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Panel 2 Best Practices in Information Systems Sourcing

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PANEL 2

BEST PRACTICES IN INFORMATION SYSTEMS SOURCING

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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. Since then, both large and small companies have found it acceptable, indeed fashionable, to transfer their IS assets, leases and staff to outsourcing vendors. Kodak appears to have legitimized outsourcing, leading to what some have called "the Kodak effect." 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 J P Morgan, 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, Guiness, 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, Andersen Consulting, 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 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 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, two seem to dominate: the first revolves around the desire of companies to refocus on core competencies leaving "ancillary" services (such as IS) to someone else. The second, and perhaps more ominous, is the perception of IS as a cost burden. This has prompted 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. 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 panel, we will explore possible answers to this dilemma by summarizing the lessons we have collectively learned from our various research projects. Mary Lacity will start by discussing the lessons learned from twenty-one U.S. companies who went through a formal outsourcing evaluation process. A number of these companies chose to outsource their entire IS departments while others chose to insource their IS. Leslie Willcocks will then report on the European experiences with outsourcing. Finally, Rudy Hirschheim will discuss some of the latest trends in the outsourcing world: in particular, the formation of IT alliances.