Chapter 4.23
IT Outsourcing Practices in Australia and Taiwan

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INTRODUCTION

Globally, information technology (IT) outsourcing has spread quickly in many countries and spending by organizations in IT outsourcing is increasing rapidly each year. According to Gartner (Blackmore, De Souza, Young, Goodness, and Silliman, 2005), total spending on IT outsourcing worldwide is likely to rise from US $184 billion in 2003 to US $256 billion in 2008. However, defining IT outsourcing is not an easy task as it can mean different things to different organizations. Hirschheim and Lacity (2000) define IT outsourcing as the “practice of transferring IT assets, leases, staff, and management responsibility for delivery of services from internal IT functions to third-party vendors.” Willcocks and Lester (1997) define outsourcing as the “commissioning of third-party management of IT assets or activities to deliver required results.” The scope and range of outsourcing services have also increased as well, as evidenced by the promotion of BPO (business process outsourcing), ASP (applications service providers), global outsourcing, R&D (research and development) outsourcing, and web and e-business outsourcing (Gonzales Gascon and Llopis, 2005; Huang, Lin, and Lin, 2005).

While there is already much research on the economics of IT outsourcing, critical success factors for IT outsourcing decision-making and for outsourcing vendor management (Barthelemy and Geyer, 2004; Hirschheim and Lacity, 2000), there is very little literature on the actual linkage between IT outsourcing and the use of evaluation methodologies in organizations, especially in how these organizations evaluate their IT outsourcing contracts and ensure that the benefits expected from these contracts are delivered eventually.

The aim of this paper is to examine issues surrounding the evaluation and benefits realization processes in Australian and Taiwanese organizations undertaking IT outsourcing. The paper
first reviews relevant literature with respect to 
IT outsourcing, the evaluation of IT outsourcing, 
and IT benefits realization. Key findings from a 
survey of the top 2000 Australian organizations, as 
well as a survey to top 3000 Taiwanese organiza-
tions, will then be presented. The paper examines 
these findings and issues in light of these large 
or ganizations’ evaluation practices.

BACKGROUND

IT Outsourcing

Whatever the objective, the possibility of IT 
outsourcing tends to generate strong emotions 
among the senior executives and external contrac-
tors. There are many reasons contributing to the 
growth of the outsourcing. A review of relevant 
IT outsourcing literature reveals the following 
or ganizational goals for their IT outsourcing 
projects: lower costs, access to world class expertise, 
economies of scale, risk sharing, increased 
efficiency/service level, elimination of internal 
irritants, higher quality of goods and services, 
greater focus on core functions, increased flexibil-
ity, and reduction in technological obsolescence 
risk (Aubert, Rivard, and Patry, 2003; Barthelemy, 

There are several important factors that govern 
successful and less successful outsourcing deci-
sions. These include: differentiation of the business 
from the competitors, strategic direction of the 
business, degree of uncertainty of the business 
environment, scope of outsourcing services, quali-
ty of outsourcing contract, technology maturity, 
level of IT integration, in-house capabilities, and 
trust (Barthelemy, 2003; Hormozi, Hostetler, and 
Middleton, 2003). In addition, there are other fac-
tors that are more critical for offshore out sourc-
ing than for domestic outsourcing. According to 
Adelakun (2004), the following critical success 
factors are very important for offshore out sourc-
ing: people factors (e.g., language skill and project 
management skill), technical factors (e.g., workers 
technical skill), business infrastructure factors 
(e.g., service level agreement details), regulatory 
factors (e.g., travel and visa restrictions), and 
client interface factors (e.g., security and trusting 
relationship). In particular, the traditional 
approaches to security are failing as we move 
to open networks and business models due to IT 
outsourcing (Grimshaw, Vincent, and Willmott, 
2002; Wright, 2001). In addition, IT outsourcing 
also forces organizations to extend the boundar-
ies of trust outside of their former closed spheres 
(Wright, 2001). According to Khalfan (2004), 
these two issues are the most prominent risk factors 
that would affect the attitudes of organizations to 
IT outsourcing.

Furthermore, despite the promised savings 
from the IT outsourcing contracts, there have 
been problems. These include constant budget 
blowouts, dubious savings claims, deep dis-
satisfaction, and non-delivery of service levels 
(Aubert, et al., 2003; Sullivan and Ngwenyama, 
2005). Reasons for this include failing to properly 
monitor and evaluate IT outsourcing contracts and 
projects, especially the performance of contrac-
tors (Lin, Pervan, and McDermid, 2005; Perrin 
and Pervan, 2004).

IT Investment Evaluation in IT 
Outsourcing

Complexity and scope are often the major con-
straints and difficulties in IT investment evalu-
ation and benefits realization processes (Tallon, 
Kraemer, and Gurbaxani, 2000; Ward and Daniel, 
2006). Many IT projects fail to deliver what is 
expected of them because organizations focus on 
implementing the technology rather than tracking 
and measuring the performance of IT projects 
(Lin and Pervan, 2003). One reason for this is 
that most organizations fail to properly monitor 
and evaluate their IT outsourcing projects (Perrin 
and Pervan, 2004; Willcocks and Lester, 1997). 
According to Kakabadse and Kakabadse (2001),