Evaluation Issues in Managing IS/IT Outsourcing Contracts: A Study of Large Australian Organizations

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Abstract

Outsourcing of information systems and information technology investments has become a popular method for organizations to achieve their business goals and objectives. However, there is no guarantee that the outsourcing will be perceived as successful due to the very different expectations held by the various stakeholders. The results indicate that the use of IS/IT investment evaluation and benefits realization methodologies and selective outsourcing can lead to successful implementation of IS/IT outsourcing. The use of these methodologies can also allow organizations to have greater control over their IS/IT outsourcing contracts.

Keywords

IS/IT outsourcing, IS/IT benefits realisation, IT evaluation, outsourcing contracts

1. INTRODUCTION

Outsourcing of IS/IT investment has become so widespread in recent years that it can no longer be ignored (Hirschheim and Lacity, 2000). Globally, outsourcing has been spreading quickly in many countries. Spending by organisations in IS/IT outsourcing is huge and increasing. According to Datamonitor (TMCnet, 2004), US$119 billion worth of major IT services contracts were signed in 2003, which represented a 44% increase over 2002, with the government sector drives 49% of global outsourcing spending in 2003.

The scope and range of outsourcing services are increasing as well, as is shown by the promotion of BPO (business process outsourcing), ASP (applications service providers), global outsourcing, web and e-business outsourcing (Gonzales et al., 2004). Despite the recent debates in the US and other western countries about outsourcing of skilled IT jobs to other low-cost countries such as India and about organizations’ obligations to the broader stakeholder community (Jones, 2005; Palvia, 2003; Rottman and Lacity, 2004), offshore IS/IT outsourcing has often been employed by most large organisations to reduce the cost of future IS/IT investments and to improve the cash flow of the organisations (Kakabadse and Kakabadse, 2001).

2. OUTSOURCING AND EVALUATION PRACTICES

A lot of IS/IT projects fail to deliver what is expected of them because most organizations focus on implementing the technology rather than the adoption of the tools necessary to help to track and measure the IT projects (Flowers, 1996; Hilam and Edwards, 2001). There was some evidence to suggest that the recent project failure ranged between 30% to 70% (Doherty and King, 2001). For example, investigation by Sohal and Ng (1998) found that in large Australian organizations the potential of IS/IT has not been utilized to meet the competitive challenges due to inadequate and inappropriate appraisals/evaluation of the proposed IS/IT investment projects. Moreover, they reported that 45% of the responding organizations did not evaluate whether IS/IT systems were still consistent with business objectives and 59% did not determine whether expected benefits were being achieved. Recent research by Marshall and McKay (2002) indicate that nearly half of the respondents had no measures of success and most did not carry out post-implementation reviews for their investments.
While IS/IT investment evaluations are important, they are insufficient in terms of ensuring that the benefits identified and expected by organizations are realized and delivered (Ward and Griffiths, 1996). This is because IS/IT is just one enabler of process change (Grover et al., 1998) and it only enables or creates a capability to derive benefits. The essence of benefits realization is to organize and manage so that the potential benefits arising from the use of IS/IT can actually be realized (Ward and Elvin, 1999). Indeed, good management of organizational change is important to ensure successful IS/IT evaluation and benefits realization processes (Sherer et al., 2003).

Seddon et al. (2002) have indicated that the identification and measurement of benefits is the most difficult issue in evaluating IS/IT. As benefits are frequently long term, uncertain and intangible future benefits are too wide-ranging to be estimated with any accuracy (Clemens, 1991). Thus, IS/IS/IT projects should be evaluated in the context of accumulated costs and benefits from related initiatives, not solely judged on single initiatives (Galliers et al., 1996).

The identification of expected benefits of a proposed IS is a challenging task. According to Ward and Griffiths (1996), very few organizations have a benefits realization approach. Furthermore, much attention is paid to ways of justifying investments, with little effort being expended to ensure that the benefits expected are realized. As the result, there is a massive imbalance between IS/IT investment and benefits derived from that investment (Bailey, 1987; Sutherland, 1994).

While the search for benefit identification can contribute to the success of an IS/IT investment, organizations have often found it difficult to evaluate them and as a result tend to use notional arbitrary values for assessing benefits (Ballantyne et al., 1999). To help managers and decision-makers with the IS/IT benefits management process, a number of frameworks have been developed (e.g., Changchit et al., 1998; Remenyi et al., 1997; Ward et al., 1996). Therefore, the use of a formal benefits realisation methodology is important in assisting organisations to ensure that their expected benefits are delivered (Lin and Pervan, 2003; Ward et al., 1996).

The following section looks at the key outsourcing issues in the literature.

### 3. Evaluation and Benefits Realization of IS/IT outsourcing

The objectives for evaluation are to ensure that the outsourcing organizations will realize the promised benefits while achieving a high level of customer satisfaction, and at the same time, outsourcing contractors will realize the profit margin and meeting the service level agreements (SLAs) (Misra, 2004). Similarly, Teng et al. (1995) found that the gap between the actual and expected level of IS/IT performance was a major determinant of IS/IT outsourcing.

According to PA Consulting Group (1996), only 5% of organizations surveyed had achieved high levels of benefits from outsourcing. Despite the fact that many IS/IT outsourcing project failures (e.g. Barton, 2002; Douglas, 1999; Sohal and Ng, 1998) had been reported in the media, very little attention had been paid to the use of IS/IT investment evaluation and benefits realisation methodologies in order to ensure outsourcing success.

One reason for this is that most organizations fail to properly monitor and evaluate their IS/IT outsourcing projects (Bounfour, 1999; Perrin and Pervan, 2004; Willcocks et al., 1996). However, difficulties in monitoring the performance of the outsourcing contracts is one of the most important disadvantages for outsourcing organisations (Apte et al., 1997; Dean and Kii, 2002). For example, McIvor (2000) has found that most organizations had no formal process to evaluate their outsourcing decision and, instead, relied on limited cost analysis to measure all the important costs associated with outsourcing decision. A study on Australian public sector organizations by Graham and Scarborough (1997) had found that many departments had yet determined their contract evaluation processes. Similarly, Beaumont and Costa (2002) had found that evaluating all costs relevant to outsourcing was a very difficult task. According to Hsu et al. (2005), most large organizations (52.4%) in Taiwan do not perform evaluation on a regular basis and those organizations which do evaluate tend to do so on an irregular basis. In addition, 15.1% of organizations do not evaluate at all (Hsu et al., 2005).

According to Lacity and Hirschheim (1994), organizations’ inability to demonstrate value was tied to outsourcing evaluations by: (a) showing that external outsourcers can not provide a cheaper service; or (b) justifying resource requests; or (c) demonstrating their commitment to corporate objectives. In addition, hidden costs are notorious difficult to identify and evaluate because of ambiguities in the contract and can affect the expected cost savings (Gonzalez et al., 2004; Misra, 2004). Hidden costs such as learning curves, management cost, technological dis-continuities should be weighted against the promise of early cash-flow and long-term cost savings (Aubert et al., 1998). Other hidden costs include contractor search and contracting as well as transitioning to the external contractor (Barthelemy, 2003; Beaumont and Costa, 2002).

Furthermore, a study carried out by Willcocks and Lester (1997) suggests that outsourcing requires a considerable cultural change on evaluation. Before outsourcing any IS/IT, the more successful organisations measured everything in a 3- to 6- month baseline period. This enabled them to compare more accurately the in-house performance against a vendor bid. It also prefigured the setting up of a lighter evaluation regime with more detailed and accurate performance measures and service level agreements (Willcocks and Lester, 1997). In order to sell the idea of outsourcing to the whole organisation, it is also important to ensure that an organisation’s expected saving is based on reliable financial data (Ibrahim, 1998).
According to a study carried out by Tallon et al. (2000), organizations that make extensive use of IS/IT evaluation methodologies or measures had higher perceived payoffs from IS/IT. Therefore, the information systems control mechanisms must be put in place for monitoring vendor behaviour (Choudhury and Sabherwal, 2003). Misra (2004) stated that organizations need to choose the evaluation methodologies which: (a) can lead to the desired behaviour by both outsourcers and outsourcing contractors; (b) are within the outsourcing contractors’ control; (c) can be easily measured by both the outsourcing contractors; (d) can be evaluated on objective criteria rather than subjective criteria; and (e) can be aligned with business objectives.

Finally, the evaluation has to lead to realization of expected benefits. After all, the critical role of benefits realization depends on external outsourcing contractors’ ability to not just provide excellent service but also to turn this service into organizational consequences such as control of costs, meeting organizational goals, flexibility, and focusing on core functions (Rouse et al., 2001).

4. Motivation and benefits of IS/IT outsourcing

Whatever the objective, the possibility of outsourcing tends to generate strong emotions among the IS/IT professionals, senior executives and external contractors (Earl, 1996). There are many reasons contributing to the growth of the outsourcing. The success of an outsourcing engagement should mean the achieving of goals by all parties (Misra, 2004).

A review of relevant outsourcing literature has revealed the following organizational goals or objectives that organizations aim to achieve for their IS/IT outsourcing projects. Some of the goals or objectives for IS/IT outsourcing include:

- Sharing and minimizing outsourcing risks – The external contractors can share the outsourcing risks. The contractors have the responsibility to ensure the systems are meeting the reliability and performance criteria (Graham and Scarborough, 1997; Williams, 1998).
- Increasing organizational flexibility - It provides a way to increase flexibility in order to easily absorb fluctuations in environmental demands (Graham and Scarborough, 1997; Slaughter and Ang, 1996).
- Lowering costs - There is tremendous downsizing and cost-reduction pressures on many organisations. This is often the number one reason for IS/IT outsourcing (Ang and Straub, 1998; Beaumont and Costa, 2002).
- Accessing new expertise – Outsourcing allows organizations to obtain required skills and expertise from outsourcing contractors (Aubert et al., 2003; Smith et al., 1998).
- Obtaining economies of scale - Outsourcing can provide economies of scale for smaller organisations (Ibrahim, 1998; Smith et al., 1998).
- Increasing service level effectiveness and efficiency - Many IS/IT functions have become stable commodities that can be turned over to external contractors for more efficient processing and management (Diamond, 1993; Graham and Scarborough, 1997).
- Eliminating internal problems – Outsourcing can help to eliminate the tension between the users of the resources and the IS/IT staff (Gonzalez et al., 2005; McFarlan and Nolan, 1995).
- Increasing quality of goods and services – Competition among external outsourcing contractors ensure availability of higher quality goods and services in the future (Graham and Scarborough, 1997; Smith et al., 1998).
- Obtaining greater focus - Some functions have become non-strategic due to the maturing of IT technology. The organizations wish to stay focused on the core of the business. (Cronk and Sharp, 1998; Gonzalez et al., 2005; Michael F Corbett & Assoc Ltd, 2002).

5. IS/IT outsourcing contract arrangements

IS/IT outsourcing contract arrangements can vary according to organisational needs, structure and changing technology. Effective communications between outsourcing organizations and external contractors is essential in achieving the intended goals (Grover et al., 1996; Lee and Kim, 1999). Effective communication and coordination can have positive effect on outsourcing partnership quality (Lee and Kim, 1999).

However, the age of relationship can have negative effect on the commitment of external outsourcing contractors (Lee and Kim, 1999). For example, there is an option to have long or short term contracts with external contractors. In situations of high business uncertainty and/or rapid technological change shorter term contracts are more appropriate (Willcocks and Lester, 1997).

Another factor to consider is the possibility of weak management. It is difficult to know whether the outsourcing organizations will be any better at managing an external outsourcing contractor (Earl, 1996; Seet, 1997). In addition, it is uncertain that external outsourcing contractors’ performance will be satisfactory and deliver information services at lower costs than those experienced by a well-managed, well-equipped and well-staffed internal IS/IT function (Clark et al., 1998; Ngwenyama and Bryson, 1999). Many organizations simply have no formal process to evaluate the outsourcing decision (McIvor, 2000).
Successful transition of internal staff to external outsourcing contractors is also critical (Seet, 1997) as fear of job loss and fear of change usually can be the number 1 destabilizing factor for unsuccessful outsourcing organizations (Elmuti, 2003). The percentage of internal staff transitioned depend heavily on the extent of outsourcing and must be carefully managed to avoid employees backlash (Currie, 1998; Willcocks and Lester, 1997). According to Currie (1998) and Willcocks and Lester (1997), selective rather than total outsourcing (80% or more of IS/IT budget spent on outsourcing) tended to be the lower risk and the more successful option to take. Moreover, organisations that invite both internal and external bids tend to have higher success rates than organisations that merely compare external bids with current IS/IT costs (Lacity and Willcocks, 1998). Furthermore, senior executives and IS/IT managers who make decision together have higher success rates than either stakeholder group acting alone (Lacity and Willcocks, 1998). Finally, outsourcing contracts which are highly complicated and involved too many parties are less likely to be successful (Kim and Chung, 2003).

6. Undue influence from IS/IT outsourcing contractors

It is difficult for outsourcing organizations to quantify and define the information services they need, and these services tend to evolve over time, especially multiple external outsourcing contractors are involved. If these services had not been agreed in the original contract, they would have to be charged with an additional rate (Gonzalez et al., 2004). Moreover, the findings by Jennings (1997) suggest that there is a need to retain an understanding of the outsourced activities and technologies in order to assist the organisation to monitor their outsourcing decisions and contracts in order to avoid undue influence by external outsourcing contractors. When a service is outsourced, the outsourcing organizations lose their understanding of the service in both technical and managerial areas over time (Beaumont and Costa, 2002; Leavy, 2004; Willcocks et al., 1999). In this case, the outsourcing organizations might have to be overly relied on the external outsourcing contractors. Dependency by one outsourcing party may negatively impact the partnership quality in IS/IT outsourcing (Lee, 2001; Lee and Kim, 1999).

7. RESEARCH DESIGN AND METHODOLOGIES

While there is a clear indication in the literature of a greater reliance on IT outsourcing by organizations, the importance of outsourcing evaluation and benefits processes has received limited empirical attention. There is, so far, almost no literature which has discussion on the linkage between IS/IT outsourcing and the use of IS/IT investment evaluation and benefits realisation methodologies. Therefore, the main objective of this research is to investigate the use of IS/IT investment evaluation and benefits realization methodologies and the associated issues with the use of these methodologies.

Survey of top 500 Australian organizations and two case studies on two large Australian organisations were conducted by the authors.

Survey was chosen to establish current Australian industry and government practices and norms in managing IS/IT benefits and evaluation in IS/IT outsourcing projects. This is because the survey was able to get an overview of these practices and processes more quickly and efficiently than any of the research methods. In addition, it enabled the authors to conduct a descriptive study by focusing on how these processes and practices impacted on these organizations.

Questionnaires were sent to the chief information officers (CIOs) of the largest 500 Australian organizations by gross revenue. The structure of the questionnaire addressed many aspects of IS/IT benefits management and included Likert scale, nominal scale and open-ended questions. It was derived from earlier studies (mainly Ward et al., 1996) and its validity and reliability derived from their acceptance in the literature. The survey elicited a total of 69 responses and a response rate of 14%. This response rate is also comparable to other similar studies conducted in the last few years (e.g. 8% by Gonzalez et al. (2004) in their study of risks in IS outsourcing, and 13% by Seddon, et al. (2002) in their study of IS/IT investment evaluation of medium to large European and US firms). The low response rate is due to the fact that the rapid technological change, the considerable investments organizations have made on IS/IT, and the great interest aroused by outsourcing have made these executives become the target of many surveys (Gonzalez et al., 2004).

A software package, SPSS, was deployed to analyse the quantitative data collected through the postal survey. A number of general descriptive methods and tools (such as frequency, mean, variance, standard deviation, crosstab, correlation coefficient, and one-way Anova) were used to summarise and analyse patterns in the responses of people in a sample.

On the other hand, the case study was chosen because it enabled the researcher to evaluate and compare results from the survey, clarified doubts, ensured that the responses were properly understood by repeating or rephrasing the questions, and gain in-depth understanding of the issues arising from the survey (Eisenhardt, 1989). It can be also used to confirm the validity of the research processes via multiple sources of data (Tellis, 1997). This reasoning has been supported by Rouse and Dick (1994) who have stated that many information systems practices are difficult to investigate using only positivist approaches and this difficulty has been recognized in other disciplines that are concerned with social behavior. Rouse and Dick (1994) have further stated that there is
growing recognition that qualitative research approaches are needed to capture holistic real-world answers to real-world problems in a way that is not possible in a positivist context.

Case 1 organisation had outsourced almost its entire IS/IT functions (95%) while case 2 organisation had selectively outsourced some of its IS/IT functions (40-50%). Case 1 organisation had adopted an informal IS/IT investment evaluation methodology but without any IS/IT benefits realisation methodology. Case 2 organisation had also used an informal IS/IT investment evaluation methodology but with a formal IS/IT benefits realisation methodology. Moreover, 20 interviews were conducted with 19 participants from two large Australian organisations and their major external IS/IT outsourcing contractors. The questions asked during the interviews were related to the organisations’ five major IS/IT outsourcing contracts, the contractual relationship between the departments and the contractors, IS/IT investment evaluation methodology deployed, benefits realisation process used, and the management of the contract transition period. All interviews were taped and the transcripts were sent to the interviewees for validation.

Other data collected included some of the actual contact documents, planning documents and some minutes of relevant meetings. More than 250 pages of transcripts were coded and analysed. Qualitative content analysis by Miles and Huberman (1994) was used to analyse the data from the case study. The analysis of the case study results was conducted in a cyclical manner and the results were checked by other experts in the field. Finally, the guidelines set out by Klein and Myers (1999) for conducting and evaluating interpretive field studies in information systems were also followed in an attempt to improve the quality of this research by minimising some of the case study’s main weaknesses mentioned above (e.g. human subjectivity and inexperienced researcher).

8. SURVEY FINDINGS

Overall, the responding organisations were large in revenue and number of employees, typical of the large corporate sector with large numbers from manufacturing, financial services and mining, and almost evenly divided between multinational and national. An overwhelming majority of the respondents came from an IS/IT background originally (78.3%). More than half (59.7%) indicated that there was one reporting level between the IS/IT Head and the chief executive officer (CEO), while 23.9% of the respondents said that there was a direct link.

Most respondents (75.8%) of the survey indicated that they had outsourced at least some part of the organization’s IS/IT functions. This result is consistent with a survey conducted by ITtoolbox (2003) in which 72% of the responding organizations worldwide have outsourced several of their IT functions, with 14% outsourcing 50% or more of their IT functions. On average, the proportions of different IS/IT functions outsourced was 49.1% of systems development, 39.4% of telecommunication/networking, 27.4% of user support, 21.4% of operation, 18.2% of project management, and 3.2% of IS/IT planning. Of those organisations which had outsourced their IS/IT functions, 67% had used an IS/IT investment evaluation methodology and 35% had adopted an IS/IT benefits realisation methodology. On the other hand, the figures for the usage of the above two methodologies for those organisations which had not outsourced their IS/IT functions were 53% and 33%, respectively. The result appears to be consistent with the findings by Seddon et al. (2002) which indicated that outsourcing does appear to have led to an increased awareness of, and use of, IS/IT investment evaluation.

In addition, the wide use of IS/IT investment evaluation and benefits realization methodologies were positively correlated to the successful use of these methodologies (0.824, p=0.000 vs 0.848, p=0.000). The statistical linear regression analysis was conducted to test the relationship between the constructs (the use of IS/IT investment evaluation methodology and, the use of IS/IT benefits realization methodology, and the level of confidence of IS/IT benefits delivery) and the standardised path coefficients.

The use of IS/IT benefits realization methodology of the responding organizations was positively and directly related to the level of confidence of IS/IT benefits delivery (B=0.833, p = 0.007). However, the relationship between the wide use of IS/IT investment evaluation methodology and the level of confidence of IS/IT benefits delivery was not significant (B=-0.305, p=0.332). The results indicated that the wide use of IS/IT benefits realization methodology can be an important predicting factor for the level of confidence by the responding organizations regarding their IS/IT benefits delivery.

9. CASE STUDY FINDINGS

Several important issues emerged from the analysis of the text data and the key issues surrounding the use of both evaluation and benefits realization methodologies and their effect on IS/IT outsourcing contracts are presented below in some detail.

Motivation for IS/IT outsourcing

For case 1, several reasons were put forward by the participants as the main motivation or objectives for IS/IT outsourcing. Most participants cited cost saving as the main motivation for the three major outsourcing contracts, although some of them had doubted that IS/IT outsourcing had actually resulted in any dollar savings to case 1 or the State Government. Increased service level and access to technical skills were also mentioned by other participants as major reasons for outsourcing. Interestingly, only one contractor representative interviewed mentioned cost saving as one of the main reasons for outsourcing. It appears that the contractors were mostly interested in
satisfying the requirements under the SLA since the rewards and the penalties were tied to the fulfilment of the contract control and evaluation mechanisms under the contracts.

Several reasons were also put forward by case 2’s participants as the main motivation or objectives for IS/IT outsourcing. Most participants indicated access to the required technical expertise as one of the main reasons for outsourcing. Only half of the participants cited cost saving as one of the main motivations for outsourcing. Therefore, it can be said that access to the required technical expertise was perceived by case 2’s participants as their number one motivation for outsourcing. However, the contractors either did not know (or care?) why case 2 outsourced, or mentioned several reasons include cost saving, access to the required technical expertise, and concentrating on core functions. They could not agree on a single reason for outsourcing. The result here is not really unexpected, given that virtually all contractors are in business to maximise their profit (Grover and Teng, 1993). This could run counter to case 2’s interests and so one cannot expect the contractors to be able to perceive correctly case 2’s real motivation for outsourcing.

In summary, there were many reasons for outsourcing for both organisations. For case 1, cost saving seemed to be mentioned by most participants for its almost total IS/IT outsourcing. This is consistent with other surveys (eg. Willcocks et al. 1992; ITtoolbox, 2003), where cost saving is usually the first reason quoted for IS/IT outsourcing in large organizations. The result is also consistent with the findings by Barthelemy and Geyer (2004) where the likelihood of total outsourcing is higher when the cost reduction motivation is strong.

Furthermore, it can be argued that one of case 2 and case 1’s main objectives was to reduce costs and/or access to technical expertise whereas their contractors’ focus was possibly to maximise profit and keep their shareholders happy. The fact that all outsourcing contracts were in partnership arrangements did not seem to change this situation. This is confirmed by studies conducted by Lacity and Hirschheim (1994) and Lacity and Willcocks (1998) where they concluded that the partnership type of contract is not always the most successful and the outsourcing contractors are not partners because the profit motive is not shared. Moreover, according to Kee and Robbins (2003), outsourcing based on short-term cost reductions can lead to unintended and adverse consequences.

**Little understanding and use of formal IS/IT evaluation methodology for outsourcing projects**

Like any other IS/IT investment, it is important to justify and evaluate the IS/IT outsourcing projects. According to Kim and Chung (2003), clear definitions of responsibilities and performance measures are the most important factor for successful outsourcing arrangements.

In this research, an overwhelming majority of the case study participants (78%) and survey respondents (66%) claimed that a methodology or process was put in place for these contracts. However, closer examination of the participants’ responses reveals that there was a lack of formal IS/IT investment evaluation methodology or process used by any respondents.

For the survey respondents, when asked about the specific methods/technique used to decide upon IS/IT investments, the traditional financially oriented evaluation techniques such as net present value (NPV) and cost/benefit analysis (CBA) were the most commonly mentioned techniques by the survey respondents. Likewise, most of the participants from case study participants included measurements or evaluation instruments such as service level agreements (SLAs), monthly reports, standard contract management, standard project management methodology, and guidelines provided by state government were mentioned by some participants as the IS/IT investment evaluation methodology or process used for the IS/IT contracts.

No formal IS/IT investment evaluation methodology was mentioned by the participants. Instead, several participants mistakenly thought contract control and evaluation mechanisms specified within the SLA (such as scorecards process, annual reviews, formal meetings, or benchmarking) constituted their IS/IT investment evaluation methodology or technique. Therefore, the survey and case studies participants showed, somewhat, the lack of understanding of the IS/IT investment evaluation methodology by indicating that a formal methodology was used. Nevertheless, these traditional accounting-based measures (eg. ROI) as well as contract control and evaluation mechanisms or measurements (eg. SLAs) constituted an informal IS/IT investment evaluation process.

The result is not really surprising given that many organizations in practice pay little attention to the formal evaluation of IS/IT investment (Farbey et al., 1999). In addition, most organizations are not able to accurately evaluate their costs before and after IT outsourcing (Misra, 2004).

The result is consistent with findings of others. For example, Ward et al. (1996) found that 60% of survey respondents indicated that they had used a formal IS/IT investment evaluation methodology but only methods such as CBA and ROI were actually. Ballantine et al. (1996) suggest that there is a lack of formal evaluation procedure within organizations. Taylor and Norris (1989, in Norris, 1996) indicated in their UK survey that almost half of the responding organizations could not point to any kind of process for evaluating contribution or following up promises of benefits. According to Sohal and Ng (1998), their research findings in large Australian organizations suggest that the potential of IS/IT has not been utilized to meet the competitive challenges due to inappropriate evaluation of the IS/IT investments, and 59% of the responding Australian organizations did not determine
whether expected benefits are being achieved (Sohal and Ng, 1998).

The result here in a state government agency also seems to echo the reports about inappropriate measurements and other problems with the Australian Federal Government’s IS/IT projects which had led to constant budget blowouts, dubious savings, and user dissatisfaction (Douglas, 1999; Mitchell, 2000). A West Australian report on state agencies’ IS/IT outsourcing contracts found that some objectives and risks were not being evaluated and monitored properly (AGWA, 2001). Studies conducted by Willcocks et al. (1995) also suggest that inadequate measurement systems to monitor the contractor’s performance is one of the major areas of weakness in IS/IT projects.

Little understanding and use of formal IS/IT benefits realisation methodology for outsourcing projects

There is a widespread concern among many researchers and academics that IS/IT investment does not deliver value (Jones and Hughes, 1999) and that senior executives simply do not understand the concept of benefits realisation (Remenyi, 2000). This is exactly what happened most of the survey participants and one of the two case study organizations. IS/IT benefits realisation methodology was adopted by only 32.8% of the survey respondents and one of the two case study organizations. The methodology was not used at all (formally or informally) by the participants of the other case study for any of their outsourcing projects. The participants in case study 2 are in the minority here as the methodology was employed within case 2 and most of the participants within case 2 had good understanding of the benefits realisation practices. The finding here is generally consistent with studies carried out in the literature. The fact that very few organisations have a benefits realisation methodology is not surprising as much attention is turned to ways of justifying investments, with little effort being extended to ensuring that the benefits expected are realised (Ward and Griffiths, 1996; Willcocks, 1992).

There was also a lack of understanding of the IS/IT benefits realization methodology for most of the survey participants and one of the case study organizations. While half of these participants admitted that there was no benefits realisation methodology or process being used, the other half of the participants disagreed and stated that benchmarking, value added activities, budgetary process, or annual reviews were used for managing benefits for these outsourcing contracts. Rather, these had more to do with IS/IT investment evaluation in a less formal way. Almost all of these contract control and evaluation mechanisms were focused on costs, not benefits. Furthermore, none of the participants mentioned any formal IS/IT benefits realisation process or methodology (such as Active Benefits Realisation (Remenyi et al., 1997)). These contract control and evaluation mechanisms had nothing to do with “the process of organising and managing such that potential benefits arising from the use of IS/IT are actually realised” (Ward and Griffiths 1996). Therefore, it appears that many case study participants had a problem of understanding the exact meaning and purpose of an IS/IT benefits realisation methodology or process. One of the possible reasons may be due to the fact that all contract managers and coordinators had no experience in contract management before and so had probably not possessed the required knowledge or skill in implementing formal IS/IT investment evaluation and benefits realisation methodologies or techniques.

On the other hand, one of the contractors’ benefits realisation methodology, Benefits Realization Approach, was introduced to the other case study organization before the outsourcing of its IS/IT functions because there was a concern within the organisation that IS/IT investments did not deliver value. This may have jeopardised the state government’s future funding for case 2. In order to ensure that the IS/IT investments deliver the promised value and benefits as well as bring the focus back to case 2’s main business, a large internal change program was required by the organisation. Unlike its understanding of the IS/IT investment evaluation process, case 2 had determined in the very beginning that a formal benefits realisation methodology was needed for the organisation. Since case 2 had no technical expertise to undertake a large scale internal change program, it was important for the organisation to search for a formal benefits realisation methodology. As a result, the Benefits Realization Approach was chosen to assist case 2 to manage the change program as well as to realise the benefits from the IS/IT projects undertaken by the organisation.

In summary, case 1 did not adopt a formal benefits realisation methodology and therefore, did not understand the concept of benefits realisation. In contrast, case 2 had discovered, in the very beginning, the need for adopting a formal benefits realisation methodology within the organisation. This was followed by selection and implementation of the Benefits Realization Approach. Furthermore, case 2 had spent a lot of resources and effort to make sure that the organisation, as a whole, understood and accepted the methodology. As mentioned previously, case 2 is clearly in the minority on this issue when one considers a survey conducted by Sohal and Ng (1998) which indicated that 59% of the responding Australian organisations did not determine whether expected benefits are being achieved.

Perception of the IS/IT outsourcing contracts by stakeholders

Success of the contract was perceived and interpreted differently by interview participants in both organisations. Case 1’s stakeholders seemed to perceive the success of the outsourcing contracts differently. Furthermore, a contract that was perceived successful in terms of one criterion did not mean it would be perceived successful in terms of another criterion. On the other hand, case 2 and
its contractors, especially the first contractor, have different agendas in mind despite the fact that these contracts are all partnership type of arrangements. The first contractor’s criteria for success seemed to be maximisation of profit/revenue while keeping the customers satisfied. On the other hand, case 2 was trying to maximise the value/benefits to the organisation while keeping costs down and to ensure that the contractors fulfil their SLA obligations. The result here is confirmed by Lacity and Hirschheim (1994) and Lacity and Willcocks (1998) who concluded that the partnership type of contract is not always the most successful and the outsourcing contractors are not really partners because the profit motive is not shared.

**IS/IT outsourcing contract arrangements**

Case 1’s outsourcing contract arrangements appear to be unnecessarily complicated. One of the contractors was dealing with one and half of the three contracts whereas another was dealing only in half of one contract. Moreover, all three original outsourcing contractors were taken over by other companies at least once during the life of these three major outsourcing contracts for case 1. Furthermore, it was also possible that the loss of almost all of case 1’s technical staff limited its ability to manage these contracts more successfully as well as to determine whether or not it was better for case 1 to simplify its contract arrangements in the first place. Case 1 may have realised later that it would have been in its interests to simplify the contract arrangements by breaking up one of the contracts and merging it into another. On the other hand, case 2’s contract arrangements were no where near as complicated as case 1’s and were considered more successful.

However, the result is mixed with the findings by Barthelemy and Geyer (2004) where the likelihood of total outsourcing is lower when the IT department is large (Barthelemy and Geyer, 2004).

**External influence and management of the IS/IT outsourcing contracts**

As mentioned earlier, in order to obtain the external technical expertise and skills, case 1 had outsourced some of its IS/IT functions and transferred some of its IS/IT staff to one of the three main contractors. However, like many other outsourcing organisations (e.g. Earl, 1996; Currie and Willcocks, 1998), case 1 appeared to be unable to manage its outsourcing contracts internally without external influence or assistance. Despite the fact that the IS/IT staff transfer process was regarded by all participants within case 1 as being highly successful, many participants expressed their concerns about the loss of case 1’s technical staff, and its ability to evaluate and manage these outsourcing contracts. The loss of IS/IT staff had later forced case 1 to often rely on external opinion on its IS/IT requirements.

In contrast, unlike other outsourcing organisations, case 2 appeared to able to manage its outsourcing contracts internally without much external influence or assistance. This was probably due to the fact that case 2 had transferred as few IS/IT staff to the first contractor as possible and, at the same time, benefited from the second contractor’s IS/IT technical expertise obtained under the contract.

In summary, case 1’s inability to independently manage its outsourcing contracts is consistent with the findings by Currie (1998) and Willcocks and Lester (1997) in which selective rather than total outsourcing tended to be the lower risk and the more successful option to take.

**10. DISCUSSION**

As echoed by Seddon et al. (2002), IS/IT outsourcing can act as a catalyst for improved IS/IT investment evaluation and benefits realisation practices for large Australian organizations. The results from the survey and the case studies also indicated that the usage of the IS/IT investment evaluation and benefits realisation methodology can significantly avoid or minimise some of the problems faced by the organisations. In this research, the organisation which had selectively outsourced its IS/IT functions and had adopted an IS/IT benefits realisation methodology appeared: (1) to have more confidence in the benefits realisation practices and activities as well as in their effects to their organisations; (2) to have better understanding of the benefits realisation concepts and undertake benefits realisation activities within their organisations; (3) to have used some formal processes for their investment evaluation activities; (4) not to have complicated IS/IT outsourcing contract management issues; and (5) to have greater control over their IS/IT outsourcing contracts.

In addition, the results are consistent with findings by Currie (1998) and Willcocks and Lester (1997) who have found that selective rather than total outsourcing tended to be the lower risk and the more successful option to take.

Moreover, unlike the case 1 organisation, the case 2 organisation had adopted a formal benefits realisation methodology. According to the majority of the participants, the BRM used by the case 2 organization was used as an end-to-end process to assist case 2 organization in: (1) providing a rigorous process to select the right projects to implement; (2) placing responsibility and accountability at the appropriate level within the organisation; (3) driving process re-engineering through changes in the organisation; (4) ensuring benefits were realised; and (5) ensuring agreed re-investment of time savings applied as expected.

Finally, organisations have to be more realistic in their IS/IT outsourcing expectations. According to Harrington (1998), for an organisation to achieve a big jump in savings, it had to be operating very inefficiently in the past. The unsuccessful cases, mostly, saw total IS/IT outsourcing as a financial package to improve business position rather than as a way of leveraging IS/IT for business value and keeping control of its IS/IT destiny (Douglas, 1999). According to Hirschheim and Lacity...
(2000), there is no guarantee that the IS/IT outsourcing will be perceived as successful due to the very different expectations held by the various stakeholders. Success is only related to who is doing the evaluating (Hirschheim and Lacity, 2000). In order to reach the magnitude of improvements ascribed to IS/IT outsourcing organisations need to understand and apply the IS/IT investment evaluation and benefits realisation processes.

REFERENCES


