

# Chapter 5.11

## The Post–Offshoring IS Organization

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### ABSTRACT

In the age in which many traditional IS functions will be taken over by offshore vendors or otherwise outsourced, attention needs to be paid to those functions that will increase in importance and/or need to be developed by IS departments if they are to be effective in this new environment. This article suggests a framework that may be judgmentally applied to IS activities in order to determine if they should be considered for offshoring/outsourcing. The results of applying the framework will be unique to each firm that uses it. However, in using that approach in more than 25 firms, the author has found that most firms will wish to retain a number of functions in-house. Fourteen such activities are discussed in three broad categories: “activities related to external relations,” “activities related to the development, customization, and implementation of systems” and “business and IS strategic activities.”

### INTRODUCTION

The offshore outsourcing of IT has become an import aspect of IS management as more and more IT activities are sent offshore. This trend has been driven by the twin imperatives of investment minimization and labor arbitrage.

Companies and IS departments are motivated to reduce fast-rising fixed costs, especially of personnel benefits, in order to increase “ROI,” or whatever version of it is applied to the IS function. At the same time, significant labor-cost savings are achievable using vendors in India and other less-developed nations, making cost savings a major opportunity.

An Association for Computing Machinery Report (Aspray, Mayadas, & Vardi, 2006) delineates six varieties of work related to IS that are often offshored: (1) programming, software testing, and software maintenance; (2) IT research and development; (3) high-end jobs such as software architecture, product design, project management, IT consulting, and business strategy; (4) physical

product manufacturing—semiconductors, computer components, computers; (5) business process outsourcing/IT-enabled services—insurance claim processing, medical billing, accounting, bookkeeping, medical transcription, digitization of engineering drawings, desktop publishing, and high-end IT enabled services such as financial analysis and reading of X-rays; and (6) call centers and telemarketing. Some of these are more relevant to future IS organizational management than are others.

The rapid growth of offshoring has taken place in a context in which many businesses have been moving away from focusing on a strategy of risk-moderation through a diversified portfolio of activities to a focus on “core” activities, with “commodity” activities being outsourced to specialists. Many aspects of IT are believed to be commodities by business executives who have been persuaded by the logic that much of IT can be obtained through the market, that it is available to anyone, and that it therefore can provide no competitive advantage (Carr, 2003). This may be true for some of the basic IT infrastructure of the organization, but it is not so for many of the other IT-enabled processes of the firm.

In fact, a problem that has arisen from the “core vs. commodity” dichotomy is that there are many IT-enabled business activities that are neither one or the other; instead, they are complex combinations of both. Consequently, many firms have outsourced what they believed were non-core, commodity business processes only to find that some outsourced processes contained core IT capabilities that should have been retained (Barthelemy, 2003; Saunders, Gebelt, & Hu, 1997).

Nonetheless, the offshoring of IS activities continues unabated. This is likely to continue in the future (Davis, Ein-dor, King, & Torkzadeh, 2007), and it will have profound effect on the IS organization—new skills and capabilities will be needed; the need for some traditional capabilities will virtually disappear; the priorities that need to be placed on other existing capabilities will need to shift radically.

Among the capabilities that will clearly need to be downgraded in this new environment are some of those in traditional systems development, since much of the organization’s software will be purchased from vendors and customized to fit the organization’s unique needs or will be developed on an outsourced basis. But, the desirability of outsourcing/offshoring of many other IS activities is not at all clear.

This article attempts to identify those “non-outsourcable” IS activities that will need to be initiated or given greater prominence in this new post-offshoring environment using explicit criteria that go beyond the simplistic “core vs. commodity” dichotomy.

## **VIEWS OF IT CORE CAPABILITIES**

The closest notion to that of a “non-outsourcable” activity is that of a core IT capability. Feeney and Wilcocks (1998) identified three “recurring, fundamental (IT) issues a company faces, whatever the contemporary specifics of business circumstances or IT product” (p. 10): the need for two-way strategic alignment between business and technology, the delivery of IS services at low cost and high quality, and the design of IT architecture.

Based on a study of practice in these three areas, they identified core IS capabilities that are “required both to underpin the pursuit of high-value-added applications of IT and to capitalize on the external market’s ability to deliver cost-effective IT services” (p. 12):

- leadership,
- business systems thinking,
- relationship building (between is and business people and organizations),
- architecture planning,
- making technology work,
- informed buying,
- contract facilitation,

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