



## **Chapter X**

# **Information Technology Outsourcing in Australia**

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### **ABSTRACT**

*In Australia, popular discussion of the growing market in outsourcing information technology (IT) has been spurred by decisions of several large companies and the Australian government to outsource IT operations, but there has been little academic research into outsourcing in Australia. This chapter reports research into Australian IT outsourcing based on data collected in 1999. The research objectives were to measure the incidence of outsourcing among Australian firms, identify the functions outsourced, the*

*reasons why managers considered outsourcing, the costs and benefits of outsourcing, possible changes in modes of and motivations for outsourcing and factors that are associated with successful outsourcing arrangements. The nature of and motivations for outsourcing have evolved; for example, cost saving is not (if it ever was) the prime motivator. The three most important factors driving outsourcing in Australia are access to skills, improved service quality and increasing managers' ability to focus on core business activities. Decisions to outsource are weakly correlated with company size, but are not related to industry sectors. The factors most associated with successful IT outsourcing were the cultural match between the vendor and client, and the nature of the contractual arrangements—partnerships are more fruitful than rigidly interpreted black letter contracts. Outsourcing (not just of IT) is becoming increasingly popular; we suggest reasons for this and propose further research. The research used quantitative and qualitative data. A survey was used to collect data from 277 informants, and six interviews were used to explore managers' reasons for outsourcing and relate these to the success of outsourcing arrangements. Outsourcing of many business processes (not just IT) is becoming increasingly frequent in Australia. Where appropriate, themes are illustrated by outsourcing activities other than IT.*

## **IT OUTSOURCING IN AUSTRALIA**

Information technology (IT) outsourcing is defined as passing ownership and control of IT functions previously performed in-house to outside contractors (Gupta & Gupta, 1992; Willcocks, Fitzgerald & Fenny, 1995). The definition should be extended to IT functions not previously performed in-house. In-house processing and “pure” outsourcing are two extremes of a spectrum of possible arrangements whose middle point is perhaps joint ownership of an entity providing IT services (Lacity & Willcocks, 2001, pp. 18-32). IT outsourcing can be comprehensive (two major Australian banks have recently decided to outsource all their IT functions) or partial (e.g., share registries or payrolls). The vendor (hereafter the outsourcer and outsourcee are respectively referred to as vendor and client) may be an independent entity or a wholly owned subsidiary. The IT outsourcing decision can be simple or complex: a small organization might choose to outsource a payroll application simply to reduce costs. IT outsourcing decisions can be complex because IT applications tend to be integrated with each other, permeate the firm and touch most activities performed; it may be difficult to outsource a single

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