

# Chapter LX

## An Overview of IT Outsourcing in Public–Sector Agencies

**Anne C. Rouse**

*Deakin Business School, Deakin University, Australia*

### INTRODUCTION

For the past 15 years, governments in the developed, Western world have been contracting out, or outsourcing, services as a key part of public-sector reforms. Outsourcing has been argued to lead to cost savings, improved discipline, better services, access to scarce skills, and the capacity for managers to focus more time on the core business of their organizations (Domberger, 1998). Government outsourcing initiatives have encompassed a range of services, but given the large sums of money invested in IT assets, the outsourcing of IT services (IT outsourcing, or ITO) has been a major initiative for many agencies. Lacity and Willcocks (1998, p. 3) defined ITO as “handing over to a third party [the] management of IS/IT assets, resources and/or activities for required results.” For public-sector outsourcing, this handover is usually made by way of a competitive tender. Case studies have reported ITO successes and failures (e.g., Currie & Willcocks, 1998; Rouse & Corbitt, 2003; Willcocks & Currie, 1997; Lacity and Willcocks, 2001; Willcocks & Kern, 1998), but much of the evidence presented

to public-sector decision makers to justify this reform is anecdotal and unsystematic, and when investigated in depth, does not necessarily support widespread conclusions.

### BACKGROUND

The policy promises associated with contracting out government services are part of a broader movement toward the privatization of public-sector services. Osborne and Gaebler (1993) in their influential book *Reinventing Government* argued that governments should “steer, not row the boat” (p. 25); in other words, they should ensure that services are provided to the public, not necessarily provide the services themselves. This suggestion resonated with governments around the globe that were anxious to reduce public expenditure and risks. The move to outsource was also a response to arguments that through economies of scale, scope, and specialization, private-sector vendors could deliver outsourced services at a lower cost than governments themselves (Domberger, 1998). Initial forays into

public-sector outsourcing involved relatively simple and straightforward services (like garbage collection or hospital cleaning), which were easy to specify and to measure. However, a growing vendor market, improvements in communications technologies, and emerging skills shortages that raised the cost of IT labor (and threatened salary relativities within public-sector agencies) were drivers for the move to outsource IT (Hodge & Rouse, 2006). Both project-based services (like the development of a new system) and routine support services (such as desktop and mainframe support, and the maintenance of legacy systems) became candidates for outsourcing.

It is important to distinguish outsourcing from another key public-sector reform: privatization. While both may involve handing over public assets to the private sector, privatization is a once-off, irreversible sale of a state-owned asset. Governments generally retain some regulatory control over the provision of the privatized service, but retain no governance control and no operating risk (Jensen & Stonecash, 2005). In contrast, outsourcing is contracted for a specific period, after which governments might select an alternative vendor, or even return to providing the service in-house. The latter is theoretically possible, though in practice it is rarely contemplated because of the financial costs and organizational disruption associated with re-insourcing. With outsourcing, governments retain responsibility for governance of the outsourced function and for specifying what is required while allowing the vendor to decide how to provide this. This means that, in practice, governments largely retain most of the risk associated with the outsourced function.

## **EMPIRICAL EVIDENCE ABOUT GOVERNMENT OUTSOURCING OUTCOMES**

It is not yet clear whether the outsourcing of government services (including ITO) has delivered on

the theoretical promise. Anecdotal case studies of success are reported (e.g., Savas, 2000), but many of these considered only preliminary experiences. They may also be atypical.

Before the success of outsourcing can be established, the nature of success needs to be defined. This depends on what was expected from the strategy in the first place (Parasuraman & Grewal, 2000). Expectations for complex services with substantial impact on organizational performance are multifaceted and go beyond simple cost comparisons.

Because of the multifaceted nature of expectations, outsourcing usually results in mixed outcomes as is illustrated by the cases cited in the first paragraph. Rouse's (2006) survey of 240 public- and private-sector purchasers found that while IT outsourcing provided access to scarce skills and high levels of technical service quality, it failed to provide substantial cost savings, leading to generally low levels of overall satisfaction, the result of failure to meet stated or unstated expectations, according to marketing theory (e.g., Parasuraman & Grewal, 2000).

Another problem with determining success is that while outsourcing is known to be risky (Aubert, Patry, & Rivard, 2002; Gewald, Wüllenweber, & Weitzel, 2006), until potential downsides are encountered, decision makers may fail to recognize the level of risk. They may then perceive the arrangement to be more successful than it really is. According to Lacity and Willcocks (1998), perceptions of outsourcing success diminish the longer the arrangement lasts as many costs do not become apparent for some time. Purchasers risk vendor lock in (Wikipedia, 2006), where they find that they have no choice but to continue with an existing vendor because of high switching costs, or because few (or no) alternative bidders can be found. Another important risk, heightened for public-sector outsourcing because of public expectations, involves threats to the privacy and confidentiality of citizens' records that are handed over to vendors. Increasingly in

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