Chapter XIII
Socio-Economic Impacts of Offshore Outsourcing of Information Technology

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ABSTRACT

Offshore information technology (IT) outsourcing has been becoming mainstream alternative to in-house operations. While offshore development is a relatively new trend in IT, the concept of outsourcing manufacturing and service operations has been going on for more than 50 years. Many Asian countries are driving their economic success through taking offshore projects from developed countries. These countries have advantages of low-cost and available labor force. Various studies conducted over the last 10 years have shown that outsourcing allows firms to reduce high overhead costs, 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, and so forth`. This study investigates the socio-economic impacts of offshore IT outsourcing in the United States using a system dynamics model.

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 et al., 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 et al., 1995, 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 (Quinn, 1999, 2000, Quinn, and Hilmer, 1994, Gurbaxani, 1996; Sheperd, 1999, Carmel and Agarwal, 2003, D'Costa, 2002, DeLooff, 1995). 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 per cent of organizational costs to 20 per cent by 2008" (2005). According to Forrester Research Inc., 3.3 million white-collar jobs will go overseas by 2015 (McKinsey Global Institute Report, 2003, Tekrati, 2004, Susan, 2003, Computerweekely.com, 2003). 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 (Tekrati 2004, Computerweekely.com, 2003, Benko, 1992, 1993, Muthuswamy and Crow, 2003). Indian IT exports have increased an estimated 36% from $13.3B in 2006 to an estimated $18.1B in 2007 (National Association of Software and Service Companies, 2007).

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 potential disconnect with the reality of the IS professional market may have long term impact on the IS educational field. A great deal of this debate is covered recently in practitioners' professional and trade journals, yet little deliberate research has been conducted to date. Most of the research in offshore IT outsourcing has been largely focused on justifying how offshore IT outsourcing will help both outsourcer and its partners in a win-win situation. There has been no serious attempt to study potential socio-economic loss from outsourcing. Our intention in this paper is to concentrate solely on research that directly addresses offshore IT outsourcing.

BACKGROUND

Offshore outsourcing is simply moving work from high-cost, developed countries to low-cost, developing ones. At a time when resources are scarce and competition fierce, there are few reasons in favor of outsourcing as persuasive as a