

# **Monitoring Contract Performance in Electronic Services**

## **ERIM Ph.D. project proposal 2002**

### **1. Supervisor(s)**

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### **2. Title of the research project**

Monitoring Contract Performance in Electronic Services

### **3. Summary of Research Problem and Research Questions**

#### **4. Description of the Research Project**

Information technology infrastructure and services are increasingly outsourced to specialist third party service providers. Organisations (the principals) outsourcing these services manage their relationship with the service provider (the providers) through legal agreements specifying the contractual arrangement and the service levels agreements. Assuming that good relationships are based on contract performance, monitoring for performance under the terms of the contract is essential for effective management control. The subject of service level management includes bargaining and negotiating through formal legal instruments (e.g. the contract and service level agreements), built-in economic incentives for performance through transfer pricing, performance monitoring, and arbitration/enforcement mechanisms in cases of disputes. This research collects empirical evidence on how organizations outsourcing services monitor for contract performance and enforce the terms of the contract. The purpose of such empirical study is to gather further insight into the sources of monitoring and enforcement costs in electronic services. It investigates whether the lack of trust in third party providers and escalating costs in outsourcing arrangements can be explained through elucidation of these previously hidden or unaccounted costs.

#### *4.1 Research Problems and Questions*

Contract execution and Service level management (SLM) is the subject of budding area in consultancy and software tools codified in industry standards and management best practice (ITIL and BS15000). Evidence that SLM is an area of budding commercial activity indicates the inadequacies of what was previously

believed to be a straightforward outsourcing arrangement. This research collects empirical evidence on how organizations outsourcing services monitor for contract performance and enforce the terms of the contract. In particular, it seeks to identify through interviews with the principal, and analysis of the contract and Service Level Agreements the following research questions:

- 1) What are the control mechanisms used by the principal to ensure third party provider performance and what are the associated costs of doing so (or not doing so)?
- 2) Are economic incentives for ensuring performance effective considering the actual cases of transfer pricing? What incentives are used when service levels surpass the agreed service levels and fines for underperforming?
- 3) What are the indicators of performance, how are they measured and monitored by the principal? What are the costs involved?
- 4) What are the costs associated with resolving disputes and exiting from a contract with an underperforming provider?

#### *4.2 Scientific Contribution*

In contrast to traditional management research on management control systems, the control of market-based service providers require new mechanisms to monitor for performance. Kern, et al (2001) describes the importance of relationship management in addition to contract management and performance reviews. However, they also stress the importance of careful planning and subsequent enforcement to “minimize subsequent relational difficulties” (Kern and Willcocks, 2001). This research will contribute to our understanding of the economic mechanisms for monitoring performance. Research into the economic costs in monitoring for performance puts management back in control. This research will contribute to our understanding of the sources of such monitoring and enforcement costs, and the impact of these costs on effective management control.

#### *4.3 Research Methodology*

Although there are challenges to obtaining access to commercial service contracts and service level agreements, the rewards for building such a collection of agreements are substantial. The agreements provide immense detail on the monitoring of performance and actions that be taken in circumstances of underperformance. The analysis of such agreements provide compelling evidence about commercial relationships that cannot be refuted easily. A possible source of such investigations is through collaboration with auditing firms that already have extensive experience in settling disputes between principals and their providers. The research would then involve the study of such contracts and case studies on organizations that have extensive experience in contracting for electronic services.

#### *4.4 Literature*

Milgrom, P, and J. Roberts, “Economics, Organisation and Management”  
 Kern et al, (2001) ASP Market-space report 2001, CMG Report  
 Kern, T, L. Willcocks (2001) “The Relationship Advantage”  
 IT Infrastructure Library, ITIL IT Service Management Library  
 British Standard Institute, BS 15000, The Service Management Standard  
 Nextslm.org, Service Level Management – Global Survey 2001

#### *4.5 Collaboration with other research groups*

The candidate is expected to work closely with other members of the team, particularly those members working on related AIO proposals. The candidate is also expected to work with ERIM and ECE members working on similar topics.

#### *4.6 Potential Publications*

The results of this research are planned to be published as a doctoral dissertation; 2-3 journal articles, e.g. MIS Quarterly, Information Systems Research.

### **5. Research Plan**

#### *5.1 Year 1 -*

Literature review on contractual arrangements for IT outsourcing, service level management, and relationships. Identification of key issues in contract execution, monitoring for performance within the literature.

#### *5.2 Year 2-4*

Key issues identified in the literature review are used to describe a framework for monitoring contract performance. These constructs are used in examination of contracts and service level agreements. A framework is devised for measuring monitoring and enforcement costs. Collection and analysis of statistical data are used to complement the case studies in order to verify empirical findings. The results should show the relative costs in monitoring for contract performance.

### **6. Candidate Profile**

The candidate should preferably have background in economics, business or information systems. Interest and motivation in conducting scientific research is essential. Responsiveness to new ideas and techniques will be desirable.