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Chapter IX

IS/IT Outsourcing

Information technology outsourcing—the practice of transferring IT assets, leases, staff, and management responsibility for delivery of services from internal IT functions to third party vendors—has become an undeniable trend ever since Kodak's 1989 landmark decision. In recent years, private and public sector organizations worldwide have outsourced significant portions of their IT functions, among them British Aerospace, British Petroleum, Canadian Post Office, Chase Manhattan Bank, Continental Airlines, Continental Bank, First City, General Dynamics, Inland Revenue, JP Morgan, Kodak, Lufthansa, McDonnell Douglas, South Australian Government, Swiss Bank, Xerox, and Commonwealth Bank of Australia (Hirsheim & Lacity, 2000).

How should firms organize their enterprise-wide activities related to the acquisition, deployment, and management of information technology? During the 1980s, IT professionals devoted considerable attention to this issue, primarily debating the virtues of centralized, decentralized, and federal modes of governance. Throughout the 1980s and 1990s, IT researchers anticipated and followed these debates, eventually reaching considerable consensus regarding the influence of different contingency factors on an enterprise's choice of a particular governance mode (Sambamurthy & Zmud, 2000).

Today, however, there are increasing signs that this accumulated wisdom might be inadequate in shaping appropriate insights for contemporary practice. The traditional governance logic has been turned upside down by utilizing other mechanisms, such as sourcing arrangements, strategic alliances, roles, teams, processes, and informal rela-

tionships, as the primary vehicles through which business executives orchestrate their IT organizational architectures (Sambamurthy & Zmud, 2000).

Today's IT organization must grapple with the unrelenting challenges associated with: acquiring current technical knowledge; attracting, retaining, motivating, and leveraging an IT workforce; distilling the confusion amid a proliferation in IT products, services, and vendors; and, contracting and managing a variety of relationships involved with selective outsourcing and multi-sourcing. Increasingly, the providers of IT products and services are being viewed as both arms-length suppliers of cost-effective technology and as vibrant business partners with an unlimited potential to enhance a firm's IT and business capabilities. IT procurement has moved from being operational to tactical to strategic, amidst networks of alliances with IT vendors, consultants, and third party service providers being built and managed in order to leverage their associated assets, competencies, and knowledge (Sambamurthy & Zmud, 2000).

As the outsourcing market evolves, a number of important aspects of IT outsourcing decisions have been explored. These studies can be categories as descriptive case studies and surveys of the current outsourcing practices, surveys of practitioners' perceptions of risks and benefits of outsourcing, and identification of best practices that distinguish success from failure (Hirshheim & Lacity, 2000).

In general, the current research indicates selective sourcing is still the norm but that outsourcing options are becoming more complex. There are many perceived benefits and risks of outsourcing, but these studies are based on respondents' perceptions rather than actual outcomes. The determinants of outsourcing research generally show that companies most likely to outsource on a large scale are in poor financial situations, have poor IT functions, or have IT functions with little status within their organizations. There is still considerable debate on best practices that distinguish successes from failures (Hirshheim & Lacity, 2000).

Outsourcing has become popular because some organizations perceive it as providing more value than an in-house computer center or information systems staff. The provider of outsourcing services benefits from economies of scale and complementary core competencies that would be difficult for a firm that does not specialize in information technology services to replicate. The vendor's specialized knowledge and skills can be shared with many different customers, and the experience of working with so many information systems projects further enhances the vendor's expertise. Outsourcing allows a company with fluctuating needs for computer processing to pay for only what it uses rather than to build its own computer center, which would be underutilized when there is no peak load. Some firms outsource because their internal information systems staff cannot keep pace with technological change or innovative business practices or because they want to free up scarce and costly talent for activities with higher paybacks (Laudon & Laudon, 2005).

Not all organizations benefit from outsourcing, and the disadvantages of outsourcing can create serious problems for organizations if they are not well understood and managed. Many firms underestimate costs for identifying and evaluating vendors of information technology services, for transitioning to a new vendor, and for monitoring vendors to make sure they are fulfilling their contractual obligations. These hidden costs can easily undercut anticipated benefits from outsourcing. When a firm allocates the

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