

## Chapter 6.15

# Managing IT Outsourcing for Digital Government

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### INTRODUCTION

IT outsourcing has become an increasingly important strategy in meeting the demand for digital government services in many developed countries. In the United States, government IT outsourcing is expected to become the fastest-growing segment of the overall federal IT market.<sup>1</sup> In 2002, the federal government spent US\$55 billion on IT service contracts (Harris, 2003). The European Union also witnessed mega government IT outsourcing deals. One of the most visible deals is the British government's National Health Service modernization plan, which features a host of multi-year IT outsourcing contracts whose total exceeds £5 billion (Collins, 2004). Government interest in IT outsourcing will likely be sustained by growing interest in creating value for citizens (Accenture, 2002).

The confluence of many factors has made IT outsourcing an appealing option for govern-

ments around the world. Governments around the world are facing the challenge of delivering more services with fewer resources to meet the demands of their citizens and businesses. Information technology is able to increase efficiency in service production and delivery. However, alone, governments find it difficult to provide the financial resources and competitive wages which attract needed IT talent to deploy e-government services (National Academy of Public Administration, 2001). Against this background, outsourcing becomes a value proposition for government. With outsourcing, government can gain access to IT expertise while gaining efficiency derived from private-sector economies of scale. Nevertheless, good management is needed to realize IT outsourcing's potential for creating value.

This article focuses on IT outsourcing in the public sector, analyzing management issues, and offering practical solutions. The background section defines IT outsourcing as well as its associ-

ated benefits and risks. The next section offers a process-oriented practical methodology as a tool for public managers to navigate the entire life cycle of IT outsourcing projects. More importantly, this process provides a structured way to maximize benefits and minimize costs associated with IT outsourcing. Then, a discussion of future trends examines IT outsourcing issues on the horizon. This article concludes with a general set of recommendations.

## **BACKGROUND**

IT outsourcing by government is the utilization of external organizations for the production and/or provision of information technology services. This external organization is usually a company that provides IT services. The types of services include networks, applications, data centers, Web-hosting, and so forth. Britain's outsourcing of desktop operating systems and applications for the National Health Service, using Sun Microsystems, is an example (Sun Microsystems, 2004). Another example is the U.S. Navy-Marine Corp's multi-billion intranet outsourcing contract with Electronic Data Systems (EDS) (Wait, 2002).

Maximizing the benefits of IT outsourcing begins with a background analysis of its associated benefits and risks. The ultimate value of IT outsourcing lies in using information technology to transform business processes to meet the objectives of the organization (Accenture, 2003). It goes beyond merely having access to networks or more computing power. The real value comes from using information technology to reengineer business processes. This transformation entails better, faster, and more affordable services.

More specifically, the benefits associated with IT outsourcing include access to IT expertise, cost-savings, quick deployment, improvement in cash flow management, and flexibility in employment (Antonucci et al., 1998; Chen & Perry, 2003b). When a new major IT project is developed,

governments often find themselves lacking the necessary IT expertise. This is due mostly to the fast-changing nature of information technology and government's competitive disadvantages in hiring and training skilled IT personnel. Cost savings are possible via leveraging economies of scale at the vendor side. For example, rather than building network capacity one government agency at a time, governments can outsource network services to network companies that can provide identical services at much lower unit costs. Quick deployment is a natural consequence of the increased technical and financial capacities obtained through a service provider.

The benefit of cash flow management can be realized by arranging with private companies to pay only for on-going services (Gant, Gant, & Johnson, 2002). The service provider provides the initial capital investments and recovers costs through service fees over time. Flexibility in employment is another benefit of IT outsourcing. Service providers are more flexible than governments when responding to changes in demands for specific IT skill sets.

However, IT outsourcing can also expose government to a number of risks. One is the loss of control over service level and service quality. Control is particularly difficult to exert when there is a large gap between what the government knows about service level and quality and what the service provider knows. With incomplete access to critical information, government may find it difficult to validate the claims of its IT service providers. Security is another risk factor, particularly when critical data is stored in facilities outside government perimeters. Government network-connected information systems supported by service providers may subsequently be subject to security threats. Moreover, training and background screening of IT personnel are important in addressing security threats.

Complex procurement processes and employment issues pose two types of risks for IT outsourcing by a government (as opposed to outsourcing

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