

WHITE PAPER

IT OUTSOURCING:
**Tackling the
challenges
and delivering
value**

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Table of Contents

Table of contents	3
About this study	4
The big picture	5
Motivation	7
Satisfaction	8
Value	11
Organizational maturity and ability	13
Costs	16
Time savings	18
Measurements	20
Effects and results	24
Internal process improvements	26
Cloud technology	28
Relationships with vendors	32
Industries	34
Where do we go from here?	37

About this study

This study was commissioned by NNIT A/S and executed by Trellis. NNIT A/S is one of Denmark's leading consultancies in IT development, implementation and operations. For over a decade, NNIT has applied the latest advances in technology to make software development, business processes and communication significantly more effective. Trellis is one of Northern Europe's top consulting companies in knowledge-intensive outsourcing, typically in R&D, product development and integrated development environments. Trellis' service portfolio enables companies to master and control their outsourcing and partnering efforts thereby increasing value and satisfaction.

Our purpose was to gain a better understanding of the IT outsourcing industry in Denmark. Our interest was most predominantly on the motivations, behaviors and structures in place at the companies engaging IT outsourcing services. It was critical for us to gain insight to the expectations and ambitions that organizations bring with them to the IT outsourcing arena as well as to flush out the realities and limitations that can profoundly affect IT outsourcing decisions and results.

We included 46 companies and organizations in our study. Among the participants are both NNIT customers as well as non-customers with the lion's share of participants, 27, being non-customers. The companies and organizations in our study are larger organizations operating in three critical industry sectors: financial, public and enterprise. The companies and public sector organizations included in this study are among those that are well known in both the Danish and the international markets. The participants of this study were individually recruited and in every case represent the IT decision maker at their organization. This means that they are CIOs, CFOs, and IT department heads.

We are certain that the aggregated information presents a detailed and nuanced picture of the IT outsourcing environment at organizations across Denmark and from which our market can learn a lot. It is our hope that organizations engaging in IT outsourcing will be able to use these findings to improve the ways in which they strategize, plan, implement and manage their IT outsourcing endeavors so that they are more able to derive value from them. ■

The big picture

The ability to leverage IT outsourcing has become a competitive advantage. Access to volumes and skills which companies themselves cannot or will not support is undeniably a huge pull, as are the promises of efficiencies and optimizations that would otherwise be hard to achieve. Outsourcing is not always the only solution for organizational issues nor is it always the best solution. However, it is clear that it is absolutely necessary, not to mention optimal, some of the time. This need and these advantages mean that companies that wish to build better products, leverage technology to get closer to their customers, increase efficiency and boost productivity while gaining market share will be greatly benefitted by mastering IT outsourcing.

In order to better understand the complex dynamics at play in the IT outsourcing arena, NNIT sponsored this benchmark study of IT outsourcing in Denmark. The purpose of this study is to be better able to understand the challenges and opportunities present in IT outsourcing. We look at motivation, strategy, relationships with vendors, and results while also taking a look at how Cloud technology will affect both IT outsourcing and the companies engaging in IT outsourcing.

Among the notable results of this study, one deserves particularly attention: sponsors of IT outsourcing have started to include their own organizational readiness as a focus area of outsourcing. No longer is it only about the IT vendor. We now see a strong trend of companies assessing their own abilities and environments in order to achieve better results in IT outsourcing. While IT outsourcing hasn't been transformed from its transactional past, organizations want more from IT outsourcing and realize that they need to improve their organization's ability to master outsourcing in order to do so. That's not to say that companies have met this challenge as of yet but that they have a growing awareness of it and seem poised to do something about it.

Sponsors of IT outsourcing have started to include their own organizational readiness as a focus area of outsourcing. No longer is it only about the IT vendor.

Motivation

The general observations from our study present a moderately satisfied segment with a growing organizational ability to manage IT outsourcing. Companies are fairly sure that they will continue to outsource in the same manner that they have to date but say that they are open to trying new business models; and they report that they feel better prepared for IT outsourcing than companies reported two to four years ago in Trellis' previous studies.

The organizations in this study are only moderately able to post costs savings but are notably more able to achieve time savings via IT outsourcing. However, not every company is primarily motivated by achieving cost reductions as more were motivated by gaining access to resources not otherwise available or organizational optimizations such as greater flexibility and efficiency. This is a sign of a profound shift in IT outsourcing which we believe mirrors growing organizational maturity.

We see a similar pattern of increased maturity in the selection and contract processes. Unfortunately that attention to detail as well as management focus does not appear comprehensively throughout the IT outsourcing value chain so that we see companies still floundering to identify meaningful value definitions, develop IT outsourcing strategies, select contextually relevant performance measurements and create risk mitigation plans along with establishing appropriate governance structures for creating and maintaining mutually beneficial outsourcing partnerships.

One thing that is clear is that companies engaging in IT outsourcing plan to do more of it in the time to come. More than half of the participants in the study say that they will increase their IT outsourcing within the next twelve months. 64% of participants say that they are willing to invest in order to obtain better results; and the vast majority says that they are willing to try new business models in future IT outsourcing engagements. There are encouraging signs that organizations engaging in IT outsourcing are willing to invest considerable effort towards deriving more value from their IT outsourcing. ■

In order to understand why organizations are outsourcing, we asked the participants of the study to rank the top three reasons why they choose to engage in IT outsourcing. Here's what we found:

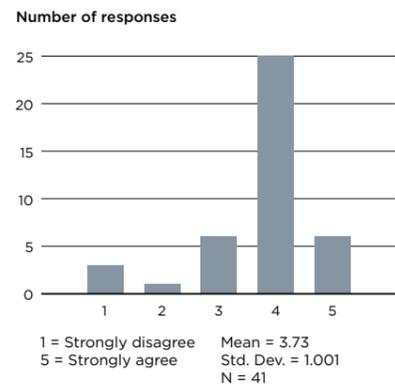
Reason for outsourcing (rank the top three)	Overall weighted score
Access to resources not otherwise available	60
Increased flexibility	57
Increased productivity	55
To reduce costs	50
To improve their risk profile	18
To improve product quality	10
Access to innovative ideas	7
Access to markets	0

The top four motivations for outsourcing are in a completely different league than the rest of the responses. Issues such as risk reduction, access to markets, let alone innovative ideas, and product quality have little impact upon motivation for companies to engage in IT outsourcing. What is of absolute interest is focus on the organization and the operating environment. It is important to note that although reducing costs is highly ranked, it does not rank at the top and it is convincingly edged aside by the focus on resources, flexibility and productivity. This focus on organizational needs and operational optimization provides a solid motivation for organizations engaging in outsourcing.

However, it is apparently difficult for organizations to keep these motivating factors front and center in their journey through outsourcing. The focus on costs as a decision-making driver can interfere with organizations' motivations to secure access to top-notch resources, while increasing flexibility and productivity. ■

Satisfaction

Figure 1: We are satisfied with the way in which we manage our IT outsourcing relationships.



Our study looks at satisfaction from two angles:

1. the participant's satisfaction with the way in which they manage their IT outsourcing relationships; and
2. their satisfaction with IT outsourcing itself.

Broadly speaking, the former reflects the participating organization's sense of mastery over outsourcing as a competence while the latter reflects the organization's satisfaction with the product, in this case, IT outsourcing. We see an encouraging degree of satisfaction in both categories. However there are notable differences that explain a lot about outsourcing and achieving satisfaction.

The satisfaction that companies feel about the way in which they manage their outsourcing relationships is significantly higher (67% agree/strongly agree) than the satisfaction that companies have for IT outsourcing itself (54%).

Those companies that say they are satisfied with the way in which they manage their IT outsourcing relationships are more likely to say that they achieve value for money than those saying they are satisfied with IT outsourcing itself. We believe that this is because there is a critical connection between their ability to produce something as opposed to taking delivery of a product, even if that product is of a very high quality. What the results of this study seem to show is that in order to increase satisfaction with IT outsourcing (and we would be daring and say that this can be applied to all of outsourcing), sponsoring companies themselves need to improve their own abilities within outsourcing management. Without this critical commitment and ability, companies will find it quite difficult to achieve high degrees of satisfaction with outsourcing.

Making this connection between satisfaction and ability is an eye-opener and goes quite a ways in explaining some underlying dissatisfaction that we have previously seen in many outsourcing relationships. Paradoxically, many outsourcing sponsors who got everything they specified in the contract delivered to them on-time and on-budget would still claim to not be satisfied with outsourcing. How could this be? We believe it is because true satisfaction in this arena is inextricably connected to their own efforts in producing and managing something, in this case, IT outsourcing. This means that companies wishing to improve their own satisfaction with IT outsourcing or companies wishing to increase their customer's satisfaction with IT outsourcing, should focus on increasing organizational ability and moving up the learning curve of managing IT outsourcing.

It is also critical to note that the concentration of responses on this question indicate a nearly 1:1 correspondence between satisfaction and trust. As the respondents of this study say that the ideal IT outsourcing partner is trustworthy, it's apparent that vendors living up to this criteria are more able to increase customer satisfaction. We also see a much greater correlation between achieving time savings and satisfaction than we see between achieving cost savings and satisfaction.

Beyond this initial qualification, there is quite a bit we can say about satisfied IT outsourcing customers and what the different kinds of satisfaction mean for customers and vendors. Below we compare and contrast the two categories.

Organizations that are satisfied with the way in which they manage IT outsourcing relationships (i.e. their ability):	Organizations that are satisfied with IT outsourcing (i.e. the product):
<p>Similarities:</p> <ul style="list-style-type: none"> • would do it again the way they have done it • feel they were adequately prepared for managing the outsourcing relationship • trust their suppliers and partners <p>Differences:</p> <ul style="list-style-type: none"> • significantly more likely to achieve value for money • were satisfied overall with IT outsourcing (the product) • have supportive organizational management • experienced cost and time savings 	<ul style="list-style-type: none"> • would do it again the way they have done it • feel they were adequately prepared for managing the outsourcing relationship • trust their suppliers and partners <ul style="list-style-type: none"> • achieve value for money • more likely to have experienced significant cost and time savings • perceive themselves as great outsourcing clients

Value

Companies that are satisfied with the way in which they manage IT outsourcing relationships have a lot in common with companies that are satisfied with IT outsourcing but there are differences. The former count themselves among those satisfied with IT outsourcing but the opposite isn't necessarily true. Those companies that say they are satisfied with IT outsourcing don't overwhelmingly say that they are satisfied with the way that they manage IT outsourcing. Another critical difference is that management support plays a big role in those organization which say they are satisfied with their abilities to manage IT outsourcing relationships while that management support seems to fall off among those companies saying that they are satisfied with IT outsourcing.

Also, there is a stronger correlation between trust in the IT outsourcing partner and satisfaction with IT outsourcing than there is with trust and satisfaction with their own ability to manage IT outsourcing. So building trust in IT outsourcing customers is definitely driven by excellence in IT outsourcing (the product) even though it is strongly affected by the customer's ability to manage the relationship.

Interestingly, those companies which say that they are satisfied with their ability to manage IT outsourcing relationships are in greater measure able to say that they have achieved both cost and time savings than those companies which say that they are satisfied with IT outsourcing itself. In this context, satisfaction appears correlated with achievement. However, achieving value for money via IT outsourcing has a higher correlation with "product" satisfaction than with their own ability to manage IT outsourcing relationships. ■

Those companies which say that they are satisfied with their ability to manage IT outsourcing relationships are in greater measure able to say that they have achieved both cost and time savings than those companies which say that they are satisfied with IT outsourcing itself.

Question: "We define value in IT outsourcing as:"

Value	Percent of all responses
The right quality for the right price	37.8%
Reduction of costs	28.9%
Opportunity to focus on core business	22.2%
Being challenged to improve internal processes	6.7%
Other	4.4%

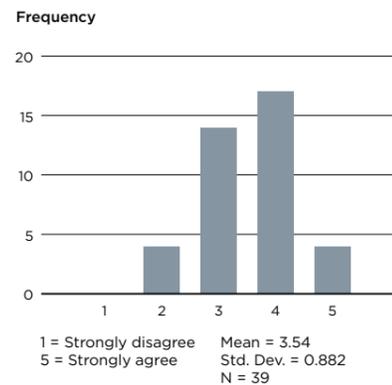
Among the participants in our study, the definition of value is understood to be "the right quality at the right price". However, fully 77% of the participants did note that there is not a shared understanding of value from IT outsourcing at their organization; 8.9% said that there is a shared understanding of value from IT outsourcing and fully 13.3% said they didn't know. This is truly challenging. If the fundamental understanding of value isn't shared by the whole organization, it's impossible to deliver value.

Part of the difficulty comes from understanding how "quality" is defined. In our experience, companies do not have a shared understanding of what this means for them. Failing to define quality in terms that are meaningful for the organization means that companies sacrifice that rudder of value and instead focus single-mindedly on the price and costs which are much easier to identify and upon which to come to some agreement.

Tellingly, those companies that define value as "reduction in costs" do not post convincing cost savings in their IT outsourcing endeavors although they are able to achieve moderate amounts. Rather, the companies that "strongly agree" that they have achieved cost savings via outsourcing, define value in outsourcing as "the right quality for the right price." What's more, those companies defining value in outsourcing as "the right quality for the right price" are also those companies that are more able to achieve time savings in IT outsourcing. Companies which define value as "the right quality at the right price" were also the most satisfied with their ability to manage IT outsourcing.

Organizational maturity and ability

Figure 2: We achieve value for money with our IT outsourcing investment(S).



What these results show us is that cost alone is an imperfect tool for navigating IT outsourcing. Those companies that open their perspective up to more qualitative based criteria and indicators are those companies that are more able to post achievements in time and cost savings. This by no means should be interpreted as costs are not important in outsourcing. Clearly, in many cases, they are a critical driver and focus. However, there are more effective ways of achieving cost savings than focusing exclusively on cost cutting.

So do the companies in this study believe that they have achieved value for money with their investment in IT outsourcing? The answer is yes, the companies in this study tell us that they have. But it's critical to note that cost savings alone does not correlate to value for money while time savings directly correlates to achieving value for money.

In order to find out how organizations could increase value in their IT outsourcing investments, we asked the participants of this study what single strategic initiative they could undertake to achieve value in IT outsourcing. They told us the following:

Question: The single thing my organization could do to obtain more value in IT outsourcing would be:

Initiative	Percent of all responses
Improve our own internal ability to manage and communicate about outsourcing	33.3%
Other	24.4%
Leverage the Cloud	15.6%
Develop/align a comprehensive IT outsourcing strategy	13.3%
Outsource all non-core business in order to enable more focus	11.1%
Bring top management more actively into the outsourcing forum	2.2%

These organizations are overwhelmingly convinced that increasing value in IT outsourcing goes hand-in-hand with improving their own abilities to manage and communicate about outsourcing. ■

It is worth noting that this study reveals a growing organizational maturity and ability within IT outsourcing in Denmark. We found strong evidence of greater preparation and willingness to engage in strategic thinking than previous studies have shown. Directly connected to this is that an overwhelming majority of the participants of this study, 69.6% in fact, say that their outsourcing efforts are supported by top leadership. This explicit support by top leadership was something that was quite thin on the ground when Trellis started asking these questions roughly four years ago. Its emergence is a key indicator that organizations are improving their organizational maturity regarding outsourcing.

Denmark's flat organizational structure means that organizational decision-making devolves to department and group heads located in the field rather than in upper or middle management. This brings greater contextual relevance to decision making in Danish organizations but it creates challenges for binding operational decision-making with strategic thinking and planning. Top leadership's distance from operational decision-making isn't necessarily disinterest but is rather a cultural expression of trust in the abilities of the relevant department head to do their job. However, in order for organizations to reap the real advantages of IT outsourcing, top leadership must set clear strategic goals for IT outsourcing which directly support business strategy. This is not something that operational decision-makers in Danish organizations are in a position to do.

To that end, it's encouraging to point out that 56.5% of the participants of this study say that their organization has a clear IT outsourcing strategy and that a convincing majority say that their IT outsourcing strategies directly support their business strategy. As one-third of the respondents in our study tell us that department heads and technical heads are the ones making IT outsourcing decisions, this more solid strategy environment is definitely going to improve the decision-making environment. Two-thirds of the participants of this study say that it is the CIO or CEO who is making the outsourcing decisions.

Beyond strategy formulation, we see stronger organizational foundations for managing IT outsourcing among the organizations in our study. More often than not, the companies in our study say that they feel they were prepared to manage the IT outsourcing relationships.

Figure 3: Our IT outsourcing efforts are supported by top management.

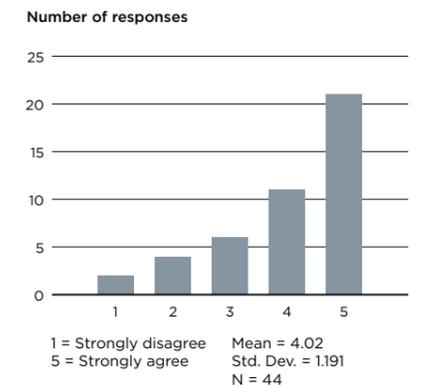


Figure 4: We were prepared for managing our IT outsourcing relationship(s).

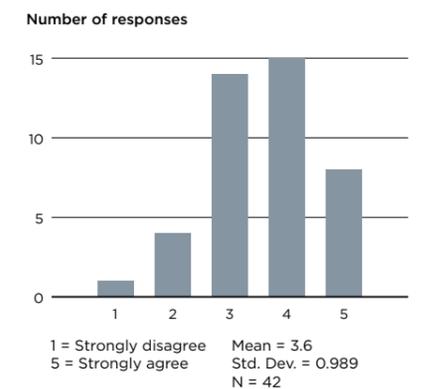
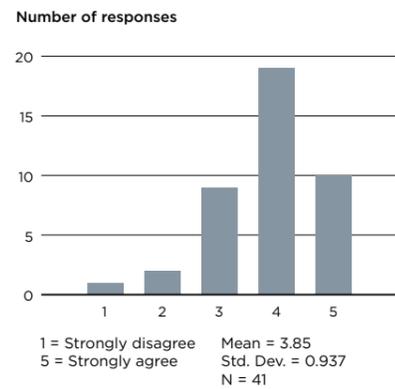


Figure 5: We achieve a fair and equitable agreement in the negotiation process.



The highest point of organizational maturity and ability along the outsourcing value chain appears to be in organizations' abilities to manage the negotiation process and to produce fair and equitable agreements. 63% of the respondents either agree or strongly agree that their organization has achieved fair and equitable agreements versus only 6.5% who say that they disagree or strongly disagree. It's logical that this is the point at which more organizations are able to produce value as contract negotiations are a competence that every organization must have. Organizations' abilities to leverage existing competencies clearly is an advantage over having to develop competencies from the ground up which some areas of outsourcing management require. Organizations are also benefitted by the fact that if top leadership has shown its interest in outsourcing, it has typically been at the negotiation and contract phase.

This strength exists not because organizations have deliberately decided to focus on excellence in IT outsourcing contract negotiation processes but because this is an organizational competence which gets a regular work-out as well as being visible for top management. Both of these dimensions will need to be present for organizations to develop additional competencies along the outsourcing value chain and thereby helping their organizations to derive value from IT outsourcing.

The weaknesses in organizations' ability to manage the outsourcing value chain appear at other places. For instance, only 42% of the study participants say that they have a formal, standardized governance for managing outsourcing relationships and only 24.4% say that they have standardized criteria for choosing and evaluating IT outsourcing partners. Additionally, fully 77.8% say that they could be better at assessing risk in IT outsourcing. These are three critical areas. Developing superior competencies in outsourcing governance, criteria and evaluation, and risk management will require considerable effort. However, achieving value and excellence will be unattainable without them.

Organizations do not lack for challenges in the IT outsourcing arena. When we asked our participants what the biggest challenge is with IT outsourcing, they told us the following:

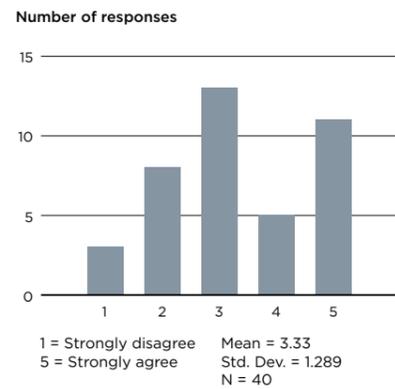
Question: What is the biggest challenge in IT outsourcing?

Challenge	Percent of all responses
Cost advantages are not clear	26.7%
Efficiency advantages are not clear	22.2%
Limited available resources in-house to manage IT outsourcing	13.3%
Uneasy about ceding control to a supplier	11.1%
Lack of qualified providers	8.9%
Politically unpopular at our company	4.4%

The organizations in our study tell us that cost and efficiency advantages are difficult to understand and to describe, let alone achieve. Companies are clearly struggling to identify appropriate productivity and efficiency goals; and as importantly, to develop paths to implement them. Organizations tend to be handicapped in making these advantages clear in that they typically are not measuring and evaluating qualitative, and even quantitative, indicators that could provide robust insight to progress as well as helping to diagnose problems before they become bigger. ■

Costs

Figure 6: We have achieved cost savings as a result of IT outsourcing.



One of the recurring topics of discussion with IT outsourcing is, of course, cost. There is a hyper fixation on costs in IT outsourcing that doesn't necessarily serve the companies using them as a filter. Some of the weaknesses with the use of costs in IT outsourcing decision-making and management are that few companies are actually tracking financial performance measurements post-implementation of outsourcing. Even fewer ever tracked costs prior to outsourcing so the ability of companies to baseline costs once outsourcing has commenced is spotty at best. 40% of the companies in the study say that they use costs as the primary decision criteria when choosing IT vendors. However, only a minority of the companies in our study are using financial measurements to monitor their outsourcing endeavors.

Cost reductions are not something that companies uniformly experience in IT outsourcing. Interestingly, the participants of our study report that they were more able to achieve time savings (46.7%) than they were cost savings (35.5%).

Companies defining value in outsourcing as cost reductions were more likely to say that they have achieved cost reductions as a result of outsourcing. Paradoxically enough, however, companies using domain knowledge as the decision-making criteria reported higher degrees of cost savings than those using costs as the decision-making criteria. The efficiencies that are able to be delivered by quality-focused vendors are directly apparent in cost environments as a result.

There are some patterns among those companies reporting that they have achieved significant cost savings through outsourcing. These organizations:

- Rank increased efficiency as their top motivation for engaging in IT outsourcing;
- tend to be satisfied with how they manage outsourcing relationships;
- achieve fairness in the contract negotiations;
- do not have an adequate in-market labor pool;
- proactively reduce organizational risks via outsourcing; and
- say that they are also able to post time savings.

Companies using domain knowledge as the decision-making criteria reported higher degrees of cost savings than those using costs as the decision-making criteria.

Clearly, it's no mystery that those who say they are able to post significant cost savings are able to also say that they are satisfied with the way that they manage outsourcing. However, it's important to note that the correlation isn't as high as we would have expected. This means that cost savings alone is not able to produce satisfaction, although it is able to influence it.

Also, we see interesting patterns when we look at the various motivations for engaging in IT outsourcing and their abilities to deliver cost savings. Of those companies that say that their primary motivation for engaging in IT outsourcing is to reduce costs, 66.7% say they have been able to reduce costs. A good showing perhaps but, it also means that 33% of these companies are not able to live up to their own vision of outsourcing.

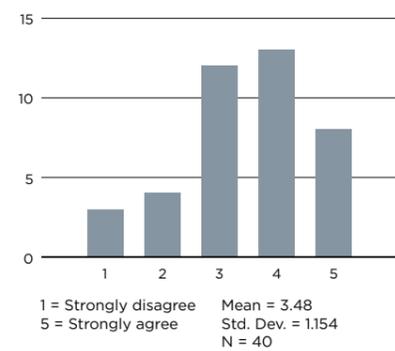
Of those companies saying that their primary motivation in IT outsourcing is to increase efficiency, 54% of them say they have achieved cost savings as a result of IT outsourcing. Interestingly, of those companies reporting that their primary motivation to engage in IT outsourcing is to gain access to resources not otherwise available in their market, 90% of them say that they haven't achieved notable cost savings via IT outsourcing. This might seem surprising as much is made of the high Danish labor costs and the lower-cost opportunities elsewhere. However, it does give us insight into the costs that organizations must incur in managing outsourcing and external resources wherever they may be and whatever they may cost. A 40% price difference in labor costs does not translate directly as a 40% drop in operating costs for the IT outsourcing sponsor.

It's evident that companies' focus on costs and use of it as a tool in outsourcing decision-making brings mixed results. Our study participants agree with this conclusion as they have identified the opacity of cost advantages as being the biggest challenge in IT outsourcing. ■

Time savings

Figure 7: We have achieved time savings as a result of IT outsourcing.

Number of responses



Our study participants say they have been more likely to achieve than cost savings. Organizations reporting significant time savings as a result of outsourcing:

- are satisfied with the way that they manage IT outsourcing relationships;
- have experienced significant internal process improvements;
- have achieved cost savings; and
- have achieved value for money.

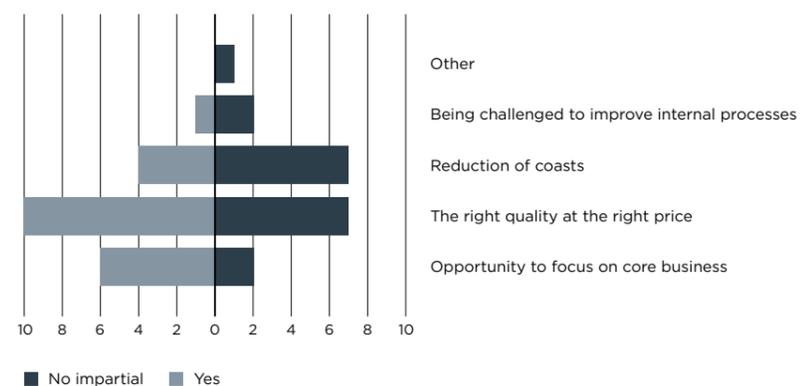
There are some significant differences between companies that say that they have achieved costs savings and those that say that they have achieved time savings (although clearly, in some cases, a company can achieve both). Those companies reporting that they have achieved time savings tend to be more satisfied with their ability to manage IT outsourcing relationships. They are also more likely to say that they have undergone internal process improvements as a result of outsourcing.

The process optimizations can have a direct impact on the organization's ability to save time.

By a large margin, those companies that define value in outsourcing as "the right quality at the right price" are more able to achieve time savings as a result of IT outsourcing than any other group. Furthermore, those companies that define value as enabling focus on core business were also more able to achieve time savings via IT outsourcing than the group which defines value in outsourcing as "cost reductions".

Figure 8: Comparison of time savings to the way in which companies define value in IT outsourcing.

We define value in IT outsourcing as:



We also see this qualitative picture of process optimization when we look at the motivations for engaging in IT outsourcing among those companies that say they have been able to achieve time savings. For those saying they have achieved significant time savings via IT outsourcing, 33.3% say that their motivation for engaging in IT outsourcing is to increase efficiency, followed by 28.6% who are motivated primarily by gaining access to resources not otherwise available.

Looked at in another way, organizations saying that they are motivated by increasing efficiency or flexibility and those motivated by gaining access to resources not otherwise available were each more than likely to deliver time savings. Organizations primarily motivated by cost reductions were less likely to be able to harvest time savings as a result of IT outsourcing.

Time is money and the way to achieve time savings is by focusing on quality at the right price as well as leveraging IT outsourcing's ability to help organizations focus on core business. ■

Measurements

It is one thing to know what an organization wants to achieve via outsourcing, that is, obtaining desired resources, operating flexibility, efficiency, and costs savings. It is another to know if the organization has actually achieved it. Being able to clearly know if that goal has been reached cannot happen unless measurements are put into place. This means measuring the pre-outsourcing state and instituting on-going evaluations to monitor progress along the way as well as indicating when and if the goal is actually reached.

What we see in terms of measuring and evaluating IT outsourcing activity is that as a whole, this area could use some serious attention. 20% of the participants of our study say flat out that they do not use any traceable performance measurements. And while 57.8% say that they use time as a performance measurement and 51.1% say that they use quality as a performance measurement, only 37.8% say that they are using any financial measurements.

Interestingly, only 14% of those companies that say they use costs as the decision-making criteria for choosing a vendor also say that they have financial performance measurements in place. This is notable primarily because costs figure so centrally in so many organizations' approach to outsourcing and because costs are more easily quantifiable than quality. We know that organizations have a difficult time agreeing on how to define quality but it still comes in as the second highest ranked performance measurement, far ahead of financial measurements. This says something about what the organizations want to be measuring as much as it says about what they are effectively able to measure.

Question: We use the following performance measurements in our IT outsourcing relationships, choose all that apply:

Performance measurement	Percentage of study respondents saying that they use this performance measurement
Timeliness	57.8
Quality	51.1
Financial	37.8
Productivity	33.3
We are not using any traceable performance measures	20.0
Utilization	17.8
Other	13.0
Cycle times	8.9
Outputs	8.9
Creativity	0.0

Companies that cited "other" noted such performance measurements as customer satisfaction, accessibility and industry benchmarking.

Do performance measurements matter? The results of our study say that they do. Interestingly, we found that using almost any of the performance measures seemed to improve companies' abilities to achieve value for money through IT outsourcing compared to those companies that say they are using no traceable performance measurements. However, when it comes to achieving satisfaction, those companies without any traceable performance measures tend to rank higher. Perhaps, as the saying goes, ignorance truly is bliss. In order to get a better understanding of this, we took a closer look at the companies that said that they are using no performance measurements and those companies that are using financial performance measurements. We found some interesting patterns.

Companies that are using no traceable performance measurements	Companies that are using financial performance measurements
Indicate an inadequate labor pool in their market	More likely to have supportive management
More satisfied with their ability to manage outsourcing relationships	More likely to have experienced employee turnover as a result of outsourcing
More likely to continue to outsource in the same manner they currently do	Much more likely to plan to adopt/invest in PaaS
More satisfied with IT outsourcing overall	More likely to say that they achieved a fair and equitable agreement through the contract negotiation process
Management tends to be moderately less supportive	More likely to have a clear IT outsourcing strategy in place
Tend to say they were less prepared for outsourcing	More likely to have an IT outsourcing strategy that supports overall business strategy
Tend to trust their IT outsourcing partner...	More likely to have experienced cost savings
But less likely to allow them greater decision-making responsibility in the relationship	More likely to have experienced time savings
Feel that they are good to have as clients	More likely to say that they have achieved value for money in IT outsourcing
Tend to encourage cross-functional work	More likely to increase IT outsourcing over the coming 12 months
Better at addressing internal weaknesses	
Believe that the coming changes in technology will force big changes in the way in which they approach IT outsourcing	

The pattern that we see indicates that companies that are not using any traceable performance measurements respond more positively to more abstract concepts, such as trust and satisfaction. Yet when it comes to more tangible indicators such as strategy, cost and time, those respondents without performance measurements would be less likely to say they have made notable achievements. It's revealing that these companies say that they are more likely to trust their IT vendors but at the same time are much less likely to allow them more decision-making responsibility in the relationship.

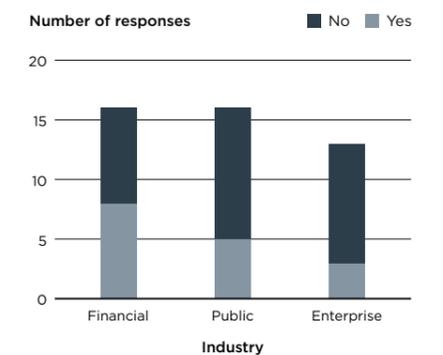
These companies seem satisfied at the more macro levels yet are not able to post time and cost savings at nearly the same rate as companies using financial performance indicators. More critically, these companies that don't engage in performance measurements are not able to achieve value for money to the same degree that companies that employ performance measurements, in this case, financial performance measurements, do.

There are interesting differences among the three industry sectors involved in our study. While the financial sector prefers productivity, quality and timeliness, the public sector focuses on quality and timeliness. Most of the companies in the enterprise sector say that they aren't using performance measurements.

Among the three industries, the financial industry is the one most likely to report using financial performance measurements but it's only half of the financial companies in the study that are in this group. It's ironic that they aren't bringing some of their own core competencies, that is, financial performance analysis, to the outsourcing arena. It's one thing if the public sector has weak financial performance analysis but we think the fact that the financial industry has luke warm financial performance analysis says more about outsourcing's distance from the core areas of business than about these organizations' overall level of expertise in performance measurement.

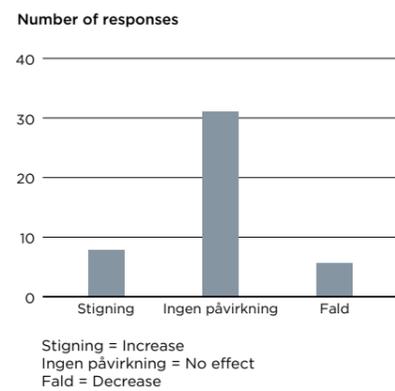
Being able to measure, monitor and evaluate ongoing performance is a critical competency for companies wishing to excel in IT outsourcing. Unfortunately, it is not something in which most organizations excel. ■

Figure 9: "We are using financial performance measurements"



Effects and results

Figure 10: Do successful outcomes of projects using external technologies and/or resources mean a resulting increase or decrease in staffing in subsequent periods?



In addition to cost and time savings, we see other effects from IT outsourcing on the organizations in our study. 68.9% of the companies in our study report that successful outsourcing has no subsequent effect on increasing or decreasing the number of internal personnel employed at their organizations. In fact, there is a marginally greater (17.8%) chance of an increase in internal personnel following successful outsourcing engagements than there is of a fall in internal resources (13.3%). We have seen this phenomena before in Trellis' research and firmly believe that it is because outsourcing provides a forum for experimentation as well as for gaining new skills and knowledge which are then determined to be valuable for the organization to develop internally.

As for effectively delivering on project milestones, 60% of our study participants tell us that there is no variance between the use of external technologies and/or resources and the use of internal technologies and/or resources. And while it is notable that 26.7% of the study participants note that they have experienced a higher variance, 13.3% say that they have experienced a lower variance.

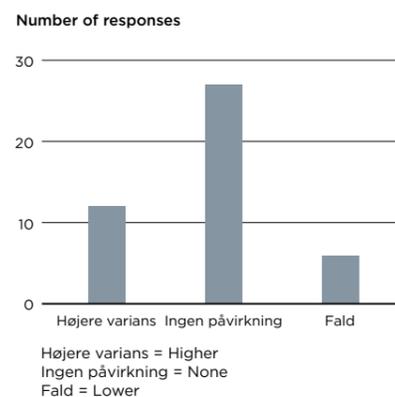
The effect that the majority of the organizations in our study say that they have experienced as a result of outsourcing is the freeing up of internal IT resources to focus on strategic and/or core work. This appropriately echoes the primary motivations for IT outsourcing which are to gain access to resources while increasing flexibility and productivity.

Question: We have experienced the following as a result of outsourcing, choose those that apply:

Result	Percent of total pool saying they have experienced this result
Freeing up of internal IT to focus on strategic/core work	57.8
Reduction of IT operating costs	53.3
Improved ability to document	31.1
Leveraging of external expertise	26.7
Increase in organizational competitiveness	24.4
Quicker turnaround in application development	20.0
Better lifecycle management	13.3
Improved ability to communicate	11.1
Other	11.1
Increase in employee satisfaction	4.4

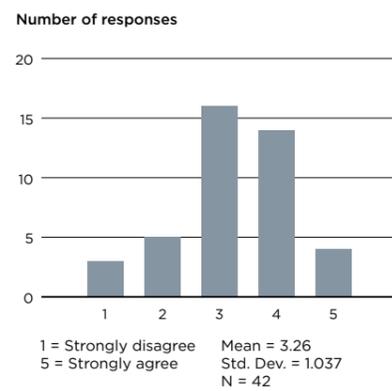
While it is encouraging that companies have noted some degree of improvement in abilities to document, develop applications, communicate and lifecycle management, the numbers are much lower than they could be. These numbers show that 75% of the organizations in our study have not experienced an increase in organizational competitiveness as a result of IT outsourcing. This is a significant missed opportunity. IT outsourcing can absolutely be leveraged to increase organizational competitiveness but it won't be able to do much better than these marginal levels until focus shifts from securing resources (volume) and reducing costs to making strategic decisions about leveraging IT to deliver on overall business strategy. Not every organization will ever be able to leverage IT outsourcing to increase overall competitiveness but those organizations that do are absolutely those organizations that will not only succeed but will win. ■

Figure 11: Do IT outsourcing projects that have some external technology or resources experience a higher variance in outcomes than a corresponding project which is 100% internal?



Internal process improvements

Figure 12: We have significantly improved our internal processes as a result of having outsourced (can include processes shared with the outsourcing partner).



One of the most interesting indicators of success in outsourcing is organizations' ability to improve their internal processes. Trellis' research has previously shown that companies reporting that they have experienced internal process improvements as a result of having outsourced are a different kind of company from those that say they haven't experienced internal process improvements as a result of outsourcing.

There is a fundamental dynamic at work with internal process improvements that are provoked as a result of outsourcing. Primarily, in working with external resources, technologies and processes, internal weaknesses are brought to light. Those companies that choose to recognize that there are weaknesses and, just as importantly, choose to do something about them, are companies with a greater ability to be self-critical and also to tackle internal weaknesses. This is a huge advantage in delivering successful outcomes in outsourcing.

Many companies, when faced with process challenges in outsourcing are very quick to point the finger at the vendor. Interest is on assessing blame, perhaps leveraging the situation for financial gain. Instead of looking holistically at the whole value chain, themselves included, many companies assume that the problems reside only at the vendor. This is a critical mistake for two reasons. First, it fails to comprehensively assess the environment and diagnose the situation. Secondly, it's not infrequent that the outsourcing sponsor's focus then shifts to just getting the contract finished and subsequently moving onto find another vendor. However, as it is possible that the problem is a result of process sub-optimizations at their own organization, they just enter into a vicious cycle of churning through vendors, deeply dissatisfied with them all and never truly addressing the fundamental problems.

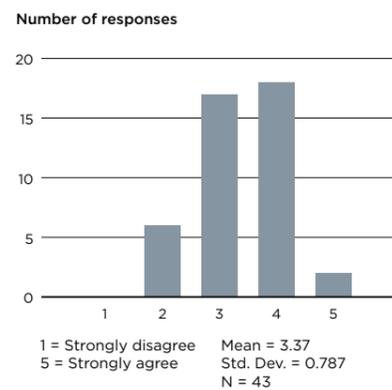
Alternatively, companies that dare to recognize internal weaknesses and do something about them are able to avoid the churn and instead effectively optimize across the value chain, both internally and externally. Doing so requires that they take the initiative.

Among the companies in our study, we see solid responses in the internal process improvements area. We also see a solid and marginally better ability to tackle internal weaknesses.

The ability to tackle internal weaknesses is the single most critical strength for organizations wanting to succeed in outsourcing. If that organization wants to outsource internal processes that are sub-optimal to begin with, they will never be optimized at vendors unless the vendors are allowed to use their own, optimized processes.

Those organizations reporting a higher acumen for evaluating internal weaknesses believed that outsourcing all non-core business and developing a comprehensive outsourcing strategy were the two most advantageous improvements that their organization could initiate to produce more value in IT outsourcing. ■

Figure 13: Our organization is good at tackling internal weaknesses.



Cloud technology

We narrowed our focus on technology to the Cloud. Cloud is the name given to a range of services which are accessible from anywhere and which are separated from the underlying hardware. The promise of flexibility as well as the potential cost efficiencies demand that companies at least investigate the appropriateness of the technology for their organizations. As Cloud technology is a relatively new but growing technology area, we were interested in studying organizations' budding awareness and strategies for evaluation and potential incorporation.

Among the study's participants is an acknowledgement of Cloud's presence but a striking disinterest in applying it to their organizations. We would characterize the response as tepid, cautious and conservative. Any advantages that might be achieved via Cloud technology are not clear to the bulk of the participants in our study. As we are including large, known Danish organizations, many of whom are respected for the work that they do in the IT arena, we have to assume that this sentiment is shared by others in this market.

One of the issues that we see as paramount regarding Cloud technology in Denmark is that these solutions require holistic and strategic thinking. By definition, moving to the Cloud requires cross-organizational effort and cannot be made by individual departments. As the typical Danish organization is geared towards independent operational decision-making by department heads and much less towards integrated strategic decision-making, we see a fundamental mismatch between the environment and the opportunity.

That's not to say that Cloud won't make an impact, and a big one at that, in Denmark. Rather, that we expect the up-take of Cloud technology to be delayed in comparison to implementation in other markets. We believe that the fundamental necessity of cross-organizational strategic decision-making and planning will challenge Danish organizations. Some of them will meet this challenge and others will struggle.

There is a reasonable toehold of Cloud installations at the companies in our study. 20% of the organizations say they are already using SaaS (Software as a Service, for example Gmail and Salesforce.com); 6.7% say that they are already using PaaS (Platform as a Service, that is to say operating systems located in the Cloud, typically for developing applications for web and mobile devices); and 13.6% say that they are already using IaaS (Infrastructure as a Service, which is basic computing services like data processing and data storage, for example Rackspace, Amazon Webservices and GoGrid).

Cloud service	We are already using it (%)	We will start to use it within 3-12 months (%)	We will start to use it within 12-36 months (%)	We will start to use it within 36-60 months (%)	We will start to use it (%)
SaaS	20	17.8	22.2	17.8	22.2
PaaS	6.7	15.6	33.3	24.4	20
IaaS	13.3	11.1	11.1	24.4	40

But it is significant that 20-40% of the target group say that they will never use some or all of the Cloud services; and that roughly 20% more say that their time horizon for Cloud services is at some point between 2014 and 2016. When the organizations in our study are asked to identify the technological challenge which will most affect their IT outsourcing in the coming one to three years, 37.8% say that integration of existing applications. Cloud is tied for last at 11.1% along with "other", out-ranked by both data security (22.2%) and mobile devices and applications (17.8%).

Part of that cautiousness is clearly due to concerns regarding security and data compliance. Fully 89% of the respondents in our study tell us that their organization has a high compliance need for a "private" cloud due to laws and regulations governing the handling of digital data (Persondataloven). About a third of the study respondents say that they see the need for an IT environment which supports both a private and a "public" cloud; while 35.6% say that they don't see this need and 31.1% don't yet know if this is something that is relevant for their organization's IT infrastructure. Among the participants in our study who come from the public sector, the need for a private Cloud to manage compliance was 100%. The financial and enterprise sectors were increasingly uncertain about the compliance issues with one-third of the enterprise sector respondents telling us that they didn't know if this need was a real one for them. With this focus and uncertainty, it therefore comes as no surprise that security is the top concern regarding Cloud both public and private.

Question: Rank your top three concerns regarding Cloud technology

Concern:	Overall weighted score:
Security	102
Cross-platform integration	44
Vendor lock-in	38
Lack of potential customization	29
Transparency of the infrastructure itself	21
Establishing documented audit trails	19
Lack of qualified personnel to manage/orchestrate	10
Other	7

There are no other concerns that are even in the same league as security. When we look at these concerns across the industries involved in the study, we see notable patterns. All sectors pointed to security as the top concern. While the public sector manifested a secondary pattern of concern around cross-platform integration and the enterprise sector spiked its secondary concerns around the (perceived) lack of customization and the transparency of the Cloud infrastructure itself.

While concerns attract much attention, the advantages of Cloud technology are quite attractive to our study participants. The attractiveness of the advantages clearly seemed weighted towards those that offer flexibility and agility, along with a desire to achieve excellence via competitive advantages delivered by partners should the organization's own internal capabilities not be judged good enough. What's interesting is that the perceived cost advantages of Cloud technology make only a soft impact on this ranking.

Question: Rank the three greatest advantages of moving to the Cloud (either public or private):

Advantage:	Overall weighted score
Flexibility (e.g. ability to scale up and down based on need)	87
Agility (e.g. rapid deployment and/or integration)	67
Moving elements of our IT in which we can not deliver a competitive advantage to a partner who can	60
Transparent IT structures	20
Moving CAPEX to OPEX (e.g. moving from the buy-and-own model to the pay-as-you-go model)	18
Integration across platforms	14
Other	4

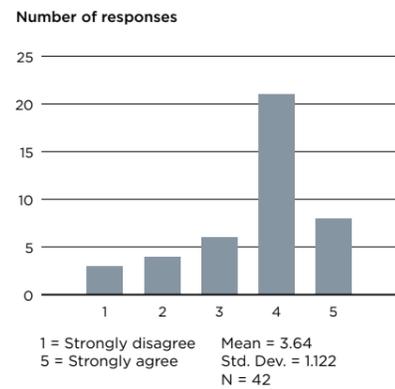
Why is it that the CAPEX to OPEX advantage didn't score higher on this list? When we looked at this question from another perspective, that is, which companies would be more likely to score the move from CAPEX to OPEX highly, we found an interesting answer. Those companies scoring highest in preparation for outsourcing are the companies most likely to rank this advantage highly. Related to this, we also found that companies that rank themselves highest regarding preparation for the coming technological changes also were much more likely to rank integration across platforms and transparent IT structures highly on this list. Our point is that although most companies in the study point to flexibility, agility and competencies as the first order of advantages, when we look at the next level of rankings, we see clear differences among the companies based on what they choose. Organizational preparedness fosters focus on cost optimizations while technological preparedness prompts focus on infrastructure and integration.

We also found that companies which told us that they believed they could do a better job assessing risks in outsourcing were more likely to include "moving elements of our IT to a partner who can deliver it at a competitive advantage" in their rankings. This insight seemed to provoke a certain choice. We can theorize that they have become aware of risk situations in their outsourcing environment which they have undervalued to their disadvantage, perhaps encouraging them to move their focus to process excellence rather than internal control.

The organizations in our study strongly believe (67%) that changes in technology over the coming one to three years will have a big impact on the way in which they manage IT outsourcing. Yet only about half of the organizations believe that they are prepared for the coming changes. This situation represents a sizable threat to the stability of, let alone the ability to leverage, IT environments. Cloud technology is just one of the coming challenges with which Danish organizations will need to grapple. ■

Relationships with vendors

Figure 14: We trust our IT outsourcing vendors and partners.



63.1% of the participants in our study either agree or strongly agree with the statement: “We trust our IT vendor.” This is a notable achievement particularly in light of how they describe the ideal IT outsourcing partner. There is an overwhelming desire for a trusting relationship among the companies in our study and many of them say that they have been able to achieve this. When we asked them how to describe their ideal IT outsourcing partner, they told us the following:

Question: “The ideal IT outsourcing partner will be (rank the top three):”

Characteristic	Overall weighted score
Trustworthy	62
Proactive	34
Cheap	30
Have a large portfolio of technical competencies	27
Robust knowledge of our company	19
The right size for us	14
Innovative	2
An international company	0

Trustworthiness handily trumps cheap as the ideal characteristic. Proactivity beats cheap. Technology itself appears secondary—not unimportant but likely a fundamental requirement that is expected to be fulfilled. Innovation barely registers.

However, as much as companies say they want a qualitative relationship, companies struggle to make decisions about vendors with any criteria other than cost. As we have seen, the primary motivations for IT outsourcing are, in descending order: access to resources not otherwise available, flexibility and productivity. So, it would stand to reason that when actually selecting their IT outsourcing partner, companies would choose characteristics which would support these motivations and goals. However, that is not what we see.

Question: “When selecting our IT outsourcing partner, the following is the most important criteria:”

Criteria	Percent of all respondents using this as the have experienced this result
Cost	40
Domain expertise	20
Other	18
Pre-existing relationships with partners	13
Customer service	9

Costs as a decision criteria convincingly beats domain expertise. Domain expertise is the decision criteria which directly serves the number one and number three motivations for engaging in IT outsourcing, access to resources not otherwise available and increased productivity respectively. Yet it only manages to be used as decision-making criteria by 20% of the decision makers. Clearly, desire and actions aren't meeting up. This forces us to look at the constraints that exist in the decision-making process.

We know that many of the decision makers are themselves being evaluated on their ability to cut or at least optimize costs. While the ability to optimize costs is a critical business skill, companies need to begin to evaluate decision-makers' performances on additional grounds, such as productivity and efficiency in order to allow these decision-makers to make more qualitative decisions rather than those that are the cheapest and most expedient. ■

Industries

There are significant differences among the industries we included in our analysis: financial, public and enterprise. These differences, understandably, provoke varying behaviors. Here, we summarize some of the major differences we have found:

Financial sector	Public sector	Enterprise sector
Least adequate in-market labor pool	Less likely to have achieved cost savings as a result of IT outsourcing	Shortest contract cycles
Most likely to have a clear IT outsourcing strategy	Most likely to be clear on critical compliance needs (Cloud & data regulations)	Unsure of critical compliance needs (Cloud & data regulations)
Most supportive management	Clear connections between IT outsourcing and overall	Most adequate in-market labor pool business strategy
Clear connections between IT outsourcing and overall business strategy	Most likely to be using quality and reaction time as performance measurements	More likely to not have supportive management
Most likely to be using quality, productivity and reaction time as performance measurements		Most likely to not be using performance measurements of any kind

Overall, we see a higher outsourcing organizational maturity in the financial industry and this maturity directly leads to more satisfying results. However, we find it more than ironic that financial performance measurements don't even crack the top three performance measurements in the financial industry. As we noted in the section on costs, this inability to track financial performance, let alone establish a baseline prior to commencing outsourcing, is an Achilles heal in companies' abilities to actually determine the value of outsourcing.

The lack of appropriate resources is a key driver in outsourcing. Primarily, it means that the organization values technical skills first and presumably has tried to meet that need locally. Secondly, it should mean that when the organization enters the outsourcing arena, it favors making outsourcing decisions based on domain knowledge. However, as we saw in the vendor relationship section, companies are using cost as the decision-making criteria at rates that vastly outstrip domain knowledge. We know that using domain expertise for decision making in outsourcing is a key driver for not only delivering qualified domain knowledge but also for being better able to deliver both cost and time savings along with a greater ability to obtain value for money via outsourcing. These are areas where the enterprise and public sectors seem to be less able to deliver.

Another key indicator of organizational ability in outsourcing is the degree to which upper management supports the IT outsourcing activity. Decentralized decision-making is a hallmark of the Danish organizational model. However, the distance that it creates between strategy formulation and operational decision-making tends to worsen outcomes in outsourcing. Having upper management be involved and supportive of outsourcing activities is a key determinant for making sure that there are direct connections between IT outsourcing strategies and overall business strategies. Among the industries, the financial industry appears to be the strongest at making this connection while both the public and enterprise sectors have over 25% of their respondents saying that their IT outsourcing strategy does not directly support their overall business strategy.

Where do we go from here?

Another area where we see significant differences among the industries is in the way that they define the ideal IT outsourcing partner. Both the financial and the public sectors say “trustworthiness” by a very large margin. However, the enterprise sector shows a tie among “proactive”, “good knowledge of our industry”, “the right size for us”, and “a large technology portfolio”.

Figure 15: There is an adequate labor pool available in our market(s) without needing to outsource.

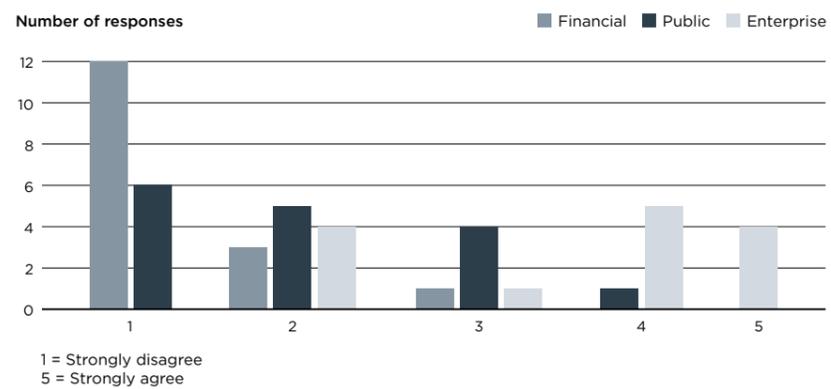
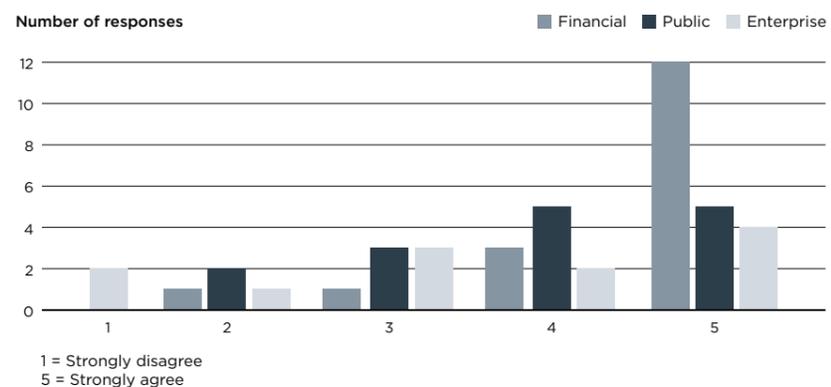


Figure 16: Management is supportive of our IT outsourcing efforts.



There is enormous interest among the organizations in this study in improving their organization’s abilities to orchestrate outsourcing. We also see a strong indication that the majority of the organizations in this study plan to increase their outsourcing in the coming 12 months.

Among the companies indicating an increase in their IT outsourcing in the coming twelve months, we see that they:

- Have achieved significant time savings via outsourcing;
- Have achieved internal process improvements;
- See themselves as great clients for IT vendors to have;
- Are interested in trying new business models; and
- Share greater decision-making responsibility with their IT vendors.

These companies distinguish themselves from the rest of the participants in that they have achieved optimizations both in terms of time and process improvements as well as being more willing to experiment with new business models for outsourcing and to share greater decision-making responsibility with their IT partners. The interesting observation regarding the achievement of time savings is that there doesn’t appear to be any middle ground: Either respondents didn’t experience time savings and won’t increase IT outsourcing; or they did experience time savings and will be increasing IT outsourcing over the coming twelve months. We see no such similar correlation for companies that have achieved significant cost savings. There is clearly a dynamic at work here where achieved time and process optimizations directly affect organizations’ decision-making in outsourcing while apparently achieving what so many companies say they want (cost savings) doesn’t have an equivalent affect.

None of the companies that participated in this study were motivated to get into IT outsourcing as a way of saving time. Yet clearly, many of them accelerated their investment in IT outsourcing after having achieved significant time savings.

Figure 17: We will increase our IT outsourcing within the next 12 months.

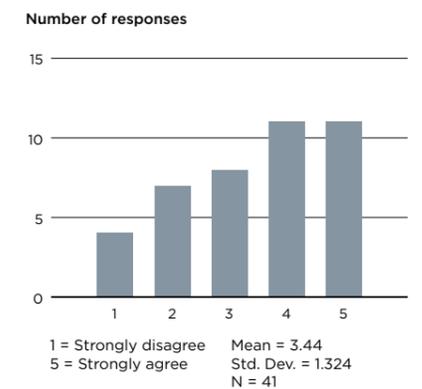
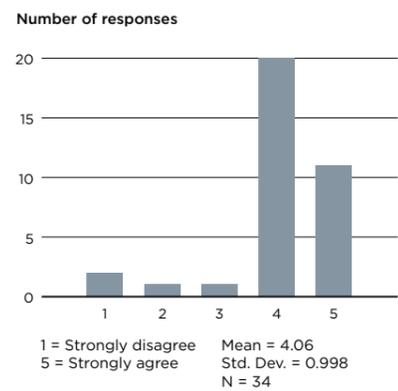


Figure 18: We are interested in trying new business models for our future outsourcing contracts.



There is a pronounced desire among the participants in our study to improve the way in which they manage outsourcing. They are looking to their own organizations to improve processes, governance, and competencies in order to better support their organization's ability to derive value from outsourcing. Almost all of the respondents in this study reported an interest in trying new business models in IT outsourcing. The standard image of transactional IT outsourcing relationships is something that has proved to be wanting. Among the organizations in this study, the response doesn't appear to be to stop outsourcing but to have become open to alternatives. This is a very positive indication of productive change that has grown over the past four or so years. When Trellis has asked this question in previous benchmark studies, participants engaged in IT outsourcing were much less open to experimenting with new business models in outsourcing.

This interest and willingness doesn't mean that companies have actually found a new model which they wish to use, just that they are open to working to find one. Along with this openness to new business models, we also see a higher probability of sponsoring companies allowing their IT outsourcing partners more decision-making responsibility. We do not in any way interpret this as a handing over of responsibility but more that sponsoring companies are acknowledging and leveraging technical expertise resident at their IT partners.

However, it's important to note that the focus in IT outsourcing is still on finding technical solutions to operational issues. As this study shows, we are a long way from leveraging IT to deliver on strategic vision.

The complex dynamic involved in successfully orchestrating IT outsourcing means that sponsoring organizations must come to the arena with a robust portfolio of competencies which they likely haven't previously had to develop. Leveraging external technologies and resources to deliver on business strategies is an uncharted territory for most organizations. Organizations are often not prepared to manage, measure, evaluate, adjust and scale in a way that truly produces value for money. Compounding this challenge, technology continually moves onward, presenting opportunities yet demanding mastery. It's an unsustainable situation for most organizations. Successfully addressing the organizational needs and the increasing complexities requires deft prioritization as well as an ability to access and utilize external technologies and resources in order for organizations to thrive and succeed. ■

