

Impact of IT Outsourcing on Business & IT Alignment

Summary

IT outsourcing does not matter...from an alignment perspective

This dissertation is the end result of over four years of research, and over fifteen years of experience in the area of Business & IT alignment and the impact of Information Technology (IT¹) outsourcing. This dissertation tests the hypothesis *'IT outsourcing has a negative impact on Business & IT alignment'*. Besides testing the hypothesis this dissertation also provided answers to major industry questions using the following research questions:

1. *Does the business & IT alignment differ depending on the degree of IT outsourcing?*
2. *On which aspects / areas of interest does the alignment differ?*
3. *Does IT outsourcing influence the level of alignment maturity?*
4. *What are the determining characteristics for alignment in IT outsourcing situations?*

The hypothesis was rejected. The main conclusion is that IT outsourcing does not negatively impact business & IT alignment maturity. IT outsourcing can have a small positive influence on alignment maturity, based upon the correlation between degree of IT outsourcing and Business & IT alignment. This is different in several situations from the contingency perspective (for example industry and size of organisation).

Overall the impact is small although statistically significant. Based upon the research results, IT outsourcing is not in favour but also not negative for alignment maturity.

1 In this dissertation IT and ICT (Information Communication Technology) is perceived as equal

Contributions

The rich data set of in total 273 organisations (218 for both alignment & IT outsourcing), and 907 respondents were used to test the hypothesis and answer the research questions.

Next to answering these questions and testing the hypothesis, this research made several contributions towards science and business. These are:

- Set of evaluated alignment components;
- Set of evaluated IT outsourcing characteristics;
- Business & IT alignment in outsourced situations measurement mechanism;
- Set of differences in business & IT alignment in outsourced situations –scores based upon contingency factors;
- Evidence with regard to the impact of IT outsourcing on business & IT alignment;
- Set of determining IT outsourcing characteristics with regard to alignment maturity;
- An extended data set with data on the areas alignment maturity, IT outsourcing and contingency factors of 273 organisations and 907 businesses & IT respondents.

Definitions and research model

In this dissertation, Business & IT alignment (alignment) is described as: *'...realising and optimizing in an on-going process; the relational mechanism between business & IT by working on the IT effectiveness of the organisation in order to realise enterprise business objectives.'*

IT outsourcing is defined as: *a process whereby an organisation decides to contract out or to sell the firm's IT assets, people and/or activities to a third party supplier, who in exchange provides and possibly manages these assets, people and/or activities for a fee over an agreed period of time.*

The research model is presented in figure 0.1. My first assumption is that alignment and IT outsourcing can be measured. My second assumption is the probability of IT outsourcing characteristics influencing business & IT alignment maturity. My third assumption is that contingency factors, such as size of organisation and industry, probably can explain differences in the business & IT alignment maturity and/or IT outsourcing measurements as well.

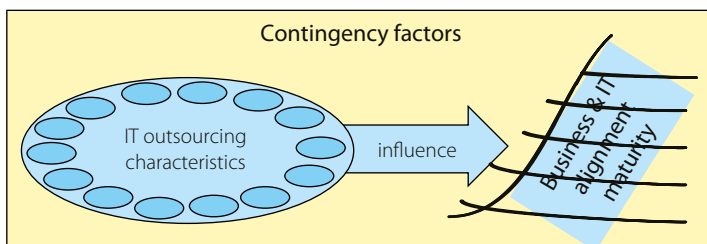


Figure 0.1. Model of research

Study of literature and research

Preceding the field research, top ranked Management of Information Systems (MIS) international journals were reviewed in the areas of alignment and IT outsourcing. The results were used to develop a measurement mechanism to test the hypothesis and answer the several main and sub questions of this dissertation.

For measuring alignment, the Luftman [2002] Strategic Alignment Measurement mechanism was evaluated and used. This mechanism uses six leading components to measure alignment maturity: *communications, value measurements, governance, partnership, architecture and skills*. Within the six components, forty-one sub components have been discussed in the literature research and applied in the research model.

For measuring IT outsourcing, no specific measurement mechanism was found in the literature research, which could adequately measure the degree and maturity level of IT outsourcing. Based upon the literature research, ten major indicators were identified and it is expected that these IT outsourcing characteristics will influence alignment. The identified IT outsourcing characteristics were: *type of IT outsourcing relationship, scope of IT outsourcing - organisational, scope of IT outsourcing-functional, single or multivendor IT outsourcing, governance of IT outsourcing, IT outsourcing experience, IT outsourcing -contract, -project management, -service level management and -transition result*.

The contingency factors researched were related to: organisational factors, business & IT proposition, and people & culture factors. The alignment components, IT outsourcing characteristics and contingency factors were measured independent from each other.

Case, survey & short survey research

The case research existed of twenty-eight cases, which consists of 454 business & IT professionals, and was used for more detailed analysis. The survey research was done within 183 organisations consisting of 270 business & IT professionals. The short survey was conducted within 62 organisations consisting of 183 business & IT representatives, but mainly for the industries 'housing corporation' and 'education'. The data set created provides a well-represented cross section of Dutch organisations. Covering multiple industries and all sizes of organisations.

Within the case research, the alignment survey was carried out, as well as an IT outsourcing interview; and in fourteen cases, a workshop regarding people & culture factors was held. In the survey research, the alignment survey was held combined with a number of IT outsourcing questions. The short survey used just six alignment questions and one IT outsourcing question.

Analysis

The field research resulted in a rich dataset of case, survey and short survey research. In this rich dataset, several perspectives have been analysed and over thirty conclusions were drawn. Some of the findings within the three research approaches are in contradiction. The causes are sometimes based upon the contingency factors 'industry', 'role respondent' and 'size of organisation'.

Interestingly, the case research showed a small negative, but not significant, correlation between alignment maturity and degree of IT outsourcing; whereas the survey research showed a small, but positive and significant correlation. Based upon the results of the case, survey and short survey research, the influence of degree of IT outsourcing (what and how much is outsourced with regard to IT, see part IV) is small, yet positive, for alignment maturity.

Based upon the literature research a measurement model was created. This model is described in part V and VI. During the analysis, four main research questions were answered:

First, the question if alignment maturity differs depending on the degree of IT outsourcing, was answered. This resulted in the answer: yes, alignment maturity differs depending on the degree of IT outsourcing.

Secondly, the aspects / areas of interest in which the alignment differs were identified. On average, all components of alignment maturity are positively influenced by the degree of IT outsourcing. The components 'value measurement' and 'architecture and scope' are most positively influenced. The lowest contribution was found in the component 'governance'.

Thirdly, the question if IT outsourcing does influence the maturity level of alignment was answered positively. Several IT outsourcing characteristics were identified which influence alignment maturity.

The fourth question discussed which characteristics are determining for alignment in IT outsourced situations. These are:

- System development;
- User & acceptance testing;
- IT outsourcing contract;
- IT outsourcing project management;
- IT outsourcing transition result;
- Size of IT outsourcing deal;
- Type of relationship IT supplier;
- IT outsourcing scope functional and particularly:
 - Break/fix services;
 - Workspace automation;
 - Help & service desk.

Next to answering these main question, a sub question as to whether there are contingency factors that show different results with regard to Business & IT alignment in outsourced situations was answered positively. The contingency factors that showed different results are: 'industry', 'size of organisation', 'role respondent', 'business proposition', 'IT proposition' and 'people & culture'. In the analysis, a comparison was also made with the research results of Luftman [2012] and Poels [2006] on the area of alignment. Differences have been explained.

Conclusions

The hypothesis: 'IT outsourcing has a negative impact on Business & IT alignment' is tested in this dissertation, and based upon the overall (case, survey & short survey) results the hypothesis is:

REJECTED,
IT outsourcing does not have a negative impact on alignment.
Organisations using IT outsourcing have, on average, a higher level
of alignment. This difference is relatively small but significant.

This rejected hypothesis is based on the overall result, as well as the single results of the case, survey and short survey research and exists of:

1. Result case research:

There is no significant (negative) influence between the maturity of alignment and the Degree of IT outsourcing. The hypothesis that IT outsourcing has a negative impact on business & IT alignment is rejected.

Within the case research there were a few characteristics, which did significantly support the hypothesis; these characteristics are: system development and user & acceptance testing.

2. Result survey research:

There is a small significant positive correlation between alignment maturity and Degree of IT outsourcing. The hypothesis that IT outsourcing has a negative impact on business & IT alignment is rejected.

Within the survey research, no findings were made that support the hypothesis.

3. Short survey research

There is no correlation between alignment maturity and Degree of IT outsourcing. The hypothesis that IT outsourcing has a negative impact on business & IT alignment is rejected.

The short survey research did not provide further possibilities to analyse this result on IT outsourcing characteristics.

Next to degree of IT outsourcing the impact of the identified characteristics of IT outsourcing: type of relationship, scope organisational, scope functional, vendor construction, governance, experience, contract, project management, service (level) management and transition result were explored resulting in several perspectives with regard to the impact of IT outsourcing on Business & IT alignment (part VII).

Regarding the rejection of the hypothesis, a number of considerations were made. Although a relatively small yet positive contribution of degree IT outsourcing was found with regard to alignment maturity, the results do not indicate that increasing the degree of IT outsourcing is the determining factor for realising a higher level of alignment. But there are strong indications that aspects such as IT outsourcing maturity, type of IT outsourcing relationship, elements of IT outsourcing-functional scope and other do contribute to higher level of alignment. But this is also dependent on contingency aspects such as size of organisation and industry. A number of the contingency factors show different and contradictory results with regard to the contribution of degree IT outsourcing towards alignment maturity. A number of assumptions can be made with regard to the causes of the influence of degree IT outsourcing. These are also suggestions for further research. Possible causes of the contradictory results could be (although the rich data set in this dissertation provides parts of the answers):

- Further differentiation in IT outsourcing such as offshore, cloud, on-shore sourcing. The kinds of IT outsourcing might impact the influence of degree IT outsourcing at alignment maturity.
- Alignment maturity differs between industries. Interestingly, the industry 'financial services' scores high at alignment maturity and low at degree IT outsourcing where 'housing corporation' scores relatively low on the level of alignment maturity and relatively high on degree IT outsourcing.
- Dependent on the size of organisation (and possibly the age of organisation), a growing curve seems to appear. In this growing curve, young small organisations tend to use IT outsourcing rapidly to a degree (maturity level) of 2.75 (in a scale of 1 to 5). Growing further up to 1,000 employees the organisations tend to follow a strategy of internal sourcing. The alignment maturity tends to follow the same curve, starting relatively high, but declining along the way up to a size of 500 employees. From the size of 1,000 employees, the degree IT outsourcing increases as well as the alignment maturity but a turning point is found at a size of 10,000 employees. Using IT outsourcing partners might positively influence the professionalism of the internal IT organisation, which would correspond with the results in this dissertation.

Strongly stated: degree of IT outsourcing is NOT the 'must do' intervention for realising higher levels of alignment maturity. Further research is suggested to find successful mixes (IT outsourcing characteristics) for using degree IT outsourcing for realising alignment maturity. These mixes should also consider the differences due to the contingency factors.

Finally, the overall results also indicate that both internal and external IT organisations are not able to distinguish significantly from each other from an alignment perspective. Although the number of

organisations which completely outsourced their IT is limited, the differences between levels of alignment maturity are small.

Considering the research performed and the analysis made, the conclusion is that IT outsourcing does not matter (from an alignment perspective). But it might matter when further analysis is performed using the IT outsourcing characteristics and contingency factors.