

## 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 Llopi, 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 organizations, will then be presented. The paper examines these findings and issues in light of these large organizations' evaluation practices.

## **BACKGROUND**

### **IT Outsourcing**

Whatever the objective, the possibility of IT outsourcing tends to generate strong emotions among the senior executives and external contractors. There are many reasons contributing to the growth of the outsourcing. A review of relevant IT outsourcing literature reveals the following organizational 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 flexibility, and reduction in technological obsolescence risk (Aubert, Rivard, and Patry, 2003; Barthelemy, 2003; Kakabadse and Kakabadse, 2001).

There are several important factors that govern successful and less successful outsourcing decisions. 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, quality 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 factors that are more critical for offshore outsourcing than for domestic outsourcing. According to Adalakun (2004), the following critical success factors are very important for offshore outsourcing: 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 boundaries 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 dissatisfaction, 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 contractors (Lin, Pervan, and McDermid, 2005; Perrin and Pervan, 2004).

### **IT Investment Evaluation in IT Outsourcing**

Complexity and scope are often the major constraints and difficulties in IT investment evaluation 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),

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