Chapter 1.10
Macro–Economic and Social Impacts of Offshore Outsourcing of Information Technology:
Practitioner and Academic Perspectives

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ABSTRACT

Offshore IT outsourcing has been gaining acceptance among corporations as a mainstream alternative to in-house operations. Various studies conducted over the last 10 years have shown that outsourcing allows firms to reduce high overhead costs and improve productivity, contribute flexibility, and thus improve overall performance of the firm. However, offshore IT outsourcing brings new challenges and risks. The skeptics believe that outsourcing may weaken the local business competitiveness of the region, investors' confidence in investing in local businesses, and may create a spiral effect on economic indicators such as unemployment, enrollment in schools, living styles, housing, and construction, etc. Little deliberate research has been conducted to date. This study investigates the macro- and socio-economic consequences of offshore IT outsourcing in the United States using a system dynamics model. The research finds significant effects perceived and experienced by IS professionals. The research also finds significant differences in the perceptions of practitioners and the academy, especially students whose inflated expectations may cause

disappointment with the reality of the current IS professions.

INTRODUCTION

Offshore information technology (IT) outsourcing has grown rapidly in recent years. Outsourcing now spans across IT, operations and call center functions. Offshore IT outsourcing has become a major trend as it harnesses the power of information technology from distant locations to bring economies of scale and cost competitive operations. The term offshore IT outsourcing has variously been defined in the information systems (IS) literature. We define offshore IT outsourcing as: "…the contracting of various information systems' sub-functions by user firms to outside information systems vendors" (Chaudhury, Nam, & Rao, 1995, p. 132) or "…the organizational decision to turn over part or all of an organization's IS functions to external service provider(s) in order for an organization to be able to achieve its goals" (Cheon, Grover, & Teng, 1993, p. 209).

In today's high-tech world, the terms "onsite," "offsite," and "offshore" only refer to the physical locations. Outsourcing has enabled firms to reduce cost, improve cycle time, and speed time-to-market (Carmel & Agarwal, 2003; D'Costa, 2002; De Looff, 1995; Gurbaxani, 1996; Quinn, 1999, 2000; Quinn & Hilmer, 1994; Sheperd, 1999). Offshore IT outsourcing is becoming mainstream for a variety of business processes in retail, banking, financial services, insurance, and telecom industries. The larger Fortune 1000 firms are aggressively moving forward by offshoring to service providers in India, Singapore, Hong Kong, China, the Philippines, Vietnam, Thailand, Hungary, South Africa, Malaysia, and Russia. A study by Logica CMG predicts that "the outsourcing of IT and other business processes is likely to move from a 2005 average of 12% of organizational costs to 20 % by 2008" (Logica CMG, 2005). According to Forrester Research Inc., 3.3 million white-collar jobs will go overseas by 2015 (Computerweekely.com, 2003; McKinsey Global Institute Report, 2003; Susan, 2003; Tekrati, 2004). International Data Corporation (IDC) also reports that offshore outsourcing is the dominant trend in the IT services industry, with 42% of the application management contracts now having some offshore component (Benko, 1992, 1993; Computerweekely.com, 2003; Muthuswamy & Crow, 2003; Tekrati, 2004).

Making outsourcing decisions also means confronting the social stigma that comes with sending jobs out of the US Employment in the technical sector has fluctuated and Congress is facing a voting populace more worried about themselves than other countries (The Wall Street Journal, 2004). The current debate regarding immigration has fueled the debate regarding foreign workers and foreign sourcing. Along with the potential social stigma, offshore IT outsourcing brings new challenges, risks, and uncertainties (Barthelemy, 2001; Barthelemy & Geyer, 2001; Dibbern, Heinzl, Hirschheim, Heinzl, & Dibbern, 2002). The risk areas include the legal and regulatory environment of the outsourcing country, the geopolitical, economic, and physical stability of the offshore country, regional turmoil, poor infrastructure, intellectual property, and data security issues, loss of control over physical protection of data and quality monitoring, and cultural and human resources issues and lack of exposure to Western business culture (Quinn, 1999, 2000, Quinn et al., 1994).

The purpose of this study is to investigate the macro-economic and social impacts of IT outsourcing using a system dynamics model. The study identifies and examines significant relationships among the macro- and socio-economic variables relating to offshore IT outsourcing. The research also documents varying perceptions of practitioners from the perceptions of those in academia. The socio-economic effects and

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