cut-over.

Despite this added complication, the new portal and call center were successfully activated without fanfare to replace the five-year-old portal and call center operated by Old Supplier. System stability was achieved within seven days from cut-over, well ahead of the 15 days planned. In less than a month, more than 130,000 of the existing users had re-registered and close to 500,000 transactions had been conducted through the new portal and call center. Referring to the actual cut-over, one Client executive noted, *"The fact that the transition was a non-event showed that it was an achievement."*

The transition was successfully completed within seven months of the contract being awarded to New Supplier, but it had involved significant resource costs by Client. These resources were needed to fill the knowledge gaps, to exert pressure on Old Supplier, and to ensure that New Supplier was competent in redeveloping the new systems according to Client's requirements. Client assigned nearly 30 internal staff to the project team and various sub-teams, almost half of whom were deployed full time to the project for about six months. In addition, user representatives from more than a dozen agencies had to be actively engaged to (re)gather and confirm requirements. Client senior management also spent significant amounts of time and effort resolving the disputes or deadlocks at different stages of the transition.

ENSURING READINESS FOR SUPPLIER TRANSITION

Based on the "painful" experience of Client, we have gained several insights into how organizations can develop their readiness for transitioning to a different IT outsourcing supplier. The common

presumption is that once part of a business process has been outsourced, it can, if necessary, easily be "un-plugged" from one supplier and "re-plugged" into another. But as the Client case shows, even for an apparently "commoditized" service such as portal management, the assumption of loose coupling is premature and misleading.

To ensure minimal disruption to business operations, organizations need to:

- Prepare for such a transition even before they initially outsource
- Remain positioned to switch suppliers anytime during the course of an outsourcing contract
- Be ready to manage a supplier transition if and when it occurs.

They therefore need to take actions before signing any outsourcing contract, during the operational phase of an outsourcing contract, and during the transition to a new supplier.

Before Signing Any Outsourcing Contract

1. Ensure Resource Ownership and Access Rights or Privileges Are Specified in the Contract. Organizations should critically identify sources of potential resource "stickiness" in the outsourced processes and clarify the corresponding privilege or right of access contractually. In the case of Client, many of the disputes relating to the ownership of "sticky" resources surfaced only after outsourcing. Such disputes may not just apply to physical or explicit outsourced artifacts (e.g., IT hardware, software specifications, and business rules), but also to:

- More subtle and less tangible assets that are often deeply embedded in an organization's strategic needs (e.g., the co-branding approach for online access adopted by Client and Old Supplier caused customer relationship problems)
- Unique resource configurations (e.g., the interface scripts needed for Client's complex back-end processes and systems)
- Idiosyncratic practices (e.g., the security configuration of the IT infrastructure caused by Client's stringent security requirements as a public-sector organization).

Organizations need to address the following question: “What specific resources or knowledge must we have to ensure smooth transition, in the event of a need to switch supplier?” Walk-through exercises that simulate various possible episodes in transition may help to provide clarity. Once these strategic or organization-specific resources have been identified, unambiguous contractual clauses specifying their legal ownership and the right to access them (e.g., to read, use, acquire, etc.) need to be agreed on. Clarifying these key points of dependency will help to avoid disputes during transition.

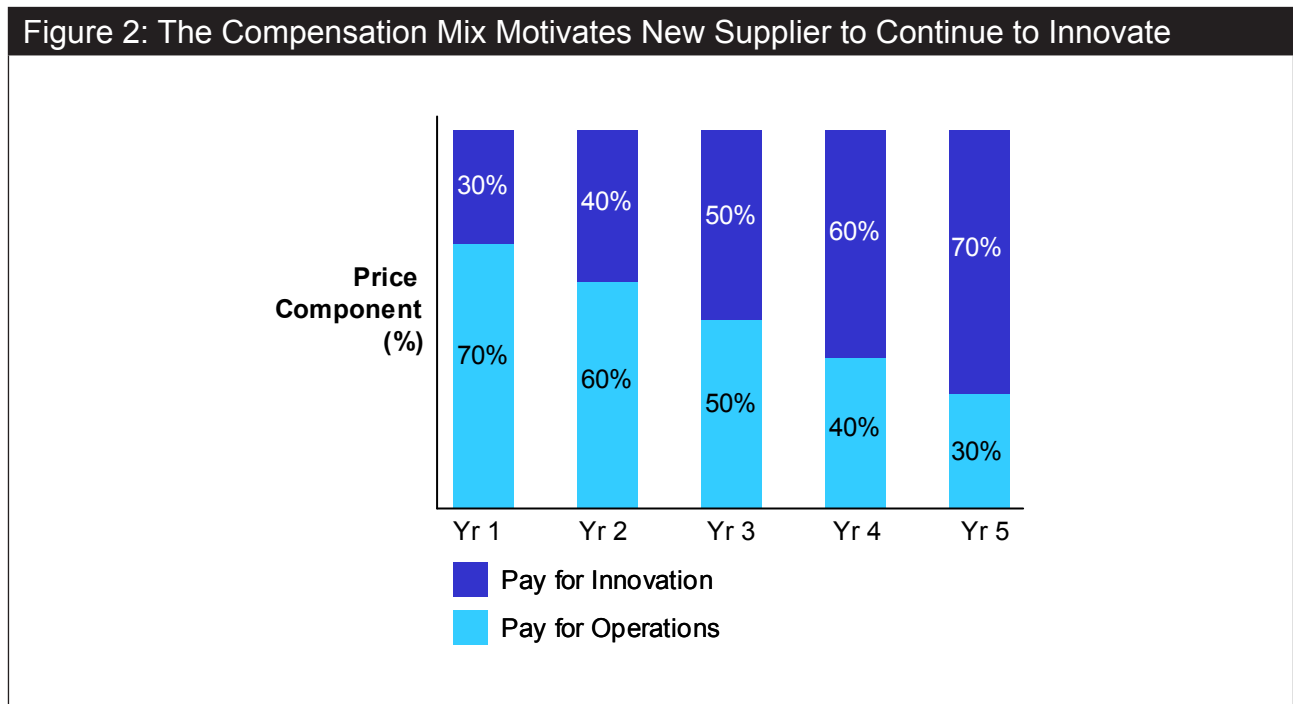
2. Carefully Align the Client’s Outsourcing Goals with the Supplier’s Incentives. The best way to avoid the challenges of supplier transition is to minimize the likelihood of, or need for, such transition in the first place. A good starting point is often a tighter outsourcing contract with a sufficient shared incentive structure to motivate desired behaviors from the supplier. While it was too late to re-engage Old Supplier, Client had learned from the experience and negotiated a more dynamic contract with New Supplier. A major change in the new contract was the incorporation of a pricing scheme that separated the “pay-to-operate” and “pay-to-innovate” components. Pay-to-operate is measured on operational efficiency and the achievement of service-level agreements, with KPIs such as service availability, operation audits, and customer satisfaction. Pay-to-innovate is measured on positive customer commitment, with KPIs such as customer growth, content innovation, new e-commerce transactions, lifestyle marketing, and

virtual community building. The compensation mix was structured to motivate New Supplier to innovate continuously and progressively over time (see Figure 2).

3. Contractually Specify the Supplier’s Obligations for Transitioning to a New Supplier. Learning from its experience, Client carefully spelled out New Supplier’s obligations in the contract to ensure that any future transition goes smoothly. These clauses go beyond traditional standard provisions (e.g., requirements for the quality and timeliness of process and system documentation) and define the specific roles and responsibilities of the supplier in the event of a future transition. Examples of supplier obligations include:

- The requirement for the supplier to submit a transition plan that sets out detailed procedures for knowledge transfer within an agreed period from the date of termination notice
- The identification of key supplier staff to manage transition
- “Right of use” clauses to ensure access to required information
- Commitment to service levels during transition.

While Client was able to agree on these supplier obligations at “no cost and minimal inconvenience” to itself, other outsourcing client organizations may need



to consider some form of “transition package” to keep their suppliers motivated to ensure seamless transition.

During the Operational Phase of an Outsourcing Contract

1. Continuously Surface and Safeguard New Sources of Potential Resource “Stickiness.” Assessing critical “sticky” resources in the outsourced processes should not be a one-time exercise. Continuous review is necessary as new dependencies can arise not only from the erosion of process knowledge in client organizations over time (e.g., corporate re-organization, obsolete documentation, staff turnover), but also from new knowledge generated over the course of outsourcing. Examples in the Client case include efforts by Old Supplier to add new portal functionality (e.g., SMS alerts, online map navigation) that complemented its own e-service applications. However, there is often inadequate organizational attention to retaining and capturing such knowledge, either explicitly (e.g., by updating architecture diagrams, program documentation, procedural manuals, FAQs) or implicitly (e.g., by tapping into subject matter experts or key people with experience in handling on-the-ground responses). The natural tendency is that knowledge asymmetry will develop in favor of suppliers. In a few instances at Client, requirement specifications had to be recreated from scratch (e.g., by reverse-engineering based on observed outcomes, and reconstructing requirements by engaging business process owners).

If possible, the contract can be renegotiated to include appropriate safeguards (e.g., by an addendum that formalizes “right of use” or by adding the right to renegotiate when exercising the option to renew).¹⁷ Alternatively, organizations should systematically ensure that new and changed process knowledge is acquired, transferred, and retained. Actions to achieve this include auditing the quality of documentation periodically, co-locating or seconding internal staff with the supplier, appointing internal “knowledge owners” for specific subject matter, and even occasionally negotiating to recruit key supplier staff as internal employees. Organizations can also create opportunities to learn through site visits and knowledge-sharing forums with suppliers.

2. Proactively Reduce Organizational Complexity Through Simplification and Standardization of

¹⁷ Client, for example, safeguards its access to continuous supplier innovation by including its legal right to use and modify applications developed by New Supplier in the contract. However, New Supplier remains the sole owner of the intellectual property.

Internal Operations. Organizations should work to reduce potential complications by simplifying and standardizing the internal operations connected with the outsourced processes. For example, Client’s use of multiple subcontractor teams for delivering the back-end e-service applications across the various agencies added significant complexity to interface management and thus made transition harder. Client used the transition project to standardize the e-service application interfaces across its subcontractor teams. It also appointed key “knowledge owners” to reduce organizational complexity over time by consolidating the disparate knowledge distributed across its many sub-agencies. Simpler internal operations translate to cleaner client-supplier interactions, hence, speeding up the transition process.

3. Consciously Nurture Relationships with Multiple Suppliers. While it is important to develop and maintain a strong relationship with a current supplier, it is also good practice for organizations to identify and proactively cultivate a pool of comparable contenders in the marketplace.¹⁸ Client, for example, took advantage of the pool of IT suppliers with which it had developed strong relationships. As it had contracted for IT services over the years, Client had “courted” a few comparable IT suppliers—e.g., one in portal management and others in e-services application development and ERP maintenance. The incumbent suppliers were always aware of Client’s interest in the comparable suppliers. Client’s procurement policy of seeking bids from non-incumbent suppliers (e.g., for new projects or at contract renewals) helps to maintain competitive market pressure on the incumbents. The transition remained manageable because New Supplier was not entirely new to working with Client and understanding its business operations.

Switching to a New Vendor at the End of a Contract

1. Tactfully Manage Relationship Tensions among Client, Old and New Suppliers. An uncooperative old supplier or an insensitive new supplier increases the risk of transition problems. Organizations must therefore carefully manage the delicate tripartite relationship tensions.¹⁹ Although not always feasible, an amicable relationship with the old supplier is a

¹⁸ Poston, R., Kettinger, W., and Simon, J. “Managing the Vendor Set: Achieving Best Pricing and Quality Service in IT Outsourcing,” *MIS Quarterly Executive* (8:2), 2009, pp. 45-58.

¹⁹ Chua, E. H., Lim, W. K., Sia, S. K., and Soh, C. Threat-Balancing in Vendor Transition, Third International Research Workshop on Information Technology Project Management, France, 2008.

plus. Similarly, a strong relationship cultivated with the new supplier will also help. As seen in the Client case, knowledge transfer from Old Supplier to New Supplier did not occur automatically. Client had to leverage its relationships with both suppliers so it could facilitate negotiation and speedily resolve issues. Client had to remain fair and reasonable in arbitrating supplier disputes or disagreements to lay a foundation of trust (to prevent either supplier from perceiving it as biased).

Despite the tensions at the operational level, many of the “gives and takes” occurred at the senior management level among Client, Old Supplier, and New Supplier (e.g., in getting New Supplier to agree to pay Old Supplier for existing system documentation). The active involvement of the client organization during transition is also important for clarifying and asserting its rights (e.g., ensuring that Old Supplier met its obligation to provide up-to-date documentation, that New Supplier fulfilled its promise of minimal business disruption). In extreme cases where the outgoing supplier is antagonistic, the client organization may find it necessary to resort to savvy use of political maneuvers (e.g., leveraging the client organization’s bargaining power, dangling the carrot of future contracts, threatening possible negative publicity, even threatening possible legal action).

2. Ensure There are Sufficient Resources to Manage Supplier Transition and Unexpected Contingencies. Learning from the experience of Client, organizations must be prepared to set aside adequate resources (personnel and budget) for transition. Indeed, the more extensive the transition effort, the more seamless the transition will be. Adequate resource provision is also important in coping with the unexpected during transition.

CONCLUSION

As IT outsourcing continues to gather momentum and mature, switching from one supplier to another and managing the transition will become much more common. It is thus crucial that organizations consciously develop their readiness to switch outsourcing suppliers. Based on the lessons learned from a case study of a difficult, yet successful, supplier transition, we have provided insights on how such readiness can be built before outsourcing, during the course of outsourcing, and at contract termination. The actions at each of these three stages described in this article should lead to an eventual successful switch-over.

Being “transition-ready” does not necessarily mean that an organization needs to change its current outsourcing supplier. But we believe that organizations that are transition-ready are not only able to better tap the competitive dynamics of the outsourcing supply market, but are also likely to be in a better position to sustain a longer and healthier relationship with their incumbent suppliers. Being transition-ready enables an organization to maintain a healthy tension between collaborative partnership and market competition. It also reduces the risks of supplier opportunism and thus helps organizations to reap the benefits of leveraging the outsourcing market in the long run.

APPENDIX: RESEARCH METHODOLOGY

We were invited by Client to provide a third-party report of the key events, issues, and lessons derived from its successful transition from Old Supplier to New Supplier. Our data originated from two main sources. First, we examined online and offline archival data concerning the project, including project proposal reports, tender specifications, contracts, official correspondence, project progress reports, project management plans, and meeting presentation slides, as well as minutes from the regular project meetings and the post-transition report. These documents spanned over six years and were especially useful for us to appreciate the sequence of actions and events that occurred.

Second, we conducted 13 interviews with key project members. Interviewees included project managers and members from Client (9), Old Supplier (2), and New Supplier (2). These interviews were conducted over three months, in tandem with our archival data review. Each interview session lasted between one and one-and-a-half hours.

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