Chapter X

The IS/IT Outsourcing Phenomenon in the Public Sector of a Developing Country: An Exploration of Critical Issues

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ABSTRACT

This chapter presents an overview of a national case study exploring the IS/IT outsourcing phenomenon in the public sector of a developing country. The study is empirically based and provides a logical extension to earlier research studies/endeavors in the field of IS/IT outsourcing. Kuwait, where the data collection for this study was carried out, has been used as an example of a developing country . The primary data on IS/IT outsourcing practices, obtained for the first time in Kuwait, were collected by means of survey questionnaires and semi-structured interviews supported by organizational documentation. The research seeks to identify the factors that give rise to the IS/IT outsourcing phenomenon, and the degree to which they influence the practices, procedures, and outcomes of IS/IT outsourcing arrangements in Kuwait. The overall research aimed to provide a comprehensive

pragmatic picture of IS/IT outsourcing practices, including motivations, risk analysis, contract drafting and legal issues, vendor selection criteria, evaluation practices, decision-making processes, and post-evaluation experience. There is growing evidence within the Kuwaiti environment to suggest that public organizations are not achieving the desired benefits from their IS/IT outsourcing operations. IS/IT outsourcing projects in Kuwait are still undertaken in ways that are not clearly related to strategic change. It is clear that IS/IT outsourcing is a multi-faceted phenomenon that should be studied broadly in context. The lesson is that the solutions must make sense for the particular context in which they will be implemented, considering all cultural and environmental factors. It was found that culture plays an important role throughout the outsourcing process. The findings of this study also suggest that there will be an increasing utilisation of IT outsourcing services in the public sector of Kuwait.

INTRODUCTION

IS/IT outsourcing has emerged in recent years in both the private and public sectors as a key method of managing different aspects of Information Systems/ Information Technology (IS/IT). IS/IT outsourcing is a term that encompasses a variety of approaches. It leads to significant changes in the management processes of the IT organization.

The evolving literature on IS/IT outsourcing has been concerned with "make-or-buy" or "in-source-or-out-source" decisions in relation to organizational behavior (Coase, 1937; Williamson, 1979; Loh & Venkatraman, 1992) and transaction cost economics (Williamson, 1985; Benko, 1993; Lacity & Hirschheim, 1993) However, the decision to in-source or outsource has never been an easy task for the people involved in IT management. The reason is that it involves considerable complexity and business risks (Cronk & Sharp, 1995). IT outsourcing has been recognised as one of the top ten issues for success in the 1990s (Rockart et al., 1996). The study of what makes IS/IT outsourcing successful is one of the most important topics in IS/IT management nowadays (Seddon, 2001).

In the past decade, the IT outsourcing industry has been growing at a staggering rate of about 20% a year, reaching around $55 billion in 1998, while outsourcing deals have been getting larger and longer (Caldwell & McGee, 1997). The information technology outsourcing services are booming. Industrial analysts predict that the global market will grow $86 billion in 1996 to more than $137 billion in 2001 (Diromualdo & Gurbaxani, 1998). On conservative estimates, IT outsourcing may well represent, on average 30%-35% of IT budget by 2002 (Lacity & Willcocks, 2001).

IS/IT Outsourcing Framework

Precise definitions of IS/IT outsourcing differ in the literature (Glass, 1996). But there is a general agreement that it is the carrying out of IS/IT functions by a third party (Kettler & Walstrom, 1993). IS/IT outsourcing is what Williamson (1985) calls a "market versus hierarchy" decision. Rands (1992) calls it the "make-or-buy" decision, while Gurbaxani and Whang (1991) and Porter (1980) label it "vertical integration." In this study, IS/IT outsourcing is defined as by Cheon, Grover, and Teng (1995) :

> *The organizational decision to turn over part or all of an organization's IS functions to external services provider(s) in order for an organization to be*

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