



Vendor selection strategy for IT outsourcing: the weighted-criteria evaluation technique

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Received 26 April 2012

Revised 18 July 2012

21 July 2012

Accepted 21 July 2012

Abstract

Purpose – Most firms select their information technology outsourcing (ITO) vendors based on the two methods of the weighted-criteria evaluation technique – the “qualification score plus the lowest bid price for the highest price score (QS-LBHPS)” and the “qualification score plus the average bid price for the middle price score (QS-ABMPS).” This paper aims to understand whether these two methods provide the same or different results of vendor selection and how the proportional weights of a vendor’s qualification and bid price affect the vendor selection results under the two methods.

Design/methodology/approach – In total, 1,000 experimental tests were carried out using the developed spreadsheet template to examine vendor selection results of the two methods (QS-LBHPS and QS-ABMPS) and compare the vendor selection results under three conditions of vendors’ qualification and price weights. A correspondence analysis was also used to determine the proximal relationships among the selection results of the weighted criteria technique under the comparable methods.

Findings – The results indicate that, when using the two methods of the weighted criteria technique for a vendor selection, the selection results are significantly correspondent. In addition, the proportions of qualification and price weights affect the selection results under the two methods. The different proportions of qualification and price weights under the two methods yield the same selection results rather than different results.

Originality/value – This study fills the gap in ITO literatures concerning the vendor selection strategy. No empirical studies have been undertaken to compare the results of vendor selection under the two methods of the weighted-criteria evaluation technique. The findings enable a firm’s selection team to apply the weighted-criteria evaluation technique effectively and realize that vendor selection results are altered based on the predefined proportions of qualification and price weights.

Keywords IT outsourcing, Outsourcing vendor, Price assessment, Qualification assessment, Vendor selection, Weighted criteria

Paper type Research paper

1. Introduction

The global outsourcing market in 2011 was US\$ 95 billion consisting of US\$64.2 billion for information technology outsourcing (ITO) and US\$30.9 billion for business process outsourcing (Franz *et al.*, 2012). It was also reported that most of ITO firms deployed new contracts and used multi-sourcing strategy in 2011. This indicates that outsourcing firms continue using IT services from the service providers/vendors. Many service providers are available to offer various IT services in the market. Not only large service providers (e.g. Accenture, CSC, and IBM) but also small emerging service providers are offering ITO services particularly IT application development and maintenance service. However, the wrong selection of outsourcing vendors can lead to the ITO failure. Outsourcing firms must cautiously evaluate the vendors’ proposals and select the right vendor (Fink and Shoeib, 2003). Common evaluation techniques for vendor selection include the adjusted low bid technique, the fixed price with best qualification, the meeting qualification with best price technique, and the weighted criteria technique (Ali-Karam, 2005). Each evaluation technique relies on the objectives, values, and scopes of outsourcing transaction.

