

A dialectic view of information systems outsourcing: Pros and cons

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Abstract:

In recent years, information systems (IS) outsourcing is increasing in business organizations as a way to govern their IS operations. Burgeoning IS costs, lack of IS organization's responsiveness to users, and a renewed emphasis on return on IS investment are among some of the reasons towards this trend. Media reports are almost unanimous, and at times euphoric, in their claims of benefits. However, a reporting bias must be recognized: first, these reports are, at best, anecdotal accounts and second, they are based on the accounts of outsourcing vendors, consultants, senior executives and those who remained or were promoted in the organization after the outsourcing act. Naturally, these individuals have a vested interest in making their decisions look beneficial. This article discusses the various advantages and pitfalls of IS outsourcing, based on a dialectic view. It provides a balanced perspective, as it is based on a real case discussed by two individuals who were on opposing sides of the fence: one was an outsourcing survivor and was promoted, and the other was terminated due to decisions related to outsourcing.

Keywords: IS outsourcing; IS management; IS downsizing; IS in financial institutions; Dialectic IS study; IS personnel issues

Article:

1. Introduction

Information systems (IS) outsourcing is the transfer of part or all of an organization's information systems/data processing hardware, software, communication network, and systems personnel to an external party [10]. Such third parties include technology vendors, consulting firms, and systems integrators and contractors. Actually, IS outsourcing is not new; it has existed in several forms (e.g., as contract programming, time-sharing, and facilities management) and has evolved ever since the inception of business data processing [13]. The recent interest and definition of IS outsourcing centers around the dramatic increase in scope of what is being outsourced [23,24]. Another feature of IS outsourcing, as it is understood today, is the transfer of property or decision rights in varying degrees over the IT infrastructure to an external organization [28]. One compelling reason for IS outsourcing is to control skyrocketing costs. Other reasons include attaining technological flexibility, eliminating chronic staffing headaches, and buying time to focus on core competencies [16].

IS outsourcing seems to be currently evoking considerable interest among American corporations. This is no wonder, as executives are promised 10 to 50 percent cost reduction in their IS expenditures [21]. In fact, a *Yankee Group* report estimates that every Fortune 500 company will evaluate IS outsourcing and that 20 percent will sign up in the coming years [33]. Many stories and articles continue to appear in the popular and the academic press extolling the virtues of outsourcing. Some highly-touted examples of IS outsourcing contracts include organizations such as Eastman Kodak [17,40], Continental Bank [18], General Dynamics [8], and National Car Rental [7]. These reports are based primarily on the accounts of vendors, consultants, and surviving¹ senior executives of the outsourcing organization. Generally, such reports provide glowing accounts of successes.

We contend that most of the current reports on IS outsourcing contain an inherent positive bias due to the source of the information. Survivors, vendors, and, to a degree, consultants have a vested interest in projecting positive impressions. This article, based on a case study, attempts to provide a balanced view, focusing on both positive and negative aspects. The case study² is real and unique in that it deliberately sought to obtain two dialectic or opposing views of an IS outsourcing situation. This provides the reader with a broader and more objective view.

2. The relevant literature

Reports of IS outsourcing abound (some were cited earlier). Serious and methodological inquiry by MIS researchers into the phenomenon has been only recent and scant.

Competitive forces and expansion of business into ever-widening markets have prompted the governance of various functions, including IT, beyond their traditional hierarchical form into hybrid modes involving external organizations [19,34]. IS outsourcing permits an organization to look beyond in-house IS operation and development, and allows it to seek partnerships with external entities, such as vendors, system integrators, and consultants, who have experience, expertise and resources for IT management and delivery. IT outsourcing can be considered to be a significant administrative innovation where there is significant shift in the mode of governance, significant change in the internal processes of user organization, and significant change in the organizational routines used to deal with the external environment [28]. In essence, it introduces massive changes in the user organization. The Lewin—Schein theory of change [27,38] describes the process of change as a sequence of three steps: unfreezing, moving, and refreezing. Unless these stages are managed well, the outcomes are subject to question.

The primary benefits of outsourcing include: cost control, improved financial outlook, control on MIS, return to core competencies, strategic focus, and quick access to new technology [3,18,23,26,30]. Practically all reports on IS outsourcing are enthusiastic about its success and outcomes. It is implied that the objectives were achieved and that the change process was managed effectively. The foremost example is the highly-publicized agreement by Eastman Kodak, in which the data center operations were outsourced to IBM. This agreement was reported in the press with quite a fervor [6,40]. According to the agreement, IBM " will take over the work done by four Kodak centers, and 300 Kodak workers will become IBM employees". The enthusiasm was reflected by Henry Pfendt, director of Information Technology at Eastman Kodak, who claims that outsourcing comes down to one question: "Do you want to manage commodities" [20]. Elliott McNeil, Southland's MIS manager echoes Pfendt's opinion and likens IS outsourcing to electric utility: " you use less, you pay less" [1]. In the same vein, Gary Biddle of American Standard [21] claims that outsourcing saves because the vendors are more efficient due to economies of scale.

The financial industry has experienced a significant rise in IS outsourcing. One estimate places financial services outsourcing as one-third of the total market [41]. The research firm of LedgeWay and Dataquest reports that commercial banks alone have entered into facilities management (a form of outsourcing) contracts totaling \$445 million in 1990 and the contracts are expected to rise to \$898 million by 1995 [35]. In fact, Radding [35] has estimated that, in the financial industry, consolidation through outsourcing can reduce a bank's cost by 35% to 40%. Huber [18], the vice chairman and director of Continental Bank, detailed the IS outsourcing process at their bank. Four IS problems that stood out before outsourcing were: backlogs and unresponsiveness of the mainframe based IS department, uncontrolled growth of end user computing, staffing problems, and huge money outlays for IS. IS outsourcing allowed Continental Bank to focus on banking and to tap the best technology at an acceptable price, and transformed IT costs from fixed to variable.

We now turn our attention to some methodologically grounded studies. Loh and Venkatraman [29] empirically examined the level of IT outsourcing using the following firm-level determinants: business cost structure, business performance, financial leverage, IT cost structure, and IT performance. They complemented their cross-sectional approach by following it with a longitudinal study of outsourcing as a diffusion process [28]. In the latter, they treated the Kodak outsourcing decision as a critical event and studied outsourcing diffusion

before and after the Kodak decision. They found evidence of a bandwagon effect: an internal-influence model of diffusion dominates in the post-Kodak times but not before. This lends credence to the hypothesis that outsourcing decisions are not always made objectively.

Lacity and Hirschheim [23,24] studied fourteen Fortune 500 companies that faced outsourcing decisions. As the euphoria may be great during the "honeymoon period" (soon after the signing of a contract), they examined outsourcing arrangements three to seven years into the contract. Their study included both failures and successes, thus providing a control group that is necessary in scientific inquiry. Several common themes emerged that contradicted prevailing myths: vendors are not strategic partners with the user organization, because the profit motive is not shared, and internal IS departments can be as efficient, as well as cost competitive as the vendors.

3. Case background

Tristar bank, a financial institution in midwest America, recently went through an IS outsourcing experience. Two individuals intimately involved in the outsourcing process were interviewed. One, we call Mr. Peter Wood: he survived the outsourcing process and was thus a "winner". He is currently the chief information officer (CIO) of the bank. Mr. Wood, previously, was in charge of technical support and reported to Mr. Jim Parker, the director of computer operations.

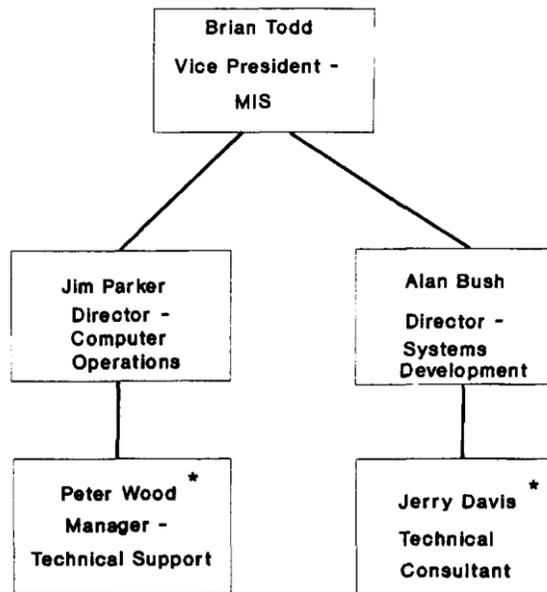


Fig. 1. Partial Pre-Outsourcing Organization Chart

A second individual, Mr. Jerry Davis, was also interviewed. He was laid off as an outcome of the outsourcing decision and went to work as a senior MIS director elsewhere. At Tristar, he was a technical staff consultant to Mr. Alan Bush, the director of systems development. Mr. Bush was also laid off. Both Jim Parker and Alan Bush reported to Mr. Brian Todd, the vice president of MIS. Brian Todd was not a strong IS technical person. See Fig. 1 for pre-outsourcing partial organization chart.

A brief summary of the outsourcing process and outcome is as follows. The outsourcing process was initiated by Mr. William Brown, the chair of the bank. The apparent reasons were the classic ones: burgeoning MIS costs, lack of MIS responsiveness, and poor control of MIS operations. No formal request for proposal (RFP) was prepared; instead two vendors (we call them: ABC and XYZ corporations) came in and made proposals to a corporate committee. The committee, formed exclusively to study outsourcing, included Brian Todd, Peter Wood, and Alan Bush among other players. ABC's proposal was a comprehensive one, including both development and operations. XYZ's proposal included data processing, computer operations, and telecommunications. Peter Wood seemed to support the XYZ proposal, while Alan Bush and Jerry Davis supported the ABC proposal. After months of analysis and negotiations, XYZ corporation received a 10-year contract. As a consequence, data processing, operations, and telecommunication network went to the vendor,

and Tristar retained development, technical support, and certain back-office operations (e.g., the check center, and actual physical handling of the work from the branches). The computers and most of other equipment remained at Tristar's premises, but they were remotely operated by the vendor's staff at a data center in another city.

It must be emphasized that the views described here are those expressed by the interviewees. These are largely perceptions, and verification would be difficult. Therefore, no attempts were made to analyze or verify their claims.³ In any case, a dialectic presentation of their views provides an insightful understanding of the pros and cons of outsourcing.

4. What to outsource?

Two broad categories of outsourcing are: operations, and applications. These are alternatively known in the industry as *facilities management* and *resource management*, respectively. The first is the predominant form of outsourcing [13] and enables an institution to turn over the operation of its data center to a third-party provider, while the second means that an institution's software is developed/operated at a third-party data center [32]. Apte and Winniford [3] provide the following more detailed breakdown:

1. *Data entry and simple processing*, where the tasks are well defined, routine, and labor intensive.
2. *Contract programming*, which addresses software development and maintenance activities, including systems analysis, design, programming, testing, implementation and subsequent maintenance.
3. *Facilities management*, which includes operations and support of a system or data center.
4. *System integration*, which develops a system (hardware, software, and/or networking) from design through implementation, then turns operations over to the customer.
5. *Support operations*, which provides maintenance/service, telecommunications network, disaster recovery, and telephone hotlines.

Data entry and simple processing, facilities management, and support operations can be grouped under the broad category of "operations", and contract programming and systems integration can be grouped under "applications". In commercial banking, the leader in outsourcing is facilities management, followed by application-development and network support [35].

4.1. What to outsource: Peter Wood's perspective

Peter Wood's strategic objective in Tristar outsourcing was to maintain a position of independence, so that the bank would be able to return to an independence processing mode, if the need arose. He categorized outsourcing into development and support work. He insisted that in order to be flexible, the bank should retain its development and technical support work. According to him, development work includes analysis, design, and programming, while technical support includes managing and maintaining the operation systems hardware and software, and communication software. He was also in favor of retaining essential back office operations, such as the physical handling of work from the branches and the check centers. He also wanted to keep the computers physically in the bank.

Interestingly, Peter Wood's position reflects almost exactly what was finally outsourced.

4.2. What to outsource: Jerry Davis' perspective

Jerry maintained that outsourcing should be performed in a pure economical sense, because the primary purpose is major cost containment. The benefits obtained from an outsourcing vendor are generated by economies of scale in operating computer information systems. He insisted that outsourcing all of the systems, people, and operations to an outsourcing vendor with solid experience and reputation would have been a good move.

He did not like the remote operation of computer systems, because it slowed down response time. For example, a bank in Orlando, Florida can use an outsourcing vendor from Los Angeles, California through a telecommunications network, but though there is an 800 telephone hot line, the communications between the two cannot be performed as rapidly as co-located operations. He believed that the bank could obtain benefits by having the vendor provide on-site operation of all systems and people. He also argued that if only some portion of the IS was outsourced, it took more time and manpower to coordinate the systems and people. He further believed that the organizational separation of development and operations guarantees an adversarial relationship.

5. Motivation, benefits, and pitfalls

A Vision 2000 study released in September 1991 by Arthur Andersen and Co. and the Bank Administration Institute, predicted that consolidation will cut the number of U.S. Banks by 25% and could eliminate about 250,000 jobs. The top priority will be cutting costs, reengineering work flows and outsourcing back-room operations. The various reasons, merits, and drawbacks of IS outsourcing in financial institutions are summarized below (many of them are equally applicable to other industries).

5.1. Cost control

The cost of running the data processing/IS function in a service business is very high and can skyrocket dramatically. Cost containment remains a major reason for IS outsourcing [18,25,35]. An outsourcing vendor is better able to achieve economies of scale and of scope in hardware, software, and staff, as it can spread its expertise over several contracts. However, vendor fees are not necessarily low, as account managers at outsourcing providers are rewarded for maximizing profits.

5.2. Financial / accounting reasons

The vendor in an outsourcing contract may purchase computing equipment as well as non-performing assets (typically at book values that are much higher than true market values), purchase stocks, deposit large amounts in banks, or lend monies. Banks would then indirectly reimburse the vendor over the term of the contract by paying higher fees [15]. Thus in the short term, there are savings anticipated due to less property holdings, and reduced equipment expenditures. Consequently, there is a strong positive effect on the bank's financial statements.

The improved financial statement has a side benefit. Mergers and acquisitions are commonplace in the current financial industry. The superior financial statements may make the bank a strong merger/acquisition candidate, leading to enhanced stock performance [25,30].

5.3. Improved MIS control and responsiveness

MIS departments have long been chastised for being unresponsive and inflexible. Frequently, old and perhaps inadequate systems consume most of the resources of the IS department, thus preventing the development of newer and improved systems [2]. It is not uncommon to have IS application backlogs of two years or more [11,12]. Also, many MIS organizations suffer from problems of poor leadership, management, and control. A dynamic organization cannot afford such chaotic conditions. It can delegate the routine and operations work to an outsourcing vendor and then focus on its key applications.

5.4. Technology access

Access to leading-edge technology is a persuasive argument for outsourcing. Outsourcing can provide immediate access to the latest technology without the lead time customary in in-house development. For an organization considering building an information center from scratch, outsourcing can save capital investment in hardware and hiring costs [5]. Third-party arrangements may be the most effective way of obtaining "big-bank" technology and enhance competitiveness [26]. Agreements with outsourcing firms may also be a means of acquiring expertise in the transition process [32].

5.5. Strategic focus

Ideally, outsourcing should facilitate the pursuit of the firm's strategic objectives. For example, out-sourcing can allow a bank to improve its focus on strategic use of IT [3,39]. IS outsourcing allows management to focus available IS talent on important and strategic IT applications rather than the mundane and routine activities. The internal operations and outsourced operations should then work in unison striving to optimize flexibility and responsiveness to customer and internal needs, and minimize unnecessary paperwork and bureaucracy.

Another strategic objective for outsourcing is that it allows the organization to focus on its core competencies [18,20,25]. Senior management often feels that it has no control over the IS group, and the costs keep escalating. Outsourcing makes this problem someone else's concern [37]. This view is controversial, as it tacitly assumes that information systems are not critical to the business mission.

5.6. Management / political reasons

It is not unusual for the MIS organization to become complex, unwieldy and hard to manage. Senior management may decide to avoid complex management and political issues by outsourcing the affected units. While leadership and responsible senior management calls for an internal resolution of such difficulties, outsourcing definitely becomes an attractive and expedient option.

5.7. Coordination costs

There is a continuing relationship between the financial institution and the outsourcing vendor during the life of the contract. Depending on the nature of this relationship, coordination and communication costs (such as: costs of communication and reporting, contract enforcement costs, travel costs, costs of fault/error correction, and contract renegotiation costs) can be significant. In one case [31], the costs that were initially migrated to the vendor eventually returned to the firm.

5.8. Flexibility and control

Another drawback of is the lack of flexibility and control over IS operations and quality of the software. This is one of the main reasons to retain strategic applications in-house. In fact, many banks prefer to retain their programmers in-house for this reason [14]. The bank and the vendor have different business objectives and there is a natural conflict of interest [23]. It is hardly surprising that an outsourcer is less likely to treat the client's emergency as its own.

5.9. Personnel upheaval

By far, the most negative and visible effect of the outsourcing process is on employee morale, job uncertainty, and survivors' futures: anxiety and rumors abound [18]. Productivity may decline during this period and superior employees tend to seek jobs elsewhere [10]. Once the contract is signed, the survivors may continue to experience anxiety and feelings of insecurity. The Wyatt Company report: "Restructuring — Cure or Cosmetic Surgery" indicates that 67% of the study's participants said it took more than six months for survivors to recover from the experience and retrench in the newly defined enterprise. Thirty percent said the recovery time took a year or more [36].

5.10. Benefits and pitfalls: Peter Wood's perspective

Peter Wood felt that the decision to outsource was clearly motivated by strategic reasons: they were told by Brian Todd, that he was not interested merely in the transfer of IS, but that but he had several strategic objectives to be accomplished. One of these was to maintain a position of independence so that the bank could return to an independent processing mode in case of sudden contract termination. A second goal was to allow the bank to compete with national banks and nation-wide services. Another was the ability to respond to customers in a rapid and timely manner. Peter Wood placed these three objectives at the top, though there were other additional ones.

Of course, cost containment and reduction were important factors. The prospect of a guaranteed flat fee was attractive. Financial and accounting benefits also accrued. For many assets, either the bank received cash or

obtained credit over the life of the contract. The bank's balance sheet was helped enormously due to the disposal of non-earning assets. This monetary value could then be put to other productive uses.

There were technology benefits also. The bank's network was updated from a 50-50 digital/analog network to a completely digital network. They are now interacting real time with branch operations. They also received a branch automation package along with PCs and many other components, and now have a standard delivery system across the state.

The enormous change had significant personnel effects. Quoting Mr. Wood directly:

"I can tell you from my personal feelings. I have never experienced divorce in my family. I have experienced death in my family. And it is very close to that. It is a draining, emotional effect."

The bank tried to establish open lines of communication with its employees and held several meetings to discuss the process. Even then, it slowed work almost to a crawl, because people did not know when they might be terminated. There were over 200 people in development and technical support. These units were merged and reduced to about 80 employees. There were about 150 employees in operations. XYZ corporation took them to their data center in another city. Employment counseling and severance pay were provided to those who were laid off.

According to Mr. Wood, the survivors of outsourcing seemed to be doing well. The turnover rate went from 40% before consolidation to 4%. Many IS employees feel that they are contributors and that quality of work life has risen. However, the question is "whether the staff will ever get away from the nervousness and fear of another shoe dropping."

The contract is very important and the committee spent many hours writing it. According to Mr. Wood, you live or die by the contract, so it must be very specific. You cannot rely on oral promises. In general, the outsourcing relationship has worked well for Tristar. Specific managers have been assigned to manage the contract and responsibilities have been clearly delineated. The contract stipulations are especially helpful, as many of the people who negotiated the contract on XYZ's behalf are no longer with the company.

5.11. Benefits and pitfalls: Jerry Davis' perspective

The major motivation for exploring outsourcing options, according to Mr. Davis, was the obvious cost curtailment. The bank was going through hard financial times because of tremendous loan losses. As such, there was an incredible pressure to show substantial cost reduction. Outsourcing was attractive as it provided the option of paying by the transaction as opposed to having to invest in capital.

Related to cost was the bank's fixation on return on equity (ROE). Outsourcing allows the removal of many non-producing assets from the balance sheet, so the asset value goes down dramatically. The returns do not change, but the ROE goes up, making the balance sheet look stronger.

Another apparent reason was to influence control over MIS operations. The IS structure had become unwieldy and a dual-headed monster (there were two IS directors: Jim Parker in charge of operations and Alan Bush in charge of development). Outsourcing provided an opportunity to consolidate all IS activities.

There were technological considerations as well. For example, the vendor provided PCs at incredibly low prices and promised fast delivery of platform automation software.

Jerry Davis believes that many of the claimed benefits have not materialized. On the financial side, expected rewards have not occurred. The contract terms were based on modest computing growth, but there were substantial escalation clauses for over-growth. The growth has been substantially greater; thus the contract is costing significantly more than expected.

According to Mr. Davis, the cost figures of the vendor were artificial and not always tangible. For example, while a substantial number of PCs were given at cost, these were pretty much obsolete and used outdated technology. As such, they had little value. Also, the vendor listed the difference between the list price and the cost as savings on the deal.

On rapid technology acquisition, the platform automation software, promised within a short time, was not in place after two years. This caused the bank to expend additional resources.

The financial statements of the bank did look better, and the bank's stock did go up by about 70%, but stock market changes are not clearly attributable to any single factor: the rise was probably due to rumors of a take-over bid.

The costs of personnel upheaval were enormous. There was some communication during the negotiations, but was little and superficial. The anxiety levels went in cyclical swings. The separation announcement was made abruptly, and laid off employees were asked to pack their personal belongings and leave immediately, in presence of a guard. Twenty two people lost their jobs in application development. The vendor interviewed several separated employees for certain positions in their organization, but all positions were to be in the vendor's city over a thousand miles away, and was not an attractive option for most employees.

There was high turnover among the employees that remained at the bank after outsourcing. About half of the development unit left and the bank had trouble replacing them. Productivity suffered tremendously, both before and after outsourcing. "Before" productivity suffered due to anxiety and anger among employees; "after" productivity dropped due to continued anxiety, mismatch between employee skills and new job responsibilities, and because many with superior competence and specialized skills had already left the bank.

Overall, outsourcing provided only short-term gains. It was not a great strategic move. Many of the strategic aspects of IS now depend on a third party vendor, whose objectives are not the same as the bank's. The outsourcing arrangement set up an adversarial relationship between the development process and operations. This became a failure of management and of leadership. Instead of confronting problems, management took an "easy way out."

6. The outsourcing process

Outsourcing brings about a tremendous change in the IS organization. A carefully orchestrated "change management" strategy and process is necessary in order to manage this change. The three phases of change: unfreezing, moving, and refreezing [27,38], need to be carefully addressed. Several authors (e.g., 19,22) have proposed multiple-stage models to address these phases. Specifically, we propose the following rational process for making the outsourcing decision:

- Outsourcing initiation (preferably by a senior executive)
 - Formation of a task force and goal setting
- Developing and implementing a communications plan
- Requirements formulation
- Initial screening of vendors
- Solicitation of vendor proposals
- Evaluation of proposals
- Negotiating the contract
- Contract implementation
- Nurturing the survivors
- Contract maintenance

In such a process, the first two steps can be equated to unfreezing, the last two steps to refreezing, and the intermediate steps to moving. These steps constitute a rational process; but, there is also a political process⁴ at

work. There are human casual-ties and winners/survivors at the end. Participants quickly take positions they perceive to be "winning" and make arguments governed primarily by their need to safeguard their personal survival. At times, proper positioning and power politics may even dominate the rational process.

6.1. Outsourcing process: Peter Wood's perspective

Peter Wood's description of the process appeared to be objective and rational. Many of the steps described above were explicitly used. Brian Todd, the vice president of MIS headed the project. He put together a corporate committee that consisted of himself, one development manager, one operations manager, a lawyer (whose specialty was data processing and outsourcing), and an accountant (to provide and substantiate numbers). A specialist from a national CPA firm was included as a consultant to maintain objectivity. No formal RFP was prepared, as the team was learning by doing. Selected vendors were invited to examine their entire operations and make appropriate proposals.

The committee built a financial model. It represented the bank's IS activities, including a prediction of growth and need for services: this was their "baseline strategy". The model was represented in massive spreadsheets that included various activities, transaction volumes, etc. The model had a time span of ten years.

As said before, ABC corporation's proposal covered all IS activities, while XYZ corporation excluded system development. XYZ's proposal was in line with one of the strategic objectives which spelled out that application systems provide a critical advantage, implying that they should not be outsourced. The committee worked with the proposals and evaluated their validity using the spreadsheet models. The vendors had their own models. There was considerable evaluation and alteration of assumptions before the team felt comfortable with the proposals. In the final analysis, the contract was awarded to the XYZ corporation because of its financial and overall superiority.

The bank periodically and openly informed employees about the process. Employees that were terminated were provided employment counseling and received a generous severance package. The remaining employees were reorganized into a new structure with fewer layers of management.

6.2. Outsourcing process: Jerry Davis' perspective

According to Jerry Davis, the entire process was politically driven. In his words, "it was a very strange little piece of organizational dynamics." Peter Wood was clearly the driver from the XYZ side, while Alan Bush (Jerry's boss) pushed for ABC. Lines formed very quickly on each side. Once the two players were known, then the lines were just solid. The final decision for XYZ might not have been a purely economic decision. It was a political decision as much as a business exercise. The irony was that, on surface, XYZ's proposal would cause Peter Wood major problems, because he was in charge of technical support and operations.

The development operations stayed in place, but the people who were terminated were all in the application area, including their director, Alan Bush. The technical support and operations director (Peter Wood) wound up being in charge of development.

In Jerry Davis' opinion, the decision was made very soon after the start and the rest of the process was merely a masquerade. Moreover, according to him, the bank did not have an open communication process. Only a few meetings were held to provide information and answer questions, and to soothe employees with a sprinkling of "don't worry" comments. As a result, the anxiety and anger levels ran very deep. Mr. Davis was particularly displeased with the way the bank treated the terminated employees. They were summoned abruptly to a room, told of their immediate termination, and unceremoniously escorted out of the company.

Mr. Davis did say that the bank provided 12 to 18 weeks of severance pay, and provided outplacement and employee counseling services (starting on the next day at a location away from the bank).

According to Mr. Davis, the survivors had lingering problems. Turnover was high and morale was low. Many were reassigned new job responsibilities that did not match with their skills. This resulted in poor productivity for a long time.

7. Summary

While most published reports of outsourcing paint a rosy picture of benefits, we have additionally provided a number of pitfalls and problems that occurred in a financial institution. Many reports are anecdotal and are based on accounts of senior executives, outsourcing vendors, or survivors in the MIS organization; they have a stake in defending the decisions they made and therefore might be biased. This article is based on interviews with two individuals who were on opposite sides after outsourcing: one was promoted and the other terminated. We believe that the dialectic approach of this article provides a balanced view of outsourcing pros and cons.

The reporting bias was summarized by Jerry Davis in the following comments:

"I think what they did is they took and looked for the silver bullet. They looked for the one silver bullet that you put in and you shoot the guy one time and he is dead forever. From my viewpoint, it is a failure of management and a failure of leadership. If you call them today, they would tell you it was a wonderful move. However, they are not talking straight to you, because they cannot afford to."

In closing, IT outsourcing has the potential for yielding significant advantages to user organizations, but is not a universal success or panacea. Success is not automatic but requires careful planning and implementation.

Notes:

- 1 We use the term "surviving or survivors" to refer to employees who have been retained (or been promoted) in the organization after the implementation of outsourcing.
- 2 The company and the characters of the case are real. However, they have been disguised to ensure confidentiality.
- 3 It soon became obvious that different stakeholders had different perceptions of the outsourcing situation. Any attempt to verify the claims would have itself been tainted by the opinions of those approached for verification. Nevertheless, the opinions of the two interviewees represent reasonable approximations of the two extreme viewpoints.
- 4 For example, evidence suggests that with greater distance between the CEO and the IS manager, it is more likely that IS functions will be outsourced [4].

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