Chapter 17

Strategic and Ethical Issues in Outsourcing Information Technologies

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INTRODUCTION

Outsourcing of information technology (IT) is the transfer of a company's information technology functions to external vendors. Ordinarily, such transfer is considered only with regard to its strategic and economic impact on the organization. However, as the recent practice demonstrated, cost-benefit considerations and other strategic considerations are not sufficient to analyze an outsourcing case. Important ethical concerns relating to fiduciary responsibilities, insiders' bidding for outsourcing contracts, and the like, are also pertinent to the analysis of outsourcing.

This chapter will identify major ethical problems and will propose guidelines for ethical conduct in the process of outsourcing IT. Such guidelines could have broad practical implications for the practice of outsourcing.

The chapter will analyze literature on outsourcing models and professional ethical standards. It will have the following structure. First, the benefits and models of outsourcing information technology will be discussed. Second, ethical literature in general and professional organizations' codes of ethics in particular will be considered. Third, a recent case of IT outsourcing will be presented and analyzed. The ethical standards established in the thesis will be applied to the case. Finally, generalized ethical guidelines will be suggested for outsourcing models.

LITERATURE REVIEW: OUTSOURCING MODELS

Outsourcing of information technology (IT) is the transfer of a company's information technology functions to an outside agency. The first instance of IT outsourcing was the outsourcing of payroll processing. Many big companies have or are currently engaged in outsourcing (see Table 1). For some, IT outsourcing proved to be a viable strategy; for others, it was only a big headache.

Outsourcing has become a management strategy. According to a Forbes editorial (Sept. 22, 1997), "By 2000, 75% of enterprises will employ selective IT outsourcing as a routine means to increase competitiveness or gain new resources and skills." Nam et al. (1998, pp. 104-129) prompted a number of research studies and analyses of the practice. The scholars sought a conceptual answer to the question when to outsource IT and when not. In the next section, models of IT and their anticipated outsourcing benefits will be systematically reviewed.

General Management

In the area of general management, one of the important benefits of IT outsourcing is that it frees the company to concentrate on its core business competencies, rather than dealing with something which is unfamiliar and complicated. An additional advantage is in the simplification of the general managers' agenda.

There are also disadvantages of outsourcing IT to general management. As a result of the outsourcing arrangements, management loses flexibility. Most contracts are for 5-10 years. For the duration of the contract, the company is not in a position to change its IS strategy.

Finance

In the area of finance, the most important benefit of IT outsourcing invariably cited in the literature is that the company realizes various savings. The savings are

Table 1: Prominent companies that have outsourced IT

Company	Contract Value	Duration	Vendor
Del Monte Foods	$150 million	10 years	Electronic Data Systems
Health Dimensions, Inc.	$20 million	5 years	Integrated Systems Solutions Corp.
J.P. Morgan	$20 million	5 years	BT North America, Inc.
Signetics, Inc.	$100 million	10 years	Electronic Data Systems
U.S. Dept. of Housing	$526 million	12 years	Martin Marietta Corporation and Urban Development
General Dynamics Corp.	$3 billion	10 years	Computer Sciences Corporation

Source: Cheryl Currid and Company, Computing Strategies for Reengineering Your Organization (Rocklin, CA: Prima Publishing, 1994) 135.

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