

# Chapter 4.24

## Information Systems / Information Technology

### Outsourcing in Spain: A Critical Empirical Analysis<sup>1</sup>

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#### **ABSTRACT**

The practice of information systems/information technology (IS/IT) outsourcing is a major issue which has received much attention, as shown by the extensive literature on the topic. However, most works on outsourcing have focused on theoretical topics, and there are but a few empirical, quantitative studies. This chapter presents an empirical study of IS/IT outsourcing in Spain, which has been conducted along the lines of prior research carried out in different countries, and which

focuses on the types, functions and targets of outsourcing contracts. We also attempt to examine the influence that this practice may have on the organizations' management structure. A survey carried out on 530 Spanish firms has shown that 50% of Spanish large firms have outsourced part of their IS/IT, whereas outsourcing is practiced by 20% of medium-sized enterprises. Finally, it has been observed that the most frequently outsourced activities in Spain are hosting and Internet-related services.

## STATE OF THE ART: THEORETICAL FRAMEWORK FOR IS/IT OUTSOURCING

The practice of information systems/information technology (IS/IT) outsourcing is a major issue which has received much attention in both the managerial and the academic spheres, as shown by the extensive literature on the topic. Following Eastman Kodak's IS/IT outsourcing decisions in 1989<sup>2</sup>, the outsourcing market grew at an annual rate of 15%, until it expanded to more than \$40,000 million in the 1990s. Outsourcing is practised, or at least considered as a medium-term option, by half of the firms whose annual turnover is equal to or more than \$5 million<sup>3</sup>, which contradicts the common belief that outsourcing is characteristic of big corporations with efficiency problems.

Traditionally, it has been argued that outsourcing helps firms reduce costs, since the external provider benefits from economies of scale and from its own experience. This advantage is even greater in the case of IS, which are frequently defined as an intrinsically cost burden activity, full of management problems and with a dubious contribution to businesses<sup>4</sup>.

Outsourcing of IT-related activities has been indeed the area of greater expansion in the last few years, and that with the best expectations in the medium term. In a first stage, organizations outsourced complementary functions such as consulting, training or maintenance until, in a second stage, they also outsourced corporate mainframes and end-user support. More recently, outsourcing practices have expanded in two new trends: the requirements derived from electronic businesses — network management, creation and maintenance of Web sites and management of electronic shops — and the ASP (application service provider) sector, which is expected to generate a business volume of \$7,000 million in 2004 (Young, 2000). Similarly, according to IDC consulting, IT outsourcing is expected to reach \$177.2 billion in 2004 (Lingblom, 2002). Accord-

ing to Burkhart (2003), in a near future the trend will move from IT outsourcing to a combination of business processes and outsourcing.

There are nevertheless some issues clouding this brilliant panorama. There is evidence to question the magnitude and even the existence of cost saving<sup>5</sup>, and it has become obvious that certain crucial aspects should be carefully considered: the quality of the service, the benefits offered by the outsourcing project, its strategic implications<sup>6</sup>, and the risk derived from transferring an activity that is critical for business performance. Moreover, outsourcing has become more complex with the emergence of new contractual types that — as in the case of pay-per-use — attempt to meet the demands of an increasingly competitive market.

## Information Services Organization Models

According to Wibbelsman and Maiero (1994), the main decision that the organization must take is not whether or not an activity should be outsourced, but rather determining *the most suitable outsourcing project* according to the cost of the internal service, the economic value of the external offer, and the costs of co-ordination or agency.

We agree with Hsu, Chiu, and Hsu, (2004) that, in order to predict IS outsourcing success, a number of factors must be taken into account, such as the combinations of internal and external activities, different degrees of responsibility transfer, material resources, management capacity, and different levels of centralization.

IS were originally configured as rigidly centralized structures so as to exploit the economies of scale propounded by Grosch's Law<sup>7</sup>, which have been proved erroneous thanks to the improvement in the cost/performance ratio of IT and to the recognition of their limitations from the point of view of decision support and business processes.

Facing an ever-increasing competency, organizations adopted the re-engineering projects

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