Chapter X
The Global IT Outsourcing Market: A Network Perspective

The IT outsourcing market was launched in the early 1990s with a number of mega outsourcing deals between major organisations and global IT service providers. As indicated in the introductory chapter, while the growth in IT outsourcing has stabilised, the level of outsourcing has been sustained. The nature of outsourcing has evolved however, to a situation where multisourcing is now nearly “a given”. Deal sizes have contracted along with average deal terms. This chapter will initially take a closer look at the extent of networking in the global IT markets. Novel market research techniques are used to discover relationship centric intelligence, typically missing from traditional market analyses. This will be followed by a section on networks spanning the client/provider interface, looking at how network structures can enhance the client provider relationship. The client provider interface is often governed through formal structures and roles. This analysis provides some insight into the potential negative impacts of relying solely on this style of governance. Finally, the topic of innovation, and innovation networks, will be addressed. Injecting innovation into the IT sourcing relationship has proven somewhat elusive given the twin objectives of cost reduction through implementing standard IT infrastructures and processes, while at the same time creating new business opportunities through the innovative use of IT. The network perspective provides new insight into this conundrum and some avenues for profitable change.
THE EVOLUTION OF THE GLOBAL IT INDUSTRY

When one reads the many accounts of the evolution of the IT industry, it is common
to be following the fortunes of the major players of the time; IBM, Control Data,
Hewlett Packard, Unisys, Digital Equipment, Data General, EDS, CSC, Oracle,
Microsoft, SAP, Yahoo, Google, eBay and the list continues. In the early years of the
industry, hardware manufacturers dominated the headlines. As hardware became
more commoditised, it was the software and services firms that came to the fore,
with many of the major equipment vendors disappearing or having to transform to
software and service companies, as IBM so successfully did from the late 1980s.
The current Internet Age has seen the emergence of the Internet Company, whose
market valuations are now beginning to exceed those of their predecessor industry
leading firms, as had happened in the past with the movement from hardware to
software and services. Traditional market research on the IT industry is focused on
revenues and market shares. While profitability is important in the fast paced IT
industry, revenue growth is often seen as a leading indicator of future success.

Figure 71 provides an example of a revenue focused analysis of the global IT
outsourcing industry. The charts show the value of existing outsourcing contracts
as at the end of 2007, as identified from the Datamonitor IT contracts data base.
As at this time there are nearly $US900 billion in outsourcing contracts in place
globally. IBM Global Services was a clear market leader, followed by EDS and
CSC. The distribution showing the number of contracts that each provider has for
generating the revenue stated provides some insight into the strategies that they
are adopting. One might infer that firms with higher average revenue/contracts,
have a more targeted sales force than those with many contracts generating smaller
levels of revenue.

What is missing from the traditional approaches to market research is that it
provides only limited insight into how each firm is achieving its results. Industry
trends toward more specialisation and higher levels of partnering, suggest that
new ways of analysing markets centred on relationship networks, are required.
Information on alliances and joint ventures are regularly reported, but the use of
this information in understanding the dynamics of the industry is rarely forthcom-
ing. Chapter V provided an in depth example of how the network of relationships
between IT vendors could constitute a tangible resource in the form of Corporate
Social Capital (SC), which in turn can have a tangible impact on their overall
performance. The IT market place however, includes clients as well as vendors,
which collectively constitute a network which is the IT market place. The increased
interconnectedness in all markets was previously addressed in reviewing “theories
of the firm” in Chapter III. By viewing a market from a networks or relationship
perspective, new insight is available to those looking to thrive in an increasingly
networked market place.

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Performance Measurement in an Outsourcing Environment
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