

# Public Sector Case Study on the Benefits of IS/IT

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## INTRODUCTION

While organisations continue to invest heavily in IS/IT, research studies and practitioner surveys report contradictory findings on the effect of the expenditures on organisational productivity (Grover et al., 1998). Therefore, it is not surprising to see that the term “productivity paradox” is gaining increasing notoriety as several studies point toward fairly static productivity and rising IS/IT expenditure. Despite large investments in IS/IT over many years, it has been difficult to determine where the IS/IT benefits have actually occurred, if indeed there have been any (Willcocks & Lester, 1997). The main objective of this article is to generate a deeper understanding of issues surrounding the current practices and norms in managing IS/IT benefits and investments evaluation.

## RESEARCH APPROACH

A case study was conducted to investigate the practices of IS/IT investment evaluation and benefits realisation in large Australian organisations. Semi-structured interviews were used to gain a deeper understanding of issues.

## CASE DESCRIPTION

Seven interviews were conducted with participants from a Western Australian state government department and two major outsourcing contractors. The questions asked related to the formal benefits realisation methodology used, major outsourcing contracts, contractual relationship between department and contractors, and IS/IT investment evaluation methodology or technique deployed. Other data collected included contract documents, planning documents and minutes of relevant meetings. Around 80 pages of transcripts were coded and analysed. The analysis was conducted in a cyclical manner and followed guidelines for interpretive research set out by Klein and Myers (1999).

## CASE STUDY RESULTS

A number of issues arose from the analysis of this text data and the key issues are presented next.

### Issue 1: Lack of formal IS/IT investment evaluation methodology

Most of the participants claimed that some sort of formal methodology or process was put in place for evaluating these contracts. However, closer examination revealed that what was described did not constitute a formal IS/IT investment evaluation methodology. Participants wrongly considered various contract control mechanisms as a formal IS/IT investment evaluation methodology.

### Issue 2: A formal IS/IT benefits realisation methodology was used

Every participant was aware that a formal IS/IT benefits realisation methodology was being used for outsourcing contracts and projects. A benefits realisation approach was used as an end-to-end process to assist in: (1) providing a rigorous process to select the right projects; (2) placing responsibility and accountability at the appropriate level; (3) driving process re-engineering through changes in the organisation; (4) ensuring benefits are realised; and (5) ensuring agreed re-investment of time savings applied as expected.

### Issue 3: Lack of understanding of IS/IT investment evaluation methodology

The confusion indicated in Issue 1 about what constitutes a formal IS/IT investment evaluation methodology demonstrated a lack of understanding of such methodologies. This may be due to the fact that the department was unable to introduce a formal IS/IT investment evaluation methodology because it was required to follow the state government's outsourcing guidelines (MOPC, 2000; SSC, 1999b).

#### **Issue 4: Existence of an informal IS/IT investment evaluation process**

Despite the fact that no formal IS/IT investment evaluation methodology or process was used, contract control and evaluation mechanisms specified within the SLAs or government guidelines do represent an informal IS/IT investment evaluation process. Although these informal mechanisms may not totally replace a formal methodology (e.g., Kaplan and Norton's (1992) Balanced Scorecard), they were able to assist in evaluating the performance of the outsourcing contracts. These mechanisms were largely based on the standard state government contract process and purchasing guidelines (SSC, 1999a, 1999b).

#### **Issue 5: Good understanding of benefits realisation practices**

A benefits realisation methodology, called benefits realisation approach, was introduced before outsourcing IS/IT functions because there was a concern that IS/IT investments did not deliver value (which would jeopardize future government funding). To ensure that the IS/IT investments deliver the promised value and benefits as well as bring the focus back to the department's main business, a large internal change program was required.

#### **Issue 6: Focus on quantitative IS/IT investment evaluation measures**

Without employing more qualitative measures (e.g., relationship, culture and leadership) and a formal IS/IT investment evaluation methodology or process, the use of quantitative or accounting-based measures alone did not assist in full evaluation and monitoring of the performance.

#### **Issue 7: Different motivations for outsourcing**

Several reasons were put forward as the main motivation for IS/IT outsourcing. Only two of the four contractor representatives cited access to the required technical expertise as one of the department's reasons to outsource and two either did not know or did not respond to the question. However, all of the department's participants mentioned access to required technical expertise as a major reason to outsource some IS/IT functions. Therefore, the department's motivation for outsourcing was somewhat different from the contractors.

#### **Issue 8: Success of the contracts perceived differently by stakeholders**

Customer satisfaction, achieving the contractor's projected revenue, bringing value/benefits to the organisation, and meeting the SLA provisions were mentioned. Other criteria mentioned included technical competence to deliver what is required, risk factors, contractors' experience in a relevant area, and business continuity of the contractors. Both representatives from the first contractor mentioned achieving the projected revenue for themselves and satisfying customers as their only criteria for determining the success of their outsourcing contracts with the department. This may indicate that the first contractor's aim is to maximise the profit while maintaining a certain level of customer satisfaction. However, participants from the department seemed to have used different criteria for determining the success of the outsourcing contracts. Bringing value/benefits to the organisation, meeting the SLA provisions, and pricing/cost were mentioned by three out of four participants.

#### **Issue 9: Better control over the IS/IT skill shortage within the department**

Access to the required technical expertise was the most often cited reason for outsourcing. The department did not have the required IS/IT expertise to implement a major internal change program and outsource some of its IS/IT functions. In order to obtain the required technical expertise and skills from outside, the department had to transfer some of its IS/IT staff to the first contractor. According to most of the participants, those who went across to the first contractor were quite happy about the whole process. However, the department did not lose the capacity to manage and assess its own IS/IT needs after relinquishing the control of some of its IS/IT functions and staff, as has happened in many outsourcing organisations previously (Currie & Willcocks, 1998).

#### **Issue 10: Embedded contract mentality**

Staff of the department seemed to have a "contract mentality," as the operation of the contracts was based on the specifications set out in the SLAs within the outsourcing contracts. Several participants clearly indicated that there was a pre-agreed set of evaluation and control mechanisms in the SLAs within the outsourcing contracts such as metrics, monthly reports, reviews, and regular meetings. Moreover, half thought these contract control mechanisms were all part of the IS/IT investment evaluation methodology.

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