IT Outsourcing Practices in Australia and Taiwan

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INTRODUCTION

Globally, information technology (IT) outsourcing has spread quickly in many countries and spending by organizations in IT outsourcing is increasing rapidly each year. According to Gartner (Blackmore, De Souza, Young, Goodness, and Silliman, 2005), total spending on IT outsourcing worldwide is likely to rise from US $184 billion in 2003 to US $256 billion in 2008. However, defining IT outsourcing is not an easy task as it can mean different things to different organizations. Hirschheim and Lacity (2000) define IT outsourcing as the "practice of transferring IT assets, leases, staff, and management responsibility for delivery of services from internal IT functions to third-party vendors." Willcocks and Lester (1997) define outsourcing as the "commissioning of third-party management of IT assets or activities to deliver required results." The scope and range of outsourcing services have also increased as well, as evidenced by the promotion of BPO (business process outsourcing), ASP (applications service providers), global outsourcing, R&D (research and development) outsourcing, and web and e-business outsourcing (Gonzales Gascon and Llopis, 2005; Huang, Lin, and Lin, 2005).

While there is already much research on the economics of IT outsourcing, critical success factors for IT outsourcing decision-making and for outsourcing vendor management (Barthelemy and Geyer, 2004; Hirschheim and Lacity, 2000), there is very little literature on the actual linkage between IT outsourcing and the use of evaluation methodologies in organizations, especially in how these organizations evaluate their IT outsourcing contracts and ensure that the benefits expected from these contracts are delivered eventually.

The aim of this paper is to examine issues surrounding the evaluation and benefits realization processes in Australian and Taiwanese organizations undertaking IT outsourcing. The paper first reviews relevant literature with respect to IT outsourcing, the evaluation of IT outsourcing, and IT benefits realization. Key findings from a survey of the top 2000 Australian organizations, as well as a survey to top 3000 Taiwanese organizations, will then be presented. The paper examines these findings and issues in light of these large organizations' evaluation practices.

BACKGROUND

IT Outsourcing

Whatever the objective, the possibility of IT outsourcing tends to generate strong emotions among the senior executives and external contractors. There are many reasons contributing to the growth of the outsourcing. A review of relevant IT outsourcing literature reveals the following organizational goals for their IT outsourcing projects: lower costs, access to world class expertise, economies of scale, risk sharing, increased efficiency/service level, elimination of internal irritants, higher quality of goods and services, greater focus on core functions, increased flexibility, and reduction in technological obsolescence risk (Aubert, Rivard, and Patry, 2003; Barthelemy, 2003; Kakabadse and Kakabadse, 2001).

There are several important factors that govern successful and less successful outsourcing decisions. These include: differentiation of the business from the competitors, strategic direction of the business, degree of uncertainty of the business environment, scope of outsourcing services, quality of outsourcing contract, technology maturity, level of IT integration, in-house capabilities, and trust (Barthelemy, 2003; Hormozi, Hostetler, and Middleton, 2003). In addition, there are other factors that are more critical for offshore outsourcing than for domestic outsourcing. According to Adelakun (2004), the following critical success factors are very important for offshore outsourcing: people factors (e.g., language skill and project management skill), technical factors (e.g., workers technical skill), business infrastructure factors (e.g., service level agreement details), regulatory factors (e.g., travel and visa restrictions), and client interface factors (e.g., security and trusting relationship). In particular, the traditional approaches to security are failing as we move to open networks and business models due to IT outsourcing (Grimshaw, Vincent, and Willmott, 2002; Wright, 2001). In

addition, IT outsourcing also forces organizations to extend the boundaries of trust outside of their former closed spheres (Wright, 2001). According to Khalfan (2004), these two issues are the most prominent risk factors that would affect the attitudes of organizations to IT outsourcing.

Furthermore, despite the promised savings from the IT outsourcing contracts, there have been problems. These include constant budget blowouts, dubious savings claims, deep dissatisfaction, and non-delivery of service levels (Aubert, et al., 2003; Sullivan and Ngwenyama, 2005). Reasons for this include failing to properly monitor and evaluate IT outsourcing contracts and projects, especially the performance of contractors (Lin, Pervan, and McDermid, 2005; Perrin and Pervan, 2004).

IT Investment Evaluation in IT Outsourcing

Complexity and scope are often the major constraints and difficulties in IT investment evaluation and benefits realization processes (Tallon, Kraemer, and Gurbaxani, 2000; Ward and Daniel, 2006). Many IT projects fail to deliver what is expected of them because organizations focus on implementing the technology rather than tracking and measuring the performance of IT projects (Lin and Pervan, 2003). One reason for this is that most organizations fail to properly monitor and evaluate their IT outsourcing projects (Perrin and Pervan, 2004; Willcocks and Lester, 1997). According to Kakabadse and Kakabadse (2001), the development of suitable methodologies for IT outsourcing has been very slow. For example, McIvor (2000) found that most organizations had no formal process to evaluate their IT outsourcing decision and, instead, relied on limited cost analysis associated with the outsourcing decision. Beaumont and Costa (2002) found that evaluating all costs relevant to outsourcing was a very difficult task. According to Hsu, Wu, and Hsu (2005), most large organizations (52.4%) in Taiwan do not perform evaluation on a regular basis and those organizations which do evaluate tend to do so irregularly. In fact, 15.1% of organizations surveyed did not evaluate at all (Hsu, et al., 2005).

Organizations that make extensive use of IT evaluation methodologies or measures have higher perceived payoffs from IT (Tallon, et al., 2000). Misra (2004) found that outsourcing organizations need to choose the evaluation methodologies which: (a) lead to the desired behavior by both outsourcers and outsourcing contractors; (b) are within the outsourcing contractors' control; (c) can be easily measured by both the outsourcers and outsourcing contractors; (d) can be evaluated by objective criteria rather than subjective criteria; and (e) can be aligned with business objectives.

IT Benefits Realization

While IT investment evaluation is important, it does not guarantee that the benefits identified and expected by organizations are realized (Lin, et al., 2005). This is because IT is just one enabler of process change and it only enables or creates a capability to derive benefits. The essence of benefits realization is to organize and manage so that the potential benefits arising from the use of IT can actually be realized (Changchit, Joshi, and Lederer, 1998).

The identification of expected benefits of a proposed IT outsourcing project is a challenging task. According to Lin and Pervan (2003), very few organizations have a benefits realization approach. Ironically, much attention is paid to ways of justifying investments with little effort being expended in ensuring that the benefits expected are realized. As benefits are frequently long term, uncertain and intangible future benefits are too wide-ranging to be estimated with any accuracy. After all, the critical role of benefits realization depends on external IT outsourcing contractors' ability to not just deliver excellent service, but also to turn this service into organizational consequences such as control of costs, meeting organizational goals, flexibility, and focusing on core functions (Rouse, Corbitt and Aubert, 2001).

While there is a clear indication in the literature of a greater reliance on IT outsourcing by organizations, the importance of outsourcing evaluation and benefits processes has received limited attention, as has the linkage between IT outsourcing and the use of IT investment evaluation and benefits realization methodologies.

RESEARCH METHODOLOGY AND FINDINGS

Research Objectives and Methodology

Corporate spending on IT outsourcing is increasing at a rapid rate. In Australia, there is an increasing push by businesses for offshore IT outsourcing (to India, in particular), although many industry executives believe that Australia can also become an offshore destination as it is at least 25% cheaper to run a commercial undertaking in Australia than in the US or Western Europe (Hollands, 2004). In Taiwan, foreign companies spent a total of US $66 billion on IT outsourcing to Taiwan in 2005 and over 70% of Taiwan's IT output was actually outsourced to China (Burns, 2006). However, no research has been carried out to obtain an overview of IT investments and benefits management processes and practices in these two economies. The research aims to provide new empirical evidence comparing Australia (a developed