

Chapter 26

Information Systems Outsourcing: Risks and Benefits for Organizations

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ABSTRACT

Information Systems (IS) Outsourcing has emerged as a strategic option to be considered and has been increasingly adopted by managers. However, many contracts still fail during their initial years, meaning that Outsourcing has also been subject to strong criticism. There are advantages to Outsourcing but also significant risks associated to it, and the assessment of both is therefore of great relevance for informed decision-making. The objective of this chapter is to determine to what extent a common view about risks and benefits associated to IS Outsourcing is shared by the Portuguese market players: Service Providers, Clients and Opinion Makers. In order to accomplish this, an on-line Delphi study was conducted, combined with the Q-sort technique, which allowed to obtain the perspective of each player on the risks and benefits IS Outsourcing. Comparing these perspectives it was possible to understand that the market players don't share the same point of view.

INTRODUCTION

Driven by profit organizations are impelled to stay competitive or they risk losing market share. Presented with an ever-changing business environment, today's organizations continuously look for more agile ways of working, capable of increasing their ability to respond to market demands. Therefore, Information Systems (IS)

Outsourcing has emerged as a strategic option to be considered and has been increasingly adopted by managers.

The Outsourcing is "considered as one of the effectiveness ways that organizations meet to balance the equation of technology evolution, costs reduction and service quality" (Maculuvé & Rodrigues, 2002). Organizations are transferring a large amount of their IS functions to external providers, from logistics to human resources, so

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they can focus on their core competences (Vara-jão, 2002).

The increase in organizations' Outsourcing-related expenditure in recent years shows that Outsourcing has grown – not only in Europe but also in Portugal. IDC (2005) reveals a growth rate of 10% in Portugal, slightly lower than the 11% average in Europe. In addition it predicts a growth of 40% of Outsourcing in Portugal for the period between 2005 and 2009.

According to Gartner, quoted by Ramos (2006), 50% of Outsourcing contracts fail, being renegotiated and in 25% of the cases the contract cancellation eventually occurs. Dun & Bradstreet, also mentioned by Ramos (2006), refers that 20% to 25% of Outsourcing contracts do not succeed during their two initial years and this rate increases to 50% after five years of contract. Also, in 70% of the cases “the Service Provider did not understand adequately what was supposed to do”.

There are advantages to Outsourcing but also significant risks associated to it and the assessment of both is therefore of great relevance for informed decision-making.

The objective of this chapter is to contribute to the understanding of the risks and the benefits associated to IS Outsourcing and also to determine to what extent a common view about them is shared by the Portuguese market players – Service Providers, Clients and Opinion Makers.

THEORETICAL BACKGROUND

Information Systems Outsourcing

Several authors present numerous definitions for Outsourcing, which seem to converge to the perception that is the act of contracting out services, which the organization can perform inside, to an external Service Provider by option and to focus on their core business.

Faulhaber (2005) describes Outsourcing as “the strategic use of external resources to carry out

tasks that usually are internally executed. Griffiths (1999) enhance this concept defining Outsourcing as “the strategic use of outside resources to perform activities traditionally handled by internal staff and resources”. Outsourcing could engage a significant restructuring of certain activities, often including human resources transfer from a main corporation to a specialized one, usually smaller but with the necessary skills to do those activities. Outsourcing is the act of delegating or transferring some or all of the IT related decision, business processes, internal activities and services to an external provider who develop and manage those activities according to predetermined deliverables, conditions and results as established on contract (Dhar & Balakrishnan, 2006).

Outsourcing covers a wide range of options, from the strategic option of delegating total IT management to the execution of a simple function, as an answer to specific organization's needs (IDC, 2005). Rocha (2006) states that “the Outsourcing market confers different names to different kind of deals, but the boundary between them it is difficult to define”. The Outsourcing degree and the way this type of arrangements are established contribute to the multiplicity of existent relationships. The IS function can be handled internally, by a subsidiary or shared with the Service Provider; or developed externally either totally or for a selection of its components. On the other hand different Provider-Client sourcing arrangements are possible from single Provider - single Client to complex relations as multiple Providers - multiple Clients (Dibbern et al., 2004).

The Historical Evolution of IS Outsourcing

The IS Outsourcing concept has been changing since its genesis. In different published papers, such as Loh & Venkatraman (1992), Lacity & Willcocks (1998), Lee et al.(2003), Dibbern et al. (2004), Sargent (2006) and Gonzalez et al.

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