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# Information Systems Outsourcing and Insourcing: Lessons and Experiences

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## 1. Introduction

When Eastman Kodak announced that it was outsourcing its information systems (IS) function in 1989 to IBM, DEC and Businessland (now Entex Information Services) it created quite a stir in the IT industry. Never before had such a well known organization, where IS was considered to be a strategic asset, turned it over to third party providers (Applegate and Montealege, 1991). Since then both large and small companies have found it acceptable, indeed fashionable, to transfer their IS assets, leases and staff to outsourcing vendors (Arnett and Jones, 1994). Kodak appears to have legitimized outsourcing, leading to what some have called "the Kodak effect" (Caldwell, 1994). Senior executives at some of the most well known companies in the U.S. such as General Motors, Halliburton, Hughes Aircraft, Scott Paper, American Express, Bethlehem Steel, Continental Bank, Amtrak, Enron, National Car Rental, and Delta Airlines, have followed Kodak's example and signed long term contracts worth hundreds of millions of dollars with outsourcing "partners". Recently, a number of high-profile multi-billion dollar "mega-deals" have been signed by Xerox, General Dynamics, and McDonnell Douglas. Nor is this trend only fashionable in the United States. Lufthansa in Germany; KF Group in Sweden; British Petroleum, Guinness, Inland Revenue and British Aerospace in the U.K.; Canada Post in Canada; Swiss Bank in Switzerland; and Lend Lease and the South Australian government in Australia have all signed significant contracts with outsourcing vendors such as IBM, EDS, CSC, SHL Systemhouse, AT&T Solutions, and Perot Systems. Such deals signal a rise of outsourcing globally. Some outsourcing deals go so far as to involve the formation of new jointly held companies between the outsourcer and client, e.g. TransQuest (Delta Airlines and AT&T Solutions), Technology Service Solutions (Kodak and IBM), and Systor AG (Swiss Bank and Perot Systems).

Studies performed by Dataquest (Caldwell, 1995) note that the IS outsourcing market grew from \$9 billion in 1990 to \$28 billion in 1994 representing a growth rate in excess of 25% per annum. Other figures produced by Dataquest (Asbrand, 1995) suggest even greater growth. According to their research, in 1995 companies spend \$22 billion in the network management and desktop services outsourcing market. They predicted this market to grow to \$37 billion by 1998. So by any stretch of the imagination, the IS outsourcing market is significant.

Although companies outsource IS for many reasons (Lacity, Hirschheim and Willcocks, 1994), industry watchers generally attribute the growth of the IS outsourcing market to two primary phenomena. First, interest in IS outsourcing is largely a consequence of a shift in business strategy. Many companies have recently abandoned their diversification strategies--once pursued to mediate risk--to focus on core competencies. Senior executives have come to believe that the most important sustainable competitive advantage is strategic focus by concentrating on what an organization does better than anyone else while outsourcing the rest. As a result of the this focus strategy, IS came under scrutiny: is IS a competitive weapon or merely a utility? Senior executives frequently view the entire IS function as a non-core activity, and believe that IS vendors possess economies of scale and technical expertise to provide IS services more efficiently than internal IS departments. Second, the growth in outsourcing is a function of the unclear value delivered by IS. In many companies, senior executives perceive that IS failed to deliver the promise of competitive advantage promised in the 1980s. Consequently, many senior executives view IS as an overhead -- an essential cost but one to be minimized nevertheless.

These two phenomena--refocus to core competencies and the perception of IS as a cost burden--prompt many senior executives to sign outsourcing "mega-deals" for the provision of all IS services. But while such mega-deals afford these companies with much press, we have some concern about the long-term viability of these deals. We are not alone.

Some prominent IS professionals have cautioned against the wholesale transferal of the management and control of a "strategic asset" such as IS. In a number of cases, these concerns proved valid, with "outsourcing partnerships" experiencing grave problems. A few companies have paid out significant sums of money to extricate themselves from outsourcing contracts and then rebuilt their internal IS capability (Lacity and Hirschheim, 1993a). On the other hand, some IS managers who have refused to deal with outsourcing vendors or ignored them, have either been fired or had their jobs marginalized when their IS shops have failed to demonstrate value for money. So clearly outsourcing must be taken seriously.

What appears to be happening is that an important change is taking place in the sourcing of IS activity. The high profile outsourcing events alluded to above, have tended to obscure the real phenomenon: a significant and irreversible move to what we call the selective sourcing of IS activity. The key question is not "should we outsource IS?", but rather "where and how can we take advantage of the rapidly developing market of IS services providers?" Fundamentally, companies need to consider how best to obtain the needed IS services -- this is the "sourcing dilemma". In this paper, we seek to provide some answers to this dilemma by summarizing the lessons learned from two research projects we undertook. The first project focused on 14 companies who went through a formal outsourcing evaluation process in which a number of them chose to outsource their entire IS department. The second project analyzed an additional 7 companies which also went through an evaluation process but chose instead to insource their IS activities. We looked at whether these insourcing stories yielded the cost savings they promised in their respective bids.

## 2. Outsourcing and Insourcing

When one speaks of "sourcing", three variations appear valid. *IS outsourcing* refers to the third party management of IS assets, people and/or activities required to meet prespecified performance levels. We use the term *outsourcing* to refer to those organizations that decide to outsource at least 80 percent of their IS budgets to third party providers. *Insourcing*, on the other hand, refers to organizations that formally evaluate outsourcing but select their internal IS departments' bid over external vendor bids, thus keeping over 80% of the IS budget provided by the internal IS department. *Selective sourcing* refers to organizations that opt to use third party vendors for certain IS functions which represents between 20-60% of the IS budget (typically around 40%) while still retaining a substantial internal IS department. This is consistent with the studies done by Fitzgerald and Willcocks (1993) which show that selective sourcing usually takes up between 30 to 40% of the formal IS budget.

### 2.1 Outsourcing Options

Although outsourcing is often portrayed as an all or nothing proposition, or more specifically that outsourcing constitutes the taking of a significant portion of the IS budget (e.g. in excess of 80%), in actuality, there are a variety of outsourcing options. According to Millar (1994) there are four basic types of outsourcing arrangements: (1) *general outsourcing*; (2) *transitional outsourcing*; (3) *business process outsourcing*; and (4) *business benefit contracting*. In the first option (*general outsourcing*) there are three alternatives: (a) selective outsourcing - where one particular area of IS activity is chosen to be turned over to a third party, such as data center operations; (b) value added outsourcing - where some area of IS activity is turned over to a third party who is thought to be able to provide a level of support or service which adds value to the activity that could not be cost-effectively provided by the internal IS group; and (c) cooperative outsourcing - where some targeted IS activity(ies) is (are) jointly performed by a third party provider and the internal IS department.

The second option (*transitional outsourcing*) typically involves the migration from one technological platform to another. Such transitional outsourcing has three phases: (i) management of the legacy systems; (ii) transition to the new technology/system; and (iii) stabilization and management of the new platform. Any one or all of these three phases could be turned over to a third party provider. Sun Microsystems deal with CSC to handle the maintenance of Sun's legacy systems for a three year period is a good example of such transitional outsourcing (I/S Analyzer, 1993).

The third option (*business process outsourcing*) is a relatively new outsourcing arrangement. It refers to an outsourcing relationship where a third party provider is responsible for performing an entire business function for the client organization. According to Millar, a number of industries are considering business processing outsourcing; in particular, government, financial services (banks and insurance companies), health care, transportation, and logistics. Targeted services include hotlines, help desks, call centers, claims management, and document processing.

The last option (*business benefit contracting*) is also a relatively recent phenomenon. It refers to a "contractual agreement that defines the vendor's contribution to the client in terms of specific benefits to the business and defines the payment the customer will make based upon the vendor's ability to deliver those benefits. The goal is to match actual costs with actual benefits and to share the risks." Given the risks associated with traditional outsourcing, there is considerable interest in this form of outsourcing. Millar notes, however, that while business benefit contracting is frequently used in the marketing of outsourcing services by third party providers, it typically is not actually adopted because of the difficulty associated with measuring benefits. Benchmarking in this area is particularly problematic. Since vendor revenue and margin potential is directly tied to the benchmarks, it is not surprising that getting agreement by both parties on the benchmarks proves especially thorny.

Outsourcing options have also been discussed by Wibbelsman and Maiero (1994) but under the context of the sourcing of IS activities. According to Wibbelsman and Maiero, the key issue facing organizations is not "should we outsource" but "how should we source". They refer to the sourcing question in terms of "multisourcing", i.e. the multiple sourcing of IS services. More specifically, they see multisourcing as a continuum running from insourcing through cosourcing to outsourcing. The end points of their continuum span from "OK as is" to "divest completely". The "OK as is" point on the continuum relates to the belief that the status quo is the best sourcing strategy; IS activities are insourced. Another insourcing strategy which moves along the continuum is termed "fix and keep in-house". This strategy believes that insourcing is the best strategy but the internal IS department needs to adopt better practices to become more efficient and effective. Moving to the "cosourcing" arrangement, Wibbelsman and Maiero talk about a "rehabilitation and return" strategy whereby the IS organization is reformed through the assistance of a third party and then kept in-house. Another cosourcing strategy is the "transition assistance" strategy where a third party takes on certain IS activities while the internal IS group transitions itself to a new set of skills. The next arrangement is termed "capability development" where a third party takes on either permanently or temporarily IS activities while the IS organization develops new capabilities. This option allows the IS organization to focus on certain core capabilities. Moving to the outsourcing end of the continuum, Wibbelsman and Maiero speak of "option to reverse" whereby IS is outsourced to a third party but there is a specific plan which would allow the function to return in-house without undue hardship at a later time if the management of the company deems this desirable. Lastly, there is the "divest completely" strategy where the IS function is outsourced permanently. In such cases, IS is perceived to be a non-core business function best handled by an outsourcer.

Wibbelsman and Maiero note that a multisourcing strategy may vary depending on what IS activity one looks at. For example, data center operations might best be handled via a "fix and keep in-house" strategy, while applications development might adopt an "OK as is" arrangement, while applications maintenance might best be dealt with using a "divest completely" strategy. Whatever multisourcing strategy is adopted, it must optimize three critical objectives. The first is the strategic objective. Here, the multisourcing strategy must ensure that mission critical IS capabilities and services are in place to support the strategic business needs of the company. The second is the tactical objective. Here, the multisourcing strategy must ensure that the appropriate IS capabilities and services are available to support the day-to-day business operations in a effective and efficient manner. Lastly, there is the financial objective which translates into the need to optimize the overall IS cost/service/value relationship.

## 2.2 Literature Review

Because of the importance of IS outsourcing to the practitioner community, there have been numerous trade publications on the subject, see for example, Ambrosio (1991); Anthes (1991); Caldwell (1994,1995); Gillin (1990); Kass and Caldwell (1990); Rochester and Douglas (1990); and Rothfeder and Coy (1990). But information systems outsourcing has also become fashionable in the academic literature as well. Buck-Lew (1992), Grover et al. (1994), Gurbaxani (1996), Huber (1993), Jurison (1995), Kambil et al. (1993), McFarlan and Nolan (1995), and Lacity, Willcocks and Feeny (1995), for example, have considered the implications of outsourcing for organizational forms and

management. Ang (1993), Clark et al. (1995), Cronk and Sharp (1995), de Looff (1995), Klepper (1995), Nam et al. (1996) Peak (1994), Saarinen and Saaksjarvi (1993) and Slaughter and Ang (1996) have focused on the theoretical issues associated with the outsourcing decision structure, and on efficient outsourcing relationships. Studies by Loh and Venkatraman (1992abc) have respectively investigated: stock market reaction to IS outsourcing; the sources of influence on the adoption of outsourcing as an organizational innovation; and the relationship between the degree of outsourcing and business and IS cost structures and IS performance. Apte (1990) has looked at the global outsourcing of information systems and processing services. Case studies of outsourcing abound. For example, detailed case studies of U.S. corporations involved in outsourcing decisions can be seen in Buck-Lew (1992), Huber (1993), Lacity and Hirschheim (1993b), Palvia (1995), Rochester and Douglas (1990), and Moad (1993). More recently, there have been a series of case studies produced from various European countries (for example Auwers and Deschoolmeester, 1993; Willcocks and Fitzgerald, 1993; Heinzl, 1993; Reponen, 1993).

A conclusion consistent across much of the research on outsourcing is that organizations *can* cut IS costs by outsourcing, and often do obtain these savings. This message comes through very clearly in the research of Lacity and Hirschheim (1993b), Willcocks and Fitzgerald (1994), Loh and Venkatraman (1992c), and Peak (1994). However, the research of Lacity and Hirschheim (1993b) is openly critical of the position that outsourcing is the preferred vehicle for reducing IS costs. The authors go so far as to suggest there is often little that an outside vendor can provide (regarding cost savings) that can not be provided internally. If this is accurate, then one must question the value of outsourcing, considering instead whether it is possible to obtain cost savings through insourcing. This then provided the motivation behind our second research project on insourcing. Its purpose was to explore the IS sourcing evaluation process, especially the insourcing alternative to outsourcing. We focused on those organizations which chose insourcing over outsourcing.

### **3. Research Methodology**

To investigate the consequences of outsourcing and insourcing, a series of in-depth interviews with participants from the client organizations as well as the vendors were conducted. Interviewees typically included senior user managers, IS directors, IS staff members (those involved in the selective sourcing decision), vendor account managers, and consultants.

All interviews were tape-recorded and transcribed into separate case write-ups. These transcribed interviews provided the basis of the findings presented below. In addition to the interviews, the following supporting documentation was asked for and gathered (although not necessarily in all cases): request for proposals, internal bids, external bids, bid evaluation criteria, annual reports, and organization charts.

The duration of the interviews, on average, lasted one and one half hours. Although some interviews were shorter or longer, all interviews followed the same protocol which was based on an unstructured format. Participants were merely asked to tell their side of the outsourcing or insourcing story. This allowed the participant free reign to convey his or her interpretation of events. In addition, all participants were assured of anonymity.

An organization's 'sourcing story' was 'cross-checked' by interviewing multiple individuals at each organization (where possible). In cases where there were differences in opinion between participants at the same organization, follow-up telephone calls were conducted with participants to clarify their positions. In many instances, interesting differences of opinion persisted. These differences provided us new insight into how individuals variously perceived their organization's evaluation of the sourcing decision. It provided a richer interpretation than might have otherwise been possible.

In the following two sections, we offer a brief summary of the lessons learned from the previous two studies – the first on outsourcing, the second on insourcing.

#### **4. Summary of Lessons Learned from the Outsourcing Study**

After conducting 14 in-depth case studies of Fortune 500 companies that evaluated outsourcing, eight lessons emerged (Lacity and Hirschheim, 1993b). These are summarized below:

##### **Lesson 1: The published literature portrays an overly optimistic view of IS outsourcing**

The overall lesson learned from the published literature is that these sources often portray an overly optimistic view of outsourcing. Three reasons can be identified to explain the optimism. First, reports are made during the honeymoon period when clients first sign an outsourcing contract. Second, the literature only reports projected savings instead of actual savings. Third, public reports under-represent outsourcing failures because few companies wish to advertise a mistake.

##### **Lesson 2: Outsourcing appears to be a symptom of the problem of demonstrating the value of IS**

In the participating companies, an overwhelming majority of senior managers viewed their IS functions as cost burdens. As such, IS managers could not appeal to effectiveness or strategic significance to justify their existence. Instead, they must somehow demonstrate efficiency.

##### **Lesson 3: Organizational members may initiate outsourcing evaluations for a variety of reasons; cost efficiency being only one**

Although industry watchers imply that the primary reason why organizations initiate outsourcing is to reduce costs, the results of our research suggest that such a belief is too simplistic. Participants identified four broad categories of reasons: *financial* - cut costs, improve cost controls, and restructuring the IS budget; *business* - return to core competencies, facilitate mergers and acquisitions, start-up companies, and devolution of organizational and management structures; *technical* - improve technical services, gain access to new technical talent, provide access to new technologies, and focus the internal IS staff on core technical activities; and *political* - react to the efficiency imperative; acquire or justify additional resources; react to the positive outsourcing media reports; reduce uncertainty; eliminate a burdensome function; and enhance personal credibility.

##### **Lesson 4: An outsourcing vendor may not be inherently more efficient than an internal IS department**

Many practitioners assume that outsourcing vendors are inherently more efficient due to economies of scale. In the outsourcing arena, however, the applicability of the economies of scale model may be questioned. First, small shops may have lower costs per MIP than large shops by employing older technology, offering below market wages, and maintaining tight controls and procedures. Second, a vendor's hardware discounts are negligible in many instances. Third, changes in software licensing agreements diminish a vendor's advantage. Fourth, labor expertise is largely a myth since clients are usually supported by the same staff that transitioned to the vendor.

##### **Lesson 5: The internal IS department may be able to achieve similar results without vendor assistance**

If the vendor is not inherently more efficient than internal IS shops, then perhaps the company can reduce its own IS expenses through data center consolidation, resource optimization, chargeback implementation, and other sundry methods.

##### **Lesson 6: If a company decides to outsource, the contract is the only mechanism to ensure that expectations are realized**

When some companies decide that outsourcing is the preferred mechanism for achieving IS objectives, they often like to view their vendors as partners. Vendors are not partners because profit motives are not shared: a dollar out of the client's wallet is a dollar in the vendor's wallet. An outsourcing contract is the only way to ensure an equitable balance of power. Service level measures, arrangements for growth, penalties for non-performance and other contract provisions must be stipulated prior to outsourcing commencement.

**Lesson 7: The metaphor that IS is merely a utility is misguided**

These metaphors are based on the assumption that IS services are homogeneous - one unit of IS service is equal to any other. The problem with this metaphor is it ignores the idiosyncratic nature of an organization's information needs.

**Lesson 8: Outsourcing often constrains organizational flexibility**

Outsourcing will likely significantly constrain any flexibility of how IS is delivered. It might also inhibit how an organization responds or adapts to a changing business environment.

**5. Summary of Lessons Learned from the Insourcing Study**

After conducting 7 in-depth case studies of companies that choose insourcing over outsourcing, six lessons emerged (Lacity and Hirschheim, 1995). These are summarized below:

**Lesson 1: Conflicting stakeholders' expectations place IS managers in the precarious position of providing a Rolls Royce service at a Chevrolet price.**

The first lesson captures the cost/service dilemma which usually prompted the outsourcing evaluations in the first place. In general, there is a direct relationship between IS cost and IS service. IS can either provide a premium service at a premium cost or IS can provide a minimal service at a minimal cost. In our cases, senior management wanted a minimal cost but business units and end users wanted a premium service. As a result, organizations expected that IS perform a premium service at a minimal cost - an unrealistic expectation for most IS departments. These two stakeholder groups set a conflicting agenda for IS because IS managers cannot provide a Rolls Royce service at a Chevrolet price. As a result of the dilemma, IS satisfied neither requirement, resulting in senior management's perception that IS cost too much and users' perceptions that service was poor. The IS cost/service dilemma is depicted in the following diagram:

	MINIMAL COST	PREMIUM COST
PREMIUM SERVICE	Senior management's and users' expectations of IS performance	Realistic IS performance
MINIMAL SERVICE	Realistic IS performance	Senior management's and users' perceptions of IS performance

**Lesson 2: Senior management must empower IS to implement change**

Implementing cost savings measures requires IS to adopt policies which may not be readily agreed to by the business units in the organization. Internal politics often drives what can and cannot be implemented. It is only when senior management empowers the IS department does it actually have the authority, i.e. the political muscle, to implement changes. To put it differently, IS needs a 'big stick' to hammer resistance with in order to implement cost saving policies. This big stick can only come from senior management.

**Lesson 3: Successful sourcing depends on comparing vendor bids against a newly-submitted internal bid, not against current IS performance.**

As noted above, IS is often unable to implement the necessary cost reduction strategies until senior management empowers them to do so. But how is this done? Only after senior management threatened the organization with outsourcing, were IS managers able to overcome resistance. The outsourcing evaluation permitted IS to submit a bid which incorporated cost reduction strategies.

**Lesson 4: Cost-efficiency largely depends on adoption of efficient management practices and to a lesser extent, economies of scale.**

One of the lesson generated from the outsourcing studies is that internal IS departments may be able to achieve similar results without vendor assistance. We noted that vendor bids are often based on efficient management practices, such as data center consolidation, that could alleged be replicated by in-house IS. This would explain why many companies in our studies found that insourcing was a more cost efficient alternative--cost efficiency has more to do with these efficient practices than just economies of scale. Just because vendors are bigger, doesn't mean they are better.

**Lesson 5: Internal IS departments often possess equivalent or superior economies of scale to vendors for many IS functions.**

In general, we have concluded that vendors are inherently more efficient at providing technical expertise and serve to minimize a customer's opportunity costs by providing commodity IS services while internal IS departments focus on more strategic IS issues. In general, internal IS departments are inherently more efficient at providing business expertise, minimizing transaction costs (cost to coordinate, monitor, and manage an IS function), minimizing shareholder costs (internal IS departments do not need to generate a profit), and minimizing marketing costs (internal IS departments do not have to advertise or solicit customers). In addition, large IS departments have comparable economies of scale as vendors in the area of data processing costs, hardware purchase costs, and software licensing costs. The following diagram depicts the inherent advantages:

SOURCES OF I.S. COSTS	INTERNAL DEPARTMENTS	I.S.	OUTSOURCING VENDORS
Data center operating costs	Comparable to a vendor for 150-200 MIP range		Comparable to large IS departments. Inherent advantage over small IS departments
Hardware purchase costs	Large companies: volume discounts comparable to a vendor		Volume discounts comparable to large IS departments. Inherent advantage over small companies
Software licensing costs	Comparable due to group licenses		Comparable
Cost of business expertise	Inherent advantage		
Cost of technical expertise			Inherent advantage
Cost to shareholders (the need to generate a profit)	Inherent advantage		
R&D costs			Inherent advantage
Marketing costs	Inherent advantage		
Opportunity costs			Inherent advantage
Transaction costs	Inherent advantage		

**Lesson 6: Selective sourcing—which treats IS as a portfolio is the key to rightsourcing.**

Taken as a whole, the previous lessons generated all support the conclusion that selective sourcing is the key to rightsourcing. This is based on our belief that: (1) Total outsourcing is a poor strategy for most companies because it fails to capitalize on the inherent cost advantages possessed by internal IS departments for certain IS functions. (2) Total insourcing is a poor strategy because it fails to capitalize the inherent cost advantages possessed by vendors for certain IS functions. (3) Selective sourcing, which capitalizes on the inherent advantage of both, is the key to rightsourcing. We note that several trends in the market place facilitate selective sourcing: a growing number of vendors that offer more market-focused products and services rather than only offer total outsourcing; shorter contracts enable customers to achieve efficiency without losing flexibility; tighter contracts enable customers to better define their service needs and minimize vendor opportunism.

**6. Conclusions / Reflections**

Issues associated with new technologies and the management of such, have a habit of maturing very rapidly. Outsourcing is no exception. Since we concluded our research studies of outsourcing and insourcing - the results of which were reported above - a number of changes have begun to emerge. We briefly offer some thoughts about them below.

**6.1 Change in Focus**

Although companies outsource for a variety of reasons, the view that the primary reason is cost savings appears to be falling out of favor. More and more companies appear to be entering into outsourcing 'deals' not so much to reduce costs but for the sake of management focus (Halvey, 1994). In other words, they outsource certain parts of IS in order to free up management and IS personnel to work on specific value-added functions; turning their attention to those areas where the internal skill sets add strategic value to the organization. This is what we argued above in Lesson 6 as selective sourcing. Internal IS departments can no longer expect to continually grow in size by internally acquiring all the skills sets they need to maintain IS in their host organizations. The



corporate mandate to downsize affects IS departments as it does all other departments. Focus becomes the key. IS groups are thus determining which areas they provide value-add, with outsourcing vendors being chosen to handle all other areas.

## 6.2 The Growth in Alliances/Partnerships

In the early days of outsourcing, deals were often struck on the basis of 'partnerships'. As our outsourcing research showed, however, this concept was fallacious. Outsourcing vendors were not partners because ultimately, these arrangements were simply transactions: the vendor provided a set of services to which it received compensation from the client. Sometimes the deals sounded like a form of 'alliance' because the vendor provided up-front cash (either through low interest loans or stock purchases) to sweeten the deal. This gave the appearance of an alliance because the vendor was acting on the clients behalf. The truth was that these financial sweeteners were simply that: inducements to sign long term outsourcing deals where the vendor would ultimately get back its investment during the life of the contract. Recently however, alliances are being entered into by the vendor and client which seem much more like *real* alliances. New entities are being formed which offer synergistic skills aimed at specific markets. Such a targeted focus offers the possibility of real gain which hitherto was lacking in previous alliance or partnership deals (Henderson, 1990). One need only look at the partnerships entered into by AT&T Solutions and Delta Airlines in the formation of TransQuest (providing IT solutions to the airline industry); Kodak and IBM in the formation of Technology Service Solutions (providing multivendor PC maintenance and support services to the manufacturing industry); Swiss Bank and Perot Systems in the formation of Systor AG (developing and selling client/server solutions to the banking industry); and Mutual Life Insurance of New York and CSC (marketing software and services to the insurance industry). Some of these joint ventures already have significant revenue streams: Technology Service Solutions' revenue in 1994 was approximately \$700 million; Systor AG's revenue in 1994 was in excess of \$100 million (Caldwell, 1995). But not all. The TransQuest alliance, for example, ran into financial problems recently and has been disbanded.

## 6.3 Equity Holding Deals

Concomitant with the growth in alliances and partnerships, has been the emergence of a number of large equity holding deals. These include: Vendors taking some stake in the outsourcing client; clients taking some stake in the outsourcing vendor; and as noted in point 2 above, both parties taking stake in the formation of a new entity. Swiss Bank, for example, signed a 25 year outsourcing deal with Perot Systems worth \$6.25 billion. In so doing, they also took a 24.9% equity holding in Perot Systems. Perot, in turn, took a 40% stake in the Swiss Bank initiated venture Systor AG. In Australia, Lend Lease outsourced all its information systems to ISSC but took a 35% holding in ISSC Australia. Similarly, Telestra (Australia's telecomms company) is negotiating to outsource its IS to ISSC which in turn would outsource its network operations and management to Telestra. Additionally, Telestra would take a 26% stake in ISSC. In Canada, Bell Canada and IBM Canada are reportedly negotiating a similar kind of deal. Rumors of analogous deals in the U.S. and around the globe abound. Of course the real question is: will such equity holding and alliance deals prove successful. And while it is too early to pass judgment on such arrangements, the trend is very clear. Future research will need to be done to see if the new wave of outsourcing arrangements and deals offer value to both the vendor and client which were not present in earlier outsourcing deals.

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