

## Chapter 8

# Information Technology Outsourcing Risk Factors and Provider Selection

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### **ABSTRACT**

*Information technology outsourcing has become a major issue in business and received a large attention from both business managers and scholars. Indeed, it helps a business company to reduce its costs and to maintain its competitiveness. The purpose of this chapter is to introduce the utility of information technology outsourcing for the enterprise and to review some recent works in outsourcing risk factors identification and provider selection. Finally, drawbacks of information technology outsourcing will be presented along with future research directions.*

### **INTRODUCTION**

Since the 1980s, business outsourcing has increasingly become a common practice (Liou & Chuang, 2010; Kaya, 2011; Chen et al, 2011; Shi et al, 2011; Liou & Chuang, 2010; Cai et al, 2013) because of a combination of environmental pressure, efficiency, and competitive pressure (Hsu et al, 2013). There exist several definitions of outsourcing. For instance, it is defined as ongoing purchasing of services and parts from an outside company that is already provided by the outsourcing company (Linder, 2004). It is also defined as transfer of production functions of goods or

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services to external providers (Araz et al., 2007). More general, outsourcing occurs when one company hands over a part of their existing internal activity to another company by contract (McCarthy & Anagroustou, 2004). Companies outsource for various reasons, including receiving efficient procurement services, having access to specialized technology and operational platforms, and reducing the staffing levels (Chen et al., 2011).

Information technology (IT) outsourcing is one of the most outsourcing practices (Chen et al, 2011; Hsu et al, 2013). For companies, the drivers of IT functions outsourcing are cost savings, access to expertise and new technologies, a decrease in IT professional recruitment, flexibility in managing IT resources and an increase in capital utilization, effectively manage time and costs, and to improve productivity, quality, and customer satisfaction (Jurison, 1995; Quinn & Hilmer, 1994; Sobol & Apte, 1995; Dhar & Balakrishnan, 2006). Other identified reasons include increasing the flexibility of the IT department, reducing technology costs, improving IT quality, increasing access to new technologies, and decreasing risk (Claver et al., 2002). Consequently, companies have increased efficiencies and abilities to focus on core competencies; and therefore, they increased both profits and customer satisfaction (Hsu et al., 2013).

However, the IT outsourcing which is a very complex process is affected by several risk factors; including the provider reliability, technical competence, financial stability, and manufacturing capability (Li & Wan, 2014). But, choosing outsourcing providers is an important key to increase the success rate of outsourcing (Hsu et al, 2013). Unfortunately, it is also a difficult task due to the fact that outsourcing providers cannot meet all selection criteria (Li & Wan, 2014). According to (Li & Wan, 2014), the IT outsourcing process may be divided into seven phases: IT demand, application status, and department performance evaluation; IT development and programming; outsourcing strategy; contract object design and outsourcing provider selection; contract negotiation; implementation and supervision; and project approval. The overall process is shown in Figure 1 as in (Li & Wan, 2014).

The purpose of this chapter is to provide an overview of IT outsourcing risk factors and provider selection methods. The chapter is organized as follows. IT outsourcing process and risk factors identification will be presented. Then, some recent advances related to IT outsourcing provider selection will be presented. Finally, we conclude by presenting some of IT outsourcing disadvantages and provide future research directions in the area of IT outsourcing risk factors identification and provider selection.

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