Chapter 5.7
Understanding Outsourcing of Web–Based Applications in Organizations:
The Case of E–Insurance

Teuta Cata
Northern Kentucky University, USA

ABSTRACT

This article has investigated the insurance industry and provided insights into the relationships of organizational size and age with outsourcing and organizational structure. Also, this study investigated the relationship between Web site age, outsourcing, and organizational structure. The main findings are that firm size and maturity is related to the decision of Web-based development approach and the best organizational structure to support online activity. The insights obtained by a new variable: Web site age suggests that insurance companies are trying to develop their Web-based activities within their existing organizational structures, rather than creating new e-commerce divisions.

INTRODUCTION

Electronic commerce (e-commerce) is now considered to be a very important component of a business strategy for sales and customer service. An online presence increases a firm's credibility if the Web site is able to communicate and deliver the message and services that the firm wants to convey to its online audience (D'Angelo & Little, 1998). An interesting and successful approach to creating and maintaining the smooth operation of Web-based applications is outsourcing them to firms that are able to provide professional and reliable Web services. The financial industry is perceived the one which can reap significant benefits from offshore outsourcing of their IT services (Schaaf, 2004). By outsourcing their IT-based

services, banks can save 8-12% of their overall cost and insurance companies 10-15%. Financial companies have begun to consider outsourcing as an alternative, and they are considering Web site maintenance as the most efficient approach to a successful Web-based activity (Minkoff, 2000). Practitioners in the insurance industry consider outsourcing of Web-based applications as a potential to reduce costs and risks in the industry (Ahmed, 2002). Applications such as collaborative claims litigation; niche product development, deployment, and administration; and bringing agents and insured services closer to policy holders are only the start of insurance applications that can be outsourced to application service providers (ASPs).

Outsourcing makes it possible for companies to have an instant Web environment without increasing traffic on the firm's LAN/WAN or putting more pressure on its Information Technology (IT) staff to support the 24x7 Web environment. At the same time, outsourcing allows companies to focus on their core competencies, provide better Web service, and reduce the cost of online activity (Sibley, 2001). While all of this is true, companies may very well have different strategies for outsourcing.

This research will address the issue of developing Web-based applications as one of the most important decisions in e-commerce initiatives. Investigating Web-based applications in the financial industry has a specific importance because this industry is an information-intensive industry, where the adoption of technology has a significant impact not only on the products and services offered, but also on business strategies and the process of business core redesign (Dos Santos & Peffers, 1995). At the same time, the insurance sector is lagging the banking sector in e-commerce (Burger, 2005). As online banking has been growing dramatically in the last 10 years, online sales have just gotten started.

The research problem of our study has focused on two main areas aspects: first, how firm size and age influence the decision to outsource the development of Web-based applications and second, what organizational structures are suitable for supporting Web sites for e-commerce. Reasons to investigate the impact of organization variables in sourcing e-commerce activities come from the need to identify how organizational context influences important decisions related to participate or not in Web-based applications. Organization variables such as organization maturity and size has been under investigated in e-commerce context.

This study has aimed to answering the following questions:

- What approach to Web development do insurance companies tend to apply? Do they develop it in-house? Do they outsource it? Do they use a combination of these two approaches?
- What organizational structure do insurance companies choose to support e-commerce initiative? Do they develop it as part of existing structure or as a separate division?
- How do the insurance company's size and age relate to decisions on how to develop the Web site?
- How do the company's size and age relate to different organizational structures for e-commerce?

The remainder of this paper is presented in four sections. First, we discuss outsourcing, organizational structure for e-commerce, and organizational variables. Then, we describe the sample and the methodology used to capture data. The third section presents the findings from this study and relates them to the hypotheses of this research. In the final section, we draw conclusions from these data and identify the limitations of the study.

15 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage:
www.igi-global.com/chapter/understanding-outsourcing-web-based-applications/36225

Related Content

IT Services Departments Struggle to Adopt a Service-Oriented Philosophy
Aileen Cater-Steel (2010). *IT Outsourcing: Concepts, Methodologies, Tools, and Applications (pp. 1447-1455).*
www.irma-international.org/chapter/services-departments-struggle-adopt-service/36224

A Multi-Agent System for Optimal Supply Chain Management
Hyung Rim Choi, Hyun Soo Kim, Yong Sung Parkand Byung Joo Park (2010). *IT Outsourcing: Concepts, Methodologies, Tools, and Applications (pp. 654-678).*
www.irma-international.org/chapter/multi-agent-system-optimal-supply/36172

Innovation Risks of Outsourcing within Knowledge Intensive Business Services (KIBS)
Paul Trottand Andreas Hoecht (2010). *IT Outsourcing: Concepts, Methodologies, Tools, and Applications (pp. 1739-1758).*
www.irma-international.org/chapter/innovation-risks-outsourcing-within-knowledge/36243

Managing IT Outsourcing for Digital Government
Yu-Che Chen (2010). *IT Outsourcing: Concepts, Methodologies, Tools, and Applications (pp. 1916-1923).*
www.irma-international.org/chapter/managing-outsourcing-digital-government/36254

Managed Services and Changing Workplace Ethics
Alan Sixsmith (2010). *IT Outsourcing: Concepts, Methodologies, Tools, and Applications (pp. 1514-1521).*
www.irma-international.org/chapter/managed-services-changing-workplace-ethics/36228