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**OUTSOURCING IN SPAIN:
AN EMPIRICAL STUDY OF TOP
MANAGEMENT'S PERSPECTIVE**

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Abstract

IT resource governance and the IT strategies of Spanish executives are studied in the top Spanish companies using a model developed in the MIT Sloan School study entitled «Study on Information Technology Strategy». The findings show significant shifts in the perceptions of Spanish CEOs regarding the role of the IT resource in their companies. They also show differences in the strategies and perceptions of IT governance concerning outsourcing, both between companies that outsource and those that do not outsource, and between different management levels in companies that outsource.

By separating the benefits of outsourcing into personnel-related benefits and financial benefits, the paper reveals a potential internal conflict within firms that have some level of outsourcing, revolving around personnel issues and a conflict of interest among the IT staff. The paper closes with a summary of the findings and of emerging patterns to be explored in future writings, which will include comparisons with US findings.

OUTSOURCING IN SPAIN: AN EMPIRICAL STUDY OF TOP MANAGEMENT'S PERSPECTIVE

Introduction

Many firms consider the possibility of Outsourcing as a form of governance of their IT resources. A number of reasons have been put forward for this phenomenon [Loh and Venkatraman, 1992, 2]. Within the scope of a study on IT strategy carried out at IESE, issues relative to outsourcing were thoroughly analyzed at the levels of the CEO, CIO and Senior IT Managers with responsibilities in Data Processing, Systems Development, and Telecommunications.

This report presents part of the results of the project: *Gestión de Tecnologías de la Información* carried out at IESE. The project is based on the «Study on Information Technology Strategy» conducted by the MIT Sloan School, which studied IT strategy in United States companies [Venkatraman and Loh, 1993]. One of the main focuses of that study was IT governance and, in particular, outsourcing.

The primary objective of our research was to document the use and management of the IT resource in Spanish companies. There is a large amount of professional and computer-trade literature stating the impact of IT in business strategic decisions. At IESE we were interested in researching to the largest extent possible: (1) the real impact of IT in Spanish industry as perceived by top management, and (2) how IT is managed in leading Spanish organizations. Obviously, the recent trends toward IT outsourcing had to be explored in detail.

Modeling the Spanish study as closely as possible on the MIT project will allow for comparisons between two different business cultures, both at user and vendor levels. The results of this comparison are forthcoming in future working papers.

Sample selection and methodology

In Spain, the study consisted of mailing a series of four questionnaires to different members of Spanish companies, from the CEO to the person responsible for the Data Center. Each questionnaire was translated from its corresponding MIT version and, prior to the mass mailing, was tested in several different companies to ensure that the questions were clear and understandable.

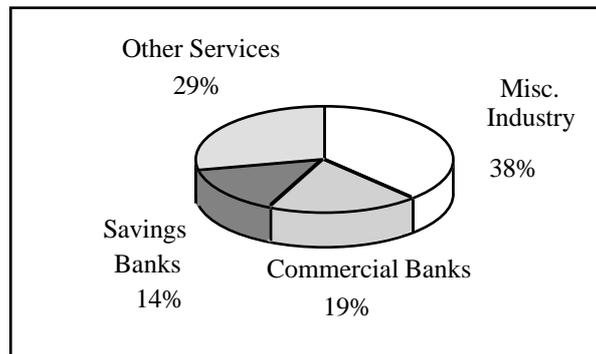
A few changes were made to the MIT version of the questionnaires, with most changes being made to the CIO questionnaire, where a whole new section was added. Because of the relatively smaller size of IT organizations in Spanish companies, Spanish CIOs play a greater and more active role in managing the IT resource in its many dimensions than their counterparts in the United States. Consequently, some of the questions that in the original MIT questionnaire were addressed to other IT managers were also put to the CIO.

To account for the less developed market structure, new categories were also added to the risks and benefits of outsourcing. In addition, a line asking about the role of the Chief Marketing Officer –a figure gaining power in Spanish organizations– in deciding IT strategy was added to the question regarding the role of high level managers in their firm.

Personalized questionnaires to the CEOs of the largest 300 companies in Spain, based on sales, were mailed in December 1992. According to 1991 figures, the companies had a spread of sales from 1,048,998 Million pts. to 37,391 Million pts. (at March 1993 exchange rates, \$10.5 billion to \$373 million). There was a strong representation from the service sector, in particular banks and savings institutions. After a brief follow up, 63 CEOs replied.

The following figure presents the breakdown of replies by sector.

Fig. 1. Reply Breakdown by Sector



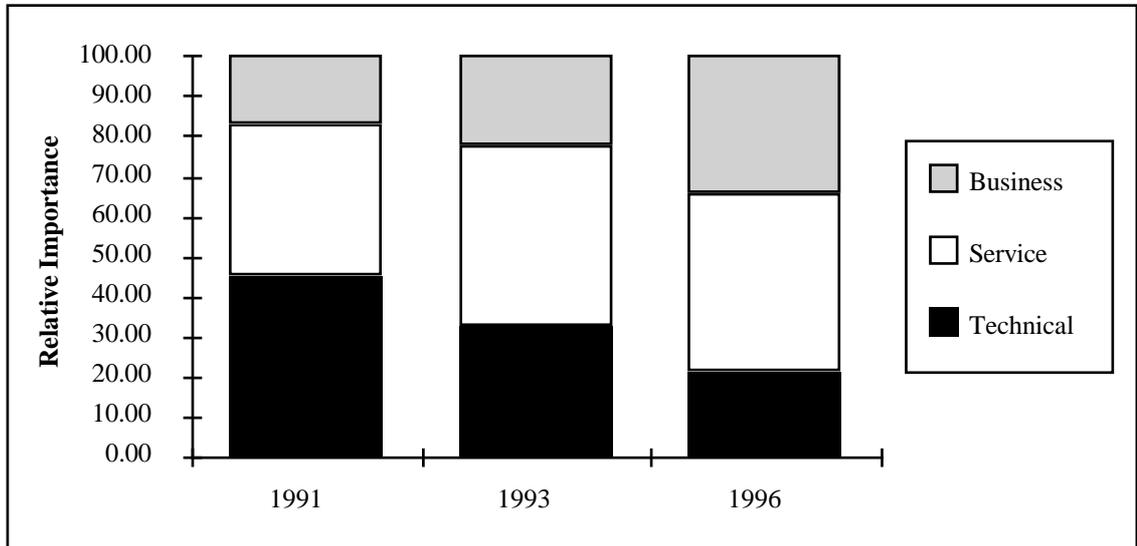
In his questionnaire the CEO was asked for the names of the executives responsible for Applications Development, Data Center Management, Telecommunications/Network Management and the person with Overall Responsibility in IT (CIO). Personalized questionnaires directed to these people were sent out starting in early February 1993. The cover letter with these questionnaires mentioned that the receiver had been selected by the company's CEO to participate in the study and that the CEO himself had already responded to a previous questionnaire.

The relationship: IT - Business Strategy

We found that the perceived potential impact of IT in the competitive arena of Spanish companies is changing quite rapidly. CEOs were asked how they evaluated the IT function in their companies three years ago, today, and how they foresee that they will do it three years from now, by allocating 100 points across different criteria. Figure 2 below presents the results averaged across the whole sample. The «Service» criterion (user

satisfaction, timeliness, etc.) is constant in time, while the technical criterion is being substituted by the business-related criterion.

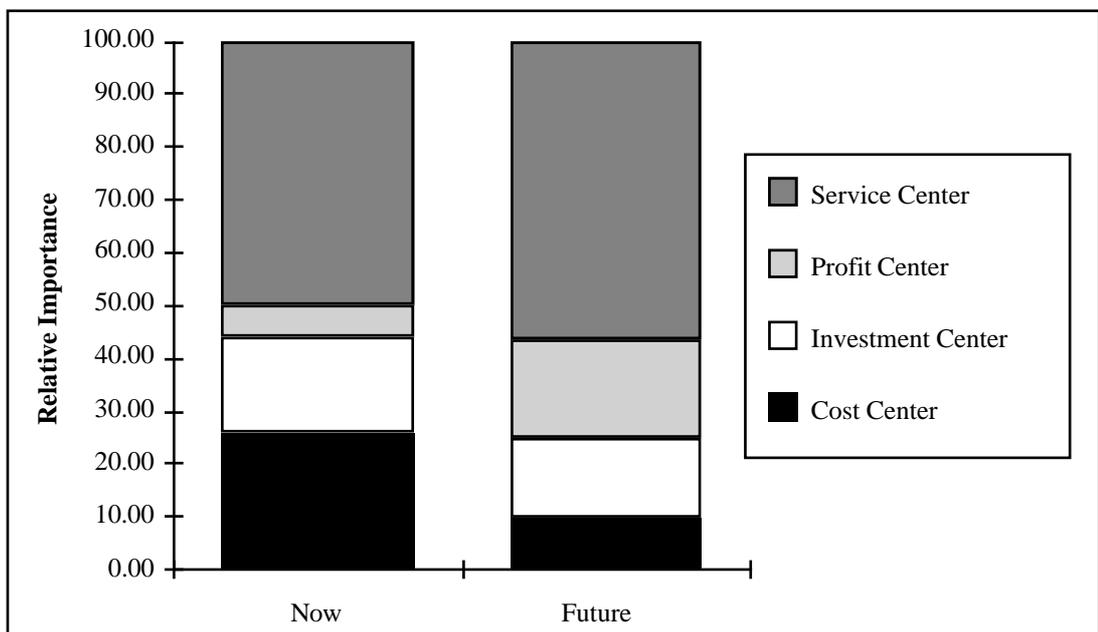
Fig. 2. CEO's Criteria for Evaluation of the IT Function



Chief Executive Officers were also asked for their views of the IT function, both now and in the future. The results, not surprisingly, show an increased emphasis on the service perspective.

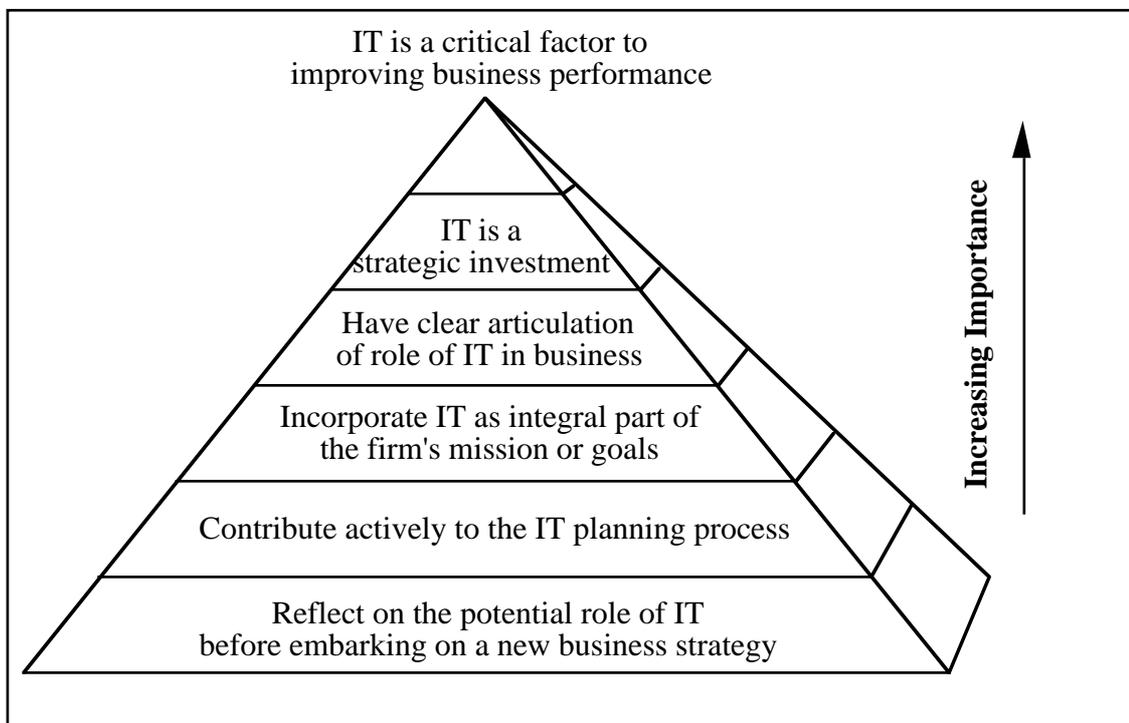
Also of note is the switch from viewing IT as a Cost Center to viewing it as a Profit Center. This finding is consistent with the tendency in Spanish companies to evaluate each business function by its contribution to profit making. Unfortunately, the questionnaire did not pursue this thread by asking how transfer prices were agreed upon for those cases in which the IT function is performed in-house and yet considered a profit center.

Fig. 3. CEO perception of the IT Function



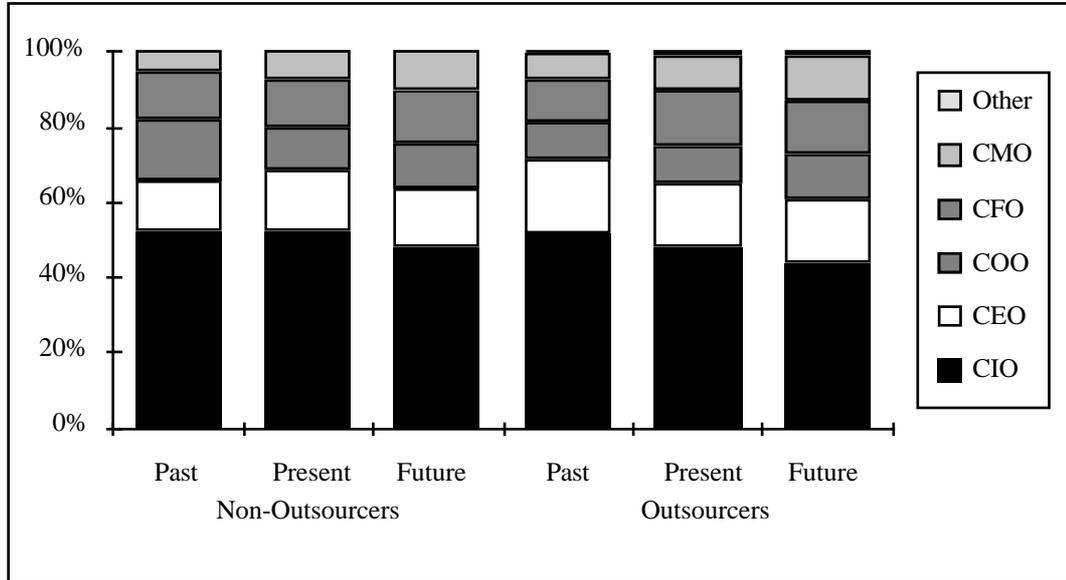
The attitude of the CEOs toward IT in their organizations was also tested in the questionnaire. CEOs were asked to give relative weights to different common views and philosophies of the appropriate role of IT in their companies. Figure 4 presents the results. On top, as the most common, is the view of IT as a critical factor for improving business performance. It is interesting to note that «reflecting on the potential role of IT before deciding on business strategies» came in last. This may indicate that the culture in top Spanish businesses today does not include thinking consistently on the role of IT as a strategic weapon, whereas the possibilities of IT as a cost reducer –or performance improver, as the question was phrased– is in the mind of all CEOs.

Fig. 4. CEO attitude toward IT in their firms



In their questionnaires, CIOs were asked for the roles of different top managers in helping to define IT strategies. Figure 5 illustrates these contributions. The results are presented separately for companies that do not have any outsourcing contract (left set of columns) and companies that do have an outsourcing contract (columns on the right). Note that in those companies that *do have* an outsourcing contract, CIOs state that their CEOs have had a larger role in the definition of IT strategies.

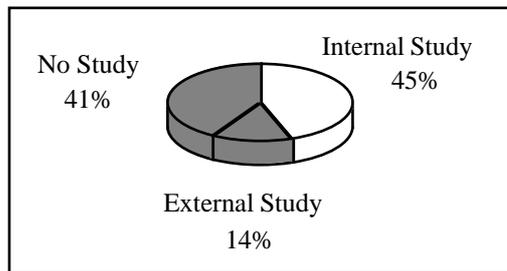
Fig. 5. CIO vision of the contribution of different top managers to IT Planning



Outsourcing as an alternative for IT governance

Of the companies that replied, 37 (58%) had performed a study to evaluate the possibility of outsourcing part or all of the IT function. Of these, 28 companies (44% of the total) had done the study internally, and 9 (14% of the total) had commissioned the study from an external consultant. 26 companies (41%) had not performed any outsourcing study at all.

Fig. 6. Companies that had performed outsourcing studies



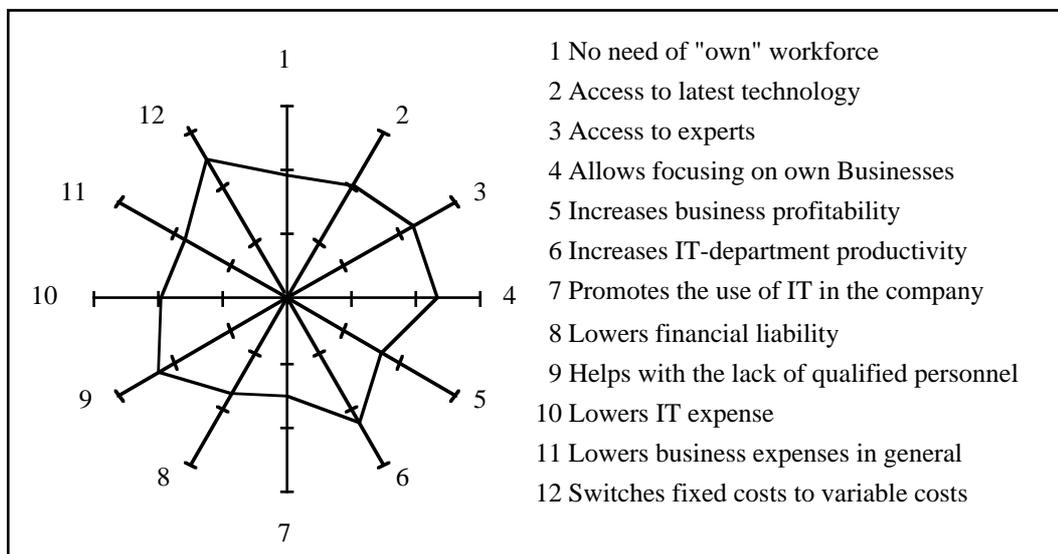
The CEOs were not asked if there was outsourcing in any area of their IT infrastructure. This question was put to the CIOs and, based on 30 replies, 63% of the firms claimed to practice outsourcing. Cross-comparisons also revealed that in 7 of the companies where the CEO claimed to have done an outsourcing study, no part of the IT infrastructure was outsourced. Perhaps a little startling was also the fact that in the companies where there was outsourcing, 14 CEOs claimed to have performed a study while only 7 CIOs did. This

may be due to how each person defines a study, but it might also be indicative of poor communication between the various levels.

Perceived Benefits of Outsourcing

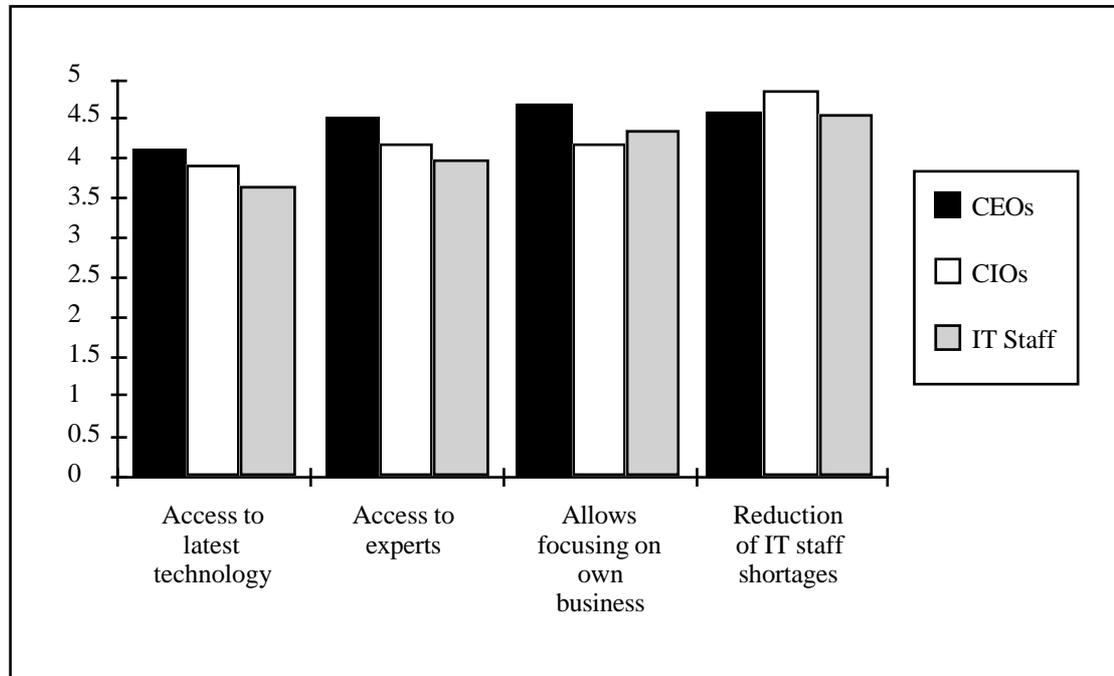
When asked about the benefits of outsourcing, CEOs as a group ranked the «Switch from fixed to variable costs» as the most relevant, with «Helping to solve the problem of lack of qualified personnel» and «Allows focusing on own business» coming in a close second. Figure 7 below presents the average CEO response for the 12 proposed benefits.

Fig. 7. CEO's perceptions of the benefits of IT outsourcing



When the same question is put to the IT staff, CIOs place a greater emphasis on the benefit «Helping to solve the problem of lack of qualified personnel», placing it as most important, followed by «Switch from fixed to variable costs». Figure 8 compares the average responses of the three groups to the benefits question.

Fig. 8. Company-wide perceptions of the benefits of IT outsourcing



Although only 40% of an expected 80-90% of the IT Staff questionnaires have arrived, they already provide the possibility of comparing how different levels in the company and IT organization change their views on the benefits of outsourcing once their company practices it to some degree.

The first part of the comparison deals with personnel-related benefits of outsourcing. The first finding is that the differences between the different management levels is higher in the companies that outsource (represented by bars in Fig. 9), than in those that do not. When the company does not do any outsourcing –represented by the markers tied together by lines in Fig. 9–, there is no appreciable difference between the three management groups.

CIOs, in both Figures 8 and 9, find greater benefits from the «Reduction of IT staff shortages» than the other groups. It would follow that the CIO, the person presumably responsible for managing the IT staff, would find the most benefits in this. This category was rated more important by the outsourcers than the non-outsourcers, suggesting either that companies outsource to solve the problem of IT staff shortages (and vice-versa), or that this benefit is clearer to the companies that outsource.

Fig. 9. Company-wide perceptions of the personnel benefits of IT outsourcing. Outsourcing vs. Non-Outsourcing companies

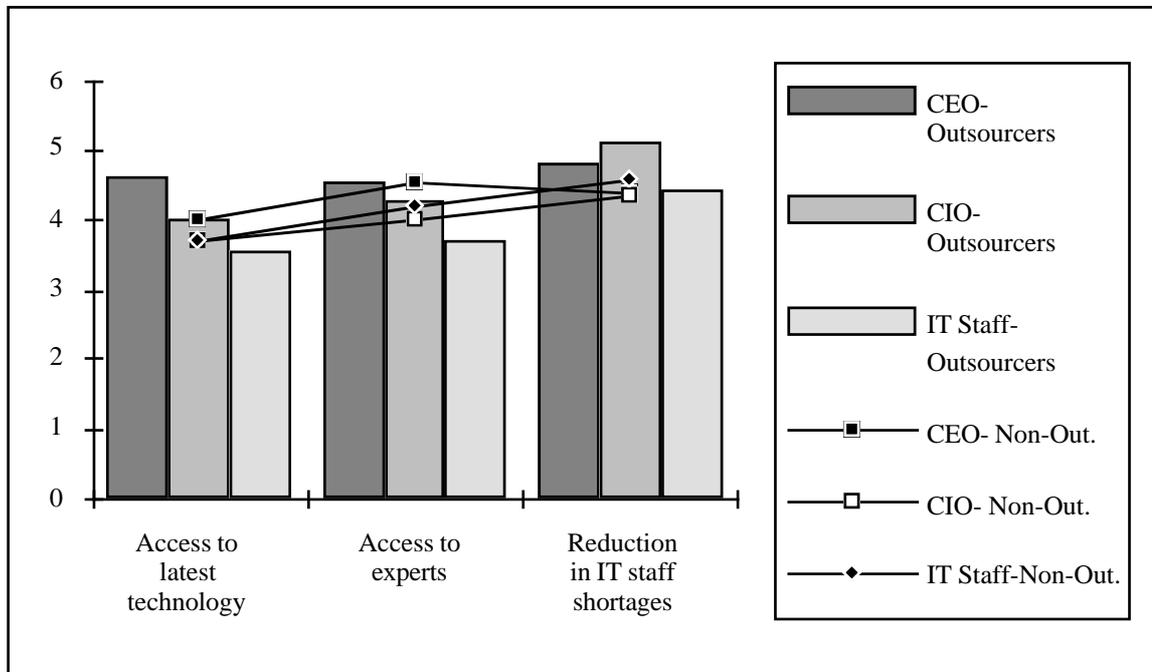
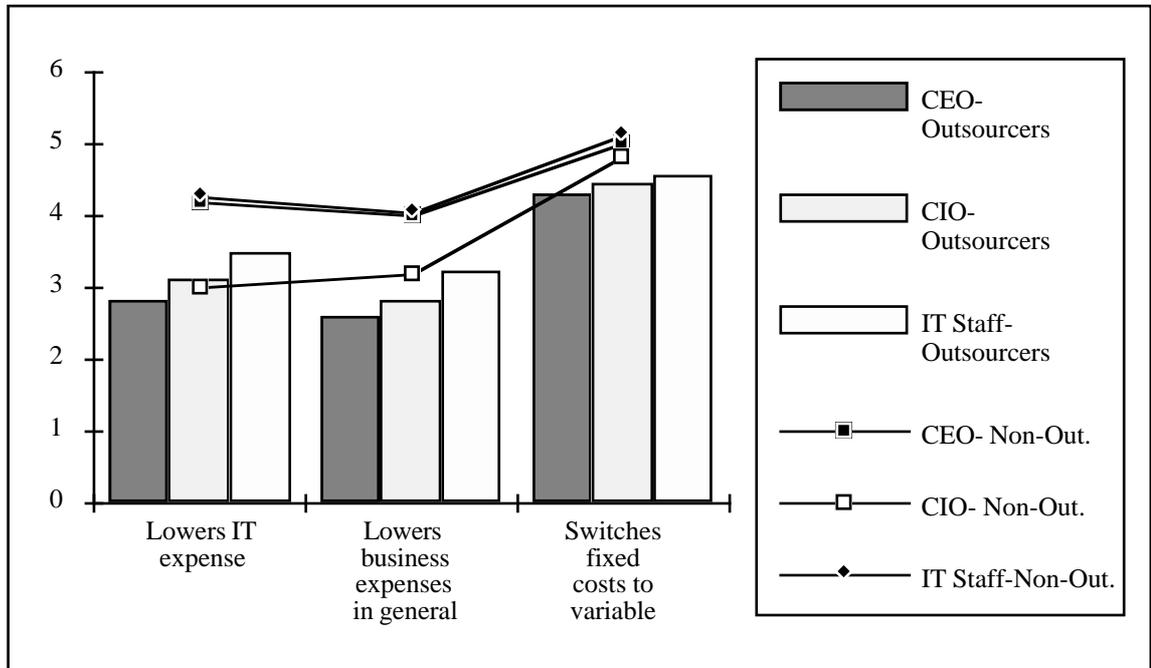


Figure 9 shows clearly how outsourcers perceive the benefits «Access to latest technology» and «Access to experts» as less important the more specific the IT function of the respondent.

We can suggest two possible explanations for this finding: 1) either the IT Staff see a greater threat to their jobs through full-scale outsourcing once they have been in contact with outsourcing, and then they purposely answer to our questions that the benefits in this dimension are not large (1), or 2) in fact, having worked with outsourcers, they believe that their contribution to technology access and expert availability is less important.

The second interesting finding is the different perception of the financial benefits of outsourcing. Those who outsource perceive outsourcing as providing much smaller financial benefits than those who do not. As the most publicized outsourcing cases always illustrate financial benefits, this seems logical. Within a company that outsources, however, there is a perception on the part of those in the lower-level management positions that there are financial benefits to outsourcing (2). Figure 10 presents these results.

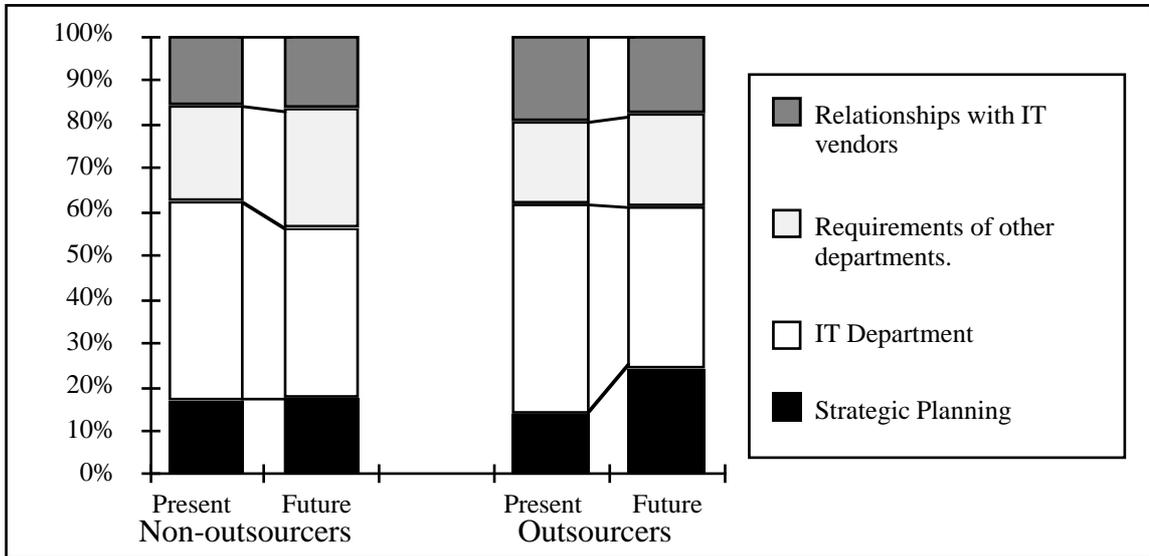
Fig. 10. Company-wide perceptions of the financial benefits of IT outsourcing. Outsourcing vs. Non-Outsourcing companies



The changing role of the CIO

As expected, CIOs who outsource see themselves devoting an increasing amount of time to participating in the strategic planning process of the firm, while significantly reducing the time they spend managing the IT department. This is shown in Fig. 11 below, which presents the CIOs' perception of their own jobs. Each column is broken down into pieces representing the percentage of time CIOs devote to different tasks: Participating in the strategic planning process of the firm; Managing the IT department; Managing requirements for other functional departments; and finally, Managing external relationships with IT vendors.

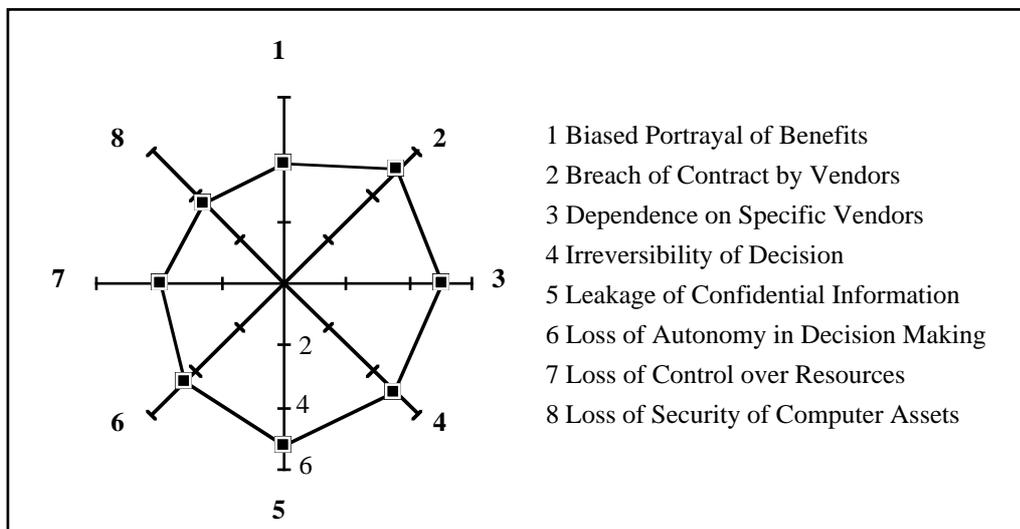
Fig. 11. CIO perception of their roles in their own jobs. Outsourcing vs. Non-Outsourcing companies



Perceived Risks of Outsourcing

CEOs are more or less equally worried about most of the proposed risks, with «Leakage of confidential information» and «Breach of contract by vendor» ranking on top, albeit not significantly. Most likely, this indicates a lack of confidence in IT outsourcing vendors, which is probably due in part to the fact that this market is not fully developed in Spain. This point is further supported by the fact that those who outsource place a lesser, and occasionally equal, emphasis on all the risks as do the non-outsourcers.

Fig. 12. CEO's perceptions of the risks of IT outsourcing

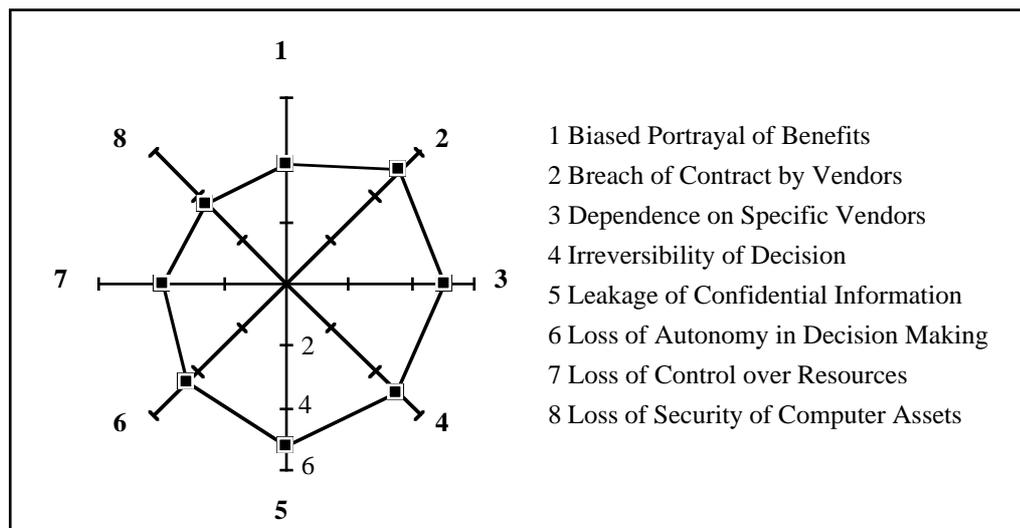


As with the CEOs, the CIOs and the IT Staffs are worried about most of the proposed risks. «Leakage of confidential information» and «Breach of contract by vendor» again rank near the top, although CIOs, especially those who do not outsource, rank as most important the «Irreversibility of the decision». IT Staffs mimic the CEOs' perceptions of the risks more closely. The IT Staffs of companies who were not outsourcing were particularly worried about the «Leakage of confidential information» and «Breach of contract by vendor», further emphasizing the lack of confidence in this young industry.

Choosing an Outsourcing Vendor

Another objective of the study was to find out how companies, and CEOs in particular, make decisions regarding an outsourcing vendor. This was attempted by asking the CEOs which qualities they valued most highly in outsourcing providers. CEOs ranked «Experience and track record» and «Honesty and trustworthiness» as the most important criteria for selecting an outsourcing vendor. This finding, presented in Fig. 12, is coherent with the perceived risks of leaks of information and breaches of contract.

Fig. 12. CEO's Reasons for selecting an Outsourcing vendor



CIOs and IT staffs closely follow the CEOs' ranking of «Experience and track record» and «Honesty and trustworthiness». However, CIOs, especially those who do not outsource, place a strong emphasis on «Skills/Knowledge of our business». It is interesting to point out that while both outsourcing and non-outsourcing CIOs ranked «Honesty and trustworthiness» as very important, the outsourcers had higher mode.

This point is further illustrated by the case of one Spanish company where 65 percent of the company's IT budget is spent on an outside vendor. The company had been dealing with this particular vendor since 1985 and was its primary client. The CIO revealed that although applications development is contracted all the way through from planning and technical development to maintenance, this had not been the original plan or intention. Rather, as the CIO stressed, the high level of «outsourcing» had evolved by building trust over the years, a trust guaranteed by the fact that the company was the vendor's main client.

Summary and Conclusions

The following patterns, albeit preliminary, given the limited number of responses from the CIOs and other IT staff, can be extracted from our study:

1. IT is considered by CEOs to be a strategic investment and a critical factor for improving business performance and is most commonly evaluated by CEOs as a service center.
2. The most important benefits from outsourcing are considered to come from personnel-related issues, with financial considerations being less important. The importance of the benefit «Switches fixed costs to variable» could point to a greater emphasis on the bottom-line in IT departments- a point further emphasized by the growing perception of IT as a profit center.
3. There is a strong variation between the perceived benefits of outsourcing among different management levels in companies that outsource. This difference is not present in companies that do not outsource, which present more homogeneous views. This might indicate tensions that arise within the IT department when there is some level of outsourcing in the company. Most likely, the IT Staff feels its job and professional credibility threatened and downplays many of the benefits.

It could also indicate fear, on the part of IT Staffs in companies with small-scale outsourcing, of forthcoming large-scale outsourcing. While the large outsourcing contracts often have a clause for the transfer of employees, the transition is not always smooth. On February 25, 1992, Eastman Kodak, whose outsourcing contract is viewed as a «flagship contract» [Loh and Venkatraman, 1992, 1], was presented with a \$5 million lawsuit by 11 transferred employees seeking punitive damages for being «misled and coerced» by Kodak and DEC. At that time, Nashville Electric Service, another outsourcer, was also faced with a similar lawsuit from 29 of its former employees [Wilder]. «Flagship» contracts highlight both the benefits and the drawbacks of outsourcing. Some have pointed out, however, that by joining an outsourcing firm, IT employees benefit from the wider exposure to experiences and possibilities [Leinfus]. However, it is doubtful that IS staffs would have such a rosy view of things.

4. The benefit «Allows one to work without ‘own’ IT staff» produced mixed answers at different levels, suggesting that there might exist a simple «gut» feeling against losing control of one’s IT staff, which perhaps is tied to «sentimentality» on the part of the CIO. It therefore follows that in the companies where there is some level of outsourcing, the CEO, who is more removed from the IT staff, has played a greater role in planning.

The one case of large-scale outsourcing in Spain and other cases elsewhere (e.g. Continental Bank [Huber]) have involved a new CIO, or even CEO, who is not particularly attached to the IT department. This person finds that it is easier to hire outside experts than re-train his own workforce and is not torn by «sentimentality» for his IT department. Consulting firms sometimes help in breaking this «bond» with the IT department. The years people spend within the company and in their position might also be a measure of how attached they are to their department and want to keep it. While the fear of loss of confidential data and of the irreversibility of the decision is large, it is not as important to these people as their gut feeling that getting rid of their own people and losing control of their resources is not good.

Some may argue that even in a large-scale outsourcing contract, one can often maintain a large amount of control over one's resources. However, this is not as easy as it may sound. IT vendors may not be willing to cede such control without significant incentives. Witness Fidelity Bank in the US, which used the «carrot» of a 10-year data center contract, 95% of a \$450 million contract, to entice EDS to convert its various systems under stringent guidelines, retaining control of various key IT functions in Fidelity. [Moad].

5. The main perceived problems with outsourcing come from lack of vendor trust. This is probably due to a young IT vendor industry in Spain and the lack of a «flagship contract» to play a leading role, as the Kodak-IBM case did in the US. The very youth of the Spanish IT vendor industry may also prevent it from providing contracts with terms agreeable enough for Spanish companies. □

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- (1) One clear bias to these questions comes from the fact that we are asking the experts in the company if outsourcing provides better access to experts.
 - (2) Once again, if the lower level IT Staff do not want to undermine their position and professional credibility, they will emphasize the financial benefits of outsourcing over the technical benefits. On the other hand, there are many hidden costs with outsourcing which are not evident until the contract is signed, such as training, software transition fees, contract management, and communication expenses (Duffy). Many of these hidden costs, however, are more evident in larger outsourcing contracts than those witnessed in Spain.

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