

**IDENTIFICATION OF IT OUTSOURCING ISSUES FACED  
BY SRI LANKAN CLIENT ORGANIZATIONS**

E. Nilushi Dammitha Silva

159131U

Degree of Master of Business Administration in Information Technology

Department of Computer Science and Engineering

University of Moratuwa

Sri Lanka

March 2017

**IDENTIFICATION OF IT OUTSOURCING ISSUES FACED  
BY SRI LANKAN CLIENT ORGANIZATIONS**

E. Nilushi Dammitha Silva

159131U

Thesis submitted in partial fulfillment of the requirements for the degree of Master of  
Business Administration in Information Technology

Department of Computer Science and Engineering

University of Moratuwa

Sri Lanka

March 2017

## DECLARATION

I declare that this is my own work and this thesis does not incorporate without acknowledgement any material previously submitted for a Degree or Diploma in any other University or institute of higher learning and to the best of my knowledge and belief it does not contain any material previously published or written by another person except where the acknowledgement is made in the text.

Also, I hereby grant to University of Moratuwa the non-exclusive right to reproduce and distribute my thesis/dissertation, in whole or in part in print, electronic or other medium. I retain the right to use this content in whole or part in future works (such as articles or books).

.....

E. N. D Silva

.....

Date

The above candidate has carried out research for the Masters thesis under my supervision.

.....

Dr. Malaka Walpola

.....

Date

## **Abstract**

Identifying the possible concerns of IT outsourcing will enable customers to obtain the outsourcing benefits to their organization wisely. Managing their IT outsourcing relationship properly with knowing the impacts and possible risks will provide managers to mitigate the issues at earlier stages.

The purpose of this research study was to discover the major ITO issues faced by Sri Lankan client organizations due to IT outsourcing and provide best practices and recommendations for client organizations to execute their IT outsourcing relationship smoothly. The broader objective of the study was to improve the outsourcing relationship from a client perspective while suggesting success/failure factors of IT outsourcing which customers should critically look at.

This study mainly developed based on open-ended interviews conducted with IT service outsourced corporate clients. An empirical qualitative analysis was used with grounded theory approach to conduct an in-depth analysis of eight customer responses. Industry best practices are adopted from external outsourcing industry expertise views as well as from successful IT outsourcing adopted organizations.

Research study discovered five main factors; quality, performance, employee relation, management control and transition as the mostly impacted factors in ITO relationship of Sri Lankan client organizations. The detailed issues which influence each main factor is elaborated throughout the study. Through the analysis of customer satisfactions level of the data sample, thirteen main factors were identified which could affect for success/failure of IT service outsourcing relationship. Major findings were that poor management at customer level and not having a competent person to follow up & handle the service provider has led client organization to fail in their IT outsourcing relationship.

Based on the findings, assigning an IT knowledgeable management level co-coordinator to follow up and handle the service provider can be identified as a best practice. Building a strong outsourcing agreement, as a tool to align and observe outsourcing vendor delivery with outsourcing needs was also a highlighted key recommendation of this research study.

In-order to have a smooth outsourcing relationship, customers need to consider detailed level of possible risks which involves with outsourcing and take necessary steps.

**Keywords** ITO issues, Client perspective, Grounded Theory, Qualitative analysis approach

## **ACKNOWLEDGEMENT**

I place this opportunity to express my sincere gratitude for all those who helped me in numerous ways to make this research study success. First and foremost, I am deeply grateful to my supervisor Dr. Malaka Walpola for his continuous support, feedback and outstanding guidance given to me throughout the research.

I would like to extend my sincere thanks to Dr. Dilum Bandara (Course Coordinating Lecturer, Department of Computer Science and Engineering) and Ms. Jeeva Padmini who have provided me with continuous feedback and encouragements in-order to complete a research successfully.

I convey my thankfulness to all my lecturer panel at the Department of Computer Science and Engineering, University of Moratuwa for their guidance and would also express my sincere appreciation to office staff at the University of Moratuwa for the services provided.

I am extremely grateful to anonymous participants who helped me for data gathering by sharing their valuable experience, most useful views and opinions. This report would not have been possible without your valuable information, time and effort.

I extent my special thanks to my loving father, my sister Nadeesha and my aunty Mrs. Dhamayanthi Samarasekara for reviewing my thesis and providing me with valuable feedback in order of successfully complete the final research report.

Also, I express my gratitude to all my friends and MBA friends specially Sahan Weerasekara, Umasha Madanayake, Sachith Deshan, Delmi Jayathilaka, Thushitha Withanage, Enit Jeyanath, Rajith Jayasekara for their advices, motivation and for always been around to support which I felt inspiring while carrying out the research.

Last but not least my special thanks go to my loving family my father, mother, brother and my sister for their immense support, love, care, encouragement and patience throughout all these years and complete this thesis successfully.

## TABLE OF CONTENTS

Declaration	iii
Abstract	iv
Acknowledgement	v
Table of Contents	vii
List of Figures	ix
List of Tables	x
List of Abbreviations	xi
1. INTRODUCTION	1
1.1 Background and Motivation	1
1.2 Importance of the Study	2
1.3 Problem Statement	3
1.4 Research Objectives	3
1.5 Scope of the Study	4
1.6 Significance	4
1.7 Outline of the thesis	5
2. LITERATURE REVIEW	6
2.1 Introduction	6
2.2 Information Technology Outsourcing (ITO)	7
2.3 Aspect and common challenges of ITO	9
2.4 Issues faced by outsourcer organization and determinants identification	10
2.5 Chapter Summary	20
3. METHODOLOGY OF STUDY	22
3.1 Introduction	22
3.2 Theoretical Framework	22
3.3 Methodological Approach	23
3.4 Sample of the study	25
3.4.1 Customer representative participants	26
3.4.2 External Industry Expertise/ Service Provider representative participants	29

3.5 Data Collection Technique	30
3.5.1 Interview questions	30
3.6 Chapter Summary	35
4. DATA ANALYSIS	36
4.1 Introduction	36
4.2 Data Analysis Strategy	36
4.3 Detailed Analysis	39
4.3.1 Analysis of each parent factor which affects IT service outsourcing relationship of customer	40
4.3.2 Analysis of Sri Lankan IT service outsourcing customer expectations	59
4.3.3 Analysis of IT service outsourcing satisfaction level of Sri Lankan Client organization	60
4.3.4 Main Factors for Success/Failure of IT service outsourcing relationship	60
4.3.5 Findings from each customers ITO impact analysis	62
4.3.6 Suggested Recommendations to overcome issues	63
4.4 Chapter Summary	68
5. CONCLUSION AND RECOMMENDATION	69
5.1 Conclusion	69
5.2 Recommendations	73
5.3 Limitations	77
5.4 Directions for future research	77
REFERENCES	79



## LIST OF FIGURES

Figure 2-1: Benefits of Outsourcing	9
Figure 2-2: Risk categories of Offshore IT Outsourcing	13
Figure 2-3: Top 4 determinant for outsourcing decisions	16
Figure 2-4: Outsourcing risk management	18
Figure 3-1: Key steps in a grounded theory research design	24
Figure 4-1: Code system of the research study	38
Figure 4-2: Coding results of "Quality" Factor	40
Figure 4-3: Percentage results of Quality factor	41
Figure 4-4: Coding results of "Performance" Factor	43
Figure 4-5: Percentage results of Performance factor	44
Figure 4-6: Coding results of "Employee Relationship" Factor	45
Figure 4-7: Percentage results of Employee Relationship factor	46
Figure 4-8: Coding results of "Privacy" Factor	48
Figure 4-9: Coding results of "Trust" Factor	49
Figure 4-10: Coding results of "Data Breaches" Factor	49
Figure 4-11: Coding results of "Management Control" Factor	51
Figure 4-12: Percentage results of Management Control factor	52
Figure 4-13: Coding results of "Hidden Cost" Factor	54
Figure 4-14: Coding results of "Total Dependent" Factor	55
Figure 4-15: Coding results of "Transition" Factor	56
Figure 4-16: Percentage results of Transition factor	56
Figure 4-17: Coding results of "Knowledge Transfer" Factor	57
Figure 4-18: Parent factor analysis results	58
Figure 4-19: Customer expectations of ITO	59
Figure 4-20: Analysis results of Satisfaction Level customers	60
Figure 4-21: Example analyzing main factors for Success/Failure of ITO relationship	61

## LIST OF TABLES

Table 2-1: Identified issues through research studies .....	11
Table 2-2: 7 key Lessons for successful BPO outsourcing.....	19
Table 2-3: Summary of the dimensions identified from the literature review .....	21
Table 3-1: Theoretical Framework.....	22
Table 4-1: Likert scale system of the research.....	38
Table 4-2: Conceptualized quality issues depending on the sub category .....	42
Table 4-3: Conceptualized performance issues depending on the sub category.....	44
Table 4-4: Conceptualized employee relation issues depending on the sub category .....	47
Table 4-5: Conceptualized management control issues depending on the sub category .....	53
Table 4-6: Conceptualized transition issues.....	57
Table 4-7: Main Factors for Success/Failure of IT service outsourcing relationship .....	62
Table 5-1: Main Factors for Success/Failure of IT service outsourcing relationship .....	72

## **LIST OF ABBREVIATIONS**

Abbreviation	Description
BPO	Business Process Outsourcing
CAGR	Compound Annual Growth Rate
IS	Information Systems
ISO	International Standard Organization
IT	Information Technology
ITO	Information Technology Outsourcing
KPI	Key Performance Indicator
NDA	Non-Disclosure Agreement
PMO	Program Management Office
SLA	Service Level Agreement
SLASSCOM	Sri Lanka Association of Software and Service Companies