The impact of ITIL (information technology infrastructure library) recommended practices on the IT outsourcing relationship

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**Recommended Citation**

Alojail, Mohammed; Rouse, Anne; and Corbitt, Brian, "The impact of ITIL (information technology infrastructure library) recommended practices on the IT outsourcing relationship" (2012). *ACIS 2012 Proceedings*. 3.

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The impact of ITIL (information technology infrastructure library) recommended practices on the IT outsourcing relationship

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Abstract
Over the last two decades, the outsourcing of IT services has become a popular topic for many IS researchers. Furthermore, managing IT services (both internally and externally provided) has become an emerging area for academic research, given the criticality of IT services in modern organizations. One of the better known IT service management frameworks is the Information Technology Infrastructure Library (ITIL) framework. While there are many claims made about the relationship between ITIL and IT outsourcing, these claims still need further empirical research. Using data gathered from a preliminary focus group, this study investigates how ITIL impacts recommended practices on the success of IT outsourcing arrangement.

Keywords
IT outsourcing, IT outsourcing relationship, ITIL, Service Level Agreements (SLAs)

INTRODUCTION
The practice of outsourcing IT services has been used by firms since the 1960s (Lacity et al. 1993). Since that time, outsourcing has experienced a number of changes (Lee et al 2004). Yet, to date, surprisingly little research has investigated the relationship between IT outsourcing and IT service management standards.

As might be expected, IT outsourcing (the use of external suppliers to provide IT services) has been formally defined in several ways. For example, Willcocks et al. described it as “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” (Willcocks et al. 1999; 286). Focusing on the service dimension, Goles & Chin (2005;49) have defined it as “contracting with one or more third party vendors for the provision of some or all of an organization’s IS functions, where “functions” include one or more IT activities, processes, or services to be provided over time”. Many of the definitions of IT outsourcing provided in the literature only apply to services that were performed in-house then turned over to someone else (i.e. a vendor). However, a large number of modern outsourcing deals involve services that were never in-house to start with, so these definitions lack precision. So, for this study, the researchers have formally defined IT outsourcing as “a contractual relationship where an external organisation takes on responsibility for performing all or part of a business process or function, to agreed performance criteria at an agreed price”. This definition would not include the use of contract staff or consultants working under the direct control of customers.

Although many firms outsource their IT, this not an easy task, nor is it guaranteed to lead to success. One factor that has been suggested as likely to increase success is following systematic quality management standards within the purchaser firm (Gancenga et al, 2010). Consequently, this paper investigates the impact of certain ITIL recommended practices on outsourcing outcomes, particularly the quality of the IT outsourcing relationship. Specifically, the paper studies how outsourced IT arrangements are influenced by ITIL processes that are recommended as being important for the success of an outsourced arrangement. ITIL, a service management standard, is discussed below.
Organisations generally adopt IT outsourcing in order to achieve some benefits such as cost saving, access to expertise or to attain better quality (Lacity et al. 2001; Loh et al. 1992a). It has been predicted that IT outsourcing will experience an ongoing growth within the next four years, in the range of 5-8% per annum (Lacity et al. 2010). Despite these optimistic growth predictions, IT outsourcing is generally considered the most complex outsourcing type, as IT is a critical in shaping and influencing most organizational processes (Kern et al. 2002). Wilcocks et al (1996) have indicated that the diversity of activities in IT, ambiguity gauging the cost of IT activities, and high switching costs reflect IT outsourcing’s distinctiveness from other services.

The last decade has seen a general reformulation, within the business literature, of internal support functions as “service providers”. As part of this trend, issues related to IT service management have received increasing attention in the Information Systems literature (Gacenga et al. 2010; McBride 2009). Iden (2009) observed that an IT department must shift attention from technological infrastructure to the IT services it provides. On the basis of several case studies, McBride (2009) echoed this, identifying a number of key IT service management problems within IT departments.

Gancenga et al (2010) have observed that in order to achieve cost savings, many organisations have invested in some form of systematic Information Technology Service Management (ITSM) framework in order to manage their services. Several frameworks exist, such as Control Objectives for Information and related Technology (COBIT); ISO 20000; and Information Technology Infrastructure Library (ITIL). In Australia, ITIL is probably the most frequently used framework (Cater-Steel et al. 2006).

The remainder of this paper is structured as follows. First, a background of ITIL is provided. Second a description of the research method is given. The focus group findings then suggest a number of ways that ITIL can positively affect the IT outsourcing relationship.

The Information Technology Infrastructure Library (ITIL) framework

The Information Technology Infrastructure Library (ITIL) is a ‘best practice’ framework for managing IT services, which can be adapted to any business environment. It was established at the end of the 1980s (Brenner 2006; Cervone 2008) by a British government service provider, Central Computer and Telecommunication Agency (CCTA). CCTA later became part of the Office of Government Commerce (OGC). The ITIL implementation framework is designed to produce a range of benefits for an organisation (Cater-Steel et al. 2006; ITSMF 2007). Examples of these potential benefits include:

- Increased user and customer satisfaction with IT services;
- Improved service availability, leading directly to increased business profits and revenue;
- Improved time to market for new products and services.

Over the last two decades, ITIL has been modified to ensure a more consolidated and straightforward framework (McLaughlin et al. 2007). ITIL has also gone through a number of revisions - the most recent revision being ITIL v3. Table 1.1 shows the development of ITIL. The initial version of ITIL included 31 incorporated volumes that cover all IT service provision aspects. In 2000, after a number of revisions the second version of ITIL was established with seven incorporated volumes.

The current version, ITIL v3, was developed in 2007 and contains five core volumes (or books), namely service strategy, service design, service transition, service operation and continual service improvement. Each outlines its own purpose; process; activity; and role. The ITIL framework focuses on different strategies for achieving high quality service, including a range of recommended techniques, methods, processes, activities and measurements.

Table 1.1: ITIL Framework History (itSMF, 2007)

<table>
<thead>
<tr>
<th>Framework</th>
<th>Years</th>
<th>No of volumes incorporated in the framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>ITIL</td>
<td>1989-1995</td>
<td>31</td>
</tr>
<tr>
<td>ITIL v2</td>
<td>2000-2004</td>
<td>7</td>
</tr>
<tr>
<td>ITIL v3</td>
<td>2007- now</td>
<td>5</td>
</tr>
</tbody>
</table>

These aspects can be adopted by service providers to ensure better quality IT service delivery and, as a result, achieve greater customers’ satisfaction. Also, customers can adopt some features and mechanisms of ITIL in order to better understand their responsibilities and attain their expectations, for example, the RACI model – this
model classifies the type of responsibility of players into four categories: responsible, accountable, consulted and informed. Cater-Steel et al (2006: 4) observed that “Australia is at the forefront of ITIL adoption”. As outlined above, IT service management is an emerging topic for academic research. Therefore, it is not surprising that there is, as yet, little academic research on ITIL adoption. Most studies to date have concentrated on likely benefits, or have reported descriptive statistics (Iden et al. 2010; Pollard et al. 2009). Even though several authors have discussed the ITIL implementation phenomenon, few empirical studies are yet available. Some exceptions do exist, though, listed in Table 1.2.

Few studies have to date examined ITIL implementation within an environment where much of the IT is outsourced, even though this is increasingly the situation in modern businesses. Some researchers propose that ITIL adoption will lead to an improved IT outsourcing relationship. Based on referencing a 2004 Enterprise Management Associates study of 48 IT managers regarding their ITIL adoption, Twing (2006) argued that ITIL implementation can benefit IT outsourcing relationships in many ways, such as aligning business process requirements with the outsourcing relationship structure. Similarly, on the basis of case study observations, Cheng (2006) reported that the adoption of ITIL in an outsourcing scenario can bring substantial benefits to both parties. These isolated cases, however, need to be supported with further empirical research, which this study intends to provide.

ITIL includes a number of recommended practices that are designed to ensure that better IT service quality is delivered to the business. According to Rouse (2009), ITIL is aimed largely at the operational and tactical level of IT governance. Although the ITIL framework has started to acknowledge that IT can be outsourced, it has not addressed in depth the growing dependence on external IT service vendors seen in many modern firms (Rouse 2009). Corresponding to the earlier discussion regarding the relationship between IT outsourcing and ITIL implementation, this study attempts to discover how ITIL implementation can assist the IT outsourcing relationship. To date a preliminary focus group has been conducted; this is the focus of this paper.

RESEARCH METHOD

The authors are engaged in a long-term study of the effects of ITIL recommended practices on outsourcing relationships. However, in this paper they report on one aspect of this study: the analysis of a small focus group of four IT Australian service managers during the first half of 2010. The focus group is a popular research approach in both IS research (Myers 2009) and managerial research (Iden 2009). The purpose of a focus group is not to reach an agreement, rather to observe a wide range of ideas or feelings that people have about phenomena (Kitzinger 1995; Myers 2009; Neuman 2011). Given this, the focus group allowed the researchers to get a practitioner view of the role of ITIL when IT is outsourced.

A focus group provides an opportunity for participants to explore their own experiences of phenomena with others. Morgan (1996) argues that the effective focus group structure is highly related to the degree of control by the moderator. He claims that two elements determined the group effectiveness. First, the relevance of questions asked to the topics discussed; second, how the participants’ interactions are managed. In this focus group, one of the authors, a doctoral candidate (Name to be supplied), was responsible for a number of issues such as preparing the group meeting, place, and questions, and for moderating the group.

The main themes explored in the focus group were:

• The level of experience participants had with IT outsourcing
• The level of experience participants had with ITIL
• The perceived relationship between IT outsourcing and ITIL, and in particular how, if at all, ITIL would affect the relationship between vendor and customer

Sampling method and unit of analysis

Participants in the focus group were, necessarily, selected opportunistically, rather than at random. According to Krueger and Casey (2009), the focus group is shaped when there is something in common among participants (i.e. homogeneity). Based on this principle the researchers sought out people who had a background in service management and IT outsourcing. To meet both criteria, IT service managers in IT operational groups in companies were selected, as they had the required experience in implementing service management standards. The unit of analysis in this research is the operational IT group.
Table 1.2: ITIL Empirical Studies

<table>
<thead>
<tr>
<th>Authors</th>
<th>Country</th>
<th>Research Method</th>
<th>Version</th>
<th>Main issues and findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Hochstein et al. 2005)</td>
<td>Germany</td>
<td>Case studies: Four large organisations</td>
<td>ITIL v2</td>
<td>Analyses ITIL on the basis of principles for orderly modelling; and analyses the resulting implications of using ITIL in company practice. The key finding is that the use of ITIL is cost effective.</td>
</tr>
<tr>
<td>(Potgieter et al. 2005)</td>
<td>South Africa</td>
<td>Case study: large service ICT governmental unit. Interviews and observations.</td>
<td>ITIL v2</td>
<td>The prime aim of the study was to ascertain if a direct correlation exists between customer satisfaction and the use of ITIL. A second aim was to investigate whether customer satisfaction is an indication of effective service provision. The authors concluded that increased use of the ITIL framework is likely to result in improvements to customer satisfaction and operational performance.</td>
</tr>
<tr>
<td>(Cater-Steel et al. 2005)</td>
<td>Australia</td>
<td>Survey-questionnaire</td>
<td>ITIL v2</td>
<td>This research established that many public sector organisations and private sector firms have adopted ITIL and are making substantial progress in implementing the framework. The factors identified as most critical to successful ITIL implementation were senior management commitment and an effective ITIL champion.</td>
</tr>
<tr>
<td>(Cater-Steel et al. 2006)</td>
<td>Australia</td>
<td>Qualitative Case studies (five large organizations - 2 universities, 2 large government departments and a commercial organization)</td>
<td>ITIL v2</td>
<td>The main finding was that several benefits were gained as a result of implementing the ITIL framework.</td>
</tr>
<tr>
<td>(Cater-Steel et al. 2007)</td>
<td>UK</td>
<td>Case study: interviews Large organisation - Bank</td>
<td>ITIL v2 and ISO/IEC 20000 Certification</td>
<td>This study mapped the success of the process using actor theory.</td>
</tr>
<tr>
<td>(McLaughlin et al. 2007)</td>
<td>US</td>
<td>Case study: Higher educational Colleges</td>
<td>ITIL v3</td>
<td>The authors found that involving key customers and IT personnel throughout the process is critical to success.</td>
</tr>
<tr>
<td>(Cater-Steel et al. 2008)</td>
<td>Australia</td>
<td>Survey: Large organisations representing both the public and private sectors</td>
<td>ITIL v2 and ITIL v3</td>
<td>Similar results to previous surveys in 2005, 2006, 2007). Study established that priority, using ITIL, has been given to implementing the service desk function, incident management and change management processes</td>
</tr>
<tr>
<td>(Sharifi et al. 2008)</td>
<td>Malaysia</td>
<td>Theoretical study: Present some drawbacks of implementing ITIL</td>
<td>ITIL v3</td>
<td>This theoretical study supports part of a PHD thesis that is ongoing. The results will be published later.</td>
</tr>
<tr>
<td>(Pollard et al. 2009)</td>
<td>US</td>
<td>Case studies: public and private organisations</td>
<td>ITIL v2</td>
<td>The authors studied the challenges and benefits of implementing ITIL</td>
</tr>
<tr>
<td>(Tan et al. 2009)</td>
<td>Australia</td>
<td>Exploratory Case study: Large government agency</td>
<td>ITIL v2</td>
<td>The paper discusses critical success factors for ITIL implementation</td>
</tr>
<tr>
<td>(Iden 2009)</td>
<td>Norway</td>
<td>Longitudinal Case Study</td>
<td>ITIL v2</td>
<td>Study investigated the implementation of incident and change management</td>
</tr>
<tr>
<td>(Iden et al. 2010)</td>
<td>Norway</td>
<td>Delphi study</td>
<td>ITIL v2</td>
<td>This paper validates the results of earlier studies, and provides additional knowledge about the factors that influence successful ITIL adoption.</td>
</tr>
</tbody>
</table>
Data gathering

Informants were four IT service managers who were already known to the School (name to be supplied). For validating the research’s findings, email communication between the interviewer and interviewees was maintained. The informants came together in a focus group that lasted approximately 90 minutes. All focus group’s responses were digitally recorded and transcribed. Initially, the recorded focus group interview was transcribed by the doctoral candidate. Then, the candidate listened to an audio recording and noted useful parts of the discussion to highlight relevant conversations (Krueger and Casey 2009).

Typically, a focus group include three to six key questions (Kreuger 1994). The three main questions provided to participants in this case that are based on the abovementioned themes. (all open-ended) were.

• How successful is the IT outsourcing arrangement in meeting its goals?
• Are you familiar with the ITIL framework?
• What roles do ITIL recommended practices play in managing your IT outsourcing arrangement? (Discussion was then focused on the impact of these practices).

The responses to these questions were then probed in detail.

FINDINGS AND DISCUSSION

Initially the researchers classified the transcripts based on the abovementioned themes and new themes which seemed to emerge. The researchers then grouped the participants’ comments and shared comments according to these themes.

As a result of this process, a number of themes emerged. However, only findings associated with the relationship between ITIL recommended practices and IT outsourcing arrangement are reported in this paper. The findings have been organised into three main benefits of a service management framework, which were the prominent themes that emerged from the focus group discussions:

• Service level agreements (SLAs)
• Communication quality and knowledge sharing
• The relationship between ITIL and customer satisfaction

Service level agreement (SLAs)

A comprehensive and effective SLA is a key in service level management (SLM) components under the Service Design function of the ITIL framework. The ITIL framework suggests some aspects that should be included in SLAs. For instance, SLAs must be written clearly and without ambiguity. Issues associated with services such as service description, availability, performance and reliability have to be clearly addressed.

All participants (P1, P2, P3 and P4) emphasized the importance of SLAs to the success of an outsourcing arrangement. This supports findings from the IT outsourcing literature (Fitzgerald and Willcocks 1994; Goo et al 2009; Shi et al 2005) which emphasizes the criticality of well articulated and well managed SLAs.

P1 advised that ITIL suggestions that customers should articulate the contractual obligation of their service delivery carefully meant they can then more easily report on the level of vendor performance and identify any problems that might emerge. This lends support to Lacity and Willcocks’ (2001) observation that the identification and specification of services should be under the customers’ accountability. The service assurance manager (P1) explained that:

_I think with outsourcing arrangements, you formalize the law of your service delivery and you report a matrix in actual delivery around it, so when you do engage in a contract with the outsourcer you can put contractual obligation to service delivery agreement in place and can regularly report on these things - to understand how they are performing or not performing, or any issues that come out or any problems they come across._

Another issue discussed by informants is the structure of SLAs. P3 emphasised that well structured SLAs, developed within the ITIL framework, lead to reduced level of conflicts between parties. His comment has been supported by (Goo and Haung 2008; Shi et al. 2005). P3 (responsible for client use of computers) reported that:

_It should be that what is put in front of them is understandable and it’s based on good structure and a framework behind it and again just no surprises and ‘I know what’s going on’. ITIL helps organisations provide that._

P3 also argued that good SLA management leads organisations to more sophisticated interactions with the vendor, and reduces conflict between both parties. He stated that “The whole point of the contracts and the
penalties is to make sure that the organization is sophisticated enough. You don’t want to go to that stage where you haven’t defined each other”.

Communication quality and knowledge sharing

The ITIL framework emphasizes the importance of both communication quality and knowledge sharing issues within the service transition function. For communication quality, this ITIL function recommends a range of communication procedures that enable both service providers and customers to communicate effectively. For knowledge sharing, ITIL suggests a number of techniques for knowledge transfer. These include learning styles (that relied on age, culture, attitude etc.), knowledge visualisation, driving behaviour and technology-based events (e.g. seminars). Also, ITIL provides several tools in order to manage knowledge. These tools encompass document management, records management and content management.

In the focus group, participants considered knowledge sharing to be a part of communication, which supports the definition presented by Heide and John (1992, p 35). Those authors defined communication as “information exchange [that] defines a bilateral expectation that parties will proactively provide information useful to the partner”. Participants had a lengthy conversation about this the nature of knowledge sharing. When the researcher raised a question about the responsibility of managing changes. P2, P3 and P4 demonstrated their agreement about the criticality of these issues. For example, P2 advised that managing the changes is a service providers’ responsibility, but argued that providers should inform their customers about it. The senior manager of ITIL management and monitoring at one firm (P2) explained:

> It’s a service provider’s responsibility to manage the change. But as part of that responsibility communicate back to your customer - let them know what it is that you are doing”. She continued The customer doesn’t need to manage or know about the change but they want to be communicating too.

P3 discussed the emphasis on communication quality and knowledge sharing within ITIL, and their role in structuring a better IT outsourcing relationship. He reported that:

> So when you start to give me common language, common approach, common things, then it helps you basically structure the relation much better.

The participants also suggested that this theme can be obviously reflected by the service reporting. The service reporting standards within ITIL require reports that include what both parties did; how to ensure a particular problem does not occur in the future; and how to improve the service in general (OGC, 2007). P1 highlighted that service reporting was vital, as it assisted both organisations in terms of performance evaluation. P3 agreed that service reporting is an important tool to minimise problems in the relationship. The service assurance manager for one firm (P1) explained:

> Absolutely. If they buy data services for example, I want to look for the performance of the data throughput - you provide them with in regular reporting.

The client computing manager (P3) stated:

> So, if you start, say, reporting of escalations or complaints or something like that around scenarios, regular reporting will [prevent] the social problems around these relationships.

An issue that informants raised was is the value of the RACI model incorporated into ITIL. This model classifies the type of responsibility of players into: responsible, accountable, consulted and informed. The classification can be applied by both vendor and customer in order to enhance understanding of each other’s roles. Both P2 and P4 reported that the adoption of this model enhanced the communication quality between organisations. For example, the manager of service management (P4) explained:

> If you apply this model to various roles, both in the customer side and vendor side, then you get a good idea what information you pass to them and you also set their expectations and you know what they expect from you.

ITIL and customer satisfaction

A key goal of the ITIL framework is to increase the internal customers’ satisfaction. ITIL recommends techniques, methods, processes, activities and measurements that are often adopted by service providers to ensure better quality IT service delivery and, as a result, achieve greater customers’ satisfaction.

The academic literature demonstrates repeatedly that satisfaction is an integral part of any successful relationship (Cheon 1992; Goles 2001; Grover et al. 1996; Kern 1997; Lee and Kim 1999; Rouse 2006). This prompted a question to focus group participants about how ITIL can be implemented from a customer’s viewpoint.
There was overall agreement among focus group participants about the positive impact of ITIL on improving an IT outsourcing relationship, which incorporates customer satisfaction. However, only one participant talked specifically about the issue of satisfaction. The senior manager of ITIL management and monitoring (P2) described:

*ITIL is more about providing customer satisfaction and driving customer satisfaction up.*

She also mentioned: *The whole purpose of ITIL is to provide better services to your client. So the aim of it is to keep growing your customer satisfaction to a higher level, and ITIL will provide a framework to be able to do that.*

The emerging themes of the focus group, and which participant reported, them are presented in Table 1.3.

<table>
<thead>
<tr>
<th>Emerging Themes</th>
<th>Participant</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>P1</td>
</tr>
<tr>
<td><strong>SLAs</strong></td>
<td>✓</td>
</tr>
<tr>
<td>• Good SLAs positively affect Vendor Performance</td>
<td>✓</td>
</tr>
<tr>
<td>• Well structured SLAs support ongoing relationship</td>
<td>x</td>
</tr>
<tr>
<td>• Poorly crafted SLAs lead to poor outsourcing</td>
<td>x</td>
</tr>
<tr>
<td>outcomes and negatively impact ongoing rel’ship</td>
<td>x</td>
</tr>
<tr>
<td><strong>Communication Quality and Knowledge sharing</strong></td>
<td>✓</td>
</tr>
<tr>
<td>• Involves allocating responsibilities and sharing of information</td>
<td>x</td>
</tr>
<tr>
<td>• Leads to better IT outsourcing relationship structure</td>
<td>x</td>
</tr>
<tr>
<td>• A key benefit of ITIL is its service reporting requirements</td>
<td>✓</td>
</tr>
<tr>
<td>• The RACI model enhances relationship clarity</td>
<td>x</td>
</tr>
<tr>
<td><strong>Customer Satisfaction</strong></td>
<td>✓</td>
</tr>
<tr>
<td>• ITIL improves the quality of the outsourcing</td>
<td>✓</td>
</tr>
<tr>
<td>relationship because its practices lead to better performance and satisfaction</td>
<td></td>
</tr>
</tbody>
</table>

The key findings from this preliminary focus group were based on the three main questions provided to participants, especially the last question “What roles do ITIL recommended practices play in managing your IT outsourcing arrangement?”. The authors have only considered issues (i.e. themes) that are related to the relationship between ITIL recommended practices and IT outsourcing arrangement. Overall the focus group informants suggested ITIL’s main impact on outsourcing relationship quality is via service level agreement practices, and via mechanisms that are designed to improve communication quality and knowledge sharing. They also emphasized that it is through improving performance and customer satisfaction that ITIL leads to a better outsourcing relationship.

Participants also considered knowledge sharing an important part of communication quality. The findings suggest that the ITIL framework provides a number of techniques that lead to improving the IT outsourcing relationship. These techniques include systematic change management, formal service reporting and the use of the RACI model.

Customer satisfaction is a central goal of the ITIL framework. All ITIL practices, techniques, aspects and methods are devoted to achieve this objective. There was overall agreement among focus group participants about the positive impact of ITIL on improving an IT outsourcing relationship, through its impact on customer satisfaction.
CONCLUSIONS

From analysing the focus group, in light of the academic literature, the following observations can be made. First, the academic research on the impact of ITIL recommended practices on IT outsourcing arrangement is still limited. Consequently, this study highlights the need for more academic research into this topic. Second, the focus group’ results support the argument by both Cheng (2006) and Twing (2006) that there is a positive relationship between ITIL implementation in an IT outsourcing environment and an effective outsourcing arrangement. However, the results emphasise that it is largely certain processes recommended by ITIL that lead to successful IT outsourcing arrangement. These include service level agreement (SLA) management, and improvements to communication quality and knowledge sharing.

A focus group shares the limitations of other qualitative research methods – it allows deeper investigation of how and why, but does not indicate how representative the observations of informants are. Hence focus groups results must be verified by theory testing methods using representative samples (Krueger & Casey 2009; Morgan 1988). The researchers will use these preliminary findings to help shape a survey questionnaire to be carried out in the second phase of the study into the impact of ITIL on outsourced IT service provision. That survey will shed more light on how a wider sample of informants use ITIL to support outsourced IT service provision.

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