

# Offshoring IT

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## 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 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 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 because they have

fewer internal tasks and believe that their work is more valuable. As a result, their employment satisfaction level increases and typically have a higher degree of autonomy. Outsourcing does not mean that the IS manager needs knowledge and skills to a lesser extent; if anything, the IS manager needs them more in order to negotiate good contracts. Except for finance-related knowledge (Jain & Kohli, 2009; Kanninen, Piche, & Mikkonen, 2009; Karjaluo, Jarvenpaa, & Kauppi, (2009), IS outsourcing requires a greater amount of knowledge, as IS managers help provide a communication bridge between their organization and the supplier it terms of negotiations. IT knowledge cannot be neglected since awareness of the services and possibilities provided by IT is essential if managers are to know what is being contracted and what the chances for improvement are needed. Of course, there is always the potential to exploit an outsourced IT service provider as a strategic project partner.

When studying the effect of position outsourcing on this industry in major core areas, there is general consensus that IS outsourcing requires more managerial skills, but less time strategy-related activities; more time systems management, better relations and staff management, sharper tactical management techniques and supportive of more positive work environment (Daim, Basoglu, & Tanoglu, 2010; Daramola, Oladipupo, & Musa, 2010; Dominic, Goh, Wong, & Chen, 2010). Obviously, smaller firms in terms of number of workers and sales volume generally have smaller IS departments while focus for IS managers in the larger enterprises was to improve their performance rather than reduce their workload (Gonzales, et al., 2010). It was found that the service sector and the IT-intensive service sector are the most sophisticated in terms of their IS, which is why they exploit the advantages of outsourcing either to liberate work or to enrich the job, but they never see outsourcing as an "enemy" that might impoverish and damage the IS manager's working post (Gonzales, et al., 2010).



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