

The Relationship between IT Outsourcing and Business and IT Alignment: an Explorative Study

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Abstract. Outsourcing of business processes and information technology (IT) operations is an important trend in large and middle-sized organizations. However, outsourcing could affect the organization's ability to align its IT with business strategy and operations. This article reports a qualitative study into the relationship between IT outsourcing (ITO) and business and IT alignment. It aims to provide recommendations for outsourcers and service providers on how outsourcing relationships should develop in order to support business and IT alignment. The research question of the study is "What is the effect of IT outsourcing on the business and IT alignment of companies that have outsourced their IT?" After a review of relevant literature and concepts, four cases are reported. The study revealed that a higher level of motivation for outsourcing paired with a higher level of the relationship between outsourcer and service provider and with a higher level of alignment maturity of the outsourcer. The study also showed that the ITO relationship is influenced by organizational turbulence on one or either side of the relationship and that the service providers tend to assess the relationship on a higher level than the outsourcers. These conclusions provide relevant directions for both outsourcers and service providers for improvement of the their relationship.

Keywords: Outsourcing, Business and IT alignment, Innovation.

1. Introduction

The necessity and desirability of aligning business needs and information technology (IT) capabilities is considered to be one of the key issues in IT management (Brancheau and Wetherbe, 1987; Chan et al., 1997; Sabherwal and Chan, 2001; Luftman et al., 2006). IT is changing the way companies organize their business processes, communicate with customers and deliver their services (Avolio, 2000). Therefore a successful alignment of Business and IT increases an organization's competitive advantage, profit margins and growth (Byrd et al., 2006; Luftman et.al, 2008).

Several studies (Rosa, 1998; Luftman et al., 1999), however, reported quite low success rates of business and IT alignment (BIA) in organizations, as perceived by business and IT executives. Figures run from 8% (Rosa, 1998) to "less than half" (Luftman et al., 1999) when asked if they succeeded in achieving successful alignment. And the annual survey of top management concerns by the Society for Information Management (www.simnet.org) ranked 'IT and business alignment' as one of the top concerns for IT and business executives (Society of Information Management, 2003; 2004; 2005; 2006; 2007; 2008; 2009; 2010).

An influencing factor in achieving BIA, is IT outsourcing (ITO) (Lacity et al., 1996). In the last two decades, the ITO industry has been growing with an impressive rate (Cullen & Willcocks, 2003), with estimations ranging up to an annual growth rate of 12 percent (DeGraw and Ye, 2008). More and more companies decide to outsource partly, or completely, their IT resources and processes to specialized external service providers. However, only few studies relate this outsourcing trend to BIA. Lacity et al. (2009), in their study of 357 publications on ITO, found only two articles relating ITO with BIA. A similar bibliography was created for BIA as well: Chan and Reich (2007) listed more than 150 studies related to BIA. Here the results were more promising: the BIA studies intertwined six times with ITO ones.

So far, the studies did not provide a conclusive answer as to how the concepts are interrelated. Some authors (Lacity et al., 1996) claim that ITO causes an organization to lose alignment, while others (Tallon, 2003; Pollalis, 2003), conclude a positive relationship between ITO and BIA. It is for this reason that this article reports a qualitative study into the relationship between ITO and BIA. The main research question of the study is: What is the effect of IT outsourcing on the business and IT alignment of companies that have outsourced their IT?

This article is organized as follows. The next paragraph will explore relevant literature on the main concepts of the study and their relationship. From this literature we derived the models to operationalize the concepts of ITO and BIA. Based on these models we analyzed four ITO cases. These case studies are reported in the following sections. The article concludes with our observations on the relationship between ITO and BIA, based upon comparison of the case studies.

2. Literature and concepts

This section will review the literature on the two main concepts of the study, ITO and BIA, and their relationship.

2.1. Business and IT alignment

Despite of the apparent importance of aligning IT and business, the majority of publications are rather vague in terms of how to define or practice alignment (Maes et al., 2000). An influential conceptualization of business and IT alignment (BIA) is that of Henderson and Venkatraman (1993). Their 'Strategic Alignment Model', describes BIA along two dimensions. The first dimension, strategic fit, differentiates between external focus, directed towards the business environment, and internal focus, directed towards administrative structures. The second dimension, functional integration, distinguishes between business and IT. Altogether, the model defines four domains that need to be aligned with each other: Business Strategy, IT Strategy, Organization Infrastructure & Processes, and IT Infrastructure & Processes. Each of these domains has its constituent components: scope, competencies, governance, infrastructure, processes and skills.

Alignment is a "complex phenomena" (Plazaola et al., 2006) that requires a multidimensional approach. Next to the organizational components identified in Henderson and Venkatraman's Strategic Alignment Model, alignment also requires human relationships (Keen, 1991), competencies (Basselier and Benbasat, 2007). and shared visions (Kaplan and Norton, 2004). This multidimensionality is illustrated Luftman's Strategic Alignment Maturity (confusingly also abbreviated as 'SAM') model (Luftman, 2000). Since its publication, the application of this SAM model has been reported by several authors (Ekstedt, et al, 2005; Luftman and Kempaiah, 2007; Luftman et al., 2008). In this study we therefore also adopted the SAM model as a framework for analyzing the potential impact of ITO on BIA. In this SAM model, six criteria are used to determine the maturity of the alignment of IT and business (Luftman, 2000). These six criteria are listed in table 1.

Table 1 BIA maturity variables of the SAM model; (derived from Luftman, 2000)

BIA maturity variable	Description
Communication	How well does the technical and business staff understand each other? Do they connect easily and frequently? Does the company communicate effectively with consultants, vendors and partners? Does it disseminate organizational learning internally?

Value measurement	How well does the company measure its own performance and the value of its projects? After projects are completed, do they evaluate what went right and what went wrong? Do they improve the internal processes so that the next project will be better?
Governance	Do the projects that are undertaken flow from an understanding of the business strategy? Do they support that strategy? Does the organization have transparency and accountability for outcomes of IT projects.
Partnership	To what extent have business and IT departments forged true partnerships based on mutual trust and sharing risks and rewards?
Scope & Architecture	To what extent has technology evolved to become more than just business support? How has it helped the business to grow, compete and profit?
Skills	Does the staff have the skills needed to be effective? How well does the technical staff understand business drivers and speak the language of the business? How well does the business staff understand relevant technology concepts?

Figure 1 provides an overview of the SAM model.

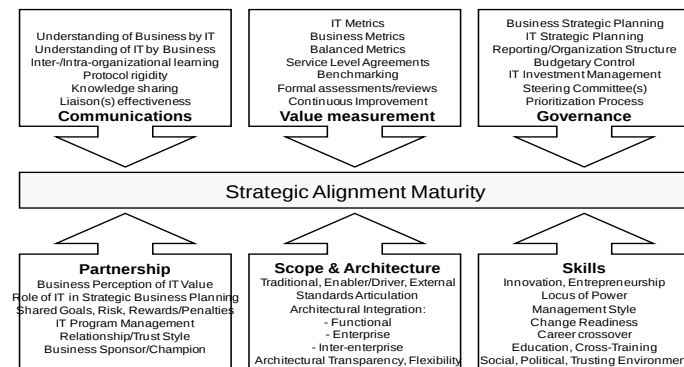


Figure 1. The Strategic Alignment Maturity model (Luftman, 2000)

In the concept of strategic alignment maturity, the level of maturity indicates an organization's capability to align IT to business needs. As in many maturity models, the SAM model recognizes five levels of maturity: 1. Initial / Ad Hoc Process; 2. Committed Process; 3. Established Focused Process; 4. Improved / Managed Process; 5. Optimized Process.

2.2. IT outsourcing

Earlier studies offer several definitions of ITO (for example Hu et al., 1997; Willcocks et al., 2000; Willcocks and Lacity, 2001; Fink, 2010). And while these definitions vary to some extent, they generally refer to an organization's decision to turn over the management of (part of) its IT resources and activities to one or more external IT providers (Fink, 2010). For our study we adopted the definition as provided by Willcocks et al. (2000): ITO is "a decision taken by an organization to contract-out or sell some or all of the organization's IT assets, people and/or activities to a third party vendor, who in return provides and manages the services for a certain time period and monetary fee".

The most commonly sourced services in ITO are IT infrastructure, application development and helpdesk outsourcing (Miozzo and Grimshaw, 2006). Many studies on ITO include the motivations for outsourcing. Cost savings are most named as main driver for ITO (Lacity et al., 2009; Pfannenstien and Tsai, 2004). Gurbaxani (1996) claims that ITO could be used for strategic purposes as well. They assert that outsourcing can be used for Information Systems improvement, business impact (for instance, improving business processes) and commercial exports. Quinn (1999) took the motivations for ITO to an even higher level, by concluding that outsourcing could help an organization to decrease its innovation cycle time and costs by 60% to 90%. However, Earl (1996) denied this view by stating that in order to innovate, an organization should possess slack resources, organic and organizational processes, and experimental or intra-preneurial competences, all of which are usually not provided by external suppliers.

Linked to the motivations for outsourcing, is the relationship between the requester of the services, the 'outsourcer', and the provider of the services, the 'service provider'. A familiar model to depict or develop this relationship is the eSourcing Capability Model (eSCM). This is a "best practice" capability model, which focuses on the capabilities of the service provider in an ITO relationship. The eSCM model offers a standard for these service providers to differentiate themselves from competitors (Hyder et al., 2010). However, an ITO relationship is logically developed by both sides of the contract, and not by just the service provider's side. A model that considers both sides of the ITO relationship is that of Gottschalk and Solli-Sæther (2006).

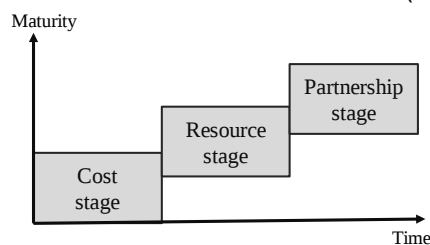


Figure 2. Maturity typology model for ITO relations (Gottschalk and Solli-Sæther, 2006)

This maturity model analyses the relationship through agency theory. The model identifies three stages or types of the ITO relationship, as is shown in Figure 2. The first stage in the Gottschalk and Solli-Sæther model is the Cost Stage. In this stage an organization's main motive to outsource is cost minimization (Gottschalk and Solli-Sæther, 2006). During this level there are a lot of contractual negotiations between the outsourcer and the service provider. From an agency theory perspective, one organization (the principal) engages another organization (the agent) to perform some service on its behalf. The most challenging aspect of this relationship for the agent is the delegation of some decision-making authority to the principal.

Once the organizations resolve the issues accompanying this Cost Stage, they can develop into the Resource Stage. In this stage, the main tenet is that a outsourcer has access to the service provider's resources. They in turn, could produce innovation for the outsourcer. However, in order this to occur, the outsourcer side should gain some insight about that how to manage resources that do not possess, namely the service providers' ones. On the other hand, the service provider is ought to understand the business its customer is in, so he will know what type of resources to offer him. Based on the success of these practices and service provider's possession of strategic resources, there is a substantial chance for the outsourcer to gain competitive advantage over its competitors. Additional aspect of this stage is the outsourcer's concentration on its internal resources. After outsourcing, the organization will have more resources and time to concentrate on its internal strengths and core competencies. This is another premise for the outsourcer side to create competitive edge over its rivals on the market.

Once the vendor secures a value proposition which works successfully in the outsourcer's organization, and when the outsourcer is able to concentrate on its core competencies, then the two parties can move up to the Partnership Stage. During the partnership stage the outsourcer and the service provider work together in order to achieve mutual goals. In order to reach these targets, the two companies should have already gained enough mutual trust, comfort and understanding (Hancox and Hacknet, 2000).

The Gottschalk and Solli-Sæther model appends with 11 benchmarks (Table 2). Each of these benchmarks can be perceived as a different dimension and correspond to a particular level of maturity of the relationship.

In our study we adopted the Gottschalk and Solli-Sæther model for the analysis of the ITO relationship. We converted the benchmarks to a set of attributes, which in turn were adapted to different questions. The answers of these questions provided insight in the current level of the relation between outsourcer and the service provider.

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Table 2 Benchmarks of the ITO Relationship (Source: Gottschalk and Solli-Sæther, 2006)

Benchmarks (BMK)	<i>Stage 1 Cost stage</i>	<i>Stage 2 Resource stage</i>	<i>Stage 3 Partnership stage</i>
BMK1 (economic benefits)	Cost minimization and operational efficiency	Business productivity Technology Innovation	Business benefits Mutual goals
BMK2 (primary transactions)	Infrastructure	Applications	Joint investments
BMK3 (contractual completeness)	Specified obligations	Key competence Critical projects Access to resources	Profit sharing Personnel exchanges
BMK4 (vendor behavior)	Service level agreements	Project performance Service quality	Strategy implementation
BMK5 (demarcation of labor)	Procurement	Innovation projects	Continuous innovation
BMK6 (core competence)	Client defines technology requirements	Vendor is regarded as a strategic resource	Co-developing business processes
BMK7 (vendor resource exploitation)	Excellent operations	Technology initiatives	Complementary capabilities, skills, competences and methods
BMK8 (alliance exploitation)	Account manager; IT manager	Operations manager Division manager	Business manager
BMK9 (relationship exploitation)	Interfirm information sharing	Joint planning	Relational norms
BMK10 (social exchange)	Low	Medium	High
BMK11 (stakeholder management)	Economic interests has priority	Recognizing a number of stakeholder groups	Balancing interests

2.3. The relationship between ITO and BIA

Chan and Reich (2007) analyzed over 150 articles and studies on BIA. Based on their bibliography, only a few articles connected the concepts of BIA and ITO. An early recognition of the relationship between BIA and ITO is suggested by Yetton (1994). The author sees the most important challenge of BIA as balancing between achieving IT cost effectiveness, and achieving business driven added value. In this valance, ITO could contribute to alignment by delivering cost effective IT services. In another early study, Dutta (1996) analyses a dual case study of two banks: one engaged in ITO, the other one not. Based on this study, the author found that outsourcing does not change the fundamental issues of IT management. In the case studies, the

outsourced IT was as successful as the internal IT group. More important, however, is the author's conclusion, that the physical IT may be outsourced, but the management of that IT cannot be outsourced. And that, regardless of outsourcing or not, active participation of management is vital.

In a study into BIA in 183 banks, Pollalis (2003) concludes that ITO could affect performance positively as long as the organization's IT is well aligned to its business requirements. This would suggest that well aligned organizations benefit from ITO, but that in organizations with a low level of BIA, ITO does not contribute to alignment. In another study, Tallon (2003) concludes that alignment in organizations can benefit from ITO for example when outsourcing of legacy systems frees up scarce IT capacity that can be redeployed in the development of new systems. Thorogood et al. (2003) showed in a case study on a publicly owned water company, that outsourcing can also benefit BIA by providing skills that were formerly not available to the outsourcer company.

However, also more critical conclusions can be found. Beimborn et al. (2006) argue that ITO has a negative effect on BIA, because of the related loss of core IT competences of the outsourcer. This view is supported by Lacity et al. (1996) who also claim that ITO causes an organization to lose alignment between its IT and business strategy.

Because of these conflicting conclusions, we adopted both a positive and the negative hypothesis in this study:

H1: ITO has a positive effect on BIA and H2: ITO has a negative effect on BIA

Potential explanations for the conflicting results of earlier studies may be the influence of contextual factors. For example, Pollialis (2003) and Beimborn et al. (2006), analyzed companies only from the bank industry. Also it should be mentioned that some of the studies mentioned are also considerably older than the other studies. Since the IT industry is such a dynamic sector, the results of the study could reflect the situation in that time frame.

3. Research design

3.1. Conceptual model

Based on the concepts adopted from the literature, we can now specify the research question of the study: What is the relationship between the ITO relationship, according to the Gottschalk and Solli-Sæther model (2006), and BIA maturity, according to the strategic alignment maturity model of Luftman (2000) in companies that have outsourced their IT for at least two years?

The Figure below (Figure 3) visualizes the conceptual model of the study.

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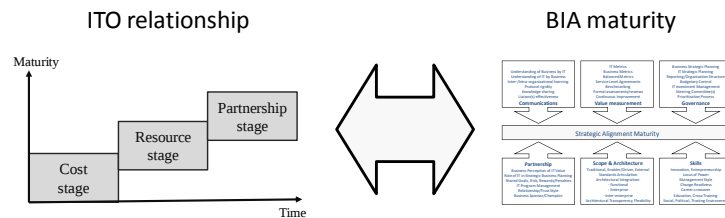


Figure 3. Conceptual model of the study

The prerequisite that the ITO relationship should be in place at least two years is based on Lacity and Willcocks (1995), that found that an organization should use ITO for at least two years before it experiences any effect on the organizational internal processes.

3.2. Research approach

Given the conflicting results of earlier studies, and the potential influence of the context on the relationship of BIA and ITO, we selected a case study approach for the empirical part of our study. The cases allowed us to study the concepts of ITO, BIA and their relationship in the context of a outsourcer – service provider relationship. In order to cover the diversity of ITO relationships, the cases were selected to reflect this diversity. Table 3 provides an overview of the studies.

Table 3. Overview of the case studies.

	Case A	Case B	Case C	Case D
Outsourcer	Leading Dutch energy provider	Leading Dutch bank	Large publishing company	Leading gas trading company
Number of employees	>10,000	>10,000	1,000 - 2,500	200
Number of staff interviewed	5	4	1	4
Service provider	Worldwide provider of outsourcing, IT and consulting services	Leading Dutch IT services and consultancy company + Large IT services provider in India	Leading Dutch IT services provider	Worldwide provider of outsourcing, IT and consulting services
Number of employees	>10,000	5,000 + >10,000	5,000 - 10,000	>10,000
Number of staff interviewed	3	2	2	2
ITO contract since	2008	2007	2007	2008
Main focus of the ITO contract	IT Infrastructure services	Development of business applications	IT Infrastructure services	Maintenance of business applications

The data collection strategy was based on semi structured interviews and documentation review. For the assessment of the ITO relationship, the structure of the interviews was derived from the earlier described Gottschalk and Solli-Sæther ITO relationship model (2006). For the assessment of BIA maturity, Luftman's SAM model (Luftman, 2000) was used. The assessments followed the process suggested by Ekstedt et al. (2005) in which the assessments were not limited to the executive levels, but also lower levels

were included. The study was conducted in the Netherlands in the spring of 2010.

4. Findings

This section of the article will report the findings from the four case studies we conducted. The case descriptions are structured as follows. Firstly, an overview of the ITO contract between the two organizations will be given, followed by the analysis of the ITO relationship. Next, the outsourcer's BIA maturity will be reported. We will conclude each of the case studies with specific remarks derived from the case.

4.1. Case A

The contract between the two parties was signed in 2008. The main focus of the contract is hosting the outsourcer's applications and maintaining the infrastructure from the outsourcer's premises to the service provider's data centers. As the majority of interviewees indicated, the main focus of the contract is to decrease the costs related to the outsourced IT operations.

The relationship between the two parties started with rather a frenzy, due to the outsourcer's rapid switch from its old service provider to the service provider in the case. Owing to this change on short notice, the new ITO service provider had to transfer more than 400 applications from the old ITO service provider's data centers to its own ones in less than 8 months. As could be expected, this caused some issues at the service provider and he was not able to deliver up to expectation. On the other hand, one of the service delivery managers from the service provider claimed that the outsourcer did not help them resolve this issue, because the outsourcer himself had problems to 'let go' of responsibilities. The situation gradually improved, but still mutual trust is low.

Also influencing the 'bumpy' start of the ITO relationship was the organizational unrest that arose from new government regulations, the Dutch Independent Grid Management Act, that requires the outsourcer to separate their grid management activities from their transaction and supplies business.

Additional reason for the relatively low level of mutual trust is the perceived lack of proactive behavior from the service provider. According to all of the interviewees from the outsourcer, the service provider does not offer them enough new or improved services and solutions. This lack of proactive behavior is depicted by the fact that the service provider does not offer any additional services to its customer, that are outside the scope of the contract. According to Raghuram (2006), if exemplified by the service provider, the proactive behavior could facilitate closing the cultural gap between the two parties, and help a better understand the actual needs of the outsourcer. Another reason for the less proactive behavior of the service provider, may be

the lack of direct contact between the outsourcer's end-users and the service provider. According to Lee and Kim (1999), this direct contact is one of the determinants influencing the partnership quality between an outsourcer and a service provider.

The outsourcer assessed the ITO relationship between the organizations as Cost Stage 'orientated'. According to the service provider, the two companies are already on higher level of relationship, at least oriented towards the 'Resource Stage'. An aspect that contributes to the relatively low level of ITO relation may be the inability to resolve the agency problem between the two organizations. According to Gottschalk and Solli-Sæther (2006), in such a case the outsourcer still will have some issues in relying to its service provider that the latter will be able to deliver all the services which were already agreed upon. Another factor influencing the relationship is probably the outsourcer's main motive for ITO: cost reduction. As Gottschalk and Solli-Sæther (2006) claim, an organization engaged in ITO just for the cost reduction opportunity, will not achieve a high level of partnership with its service provider. For example by evaluating the performance of the service provider through rigorous service level agreements, instead of a broader assessment of the overall quality of the services.

As Figure 4 shows, the overall BIA maturity of outsourcer A is around 2.5, to be specific: 2.7. Unfortunately in this case it was not possible to get separate assessments, ex-ante and an ex-post the ITO contract.

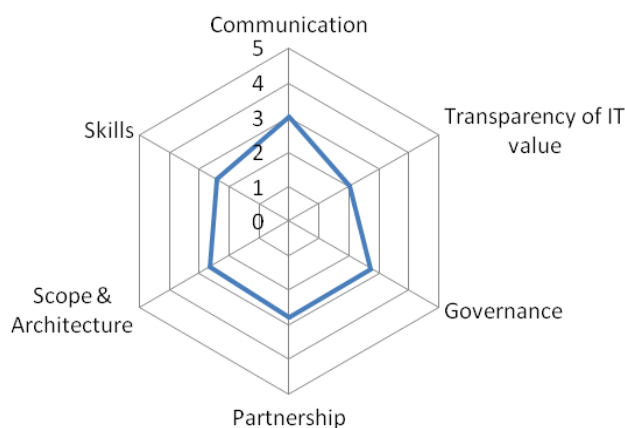


Figure 4. The BIA maturity score of outsourcer A

According to Luftman and Kempaiah (2007), most of the companies today are on the second level of BIA maturity, similarly to outsourcer. In this case, the Communication criteria is level 3, implying that there is relatively good understanding between the business and IT sides of the business. On the other hand, the Transparency of IT value is level 2, suggesting that outsourcer

perceives the organization's IT as cost centre. In regards to the Governance criteria, the organization is almost level 3, suggesting that some inter-organizational planning is being conducted in regards to IT. However, in this case IT is still considered as cost centre. Considering the Partnership criteria, this criterion is assessed closely to level 3, suggesting that IT is considered as an asset and business enabler, supporting the organization's key operations. In terms of Scope & Architecture, the organization was assessed as level 3, implying that IT is still not fully integrated. The last criterion, Skills is assessed as somewhere between level 2 and level 3. This implies that outsourcer's IT management is results based. However, the innovation and locus of power related to IT is still entirely dependent upon the organizational functions, instead of IT managers themselves.

From case A we derived the following conclusions.

- If from the outset, the relation between an outsourcer and ITO service provider is marked by dynamic and unpredictable events, there is a high chance the overall relationship between the two parties to be affected.
- If one of the companies in the relationship is overwhelmed by internal changes and reconstructions, there is a high probability the partnership between the two parties to be rather basic.
- The outsourcer expects proactive behaviour from its service provider, also at the 'Cost stage' of the ITO relationship.
- The service provider expects the outsourcer will give it some freedom to execute the tasks and determine which the best solution is for the outsourcer in a particular situation.
- The service provider values the relation between the two parties on a higher level in comparison with the outsourcer.
- ITO does not have a negative effect on BIA.

4.2. Case B

The outsourcing contract is focusing on development of business applications. The contract is quite substantial and has a duration of seven years. The IT service provider selected is a combination of Dutch organization (acting as principal) and a large IT services provider in India. The objectives behind the contract are knowledge retention, business continuity and the desire to create a stable and safe working environment for the system developers of the bank. As a result of the contract a few hundred employees of the outsourcer changed employment to the service provider. Cost were not mentioned as an important argument for outsourcing, but the contract is based on a business case and increased productivity of systems development is also reported as one of the goals.

The interviewees at the bank positioned the ITO relationship with the service provider at the Resource Stage. At the service provider side, the relationship was positioned also at Resource Stage, but a little bit higher,

oriented towards the Partnership stage. Bank and service provider work closely together in the demand – supply organization that has been set up to manage the contract. The provider understands the business objectives of the outsourcer and is perceived as proactive, taking initiatives that are beneficial for the outsourcer. Projects are agreed upon on the basis of open calculations. Service provider's performance is monitored and audited on a regular basis. There is a mutual drive to improve performance and to create best practices, but one of the interviewees at the bank also reports that there are constant negotiations. Overall, parties trust each other mutually and realize that together they can achieve better results and share the risks.

There are a number of factors that can explain this positive relationship. One possible explanation is that there has been an exchange of employees on both sides. Not only did the service provider employ former employees of the outsourcer, but also the outsourcer employed some consultants that formerly worked for the service provider. This helps the two companies to gain mutual understanding about their operations, strategies and corporate cultures. Another factor in the relatively high level of ITO relationship may be the motivation of outsourcer. One of the main motives for the bank to outsource is to have access to the service provider's resources and knowledge, which in turn are supposed to improve outsourcer B's business productivity and innovativeness. These goals also justified outsourcer's choice for this service provider.

Another factor in high level of collaboration between the two companies is the proactive approach the service provider has taken in this relationship. According to one of the interviewees at the bank, the service provider already helped the outsourcer a couple of times to find commercial feasibility for new ideas and innovative projects, although this was outside the scope of the contract.

The bank reports a quite high BIA maturity level of 3.4. Notwithstanding the relatively high maturity scores, the service provider reports that he feels excluded from the business and IT alignment processes and mechanisms. And because the provider isn't in direct contact with the business side decision making, he assessed the BIA maturity of the outsourcer somewhat lower.

In this case, some interviewees were able to give an assessment of the BIA maturity before the establishment of the ITO relationship and after (as illustrated in Figure 5). The ex-post scores are equal to or slightly higher than the ex-ante scores. The interviewees reported that ITO especially helped them to improve the transparency of IT value to the organization. On this variable, the maturity level increased from level 2.7 to level 3.4. According to the interviewees, this improved BIA maturity resulted in smoother discussions between the business and IT regarding priorities and allocation of IT resources and enhanced the IT skills set within the organization. These findings support the conclusions of Tallon (2003) and Pollialis (2003), that ITO has a positive effect on BIA.

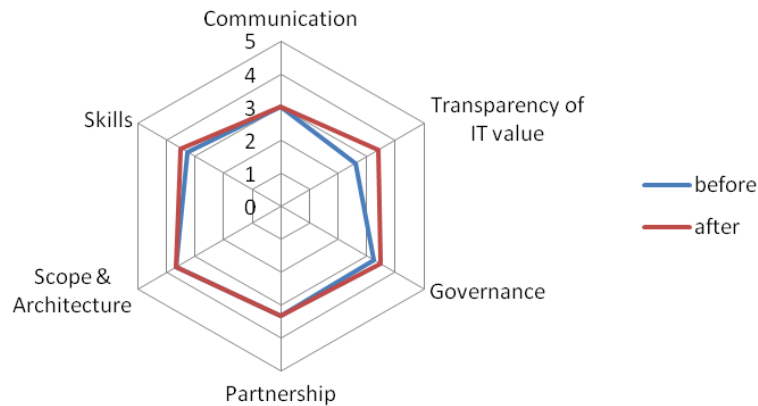


Figure 5. The BIA maturity score of outsourcer B

Notwithstanding the very positive ITO relationship, the outsourcer and the service provider still face some serious challenges. A first challenge is that the service provider is not financially compensated for being proactive. As a result, the service provider is logically 'pushed back' in a dependent role and cannot speed up the innovation process. A second concern is research and best practice information. The bank in fact expects the service provider to provide research and best practice information on innovative trends in the banking industry. And although the service provider has a few other contracts in the banking sector, they are working mainly on operational projects and tasks that so not provide a basis for innovation. A third concern is that the outsourcer evaluates personal trust on a much lower level than (1 on scale 1-3) than the service provider (3). This confirms the relation between both parties is not in the partnership stage yet. There is still room for further growth.

From this case we derived the following conclusions.

- In this case study we found that innovation can be one of the objectives in an outsourcing relationship
- Outsourcer and provider position their relationship at different maturity levels: the provider has a more optimistic view of the maturity level. The same is true for the level of personal trust.
- BIA maturity increased slightly after the outsourcing contract was closed. This supports for the hypothesis that outsourcing has a positive effect on alignment.
- Expectations regarding the contribution of the service provider to BIA and innovation, are mostly met. However, there are issues regarding what is included in the ITO contract and what not .

4.3. Case C

The contract between the two companies started three years ago. The main focus of the relationship is outsourcing of the IT infrastructure of the outsourcer, and most particularly managing of the outsourcer's workstations.

A specific circumstance to this case is provided by the fact that the service provider was recently acquired by the largest telecommunication company in the Netherlands. Owing to this event, the service provider had to undertake a number of restructures, in order to align with the corporate culture of the new owner. However, also the outsourcer was in flux. The outsourcer altered its IT governance structure from decentralized to centralized. As a result of the reshuffle, the business side of the outsourcer did not have a direct access to the IT departments. Another specific circumstance is that the outsourcer capitalizes on multi-vendor sourcing. According to the outsourcer's managers, sometimes it is rather challenging to manage various service providers, because in case of fault in the IT system, none of them takes the responsibility for the defect.

The service provider perceived the ITO relationship as Resource Stage. However, according to the Outsourcer's managers, the relation between the two companies should be considered at Cost Stage. There are number of reasons for this substantial difference in the perception of the relationship. First of all, according to the outsourcer, the relationship with the service provider is mainly concentrated on reduction of costs. Contrarily to this viewpoint, the service provider conceives the relationship as a joint venture between themselves and the outsourcer, for reaching mutual business goals benefits. Another point of difference between the outsourcer and the ITO provider is the way the service provider's performance is managed. According to the outsourcer, the service provider's performance is managed through various SLAs. The service provider, however, reckons his performance is assessed through an assessment of the overall service quality. In addition, the service provider claimed that the outsourcer uses its resources in order to obtain a set of capabilities and competences. The outsourcer considers the service provider as a means to securing excellent operations. The last point which contributes to the difference of opinions between the two parties is the overall way they look at their contractual relationship. According to Outsourcer C, the most important aspect of this relationship is the economic benefits which the organization would obtain. Nonetheless, The service provider claims that he recognizes the importance of both economic and social values which could be derived from the relationship.

Similarly to the first case study, the outsourcer complains about the service provider's lack of pro activeness and lack of knowledge about the business of outsourcer C. An example that was mentioned was the outsourcer's request for a new infrastructure. Instead of providing a business proposition for outsourcer, the service provider started asking questions about the technical requirements. These questions caused friction because the expectations were differing. Such events deteriorated the trust in the service provider's capabilities. Another aspect that deteriorated the development of the

relationship between the two parties is the lack of personal ‘chemistry’ between the outsourcer’s business managers and those working for the ITO provider. According to the interviewees, this lack of personal relation refrained the business managers from directly communicating their needs to the service provider, an aspect which could have helped for the progress of the ITO relationship

According to the interviewees of the outsourcer, it appears that the organization holds BIA of almost 3 (2.9, to be specific). This is also evident by Figure 6 shown bellow. According to Luftman and Kempaiah (2007), this is a relatively high level of BIA. However, in this particular case, the high level of BIA was not (just) achieved by the incorporation of ITO, but was also influenced by the corporate restructure described above.

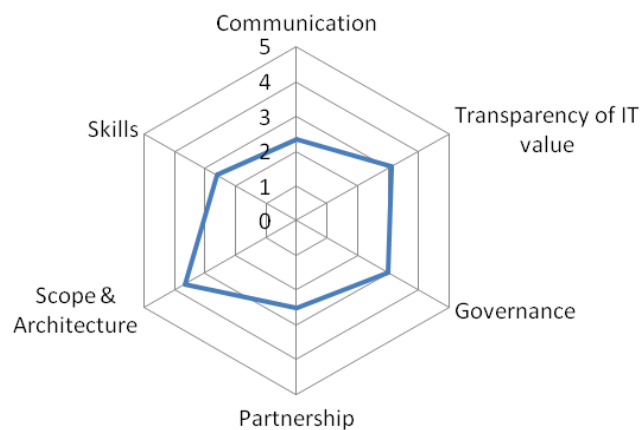


Figure 6. The BIA maturity score of outsourcer C

Based on this case, the following conclusions could be drawn:

- In this case, ITO had a positive effect on the Scope & Architecture maturity.
- Multi-vendor complicates an ITO relationship.
- Corporate restructures, both from the service provider and the outsourcer’s side complicates the ITO relationship.
- The ITO relationship will have better perspectives for development if the business managers of the outsourcer side have a direct contact with the service provider.
- Outsourcers expect more proactive behavior from its service provider.
- ITO providers rank the ITO relationship on a higher level, in comparison with the outsourcers.
- Trust is essential for the well-being of the ITO relationship between two parties.

4.4. Case D

The outsourcer in this case, a gas trading company, achieved revenues of €18 billion in the most recent fiscal year. This significant turnover was achieved by just 200 employees of the company, creating a culture that was very much revenue oriented and less IT cost oriented. The company spent only €15 million on its IT budget and less than 10% of this budget was allocated to ITO.

The contractual relationship between the two companies began in 2008. The main focus of the contract is maintenance of the business applications.

The interviewees from the outsourcer consider the relationship as between Cost Stage and Resource Stage. Similarly to the other three cases, the interviewees from the service provider assessed the relation on a higher level, namely at Resource Stage. In comparison with Case A and Case C, this relationship could be considered as relatively more progressed. One of the reasons for this observation is the observation that the outsourcer already recognized the added value of the service provider's capabilities and skills. Another factor that contributes to the higher level of ITO relationship is the higher responsibility which is assigned to the service provider. Maintaining business applications can be considered more business oriented and therefore more complex than providing IT infrastructure services. Another argument supporting this level of relationship is the fact that the two companies capitalize on joint planning of their activities.

Despite of the relative high level of the ITO relationship, the outsourcer again considers the service provider not proactive enough. However, the same respondent admitted that the outsourcer also did not challenge the service provider enough in these regards.

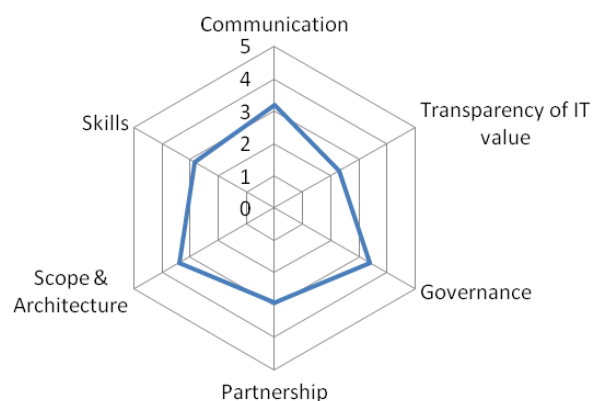


Figure 7. The BIA maturity score of outsourcer D

In this case, the ITO collaboration between these two parties resulted in a BIA maturity score of the outsourcer of level 3 (Figure 7).

Compared to cases A and C, this result again supports Tallon's (2003) and Pollialis' (2003) viewpoint that ITO has a positive effect on BIA.

From this case we derived the following conclusions.

- The ITO relationship resulted in relative high scores on Governance and Scope & Architecture maturity.
- The more responsibilities an ITO provider is assigned, the higher level of partnership between the two parties will be.
- The service provider always perceives the level of relationship with its customer on a higher level, in comparison with the outsourcer itself.
- The outsourcer is the leading party in a partnership which determines whether innovation will be attained from the collaboration with its service provider.
- If an ITO provider wants to offer innovations to its customer, it has to be more proactive.

5. Analysis

5.1. BIA maturity

Table 4 summarizes the results of the BIA maturity assessments of the outsourcers in the four cases.

Table 4. BIA maturity scores of the outsourcers in the four cases

	<i>Communi- cations maturity</i>	<i>Value measurement maturity</i>	<i>Governance maturity</i>	<i>Partnership maturity</i>	<i>Scope & Architecture maturity</i>	<i>Skills maturity</i>	<i>Overall maturity</i>
Outsourcer A	3,0	2,0	2,8	2,9	2,7	2,5	2,7
Outsourcer B	3,0	3,4	3,5	3,3	3,7	3,6	3,4
Outsourcer C	2,4	3,1	3,0	2,6	3,7	2,7	2,9
Outsourcer D	3,2	2,3	3,4	3,0	3,3	2,9	3,0
	2,9	2,7	3,2	3,0	3,4	2,9	3,0

The scores of the BIA assessments of the outsourcers in the four cases reveals an interesting point. The overall maturity scores are in line with the scores reported by Luftman and Kempaiah (2007), but the distribution of the score over the variables follows a remarkable pattern. Consistent over the four cases is a high (higher than the overall score per case) score on the variables Governance maturity and Scope & Architecture maturity. And although the four case studies do not provide ground for statistical analysis, this pattern appears to be different from Luftman and Kempaiah (2007) who suggest that all variables should be developed more or less equally. This could indicate that ITO has a positive effect on the Governance maturity and Scope & Architecture maturity of BIA.

Also consistently, the variable Skills scores lower than the overall maturity in the individual cases. This is perhaps even more surprising, because Thorogood et al. (2003) identified improved skills as one of the aspects of alignment on which ITO could help. On the other hand, this result is in line with Beimborn et al. (2006), that argued that ITO caused a loss of core IT competences of the outsourcer.

5.2. ITO relationship

Bases on the reports of the four case studies, the ITO relationships can be clustered in two groups. We could tag the case studies A and C as the Cost Stage group, and the cases B and D as the Resource Stage group.

There are certain similarities between the companies and the contracts of the companies in this cluster. For the Cost Stage Group these are:

- The main focus of the ITO relationship is simply IT infrastructure outsourcing.
- The companies in the cluster have undertaken some internal corporate restructures, which most probably have affected the ITO relationship.
- The client companies had some complaints about the quality of the service provided by the Service Providers.

The Resource Stage Group, has the following traits:

- The ITO relationship is concentrated on business applications.
- The corporate environment was not as dynamic as with the first two companies, which most probably has fostered the better development of the ITO relationship.
- The interviewed clients were rather satisfied with the quality offered by their service providers.
- The outsourcers in this group showed a BIA maturity slightly higher than the companies in the Cost Stage Group.

Even though the companies in the Resource Stage Group showed rather similar characteristics, there are certain aspects in which there are significant differences:

- The main goal of service provider B was to develop business applications, whereas service provider D's role was directed towards the maintenance of business applications.
- In case study B, innovation was an explicit part of the contract, whereas in the other cases, innovation was not present in the terms of the contract.

5.3. Reflection on the initial hypothesis

The hypothesis of our study were two-fold:

H1: ITO has a positive effect on BIA and H2: ITO has a negative effect on BIA.

From the cases it appears that the outsourcers in case study B and D achieved a 'higher' level of ITO relationship in comparison with the companies from case study A and C. From table 3 it shows that also regarding BIA maturity, the outsourcers in the cases B and D show higher scores than the outsourcers in the cases A and C, although the difference between case D and case C may be immaterial. Within the limitations of the limited number of cases we studied, these findings provide support for the hypothesis that ITO has a positive effect on BIA (H1). This conclusion is in line with the findings of Tallon (2003) and Pollalis (2003). More interesting, however, is the analysis of how ITO benefits alignment.

In all cases, the scores on Governance maturity and Scope & Architecture maturity were remarkably high, and the scores on Skills maturity remarkably low. This indicates that outsourcing, in all its forms, enables organizations to strengthen their governance of IT. Interestingly enough, this effect does not appear in studies on the motivations for ITO (Lacity et al., 2009). The positive effect on Scope & Architecture relates to the "access to leading edge technology" and "ability to adapt to change" (Lacity et al., 2009) motivations for ITO. The low scores our study found on Skills maturity show that one of the strongest motivations for ITO found in earlier studies, "Access to expertise/skills" (Lacity et al., 2009), may actually not appear.

The one case that could provide an ex-ante and an ex-post assessment of BIA maturity showed a strong increase in Value measurement maturity, but this pattern was not consistent in the four cases. Also the effect on the variables Partnership maturity and Communications maturity did not appear consistently in all cases and thus do not provide an indication for the effect of ITO on BIA.

5.4. Reflection on the ITO relationship model

In the course of the case studies, it appeared to us that the ITO model as presented by Gottschalk and Solli-Sæther (2006) is too simplified to properly present the ITO relationship, especially if that relationship starts developing. The model provides a distinct typology, but reality is more nuanced. It is for this reason that we propose a modified model, that includes four transition levels, to better exemplify the actual relationship between the two companies. All these new transition stages contain some of the characteristics of the levels preceding and/or succeeding them. Figure 8 presents this modified ITO relationship model.

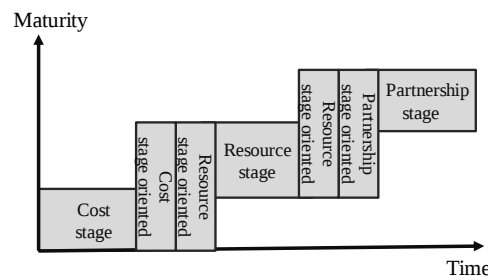


Figure 8. Modified maturity typology model for ITO relations

5.5. Further research

In this section of our article, we will offer a number of hypothesis based on the findings from the four case studies. We want to make it clear that due to the number of limited interviewees, these hypotheses are not statistically proven. However, given the explorative nature of our study, it is justified to provide some hypotheses that also suggest directions for further research.

H3: Service providers assess the level of the ITO relationship higher than the outsourcers do.

From the four case studies, we concluded that the service provider tends to see the relationship in a brighter light in comparison with the outsourcer. It is an hypothesis for further studies to test if this holds for ITO relationships in general. Moreover, it could be intriguing to discover what the motives for such evaluation of the relationship from the provider` side are.

H4. A proactive attitude and behaviour of the service provider has a positive effect on the level of the ITO relationship.

In the case studies, three out of the four outsourcers stated that their service providers are not proactive enough. In a sense, this could irritate the customer and deteriorate the relation between the two parties. It could be interesting, if a research with a broader scope is conducted looking at before (not proactive) and after (proactive) service providers` behavior and the effect on the ITO relationship.

H5. Involvement of IT end-users in the ITO relationship has a positive effect on the level of this relationship.

In the case study with the highest level of ITO relationship, case B, the business end-users had a direct contact with the service provider. This was not the case with case A and case C. Furthermore, one of the managers from outsourcer C confirmed that for the next negotiation of a contract with a service provider, business people should be included in the whole process.

H6. Innovation requires partnership.

In the case study analysis section became clear that outsourcer B was the most innovative in comparison with its counterparts. To a certain degree this success could be devoted to the efforts of its service provider. However, as the examination indicated, the outsourcer itself sustains innovative spirit within the firm and constantly challenges its service provider to offer it innovative ideas. This implies that in order for an outsourcer to be innovative, it should not only have a good service provider, but also constantly demand new ideas and services from its service provider.

H7. Service providers that employ former employees of the outsourcers, or vice versa, achieve a higher level of ITO relationship.

In case B, the outsourcer employed some consultants from service provider B, which helped the two companies to gain better mutual understanding and attain the highest level of ITO relationship from the four case studies in the study. In case D we saw the reversed situation, service provider D hired some ex-workers of the outsourcer, but with similar positive effect on the ITO relationship. It would be interesting if this holds true for other cases and what the precise details for such an occurrence.

H8. The monetary value of the ITO contract has a positive effect on the ITO relationship.

When we compared the value of the ITO contracts of the four case studies, the worth of the contract of case B, €350 million, stuck out. This figure is much higher in comparison with the value of the other three cases. Also the level of ITO relationship between the parties in case B is much higher in comparison with the rest of the cases. It would be an interesting study to find out if this holds in general.

H9. Corporate restructures deteriorate ITO relationships.

Cases A and C showed that in case of a corporate restructure, either on the side of the outsourcer or on the side of the service provider, the ITO relationship suffered. These corporate dynamics do not seem to be addressed in the existing models and theory on ITO relationships, but the frequent turbulence of the IT industry make these dynamics a very realistic factor of influence.

We suggest that these hypothesis provide direction for further research into the relationship between ITO and BIA.

6. Conclusion

This article reported a qualitative study into the relationship between IT outsourcing and business and IT alignment. The study provided indications that ITO indeed influences BIA and that this effect in general is positive. The indicators came from both the comparison of the cases and from one case in

which the engagement in the ITO was explicitly reported to have had a positive effect on the BIA maturity of the outsourcer.

The cases also provided indication that ITO influences BIA maturity most positively on the variables Governance and Scope & Architecture, The effect on the variable Skills appeared to be negative, thereby confirming the earlier results of Beimborn et al. (2006).

The study showed a distinct difference in the cases, where two cases combined a Cost Stage ITO relationship with a IT infrastructure focus and a cost saving motivation from the outsourcer and the other two cases combined an ITO relationship that was more developed towards Resource Stage with a business applications focus and a combined cost saving, resources and IT capabilities motivation. The outsourcer's motivation for ITO may therefore have a strong influence on both the domain of the ITO and the ITO relationship. In the study, a more developed ITO relationship also corresponded with a higher level of BIA maturity at the outsourcer.

The study also provided some general insights into the ITO relationship. In two cases, the ITO relationship was influenced by organizational turbulence on one or either side of the relationship. This effect is in itself not surprising, but the organizational dynamics within companies is hardly covered in the maturity or development models in this domain. Another conclusion from the cases was that the service providers tend to assess the ITO relationship on a higher level than the outsourcers. The outsourcer in general also consider the service provider less proactive than desired.

These conclusions provide relevant directions for both outsourcers and service providers for improvement of the ITO relationship.

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