Chapter XII

Survey of IT Outstanding Experiences in US and UK Organizations

Mary Cecelia Lacity
University of Missouri–St. Louis, USA

Leslie P. Willcocks
Oxford University, UK

The global IT outsourcing market is estimated to exceed $121 billion by the year 2001. To assess current market practices and experiences, a survey was distributed to 600 US and UK CIOs. The 101 US and UK respondents are generally pleased with information technology (IT) outsourcing. In particular, respondents rated overall supplier performance as “good,” respondents mostly realized the benefits they expected from IT outsourcing, and respondents characterized the majority of problems/issues as only “minor” in nature. The healthy IT outsourcing report card is likely explained by the scope and type of IT outsourcing practiced by responding organizations. The vast majority of respondents pursue selective outsourcing which is less risky than total outsourcing. Most respondents also use multiple suppliers rather than a single supplier, which allows for best-of-breed supplier selection. The healthy report card may also be explained by the types of IT activities selected for outsourcing. Respondents generally targeted IT infrastructure activities—such as disaster recovery, mainframe operations, network management, midrange operations, PC support, and help desk operations—rather than IT development or IT strategy. UK and US practices and outcomes were very similar, although a few exceptions are noteworthy. On average, UK organizations (30%) totally insourced IT more frequently than US organizations (8%). US organizations (29%) more frequently used a single supplier than UK organizations (9%). UK organizations (50%) use only one stakeholder to negotiate/define contracts compared to US organizations (9%). Differences may be explained by a more matured approach to outsourcing in the USA together with the higher preponderance of larger deals and organizations studied. Findings are compared to prior survey and case study research.

Ever since Kodak’s landmark decision to outsource the bulk of their IT functions in 1989, IT outsourcing has been a widely publicized practice. Most of us are familiar with a

number of other high-profile IT outsourcing mega-deals besides Kodak. Companies that have outsourced significant portions of their IT functions by transferring their IT assets, leases, licenses, and staff to outsourcing vendors include British Aerospace, British Petroleum, Chase Manhattan Bank, Continental Airlines, Continental Bank, DuPont, Enron, First City, General Dynamics, McDonnell Douglas (now Boeing), and Xerox. Mega-deals have also been signed in the public sector, including a £1 billion contract between the United Kingdom’s Inland Revenue and EDS and a $600 million contract between the South Australia Government and EDS.

Overall, global market revenues have grown from $US 9 billion in 1990 to a projected $US 121 billion by year 2001. The underlying compound annual growth rate has been 15-20 percent in the 1992-98 period, with the leading markets in the US and UK. Other countries are also showing market increases. The Australian market, for example, has grown from $AUS 2.2 billion in 1998 to an estimated $AUS 3.87 billion in 2002 with a 24 percent annual growth rate from 1998-2002. A recent conference with Japanese CIOs sponsored by DEC also indicates that Japan is interested in IT outsourcing as a turnaround practice in response to the Asian monetary crisis (Lacity and Willcocks, 1999). Clearly, IT outsourcing has outlived the five-year period typical of a management fad.

But is the rapid growth of the IT outsourcing market primarily attributable to the well-publicized and studied mega-deals? Are high-profile, immense contracts indicative of the sourcing practices of most organizations? Are customers satisfied with their IT outsourcing practices and outcomes?

These questions prompted a recent survey of IT outsourcing experiences to supplement the ever-growing number of mega-deal case studies. The survey was targeted at the two countries which have the largest and most established IT outsourcing markets—the US and UK. The survey was distributed to 600 US and UK Chief Information Officers (CIOs). This paper presents the findings of this survey and compares findings—where relevant—to previous surveys. The vast majority of the 101 respondents pursue selective outsourcing of IT services rather than total outsourcing. Overall, the respondents are generally pleased with selective outsourcing. In particular, respondents rated overall supplier performance as “good,” respondents mostly realized the benefits they expected from IT outsourcing, and respondents characterized the majority of problems/issues as only “minor” in nature. Overall, US and UK outsourcing practices and outcomes are similar, but notable differences are discussed.

**RESEARCH METHODOLOGY**

In 1994, Willcocks and Fitzgerald (1994) developed an IT outsourcing survey for distribution in the UK. In 1996/97, Currie and Willcocks (1997) replicated the survey in the UK to assess how the practices and outcomes have evolved over the three-year period. For this paper, the survey was replicated, with amendments, for the first time in the US and for a third time in UK. By using the same survey instrument, the long-term research goal is to track IT outsourcing practices over time and to compare practices over time across countries.1

Respondents were asked to identify the percentage of IT budget outsourced, the types of IT activities outsourced, the anticipated benefits of outsourcing, people and processes used to evaluate IT outsourcing, contract details, contract duration, and outcomes in terms of actual benefits received, supplier performance, and extent of problems encountered. In particular, the questions targeted at outcomes were deemed important because few prior
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