Chapter X
Project Management Issues in IT Offshore Outsourcing

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ABSTRACT

Global partnerships are forming to take advantage of the cost savings associated with offshoring as well as other strategic benefits. Not all information technology offshoring projects, however, are successful. Cost overruns, increased complexity and defective code cause organizations to rethink their offshoring strategy and their methods for managing these projects. In this paper, project management issues associated with offshore information technology outsourcing projects are identified and specific recommendations for addressing these issues are presented.

INTRODUCTION

Globalization, increased competition, shorter cycle times and an uncertain economic climate are the primary motivators for firms to reexamine traditional methods of delivering information technology (IT) based services and systems. Offshore IT outsourcing is an increasingly popular option for many firms as they transfer a wide array of software development and customer service applications to countries overseas (Misra, 2004). The rate of growth in the global IT outsourcing market is projected to grow at a compound annual rate of 26%, increasing from $10 billion in 2003 to an estimated $31 billion in 2008. During the same period, savings in offshore projects are

expected to increase from $6.7 billion to $20.9 billion (Behravesh & Klein, 2004). McKinsey & Company, for example, purports that every dollar offshored from the U.S. or the UK creates $1.45 to $1.47 of value, with an estimated $1.12 reinvested back into the UK or U.S. and the rest going to the vendor country (Financial Times Limited, April 2005).

The dominant firms sending software development offshore are U.S. and European, and the typical offshore destinations are India, China, and the Philippines. Both sides of the list are expected to grow, however, as firms from more nations become involved (Kedia, Lahiri, & Lovvorn, 2005). Currently, India is projected to receive about 70% of the world's software and business process offshoring business while China, Ireland, Singapore, Mexico, and the Philippines comprise the rest (Bharadwaj, 2004).

Firms that offshore their IT processes expect to benefit from cost savings, access to highly skilled labor, increased quality and reduced development times (Bharadway, 2004). Based on the touted benefits and the expected growth in the offshoring market, it is clear that offshore IT outsourcing will increasingly become a part of an effective strategy for gaining and sustaining competitive advantage (Nair & Prasad, 2004; Kedia, Lahiri, & Lovvorn, 2005). Unfortunately, many offshore IT outsourcing projects to date have not delivered the projected costs savings and the expected strategic benefit (Saran, 2004). Traditional, "onshore" IT projects are replete with both management and technical complexities that challenge even the best project managers (McDonald, 2001). Geographic distance and cultural differences, among other factors, make managing offshore IT projects even more complex (Kliem, 2004; Laplante, Costello, Pawan, Sudi, & Landon, 2004).

Sound project management practices and techniques are crucial to delivering a successful offshore project. In fact, poor project management is one of the major causes of problems in IT offshore outsourcing efforts (Ante, 2004). A recent study of 101 CIOs involved in offshore IT projects found that their greatest challenges dealt with project management issues such as managing team communication, addressing cultural differences, specifying internal work processes, and developing internal management skills (Ware, 2003). Each challenge can impact the functionality and quality of offshore projects and ultimately eliminate any expected financial or competitive benefits.

In this paper, project management issues encountered in an IT offshoring context are discussed and suggestions for addressing these issues are presented. The paper is organized as follows: the next section provides an overview of outsourcing, IT outsourcing, and offshore IT outsourcing. In the following section, a discussion of IT project management is presented along with the framework used to evaluate project management issues in an offshore context. The section afterwards, discusses offshore IT outsourcing challenges related to each project management area and provides insights for addressing each issue. The last section concludes the paper with a discussion of the paper's contributions as well as recommendations for future research.

OVERVIEW OF OUTSOURCING, IT OUTSOURCING AND IT OFFSHORE OUTSOURCING

Outsourcing

The term *outsourcing* refers to the relationship between a vendor and a client in which the vendor is responsible for one or more of the client's processes or functions (Rajkumar & Mani, 2001). Theoretically, the outsourcing firm achieves economies of scale by spreading the fixed costs of performing the service or producing the product over their entire customer base (Ang & Straub, 1998). The client firm benefits from the vendor's expertise and saves the production costs associated with developing the product or service. Added costs

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