Chapter 86
Offshoring IT

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ABSTRACT

Offshore outsourcing basically describes the practice of contracting to outside vendors in another country, especially in cases where the client company has no direct ownership. This operational strategy of low-cost, global expansion and the increased capability of vendors in India, China, the Philippines, South Korea has opened a great number of avenues of traditional organizational functions of IT. Such functions as software development, call centers, and accounting are typically offshored. Since the late 1990s, offshore outsourcing has included more sophisticated finance and accounting functions, beyond that of simple data input and transactions. Offshore finance and accounting outsourcing is especially becoming an attractive option for many companies. The obvious benefits are gaining access to scarce and valuable skills, cutting costs, and domestic and global achieving competitiveness. However, there are risks as well. A relatively balanced approach of benefits and risks are discussed in this chapter.

INTRODUCTION

Outsourcing as an Academic Disciple

Outsourcing as may be described as procuring goods or services needed by a business under contract with an external supplier. If one were to assess this definition in a literal sense then any form of trade could be viewed as outsourcing. We have narrowed our research to focus on information technology (IT) outsourcing. The relatively short history of IT seems to correlate with the defined term, which was

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only added to some standard dictionaries since 1979. This fact would indicate a brief period of existence before the inclusion. Previous research (Hamidi, Farahmand, Sajjadi, & Nygard, 2012; Kumar, Shankar, & Yadav, 2011; Mathirajan, Manoj, & Ramachandran, 2011; More & Babu, 2012) generally supports this historic trend, but a hard date indicating the birth of outsourcing probably does not truly exist. One of the earliest and most prominent example of IT outsourcing is with Electronic Data Systems (EDS) in 1962, which resulted in a very slow adaption.

The following chapter will look at outsourcing through several different lenses. Initially, some of the historical and current trends that exist in outsourcing IT, followed by some of the major services have been and are being utilized by firms looking to outsource, outside tax incentives such as tax inversions. Next, an assessment of the benefits and risks of engaging in an IT outsourcing relationship will be discussed. In this section, some of the classical reasoning behind management decisions to outsource and the risks that managers should be aware of when entering into this relationship. Finally, this research effort returns to EDS and others to profile applications of IT outsourcing before moving on to look at the possibilities in the future of outsourcing.

The focus on process efficiency and cost control efforts has encouraged firms to look for creative means to structure their business efforts, especially in, customer service, IT, and lean operations (Beldona & Tsatsoulis, 2010; Bhamu, Khandelwal, & Sangwan, 2013). Outsourcing has become a common practice, especially in the area of information systems/technologies (IS/IT) among large and medium size enterprises (MSE) globally. For example, Spanish firms (up to 83.6%) outsource at least some IS function nationally (Gonzalez, Gasco, & Llopis, 2010). Although a growing trend, there has been limited research on how IT outsourcing has changed the traditional characteristics of this industry and the attitudes of existing IT professionals on the phenomenon over a period of time.

The aim of the present research is to specifically evaluate how IT outsourcing has affected the following areas of research (i.e., the time required for IS managers to perform their jobs; the characteristics of the IS manager's working environment or post; the type of knowledge and skills required to carry out the IS manager's professional activities. A number of researchers (Pettersson & Segerstedt, 2011; Pradhananga, Hanaoka, & Sattayaprasert, 2011; Von Haartman, 2012) have investigated IT within an industrial focus, as compared to the service sector, which is differentiated as general services and IT-intensive (i.e., financial institutions, insurance companies, the tourism sector, attorneys, supply chain integration and collaboration, to name a few). The operations manager, on-the-other-hand, generally emphasizes the strategic consequences of job satisfaction and productivity as a function of industrial outsourcing.

This is because of rapid technological change, high investments firms have made in IT and the great interest in outsourcing have made these executives the target of many surveys. (Gonzalez, et al., 2010)

The results from this study suggest a weak association between IS outsourcing and job performance, work post, and required knowledge and skills (Willcocks, Hindle, Feeny, & Lacity, 2004). In relation to job performance, the influence that outsourcing has had on the amount of time IS managers dedicate to their various tasks (Gonzales, et al., 2010). Outsourcing has generally has had little direct influence on the time IS managers need to carry out their activities, although a redistribution of that time has taken place. Indeed, it is easy to see that more time is needed for external relations. Conversely, less time is needed for internal relations because the number of tasks coordinated within the firm itself and within the actual department is considerably smaller. The potential impacts that outsourcing places on an IS manager's working post is generally positive, as many managers feel that their job has acquired more added value