ABSTRACT

In Australia, popular discussion of the growing market in outsourcing information technology (IT) has been spurred by decisions of several large companies and the Australian government to outsource IT operations but there has been little academic research into IT outsourcing in Australia. This paper reports on research into Australian IT outsourcing based on data collected in 1999. The primary research objectives were to identify the IT functions that were outsourced and the reasons for outsourcing. Secondary research objectives were ascertaining the incidence of IT outsourcing amongst Australian organisations, the costs and benefits of IT outsourcing, possible changes in modes of and motivations for IT outsourcing and factors that are associated with successful IT outsourcing arrangements. The research used quantitative and qualitative methods. A survey was used to collect data from 277 informants. Six interviews were used to explore managers’ reasons for outsourcing and relate these to the success of outsourcing arrangements. The nature of and motivations for outsourcing have evolved; for example, cost saving is not (if it ever was) the prime motivator. The three most important factors driving outsourcing in Australia are access to skills, improved service quality and increasing managers’ ability to focus on core business activities. Decisions to outsource were weakly associated with company size but not with industry sectors. The factors most associated with successful IT outsourcing were the cultural match between the service provider and client, and the nature of the contractual arrangements—partnerships are more fruitful than rigidly interpreted black letter contracts. Outsourcing (not just of IT) is becoming increasingly popular; we suggest reasons for this and propose further research.

Keywords: Outsourcing, information technology, Australia

Outsourcing information technology (IT) has been defined as passing IT functions previously performed in-house to outside contractors (Gupta & Gupta, 1992; Willcocks, Fitzgerald & Fenny, 1995). The definition should be extended to IT functions not previously performed in-house. IT outsourcing can be comprehensive (two major Australian banks have recently decided to outsource all their IT functions) or partial (e.g., share registries or payrolls). The service provider (hereafter the outsourcer and outsourcee are respectively referred to as the service provider and client) may be an independent entity or a wholly owned subsidiary (BHP, a very large
Australian company, recently decided to sell its wholly owned but legally separate IT subsidiary). The outsourcing decision can be simple or complex: a small organisation might choose to outsource a payroll application primarily to reduce costs. Outsourcing decisions can be complex because IT applications tend to be integrated with each other and permeate the organisation, touching most activities performed; it may be difficult to hive off and outsource a single application. The criteria used to evaluate outsourcing decisions may be multidimensional and intangible; besides cost savings (that may be hard to ascertain) the organisation must consider possible effects on customer service and its own staff, and whether it might become overly dependent on the service provider.

The incidence of IT outsourcing is increasing in Australia; this is exemplified by outsourcing decisions made by the Australian Federal Government (Beer, 1999), AMP Insurance (McFarlan & Nolan, 1995), Ansett Australia, Mercantile Mutual (Howarth, 1999) and three large banks (King, 1998). Australia’s largest telecommunications company is considering outsourcing its IT function (Connors, 2001b). In 1998 the Australian federal government decided to force government departments to outsource their IT requirements. This initiative was a failure (Connors, 2001a; Martin, 2001); the providers did not meet the users’ requirements, the costs were excessive and the initiative was at least temporarily abandoned.

IT outsourcing is a growing Australian industry; Robertson (2001) opines that “Revenue from the Australian [IT] outsourcing market was $A1.3 billion in 1997, and projections to 2004 will push it up to $A5.3 billion, or an average growth rate of 16 percent” and notes that a few big providers dominate Australian IT outsourcing.

We were unable to discover any academic research on Australian IT outsourcing. The only studies available are those of consulting organisations and service providers (Hurley & Costa, 2001). Overseas, Loh & Venkatraman (1992b) studied outsourcing decisions before and after Eastman Kodak’s landmark decision to outsource, finding that adoption of IT outsourcing is motivated more by internal forces and imitative behavior than by external influence of user organisations. Internal influences became more dominant after Eastman Kodak’s outsourcing decision. There are myriad popular reports of organisations adopting or abandoning outsourcing (Caldwell, 1999; Guy, 2000).

**REASONS FOR OUTSOURCING**

Many writers have proposed research frameworks (Finlay & King, 1999), criteria (Edwards, 1998) and schemes for analyzing or assessing outsourcing (Bazinet, Kahn & Smith, 1998). We consider hypothesized advantages and disadvantages of outsourcing IT, noting some less rational influences. Earl (1996; 1989, Table 8.2, p.170) properly stresses the importance of considering intangible and tangible criteria in major business decisions.

**Advantages of Outsourcing IT**

**Reduced IT Costs**

Outsourcing reputedly reduces IT costs; service providers purport to cut costs by 10% to 50% (Lacity & Hirschheim, 1993b, p.74) but such figures may represent short-term savings or budget manipulations such as taking activities off balance sheets (Lacity & Hirschheim, 1993a). The costs of developing, maintaining and running an application should be differentiated.
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