

H. Raghav Rao, Kichan Nam, and

A. Chaudhury,

Guest Editors

Information Systems *Outsourcing*

INFORMATION systems (IS) outsourcing—the contracting of various IS functions, such as data center management, operations, telecommunications, and software maintenance by user-firms to outside vendors—has existed in one form or another for years. Recently, however, the trend towards outsourcing has become a major IS phenomenon, as evidenced by increasing press coverage. A number of major contracts have been reported: IBM and MCI running Merrill Lynch's network, McDonnell Douglas and Genix running American Standard's data and network operations, as well as the \$3 billion partnership between Computer Sciences and General Dynamics.

Traditionally, as small firms grew larger, they integrated important subfunctions within their boundaries. But these customs have evolved, especially in recent years. Indeed, current outsourcing trends show that large companies are relinquishing their IS operations and are reported to be major outsourcing clients. Moreover, outsourcing contract costs may run into hundreds of millions of

dollars. An example is the \$4.1 billion, 10-year partnership between Xerox and EDS. In contrast to traditional IS management, many IS functions today are being transferred to IS vendors. Depending on the types of contracts, IS employees are also transferred sometimes.

Previously, it was a given that nonstrategic IS applications would be outsourced, while strategic IS applications would be in-sourced. However, vendors whose roles have been limited to noncore and commodity functions are gradually handling strategic applications. As clients gain confidence that vendors can manage strategic applications effectively, strategic functions are expected to be outsourced.

Nevertheless, there still exists conflicting arguments for and against outsourcing. Proponents of the practice argue that it results in significant cost reduction with increased management control, effective use of staff, capacity on demand, and access to advanced facilities. Outsourcing is becoming especially attractive for firms involved in mergers, acquisitions, and leveraged buyouts. Also, firms

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starting a business without any accumulated knowledge in the IS area tend to rely on outsourcing.

Opponents, on the other hand, contend that outsourcing involves major risks with loss of control, loss of qualified IS staff, loss of flexibility, and loss of competitive advantage in information management. It is uncertain how far outsourcing will go and whether it actually has advantages over internal operations in the long term.

Though outsourcing has been featured often in trade literature in the past few years, research in the area is limited. The scattering of previously published work in this area can be categorized into two streams: the *descriptive* which deals primarily with the investigation of the determinants of outsourcing based on survey studies or case studies, and *prescriptive* which includes studies that have derived managerial implications for outsourcing based on quantitative analyses and economic theory.

The goal of this special section is to provide outsourcing endeavors and support for the IS community. The articles presented here cover a wide spectrum of ideas, ranging from a two-level analysis of outsourcing decisions, to an

investigation of outsourcing dimensions in software acquisition, to the determinants of employment outsourcing. The methodology used is also professionally enlightening in that it ranges from a survey of senior IS managers, to a study of all the software projects in five companies, to content analysis of IS job announcements.

Clearly, IS outsourcing is here to stay, and most forecasts believe it will soon reach the trillion-dollar mark. As such, any sound insights that can help in the reduction of costs or enable practitioners to better understand the different aspects of outsourcing would be of considerable interest to the IS community.

Some areas of potential interest where the IS community can make an impact include:

- ❖ Outsourcing strategies and vendor selection experience;
- ❖ Building the outsourcing partnership;
- ❖ Determinants of insourcing vs. outsourcing;
- ❖ Interorganizational problems incurred in outsourcing;
- ❖ Re-engineering vs. outsourcing;
- ❖ In-depth analysis of specific functional outsourcing, such as telecommunications or data centers;
- ❖ Cost-benefit and risk analysis and trend forecasting of the outsourcing market;
- ❖ Analysis of outsourcing from the vendors' point of view;
- ❖ Global outsourcing;
- ❖ Make-or-buy economics; and
- ❖ Modeling the bidding process of outsourcing and the organizations concerned.

We hope this special section motivates a deep interest in this domain and inspires many more comprehensive articles in the future. ■

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