



# **IT Outsourcing in Government Organizations in United Arab Emirates**

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## **Executive Summary**

Nowadays, IT outsourcing has become widely used by private and public organizations as a strategic option. Outsourcing the internal IT operations and functions to external service providers is increasing in government organizations in United Arab Emirates. The effort in this report is to investigate the practice of IT outsourcing in UAE government organizations in term of identifying outsourcing decisions drivers and motivators, the drawbacks and risk, assessing the performance of the practice and how outsourcing is affecting customer satisfaction. Furthermore, this research paper will establish the requirements necessary to implement effective outsourcing.

The primary research method used in this paper was to carry out case studies on the practices of IT outsourcing in government organizations. According to the investigation, outsourcing is practiced mainly in large government organizations where IT is the backbone of the daily and future operations of the organizations. The implementation of outsourcing in the discussed case studies range from one to three years old in the three government organizations included in this paper. Hence, all the implementations are new due to the recently growing interest of UAE government organizations to outsourcing their functions. Face to face interviews with senior employees who participated in the outsourcing were conducted for data collection along with analyzing documents provided by the organizations and observing the practice of outsourcing. Moreover, secondary research methods represented by the academic online journals, electronic books and newspapers were used to collect data about outsourcing.

The implementation of IT outsourcing in each case study is unique for every government organizations due to the distinct circumstances and conditions that were surrounding the life cycle of outsourcing. Therefore the advantages and disadvantages vary among the case studies. However, the main driver for outsourcing in government organizations and the outsourced functions are common among the case studies. Cost saving and improve the quality of services by focusing on core competency are the main expectations of contracting out internal IT functions to external private firms. Another finding is that government organizations are keen to maintain their core competency and none process oriented functions internally.

The research paper provides recommendations for each cases study in order to improve the current and future implementation of IT outsourcing. The main recommendation is to follow the life cycle of outsourcing in order to maximum the benefits and minimize, contain and avoid the risks and disadvantages accompany outsourcing. Moreover, the external service provider should be selected carefully and the SLA and contract should be defined preciously, flexible and managed closely by dedicated internal resources.

## **1. Chapter 1: Introduction**

### **1.1. Background**

Outsourcing is to contract out functions and services provided in-house to external service providers. Outsourcing is widely used in the developed countries like the USA, Canada and the European Countries due to the advantages it brings. However, outsourcing is a new concept in UAE, especially in the government organizations. Studying outsourcing in the UAE market especially in government organizations is essential since these organizations are going toward outsourcing due to the mandate issued by his highness Sheikh Mohammed Bin Rashid Al Maktoum which was enforced by the establishment of Dubai Outsourcing Zone in 2004. Moreover, outsourcing can play a significant role in the organization by cutting unnecessary costs spend by the government and save the effort of the organization's employees. Hence, studying outsourcing in government departments especially in the IT field is crucial to develop the knowledge required to ensure informed decisions are made for more effective strategies. Moreover, IT is considered as the driving force for running the businesses in these large government organizations. Thus, higher management and corporate executives are focusing on enhancing the IT in government organizations due to the importance that IT plays in running current business operations. This research paper will investigate the IT outsourcing in UAE government organizations and determine the drivers that lead to the decision to outsource the functions in the IT department. The study will identify the advantages and disadvantages of using IT outsourcing in the UAE government context and how outsourcing has affected the performance of the organizations.

### **1.2. Aim of the research**

The main aim of the study is to investigate and understand the practice of IT outsourcing in the government organizations in United Arab Emirates. Identify the drivers that lead to outsource partially or fully the functions in the IT department to external service provider. Moreover, rank the success of IT outsourcing in term performance and customer satisfactions. This paper will also provide the requirements and best practices necessary to implement successful outsourcing.

### **1.3. The objectives**

The objectives of this research paper are:

1. Investigate how important IT outsourcing is to the government organization in United Arab Emirates.
2. Identify the reasons that lead to outsourcing decision in the government organizations
3. Assess how outsourcing can affect the performance of the organization and the degree of customer satisfaction
4. Identify the drawback and risk associated with outsourcing initiatives
5. Establish the requirements necessary to implement effective outsourcing

### **1.4. Structure of the Research**

The paper is structured into six chapters to achieve the aim and objectives of this research paper. Below is a brief for each chapter:

- ❖ Chapter 2 provides information about the concept of IT outsourcing according to practices from different developed countries. The common advantages and disadvantages of IT outsourcing are provided which if reach a certain balance (the advantages overcome the disadvantages) lead to the decision of outsourcing. Once the decision is made to outsource the IT department then decides the most appropriate strategy to follow. Hence, the IT department goes into the outsourcing life cycle. Moreover, the critical success factors for outsourcing are discussed in order to implement outsourcing successfully.
- ❖ Chapter 3 provides information about the research methods carried out for this research paper. The main research method is case studies which were built on face to face interviews, documentation provided by the organizations and observations.
- ❖ Chapter 4 provides the data collected and present the cases of three different IT departments in government organizations that outsourced their functions to external service providers.
- ❖ Chapter 5 provides analysis of the each case study and the associate advantages and disadvantages that accompany the implementations of outsourcing.
- ❖ Chapter 6 provides recommendations for improvement for each case study, recommendation for further study and limitation of the research paper

- ❖ Chapter 7 6 ranks outsourcing implementations of the three cases studies and provide recommendations and best practices for successful implementation of IT outsourcing.

### **1.5. Methodology**

This research paper is built based on research journals, newspaper, electronic books, case studies, semi-structured interviews, analyzing government documents and observation which represent the research methods that are common to the qualitative research approach. The use of these various research tools for collecting and analyzing data comes under the action research methodology. According to Gilmore *et al.* (1986) who were cited by O'Brien (1998) action research study the system in its environment and surrounding circumstances along with getting involved with the members of the system to change it toward a desirable direction through active collaboration of both the researcher and the client. Hence, co-learning is essential during the research process. In another word action research is learning by doing which involves going through organizational change which are unfreeze/plan (i.e.: identifying the problem and coming with a plan), move/act (executing some actions to resolve the problem) and refreeze/reflect (determine how successful the change was and if not successful then try again) as suggested by Seeley and Urquhart (2008). Therefore, action research was selected due to the fact that this methodology can be used to improve understanding of the IT outsourcing through studying the drivers and issues surrounding the current practices, identifying the critical factors that contribute to the success of IT outsourcing and the drawbacks that lead to the failure of outsourcing if not managed.

Case studies was the primary research methods in which interview was used heavily for collecting data from employees who have expertise and are familiar in the field of IT outsourcing in the UAE. The UAE culture necessitates the use of face to face interviews instead of surveys distributed via mail. According to Sohail *et al.* (2005) the use of personal contracts is considered more appropriate and appreciated in the UAE context. Therefore, semi-structured informal interview was adopted as a method of collecting data. The questions included in the interviews are related directly to the IT outsourcing in government organization. Hence, the main goal of the face to face interviews is to note the how the practice of IT outsourcing was implemented in the organization. Moreover, explaining adequately the interview questions to the



interviewees can be accomplished effectively.

Case studies are built based on the interviews, documents provided by the organizations and observation to describe the organization background and the IT department background. Moreover, case studies identify the outsourcing decision drivers, the outsourced process/functions, strategy used, vendor selection criteria, selected vendor, tender process, service level agreement used and outsourcing performance for each case. Furthermore, the outsourcing practice for each case study along with the associate advantages and disadvantages will be analyzed.

The literature review in chapter two is conducted to provide the knowledge of IT outsourcing practices which facilitates the designing of the case studies. The topics of IT outsourcing covered in the literature can increase the knowledge of IT outsourcing thus easing the process of conducting case studies.

## **2. Chapter 2: Outsourcing Literature Review**

### **2.1. Outsourcing in General**

Outsourcing is when an organization subcontracts a process, service or function to external service provider instead of being performed by in-house employees. The external service providers when signing the contract agree to procure the services for the duration of the contract. Businesses that use outsourcing largely are the information technology (Willcocks *et al.*, 1995, Shepherd, 1999), human resources (Fisher *et al.* 2008, Lievens and De Corte, 2008), facilities (Tibbo, 2002, Krivonak, M 1999), health care (Claude, 2005, Khan, 2009), real estate management (Corporate real estate outsourcing does the dance, 1997, Kimbler & Rutherford, 1993), finance and accounting (Krell, 2007, Duganier, 2005), engineering (Murphy, 2001) and research and development (R&D) (Studt, 2007, Malek, 2000, Thayer, 1997). These businesses mostly outsource the customer support and call centers (Plunkett Research, 2008). Almost all mid to large size organization outsource in one way or another the non core activities (Quinn, 1999, Rasheed and Gilley, 2005). For instance, large companies contract out the cleaning services to external service provider who can provide the service at lower cost and perform the activities more effectively.

### **2.2. IT Outsourcing**

Information Technology (IT) has been rapidly advanced throughout the past 25 years. Nowadays IT plays a strategic role in today's business as it represents the backbone that supports the organizations' processes and services. Therefore, organizations should have diverse and high quality information services in order to survive and excel in the rapidly changing business environment (Lee & Kim, 1997, Willcocks & Fitzgerald, 1993). As a result, the future of any organization is heavily affected by the quality of information services used. However, the movement of today's business toward a knowledge based economy increases the sophistication and complexity of information system and telecommunication technology (Khalfan, 2004, Lee & Kim, 1997). However, many organizations seek to keep up with the rapidly growing information technology through investing in hardware and human resources, only to face exploding IT expenditures, inability to keep up with the fast changing information technology and difficulties in managing there IT operations (Khalfan, 2004, Lee & Kim, 1997). Therefore, to overcome these problem organizations see outsourcing by external service providers as the optimal solution in order for business

to succeed and to increase their competitiveness. According to Mojsilović *et al.* (2007) many organizations seize the opportunity of cutting costs by downsizing the IT functions while maintaining the benefits of technology by outsourcing to external service provider who manage the functions more effectively and reliably. Thus McGray & Clark, (1999) consider IT outsourcing as an essential additional option available to modern managers. Furthermore, IT outsourcing changes the management processes of the IT organization dramatically (Khalfan, 2004).

### **2.3. The Evolution of IT Outsourcing**

Information technology outsourcing industry has been growing significantly in the past two decades that it became the norm of today's business (Willcocks & Currie, 1998, Iijima, 2006, Kakabadse & Kakabadse, 2003, Altinkemer *et al.*, 1994, Willcocks *et al.*, 1995). Nowadays, many organizations and companies are relying heavily on outsourcing as a governance mode for their information technology services (Bahli & Rivard, 2005). The number of companies outsourcing some IT has increased from 20 to 51 of the 100 largest global companies between 1999 and 2004 (Iijima, 2006). In year 2004, the IT outsourcing contracts were estimated to reach US \$ 156 billion (Bahli & Rivard, 2005). According to Plunkett Research (2008) the current estimates of outsourcing suggest that the total global outsourcing revenues will reach approximately US \$ 500 billion in 2008, with the largest portions created in three broad areas: 1) Logistics, sourcing and distribution services, 2) Information technology services, including the creation of software and the management of computer centers and 3) Business process outsourcing (BPO) areas such as call centers, financial transaction processing and human resources management. Gartner group has estimated that the worldwide IT outsourcing market will witness a growth from US \$ 180.5 billion revenues in 2003 to US \$ 253.1 billion in 2008 at a compound annual growth rate of 7.2% (Gonzalez *et al.*, 2006). The wide spread of outsourcing worldwide has contributed to the growth of software and computer service sector (Miozzo & Grimshaw, 2005).

#### **2.3.1. History of Outsourcing**

Outsourcing dates back to the eighteenth-century England and has been used in a variety of forms since then. In the 1960s investment in information technology was expensive; computers were large that required considerable space and needed controlled environmental conditions in which to operate (Ketler & Walstrom, 1993).

Hence, many organizations downsized their operations by contracting out with data processing 'services bureau' to manage the data processing function which became known as facilities management (FM) or operations management which is considered a traditional outsourcing (Vassiliadis *et al.*, 2006, Ketler & Walstrom, 1993, Gelbstein, 2004). In this type of arrangement, data processing and resources that include hardware, software and employees were transferred to a service provider (vendor, outsourcer) as a package that was easily determined and priced and the service provider delivered economics of scale (Gelbstein, 2004). While in 1970s, the concern was the high expenses of software development that was as a result of the high demand for IT applications and low supply of IT expertise. This concern was resolved through contract programming which is another form of outsourcing (Ketler & Walstrom, 1993). In the onset of global recession in the early of 1980s outsourcing became more pronounced issue when corporations were considered to be under performing (Kakabadse & Kakabadse, 2003). During this time, firms were encouraged to focus on their core business. Thus, managers began to re-evaluate, re-engineer and vertically de-integrate supplementary business and non core activities by increasingly outsourcing (Kakabadse & Kakabadse, 2005, Cao & Wang, 2007, Ketler & Walstrom, 1993). By 1990s the agenda was set that high performance in terms of cost, quality, service and speed could be achieved by focusing on core activities through re-engineering. According to Ketler & Walstrom (1993) the main factors for information system outsourcing in the 90s were: 1) globalization and international competition, 2) deregulation of capital markets, 3) high volume of financial transactions and 4) shortage of information technology specialists. There are more factors that contributed to the growing of outsource industry: 1) improving the quality, service, and delivery, 2) improving organizational focus and 3) adopting to rapidly changing customer needs and preferences 4) increase flexibility and 5) facilitate change and the emphasis on core competencies (Dyer & Ouchi, 1993, Fan, 2000, Adeleye *et al.*, 2004, Jenster & Pedersen 2000). Moreover, outsourcing is the result of thinking that no organization is self sufficient nor any organization have unlimited resources to compete in the rapidly changing market (Power *et al.*, 2006).

The foremost example of IT outsourcing in the history is the highly publicized agreement by Eastman Kodak which outsourced the four data center operations to International Business Machines (IBM) in 1989 (Palvia, 1995, Barthélemy, J &

Geyer, D 2005, Bhattacharya *et al.*, 2003). The agreement idealized a relationship between two large firms, where the partner firm (IBM) takes responsibilities of managing mature IT function previously managed by the client (Kodak) plus hiring 300 Kodak workers who become IBM employees and purchasing all the IT equipment dedicated to the task (Walden & Hoffman, 2007, Palvia, 1995). This deal legitimized and increased the adaptation rate of IT outsourcing (Barthélemy & Geyer, 2005, Barthelemy & Geyer, 2001). Thus, IT became an essential element of the ‘outsourcing revolution’ with the rapid growth of developments within information technology, (Kakabadse and Kakabadse, 2003).

According to Barthélemy & Geyer (p. 532 , 2005) the main differences between traditional and new outsourcing are the following:

- ❖ Outsourcing is no longer restricted to small and medium-sized companies that do not possess their own IT infrastructure. Nowadays, larger companies are more open to outsourcing their internal activities
- ❖ Companies outsource an increasingly large range and depth of services
- ❖ Personnel and equipment are frequently transferred to the vendor.

### **2.3.2. IT Outsourcing: Definition**

IT outsourcing is defined by Chou *et al.* (2006) as the decision of the organization to contract out IT assets, personnel and/or functions to external service provider who receives monetary returns in order to manage the assets, personnel and/or functions for an agreed period of time. Furthermore, Lonsdale (1999) defined outsourcing as the transfer of internal activities to external service providers. Hence, outsourcing is a mechanism used by managers to subcontracting all or parts of the information technology function to an external vendor; with highly specialized and technical employees, as an alternative of performing those tasks using in-house resources and capabilities. Moreover, Barthélemy and Geyer (p. 534, 2005) state that “outsourcing is change from a hierarchical transaction to a market relationship”. An extreme type of outsourcing might involve transferring a wholesale of assets to an external service provider who provides all aspect of the organization’s information technology needs (Gordon & Walsh, 1997). The relationship between the organization and the vendor is linked through contractual obligation to provide the service to at least the same standards as when the organization was providing before the transfer (Martinsons, 1993, Outsourcing - The major legal issues, 1996). As per Khalfan (2004) leads to a

significant shift in the mode of governance, the internal process of the user organizations and organizational routines used to communicate with external parties. Network organization, the virtual company or the shamrock organization can be used to describe this way of doing business (Bailey *et al.*, 2002). Various terminologies have been associated with outsourcing such as: make or buy (Shaw & Fairhurst, 1997, Hussey & Jenster, 2003), vertical integration and transaction cost analysis (Sanders, 2007).

Moreover, Outsourcing differs from alliances or partnership or joint ventures in that the flow of resources is one-way (Belcourt, 2006). Typically, resources including capital are contributed by both parties in alliances, partnership or joint ventures but this is not the case in outsourcing (Bryce & Useem, 1998).

### 2.3.3. Outsourcing Components

Power *et al.*, (2006) identified three main components of outsourcing, namely: the client, the vendor and the project.

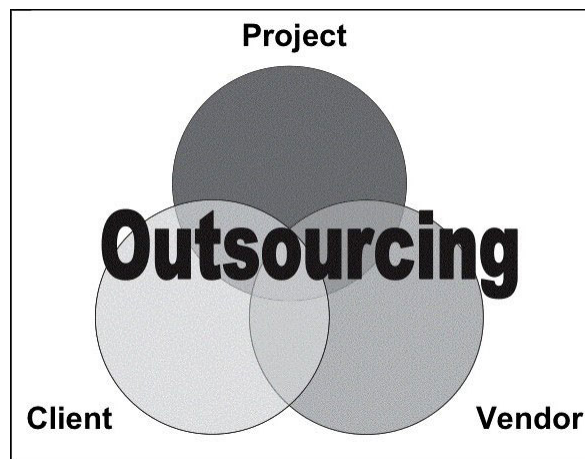


Figure 1: Outsourcing components (Power *et al.*, 2006)

The client is a person, an entire organization or a unit within the organization that would like to outsource a given project. Normally, the initiative is driven by the client from the concept of utilizing outsourcing as a strategic tool. Client can vary in size and scope.

The vendor is the outsourcer, service provider or the external entity who is contracted to take over the outsourced work. Vendor can vary in size, expertise and experience. The vendor has been used interchangeably with the service provider

Project is the actual activities being outsourced. In the past the most the project used to be simple such as manufacturing or labor intensive projects. However, nowadays, the outsourced project is more complex in nature such as software development and research and development. The new project is different than the old outsourced project in several ways:

- New projects are loosely defined due to the complexity and sophistication of the new project. Furthermore, the new project requires much more creativity than the routine basic assembly line which has specified guidelines.
- New project requires more skilled labor force since it involves more knowledge intensive tasks
- Difficulty of communicating due to the cross functional nature of the project team and the presence of multiple stakeholders who may be in different locations working for different organizations

Moreover, project consists of vendor and client who do not share the same goals and objectives. For instance, the client main concern is to get the work done with the agreed quality, lowest price and shortest duration. While the vendor concerns is to maximize the revenue from the project.

#### **2.3.4. Core competency (Outsourcing: What and How?)**

The debate of outsourcing has been moved from whether to outsource or not to what and how to outsource (Venkatraman, 1997). Many studies argue that non core activities can be outsourced while core activities should stay in-house to maintain competencies (Kakabadse & Kakabadse, 2000, Harris *et al.*, 1998, Bryce & Useem, 1998, Barthélemy, 2003). Core activities are defined as the core competencies which the organization are heavily dependent on and are important to achieve the organization strategic goals, whilst non core activities are the supplementary or peripheral activities which are not crucial strategic need. Others define core competence as:

*“core competencies are the things that some companies know how to do uniquely well and that have the scope to provide them with a better-than-average degree of success over the long term”* (Gallon et al., p. 20, 1995).

*“Those competencies that define a firm’s fundamental business”* (Teece et al., p. 516, 1997)

These definitions illustrate that core competencies are unique and not stable. Thus, core competencies require continuous upgrade in order to provide the organization with competitive advantages.

Quinn (1999) stated that “Once a company develops a true best-in-world core competency, it never outsources it and may even build defensive rings of essential competencies that customers insist it have or that protect its core”. Honda exemplified such practice by not outsourcing the design and manufacture of key equipment in order to protect its core competency which is the design and manufacture of efficient and small engines (Rasheed & Gilley, 2005).

Moreover, Alexander and Young (p. 117, 1996) further define the four meanings associated with core activity:

1. Activities traditionally performed internally;
2. Activities critical to business performance;
3. Activities creating current or potential competitive advantage; and
4. Activities that will drive the future growth, innovation or rejuvenation of the enterprise.

Apple computer represents a live example of concentrating the internal resources on core activities which considered the essence of the company existence in the market such as apple DOS and the supporting macro software which gives apple products their unique look and feel while outsourcing seventy percent of their activities. The outsourced activities include manufacturing cost and component such as design (to Frogdesign), printers (to Tokyo electric), key elements of marketing (to Regis Makenna, which achieved a “US \$100 million imagine” for apple when it had only a few employees and about US \$1 million to spend). By outsourcing, apple eliminated unnecessary investment and gained from the vendors and their technical expertise and stayed flexible to adopt new technologies in extremely flat organization (Quinn and Hilmer, 1994).



Moreover, after studying both successful and unsuccessful corporate examples Quinn and Hilmer (1994) concluded that effective core competencies are:

- ❖ Skill or knowledge sets, not products or functions
- ❖ Flexible, long term platforms – capable of adaptation or evolution
- ❖ Limited in number
- ❖ Unique sources of leverage in the value chain
- ❖ Areas where the company can dominate
- ❖ Elements important to customers in the long run
- ❖ Embedded in the organization's system

Organizations nowadays are facing fast growing market with high level of competition where low cost and operational excellence can play vital role in the organizations' survival. Therefore, many organizations are outsourcing non-core activities in order to focus their resources on what distinguish them in the market (Bendor-Samuel, 2001). Therefore, outsourcing is considered when the organization believe that certain peripheral support functions can be completed faster, cheaper or better by an outside organization without jeopardizing the core competencies and the organization's existence in the market. Thus many argue that the safest approach is to outsource non-core activities which are good candidates to be outsourced.

#### **2.4. IT Outsourcing in Government**

Gordon and Walsh (1997) agreed that outsourcing in government is a distinct form of privatization where the activities and functions of government departments are performed by private firms. Hence, the private firms participate by managing some or all aspects of IT department in government sectors. However, the IT outsourcing in government sector is under-studied (Khalfan 2004, Lin *et al.*, 2007) especially in UAE.

Economic globalization and value for money concept have led management to consider outsourcing (Kakabadse & Kakabadse, 2001) in order to function more like private sector organizations (Lin *et al.*, 2007). Therefore, public sectors had undergone through re-engineering process in which outsourcing was implemented resulting in leaner and flat organizations (Kakabadse & Kakabadse, 2000, 2001). The main global drivers for IT outsourcing in the public sector are to control cost and improve performance through using private sector techniques (Kakabadse &

Kakabadse, 2000). According to Khalfan (2004) IT outsourcing in public sector organizations in Kuwait is used to save costs and to obtain access to required skills which the public sectors lack. Furthermore, public sector outsourcing can be “pursued to promote a political objective, such as reducing the size of government, with less focus upon business calculus” (Gordon & Walsh, p. 275, 1997). Lin *et al.* (2007) have summarized the goals and objectives that the government sector aims to achieve in their IT outsourcing project, these are:

- ❖ Lower cost
- ❖ Access to expertise and skills unavailable in-house
- ❖ Improve the services
- ❖ Allow greater focus on core functions/activities
- ❖ Increased flexibility
- ❖ Risk sharing

Government sectors organizations tend to outsource their IT functions due to the belief that private sector organizations are more able to offer efficiency (Lin *et al.*, 2007) which the government sector organizations lack due to poor management practice (Khalfan, 2004). According to Burnes and Anastasiadis (2003) government sector organizations have to relate the best value of IT outsourcing in term of economy, efficiency and effectiveness since they are subjected to external audit unlike the private sector organizations who are free to define the best value for money.

Public sector IT outsourcing has many benefits such as improving government decision making due to the fragments in functions (Gordon & Walsh, 1997, Kakabadse & Kakabadse, 2000). Furthermore, outsourcing in the public sector can increase flexibility and reduce costs.

On the other hand, outsourcing the public sectors services can lead to degradation of quality. Furthermore, the lack of in house capabilities and skills in the public sector can lead into difficulties in monitoring and managing contracts (Kakabadse & Kakabadse, 2000). Moreover, the transferred employees might be retained temporary with the private sector only for the duration of migrating from the public sector thus increasing the level of unemployment (Gordon & Walsh, 1997). Gordon and Walsh (1997) emphasized that IT outsourcing in government organizations is difficult due to

the legislation that prohibits outsourcing core government functions. Another concern regarding the growth of outsourcing in government is limiting the opportunities of outsourcing to large IT service providers (Kakabadse & Kakabadse, 2001). This does not only excluding small and medium sized IT providers from bidding for government contracts but also allow large service providers to act as government themselves due to the strategic authority and power associated with the outsourcing arrangement (Kakabadse & Kakabadse, 2001).

## **2.5. IT Outsourcing in UAE**

United Arab Emirates (UAE) has one of the most dynamic economics market in the Middle East open to adopt with the new premier technologies. The UAE IT services market is estimated to worth 1 billion dollars by 2010 (Raghavan, 2008). As per the investigation the UAE government organizations are heavily dependent with high expenditure on hardware support, installation and customization of services when compared to the mature IT markets. As a result the use of IT outsourcing has become essential for IT to cope with the fast growing market and to cut costs of operating the functions in-house.

IT outsourcing is not a new phenomenon in UAE market. The IT services expenditure in the UAE reached US \$ 234.3 million in 2002 (IT outsourcing new growth area for vendors in UAE market, 2003) and boom in 2005 to reach spending of US \$ 415 million (AME Info, 2005) due to the fact that higher management is constantly looking for ways to improve internal efficiency and customer satisfaction (Sohail *et al.*, 2005). The increase needs for IT services is raising the demands for local government to outsource the IT functions. The largest IT service to be outsourced was hardware support and installation in 2005 (AME Info, 2005). The quick absorption of the UAE market to the outsourcing arrangement is due to the increase demands for development.

Dubai government organization are encouraged to outsource due to the mandate issued by his highness Sheikh Mohammed Bin Rashid Al Maktoum in 2006 and by the establishment of Dubai Outsource Zone (DOZ) (Read more about DOZ in chapter 4, section 4.2). The establishment of DOZ increased the diversity of outsourcing vendors in the UAE market which in turn provided a wide variety of options for the government organizations to select the most appropriate vendor. As a result, large

government organizations in UAE due to the establishment of DOZ and the mandate are put under great pressure to use outsource as a strategic option available to managers in order to focus on core competency and to cut unnecessary costs. Hence, outsourcing the right functions to the most appropriate private firms can save the fund provided by the government in order to be used where it is needed the most.

## **2.6. Outsourcing Advantages**

Making the decision to outsource is never simple and the answer is not always obvious. There are many reasons that can lead the organization to outsource decision, namely: high cost, poor quality of services, shortage of qualified staff, inability to recruit or policy to concentrate on core activities (Gelbstein, 2004, Moneta & Dillon, 2001). Furthermore, organizations are moving toward IT outsourcing due to the rapidly changing and increasingly complex business issues that suggest a more focus approach on functional core competencies. Outsourcing is used as a potential strategy to remain competitive as organization struggle to keep up with the demands of customers and shareholders alike (Ketler & Walstrom, 1993). Moreover, many studies have considered outsourcing as a cost reduction mechanism (Bhattacharya *et al.*, 2003, Burdon & Bhalla, 2005, Gonzalez *et al.*, 2005, Barthelemy & Geyer, 2001, Shepherd, 1999). According to a study conducted by Ventoro.com in 2004 that covered five thousand executives demonstrates the advantages for outsourcing that can be categorized into the following (Dominguez, 2005):

1. Respond to imposed pressure from powerful player. Such power can be imposed by the chief executive, board of directors, chief of information officer (CIO) shareholders, or other senior management depending on the circumstances.
2. Respond to operating challenges that can contribute to reduce and control operating costs, reduce labor costs and balance competitive pressure.
3. Respond to satisfy a need or a vision such as improving company focus, achieve cost savings, gain access to world class capabilities, improve efficiency, allocate resources to more core operations to the organization

While others categorize and combine the above advantages of IT outsourcing into three different factors; namely: strategic factors, economic factors and technological factors (Grover *et al.*, 1994).

## ❖ **Strategic Factors**

Organizations that use outsourcing as a strategic weapon can become ‘focalized, streamlined and agile’ (Bailey *et al.*, 2002). Furthermore, the belief that no one organization can achieve excellence in all areas leads organization to focus on core competency by outsourcing non core activities to third party service provider (Belcourt, 2006).

Strategic factors can provide the below benefits:

- **Focus on core business**

Outsourcing can free the time of the organization in order to focus and concentrate on core business and areas with greater strategic potential (Smith *et al.*, 1998, Bailey *et al.*, 2002). Moreover, outsourcing proves to improve and protect the organization wealth by transferring resources from non-strategic functions to a more strategic core competency functions (Dess *et al.*, 1995). Organization can outsource the routine activities such as IT infrastructure, operations, maintenance and support to third party and refocus its effort and resources on high level issues (Grover *et al.*, 1994). Outsourcing can lower the level of distraction and increase management attention to focus on business planning (Alner, 2001, Gilley & Abdul Rasheed 2000).

- **Improve focus on strategic use of IT**

IT outsourcing can redirect the focus of skillful and experienced employees from the routine work to the activities that represent competitiveness and have strategic role in the organization (Grover *et al.*, 1994, Clark *et al.*, 1995, Hayes *et al.*, 2000, Palvia, 1995). As a result, IT outsourcing can increase the flexibility to respond to market and internal needs.

- **Enhance IT competence**

IT outsourcing allow the organization to utilize the competency of one or more service providers (Grover *et al.*, 1994). Outsourcing increases the level of competition among service providers which ensures the availability of high quality of goods and services in the market (Gilley & Abdul Rasheed 2000). Therefore, organization can choose competent service provider and thus decreasing the level of internalization of services (Grover *et al.*, 1994).

Furthermore, IT outsourcing can provide access to the service provider's capabilities and innovative efforts which cannot be developed in house (Bailey *et al.*, 2002). In addition, the service provider can implement radical changes (managerial, technical or organizational) more rapidly due to the availability of expertise and experience in managing changes and the absence of pressure to follow the organization's bureaucracy or policy (Clark *et al.*, 1995).

- **Enhance IT staff expertise**

The fast growing market and the increase complexity of IT requires highly qualified professionals. At the same time, having access to IT expertise by the organization is considered difficult, time consuming and expensive (Jurison, 1995) due to shortages of specific skills in the labour market (Slaughter and Ang, 1996). Hence, in outsourcing, hiring qualified professionals has been shifted and transferred from the organization to the service provider who has access to a pool of experienced personnel (Grover *et al.*, 1994). Hence, outsourcing removes the limits and goes beyond using the internal resources which increases the organization competitive capabilities (McLellan *et al.*, 1995). Personnel are selected, trained and managed by the service provider. Thus these personnel have the knowledge of the emerging technologies and their implementation in different setups (Alner, 2001, Grover *et al.*, 1994). Therefore, the service provider in IT outsourcing can easily cope and absorb fluctuations in the IT workload (Jurison, 1995). IT outsourcing allows organizations to “gain access to a broader base of knowledge and experience than it may possess internally” (Gordon & Walsh, p. 272, 1997).

- ❖ **Economic factor**

Economic factors can be considered as the main driver for outsourcing. That includes cost savings, reductions and control. About 50% of the organizations have met their costs saving objectives by outsourcing (Belcourt, 2006). Economic factor can be delivered through outsourcing because of the:

- **Vendor economic of scale and scope**

Economic of scale and scope can be achieved by the vendor because of the following (Hayes *et al.*, 2000):

- ❖ The vendors possess high levels of skills and knowledge that can be apply to a wide range of IT situations due to the great exposure to various problems and experiences.
- ❖ The vendors devotes their full capacity (human and technical resources, time) to the provision of IT services

The vendor ability to provide services at lower cost in the areas of hardware, software and IT personnel is due to the fact that the vendor is contracting and utilizing these resources and expertise with many organizations (Grover *et al.*, 1994, Gelbstein, 2004, McLellan et al. 1995, Smith *et al.* 1998, Palvia, 1995, Gordon & Walsh, 1997). Such economic of scale can not be achieved internally which makes outsourcing an attractive solution for the management in order to accomplish more with less resources and lower cost (Grover *et al.*, 1994, Jurison, 1995). Furthermore, the economic of scope can also be accomplished due to the fact that a single vendor carries out and exposed to a variety of IT tasks (Grover *et al.*, 1996, Hayes *et al.* 2000). Thus the vendor can perform the outsourced functions more effectively and efficiently than the client organization (Martinsons, 1993).

Furthermore, outsourcing can be a solution to two human resource problems which contribute to achievement of the economic of scale by the vendor that is; 1) the inability to justify full time technical specialists and 2) temporary peaks in demand for development staff (Ketler & Walstrom, 1993). Information technology is expanding in scope and it is difficult for small firm to have their experts in each area. Consequently, such organization can be attracted toward outsourcing due to the broad rage of skills and technical knowledge that the vendor can provide economically.

- **Cost containment and predictability**

Outsourcing assist on providing a detailed cost structure of the IT operations. The cost becomes predictable for the client organization since the vendor takes the responsibilities of cost overrun (Grover *et al.*, 1994). Furthermore, vendor has improved and tight cost control mechanism in order to maintain profit from the outsourcing (Lacity *et al.*, 1994)

- **Transfer of staff to the vendor**

Transferring staff (in house full time and part time employees) to the vendor lower the overhead costs on the organization. Transferring employees eliminate the cost of employees on the organization that include salaries, overtime, benefits, training and costs related to the facilities occupied by the staff, administrative costs and management (Axelrod, 2004).

According to Clark *et al.* (1994) cost reduction can be obtain through outsourcing by contracting out costly and outdated technological resources and transferring personnel to the outsourcing vendor. Therefore, IT Outsourcing can improve cash flow in the organizations.

- ❖ **Technological Factors**

Nowadays, IT outsourcing become a tempting and attractive option for higher management. Outsourcing can provide the organizations with access to the latest technologies and assist in minimizing and avoiding the risk of obsolescence (Grover *et al.*, 1994).

- **Access to leading edge technologies**

IT outsourcing provides the organization with access to the leading edge technologies which contribute greatly to the organization's competitiveness state in the market (Grover *et al.*, 1994) due to the absence of leading time required to implement the new technology, (Palvia, 1995). Moreover, outsourcing can improve service quality and productivity due to the use of advanced technology (Clark *et al.*, 1995). In addition, capability of access advanced technology increases the organization flexibility through redesigning the outsourcing contract to adopt the new information needs (Hayes *et al.*, 2000). Thus, outsourcing can put the organization in the forefront of technological advancement (Altinkemer *et al.*, 1994)

- ❖ **Avoidance of obsolescence risk**

The information technology market witness an accelerated and rapid changes which expose the organizations to a high risk of obsolescence. IT outsourcing can increase the flexibility of the organization to adopt with the rapid pace of



technological changes. Thus, the organization can guarantee that IT will not become obsolete over time (Balakrishnan & Wernerfelt, 1986) due to the fact that IT outsourcing transfers the risk from the organization to the service provider who bears the risk of technological obsolescence (Grover *et al.*, 1994, Clark *et al.*, 1995). Thus, outsourcing decrease the capital associated with ageing and quickly becoming obsolete technologies (Clark *et al.*, 1995).

## **2.7. Outsourcing Disadvantages**

### **❖ Loss of Flexibility and Control**

Outsourcing can lead to the lack of flexibility and control over the outsourced functions since the functions is being separated from the organization's hierarchy. As a result, the organization will lose control over the vertically integrated organizations. This lead to the lack of control over quality of service, the timetable of a project and the IT decisions since the work is carried out by the service provider who is not directly supervised (Grover *et al.*, 1994, Harris *et al.*, 1998). Moreover, supervising and assessing the quality and cost effectiveness of the work contracted can be difficult (Martinsons, 1993). Furthermore, the lack of awareness and understanding on the outsourced activities by both parties can lead to a greater degree of inflexibility (Bailey *et al.*, 2002). In addition, the lack of flexibility can occur due to the use of the service provider's proprietary services over a long time thus making the organization wedded to that technology (Martinsons, 1993). As a result the organization can not adjust the contracted out activities and the resulting outputs according to the upcoming needs and requirements (Martinsons, 1993). Gordon and Walsh (p. 274, 1997) state that "A lack of flexibility caused by inadequate provisions regarding intellectual property, termination, and disentanglement can jeopardize access to technology" thus leading to lack of the organization flexibility. Outsourcing can increase the potential of locking-in the organization to that specific vendor as stated by Gelbstein (p. 431, 2004) "Once a client has transferred its information technology assets and intellectual property to a vendor, and has divested itself of staff and their expertise, the decision to outsource is hard to reverse or change". The lack of control and flexibility can threaten the survival of the organization and its ability to compete.

## ❖ Cost Factors

### • Increased Coordination Costs

Outsourcing increases the time and effort required in order to communicate and coordinate with the service provider. Furthermore, excessive outsourcing can make the host organization fraction of its former self and decreases the overhead dramatically which leads to hollowing out their competitive base (Kotabe *et al.*, 2008, Kakabadse & Kakabadse, 2000b) and increases the total cost of coordination (costs of communication and reporting, negotiation, monitoring, supervising and contract renegotiation costs) especially with multi-vendors outsourcing (Kotabe *et al.*, 2008). Thus, organization ends up with the costs that were initially migrated to the vendor (Palvia, P 1995). Moreover, “managing the supplier(s) may prove to be a greater burden than managing an in-house function” (Shepherd, p. 65, 1999).

### • Hidden or potential cost

IT outsourcing often brings hidden cost which if accumulated over time will reach a significant figure. According to Willcocks *et al.* (1995) hidden costs can be considered as a trap that arise due to weakness in the outsourcing contract and can lead to additional and higher costs that were not previously contracted, these weaknesses are (p. 339):

- *Failure to fully define present IT requirements*
- *Failure to define fully future requirements, or failure to create mechanisms for protecting price in the face of contingencies*
- *Loopholes or ambiguities in the contract*
- *Not allowing the vendor a reasonable profit*
- *Unforeseen, rising, in house contract management as a result of weak contracting practice*

Loopholes and ambiguities in the contract can trigger opportunistic behavior especially if functions were outsourced with a single service provider thus adding unreasonable cost to the client compared to the market cost (Osei-Bryson & Ngwenyama, 2006). Furthermore, contract management costs (new roles, time and effort) were usually higher than expected by the vendor. According to a survey conducted by Willcocks *et*

al. (1995) outsourcing was viewed as 'spending rather than managing' due to the fact that most of the organizations forget to add the cost of outsourcing in term of management and coordination to the total cost of outsourcing.

Others sources of hidden cost in outsourcing can be from (Gelbstein, p. 431, 2004):

- *Legal cost of contracting*
- *Higher transaction costs: Every change of requirements, scope of services, technology, charges, etc., needs to be treated as an amendment to the contract(s) defining the relationship between client and vendor.*
- *Cost of monitoring the vendor's performance— This activity is needed to validate that the vendor delivers its services to the agreed quality level, that issues arising in the execution of the contract are logged and raised, etc. In situations where the services are provided by an in-house organization this activity is frequently not performed in a formal manner.*
- *Cost of redefining the organizational boundaries, which in turn induces possible further restructuring, and dislocation of resources, thereby inducing a variety of cost. such costs, especially when associated with loss of employment, are financial as well as social (Kakabadse & Kakabadse, p. 110, 2000b).*

Thereby, it can be concluded that outsourcing include direct and hidden costs which should be considered very carefully by the organization in order to determine the most appropriate estimate of outsourcing cost.

#### ❖ **Outsourcing Hinder Innovation**

Outsourcing can make the organization dependent on the service provider. The dependency can be increasing dramatically when the organization outsources its core competency and specialized skills to single vendor (Hoecht & Trott, 2006). Thus organization loses the capability to learn and innovate by transferring in-house expertise and competencies to the service provider. Moreover, the incentive to and the capability of being innovative is reduced as

the competitive pressure to innovate is transferred to the service provider (Kakabadse & Kakabadse, 2000b). Thereby, outsourcing compromises technical development on the long run. In addition, contract based on lowest price does not provide the service provider with the incentive to innovate (Alexander & Young, 1996). Furthermore, organizations contracting out are exposed to the danger of losing the capability to absorb, recognize and exploit new opportunities and technological breakthroughs by themselves (Hoecht, A & Trott, P 2006, Gilley & Abdul Rasheed 2000). In addition, “outsourcing IT reduces the organization capability for cross functional synergies and creativity” (Belcourt, p. 275, 2006). According to Gilley & Abdul Rasheed (p. 766, 2000) “outsourcing is often used as a substitute for innovation”. As a result, outsourcing may hinder both the service provider and the client organization from being innovative.

#### ❖ **Conflict of Interest**

Profit is considered as the main motivation for the service provider while service receiver motivation can be to reduce cost and improve the quality of the service previously provided in house. The main reason for the existence of some service providers in the market is to maximize their profits regardless of the client organization best interest (Palvia, 1995). Furthermore, systems and data confidentially arise as the service providers offer the same solutions with some customization for many organizations in the market in which competitors may exist (Palvia, 1995, Gelbstein, 2004, Hoecht & Trott, 2006). In addition, service providers might share the core business of the organization existence “information leakage” which makes the organization exposed to the risk of losing their competitive edge to their competitors (Hoecht & Trott, 2006).

#### ❖ **Underperformance by Vendor**

One of the reasons why organizations decide to outsource is to improve the performance. However, outsourcing may not meet the expectations of increasing the quality of the outsourced services. According to Gelbstein (p. 431, 2004) underperformance situations include:

- *Failure to deliver the agreed service levels*

- *Replacing staff originally assigned to the client by less qualified or less experienced personnel. Vendor may spread the expertise among different clients which degrades from 'best in world' to mere industry standard (Hoecht & Trott, p. 677, 2006).*
- *Giving a lower priority to the client than that given to a larger client*

Furthermore, the performance measure of the outsourced functions is determined in the SLA. However, the vendor whose main goal is profitability can breach the agreed level of performance if penalties for not meeting the level of performance are not great in term of cost. Thus the vendor might find it cheaper to fail on performance criteria than to meet or exceed the performance criteria (Axelrod, 2004).

#### ❖ **Knowledge Transfer**

IT outsourcing makes it difficult to maintain knowledge transfer between the organization and the outsourcing vendor. In addition, the internal staff may not be capable of supporting and running the outsourced functions and roles if returned in house. The absence of knowledge transfer can impact the organization power to negotiate in term of service cost, moving to another vendor or returning the outsourced function in house, being totally dependent on the outsourcing vendor who has different strategic direction (Axelrod, 2004). Furthermore, the position of the organization in the market can be threatened due to the loss of in house skills, knowledge and corporate memory that are important to the organization's success.

#### ❖ **Human Resources Implications**

Outsourcing can affect the human resources negatively through influencing the employee morale, performance and job insecurity (Kakabadse & Kakabadse, 2000, Barthelemy & Geyer, 2001, Palvia, 1995, Belcourt, 2006). Employees who are influenced directly by the outsourcing decision view outsourcing as a betrayal (Barthelemy & Geyer, 2001) or being sold off to the vendor by the management (Kakabadse & Kakabadse, 2000) due to the management beliefs that outsider are more competent in carrying out the work (Belcourt, 2006). In addition, the organization productivity may decline

dramatically once the outsourcing contract is signed and employees start to hunt for jobs elsewhere seeking for job security (Palvia, 1995). Moreover, outsourcing is often linked to expressions such as “non core or zero added value activities” which affect significantly the people doing the job to think about the value judgment and the criticality of their job to the whole endeavor (Gelbstein, 2004). Additionally, outsourcing most of the times involves transferring human resources to the outsourcing vendor, transferred internally to other functions, offered voluntary retirements or being layoffs by the organization (Belcourt, 2006). Forcing employees to transfer cause employees to experience emotional loss and a change in culture. Furthermore, transferring to the vendor does not include transferring pay and job security as the vendor can lower the payment and increase job intensity (Belcourt, 2006).

#### ❖ **Customer Dissatisfaction**

The growth of outsourcing industry does not prove that customers are satisfied with the outsourcing. About 70% of the companies who have outsourced are dissatisfied with one or more aspect of their suppliers (Kakabadse & Kakabadse, 2000). The cause of dissatisfaction can vary from contracting with the wrong supplier to the misidentification of goals, the provision of service the guarantees and the relationship.

### **2.8. Outsourcing Strategy**

Once the advantages of outsourcing overcome the disadvantages then the outsourcing strategies can be selected. Outsourcing strategies can be categorized according to span (full/total or selective) and number of vendors (single vendor or multi-sourcing) (Power *et al.*, 2006, Willcocks *et al.*, 1995).

#### ❖ **Full/Total VS. Selective Outsourcing**

Outsourcing can be distinguished into two forms according to the span of the outsourced activities, namely: full/total outsourcing and selective outsourcing (Adeleye *et al.*, 2004). Full outsourcing is an extreme outsourcing strategy in which 80 per cent or more of the information technology department budget is contracted out to external vendor (Martinsons, 1993, Adeleye *et al.*, 2004, Power *et al.*, 2006, Pinnington & Woolcock, 1995, Willcocks *et al.*, 1995). This form of outsourcing arises when the organization does not consider IT as

a strategic advantage that should be developed and managed internally (Adeleye *et al.*, 2004). Full outsourcing is a long term projects that possesses high level of risk and sophisticated (Power *et al.*, 2006). On the other hand, the selective outsourcing occurs when a specific range of services or small segments of a function (less than 80 per cent of IT budget) is contracted out to an external vendor (Martinsons, 1993, Adeleye *et al.*, 2004, Power *et al.*, 2006, Pinnington & Woolcock, 1995, Willcocks *et al.*, 1995). The organization should clearly realize the interdependencies of the selective outsourced segment and how these are going to be managed (Power *et al.*, 2006). This form of outsourcing increases the flexibility and provides better services (Martinsons, 1993, Adeleye *et al.*, 2004).

#### ❖ **Single vendor VS. multi-sourcing**

The activities' dependencies can play a vital role on selecting of single or multi-vendor strategy. Single vendor outsourcing is used when the client select single vendor for the outsourced project. Selecting such strategy is beneficial if the outsourced project is hard to decompose into independent components. The benefit of single vendor outsourcing is that the client will have to deal with one party only who will manage the outsourced project thus ensuring single point of responsibilities. On the other hand, there are many risks associated with single vendor outsourcing such as relaying on one vendor which make the client vulnerable to the “lock-in effect” (Power *et al.*, 2006) thus terminating or switching to another vendor can be considered as a long and expensive solution especially for long period contract. Hence, the client might be forced to continue with the unqualified and incompetent vendor.

On the other hand, multi-sourcing is when the client outsources the function to more than one vendor (Power *et al.*, 2006, Kakabadse & Kakabadse, 2000). Multi-sourcing can be considered when the function is broken down into several independent components which usually occur in full/total outsourcing project. There are many advantages for implementing multi-sourcing strategy such as (Power *et al.*, 2006):

- Increase competitions to reach shared objectives among vendors
- Provide a risk balances for not relaying on single vendor

- Increase the flexibility of shifting the outsourced component to another involved vendor in case of low performance
- Protect and prevent the sensitive work from being exposed to vendor by decomposing the total work
- Benefit from the contribution of several high quality vendors in the area of their expertise

Client can have difficulties in managing multi-vendor relationships and the integration of the various outcomes that are coming from several vendors.

## 2.9. Types of Outsourcing

According to Power *et al.* (2006) outsourcing is categorized according to location, depth level and work.

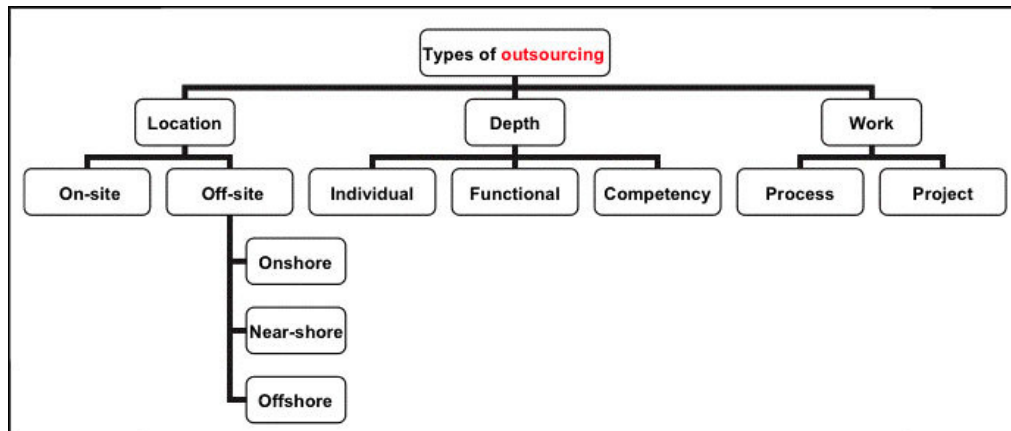


Figure 2: Types of outsourcing (Power *et al.*, 2006)

Location is categorized into on site and off site. In on site outsourcing the vendor's team members execute the work within the premises of the client organization. While off site work means that the vendor team members execute the work at the vendor location; onshore, near shore or offshore. Onshore is when the vendor executes the work within the same country as the client. This outsourcing type has many advantages such as: no time differences and few cultural differences. Near shore outsourcing is when the vendor is outside the country to neighboring locations of the client location. While offshore arrangement is when the vendor work in a country that is considered distance from the client country. Our research is concerned mainly with on site and offsite on shore outsourcing arrangement.

Outsourcing arrangement can be categorized according to their depth level: individual, functional, or competency.



Individual outsourcing occurs when a specific positions is outsourced such as web designer. This is used when the expertise is required in a small area for a predefined period of time.

Functional outsourcing arises when the organization outsources an individual functional area such as desktop support. Cost saving and the requirement for expertise are the main motives for this type of outsourcing.

Competency outsourcing involves outsourcing multiple functions within the organization. This type of outsourcing occurs when the client has high level of trust and confidence on the vendor ability of performing and managing the assigned responsibilities and activities.

The natural of the outsourced work can be divided into process oriented or project oriented work (Gelbstein, 2004). Process oriented work includes the activities that are or can be standardized, well-structured, documented in detail. Example of process oriented work is the data center operations. On the other hand, project oriented work involves activities that are unique, nonstandard and not structured. These activities are complex to manage and require creativity.

## **2.10.Outsourcing Life Cycle**

Outsourcing can be used as a strategic tool to increase the organization's competitiveness and performance in the market. Therefore, organization should be aware of the different stages of the outsourcing life cycle and acknowledge the importance of each stage. According to Power *et al.* (2006) the outsourcing life cycle goes through seven different stages which should be followed in sequence as each stage contributes to the following stage and thus reducing the difficulties of making decisions to move into the next stage. These stages are: 1) strategic assessment; 2) needs analysis; 3) vendor assessment; 4) negotiation and contract management; 5) project initiation and transition; 6) relationship management; 7) continuance, modification or exit strategies. Each stage of the outsourcing life cycle has sub components and sub processes that should be performed in order to be able to make decision and move to the next stage.

### **Stage 1: Strategic Assessment**

Strategic assessment is the starting point of the outsourcing process in which the organization evaluates the outsourcing strategy through making a business case that

indicates the readiness for outsourcing (Dominguez, 2005). This stage focuses on making a strategic assessment on whether outsourcing will benefit the organization by considering the internal IT environment and the external service provider's environment. The assessment also includes determining the areas or functions that represent suitable candidates to be outsourced by conducting internal assessment of the IT resources and capabilities (Cheon *et al.*, 1995). The initial stage also includes conducting operational, financial and risk assessments that are added to the business case (Lee & Kim, 1997). The reasons for conducting strategic assessment are the following (Power *et al.*, p. 39, 2006):

1. *To develop a clear vision of outsourcing, setting tangible goals and objectives.*
2. *To determine how outsourcing fits into the overall business strategy.*
3. *To select and engage executive sponsors for the outsourcing endeavor.*
4. *To identify the key functions and processes suitable for outsourcing.*

The strategic assessment presented by the business case should be reviewed and agreed upon before getting into the outsourcing phase. The agreement at the end of this stage triggers the initiation of needs analysis stage.

## **Stage 2: Needs Analysis**

This stage involves selecting possible candidate areas through prioritizing the needs at an operational level and selecting the areas that can be suitable for outsourcing. Needs analysis should be conducted for each project as it represents the needs that get transferred to the vendor. Needs analysis can be considered as a business case that is detailed and more focused on one or more outsourcing projects. Operational assessment should be conducted in this stage of the outsourcing life cycle. According to Power *et al.* (p. 70, 2006), finding answers for the below questions is critical in need analysis stage:

- ❖ *To outsource or not?*
- ❖ *What to outsource? (Core competency)*
- ❖ *Does it make business sense to outsource the process?*
- ❖ *Can you outsource the process?*

❖ *Can you measure the process?*

In this stage the outsourcing strategy is determined such as total/selective, long term/short term, single vendor/multi-sourcing and process/project outsourcing (Lee & Kim, 1997). The main two deliverables from this stage is the statement of work (SOWs) and request for proposal (RFP). SOW covers more in depth details such as the scope of the project, details of the work assignment, SLAs and roles and responsibilities. SOW can be considered as the building block on which the outsourcing work will be based. On the other hand, RFP states the work requirements and scope, the vendor, the process and quality issues and the client organization profile that attracts potential candidate to apply for the job. Both deliverables state clearly the needs and requirements of the organizations from the vendor. RFP contributes greatly in the vendor selection.

**Stage 3: Vendor assessment**

This stage involves evaluating and selecting the vendor for the outsourcing project through evaluating the responses to the RFP and SOW. Power *et al.* (2006) state that there are five stages to assess the vendor, that are:

1. Preparation: is essential for the client to ensure having clear process in order to evaluate vendors. Preparation include forming a cross functional team that consists of the organization representatives. This team evaluates different vendors based on well defined, standardized and fair process (Power *et al.*, 2006, Gelbstein, 2004).
2. Assembling a manageable list of candidates: to reduce the number of vendors based on high level criteria to be able to provide greater in depth focus on the short listed vendors
3. Evaluating the vendors: performing in depth evaluation regarding the vendor capabilities by composing a list of attributes that are critical for the evaluation process such as past dealing with the vendor, trust, brand name, references from current clients, areas of specialization, years of experience, certification and awards, management practices and procedures (Power *et al.*, 2006, Bailey *et al.*, 2002, Gelbstein, 2004). Furthermore, evaluating the vendor ability to meet the schedule and budget commitments which can be obtained from current customers and past success. Moreover, vendor's references can be used to investigate and validate the information provided

by the vendor. The evaluation process should apply to all the candidate vendors without bending any rules. This process will give each vendor a score and will shorten the list of candidates.

4. Evaluating the vendor's proposal: evaluating the proposal based on pricing and how clearly the vendor provides details which demonstrate the issues understanding. This process will narrow down the list of candidates further more.
5. In-dept vendor assessment: by conducting risk assessment and financial assessment.

The vendor assessment is used to select the potential vendor/vendors with whom the client can grant the outsourcing contract to. The selection criteria is not based solely on cost criteria but also on the compatibility between the customer needs and the supplier capability to observe these needs (Honest, 1996, Dominguez, 2005). Therefore, cost, time and quality are considered during this stage when comparing the current internal process performance with the prospective vendors' offers (Dominguez, 2005). This stage of the outsourcing life cycle is important to initiate the next stage by selecting the potentials vendors. Furthermore, vendor assessment saves the time, money and effort that can be consumed heavily in the next stage if this stage was eliminated.

#### **Stage 4: Negotiation and Contract Management**

Selecting the vendor is a prerequisite that leads to negotiation and contract management stage. In this stage the client is engaged in negotiations with the vendor until an agreement is reached by both parties about the details outsourcing work (Power *et al.*, 2006). Negotiation is a lengthy process; however, the investment of time and effort on this process will be rewarded in the future (Honest, 1996). Once an agreement is reached, then a contract is produced as a legal binding deal between both parties and includes issues such as scope, price, service levels, penalties, software and personnel transfers, liability, dispute resolution, monitoring and reporting (Honest, 1996). There are several outsourcing contracts as described in the table below:

<b>Type of contract</b>	<b>Description</b>
<i>Time and material</i>	<i>The vendor prices its services based on a predetermined hourly labor rate and charges back the actual costs for additional materials to</i>

Type of contract	Description
	<i>the client</i>
<i>Fixed-price</i>	<i>The vendor provides the client a fixed-price bid for the proposed project or service based on a client-provided statement of work</i>
<i>Shared risk and reward</i>	<i>Contracts that mutually align the organization's business objects and spread risk and reward</i>
<i>Cost-plus</i>	<i>Contracts negotiated based on predetermined vendor profits guaranteed over the actual vendor costs</i>
<i>Utility-based</i>	<i>Contracts priced on a pay-as-you-go basis</i>

**Table 1: Different outsourcing contract by Power *et al.* (p. 124, 2006)**

### **Stage 5: Project Initiation and Transition**

Project initiation is known as having a chaotic dynamic. Therefore, the client organization should focus on operating the outsourcing relationship through planning first then implementing (Dominguez, 2005). The transition should be design in stages and should involve managing changes in-house and with the vendor, manage conflicts immediately once occurring and extensive and clear communication mechanism. Once this relationship reach a point of stability, then the client can transfer the control and knowledge of the outsourced work to the vendor (Power *et al.*, 2006). The vendor starts implementing the outsourced project.

### **Stage 6: Relationship management**

Relationship management is concerned with managing the day to day operations of the relationship once becoming routine enough. However, according to Gelbstein (2004) relationship management starts with the negotiation stage and should continue till the end of the outsourcing contract. Therefore, this stage can gradually start in in the negotiation and contract management and should become more excessive with time. In this stage the client ensure the effectiveness of the outsourcing contract such as performance monitoring and contract administration (Lee & Kim, 1997). Relationship management includes managing the relationship in terms of work administration, communication management, knowledge management, personnel management and finance management (Power *et al.*, 2006, Lee & Kim, 1997).

During this stage frequent verification of quality of the outsourced functions against the organization's expectations is carried out (Dominguez, 2005). Therefore, good communications arrangement and frequent contact are vitals in this stage (Gelbstein, 2004). To take advantage of the outsourcing practice in this stage, the client organization should be concerned about the results of outsourcing while the vendor should be concerned about how to execute the process in order to deliver the services (Dominguez, 2005). In another word, the client organization should not be concerned on how the work is executed which should be the role of the outsourcing vendor.

### **Stage 7: Continuing, modifying or terminating the arrangement**

The outsourcing contract is evaluated to determine whether continuing, modifying or terminating is necessary for the organization. Client continues on an existing agreement if there is no trigger to call for an evaluation for the existing relationship. However, the contract might be evaluated if there internal events, external events or changes to the vendor's business existed (Power *et al.*, 2006). This will lead to modifying (changing from short term to long term or from total to selective outsourcing) or terminating the existing outsourcing arrangement (Lee & Kim, 1997).

### **2.11. Critical Success Factors**

Gelbstein (2004) states that the main success factors for outsourcing are: viability of the outsourcing options, thorough understanding of the scope of outsourcing, realistic expectation. Furthermore, the contract definition can be associated to the success of outsourcing.

#### **❖ Viability of the outsourcing options**

The objectives of outsourcing should be realistic, achievable and clearly understood by all parties involved in the outsourcing arrangement. Organizations should select the functions to be outsourced very carefully and examine how these functions can influence the overall outcome of the organizations. Moreover, outsourcing should not be thought of as a solution to an existing problem as it might add more fuel to the fire (Ketler & Walstrom, 1993, Gelbstein, 2004).

Outsourcing contracts can impact the whole organizations such as employees and finance, thus examining the impacts and consequences of outsourcing on different areas are essential on this stage.

❖ **Thorough understanding of the scope of outsourcing and realistic expectations**

Getting into an outsourcing contract does not free the organization from responsibilities. Therefore, certain responsibilities should be taken by the organizations when deciding to outsource. The organization's responsibilities include:

- Clearly define the scope of services to be provided
- Clearly define the service level for the process work
- Define performance metrics for project work
- Define in details the expected service levels from the service provider
- Clearly define and agree on the responsibilities of both the organization and the service provider in the outsourcing contract
- Define the control mechanism to be used during the outsourcing contract including the right to audit the service provider
- Identify the resources that will be transferred to the service provider
- Manage the organization, changes and outsource contract
- Define the measures to be used to protect the organizations confidentiality and intellectual property

Being obligated to these responsibilities can be considered as the building blocks toward a successful outsourcing contract.

❖ **Following the outsourcing life cycle (Outsourcing Process)**

Outsourcing part or all of the IT can cause tremendous change to the organization. Therefore, having change management strategy and process is vital in order to succeed. Change goes through three different phases, which are: unfreezing, moving and refreezing that should be addressed carefully (Palvia, 1995). These phases occur in a rational order through the outsourcing life cycle where the first two stages represent the unfreezing phase, and the last two stages represent the refreezing phase while the intermediate stages represent the moving phase. Thereby, executive management dedicating skilled resources to carry out the discipline of outsourcing life cycle can be key components of success (Power *et al.*, 2006). Furthermore, support from

cross functional units within the organization is important for the success of outsourcing.

❖ **Contract Flexibility**

The use of incomplete contracts in IT outsourcing increases the level of contracts flexibility that cannot be achieved using comprehensive and complete contracts (Richmond *et al.*, 1992). Incomplete contracts are used because of the difficulties of recognizing and specifying the external factors that cannot be controlled by the contracting parties (Richmond *et al.*, 1992, Harris *et al.*, 1998). Therefore, these contracts allow renegotiation of certain parts that were left open purposely due to changes in circumstances of the parties involved or as a protection mechanism for both the client organization and the service providers (Harris *et al.*, 1998). The parts of the contract that can be left flexible includes: price, renegotiation, duration, early termination (see the table 2 below) and performance incentives (Richmond *et al.*, 1992). The use of flexible incomplete contracts allows the organization and the service provider to respond to external and internal uncertainties effectively.

Flexibility options	Description	Advantages
Price	<ul style="list-style-type: none"> <li>Original price can be changed/adjusted through escalation/de-escalation</li> <li>Price can be renegotiated or the exact price can be determined later on</li> </ul>	<ul style="list-style-type: none"> <li>Reduction in the total cost of contract because parties did not consider all contingencies</li> </ul>
Renegotiation	<ul style="list-style-type: none"> <li>Renegotiation clause enables part or all the contract aspects to be altered during the life of the contract</li> </ul>	<ul style="list-style-type: none"> <li>Allow coping with the fast changing IT environment</li> </ul>
Duration	<ul style="list-style-type: none"> <li>Contract duration can be short or long. Shorter contracts are more flexible</li> </ul>	<ul style="list-style-type: none"> <li>The negotiation of new contract after the expiry of a short contract can be more accurate</li> </ul>
Early termination	<ul style="list-style-type: none"> <li>Clause that allow for early termination of the contract “mutual termination” clause</li> </ul>	<ul style="list-style-type: none"> <li>Protect the organization from penalty for early termination</li> </ul>

**Table 2: Contract flexibility options (Harris *et al.*, 1998)**



## **2.12. Conclusion**

Outsourcing IT services to an external service provider has been used widely in both public and government organizations in order to achieve success in the rapidly changing business environment. Ngwenyama and Bryson (p. 246, 2006) point out that IT outsourcing management and decisions making process are very complex in nature involving many factors such as: 1) selecting the function to be outsourced, 2) determining the outsourcing strategy, 3) selecting one or more reliable outsourcing vendors; 4) entering and managing a long-term relationship with one or more outsourcing vendors; 5) exposing vital organization assets to the control of external agents; 6) coordinating between internal users and outsourcing vendors; 7) monitoring vendors and inducing them to deliver on performance requirements; and 8) defining viable backup and recovery options. Therefore, there should be a predefined mechanism and methodology that should be followed in order to successfully execute each of the above factors such as the outsourcing life cycle. Giving appropriate time, effort and resources to execute the sequential stages in the outsourcing life cycle can increase the percentage of achieving the advantages of outsourcing and minimize the disadvantages.

The literature review is the bases for collecting and building the case studies in chapter 3 and 4 since no previous study was conducted in the field of IT outsourcing in government organizations in UAE. The main drivers identified in the literature will be compared to the drivers identified in the government organizations in UAE context. Moreover, the process and methodology used by government organizations will be identified and how IT outsourcing has affected the performance of the organization and customer satisfaction. In addition, the drawbacks and risk associated with outsourcing in government organizations will be identified in comparison to the disadvantages identified in the literature. Finally, the literature review discussed along with data collected and analyzed will be used to establish the requirement necessary to implement effective IT outsourcing in government organization in UAE.

## **3. Chapter 3: Research Methodology**

### **3.1. Introduction**

This section outlines the research methodology used in order to collect data and obtain information. Research methodology covers the research approach, primary

research methods, selection of respondents, unit of analysis, secondary research methods and the advantages and disadvantages of the research method used.

### **3.2. Qualitative (Research) approach**

The qualitative research approach was adopted for this research through using semi-structured interviews to build the case studies. Qualitative approach has the strengths of providing the richness and depth of exploration and descriptions of the issue of IT outsourcing in UAE.

Qualitative research is used due to the absence of published studies of the IT outsourcing phenomena in public organizations within the UAE context. Therefore, qualitative methods can be considered as the most practical and justifiable methods in carrying out investigation of the IT outsourcing in UAE since little is known. The initial investigation regarding outsourcing in government organizations in UAE shows that few public organizations have used outsourcing arrangement to manage their IT; entirely or partially; since it is a new concept in the public sector. According to the initial investigation showed that IT outsourcing is mainly used in large public organizations rather than small and medium size organizations. Thus, it has limited the study to small number of large public organizations and increased the difficulties of contacting people involved in the outsourcing practices as they possess high positions in the IT department which in turn limited the duration of the interviews.

### **3.3. Methods of Data Collection:**

Methods of collecting data in this research paper can be categorized into primary (case studies, interviews, documents analysis and observation) and secondary research methods (Online newspapers, academic journals and electronic books).

The secondary research method is conducted first to collect data about IT outsourcing practice and to enable building a clear picture and knowledge of how outsourcing is used in different part of the world. Hence, the data collected by the secondary research methods facilitates the designing of the case studies in UAE government organizations.

Case studies are built to help investigate the importance of outsourcing in UAE government organizations context and to identify the drivers that led to outsourcing

decisions. Moreover, IT outsourcing is assessed in term of performance and customer satisfaction in each organizations. In addition, the drawbacks of IT outsourcing are identified according to each organization. Hence, both methods contribute in the investigation and identifying of the drivers, barriers and selection criteria of the outsourcing vendor in the government organizations in UAE. The data collected from both the primary and secondary research methods is then used to establish the requirements necessary to implement effective outsourcing.

### **3.4. Primary Research**

#### **3.4.1. Case studies**

Case studies in this research paper are built according to the data and documents provided by the interviewees along with observation. Case studies were selected as the most appropriate approach for studying IT outsourcing in UAE due to the limitation of IT outsourcing practices in the public organizations. Furthermore, this research paper according to the investigation and research conducted is considered as a pioneer in the field of IT outsourcing in the public sectors in UAE as no previous studies were conducted specifically in the field of IT outsourcing in the public organizations. Thus case studies approach was used to provide greater depth and breadth of details about the IT outsourcing arrangement in the public sectors in UAE that cannot be maintained using the quantitative methods represented for instance by questionnaires. Moreover, case studies allow exploring the complexity of IT outsourcing. Furthermore, case studies allow the researchers to study the phenomena of IT outsourcing where it occurs thus retaining “the holistic and meaningful characteristics of real life events such as organizational and managerial processes” (Yin, p.2, 2003). Therefore, case studies can be considered as having the capability of exploring and explaining real life situations.

The research approach includes multiple case studies. The use of multiple case studies has many distinct advantages, such as

- ❖ strengthen the results of the study
- ❖ Increasing the confidence of the study by being more robust
- ❖ Avoid the vulnerability of single case study
- ❖ Increase the analytical benefits. For instance, having analytical conclusions arising from multiple case studies is more powerful than

those from a single case studies

- ❖ Exploring some various contexts in multiple case studies
- ❖ Expanding the generalization of the findings when arriving to common conclusions from multiple case studies

#### **3.4.1.1. Case study protocol**

Case study protocol is similar to survey questionnaire in only one thing which is collecting data either from a single case study or from a single respondent (Yin, 2003). The protocol in case study is considered as the instrument, procedures and general rules which have to be followed by the researcher as a guideline in order to carry out data collection especially in multiple case studies. According to Yin (2003) the protocol can be divided into:

1. An overview of the case study project such as project objectives, issues and relevant information about the topic to be investigated (IT outsourcing)
2. Field procedures such as access to the case study site (public sectors in UAE) and general sources of information
3. Case study questions such as the questions of the study through conducting interviews with potential sources of information represented by the interviewees
4. A guide for the case study report represented by the final report of the case studies along with documentations and bibliographical information

Having a protocol set for the case study is essential for various reasons such as:

- ❖ Keeping the investigator focused on the subject of the case study
- ❖ Anticipating issues to determine how the case study is to be completed. For instance, identifying the audience before conducting the case study report thus reducing disastrous outcomes in the long run.

#### **3.4.1.2. Case studies Advantages and Disadvantages:**

The use of case studies as a qualitative research method has many advantages and disadvantages.

##### **Advantages:**

- ❖ Allow exploring and simplifying complex situations from inside out. IT

outsourcing is exploring from the perspectives from those involved in the practice

- ❖ Provide deeper understanding of social phenomena that cannot be obtained from purely quantitative data
- ❖ Provide rich in depth information and detailed about the case being studied

**Disadvantages:**

- ❖ The generalization of the study results that cannot be applied to society in general
- ❖ The inter-subjectivity of the situation's interpretations that are based on the opinion of an individual researcher
- ❖ Insufficient access to information can lead to inappropriate results

**3.4.2. Semi Structured Interviews**

Interview was selected as a primary method for collecting data to build the case studies which represent the core of data collection for this research paper. Face to face interviews were conducted with employees from different levels within the IT departments (managerial and operational levels) in government organizations. The selection of employees as respondents to the interviews was according to their involvement and qualifications in the outsourcing practice. The UAE culture necessitates the use of face to face interviews instead of surveys distributed via mail. According to Sohail *et al.* (2005) the use of personal contracts is considered more appropriate and appreciated in the UAE context. Therefore, semi-structured informal interview was adopted as a method of collecting data. Semi structured interviews are flexible allowing the interviewer to cover the predefined checklist of topics and interact with the interviewee by formulating ad hoc questions to obtain the desired information. Furthermore, the interviews are following a pre-defined set of questions derived from the case study protocol. Hence, the interview's questions are most likely to be conversational and fluid rather than rigid structured interviews (Yin, 2003). Moreover, semi structured interviews ensure addressing the same questions; excluding the interaction ad hoc questions; in all the interviews which represent reliable comparable data to be analyzed when compared to unstructured interviews (Baker, 2003). The use of informal interview is preferred in the UAE culture where socialization is considered as more appropriate approach than rigid formal interviews.

Furthermore, interview was used instead of survey due to the lack of outsourcing practices in the government organizations in the UAE.

Each interview was structured to cover the below topics:

- ❖ How the outsourcing decision was driven?
- ❖ How was the outsourced function selected?
- ❖ What are the criteria for selecting the outsourcing vendor?
- ❖ Has outsourcing improve the performance of the function and improve customer satisfaction?
- ❖ What are the drawback and risks encountered by outsourcing?

The interview's questions were open ended questions allowing the researcher can ask about the facts regarding the outsourcing practices as well as the interviewees' opinions about outsourcing. Moreover, interviewees may be asked to provide their own insights about certain occurrences in the outsourcing practices as well as provide some other sources of evidence such as other employees, documents. Interviewees who provide high level of assistant can be considered as informants rather than respondents. However, a researcher should not become overly dependent on a sole informant or respondent who can only provide one side of the story. Therefore, a researcher should relay on other sources of evidence that may suggest corroboratory or contrary evidence than those provided by the interviewees.

Interviews were not allowed to be recorded due to some restriction and to preserve the right of confidentiality by keeping interviewees anonymous which promote openness. Moreover, some interviewees felt uncomfortable when asked about recording the interviews. Furthermore, the researcher preferred not to rely on recording the interviews since it might be considered as a substitute for listening closely throughout the duration of interviews which was necessary due to the use of semi structured interviews approach. Therefore taking note was necessary. Interviews were conducted in both English and Arabic because of the multicultural background of the interviewees originated from different nationalities. The interviews were scheduled from one to two hours in the organization's premises. The data collected from the interviews along with the document provided from the organizations were put

together in order to create the IT outsourcing process within each organization and to write down the case studies represented by each organization.

#### **3.4.2.1. Interview Advantages and disadvantages**

The advantages and disadvantages of the interviews are discussed in this section since interviews are considered as the base of building the case studies used in this research paper.

##### **Advantages:**

- ❖ The researcher will have the opportunity to brief the interviewees about the research topic and objectives without being biased
- ❖ Interviews can include open ended questions which allow the interviewees in providing greater information (data richness) when and help the interviewer to understand and explorer answers
- ❖ Interviews are useful in exploring issues with high complexity
- ❖ Information can be obtained in a relatively brief period of time when compared to questionnaire
- ❖ Interview's questions have the flexibility to be modified. For instance, if an interviewee mentions an unanticipated issue, then a new question can be added to the interview's questions which will allow the interviewer to explorer the new issue with the next interviewee
- ❖ Interview can eliminate the misunderstanding of wrong interpretation of the questions by the respondent
- ❖ The interviewer has the flexibility of adjusting the questions and ask the respondent for further explanation
- ❖ Interviews represent a higher response rate when compared to questionnaires
- ❖ Interviews can build relationship between the interviewer and the interviewees which (facilitate the flow of information from the interviewees to the interviewer when required in later stages) help in acquiring further information in later stages

##### **Disadvantages:**

- ❖ Conducting interviews is costly consuming more time and effort for both the interviewees and the interviewer. Therefore, the researcher will try to limit the duration of the interview to one hour.

- ❖ The accuracy of information is dependent on the interviewees' perceptions and knowledge about the topic. This can be limited and avoided through briefing the interviewees about the topic and objectives of the research paper.
- ❖ Interviews can be difficult to schedule especially with management positions interviewees
- ❖ In interviews, interviewees may tend to provide the information they think the interviewer want instead of what they really think
- ❖ The responses provided by the interviewees might be misunderstood or biased by the interviewer
- ❖ The selection of respondent is limited to few respondents

### **3.4.3. Selection of Cases**

The research project covers public sector represented by the UAE government organizations in which IT outsourcing is implemented. The initial investigation limited the selection of case studies to large government organizations with intensive use of IT. Many small to medium size organizations were approach for this research paper, however, these organizations could not play any part of this research since no outsourcing have been implemented in their IT department.

For the large public organizations interviews were conducted as part of data collection along with analyzing documents and observation. Case studies participants were determined according to the experience and contact of the researcher. Moreover, the study targeted employees in different hierarchal level from the highest level represented by the senior employees to the lowest level represented by the employees in the operation level and the customer of the IT departments in order to obtain insight into the IT outsourcing from different perspectives. In addition, participants were working closely in the study of outsourcing the functions of their IT departments.

### **3.4.4. Unit of Analysis**

The unit of analysis identifies the boundaries of the research study. The units of analysis can vary from one study to another. The unit of analysis can be individuals (e.g.: employees or customers) events (e.g.: decisions or programs) or entity (groups or organizations). This research study uses the IT departments within the UAE government organizations as the unit of analysis



### **3.5. Secondary Research**

The secondary research methods in this research paper included using the internet in order to access newspaper, academic journals and electronic books (e-books) related to outsourcing and IT outsourcing in specific. The secondary research methods provide the foundation of understanding the outsourcing practices in different parts of the world and assist in building the knowledge which facilitates the designing of the interview questions.

## **4. Chapter 4: Data Collection**

### **4.1. Introduction**

This chapter includes the data collected from the interviews that were the basis for the case studies. Data collected from the interviews shows that the driver for outsourcing in all IT departments was driven by the government in all Dubai Government organizations. Therefore, the outsourcing decision driver in Dubai government will be discussed prior to the case studies. Then a description about each case study will be provided.

### **4.2. Outsourcing Decision Driver in Dubai Government Organizations**

The primary driver for outsourcing in all Dubai government organizations was initiated by a new government mandate issued by his Highness Sheikh Mohammed Bin Rashid Maktoum in year 2006 declaring outsourcing as a strategic option for public service delivery. This mandate has been further re-enforced by the establishment of Dubai Outsourcing free Zone (DOZ). Dubai Outsource Zone is the first free zone in the world dedicated to the outsourcing industry. DOZ provides many products and services for companies who wish to setup their outsourcing offices in Dubai. The products and services include (Dubai Outsource Zone, 2009):

- ❖ Provide quick and easy licensing and incorporation services
- ❖ Provide office space for rental with infrastructure services and lease of land for office facility
- ❖ Provide events and hospitality services. Such services include provide assistant for conducting small or big events such as press conference, exhibitions, products launches conferences and seminars
- ❖ Provide access to conference room facilities that are fully equipped
- ❖ The hospitality team provides assistant to employees during the process of moving to Dubai
- ❖ Provide latest telecommunications technology such as IP telephony
- ❖ help companies to obtain residence and visit visas

Plus many other services and products which make establishing outsource business in Dubai hassle free with all the facilities and services provided by DOZ. Due to this Dubai government organizations have been under a great deal of pressure to articulate their outsourcing strategies. Therefore, the main driver for outsourcing in the IT

departments in all Dubai government organizations was politically driven by the government.

The Dubai government organizations are encouraged to use outsourcing strategies. Dr. Omar Bin Sulaiman, CEO of Dubai Internet City, stated in Dubai Business Minds (2004) that “the set-up of Dubai Outsource Zone is expected to increase the growth of outsourcing industry and brings in many economic benefits for the both UAE and the region. Moreover, it is expected to provide significant boost to the development of the country’s own human capital and provide several opportunities for fresh graduates to gain valuable exposure in various emerging sectors of the economy through both full-time and part-time employment opportunities”.

According to the interviews conducted with organization A and B, the initiatives to use outsourcing as a strategic option in the government organizations are timely and in line with the fundamental paradigm shift taking place in the government and corporate organizations of the developed and developing economies to shift their focus from building in house IT capability to reliance on external resources. The shift is due to the increase pressure on business to leverage innovation as a competitive weapon to achieve agility and growth, while at the same time keeping costs under control.

Outsourcing in Dubai government organizations is brought by the vision of his highness Sheikh Mohammed Bin Rashid Maktoum in order to improve business and to strengthening Dubai’s status as a knowledge-economy hub through outsourcing in Dubai government organizations. This increased demand will attract outsourcing companies to set up their businesses in Dubai to create a global or regional hub servicing the worldwide market.

IT departments began to evaluate outsourcing practices for many reasons ranging from mandates by corporate executives to studies and assessments that help organizations understand potential options of using outsourcing strategy.

### **4.3. Case Study A**

#### **4.3.1. Organization's Background**

Organization A is one of the largest government organizations in the Emirate of Dubai due to the number employees (more than 15,000 employees), services it provides (more than 400 services) and projects it carries out. This organization provides services to the residents and business community in Dubai through quick response with the rapidly changing business environment. The adaptation helps in providing suitable infrastructure and highest quality services which play a vital role in the development of the emirate which in turn attract and open opportunities for business to keep coming to Dubai. Therefore, the organizations hierarchy is organized into seven large sectors that are further divided into over 30 organizational units due to the large amount of services and the growing demands of businesses.

#### **4.3.2. IT Department's Background**

The IT department in organization A is a general support service department that provides services to both internal customers, represented by the organization's employees who are located in different locations in Dubai, and the external customers, represented by the citizens, residents of Dubai, and the business community. Hence, IT department provides the technological support and services for all the organizational units within organization A which in turn provide services to outside customers. Furthermore, IT department in organization A is one of the largest and most developed IT department in the government organizations of Dubai consisting of four sections that are Systems Development & Support, E-Government, Office Automation and Operations and Network Services section. Organization A has won many awards due to the effectiveness of IT department in providing and improving the services provided to the customers. Such awards include ICT Excellence Award in the category of e-service provider organization of the year 2007, United Nations Public Service Award in the area of application of information technology and telecommunications in the government sector and becoming the first Arab city to win the prestigious award in year 2006, UAE contest for e-Content in the e-government category in year 2005 and many more awards. Thus the IT department plays a vital role in the success of organization A.

### 4.3.3. Other Outsourcing Decision Drivers

According to the data collected and access gained to the repository of outsourcing project documents, the senior management expect from IT outsourcing to benefit the organization by reducing reaction time to implement, support the business requirements and reducing cost if possible. The IT department is not considered as the core business of the organization A however, the IT department is seen as an enabling department. As a result, the availability of IT resources can work for the advantages of the organization, especially in term of speed to market.

IT department in organization A has technology leadership in term of the speed and the differentiated products it provides. Moreover, IT department provides the latest technologies regardless of the technology cost or the difficulty in managing the constant project disruptions. The technology provided such as desktops, e-mail systems, applications, etc are always the best available. According to the documents provided by the organization and the interviews conducted, the technology strategy followed by the department is used due to the dynamic business needs and high profit margins that justify spending on the latest tools regardless of cost. Therefore and despite the fact that money savings is considered as number one driver for outsourcing, in this case study the senior employee in the core outsourcing team stressed on that the financial savings are not the sole motivator for outsourcing in organization A. As per the interviews and the analyzed documents, there are none quantitative and intangible factors associated to IT outsourcing in organization A. These intangible factors can be summarized as follow:

- ❖ Achieving organizational speed, agility, and flexibility
- ❖ Gaining access to technical expertise and skills
- ❖ Availability of competencies
- ❖ Ability to perform
- ❖ Gelling of team morale and spirit

Although cost savings are not number one motivator for IT department in organization A, cutting cost is still desirable but not considered as the main priority. Therefore, a financial analysis of the current position of IT department was conducted by the IT department. The result of the study shows that the total recurring costs of the IT department are about 5.1% of the total expenses of organization A while the salaries and operations expenses of the IT department are about 4.3% and 6.1% of the

corresponding expenses of the entire organization. Moreover, the total expenses of IT department on salaries and operations costs in 2005 were AED 65 million, with almost half of it on salaries. The expenditure and percentage are high when considering that the IT department is one among almost 40 different departments in organizations A. As a result the IT department expected that outsourcing would cut out cost and unnecessary expenses by transferring the management of certain functions to an external party. This external party is seen as being more capable and adept at doing the business and can achieve cost effective utilization of IT investments without compromising on quality. However, no hard data was available about costs saving after outsourcing to external party.

#### **4.3.4. Outsourcing Process/Function**

Organization A wishes to establish a structured and feasible outsourcing strategy since it is one of the largest organizations operating in Dubai. Therefore, IT department in the organization was chosen to be the pilot in implementing outsourcing strategies. To achieve these objectives, the IT department assigned the responsibility to an external company to define the outsourcing strategy for the IT department and to identify the outsourcing road map. The external company had to provide the methodology which would guide organization A IT department through the outsourcing evaluation process. As per the documents provided by the IT department, two questions had to be addressed initially and there are: 1) not whether to outsource, but what and to whom outsource and 2) to argue in favour of adopting IT services outsourcing as one of the business strategies. Defining the outsourcing strategy for the IT department in organization A was a two stage process that can be consider as the life cycle of outsourcing. The two stage processes are: strategic positioning and implementation. Stage 1 “strategic positioning” scope is spread over 4 phases that are: business alignment, sourcing strategy, sourcing team setup and implementation coaching. While stage 2 “implementation” scope is spread over 3 phases that are: evaluating/selecting outsourcing vendors, structuring outsourcing contracts and building the vendor governance framework. The phases have set of deliverables (Appendix 1). Each phase is followed by a knowledge transfer workshop conducted for the core outsourcing team members to initiate the future implementation activities. Appendix 2 shows the developed lifecycle of outsourcing for the IT department in organization A. The lifecycle indicates the follow of decision making that has to be followed starting with business alignment, to IT strategy and

following through to outsourcing to vendor management. Going through the lifecycle stages can decrease the risk of outsourcing failure.

#### **4.3.5. Outsourcing Strategy (What to outsource?)**

The outsourcing of IT services, processes and assets is determined based on uniqueness, economic value and other political/security consideration. The uniqueness of IT services, processes and assets is assessed according to the certain set of criteria. The uniqueness is determined in terms of confidentiality, complexity, level of knowledge transfer needed for the service provider to take over the process or services, political sensitivity, criticality ,pervasiveness across industry and availability of the required skills in the open market. While economic value is assessed in terms of technology and skills, quality of service and cost.

##### **4.3.5.1. Assessment of the Uniqueness of IT Services, Processes and Assets**

A study to identify the uniqueness of IT services, processes and assets was conducted for each of the four sections in the IT department. The result of the study was a catalogue containing all the IT services, processes and assets prepared by knowledgeable member from each section. The catalogue includes unique and fairly standard and matured category which are not unique in nature or are not specific to organization A needs. The establishment of the catalogue assists in formulating the IT outsourcing priorities and framing of the IT outsourcing strategy. The uniqueness can determines standard services that have higher priority for outsourcing as compared with the unique IT services and processes. Outsourcing standard IT services and process can lead to less associated risk due to the expertise of external service providers in such areas due to the repetitive nature of the work that has been practiced for long period of time. On the other hand, outsourcing unique IT services and process would require transferring the technical knowledge which would pose a higher risk plus causing a greater information security concern.

The result of the study determined that:

- ❖ The Government Resource Planning (GRP) application can not be outsourced as these are not supported by organization A IT department. The application is provided and support by the government of Dubai.
- ❖ The software applications of Systems Development & Support and E-Government sections can not be considered for outsourcing because of

their uniqueness to organization A business needs and the absence of readymade solutions with the vendors.

- ❖ Office automation IT services and processes are standard and the required expertise is not restricted within organization A IT department.
- ❖ The IT services and process of Operations & Network Services Section which is responsible for the maintenance and support for data center, LAN, WAN and other infrastructure are not unique to organization A. the skills required for these tasks have been improved and perfected over the time by the vendors as these services are common by all the organizations and IT outsourcing worldwide is practiced widely in these areas.

#### **4.3.5.2. Assessment of the Economic Value of IT Services, Processes & Assets**

The assessment of the economic value was also identified during the initial study phase by the IT department. The assessment includes estimating the recurring costs of maintaining/supporting all the existing IT services, processes and assets and projecting the future costs of maintaining/supporting new IT services, processes and assets. The costs would be used as the baseline costs to benchmark for assessing the vendor bids for providing the same services. The baseline costs estimated include both internal costs (salaries and other direct costs) and current payments being made to the vendors for supporting and maintaining the existing IT services, processes and assets. The finding of the economic value assessment is as following:

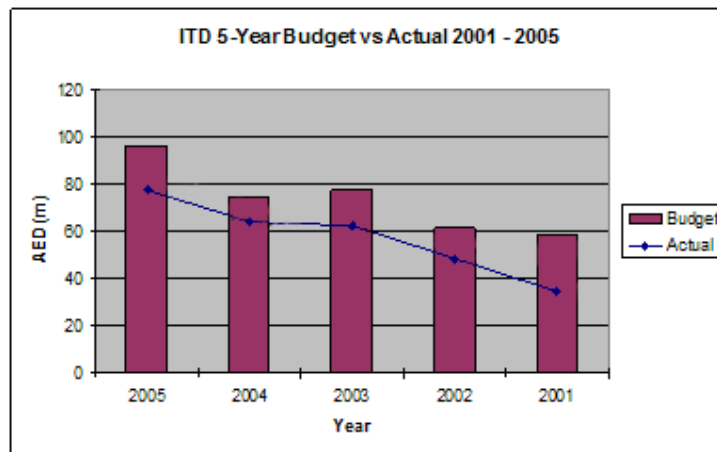
- ❖ 65 million AED was the actual recurring costs of the IT department in year 2005
- ❖ The expenses on the salaries were 32.5 million AED which were almost the same as the operations costs
- ❖ The total actual recurring expenses represents 5.1% of the total actual recurring costs of organization A for the year 2005 which were 1,283 million AED
- ❖ The salaries expenses in IT department were about 4.3% of the total salaries in organization A and 6.1% were the expenses of IT operations when compared to the total operations expenses of organization A for the year 2005
- ❖ The actual expenses of the IT department have been increased from 34.32



million AED in 2001 to 77.28 million AED in 2005 with an increase of 42.96 million AED which represents 125% increase.

- ❖ The baseline costs for the year 2005 were 34.7 million AED, which estimated to go up to about 106 million AED in 2010 due to the compound growth rate of 25% per year which was calculated according to the historical data.

The below figure (figure 3) was obtained from the documentations provided by the organization and shows the budget versus the actual expenses between the year 2001 till the year 2005. It can be seen from the chart that the actual expenses have always been within the budget. However the yearly actual expenses were increasing with time. Hence the yearly expenses are expected to increase each year with the current financial strategy if outsourcing was not considered.



**Figure 3: Budget VS actual expenses 2001 – 2005 provided by Org. A**

The outsourcing priorities have been determined according to the uniqueness and economic value assessment of the IT services, processes and assets along with the impact of the process on the business and IT as shown in table 3. A good candidate for outsourcing is when the impact on IT and business is low and when outsourcing is cost effective. The following represents the finding of the assessment of the outsourcing priorities in another word the maturity of services or process for outsourcing:

1. Data Center infrastructure
2. Desktop services
3. Training
4. Network

As per the analysis phase conducted earlier by the IT department, the rest of IT services are not mature enough for outsourcing. Hence, IT department in organization A is using selective outsourcing strategy which is to outsource certain functional process oriented functions within the IT department represented by the desktop services.

ITD Services & Support	Business Impact	IT Impact	Market Advantage
Data Center Infrastructure	Low	Medium	High
Desktop	Medium	Medium	High
Network – LAN	Low	Low	High
Network – WAN	High	Low	Medium
IT Training	Low	Medium	Medium
System Development	High	High	Medium
E-Government	High	Medium	Low
GRP (Backend)	N/A	N/A	N/A
Outsource, if:	Low	Low	High

**Table 3: business priorities calculation as documented by the IT department**

#### 4.3.6. Outsourcing Vendor Selection Criteria

A list of 21 potential vendors of software and hardware services was established. An initial assessment was scheduled for each of the vendors. Meeting/interviews were held with the vendors who were interested in bidding for IT services request for proposals (RfPs) of organization A. The vendors were short listed due to either their lack of capability and maturity or to their lack of interest. The final list of eligible and interested vendors was provided to ITD outsourcing manager in order to arrange for workshops. Assessment criteria were developed by the IT department for both software and hardware and trained IT outsourcing team on the criteria rationale. There are eight criteria for software development vendors' assessment as mentioned in the below table 4:

Criterion (Rationale for Weight)	Weighting Factor	Rationale; Comments for weightage
1. Local Presence in UAE, Middle East (Distance to org. A)	10%	S/W development can be done anywhere, as long as the requirements are well defined and signed off
2. Service Coverage i.e. datacenter, desktop, infrastructure support (Completeness)	10%	A vertically focused S/W development company may be specializing in this area only and not into H/W and infrastructure support for which another specialist vendor can be engaged
3. Contract Principles like flexibility in Contracts (Quality of service)	5%	A S/W company's contract is basically the requirement definition and other contract terms are standard legal & financial terms

Criterion (Rationale for Weight)	Weighting Factor	Rationale; Comments for weightage
4. Skill Profile vendor personnel (Quality of Service)	20%	S/W is a people intensive business and the 2 major components of its capability are its people and its processes
5. Software Quality Assurance (SQA) of processes capability (i.e.: ISO) (Quality of Service)	15%	Quality assurance can not be overemphasized
6. Project Management / System Development Lifecycle methodology used (Project status visibility / Development Standards, etc) (Goal Securing Factor)	15%	SDLC processes are very important
7. Configuration & Change Management (Quality of Service)	5%	It is an important consideration
8. Customer References (Quality of Service)	20%	History of successful implementations is an important barometer of delivery capability
<b>TOTAL</b>	<b>100%</b>	

**Table 4: Criteria for assessing software development vendor as documented by ITD**

Similarly the hardware development vendors' assessment has eight criteria and each criterion has a predefined weight as presented in the table 5 below:

Criterion (Rationale for Weight)	Weighting Factor	Rationale; Comments for weightage
1. Local Presence in UAE, Middle East? (Distance to Org. A)	25%	Some support people in UAE otherwise full services provided out of Egypt
2. Service Coverage i.e. datacenter, desktop, sys development (Completeness)	15%	Datacenter & desktop, no sys dev
3. Contract Principles like flexibility and nr. of ME Contracts (Quality of service)	15%	Flexible contract form with short time frames, 25 ME contracts in data center & desktop
4. Skill Profile vendor personnel (Quality of service)	10%	10 certified ITIL Service Managers, some training in cobit, ISO 7799, 80% IT Engineers
5. ITIL Conformity of processes (Quality of service)	10%	See above
6. Technology used (Goal securing factor)	10%	Dependant on HP, but experience with IBM
7. Recovery business and IT. In another word, backup (Quality of service)	10%	No real backup services available
8. Customer References (Quality of service)	5%	Already established in government agencies i.e. Court IT and Abu Dhabi Municipality

Criterion (Rationale for Weight)	Weighting Factor	Rationale; Comments for weightage
<b>TOTAL</b>	<b>100 %</b>	

**Table 5: Criteria for assessing hardware development vendor as documented by ITD**

The vendors were invited for the presentation workshop in which the assessments were carried out by the IT outsourcing team using the criteria for assessing vendors in term of hardware or software development. The results of the assessment are used to provide insight into the vendors' capabilities and to establish the vendors' profiles.

#### **4.3.7. Selected Vendor**

Vendor X was selected to handle the desktop services in both the service desk and Office Automation Section. The vendor was selected because the offer submitted was in accordance with the requirement of the IT department. Hence, vendor X was aware of the requirements of the IT department. Furthermore, the selected vendor submitted the lowest bid against the RfP in the tender process when compared with the rest of tenderers as shown in table 6 (percentages are provided instead of real number due to confidentiality). However, the cost provided by vendor X was not the sole determinant of the selection. Moreover, the vendor has a good knowledge of the IT department requirements due to the current and previous knowledge and experience with IT department in organization A. In addition, vendor X is considered as one of the leading information technology vendor in the UAE that was established 19 years ago. Hence, the company has good experience and knowledge of the UAE market. Besides vendor X is known for having highly qualified, certified and skilled human resources. Moreover, the high quality services has led the company to be an ISO 9001 certified.

Vendor	Item	Approximate Total Price Per Year
Vendor X	1 project manager 12 engineers	100%
Vendor Y	1 project manager 7 technicians	80% less than vendor X
Vendor Z	1 project manager 19 technicians	200% more than vendor X offer

**Table 6: Tenderers proposal for outsourcing desktop services from bids submitted against the RFP**

Vendor X Company was to take over the desktop services after initiating the transition from IT department personnel to the vendor. Knowledge transfer sessions were conducted by employees within the Office Automation Section to the outsourced employees from vendor X Company to ensure smooth transition to the outsourcer.

#### **4.3.8. The Tender Process**

A request for proposal (RfP) was prepared by an employee within the Office Automation Section and published in Tejari.com (electronic website for the government organizations in Dubai to place their requests for a predefined period of time and for interested companies to submit their bids against the request). The outsourcing companies submitted their proposal against the RfP to the Finance and Purchasing Department in organization A. the proposals are opened in the presence of the expertise from the IT department, most probably the employee who prepared the RfP. The proposals were evaluated against the RfP and the most appropriate company was selected. The selection was based on meeting the requirements mentioned in RfP, the company capability and performance in the market and the price offered.

#### **4.3.9. Service Level Agreement (SLA)**

Service Level Agreement has been agreed upon between IT department and vendor X for managing the IT desktop services in organization A head quarter office and remote locations. SLA is used between the two parties in order to manage, measure and control according to the best service levels defined, documented and executed. Hence, the IT department can measure the performance of the outsourcing company according to the expectations and requirements defined in SLA. Moreover, the roles and responsibilities of each party are defined in the SLA to avoid future confusion. The IT department has provided in-house resources in order to manage the SLA and the contract. Moreover, the agreement is reviewed at a minimum once yearly to obtain mutual agreements/approvals as required. Since the outsourcing involved desktop services which are considered as standard services and the metrics and key performance indicators (KPIs) for measures the performance are clearly defined. The following are some of the helpdesk metrics used by IT department to measure the performance of vendor X who supplies regular report on predefined intervals to the IT department against the metrics.

- ❖ Volume of problems tickets processed

- ❖ Pending tickets not resolved/attended
- ❖ Percentage of calls resolved
- ❖ Average mean time to repair (MTTR)
- ❖ Number of tickets reassigned/escalated

#### 4.3.10. Outsourcing Performance

Outsourcing the desktop services was implemented in 2007. The employees' satisfaction level regarding IT desktop services has been measured by sending a questionnaire to all internal customers. The result of the questionnaire shows that the internal customer satisfaction level from the IT desktop services dropped down from 87% to 82% in the first year of outsourcing. However, there was a dramatic change in 2008 when the employees satisfaction level increased by 7.2% which was not achieved during the last three years. Table 7 shows the level of satisfaction before and after outsourcing the desktop services.

Before outsourcing		After outsourcing	
2005	2006	2007	2008
82 %	87 %	82 %	89.2 %

**Table 7: Customers' satisfaction level of the IT services as per the questionnaire results**

#### 4.3.11. Details on Data Collection

For this case study an interview was conducted with a senior employee within the IT department. The interviewee has been involved from the initial stage of the definition of the outsourcing strategy project for organization A and was working closely with the company who evaluated and analyzed the current position of organization A. Moreover, the interviewee in the initial study for outsourcing and prepared the request for proposal and participated in the tender analysis and negotiation. The interview lasted for one hour. Moreover, the interviewee was cooperated and provided access to documentations from a project that was conducted in 2006 to define the outsourcing strategy for organization A IT department. However, these documents are not presented in the appendices of this paper due to confidentiality and to keep the organization name anonymous. Moreover, the interview was contacted later on for further details. Another group interview was conducted with three employees from the operational level whom their positions were outsourced. The group interview last for thirty minutes. Site visit was permitted to the organization IT department to observe the daily operation of the outsourced and internal employees.

## **4.4. Case Study B**

### **4.4.1. Organization's Background**

Organization B is one of the largest service oriented organization in the government of Dubai. The locations of organization B offices are spread in more than 20 sites all over Dubai with over 10,000 employees. The services provided in the area of health and medicine. Organization B strives to attain a remarkable position in the local and international spectrum through providing high quality services.

### **4.4.2. IT Department's Background**

The IT department in organization B provides the technical infrastructure, services and assets to the internal and external customers. The internal customers are represented by the employees while the external customers are the citizens of Dubai Emirates. Hence, the pressure (on IT department) to deliver high quality services in timely fashion is essential for the organizations. The organization has implemented Information Technology Infrastructure library (ITIL) best practices which include set of concepts and policies for information technology infrastructure, development and operations (ITIL IT service management essentials, 2006). Organization B implemented ISO17799 based Information Security Management System (ISMS) and successfully obtained the BSI (British Standards Institute) BS7799:2002 certification. The certification indicates that the organization continuously monitor and control the security level which in turn facilitate delivering more reliable and secure services to the internal and external customers.

### **4.4.3. Other Outsourcing Decision Drivers**

According to the interviewee outsourcing in the IT department was due to lack of dedicated technical resources who should support eleven sites in different locations in Dubai. Hence, the total number of technical staff was only eight when they needed six more to cover all the sites. More resources were needed to cover all the sites, however, the high cost of internal recruiting along with the long process of hiring played against recruiting more internal resources. The resources were burned out and the daily tasks were not distributed fairly among the technical support personal. The frequent unavailability of almost 50% of the technical resources due to health and study reasons overload the rest of technical employees who took over the pending tasks. According to Dubai Government Human Resources Law number 27 for the

year 2006 under educational leaves code, section (141), UAE employees who are studying to obtain educational certificate above high school are allowed to have two hours short leave from work for the duration of the study to attend classes, maximum of five working days leave ahead of final exams and one day leave ahead of mid term exams. As a result, technical employees were rarely given proper training to keep pace with the fast growing technologies that the department is planning to implement. Moreover, the technical staff had to support non-standardized and sophisticated platforms and applications. The latest platforms and applications were purchased by the organization in order to keep pace with the growing technology in the field of health care. The technical resources lack the required training and skills to manage these new platforms and applications. Moreover, the technologies used were not standardized among different departments in the organization since IT department was not involved in the purchasing of these technologies. This affected, pressured and slowed down the performance of the IT department in providing technical services and support to the organization's customers. Hence, the technical demands exceeded the capability of the IT department which led to IT outsourcing. As a result, outsourcing was a strategic option for the IT department in order to enhance the quality of information services, increase flexibility and provide high availability of technical resources in order to maintain and improve services provided to the customer.

Moreover, the interviewee emphasized that financial factors were another driver for outsourcing. Recruiting full time employees especially UAE local is expensive and time consuming due to human resources department procedures and processes. Furthermore, training employees is another cost that the IT department would save when outsourcing. Outsourcing will provide access to skilled personnel with lower cost in term of salary, training and management. Hence, outsourcing will stabilize information technology costs.

#### **4.4.4. Outsourcing Process/Function**

Organization B started outsourcing before the mandate to use outsourcing as a strategic options was issued. IT handed over the support positions within the helpdesk and support section to an external service provider since the helpdesk is required to be available for 24/7 which means working after the official working hours for government organization which is from 7:30 am till 2:30 pm. The outsourced



helpdesk staff were not limited to logging the incidents into the system but also resolving the problems remotely. Therefore, outsourcing was not a new option for organization B to take. Therefore, an assessment of the IT department was performed. The assessment included financial analysis of the IT services, processes and assets and what if outsourced to an external service provider. During the assessment phase the resources limitations, expected performance and outcome measures were considered before determining to outsource. Hence, qualitative and quantitative criteria were used to state the reasoning behind outsourcing. The assessment phase was done by the employees within the IT department since the knowledge and experience about outsourcing were available with the internal resources.

#### **4.4.5. Outsourcing Strategy (What to outsource?)**

The IT department in organization B chose to use selective outsourcing instead of full outsourcing due to confidentiality and security risks. The selective outsourcing covered desktop services which in turned considered as a functional process oriented outsourcing. IT department internal resources had to be transferred to the premises of the outsourcing vendor. Hence, outsourcing was to be performed from the vendor site and off organization B site.

The first phase of outsourcing covered outsourcing the full functionality of the desktop services including helpdesk and technical support. The desktop services were selected because the process, policies and procedures were fully documented. Hence, these process oriented functions were mature enough to be outsourced. In addition, the services are not unique and not the core business in organization B. Moreover, desktop services are considered standard services in which the service providers have high level of experience and resources required to manage these services. Furthermore, the benefits of outsourcing these functions outweigh the cost if done internally. Thus, outsourcing was the most appropriate option.

#### **4.4.6. Outsourcing Vendor Selection Criteria**

Vendors' selection criteria were based on the current and previous experience of the company. In another word, the history and presence of the service provider in UAE market were initially essential criteria that were collected through request for information. Such information includes: the vendor past performance history/reputation, references with previous clients, financial stability and capability,

the availability of adequate resources..etc. such information was then used to create vendors profiles. Then comes the proposal submitted against the request for proposal which provided full and clear picture about the capability of the vendor in providing the requirements of the IT department. In the request for proposal the requirements of the IT department were clearly identified. The requirements included the number of outsourced staff to overtake the fully functionality of desktop support, the required working hours, qualification of the outsourced staff, team leader qualification and monthly performance expectation and provided the vendors with information about the number of offices, total number of employees and information about the process, services and assets to be managed by the external company. Furthermore, the IT department specified that the internal resourced whom their positions were to be outsourced would be transferred to the premises of the outsourcing company and the salaries were to be deducted from the total price of the outsourcing contract. Hence, the IT department provided clear and precise information to the outsourcing vendors.

#### **4.4.7. Selected Vendor**

IT department in organization B selected single vendor outsourcing instead of multi sourcing vendors for process oriented functions represented by the desktop services. Vendor Y was selected because the proposal submitted the lowest bid against the RfP. The vendor offered to fully take over the desktop services in organization B for approximately five million dirham yearly. The cost offered by vendor Y was reasonable and cost effective for the IT department in organization B due to the excessive working hours and demands for internal and external customers. Furthermore, outsourcing the full functionality of desktop services made the cost offered by vendor Y a very realistic if not a tempting option for the IT department since the cost of managing the desktop services internally were far beyond the cost offered with few internal resources. Moreover, the vendor has a previous experience with the IT department since helpdesk function was partially outsourced to the vendor. Hence, the vendor has good knowledge and experience of the culture and the work environment in organization B.

#### **4.4.8. The Tender Process**

The request for proposal was prepared by an internal employee with the precise information as mentioned in section 4.4.6. The high level of preciseness was due to the knowledge and experience about the functions to be outsourced and the visionary

expectation of where the department wants to achieve by outsourcing. The request for proposal was published for the vendors to submit their proposals. The proposals were opened by the Finance Department with the presence of the employee who prepared the RfP. The proposals were evaluated and the most suitable vendor was selected.

#### **4.4.9. Service Level Agreement (SLA)**

Service level agreement has been setup by the IT department dedicated personnel and vendor Y according to the requirements and expectation of the IT department. Moreover, the SLA has been reviewed carefully by the IT outsourcing project manager and amended accordingly to ensure that services provided are better if not as per the standard and quality provided by the IT department previously. The establishment of the service levels was not difficult since outsourcing involved desktop services. The policies and procedures for managing the services are fully documented. Moreover, the metrics for measuring the performance of the outsourcing vendor were previously included in the SLA. SLA is reviewed each 6 months or when amendment to the original SLA is required. Hence, communication and assigning dedicated personnel to manage the SLA and the contract were of a high priority for the IT department in organization B.

Some of the metrics used to evaluate and measure the performance of the outsourcing vendor for the helpdesk were as followed:

- ❖ Helpdesk response (variation due to shifts are considered)
- ❖ First call resolution percent
- ❖ Abandon rate
- ❖ Complaints resolution

#### **4.4.10. Outsourcing Performance**

IT department outsourced the desktop services (helpdesk and support functions) fully in May 2008. Hence, outsourcing is a recent practice in organization B. The employees' satisfaction level regarding IT desktop services has been measured by sending a questionnaire to all internal customers. The internal customers' satisfaction level ranged from 62% to 65% before outsourcing the desktop services between the year 2006 and 2007 respectively. However, the satisfaction percentage had increased dramatically after outsourcing the desktop services and became 80% in less than a year. Table 8 represents the level of satisfaction of the IT desktop services before and after outsourcing the desktop services in organization B. The customer satisfaction

level was measured by the IT department by sending a questionnaire to the internal customers.

Before Outsourcing		After Outsourcing
2006	2007	2008
62%	65%	80%

**Table 8: Customers' satisfaction level of the IT services as per the questionnaire results**

#### **4.4.11. Details on Data Collection**

For this case study an interview was conducted with a senior employee within the IT department who works as service desk and incident manager. The interviewee has been involved from the initial stage of outsourcing in the organization and considered as the project manager in the client organization in the outsourcing contract. The interviewee has worked intensively since the initiation of outsourcing starting from the need analysis phase till managing the outsourcing vendor. Hence, the interviewee is one of the key personnel within the IT department with good knowledge and insight with the outsourcing practices. Figures and numbers were not provided due to confidentiality agreement signed between the IT Department and Media and Public Relation Department in organization B that prohibits exposing information about the organization or the department. The interview lasted for one hour. The researcher was allowed to contact the interviewee for further details. Moreover, another interview was conducted with one of the technical staff who was transferred to the outsourcing company. The interview was to have an insight from different employees who were involved in the outsourcing and were directly affected. The interview lasted for half an hour.

### **4.5. Case Study C**

#### **4.5.1. Organization's Background**

Organization C is a new government organization in Dubai Government that was established in 2005 and considered as one of the largest organization in Dubai Government due to the large numbers of projects carried out, employees working in the organization and the services provided to the customers. Furthermore, the establishment of the organization was not from the scratch since the organization was a combination of two different organizations in Dubai. Hence, the organizations had already running projects, employees and customers. Organization C provides high quality infrastructure facilities, advanced transport network, roads and traffic in order

to achieve Dubai's vision in providing highest international standards services.

#### **4.5.2. IT Department's Background**

The Information Technology Department in organization C enables the organization's daily business. Hence, the existence of the IT department is of high importance to the organization. Experience employees and leaders were nominated by executive directors and transferred from their organizations to the IT department of organization C. The IT department serves both the internal customers represented by employees and external customers represented by everyone who comes to the Emirates of Dubai. Moreover, IT department was and is still under great pressure from corporate executives to do things right from the start. Therefore, the department strives to provide high quality services to the customers in short period of time.

#### **4.5.3. Other Outsourcing Decision Drivers**

Organization C since its establishment had direction from higher management to outsource non core activities/functions to external vendors. The interviewee stressed out that the vision of high management is that private firms can provide better services for lower costs since external providers have the capabilities and resources to manage the functions more effectively and efficiently when compared to internal recruited employees. According to the interviewee the primary driver for outsourcing in the IT department was cost. The IT department can cut costs related to human resources (HR) such costs includes salary, training, traveling tickets, allowances, promotions, health insurance .. etc by outsourcing. Moreover, during the establishment phase, highly experienced personnel were part of the IT department who came from different organizations to manage and operate the IT department of organization C. Hence, their expertises were required dramatically in core strategic plans and projects rather than non core activities. Therefore, the decision was to outsource non core activities to work for the advantage of organization C by utilizing the current expert personnel in focusing in project based activities. According to the interviewee the drivers that led to outsourcing in the IT department can be summarized as the following:

- ❖ The pressure from corporate executives to outsource all non core activities and functions
- ❖ Cutting costs (tangible: salary, training, tickets .. etc and intangible cost: performance, managing)

- ❖ Utilize the skills and expertise of the IT personnel to focus on strategic plans and projects
- ❖ Gaining access to qualified resources for lower cost
- ❖ Enable managers to focus on core competency
- ❖ Decrease the disruptions of business operations
- ❖ High availability of service desk resources. The outsourced service desk staff are available 24/7
- ❖ The growing industry of outsourcing in UAE market and the availability of qualified outsourcing vendors.

#### **4.5.4. Outsourcing Process/Function**

Outsourcing was initiated since the establishment of organization C in 2005. Hence, the functions were outsourced to external service provided since the inception of the organization foundation. Moreover, the urgency to outsource non core activities to free experienced personnel to carry out project oriented works accelerated the outsourcing process. Therefore, no initial assessment or financial analysis was conducted since the organization did not have these functions running in-house. As a result, signing the outsourcing contract and implementing outsourcing for the specified functions were finalized in less than two months according to the interviewee.

The interviewee did not have enough information about the outsourcing process and life cycle since he was not involved from the initial stages of outsourcing and mentioned that the employee who has the information is no longer available in the organization.

#### **4.5.5. Outsourcing Strategy (What to outsource?)**

IT department decision was to outsource non core activities/functions. These non core functions include IT service management (ITSM) and IT infrastructure management (ITIM). The ITSM includes the functions apparent to the customers such as the service desk agents and the in-site engineers. While the ITIM represents the database and network infrastructure of the organization. Both functions are considered as standard process oriented functions that exist in almost all organizations. Moreover, these functions are considered as the highest and most functions to be outsourced in any IT department. The interviewee stressed that the external vendor has higher

capability and capacity to manage these services more effectively and efficiently than internal resources in term of quality of service and costs since the vendors can provide economic of scale and have access to resources (expertise and leading edge technology at lower cost).

#### **4.5.6. Outsourcing Vendor Selection Criteria**

According to the data collected during the interview, the main criterion for vendor selection was cost offered by the vendor. Moreover, the interviewee emphasized that the IT department in organization C was looking for a partner rather than a vendor in term of understanding the business needs and providing the required without strictly following the contract words. Other important criteria include:

- ❖ The history of the company in the field of outsourcing especially the IT services and infrastructure management. Moreover, the experience of the vendor in UAE market and the history of successful implementations which can determine the vendor capability to deliver.
- ❖ The vendor's customers reference list (current and previous) and their status in UAE market
- ❖ Added value services provided by the vendor such as the technology to be used in the service desk
- ❖ The compliance of the company to best practices such as ITIL best practices. For instance, ITIL Conformity of processes which guarantee the Quality of service provided by the vendor
- ❖ The proposal submitted by the vendor should suite needs of organization C and according to rules and policies defined by the IT department
- ❖ Vendor should fully cover both functions to be outsourced (ITIM and ITSM) since the IT department rather manages single vendor instead of multi-vendors. Therefore, the vendor should be specialized in both functions (Completeness service coverage).

#### **4.5.7. Selected Vendor**

Single vendor was selected to take over the full functionality of both the IT service and infrastructure managements functions. According to the interviewee vendor D was selected because the offer submitted had the lowest bid against the RfP when compared to other vendors. The selected vendor proposed full solution for outsourcing both the ITIM and ITSM in term of human and technological resources.

Besides, the proposal offered by vendor D suited the rules and policies defined by the IT department. Furthermore, vendor D is ITIL certified and all the process and procedures in the proposal are according to ITIL best practices which organization C was looking for. Vendor D has the capability and capacity to completely cover the services required by organization C IT department. Moreover, vendor D ranked the highest when evaluated against the selection criteria mentioned in the previous section (4.5.6).

#### **4.5.8. The Tender Process**

The internal resources in the IT department prepared RfP that was sent to selective vendors in the market. The RfP contained information about the services to be outsourced, the rules and policies that the vendors have to use as guidelines to develop their proposals. Vendors were given sufficient time to develop and submit their proposals. Proposals were submitted by the vendor to the Finance Department. The proposals were opened in the presence of IT and Finance personnel to ensure:

- ❖ Providing fair chances to all participant vendors
- ❖ None disclosure of proposals submitted by vendors by internal resources to competitor vendors.

Proposals were evaluated according to the criteria defined by the IT department.

#### **4.5.9. Service Level Agreement (SLA)**

The SLA has been developed and agreed upon by both the IT internal resources and the vendor project manager. The SLA contained mutual agreement on defined KPIs and performance measures. Hence, the delivery of services is measured precisely to ensure the quality of services delivered according to the time line specified in the SLA. For instance, the IT department has set the rules and policies for the number of outsourced staff required to cover pre-defined number of employees (i.e.: one service desk agent and two engineers to support 100 employees). Due to the high level of preciseness the SLA was determined and agreed to be frozen for three years. Moreover, the IT department did not assign the task of managing the vendor to a single employee. However, the vendor was managed by numbers of employees in the IT department and managing the vendor was considered as one of their daily/weekly/monthly tasks.



#### **4.5.10. Outsourcing Performance**

The organization has been established almost three years ago. As a result, the performance of the outsourced functions is measured against the KPIs specified in the SLA since no historical data are available. However, the interviewee verified that organization C IT department had benchmarked their performance in term of cost against organization A before outsourcing. The benchmark against other government organizations are impossible in Dubai government, however, this benchmark was possible because the personnel in organization C were employees in organization A who used to had access to financial information. As a result, costs saving were benchmarked and identified to range from one to two million dirham yearly.

#### **4.5.11. Details on Data Collection**

An interview was conducted with a senior employee within the IT department who was engaged in the outsourcing practice. The interviewee has been involved from the vendor selection phase of outsourcing and was considered as the outsourcing project manager in the client organization. The interviewee has worked closely with the outsourcing vendor during contract negotiation phase and was involved in developing the SLA with the vendor. Hence, the interviewee has the knowledge and experience about outsourcing practices in organization C. The interviewee was not allowed to disclose figures and numbers due to confidentiality reasons. The interview lasted for one hour and fifteen minutes. The interviewee was cooperative and welcomed any further request for information or more details.

## **5. Chapter 5: Data Analysis**

This chapter includes detail analysis of the two case studies. In each case study a general analysis of the outsourcing practice will be provided according to the data collected along with the advantages and disadvantages of IT outsourcing.

### **5.1. Case Study A**

#### **5.1.1. Analyzing the Outsourcing Practice**

The IT department in organization A contracted with an external consultant company in order to assess and study the readiness of the IT department to outsource some or all of the internal functions. The resort to use external consultancy was due to the lack of available resources and absence of knowledge regarding the outsourcing practices. Moreover, analyzing the current practices of the IT department in organization A reveals the excessive dependencies of the IT department on external service providers in almost all the project implemented in the organization. These dependencies may be due to the lack of internal resources, lack of knowledge in the technology or practice to be implemented, mistrust in internal resources or the overloaded internal resources.

Building the core outsourcing team was successful at the beginning since the team members were senior staff coming from different sections in the IT department. The variety of knowledge and experience of the members added a valuable input to the project “defining outsourcing strategy for organization A IT department” in particular and to the team members in general. However, the high employees’ turnover or voluntary resignation in the department had affected the outsourcing team performance dramatically. Team members were leaving the IT department which in turn had disrupted outsourcing team performance since those who left are senior high performing employees. Members carried with them the knowledge and experience needed to implement successful outsourcing. Furthermore, according to Dubai Government Law employees who resign have a period of one month maximum before the resignations become active. As a result, time was against any attempt to secure a replacement since members turnover was during stage two of the project which added another difficulty that was transferring the work to another employee within a short period of time.

The consultancy company had finalized the project by providing recommendations

and knowledge transfer workshop to the team members according to the setup of the IT department. Hence, all the members were aware of the best practices of outsourcing strategy in which the department can utilize. However, each section was relying solely on the selected member from the section itself and not the whole outsourcing team in implementing outsourcing. Furthermore, the result of the consultancy company study was not implemented according to the consultancy's recommendations due to lack of knowledge of the outsourcing practices. As a result, high level of resistance occurred from few head of sections who were afraid of losing control of the process/functions to be outsourced to external vendors for instance, not outsourcing the data center infrastructure even though it ranked as the first function to be outsourced.

The outsourcer project manager was not available in the premises of the IT department in organization A which caused communication and data sharing difficulties between vendor X and the IT department. Furthermore, the project manager was not involved on the day to day operations of the outsourced employees and was only concerned with the attendance, punctuality and complains received from the IT department. Hence, the approach used by the project manger was reactive and not proactive which the IT department was looking for. Moreover, the daily operations of the outsourced employees whether in the helpdesk or the support section were managed by the internal head of section within the IT department. As a result, outsourcing the IT services added a burden on the shoulder of the IT department since the head of section has to manage the outsourced employees along with the IT internal resources.

The communication difficulties increased when the IT department assigned the relationship and service delivery (RSD) manager with different responsibilities and tasks. The relationship and service delivery manager was responsible for managing the relationship with vendor X project manager and ensure that the services are delivered according to the SLA and contract. Hence, the RSD manager was aware of the outsourcing arrangement due to the involvement from the initial stage with the consultant company. Moreover, the request for proposal and the evaluation of tenders was performed by the RSD manager who also reviewed and managed the SLA with vendor X. Instead of the one single point of contact with vendor X project manager,

the IT department assigned two employees to take the responsibilities of managing the outsourcing vendor. Those two employees are not aware of the outsourcing arrangement and do not have the knowledge and experience of how to manage the SLA or the vendor. As a consequence, the SLA was not reviewed on regular basis and the two employees were concerned with managing the day to day operations.

### **5.1.2. Advantages**

Below are the advantages of outsourcing the IT desktop services in organization A.

#### **❖ Focus on Core Competency**

The IT department in organization A can now focus on the core business by outsourcing desktop services which is not considered as the core business of the IT department. Hence, outsourcing provides the opportunities for the IT department to transfer non-core still important functions such as desktop services to external service providers who are more specialized in managing such functions. As a result, the IT department can focus and concentrate on the functions that have strategic values to the organization. Furthermore, the IT department has transfer and utilize the skillful internal resources from process oriented routine job to project based innovative works in which their knowledge and experiences are required. Those who were providing desktop support in the office automation section are now involved in project based work. Transferring the internal employees into project based works has created opportunities for technical staff to move up the employment ladder. Hence, outsourcing the desktop services created career enhancement and development for the technical employees who are no longer discouraged by the absence of new positions or the slow movement between positions which was due to the overstaffing in the IT department on account of political pressures and social altruistic reasons. Moreover, outsourcing has saved the time and effort of high management from being constantly disturbed by the daily operations or the recruitment process.

#### **❖ Improve Current Services**

Outsourcing to external vendors/service providers can improve the services provided previously by the IT department due to the availability of skillful resources. Outsourcing can enhance quality of the services and productivity of

the human resources when service level agreement (SLA) is well placed to manage the relationship between the IT department and the outsourcing vendor. Proper SLA setup can almost guarantee that the service provider will reach the stated targets, deliver on time and ensure the availability of service. This is achieved because the service provider regularly evaluate the employees performance and take extreme action such as termination if performance is not achieved by an employee which can not be done easily in the government organization due to the long process and procedures. Besides, replacing an employee due to absention or low performance is not an issue for the external vendor that results in the high availability of resources for the duration of providing the service which improved the performance. Besides, the IT department is no longer involved in the hassles of searching and recruiting the right personnel in the helpdesk or the desktop support section. Moreover, outsourcing has increased the number of technical staff whether in the helpdesk or the desktop support and contributed greatly by decreasing the response time to customers' requests or incidents. As a result, outsourcing the desktop services has enhanced the performance and increased the level of customers' satisfaction to reach 89.2% in 2008.

#### ❖ **Reducing Cost**

Outsourcing IT desktop services reduces both tangible and intangible cost. Tangible (quantitative) costs include salaries, operations, recruitment, training .. etc. These costs are reduced through outsourcing since the outsourcing company provides access to skilled and trained personnel at extremely lower cost in timely fashion. Moreover, vendor X can provide the economic of scale by standardizing the technology used in organization A as much as possible. Containing and standardizing these technologies means that the required experience and knowledge can be limited to these technologies which in turn can enhance the response time and improve the quality of services provided due to the availability of required resources whether hardware, software or human resources. Moreover, the costs of providing and maintaining desktop services through outsourcing are contained and predictable since the main factor for any outsourcing company is to obtain some profit margin from such arrangement.

However, the intangible (qualitative) costs include the poor productivity of human resources which mostly creep into the government organizations due to the employment security. The intangible costs are eliminated through outsourcing in which low productive personnel are not hired by the outsourcing company or shortly terminated from the company.

❖ **Achieve Flexibility of Resources and Technologies (Market Flexibility)**

The current outsourcing market in the UAE is growing tremendously which makes outsourcing a very tempting strategic option to be taken by organizations. The establishment of the outsourcing free zones exemplifies the strategic vision of Dubai Emirates to be the hub of outsourcing business in the region as it is a growing business with increasing demands. Moreover, the number of vendors who provide outsourcing services is rising dramatically resulting in a larger diversity of outsourcing vendors. In addition, the availability of human resources in the outsourcing companies in the UAE is not an issue due to the accessibility of highly technical human resources who are fresh graduates or coming from the developing countries. Thus, the outsourcing vendors in the UAE have great flexibility of resources and technologies and achieved almost perfection in the field of desktop services which is considered as standard services that exist in almost all organizations. As a result, organization A had the option to choose from a group of very powerful and well recognized IT outsourcing companies who have good experience in the UAE market.

### **5.1.3. Disadvantages**

Below are the disadvantages of outsourcing the IT desktop services in organization A.

❖ **Anti Emiratisation**

Outsourcing is considered against recruit UAE nationals (Emiratisation). The employees who work for the outsource vendors are from different nationalities mostly from the developing countries but none is from the UAE nationality. The absence of UAE nationality in the outsourcing companies is due to the low income. Therefore, the Emiratisation level decreases when an organization is downsizing the functions which are done by UAE national through outsourcing. As a result, the department performance will drop down

since Emiratisation is considered when evaluating the Human Resources as per Dubai Government strategy. Therefore, organization A strategic plan specifies that UAE national should occupy 75% of the total positions in the organization by the end of 2011. However, outsourcing can provide misleading figures about Emiratisation since outsourced employees are not included in the figures. Hence, the total number of UAE national working in the IT department might indicate that Emiratisation is of a high priority to the department's management even though most of the functions and positions are outsourced to an external service provider. Therefore, outsourcing is against Emiratisation since UAE nationals do not work for the outsourcing company and mislead the figure of Emiratisation within the government organization.

**❖ Improper Implementation Of Outsourcing Strategy (Inadequate Knowledge Of Outsourcing Practices)**

Middle management in the IT department in organization A lack the knowledge and awareness about the outsourcing practices. The assessment study and the definition of the IT outsourcing strategy were performed by the consultancy company with a team of pre-defined senior personnel. The outcomes and results of the study were isolated from the rest of the IT department and the knowledge was kept with the higher management and the outsourcing team members. Furthermore, knowledge transfer sessions were not conducted by the team members to share the knowledge about outsourcing with both the middle management and the operational level employees who are greatly affected by the direct contact with the outsourcing employees who are working in the premises of organization A. Thus, the lack of awareness from both the middle management and the operational level led to many complications when outsourcing was implemented for the desktop services. For instance:

- The core outsourcing team members were working in isolation and not as team members. Each team member implemented outsourcing in his/her section regardless of the priority set by the consultancy company. Hence, the team broke up and each section was working in isolation from the rest of the sections.
- The assignment of two senior employees regardless of their

inadequate experience or involvement in the outsourcing team to be acting as the relationship and services delivery managers

- The SLA was not closely monitored and reviewed due to the re-assignment of the employee in charge with other duties and tasks
- The outsourcing employees were managed by the middle management in the IT department and not the project manager who is distant (working in one of the remote location that belongs to organization A) and mostly absent

Hence the roles and responsibilities of the core outsourcing teams were erased after the consultancy company delivered the project. The higher management did not enforce the roles and centralization of the outsourcing team. Moreover, no full authorities were assigned to the team members. Moreover, the difficulty increased when members were leaving the organizations taking with them the knowledge and experience required to implement successful outsourcing. Furthermore, the lack of adjustment to change made resulted in changing the principles of outsourcing to suit the needs of the IT department. For instance, the IT department is continuous involved in the execution phase of outsourcing in term of daily operations of outsourced employees. All these implications were due to the lack of knowledge, experience and improper adjustment to change within the IT department. Hence, IT requirements are not will satisfied due to the lack of qualified staff who can control, receive and manage the deliverables.

#### ❖ **Lack of Organizational Commitment**

Outsourcing decreased employees organizational commitment level especially when outsourcing was not well planned, communicated and implemented. Employees' loss of morale, drop in productivity & performance, job insecurity and increased absenteeism are all immediate negative symptoms caused by improper outsourcing. Moreover, in the long term internal employees directly affected by outsourcing become less committed to the organization and eventually results in greater turnover of employees. Most of those who were directly affected by outsourcing the desktop services lack the confidence in the work performed and their jobs were viewed as less important and have zero added values to the department and organization. Hence, IT department



internal employees with low self efficacy tend to perform lower due to the lack of job security while high self confident employees left the organization looking for job security and better opportunities. As a result, the turnover level has increased dramatically during the study and after outsourcing the desktop services due to the lack of organizational commitment which was caused by the unbalanced of the psychological contract between the employees and the organization.

#### ❖ **Organization Knowledge Creep**

Another disadvantage of outsourcing in the IT department is that organization knowledge can not be managed or maintained within the boundary of organization A. The organization knowledge creep or the loss of critical knowledge to the business is either caused by the high level of turnover especially among senior employees in the IT department represented by key employees in the outsourcing team. Employees' turnover placed burden on the IT department to provide and transfer the knowledge to the new team members. Those who left the organization from the outsourcing team left a gap in the IT department since their knowledge, experiences and tasks were not transferred to new members. Moreover, the transfer of knowledge from the IT internal employees to the outsourcer can not be maintained when the internal employees leave the organization and the outsourcer employees are replaced. Hence, organization knowledge is lost when outsourcing is not planned, communicated and implemented carefully.

#### ❖ **Hidden Cost**

Even though the outsourcing contract has a fixed price for duration of time, the hidden costs were not considered by the IT department. Such hidden costs include time required to transfer the knowledge to vendor X. Knowledge transfer is time and effort consuming which is rarely accounted for by the IT department. There was a decline in the performance of the IT department during the initial phase of outsource implementation due to the time spent transferring both technical and business knowledge to vendor X. Moreover, hidden costs are encountered when vendor X employees are replaced with employees who lack organization A business knowledge which is very

essential to ensure smooth transition, business continuity and stable productivity and performance. Furthermore, coordination was another form of hidden cost that required additional time and effort from the internal employees required in order to communicate and coordinate with vendor X. Internal employees were given further duties to coordinate with the vendor without proper consideration to their existing duties which caused overloading the internal employees. All these hidden costs were disregarded by the IT department and were treated as minor issues that may not hinder outsourcing the desktop services.

#### ❖ **Customer Resistance**

The internal customers represented by the organization employees resisted the change created by outsourcing the desktop services and were unwilling to cooperate with the vendor X employees. Resistance was caused because of the following:

- The decline in the quality of service due to language barrier and lack of business and technical knowledge. Hence, Arabic was not considered as an essential language when interviews were conducted with vendor X employees. Moreover, vendor X employees were learning on the job even though training was provided to them by the internal IT employees.
- The unwillingness to cooperate with outsourcer employees who are viewed as outsider threatening the job of internal employees

#### ❖ **Security Threats**

The internal IT employees expressed that outsourcing can impose security risks to the organization. As a result, middle management resisted outsourcing the data center even though the consultancy company specified that data center infrastructure is ready to be outsourced and ranked it as the top function to be outsourced. Moreover, vendor X employees were not given all the tools and information required to accomplish their jobs due to security and confidentiality reasons. For instance, installing software was an issue since licenses were not provided to vendor X employees. Moreover, security breaches and policies were not specifically in the outsourcing contract.

#### ❖ **Outsourcing Hinder Innovation (Equity Theory)**

The IT department in organization A officially contracted out the desktop services to a single vendor which increased the department dependency on vendor X. hence, requirement to innovate is transferred to the supplier who is not encouraged to innovate due to the fixed contract cost. As a result, the supplier will do what is required and not anything further due to the lack of innovation incentives in the contract. Moreover, vendor X employees are overloaded and not encouraged to innovate. When applying the equity theory, the IT department internal employees are being paid far more than the outsource employees even though the tasks and duties are almost the same. Therefore, vendor X employees are discouraged and lack the motivation to innovate.

#### **5.1.4. Conclusion**

Outsourcing the IT services in organization A could have further advantages if planned, communicated and implemented according to the consultancy company recommendations. The study included assessing the readiness of the IT functions to be outsourced and how to use outsourcing strategy effectively and efficiently by the IT department employees. However, the result of the study was not taken into consideration when outsourcing was initiated and implemented within the department. The current implementation of outsourcing has reduced direct cost, allowed the department to focus on core competency, improved the services and increased the flexibility of resources and technology in the IT department. At the same time outsourcing the IT desktop services has numbers of disadvantages such as decreased Emiratisation, organizational commitment, organization knowledge and increased hidden costs, security risks and internal customer resistance due to the improper implementation of outsourcing. Hence, the disadvantages of outsourcing the desktop services can be eliminated or minimized by establishing and managing the contract and SLA closely by assigning experienced and dedicated internal employees.

### **5.2. Case Study B**

#### **5.2.1. Analyzing the Outsourcing Practice**

The IT department in organization B was encouraged to study and assess the readiness IT functions/process to be outsourced. The study was initiated after

the mandate to use outsourcing as a strategic option was issued. The study was carried out by the senior internal IT employees. The internal employees were motivated to study the readiness to outsource in order to focus and concentrate on the main the core competency of the IT department.

The initial study covered the helpdesk and the support section. The process, procedures and policies of these two functions which represent the desktop services were fully documented. Hence, the desktop services were ready to be outsourced. Furthermore, the financial analysis conducted supported the decision to outsource this function. The main internal driver was to increase the human resources capability of the IT department in a short period of time in order to cover the exceeded demands of the organization.

Once the vendor was selected, the internal employees who work in the desktop services had to be transferred to vendor Y premises. Moreover, a precise SLA was developed by organization B senior employee and agreed upon from both parties. Furthermore, the senior employee who is acting as the outsourcing project manager specified the qualifications of the human resources (project manager and the technical support) to be employed by vendor Y. knowledge transfer sessions were given in timely fashion to the vendor Y employees. Hence, the IT department project manager was assigned with the responsibilities of coordinating and managing the SLA and the outsourcing contract with vendor Y.

### **5.2.2. Advantages**

#### **❖ Focus on Core Competency**

The IT department in organization B can now focus on the core competency and project based work. The department is getting engaged with development projects after placing the burden of the daily desktop services on vendor Y to manage. Furthermore, high management are not disturb by the daily operations of desktop services and have the time to concentrate on planning and achieving the department strategic goals. Hence, organization B can now cope with the fast growing market and achieve excellence in the services provided to the internal and external customer.

### ❖ **Improved Services**

The services provided to the customers have improved dramatically after outsourcing. The improvement in the services is due to:

- The transferred of internal employees to the vendor Y. Those internal possess the knowledge and experience about the business and technologies used within the department. As a result, their knowledge played a vital role in the success of outsourcing the desktop services.
- The criteria placed to evaluate and select qualified employees have contributed to the success of outsourcing.
- The availability matrix placed in the SLA guarantees high resources availability. Vendor Y is responsible for replacing under qualified or low performing employees and ensure that knowledge transfer about the business and technology are provided to the new employees
- The fully documented process, policies and procedures which assist in developing the SLA and placing the metrics to be used to control and manage vendor Y performance and productivity. Moreover, SLA is reviewed each six months and amendment is done according to requirements and needs.
- The increasing numbers of supporting employees whether in the helpdesk or the support section increased the performance and the internal customers' satisfaction level to reach 80% in 2008. Hence, this satisfaction level was not accomplished before outsourcing which indicates that the services have been improved after outsourcing. Vendor Y concentrate on the tasks specified and provide faster response time to incidents and requests
- The assignment of a dedicated in-house expertise to manage the outsourcing contract and the vendor
- The establishment of consistent lines of communication with the vendor

All the above point contributed and improved the services provided to the customers.

### ❖ **Cost Reduction**

Outsourcing has reduced the cost of managing the desktop services internally.

Costs reduction was due to the following points:

- The cost of transferring the services to an external service provider is lower than managing the services in-house with few human resources. Outsourcing has increased the number of employees to be 71% more than before outsourcing and their working hours have increased
- Training and transferring the knowledge to new employees are the responsibilities of vendor Y. Besides, outsourcing provides timely access to qualified resources
- Gain access to highly trained technical personnel in timely fashion
- Transferring the internal employees to the premises of vendor Y saved the renting space cost. Moreover, performing the work from the vendor's premises save in-house space to be used for different purposes
- IT department is no longer have to search and find proper resources to be recruited which saves the time and effort spent in such process.
- Predictability and containment of the costs since the contract has a fixed cost

### **5.2.3. Disadvantages**

#### ❖ **Increased Turnover**

Most of the employees who transferred to the premises of vendor Y resigned after few days. Their resignations were due to the low income provided by vendor Y, the excessive working hours and workload pressures. Furthermore, transferred employees lack job security which was provided to them in organization B. As a result, turnover has increased after transferring employees to be managed by the vendor.

#### ❖ **Customer Resistance**

Outsourcing is a change that has not be managed properly when planned and implemented. The improper change management resulted in customer resistance to the new service provider presented by vendor Y. Customers as in case study 1 did not cooperate with the vendor' employees. Vendor's employees are considered as outsiders who are took internal employees'

positions. Moreover, Arabic language was disregarded when selecting the employees. As a result, language represents a barrier since most of the internal customers (employees) are obligated by Dubai government law to communicate in Arabic with internal and external communication.

❖ **Hinder innovation**

Outsourcing hinders innovation as the organization hand over the services to the vendor to manage. The organization can no longer control the outsourced services and the vendors rarely innovate in managing the outsourced services. Vendor Y does not try to innovate since the resources are dedicated to perform the tasks according to the process, procedures and policies provided by organization B. Moreover, innovation might involve some costs in term of money, time or effort that both the vendor and the outsourced employees do not want to bear due to lack of motivation such as incentives in the contract.

❖ **Decrease Organization Knowledge**

Outsourcing the desktop services involve transferring the knowledge and experience from the organization personnel to the vendor personnel. The knowledge transferred is lost when internal retention level increases especially from those directly affected by outsource. Moreover, transferring the knowledge does not mean that the knowledge will be maintained with the vendor's resources. Vendor's resources especially those who started as fresh graduates have high tendency to leave the company for better opportunities. Hence, knowledge is lost from both organization B and vendor Y due to the lack of knowledge management.

❖ **Lack of Flexibility and Control**

Outsourcing fully the desktop services to vendor Y has lead to separating the functions from organization B hierarchy by transferring the desktop services which include both the helpdesk and the technical support section to the premises of vendor Y. Outsourcing has decreased dramatically the level of flexibility and control organization B has over these two functions. The lack of control and flexibility has led to a decline in the quality of services provided by vendor Y. This decline in the quality of services was realized by IT

department outsourcing project manager after duration of time due to investigations about the performance of vendor B in organization B. Moreover, information was not revealed because vendor B considered the situation as a minor issue that would not make a difference to organization B. Furthermore, vendor B was managing the outsourced services according to their preferences and standards and not according to organization B standards. Hence, the lack of flexibility and control was due to the lack of highly detailed quality measures in the SLA and vendor B to maintain a profit margin by saving cost on the account of the quality of services provided.

#### **5.2.4. Conclusion**

The IT department in organization B has transferred the functions of desktop services to vendor B physically and managerially. Outsourcing fully the desktop services has resulted in many advantages for organization B such as saving costs, focusing on core competency and improving the service due to the increase number of staff. On the other hand, outsourcing and transferring the services to the premises of vendor B has come drawbacks and disadvantages such as increasing turnover, internal customers resistance and organizational knowledge. Moreover, outsourcing has hindered innovation and led to the lack of flexibility and control used to be practiced by organization B before outsourcing. The disadvantages of outsourcing the desktop services can be decreased through excessive monitoring and communication with vendor B.

### **5.3. Case Study C**

#### **5.3.1. Analyzing the Outsourcing Practice**

The IT department in organization C was obligated to use outsourcing in non core activities. As a result, the IT department has studied all the internal process and functions and determined that both IT service management and IT infrastructure management as non core process oriented activities that need to be outsourced. Outsourcing non core activities was initiated due to the availability of qualified vendors and service providers in UAE market who can deliver better services at lower costs.

The IT department has contracted out the both functions (ITIM and ITSM) fully to a



single vendor. The policies and rules were developed by the IT department, however, the processes and procedures for the outsourced functions were proposed by the vendors. A Mutual agreement has been reached by both the IT department and the selected vendor about the terms and conditions in the contract and the KPIs in the SLA. Organization C IT department was looking for a long term partner and not a vendor who can be flexible and not restricted by the contracts and SLA. Hence, maintaining a good relationship management with the vendor was essential for developing a long term partner rather than a vendor. However, the IT department has not dedicated one employee for managing the relationship with the outsource vendor. Managing the vendor is a task assigned to numbers of employees within the IT department. Moreover, regular meetings are conducted with the outsource project manager when there is a slippage in the KPIs or breach to the terms of the contract.

### **5.3.2. Advantages**

#### **❖ Reduced Costs**

Outsourcing has reduced both tangible and intangible costs on the IT department in organization C. tangible Costs were determined to be reduced when benchmarked with organization A yearly expenses on internal resources to manage the outsourced functions in organization C. The costs were reduced by one to two millions dirham yearly. Hence, the outsource vendor has provided staff with lower costs and high qualification for less costs when compared to internal recruitment. Moreover, internal recruitment process consumes more time, cost and effort when compared to outsourcing. Furthermore, organizations C reduced the costs that come with recruiting new employees which include salary, training, health insurance, tickets .. etc. The outsourced employees are to perform their tasks from the vendor premises with number of employees in the organization premises. Hence, office space is saved for other usage due to outsourcing. Moreover, the vendor has proposed a full solution that includes the resources required in term of human resources, technological resources (hardware and software), documented process and procedures to take over both functions entirely. For both functions to be fully functioning the IT department would have to invest large amount of money and resources to establish the ITSM and ITIM. Hence, both would not come to functions entirely in a period of two months which was the case with outsourcing. The two functions came to live fully functioning in

approximately two months. Hence, the vendor has the capability and capacity to operate the functions in short period of time with low costs. Furthermore, the standardization of services, IT processes and applications lower the costs of operations for the vendor.

Intangible costs have been reduced dramatically. Intangible costs include underperformance by employees, managing employees and availability of resources. Underperforming employees can be terminated by vendor D easily when compared to IT department. Moreover, managing the outsource employees is not longer the responsibilities of the IT department. Thus, request for promotion, complains, sick leaves, annual leaves ..etc are all the responsibilities of vendor D. Besides, the internal IT resources have to manage the outsourced vendor manager and not each and every outsourced employee. Furthermore, outsourcing provides high availability of outsourced staff. Vendor D is obligated by the SLA to replace any employees who leave the job due to resignation, termination, absention etc. Moreover, vendor D can replace the vacant jobs (resignation, termination, absention) by qualified and experience employees in timely fashion when compared to the IT department.

#### ❖ **Enhance Performance**

Outsource enhances the performance of the IT department. Performance enhancement was due to:

- Vendor access to qualified and experienced resources in timely fashion and lower costs. Due to the low costs IT department can request for more outsourced staff to provide services to pre-defined number of users. Having access to resources can provide better quality of services
- Vendor access to leading edge technologies along with the qualified personnel to manage these technologies. have access to advanced technologies along with qualified resources provide high quality services
- The high availability of outsourced employees. Positions are never vacant according to the SLA, replacement is always ready to come and take over and perform the tasks required
- The high availability of service desk agent around the clock (24/7)

- The compliance of the vendor to ITIL best practices in their daily operations
- The high level of preciseness in the measures and KPIs developed and agreed upon to determine the performance of the vendor
- The great emphasis from higher management to maintain a healthy relationship with the vendor which led to the high level of flexibility from the vendor side
- Faster startup and development of the functions due to the availability of skillful and expert personnel

All the above points have contributed to enhance the performance of services managed by vendor D. Moreover, both ITIM and ITSM were up and running in approximately two months which would be time consuming if developed internally. Hence, this decreased business interruption and disruption.

#### ❖ **Focus on Core Competency**

Outsourcing allows the IT department to focus on their core competency by outsourcing non core however crucial activities to a specialized vendor who runs them more smoothly. Thus, the IT department in organization C can divert the focus of resources on strategic plans and projects. Resources are not longer engaged in day to day process oriented services which consume the time and effort of resources if managed internally. Moreover, higher managements have the time to focus on core competency plans and projects to bring better services and products into the market in short period of time.

#### ❖ **Best Practices Compliance**

Vendor D applies best practices to the process and procedures of both ITIM and ITSM. Hence, outsourcing was used to bring a major change step into the organization that could not be achieved internally. Vendor D works as a change agent and enabler in the change process. The outsourced functions are planned and implemented according to ITIL best practices. Applying ITIL best practice ensures that services provided to internal customers are of high quality.

#### ❖ **Increase Flexibility**

Outsourcing increases the flexibility to organization C IT department. The IT department can change the vendor if required at anytime as changing vendor due to poor performance and lack of quality of services is much easier than changing and recruiting full time employees. Moreover, external vendor is more capable of bringing change to organization than internal resources who would resist change themselves. Furthermore, standardization of the processes and technologies increase the flexibility if technologies were to be changed to adapt with the fast growing market since vendor is up-to-date with the latest technology required for the outsourced services. Hence, the IT department can minimize and eliminate technology obsolescence and benefit from the vendor's access to diverse and advanced technologies.

#### **5.3.3. Disadvantages**

The IT department in organization C did not have many disadvantages of outsourcing like organization A and B. The decreased number of disadvantages is due to the recent establishment of the organization. Moreover, the two outsourced functions had never been managed internally by the new established IT department. Hence, the IT department did not recruit or hire people to fill the positions required to manage these two functions. Moreover, the decision to outsource the ITIM and ITSM was rapidly made after the establishment of the department by few months. As a result, the IT department did not face high turnover level or low customer satisfaction and resistance when compared to the two previous case studies.

#### ❖ **Slippage from KPIs**

Vendor D could not always meet the KPIs specified in the SLA. The slippage from KPIs was due to the lack of qualified staff and lack of communication between the outsourced project manager and outsourced staff about the performance measures and KPIs. Moreover, the slippage was during the initial phase of outsourcing execution which was expected to be slow at the beginning and enhance with time.

#### ❖ **Lack of Qualified Staff**

Some of the outsourced employees lack the qualification and skills required to perform the job efficiently. The IT department has been only involved in the

interview process of the outsourcer project manager after the vendor has shortened the list into three candidates. Hence, the IT department was only involved in the selection of the outsource project manager and did not participate in the selection of the outsourced employees. Furthermore, the IT department had specified the qualifications and skills required for each job position to be outsourced. However, vendor D had hired number of unqualified employees. The IT department found out about the unqualified employees after a period of time and was because of the constant slippage from KPIs by certain outsourced employees which turns out to be unqualified for the job.

#### **5.3.4. Conclusion**

The IT department outsourced entirely the ITIM and ITSM functions to vendor D. Transferring the managing of both functions to an external service provider has resulted in many advantages such as cost reduction, performance enhancement. Moreover outsourcing has increased focus on core competency and flexibility. Furthermore, the services and process implemented were in accordance to ITIL best practices. Along with the advantages come minor disadvantages. These disadvantages are slippage from KPIs and lack of qualified outsourced staff.

#### **5.4. Importance of Outsourcing Advantages and Disadvantages**

Government organizations should consider carefully the advantages and disadvantages of IT outsourcing before contracting out since IT is the main driver and backbone for these organizations. The identification and consideration of the advantages and disadvantages are of a high importance since those service oriented government organizations cannot bear getting out of business for one day due to outsourcing arrangements. Therefore, finding a balance between the advantages and disadvantages is highly significant. This can be achieved initially during the strategic assessment and need analysis phases of the outsourcing life cycle. Identifying possible advantages and disadvantages can assist the organizations in taking counter measures in order to increase the advantages and control, minimize and eliminate possible disadvantages of IT outsourcing.

## **6. Chapter 6: Discussions and Recommendations**

This chapter includes discussion for each case study along with recommendations to maximize the advantages of IT outsourcing and minimize, control and eliminate the disadvantages that accompany IT outsourcing. Moreover, this chapter concludes the research with general recommendations about outsourcing best practices. Finally, recommendations for further research and the limitations of the research are provided at the end of this chapter.

### **6.1. Case Study A**

The IT department in organization A has assigned a consultancy company to assess the readiness of the IT functions/processes to be outsourced. The consultancy company worked closely with the outsourcing team which consisted of senior employees from different sections within the IT department. The consultancy company has defined the outsourcing strategy for the IT department and developed the methodology and roadmap that the IT outsourcing team should carry out once outsourcing is considered. Moreover, frequent workshops were conducted by the consultancy company to transfer the knowledge of IT outsourcing to the outsourcing team. The project was finalized after assessing the current practice in the IT department and the consultancy company has recommended outsourcing the data center infrastructure, desktop services, training and the network. However, the IT department did not enforce the role of the IT outsourcing team. Hence, the team members have split apart. Furthermore, outsourcing was only implemented for the desktop services function which was not entirely outsourced. Along with outsourcing partially the desktop services come several advantages and disadvantages as mentioned in the previous chapter. Therefore according to the data collected and analyzed a set of recommendations are suggested to improve the current outsourcing practice in organization A and to be followed in the future. The recommendations for improvement are:

- ❖ Enforce the role and authority of the outsourcing team by communicating the team roles and responsibilities in the IT department and centralized their roles. Team members should be experienced in finance, organization policy, process, procedure and activities. Outsourcing team is responsible for evaluating the success and performance of the outsourcing contract. As a result team members should be freed up from their current assignments to be dedicated to work in the outsourcing team.

- ❖ Convey that the employees of the IT department are important and needed for future jobs once certain functions/areas are outsourced such as service management, production acceptance, service level management, contract/contractor management and business relationship management. By communicating such information the IT department clarifies to IT employees that new jobs would become available and outsourcing does not mean losing jobs. Furthermore, communicating with the IT employees about the current and future projected status can decrease the turnover level and mitigate job risk concern to some extent.
- ❖ Identify clear measurements for the outsourcing vendor since measurements are considered as the primary means to verify the success or failure of outsourcing practice. Measurements held the vendor accountable in meeting the organizations' requirements and assist in managing the contract effectively. Moreover, the measurements are metrics of agreed upon expectations (clear scope) and assist in specifying what will happen if metrics (expectations) are not met.
- ❖ Realize the fact that outsourcing vendors have different goals than the organization. Hence, precise and clear requirements and statement of work will ease the relationship between the vendor and the organization especially if the vendors strictly stick to the words in the contract. Therefore, contract and vendor management are essentials for the success of outsourcing execution.
- ❖ Dedicate and assign internal expertise from the IT department to manage the SLA and contract with the outsourcing company. Moreover, SLA should be reviewed and monitor frequently and when necessary by the SLA and contract manager.
- ❖ Customers should be kept informed about outsourcing objectives, goals and progress. Also, educating customers about the new work methods represented by outsourcing should be included in the outsourcing plan. Moreover, customers' expectations should be managed to achieve customers' buy in on the outsourced functions/areas. Hence this will decrease customer resistance to change occurring because of outsourcing.
- ❖ Outsource what is known (fully documented in term of process, policy and procedure) as the workflow will be clear for the vendor to follow and

performance measurements can be identified by the organization. As outsourcing unfamiliar technology or poorly established process can put an added burden on both the vendor who will have to deal with the functions/areas that are not clearly understood and the organization who should manage the contract.

- ❖ Outsourcing does not absolve the organization responsibility for the outsourced functions/areas and its success. As the success of the vendor means the success of the organizations.
- ❖ Frequent and close communication with the vendor during the life of the contract is essential to succeed. Moreover, communication regarding problems and changes should be documented.
- ❖ Monitoring the outsourcing practice should take place on regular basis. Close monitoring help in identifying potential problems and issues earlier.
- ❖ Spread the knowledge about outsourcing practices within the IT department where outsourcing will be implemented so that employees will be aware of the outsourcing practices. This will decrease middle management involvement in the daily operations of the outsourced employees and will decrease the disruptions in order to focus on other tasks.
- ❖ IT department should outsource fully the desktop services function in order to cut cost and focus their internal resources on other functions.
- ❖ Functions to be outsourced should have security policies and procedures in place, as security policy can be used to identify breaches by the outsourcing vender
- ❖ The outsource vendor should sign a confidentially agreements with the organization in order to avoid security risks and to ensure maintaining the confidentiality of the organization by the vendor and the outsourcer staff.
- ❖ Follow the consultancy company methodology (outsourcing life cycle) when outsourcing as risks are decreased and outsourcing success is increased
- ❖ Educate employees and middle management about the differences between out-tasking and outsourcing



## 6.2. Case Study B

The internal resources in the IT department have studied and assessed the current practice of the IT department and projected the future status of the IT department if some functions are outsourced. The desktop services function was determined to be ready for outsourcing since all the processes, policies and procedures are fully documented. As a result, the IT department in organization B has outsourced the fully functionality of desktop services to vendor Y. The outsourced function was transferred in term of hardware, software and personnel to the vendor Y premises. An internal expertise was dedicated for managing the relationship, contract and SLA with vendor Y. Outsourcing fully the desktop services has both advantages and disadvantages as discussed in the previous chapter. These advantages can be increased and the disadvantages can be decreased, control and eliminated if the hereby recommendations are followed by organization B:

- ❖ Establish a centralized outsourcing team for the IT department who should be familiar with outsourcing best practices. The outsourcing team should study the readiness of the IT functions/areas to be outsourced, select the vendor, implement outsourcing and monitor the execution of outsourcing by the vendor for the life time of the contract.
- ❖ Communicate effectively with organization B customers who would be affected by outsourcing, manage their expectations and inform them about the goals and objectives of IT outsourcing. Effective and efficient communication can decrease customers' resistance to change caused by outsourcing.
- ❖ Communicate effectively with internal employees in the IT department and emphasis about their importance in the outsource implementation. Furthermore, inform internal employees about the new jobs created by outsourcing. This will increase job productivity and positive competition among employees to fill the new jobs and will decrease retention and the lack of job insecurity.
- ❖ The outsourcing workflow decision should be according to the outsourcing life cycle (business alignment, IT assessment, sourcing strategy, vendor selection and management). The life cycle of outsourcing can maximize the benefit and minimize or eliminate the risks and disadvantages of outsourcing.

- ❖ Establish frequent and regular communication channels with the outsourcing vendor.
- ❖ Vendor should be aware of the organization's current and future business requirements. Moreover, vendor should have knowledge about UAE market in general and the client organization culture and environment in specific. Such knowledge increases the strength of communication and success in delivering the services.
- ❖ Client organization should realize that getting into an outsourcing arrangement means that the vendor becomes part of the organization in which both the client organization and the vendor should move forward and build a long term relationship.
- ❖ Contract and SLA management throughout the life of the contract are essential for the success of IT outsourcing. SLA should be regularly reviewed and amend to suit the requirements of the organization.

### **6.3. Case Study C**

The recently established organization was directed from corporate executives to outsource all non core activities. As a result, the internal resources defined non core activities to include both the IT services management and IT infrastructure manage functions. Both of the activities are process oriented activities which are ranked as highly outsourced IT functions worldwide. The outsourcer had to submit full solutions to take over both functions in term of resources, process and procedures. Vendor D was selected as the most appropriate vendor who took over the management of both functions. The contract and SLA were signed after mutual agreement between vendor D and organization C IT department. Outsourcing these functions brought many advantages to the organization and few disadvantages that can be decreased or eliminated. The following are recommendation for control, eliminate the disadvantages and increase the advantages of outsourcing in organization C IT setup:

- ❖ The IT department should dedicated one employee to be the project manager from organization C. This will centralize the point of contact with the outsource project manager and will define the communication channels. Moreover, the IT project manager will be assigned with the roles and responsibilities for managing the relationship and service delivery.
- ❖ The IT department should participate in the selection of the outsourced employees by establish a team for assessing and evaluating the candidates

and select the most appropriate employees for the job.

- ❖ Meetings should be conducted regularly and periodically with the outsource project manager to discuss issues raised by both parties

#### **6.4. Recommendations for Further Research**

This research paper covers IT outsourcing in government organization in United Arab Emirates in a qualitative approach built on case studies. The advantages and disadvantages of IT outsourcing in these service oriented organizations have been identified. Hence, further research could cover the below aspects of IT outsourcing:

- ❖ Outsourcing and the implications for human resource development
- ❖ Outsourcing and Emiratisation
- ❖ Outsourcing critical success and failure factors in UAE government organization
- ❖ Vendor evaluation and monitoring
- ❖ IT outsourcing and security
- ❖ Managing Multi vendor outsourcing
- ❖ Outsourcing and organizational knowledge
- ❖ IT outsourcing from quantitative research approach
- ❖ Outsourcing from the vendors perspectives
- ❖ Outsourcing core competency functions
- ❖ Outsourcing relationship management importance to success

#### **6.5. Limitation of the Research Study**

The research paper has some limitation that should be mentioned and considered. The practice of IT outsourcing has been limited to one side that is represented by the public organization. The outsourcing vendor perspectives and views were not considered in this study. The study was also limited to qualitative research method due to the absence of previous studies and figures in the field of IT outsourcing which would initiate the quantitative research approach. Furthermore, the number of case studies was limited to three cases because of the time constraint of conducting the research paper. Hence, the generalization of the study's result may be limited to the geographical coverage of the study which is the emirates of Dubai represented by Dubai government. The performance of the outsourcing arrangement in some of the case studies could not be maintained because of the recent implementation of the

outsourcing practices. Therefore, a longitudinal research needs to be conducted since the performance implications evolve over time.

## 7. Chapter 7: Conclusion

This research study includes three case studies that represent three large government organizations in Dubai Government in which outsourcing is implemented in the IT department. The main motivator to outsource was the mandate issues by his highness Sheikh Mohamed Bin Rashed Al Maktoum to use outsource in government department as a strategic option. Each case study however has its own inner motivation and drivers that led to outsourcing in the IT department. All studied organizations have cost saving as one of the drivers that contributed to the decision to outsource some functions in the IT department. Moreover, all IT department studied in this research paper had chosen to outsource non core process oriented activities presented by the desktop services. However, organization C extended their outsourcing to include IT infrastructure management as well. Furthermore, single vendor selection was selected to take over the outsourced functions. The selection of one vendor is to reduce the cost of managing multiple vendors and coordinating between vendors. Moreover, the functions were interrelated and dependent on each others. Organization B has outsourced entirely the desktop services and organization C has outsourced ITIM and ITSM functions. Both organizations have outsourced fully their process oriented functions. However, organization A has not outsourced fully the desktop services and their employees were not transferred to the outsourcer. Hence, organization A has implemented positions outsourcing to numbers of technical support and service desk positions. The IT department in organization A did not outsourced the full desktop services functions in order to maintain some level of control over the functions. Besides, organization A refused to transferred the current employees to the outsourcer to manage. As a result, employees were shifted to carry out project based work while others stayed in the desktop services positions.

As per the data collected and analyzed, organizations were ranked by the researcher according to their successful implementation of outsourcing as the following (table 9):

1. Organization C ranked the highest due to the limited disadvantages and high level of advantages
2. organization B ranked the second since outsourcing was implemented according to the standard
3. organization A ranked as the lowest cause the implementation of outsourcing was adjusted according to the organizations middle

management and not according to standards or recommendations suggested by the consultancy company

Ranking	Org.	Why?
1	Org. C	<ul style="list-style-type: none"> <li>❖ Planning and execution of outsourcing was according to outsourcing concepts</li> <li>❖ The decision was to outsource fully non core process oriented functions (ITIM and ITSM)</li> <li>❖ The vendor is managing the day to day operations and the internal employees were managing the project manager</li> <li>❖ The advantages of outsourcing is more than the disadvantages due to the new establishment of the organization and because the functions did not exist internally within the organization</li> </ul>
2	Org. B	<ul style="list-style-type: none"> <li>❖ Planning and execution of outsourcing was according to outsourcing concepts</li> <li>❖ IT department did not inform their customers about the outsourcing initiatives</li> <li>❖ The decision was to outsource fully non core process oriented activities (desktop services)</li> <li>❖ The vendor manages day to day operations and the internal project manager manages the outsourced project manager</li> <li>❖ The internal employees were transferred to the outsourcer</li> </ul>
3	Org. A	<ul style="list-style-type: none"> <li>❖ Planning and execution of outsourcing was not according to the outsourcing concepts but as the organizations middle management</li> <li>❖ IT customers who represent the stakeholders in outsourcing the desktop services were not informed or communicated about the objectives of outsourcing which led to customers resistance</li> <li>❖ The IT department did not outsource the full functionality of IT desktop services</li> <li>❖ The middle management manage the outsourced employees along with the internal employees</li> <li>❖ The outsourced project manager was not aware about the outsourced employees day to day operations and performance</li> <li>❖ Performance report were generated by the internal employees and not the outsource project manager</li> <li>❖ Few employees stayed in their positions and worked along with the outsourced employees but as internal employees and not outsourced employee</li> <li>❖ The advantages of outsourcing could be increased if the full desktop services function was outsourced and managed by the vendor</li> </ul>

**Table 9: ranks the case studies according to their success**

Dubai Government organizations are encouraged to use outsourcing as a strategic options. Outsourcing has been made available to managements to use instead of internal recruitment and in-house management when suitable due to the advantages outsourcing has and how beneficial outsourcing can be for UAE market. The use of outsourcing in government departments would attract external service providers and

businesses to come to UAE due to the large opportunities the market offer for outsourcing service providers. Moreover, Dubai would be considered as a hub for outsourcing businesses in the country and the region. Hence, outsourcing can be another channel for flourishing the business in Dubai and the Emirates.

Outsourcing can benefit the government organizations greatly due to the advantages outsourcing brings. Outsourcing the IT functions can decrease the expenses of the department dramatically as well as enhancing the services. The current market in the United Arab Emirates is facing a financial crisis as the rest of the world. As a result the government organization should participate in cutting extra costs the government spends yearly to enhance the services provided which can be achieved by outsourcing. Moreover, by outsourcing process oriented functions the IT personnel and managers can focus their efforts and time on strategic plans and projects. Hence, IT department performance can improve which in turn improve the performance of the organizations and increase customers' satisfaction. Furthermore, organization can experience high level of flexibility and adaptation to rapid market growth due to outsourcing.

Establishing and implementing outsourcing best practices through appropriate outsourcing methodologies, supplier selections, structured contract and SLA and ongoing relationship with the external outsourcing vendors can play vital role in success of outsourcing projects. Moreover, government organizations should balance the focus on implementing the technology as well as tracking and measuring the performance of IT projects. The decision to outsource should relay on accurate cost analysis in order to achieve the expected payoffs from IT outsourcing. Moreover, benefit realization and objectives of IT outsourcing should be clearly identified to be used as critical measures for establishing SLA.

To achieve these advantages outsourcing should be planned, communicated and implemented carefully. Thus, to increase the success level of outsourcing the organization should follow the decision flow chart or outsourcing life cycle (methodology). Going through the sequence of outsourcing life cycle (as discussed in the literature review) or the decision flow chart (as discussed in the data collection) can increase the advantages and decrease or eliminate the disadvantages of outsourcing. The rationale of decision workflow or the life cycle of outsourcing

should be used by all organizations since each stage output is used in the next stage as input. Hence, following the sequence is very crucial for the success of outsourcing arrangement from the time of analyzing whether outsourcing is beneficial to the organization till executing, managing or terminating the contract with the vendor.

Organization should realize the importance of vendor selection, SLA, contract and vendor management when deciding to outsource. These can be considered as factors that determine the success of outsourcing arrangement. Vendors should be selected according to their competency to perform and deliver the required, customer references, qualifications profile of the vendor personnel, compliance to best practices, coverage of the services and technology used. The SLA and the contract flexibility can play a vital role in the success of the outsourcing engagement through the compliance of the outsourcing vendors. SLA in the contract should include KPIs and objectives that are well defined and in accordance with SMART (specific, measurable, attainable, relevant and time bound ) concept. Hence, KPIs in the SLA and contract should be precisely defined. SLA in the contract will be used during the execution and implementation phase of outsourcing as a guarantee of predefined performance and delivery of services. Moreover SLA can be used to terminate the contract if SLA is consistently missed by the vendor. Hence, SLA is a primary tool in the contract used by the organization for governing outsourcing engagement. However, SLA in the contract when set should be tracked and managed through outsourcing relationship management or vendor management. Organization and vendor relationship based on trust and regular communication can add value to the outsourcing deal and very crucial to the success of the outsourcing projects. To manage the relationship and contract between parties, experience relationship managers should be appointed from both the client organizations and the private firms. The relationship managers should work closely with key stakeholders and report, monitor, measure and evaluate the outsourcing project frequently. In addition, relationship managers must be aware of the business problems in order to articulate the technology issues and to provide solutions that can fix the problems. Furthermore, the objectives along with metrics for evaluating the outsourcing projects should be fully understood by all parties involved in the outsourcing practice. Hence, effective relationship can decrease the need for continuous monitoring and auditing of the vendor and increase the productivity, innovation and flexibility by the vendor.



However, outsourcing can bring many disadvantages if the above factors are not considered and when outsourcing is not carefully planned, communicated and implemented. The outsourcing cost can increase dramatically due to excessive cooperate and management. Moreover, the performance of the organization can drop down due to lack of proper outsourcing relationship management. Hence, outsourcing is a mixed blessing deal that if planned and managed properly can lead to great advantages to the organizations implementing outsource.

In conclusion, outsourcing should be considered by government organizations in order to cope with the fast growing market. Moreover, the current market requires analyzing all the organizations functions and rip out the functions that can be managed more effectively and efficiently by external service provider. Hence, outsourcing creates flat organizations with high level of focus and concentration on core competency functions. However, government organization should be more opened to the market and adapt appropriately the available strategic option represented by outsourcing. This can be achieved by educating government organization about outsourcing practices and acknowledging the importance of outsourcing to the success of the organization.

**8. Appendices**

**8.1. Appendix 1: (Stage 1 - Deliverables)**

<b>Phase 1 – Business Alignment Deliverables</b>				
<b>Deliverables of Phase 1</b>	<b>Business Priorities Definition</b>	<b>Business Success Measures</b>	<b>IT Consumers Profiling</b>	<b>Knowledge Transfer Workshop</b>
<b>Description</b>	Describes in high-level the IT implications of organization A business strategy, departmental business plans and departmental outsourcing priorities (if any).	Describes the key benefits Organization A senior management expects from IT outsourcing and the measures of such benefits.	Describes a classification of the various IT users of Organization A with respects to IT services used, outsourcing plans and business priorities.	A detailed workshop covering the extensive Knowledge Transfer process.

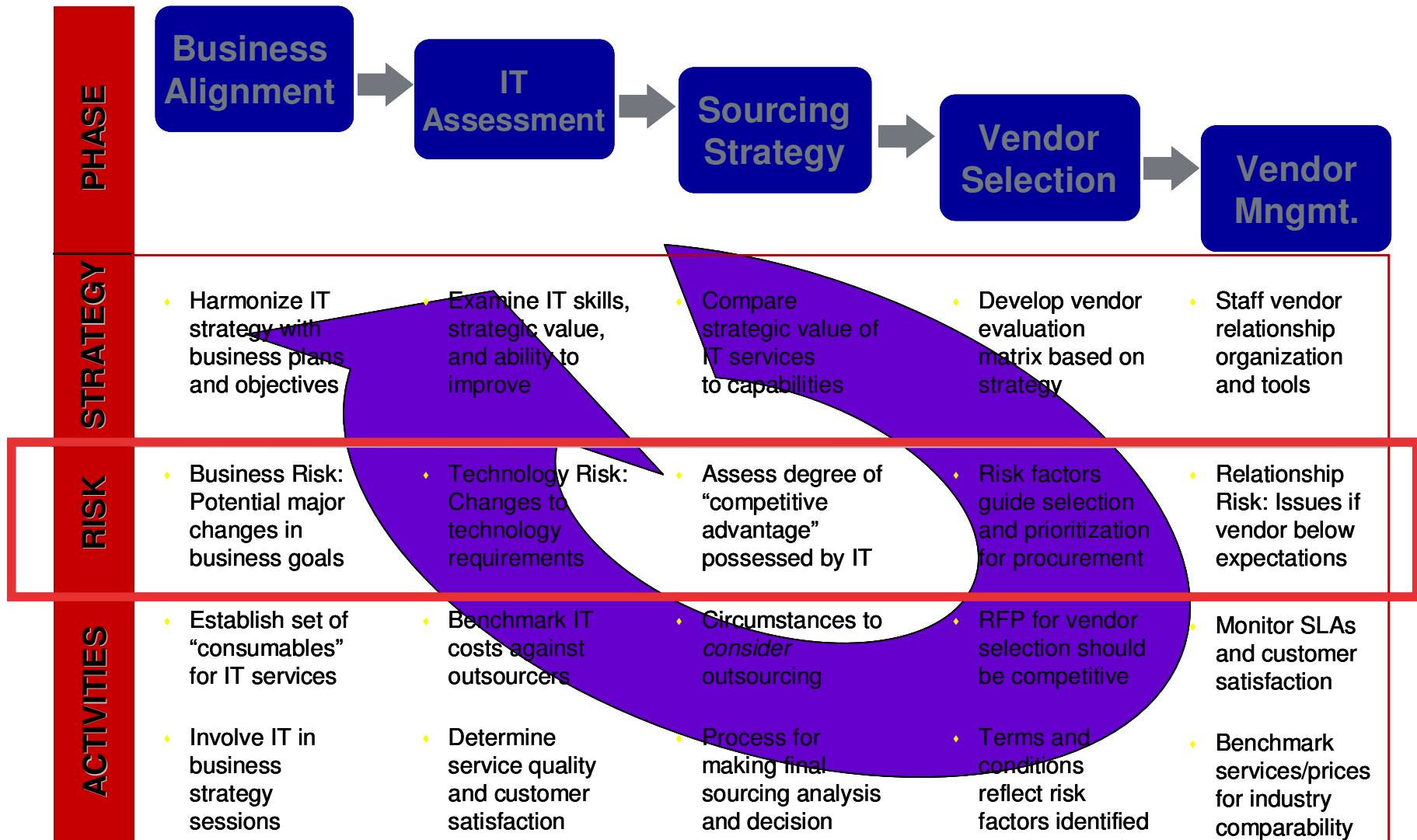
Phase 2 – Strategic Positioning Deliverables						
Deliverables of Phase 2	IT Process / Service / Asset Catalogues	Uniqueness Assessment Report	Economic Value Report	Outsourcing Prospect List	Outsourcing Plan	Knowledge Transfer Workshop
<b>Descrip-tion</b>	Provides a high-level classification of the key categories of Organization A <b>IT Services, Processes and Assets</b> . Each category in the classification will be described in terms of capacity, demand, utilization, and performance, number of units, market value and current cost.	Provides a scoring system to assess the uniqueness of each category within the <b>IT Services, Processes and Assets</b> catalogues.	Provides a scoring system to assess the economic value of each category within the <b>IT Services, Processes and Assets</b> catalogues. The economic value will cover the aspects of cost and quality.	Describes the IT outsourcing opportunities that Organization A should invest in and carry forward to the implementation stage.	Describes in high-level the road map to be followed in outsourcing the various items on the ‘Prospect List’ taking into consideration dependencies, measures of success, milestones and implications.	A detailed workshop covering the extensive Knowledge Transfer process.

**Phase 3 – Sourcing Team Setup Deliverables**

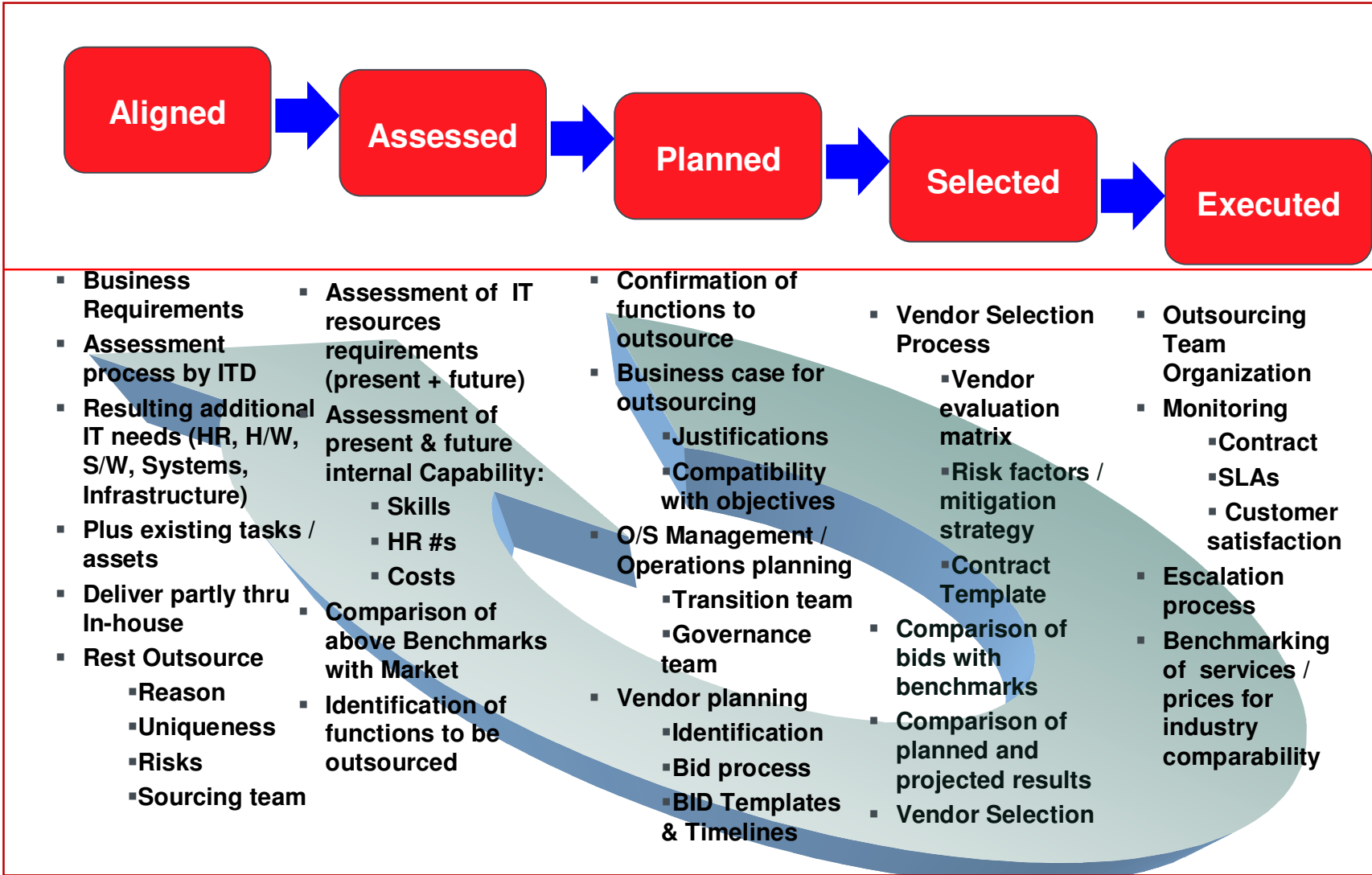
<b>Deliverables of Phase 3</b>	<b>IT Outsourcing Team Organization Structure</b>	<b>Top 10 Outsourcing Team Job Description</b>	<b>Initial Screening of 10 Candidates</b>	<b>Outsourcing Vendor Profiles</b>	<b>Outsourcing Vendor Workshop</b>	<b>Knowledge Transfer Workshop</b>
<b>Description</b>	Describes in high-level the structure, reporting lines and key roles of the IT outsourcing team. This will enable organization A's IT Department to initiate the outsourcing implementation activities.	Describes the detailed responsibilities, reporting lines, measure of success and skill profile.	Involves the review of CVs and an initial interview per applicant.	Includes a list of the key outsourcing vendors that should be targeted by Organization A, along with a SWOT analysis for each.	A 2-day educational workshop on the major offerings for each of the major outsourcing vendor and how to manage them.	A detailed workshop covering the extensive Knowledge Transfer process.

<b>Phase 4 – implementation Coaching Deliverables</b>				
<b>Other Deliverables of Phase 4</b>	<b>Provide 4 SLA Templates</b>	<b>Document Reviews</b>	<b>Outsourcing Risk Information</b>	<b>6 month remote advice</b>
<b>Description</b>	Includes 4 Service Level Agreement templates to manage the relationship between organization A and the outsourcing vendors (s) for four outsourced IT services. The 4 SLA's will be based on the vendor's standard SLA covering – transition protocol, change management protocol, pricing structure and key performance indicators (KPIs).	Includes a single review of the key implementation-related documents produced by the Organization A outsourcing team, namely – Request for Proposal, Evaluation Matrix, Outsourcing Contract and Work Plan.	Includes a list of the most important risks in outsourcing and their mitigation procedure.	Remote Advice for Issue Resolution; this includes answering of questions raised by the outsourcing team on various implementation issues for a period of 6 month effective the end date of the strategy development project.

8.2. Appendix 2 – Outsourcing Life Cycle



# Outsourcing Maturity Level Assessment At a Glance



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