

A Review of IT Outsourcing Trends in 2005: An Australian study

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Abstract

IT outsourcing is a well established business practice but is still challenging for organisations due to the difficulty in managing the complexity of ICT and the relationship between the client organisation and the outsourcing vendor. There has been a lack of large scale studies on IT outsourcing which focused on the Australian context and considered a range of organisations including SMEs. This paper reports on the current state of play of IT outsourcing in Australia for small, medium and large organisations. The findings of the quantitative survey show that IT outsourcing is a relatively well established practice in a number of industry sectors which have been traditionally reliant on IT/ICT. Organisations are quite selective about what IT functions are outsourced and how much of their total IT budget is spent on IT outsourcing. The findings show that majority of organisations are involved in partnership type relationships with their outsourcing vendors and that many of the relationships are well established. Finally, the findings suggest that a partnership type relationship is a strong indicator of the overall success of an IT outsourcing relationship.

Keywords: IT outsourcing, Partnership style relationship, Transaction style relationship, Selective IT outsourcing, IT functions, SMEs

1. Introduction

This paper reports on the descriptive findings of a comprehensive national study of IT outsourcing in relation to current trends in IT outsourcing in the Australian context for a broad range of industries and organisations. The type of IT outsourcing relationship is also examined using descriptive and inferential statistics.

The structure of this paper is as follows. First research questions investigated in this study are outlined, Then, the methodology used to collect and analyse data in relation to the research questions addressed in this paper is described and justified. Then the results of the data analysis are discussed. Finally some conclusions are drawn about the key findings of this research. The implications of the key findings for existing knowledge and practice in IT outsourcing are discussed and some suggestions are made for future research in IT outsourcing.

2. Research Questions

The following research questions were investigated in the Australian

1. What are main types of IT functions being outsourced?
2. When IT outsourcing is being practiced, how extensive is the practice in terms of IT budget spend?
3. What is the length of the IT outsourcing relationships between the client organisation and outsourcing vendor, is it predominately short term or long term?

4. What is the main type of IT outsourcing relationship (contractual versus partnership style) being maintained?
5. How does the type of IT outsourcing relationship impact on the overall success of the IT outsourcing relationship?

3. Methodology

In order to investigate the research questions described in the previous section, this quantitative study utilises a cross-sectional survey to collect data from a range of small, medium and large Australian organisations. The data collected included information about the current state of IT outsourcing in the Australian context and the extent to which (on a continuum from largely transactional through to largely partnership), the relationship that an organisation has with its main outsourcing vendor impacts on IT outsourcing success.

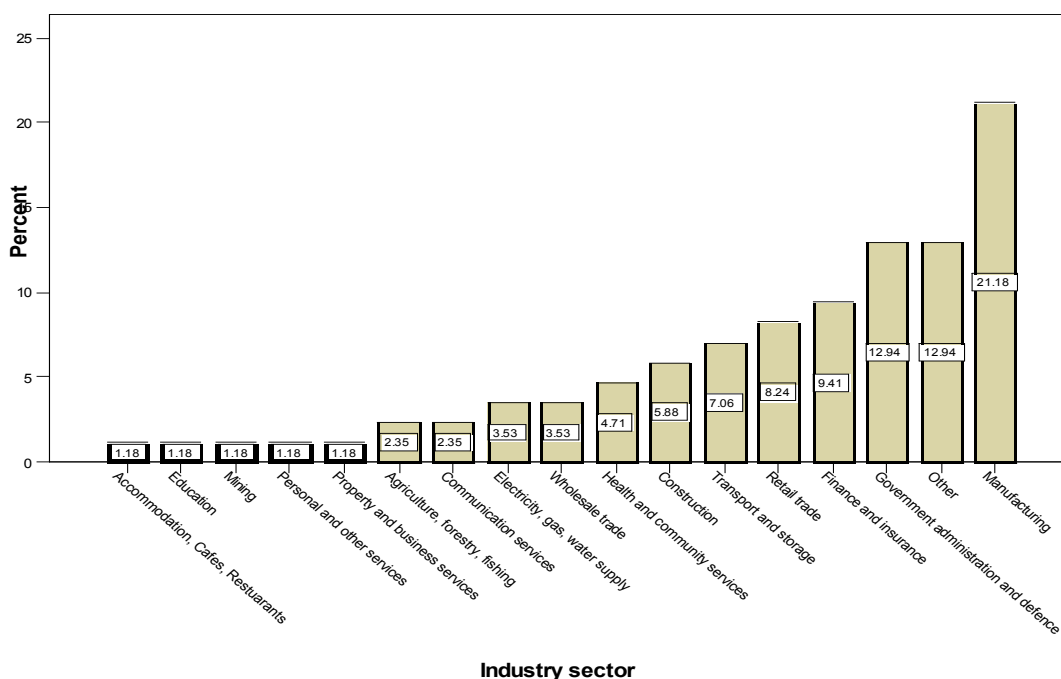
Eighteen hundred organisations were randomly selected from the Business Who's Who of Australia Database for the sample in this study. A questionnaire was sent to the senior IT executive of each selected organisation. The IT executives were given a time frame of three weeks to respond to the questionnaire, before another follow-up survey was sent. The mail survey was sent out to 1800 organisations and three weeks later, a follow up mail out of the survey was sent to the same group of organisations. Descriptive and inferential statistics were used to analyse the data.

4. Discussion of Data Analysis Results

4.1 Demographics of participating organisations outsourcing IT

Figure 1 presents the distribution of the respondent organisations outsourcing IT across the categories of industry sectors adopted from the Australian Bureau of Statistics. The results confirmed the findings of a number of previous studies (Grover et al. 1996; Seddon et al. 2000) that indicated that the specific industries which tend to be heavily reliant on ICT are where main IT outsourcing activity is concentrated. These industries are (1) Manufacturing, (2) Government, administration and defence (3) Banking, Finance and Insurance, (4) Retail trade (5) Transport and storage and to a lesser extent Construction and Health and Community Services.

Figure 1 Distribution of respondent organisation involved IT outsourcing by Industry sector



We also looked at the size of the respondent organisations in terms of the number of employees. Table 3 presents the distribution of the respondent organisations in terms of the number of employees.

Table 3 Respondent organisation size by number of employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1000 to < 10000	13	14.9	15.3	15.3
	500 to < 1000	9	10.3	10.6	25.9
	200 to < 500	18	20.7	21.2	47.1
	100 to < 200	23	26.4	27.1	74.1
	10 to < 100	22	25.3	25.9	100.0
	Total	85	97.7	100.0	
Missing	System	2	2.3		
Total		87	100.0		

The respondent organisations were very evenly distributed across small, medium and large categories of organisations in terms of number of employees. Table 3 indicates that a wide range of different size organisations (small, medium, large) were represented in our study, increasing the generalisability of the findings.

4.2 Descriptive statistics about the participating organisations and their main IT outsourcing vendor

4.2.1 Length of IT outsourcing relationship

The length of the relationship with their main IT outsourcing vendor for the respondent organisations is reported in Table 4 as a frequency distribution across the duration of the relationship in years.

Table 4 Length of IT outsourcing relationship

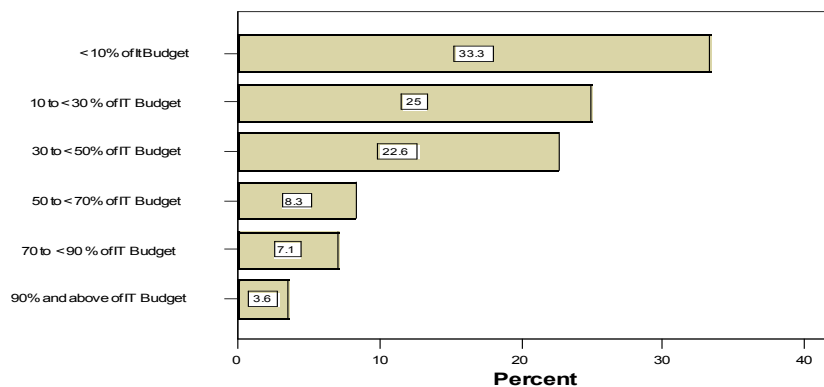
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	< 1 year	6	6.9	7.0	7.0
	1 to < 3 years	21	24.1	24.4	31.4
	3 to < 5 years	22	25.3	25.6	57.0
	5 to < 8 years	21	24.1	24.4	81.4
	8 to < 10 years	4	4.6	4.7	86.0
	10 years and above	12	13.8	14.0	100.0
	Total	86	98.9	100.0	
Missing	System	1	1.1		
Total		87	100.0		

The results from Table 4 indicate that IT outsourcing has become a well established business practice with Australian organisations. Although the results are slightly skewed towards shorter term relationships of less than 5 years (57 percent in total), 43 percent of the respondent organisations have been involved in an IT outsourcing relationship for 5 or more years. This is an interesting finding because the current literature suggests that organisations are moving towards shorter contractual arrangements with their IT outsourcing vendors (DiamondCluster 2004)

4.2.2 Percentage of IT budget spent on IT outsourcing

Figure 2 shows that spending on IT outsourcing for the respondent organisations is predominately less than 30 percent of the total IT budget spend for an organisation.

Figure 2 Percentage of IT Budget spent on IT outsourcing



This findings suggests that organisations still quite cautious and selective about the extent to which they outsource IT. This finding is also supported by Table 7 shows the frequency and type of IT functions which the respondent organisations have outsourced.

4.2.3 Types of IT Functions outsourced

Table 7 Types of IT functions outsourced by respondent organisations

IT function		Percent of IT functions outsourced	Percent of respondent organisations outsourcing IT function
Network management	48	14.7	55.8
Application development	36	11	41.9
Disaster recovery	31	9.5	36
Configuration management	31	9.5	36
Software development	28	8.6	32.6
Helpdesk /End user support	28	8.6	32.6
Systems design and planning	24	7.4	27.9
Systems operation	23	7.1	26.7
Data centre management	22	6.7	26.7
Telecommunications management	20	6.1	23.3
E-Commerce or e-business services	17	5.2	19.8
Transaction processing	9	2.8	10.5
Other	9	2.8	10.5
Total responses	326	100	379.1

Table 7 shows that network management, application development, disaster recovery, software development and helpdesk and end user support are the most commonly outsourced IT functions being outsourced by at least 30 percent of the respondent organisations. These results also show that organisations are selective in what IT functions are outsourced but there is a wide range of IT functions being outsourced.

4.2.4 Type of Relationship and Overall Success of IT Outsourcing Relationship

Figure 3 shows that respondent organisations are predominately involved in partnership type relationship with their main outsourcing vendor and only a very small percentage (4.7) of the respondent organisations are involved in a purely transactional type relationship with their main outsourcing vendor.

Figure 3 Transactional or Partnership Type Relationship

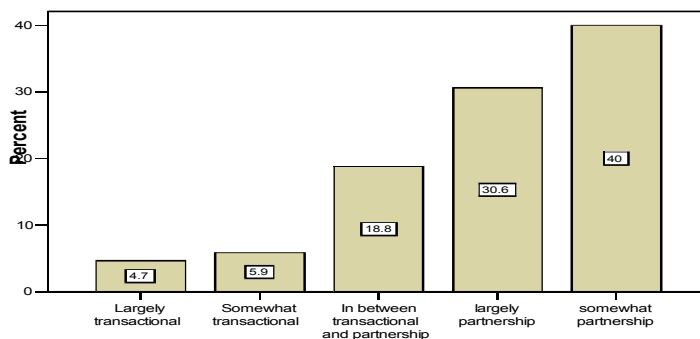
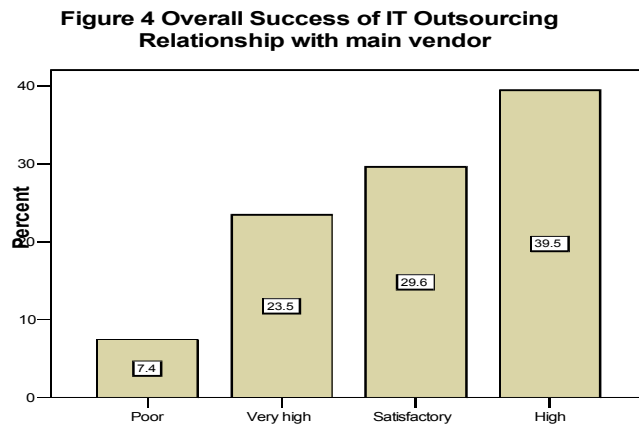


Figure 4 shows that over 60 percent of respondent organisations have high level of satisfaction with the overall success of their IT outsourcing relationship with their main outsourcing vendor. Only 7 percent of the respondent organisations were unhappy with their IT outsourcing relationship with their main outsourcing vendor. This findings confirms that a client organisation in a partnership type relationship with their main IT outsourcing vendor are more likely to be satisfied with and involved in a successful relationship.



Finally, we report on a simple regression model ran to determine the extent to which influence of the type of relationship on continuum from largely transactional to largely partnership impacts on overall success of IT outsourcing relationship.

Table 9 Coefficients(a)

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations			Collinearity Statistics	
	B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
(Constant)	1.929	.335		5.761	.000					
Transactional/Partnership Relationship	.476	.083	.549	5.770	.000	.549	.549	.549	1.000	1.000

a Dependent Variable: Overall S uccess of IT Outsourcing Relationship

Table 9 shows from the beta coefficient (0.549), that the independent variable Type of Relationship (Transactional or Partnership) significantly affects the independent variable Overall Success of IT Outsourcing Relationship at the one percent significance level as indicated by the significant T-value of 5.770. Overall the results of simple regression analysis suggest that a partnership type relationship is a strong indicator of the overall success of an IT outsourcing relationship.

5. Conclusions and Implications

This paper reported on the current state of play in IT outsourcing in the Australian context. The results of the data analysis show that the data set was representative a range of small, medium and large organisations who are involved in outsourcing IT. The main industries represented by the respondent organisations are heavy users of ICT and therefore strong candidates for considering IT outsourcing. Future studies of IT outsourcing should consider concentrating on these industries to gain deeper insights into IT outsourcing phenomena which are industry specific.

The majority of respondent organisations were found to be involved in a partnership type relationship with their main outsourcing vendor and were relatively satisfied with the relationship with their main IT outsourcing vendor. The length of the relationships indicated that majority of the organisations were involved medium to long term stable relationships

However, most organisations are still quite cautious and selective about outsourcing IT with the majority of the respondent organisations spending less than 30 percent of their total IT budget on IT outsourcing. Furthermore, organisations are selective in what types of IT functions are outsourced and the findings of this study confirm the findings of previous studies in terms of the types of IT functions which are the most likely candidates for IT outsourcing.

The results of simple regression analysis indicate a partnership type relationship is a strong indicator of a successful relationship with the outsourcing vendor.

Overall, this paper has provided some valuable insights into the current state of IT outsourcing in the Australian context and the findings suggest that IT outsourcing is becoming a well established practice for a wide range of organisations from a variety of industry sectors which are heavily reliant on ICT. Furthermore, the findings reported in this paper confirmed that a partnership type relationship is a strong indicator of the overall success of an IT outsourcing relationship.

6. References

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