Survey of IT Outsourcing Experiences in US and UK Organizations

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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 countries1.

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 surveys assessed outcomes—most merely assessed practices (Collins and Millen, 1995 and Grover et al., 1996 are notable exceptions). While most of the thirty-plus questions were closed-ended, respondents were also asked to cite the most important lessons they have learned. The open-ended questions provided an opportunity for respondents to express views not identified in the close-ended questions.

To replicate the survey in the US, the UK version was shortened because US CIOs—the target audience—would not likely complete an eight-page questionnaire. The US version is six pages long and differs from the UK version only in minor ways, such as adapting the survey for differences in language. For example, the UK survey uses the terms “turnover”, “redundancy”, and “federal structure”. Corresponding US terms are “revenue”, “attrition”, and “mixed/matrix structure”.

For the US survey, a list of 1,000 of the largest US organizations across various manufacturing and service sectors was purchased from Dun & Bradstreet Information Services. This list included the names, addresses and phone numbers of the organizations, but not the names or exact titles of the Chief Information Officers. Every organization was called on this list to obtain the name and correct title of the head of the information systems department, in hopes that personally labeling envelopes and cover letters would increase the response rate. In the spring of 1997, surveys were mailed to the top 500 names on the US list.

The UK sample was based on the Financial Times Top 100 list and a list provided by the research sponsors, British Intelligence and the Oxford Institute of Information Management (OXIIM). Because the Financial Times list focuses on private sector organizations, a subset of the sponsors’ list was added to include public sector organizations. The 100 UK surveys were mailed in early 1998 to a contact person responsible for IT within the organization, usually an IT director but sometimes a senior business manager with IT responsibilities.

A total of 101 usable surveys were returned, providing an overall response rate of 17%. The response rate compares favorably with similar surveys of this nature, especially given the number of questions and the detailed nature of the requested responses. Thirty-eight surveys were returned from the US and 63 surveys were returned from the UK.

SURVEY RESPONDENTS

Job Titles of Survey Respondents. CIOs or senior executives were the target response group because respondents needed to have enough stature to answer strategic and IT management-related questions. To ensure the target person responded to the survey, the person filling out the survey was asked to give their name, title, and address. Respondents were motivated to complete this information so they could receive survey results. Indeed, the job title of respondents indicates a high level of authority.

Respondents are Directors (33%) of Computers and Computer Systems, Computing and Communication Services, Corporate Information Technology, Information and Information Services, IT Enterprises, IT Services, or Technical Services; Managers (24%) of Information Resources, IS Administration, IT Services or MIS, Chief Information Officers (21%) or Head of IS; and Vice Presidents (11%) of Division, Computers and Information Systems, Information Systems, or MIS (See chart “Job Titles of Survey Respondents”).

Industries Represented. The 101 respondents represent a number of manufacturing and service industries (see table “Industries Represented”). Three industries—consumer products, financial services, and industrial products—represent nearly half of the sample. Industries which only have one respondent represented are grouped in the category “other”. There is a greater diversity of industries represented in the United Kingdom (15 UK companies categorized as “other”) compared to the United States (4 US companies categorized as “other”).

Average Revenues. Respondents reported annual rev-
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