IT Outsourcing in the Public Sector: Experiences Form Local Government

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Abstract: This paper examines the approach taken to Information Technology (IT) outsourcing in four local government councils in the UK. This is important because, whilst outsourcing has become a significant issue in the restructuring of organisations and is increasingly used within both the private and public sectors, there has been a lack of research into IT outsourcing in the public sector and particularly within local government. This paper provides an in-depth study into how outsourcing is managed in local councils and how successful it has been; especially considering its sometimes controversial nature and the mixed press results it receives. To complete this study, interviews, containing both qualitative and quantitative questions, were conducted with key people at the four councils. These interviews examined the rationale for IT outsourcing. The findings from the interviews were then compared to the current literature on IT outsourcing to identify best practice. This research shows that, whilst cost savings remain important, councils focus on achieving best value when outsourcing IT rather than simply lowest cost. Indeed, it shows that whilst outsourcing can result in improved efficiency, councils that focus primarily on cost savings are often less successful. However, whilst the results revealed that IT outsourcing was more successful at councils who focused on long-term strategic goals, the interviewees considered the strategic benefits of outsourcing less important than improving the service. The structured selection process that is imposed by legislation allows council managers to gain a better understanding of the outsourcing requirements and make informed decisions to achieve best value, however the need for cost efficiency can result in a more short-term focus. The cost of the process and its inflexibility makes it more difficult for councils to focus on long-term goals. The study concludes that, whilst councils recognise that both the contract and trust are important to ensure that outsourcing is successful, the culture of risk aversion in the public sector tends to lead to a 'play it safe' mentality resulting in an overemphasis on the contract. This can lead to a short-term focus that could make it difficult for the council and the provider to work together to meet long-term goals. The councils were generally skeptical of developing partnerships; however, the research reveals that councils who focused predominantly on the contract were less successful than those who developed partnerships with their providers. The authors therefore recommend that, in order to achieve greater success, councils should develop partnerships and focus on best value and long-term strategic goals when outsourcing IT.

Keywords: Information Technology (IT); Information Systems (IS); outsourcing; public sector; local government

1. Introduction

The use of outsourcing, although not a new phenomenon, has increased in recent years as firms seek to lower costs and increase efficiency in response to higher levels of global competition. Child (2005, p.179) describes outsourcing as "the contracting out of activities that need to be undertaken on a regular basis, which otherwise would be conducted within an organisation". Kern and Willcocks (2000, p.322) define IT outsourcing as "a decision taken by an organization to contract out or sell the organizations IT assets, people and/or activities to a 3rd party supplier, who in exchange provides and manages assets and services for monetary returns over an agreed time period". Outsourcing has become a significant issue in the restructuring of organisations and many commentators agree that it is currently "one of the fastest-growing" and most important activities in business (Burnes & Anastasiadis, 2003, p.355; Weinert & Meyer, 2005, p.1).

Outsourcing offers numerous advantages; however there is also evidence that outsourcing often fails (Lacity & Willcocks (1997, p106)). The potential benefits include cost savings, efficiency gains, improved flexibility, access to world-class expertise and focus on core competencies. However, outsourcing also poses numerous risks that must be managed in order for outsourcing to be successful (Kremic, 2006, p.467).

Outsourcing is identified in two categories; outsourcing of core value-chain operations and outsourcing of support activities. The core value-chain operation is the outsourcing of supply chain activities such as distribution, whereas outsourcing of support activities includes HRM and facilities management (Child, 2005, p.181). Outsourcing initially involved the outsourcing of non-core activities to reduce costs and improve efficiency and had a relatively short-term focus. However, more recently

outsourcing has been used more strategically as firms increasingly seek to become more efficient by focusing on areas where they can achieve competitive advantage (DiRomualdo & Gurbaxani, 1998, p.1). However, some theorists suggest that you should not outsource your core competency, whilst others argue that it can be difficult to define what is core and non-core. Alexander and Young (1996), cited by Que'lin and Duhamel (2003, p.648), distinguish between activities that "are critical to performance" but only support the core and those that actually provide competitive advantage.

This is a notable problem when outsourcing IT because, whilst some consider it a non-core activity, IT is becoming critical to service delivery. The fact that IT is complex and affects all activities within an organisation make it one of the most important activities outsourced (Weinert & Meyer, 2005, p.1). Lacity and Willcocks (1995, p.226) note that IT changes rapidly and switching costs to new technologies or suppliers can be high because IT demands high investment costs. They suggest this makes IT outsourcing unique compared to the outsourcing of other activities. This will have implications for how IT outsourcing is conducted and managed.

1.1 Outsourcing in the public sector

The public sector has followed the trend set by the private sector and IT outsourcing is now one of the most important outsourced activities that by "1996 had led to contracts worth £2 billion" (Lacity & Willcocks, 1997, p.85).

In the 1980's the government introduced Compulsory Competitive Tendering (CCT), this "involves government or firms using a competitive bidding process to help decide who should have the right to produce or deliver goods or services" within the public sector (Rimmer, 1994, p.79). This process was driven by "marketing and political trends" with the aim of making the public sector more competitive (Marco-Simó, et al, 2007, p.51). It was assumed that market-based competition would be able to provide improved efficiency and lower cost whereas public monopolies provided no incentives to improve performance (Besley & Ghatak, 2003). However, traditional outsourcing contracts in the public sector were often granted to the lowest priced bidder, which can lead to lower quality provision. Thus, the government updated CCT in 1998 to focus on best value rather than simply lowest cost, whether internally or externally (Butler, 2003).

However, whilst outsourcing has become one of the most important tools in public sector management, failures tend to attract greater publicity, due to political accountability, whereas successes often go unnoticed (Maughan, 2003). These failures have led to an increasing interest in how outsourcing is managed in local councils and to what extent it has been successful.

2. Literature review

Much of the literature available deals with IT outsourcing in general without specifically addressing cases within the public sector or local councils. Indeed, Vilvovsky (2008, p.337) notes that the available research is "limited and fragmented". De Looff (1996) finds this interesting since he shows that in the Netherlands 30% of IT outsourcing is accounted for by the public sector, a figure not too dissimilar to the UK. However, despite this, Marco-Simó et al (2007, p.52) note that outsourcing in the public sector "has not produced a level of research interest proportional to its economic importance". This has led to an increased interest in how outsourcing is managed within the public sector; especially considering the increasing use of IT outsourcing within the public sector the mixed press results it receives.

The lack of research in this area can be problematic for making comparisons. However, it does provide an opportunity to explore a gap in the literature and to discover if anything can be learnt from how outsourcing is managed in local councils. This is important because whilst the private and public sectors share some similarities they also have some notable differences. Vilvovsky (2008, p.338) notes that the public and private sectors are divided both "ideologically and operationally". Both have similar values in terms of "responsiveness, honesty and accountability" but the public sector is not motivated primarily by financial performance. Thus, public sector managers may adopt a different mindset to outsourcing, based on goals and values other than cost efficiency, whilst being further constrained by political accountability. This could result in a more cautious approach to outsourcing based on minimising risk. Burnes and Anastasiadis (2003, p.365), in their comparison of a police force and an insurance company, further highlight differences in supplier selection, contractual arrangements and in the management of the relationship between the public and private sectors. One

major difference is that public agencies are legally required to outsource any activity that can be done cheaper by outside contractors, as long as they meet the minimum specifications (Burnes & Anastasiadis, 2003, p.359). The private sector, in contrast, has more choice over whether they outsource and to whom and can therefore do so more strategically and approach the best suppliers directly (Lin, et al, 2007, p.164).

Currie (1996, p.226), in a comparison of the experiences of IT outsourcing in the UK's private and public sectors, shows that IT outsourcing poses significant challenges to both and should not simply be seen as a "quick-fix" solution. Lacity and Willcocks (1997, p.106) investigated two case studies in the US public service. They have previously suggested that the UK has had "long standing problems" with outsourcing and that the results have often fallen short of expectations. In this article, they suggest that politicians often believe that outsourcing will automatically save money whereas in reality outsourcing either has failed or has yet to show any real benefits.

Frederick (1994), however, contends that CCT has been successful and has produced both cost savings and increased efficiency. Indeed, Maughan (2003) suggests that the public sector is better at managing outsourcing relationships than the private sector because they devote staff exclusively to managing the relationship whilst the private sector generally does not which can create a lack of focus and clarity. He also states that the public sector benefit from having clear guidelines and a lengthy procurement process, which allows for multiple tenders, imposed upon them by legislation. Vilvovsky (2008, p.342) contends that public sector managers often find legislation and guidelines "a legal constraint rather than an aid" which may create inflexibility and lead to contracts being awarded to the lowest cost bidder rather than the best quality. Despite this, Burnes and Anastasiadis (2003, p.365) argue that the private sector could learn from the public sector's structured approach. They suggest that government guidelines can create a greater understanding of outsourcing requirements and may produce more stable relationships. This research explores these issues further.

2.1 Motivations

The literature shows that there are numerous potential benefits to a firm from outsourcing, in general. This research will determine if these findings are applicable to local councils.

2.1.1 Cost savings and quality improvement

Child (2005, p.187) states that outsourcing offers "significant, often immediate cost savings" and Corbett (2004, p.11) highlights results from the 2004 outsourcing world summit, which showed that 50% of executive respondents cited cost savings as the primary goal of outsourcing. This was the initial focus of outsourcing tenders within the public sector as the government sought to reduce costs (Rimmer, 1994, p.79) and Domberger and Jensen (1997, p.68) argue that there is "substantial evidence" that governments have saved money by contracting out.

However, cost reductions can only be achieved if the provider has access to economies of scale or can achieve increased efficiency through specialisation (Kremic, 2006, p.468). It is argued that the private sector is more efficient because they are profit driven and competition provides greater incentive to reduce costs and increase efficiency (Jensen & Stonecash, 2004, p.4). However, Jensen and Stonecash (2004, p.6) contend that the empirical evidence does not support the view that "public sector organisations are intrinsically less efficient". Indeed, Que´Lin and Duhamel (2003, p.648) believe that if outsourcing was simply a cost cutting exercise then internal reorganisation maybe more efficient and DiRomualdo and Gurbaxani (1998, p.1) note that large companies can achieve the same level of economies of scale and specialisation as providers. This is supported by a survey by Domberger and Fernandez (1999), cited by Kremic (2006, p.469), which shows that IT outsourcing resulted in an average 9% increase in costs.

Furthermore, Hart, Shleifer, and Vishny (1997, p.1127) state that, whilst advocates suggest that outsourcing can lead to savings, critics believe this inevitably leads to lower quality. They note that this is because quality is often difficult to specify within contracts and therefore cost reductions take priority. This research is based on Prisons; however, it does pose important questions as to whether a focus on cost reduction will have a negative effect on quality and how councils should balance between the two when outsourcing. This is supported by Daly (2001, p.13), who highlights a recent report by Accenture on public sector outsourcing that shows that those that focus solely on cost savings are less successful than those who target "more value adding activities".

However, the results from the 2004 outsourcing world summit also show that 50% of managers believe that cost reductions are not the most important reason for outsourcing (Corbett, 2004, p.13). DiRomualdo and Gurbaxani (1998, p.1) support this by arguing that private sector organisations now outsource for more strategic reasons such as to focus on their core competencies, to improve flexibility or to gain access to world-class expertise. Indeed, Daly (2001, p.12) notes that outsourcing in the public sector is now being used as a means of delivering value rather than simply reducing costs.

2.1.2 Focus on core competence

Outsourcing allows firms to get rid of routine activities and redirect energy to focus on what they do best. Quinn and Hillmer (1995) popularised this view by suggesting that firms should outsource non-core activities to allow them to divert resources to activities that can provide competitive advantage. The Boston Consulting Group supports this by recommending that companies outsource anything in which they do not have world-class capabilities. They suggest that in today's hyper-competitive climate it is no longer enough to be world-class in only a few areas (Haberberg, 2008, p.237). Indeed, Osborne and Gaebler (1992), cited by Sicilia (2007, p.2), argue that the public sector is focusing on "steering not rowing", signifying that the public sector outsource to focus on the planning and monitoring of services and not to be distracted by routine activities. This, however, does suggest that IT is simply a support function that requires little management after it has been outsourced. However, as Weinert and Meyer (2005, p.1) observe, IT is more complicated than other support functions and therefore still requires management after outsourcing to ensure its integrated with other departments.

2.1.3 Flexibility and restructured costs

Outsourcing can also allow companies to become more flexible to respond more quickly to changing objectives (Haberberg, 2008, p.234). Hart (2008), the chairman of the National Outsourcing Association, argues that public sector organisations should attempt to structure the contract in a flexible way, to allow it to accommodate changes. However, as Fried (1995, p.24) notes, the rapid changes in technology could make it difficult to write a flexible contract.

Corbett (2004, p.13) also notes that outsourcing allows firms to transfer their fixed costs, such as factories and staff, into variable costs. According to Gartner (2008) "changing the cost structure of IT will become a business imperative" in the coming years. This will allow firms to pass the risk of upgrading technology to their provider and allow them to respond more quickly to changing needs and prevents them from getting locked into technology (Chen & Perry, 2003, p.11). This is particularly important with IT because it requires high capital costs. DiRomualdo and Gurbaxani (1998, p.6) believe that transferring ownership is more successful because the provider will then have a stake in upgrading the assets. However, cost savings will be difficult to achieve initially when investment is required. Thus, longer contracts will be required to allow the provider to recoup their investment costs although longer agreements could contain greater risks in terms of over-dependence and inflexibility.

2.1.4 Access to expertise and recruitment issues

Outsourcing also enables firms to select and utilise the best expertise in the industry. A firm will benefit in IT where they maybe unable to develop the capabilities to do the activity themselves, due to its increasing complexity (Vilvovsky, 2008, p.338). The private sector also tends to pay higher wages and therefore the public sector maybe unable to attract people with the best skills (Vilvovsky, 2008, p.341). However, this may not be a major motivation if outsourcing involves the transfer of staff to the provider because the same people will conduct the work. Thus, the main benefit maybe that the provider specialises in the activity and can devote more resources to it.

3. Methodology

This research takes the form of a multiple case study. Creswell defines a case study as "a single, bounded entity, studied in detail, with a variety of methods, over an extended period" (Maylor & Blackmon, 2005, p.243). Marco-Simó et al (2007, p.59) have argued that we need more "real cases" before "we can generalise the findings". A case study approach was chosen because this type of research is useful when 'how' or 'why' questions are being asked (Saunders et al, 2007, p.139).

The case study allows an in-depth examination to develop an enhanced understanding of the subject area and develops areas for further research (Flyvbjerg, 2004, p.420). Commentators agree that this

method allows for a greater understanding of complex issues and is more comprehensive than surveys, due to its ability to "come closer….to the complexity of real organisation setting" (Maylor & Blackmon, 2005, p.242).

Yin (1984), cited by Gable (1994, p.113-115), believes that a single case study is useful in areas that are under-researched and require exploration, whereas multiple case studies are used to test for patterns and draw comparisons.

The purpose of this research was to explore a complex issue in-depth and to identify some common trends rather than to present a generalised industry view. Indeed, Flyvbjerg (2004, p.420) argues that the case study is a reliable method in itself due to its ability to incorporate multiple data collection methods.

3.1 Case studies

The case studies are based on four local government councils in the south of the UK. The cases themselves were chosen because the four organisations themselves were very similar in both size and the activities that they performed and were representative of many other local government organisations (none of them would be considered special cases); were accessible in that they were in a reasonable distance that the researchers were able to travel to and importantly - they were willing to participate in the research.

Table 1: Description of the cases

Council	Description
A	Council A is a district council that serves a population of around 110,000 people. IT supports the council's everyday operations and is critical to business performance and service delivery. IT is one of the most important activities outsourced at this council. A budget report meeting in 2008 revealed that the contract for IT services is the second most expensive contract at the council, at over £700,000 per year. The ICT strategy at the council is not only to improve the efficiency and effectiveness of the service but also to increase its accessibility to all. The Council signed a 5-year contract with their service provider in 2005, worth £2.5 million. This contract was to provide the council with a full IT managed service that included desktops, servers, infrastructure and applications support.
B	Council B is a unitary authority that serves a population of around 200,000 people. Council B chose to outsource to one supplier in a 10-year contract. This contract included not only the provision of IT but also related services such as HR, payroll, Customer Service, local taxation and benefits, procurement and property services. The council sought one strategic partner to ensure greater integration between the councils services but also because greater cost reductions could be achieved by outsourcing many services to the same provider. The main reason that the council opted for a long-term agreement was because of the high investment needed at the start of the agreement. This meant that the council needed to allow sufficient time for the provider to recoup their investment costs.
C	Council C is a unitary authority that serves a population of 150,000. This council outsourced for seven years. The council outsourced its entire IT department. Services provided include procurement, technology refresh, network development and support, offsite server hosting support and offsite mainframe services, as well as application support and management, 24x7 services monitoring and helpdesk.
D	Council D is a district council that serves a population of 110,000. Council D do not outsource IT.

3.2 Data collection methods

To answer the research questions semi-structured interviews were conducted at four local councils. The interviews were held with the heads of IT at the councils. The interviews were the primary data collection method and allowed the authors to explore the interviewees' experience and attitudes towards IT outsourcing. This paper presents a summary of the data collected.

4. Analysis of results

4.1 Motivations

Table 2 summarizes the main issues as described by the four interviewees at the four councils.

Table 2: Summary of responses

Council A	In 1998 Recruitment issues were the main reason to outsource because the council had difficulty attracting and retaining staff. However, this became less important after the 2005 outsourcing agreement began. Cost savings and improved quality were rated as the second and third most important reasons to outsource. However, outsourcing was also designed to set the strategic direction and improve the council's responsiveness to the public.
Council B	The council primarily outsourced to improve quality and to gain much needed investment. Cost savings, however, were considered the second most important reason because the service had become costly to maintain. The council also outsourced to focus on strategy but this was considered the sixth most important reason.
Council C	Recruitment issues were the most important motivation to outsource IT, with improving quality and gaining access to expertise second and third. Cost savings were unimportant because the council had to initially pay more for the outsourced service to improve quality. The council also wanted outsourcing to support strategy, which is one reason they opted for a partnership agreement.
Council D	This council does not outsource IT. However, cost savings are considered the most important reason that councils outsource, but, in order of importance, cost savings, access to expertise, focus on core and improving quality are other important reasons. Also that councils outsource to pass on the responsibility and risk of managing the IT service.

The interviewees from the four councils were asked to asked to rank the seven motivational criteria (7 being the most important, 1 the least). Table 3 and Figure 1 illustrate the responses.

Table 3: Interviewees ranking of main motivations

	Interviewee A	Interviewee B	Interviewee C	Interviewee D	Aggregate Score
External expertise	2	4	5	6	17
Improved Service Quality	5	7	6	4	22
Cost savings	6	6	2	7	21
Cost Restructure	1	5	1	3	10
Focus on core	4	2	4	5	15
Increased flexibility	3	3	3	1	10
Recruitment issues	7	1	7	2	17

The motivations for IT outsourcing

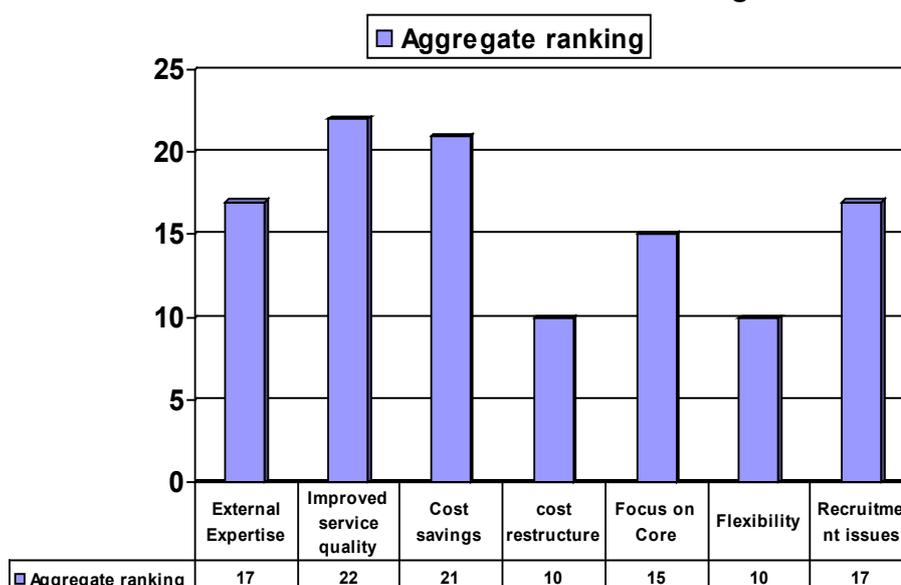|	External Expertise	Improved service quality	Cost savings	cost restructure	Focus on Core	Flexibility	Recruitme nt issues
Aggregate ranking	17	22	21	10	15	10	17

Figure 1: Summary of individual rankings

In Table 4 and Figure 2 the interviewees from the four councils were asked to state whether the motivations were: *Very Important, Important, Unimportant or Irrelevant* to their decision to outsource.

Table 4: Interviewees categorization of motivations

	Interviewee A	Interviewee B	Interviewee C	Interviewee D
External expertise	Unimportant	Important	Important	Important
Improved Service Quality	Important	Very important	Important	Important
Cost savings	Important	Very important	Unimportant	Very important
Cost Restructure	Irrelevant	Important	Irrelevant	Unimportant
Focus on core competencies	Important	Important	Important	Important
Increased flexibility	Important	Important	Unimportant	Unimportant
Recruitment issues	Very important	Unimportant	Very important	Unimportant

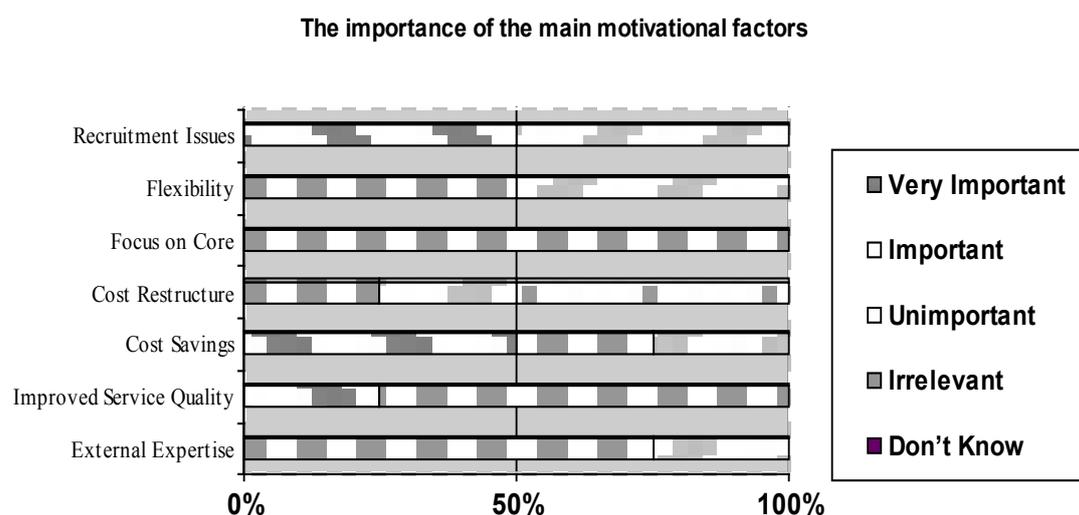**The importance of the main motivational factors**

Figure 2: Importance of motivational factors

4.2 Discussion

4.2.1 *Improved quality and cost reduction*

This research shows that quality improvement and cost savings were the most important reasons to outsource IT at local councils (see Figure 1). Although cost savings were a major reason for outsourcing IT, improvements in quality of service often took priority meaning that cost savings could not always be achieved immediately.

Several of the councils believed that they could have improved quality and reduced costs in-house given time, but that results can be achieved far quicker through outsourcing.

Councils that focused excessively on price can result in the provider cutting back in other areas such as innovation and supporting the council strategically and have a negative long-term impact.
Several councils sought to achieve best value. However, these cases showed that a focus on long-term goals and building a working relationship can lead to better results.

Thus, whilst cost savings are important, councils should adopt a balanced approach to outsourcing to achieve best value rather than simply lowest cost. Indeed, this research shows that the results of outsourcing are not instantaneous and supports Daly's conclusion (2001, p.13) that those that primarily focus on cost savings are often less successful than those who target "more value adding activities".

4.2.2 Access to expertise

Access to external expertise was considered an important reason to outsource IT by three Interviewees and was overall considered the third most important reason. This is because IT now requires a range of different skills, not all of which councils can provide internally, and is constantly changing. In contrast, service providers specialise in IT and can therefore call upon a larger pool of skilled workers (Vilvovsky, 2008, p.338).

A number of interviewees commented that whilst gaining access to expertise is important, councils need to retain key skills in-house.

4.2.3 Recruitment issues

Recruitment issues were the most important motivation for outsourcing in local government 10 years ago. This is evident at Council A and Council C, who both outsourced initially around 2000, who found that the inability to attract skilled staff, due to higher pay in the private sector, was the main reason to outsource. This was partly because the millennium bug had created a shortage in the supply of skilled IT staff and pushed wages up.

Recruitment issues now appear to be less important. This could be because councils are beginning to recognise the importance of IT and the need to offer higher wages to attract skilled staff and have become more commercially orientated.

4.2.4 Focus on core competence

The councils also outsourced IT to transfer the responsibility and risk of managing routine activities so that the in-house team could spend more time and energy focusing on strategy. This allows councils to transfer responsibility for service failures, ongoing costs, and staffing whilst the council only have to manage the contract. All Interviewees considered this an important reason to outsource, although as Figure 2 shows none considered it the most important reason. This illustrates that improving the service by reducing costs and improving quality takes priority over strategic considerations at local councils. Indeed, both Interviewee A and B support Lacity and Hirschheim's (1993, p.260) conclusion that IT is more complicated than other support functions that are traditionally outsourced, and therefore it takes longer than anticipated managing the contract and dealing with problems, thus resulting in less time to focus on strategy.

The councils, however, are becoming increasingly reliant on IT and see IT as the key to transforming service delivery. Indeed, whilst some private companies may consider IT a support function, IT at local councils is critical to service delivery. The councils, thus, expected outsourcing to support strategy. Council B, for instance, signed a long-term Strategic Services Partnership (SSP) with their provider, which was designed to create greater integration between departments and to transform service delivery (Whitfield, 2008, p.3). Council C, similarly, wanted their provider to support them strategically. The councils that opted for long-term contracts concentrated more on improving quality and transforming the service. However, even Council A, who outsourced primarily to reduce costs, expected outsourcing to support strategy. Indeed, Interviewee A noted that the lack of strategic support was one of the main reasons outsourcing did not meet expectations.

The use of outsourcing to support strategy could explain the recent increase in SSPs, signed between councils and service providers (Whitfield, 2008, p.4), and the increasing focus on shared services. This is where councils come together to pool resources, such as combined data centres, to achieve higher levels of efficiency in-house. This, combined with the recruitment of private sector managers with commercial experience, can give councils greater leverage when outsourcing and allow them to focus more on strategy.

4.2.5 *Flexibility and restructured costs*

The interviewees found that it was difficult to write flexible contracts and changes were subsequently difficult and costly to negotiate unless they were in the provider's interest. One council reported improved flexibility. However, they only achieved flexibility after putting the contract aside and developing a partnership. This suggests that partnerships based on mutual benefit will make the provider more open to changes.

Furthermore, whilst Gartner (2008) suggest that "changing the cost structure of IT" will allow firms to respond more quickly to changing needs, the councils did not consider cost restructuring an important reason to outsource IT. The interviewees acknowledged the benefits of paying only a monthly service charge. However, only one council outsourced to gain investment because they had suffered from numerous years of under-investment and needed investment to transform the service. This allowed the council to gain immediate investment but pay it off over the length of the agreement. This gives the provider greater incentive to improve the service although the council had to sign a long-term contract to enable the provider to recoup their investment costs.

5. Conclusion

The literature review suggested that private companies are focusing less on cost reductions when outsourcing (DiRomualdo & Gurbaxani, 1998, p.3), whereas with local government cost savings remain very important to councils due to budget constraints. However, whilst Child (2005, p.187) argues that outsourcing offers "significant, often immediate cost savings", this was not the case at two of the three councils that outsourced. This is because, as Daly (2001, p.12) notes, councils are now focusing on achieving best value and recognise that improving the quality of the service has an impact on price. This research supports Daly (2001, p.13) and Vilvovsky's (2008, p.342) conclusion that those that focus primarily on cost savings are less successful than those who target more value adding activities. Although Hart et al (1997, p.1128) argue that cost reductions often take priority because quality is difficult to specify within contracts, two of the three councils that outsourced achieved greater success by balancing cost savings with improving quality to achieve best value (Daly, 2001, p.12).

Indeed, whilst Lacity and Willcocks (1997, p.106) argue that outsourcing has often fallen short of expectations in the public sector, the three councils that outsourced all noted that outsourcing had improved quality and produced cost savings. This supports Frederick's (1994) conclusion that CCT has been successful and has produced both cost savings and increased efficiency. However, whilst DiRomualdo and Gurbaxani (1998, p.3) argue that private sector organisations are focusing more on the strategic benefits of outsourcing, this research shows that improving quality and reducing costs are the most important reasons to outsource IT at local councils.

The councils, did however, outsource to gain access to external expertise because, as Vilvovsky (2008, p.338) observes, IT has become increasingly complicated and councils do not have all the necessary skills in-house. The providers, in contrast, specialise in IT and can call upon a larger pool of skilled workers. However, the councils retained small in-house IT teams with key skills to allow them to develop new ideas and support strategy to reduce their dependence on their provider. Furthermore, recruitment issues are no longer the most important issues at local councils. Although Vilvovsky (2008, p.338) argues that the public sector pays lower wages, this research shows that councils are beginning to recognise the importance of IT and are becoming more commercially orientated and therefore willing to offer higher wages to attract the best workers.

Finally, the research shows that significant time and effort needs to be taken to manage the service after outsourcing, and that outsourcing is seen very much as a way of making organizations responsive to business change.

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203