Outsourcing is one of the most widely discussed topics in information systems today. Yet, in spite of a number of articles describing the experiences of individual firms, little is known about outsourcing in general. To address this, a survey was mailed to the CIO (or equivalent) of the 500 largest industrial firms in the United States. The results from the 110 responses received indicate the extent and effects of outsourcing among users of such services. The survey also collected data about the outsourcing plans of nonusers. The survey provided information about the planning and implementation issues encountered, benefits achieved, and impact on performance. This study is a benchmark of current outsourcing practice. In addition, this study tests some commonly accepted assumptions about the reasons for outsourcing, and the effects of outsourcing on the firm.

Outsourcing is one of the most widely discussed issues in information systems today. Firms adopting this approach take activities that had been performed internally and turn them over to outside providers. This arrangement may be narrow in scope (for example, limited to equipment maintenance), or broad, encompassing the entire IS function.

Outsourcing is not a new practice. Firms have used, for example, service bureaus for many years to perform payroll and other routine processing rather than doing so themselves. However, changes in the business environment have led to an increased interest in this topic.

One of these changes is the view that information technology when employed in new and different ways can be a competitive weapon and provide strategic advantage (see, for example, Jarvenpaa and Ives, 1990). These heightened expectations require that the IS functional units provide higher quality information more rapidly than before, and at a lower cost (see, for example, Niederman, et al., 1991). Faced with these raised performance requirements, managers at some firms have found their internal IS units improperly positioned to respond, and have turned to outsourcing.

Another change contributing to the increasing interest in outsourcing is the move by a number of organizations to focus on their core capabilities (Stalk, et al., 1992). Service staffs have been dismantled or reduced and replaced with market-like relationships or by an outside firm (Gantz, 1990; Watson and Brancheau, 1991). Simultaneously, the number of firms offering to perform such services has grown substantially, and it is commonly assumed that the market for their services is expected to increase (Eckerson, 1990; Mehler, 1992). Many of these vendor companies have entered the industry by expanding from their original service base, notably in equipment or consulting. While many of these firms are small, a number of the largest equipment manufacturers, including IBM and DEC, have entered this market by establishing subsidiaries. Proponents of outsourcing suggest that as specialists in information services, these third parties can improve customer service, lower costs, improve asset utilization, enhance flexibility and provide access to leading edge technology (Tate, 1992).
Supporting the proponents of outsourcing are a number of articles that have appeared describing the positive results achieved by some firms (Rothfeder, 1989; Doyle, 1991; Thomas, 1992). However, a number of other articles have depicted situations where these positive outcomes have not been obtained (Caldwell, 1992; Teresko, 1992; Hoffmann, 1993).

These negative outcomes were to be expected, according to the opponents of outsourcing. Opponents believe that outsourcing will result in a loss of operational and financial control, less direct contact with customers, and substantial expenses related to terminating internal IS operations. They further assert that such action will result in morale problems, a loss of internal IS expertise, and too great a dependence on an outside provider (Violina, 1991; Horwitt, 1993).

Both sides of the discussion are well argued, and case studies supporting each position have appeared in the literature, as noted earlier. Unfortunately, these brief case studies, while they are informative about the experiences of individual firms, do not describe the effects on the organizations and the senior IS managers of these firms in detail along the same dimensions across settings. It is difficult, therefore, for executives whose firms are contemplating outsourcing to determine what the likely impact will be on their role, responsibilities, and organizations.

This research seeks to address these issues through a structured study across many organizations. The method chosen was a survey. While other surveys of IS outsourcing have been conducted, all of these studies have focused on the IS activities outsourced, paying scant attention in most cases as to what has changed for the organization and the senior IS executive involved. In addition, all but one of these earlier surveys alluded to in the literature have been conducted by vendors of IS services. For the vendor studies, the populations surveyed, the questions asked, the response rates, and other factors are generally not available. Only one published study (Thobe, 1992), which surveyed the readership of Business Communications Review, provides this information.

This research provides a data base on the extent of usage and the experiences of companies that outsource IS services. The population of firms surveyed was the 500 largest industrial firms in the United States. These firms were selected because of the significant amount each spends on IS annually. According to Computerworld (1993), 100 of these companies spent, on average, $250 Million on IS in 1992.

The data collected from this group of large firms should prove of interest because it defines the outsourcing landscape from the perspective of the Chief Information Officer. By reviewing other firms’ experiences, a set of guidelines can be developed by a company that is contemplating outsourcing. For example, the data about outcomes can be employed to perform risk assessment prior to an outsourcing commitment. In addition, the data presented here should also prove interesting to vendors of outsourcing services, providing clues about the processes used and factors considered when making outsourcing decisions. The results also provide benchmarks as to the specific activities that are likely to be outsourced by firms in this population.

The study is based on the responses of the firms’ senior IS executives to a questionnaire. The key areas addressed are:

1. The extent to which these firms outsource IS services and the specific services outsourced;
2. The decision making process at the industrial firms with regard to the outsourcing of IS services;
3. The impact of outsourcing on the firm, its IS function, customers, and employees;
4. The firms’ plans for the future regarding outsourcing IS services.

Methodology

A survey instrument to address these areas was developed based on a review of the literature. A list of questions and factors was identified related to issues that arose repeatedly, including: reasons for outsourcing, extent of outsourcing, types of IS services outsourced, organizational involvement (by level and function), selection criteria for vendors, organizational impact (intended and unintended), performance, and satisfaction. (A copy of the questionnaire may be obtained from the authors).

The draft questionnaire was administered to business executives who were selected because they and their organizations have been actively involved with IS outsourcing for a number of years. In an attempt to enhance the validity of the instrument, these executives were also provided with a list of the key areas, and asked to comment on the effectiveness of the questions to address these areas. Their suggested changes in structure, wording, and content were incorporated in the revised questionnaire.

The 500 largest industrial companies in the United States as identified by Fortune magazine were selected as the study population. A search was conducted to identify the Chief Information Officer (or equivalent) at these firms, and this individual was identified for 432 of the firms. These persons were sent a packet containing the cover letter, questionnaire and return envelope.

Characteristics of Respondents

One hundred and ten questionnaires were returned with data suitable for analysis yielding a response rate of 25%. An additional 7 responses were returned with letters indicating that these firms do not respond to surveys. This response rate compares quite favorably with the one published study (Thobe, 1992) on IS outsourcing where a response rate of 11 percent was attained.