

Chapter 2

IT Governance or IT Outsourcing: Is There a Clear Winner?

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ABSTRACT

IT governance or IT outsourcing both have their own unique benefits but the decision to choose one over other is not always so clear. This chapter examines the impact of globalization of software development and localization of service delivery in the offshore software development and outsourcing services sector. A case study is used to illustrate the key ideas that helped contribute to a successful IT project that was outsourced by a US organization to a transnational IT outsourcing services provider based in India. The two key points illustrated by the case study discussed in this chapter are what are the issues facing a North American company that deals with an IT service supplier thousands of miles and many time zones away and what are the lessons learned from a successful outsourcing relationship.

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INTRODUCTION

The first wave of offshore information technology (IT) outsourcing efforts began approximately 25 years ago as a way to reduce the cost of maintenance for legacy systems. The second wave of offshore IT was focused on resolving the Y2K problem. These two waves of IT offshore outsourcing had mixed results due to telecommunications difficulties, immature systems-development methodologies and cultural differences. In the current, third wave of offshore IT outsourcing, vendors demonstrate project management responsibility, vertical industry experience and/or business process outsourcing capabilities (Perkins, 2003). Although offshore development has traditionally focused on application development and maintenance, some large financial firms in the U.S. have grouped together in this third wave to outsource some of their real-time IT (i.e., live operations, including production support and other IT infrastructure operations). Outsourced software development is focused on new product development, custom development for the enterprise, and support and maintenance, especially for mainframe and other legacy systems. This chapter also includes a case study discussion that is an application of the transnational management strategy in an IT offshore outsourcing context.

In the ever-changing landscape of the modern business, companies are forced to adopt new means of sustainability in not just the products and services they provide but also in their overall business structure as a whole. Prior to this change, the structure of most businesses were simple. Senior partners at the top sending orders down to middle management that gave instructions to the day-to-day workforce. However, when things go contrary to what is expected with computers and the like, everyone remembers the IT person. In today's world information technology and its' adoption into any and all industries are synonymous with the overall success of any company. That being said, there exist a divide of sorts forcing many organizations to wonder if IT governance or IT out sourcing is the correct means of securing long term profitability but more immediate, meeting the overall IT needs of a business.

The two key questions to reflect upon are as follows: Does adopting IT into the overall structure of a business lead to greater profitability as well as decrease down time associated with internal IT changes or does IT out sourcing provide a cost efficient means to ensure companies ever expanding needs are met without having to directly employee and train those needed to provide such services? This chapter will describe what IT governance and IT out sourcing means; the benefits of each; their respective impact on the business world and finally where each is going.

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