

# Chapter XIV

## Global IT Outsourcing: Current Trends, Risks, and Cultural Issues

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### ABSTRACT

*Enterprises inside and outside the IT industry have long used offshore developments and outsourcing methods to reduce information system development and maintenance costs and as a source of specialized, low-wage workers. In the last decade, there has been a spur of activities in offshore outsourcing, which is driven by the e-business revolution and a worldwide demand for IT skills. This contributed to the growth of IT-related industries in countries such as Ireland and India. Meanwhile, vendors from the Philippines, Russia, Hungary, China, Taiwan, Mexico, and other countries entered the market; and in some cases, adapted business models established by Indian firms that have dominated the services sector in the past decade. The emergence of new offshore centers has been marked by new approaches and skill sets, adding to the services and value propositions that define the offshore sector today. In this paper, we will identify the main risk factors and best practices in global IT outsourcing. In addition, we will delve into some important issues on IT outsourcing, particularly the challenges as well as the benefits. Finally, we will present case studies of two Global 200 organizations and validate some of the claims made by previous researchers on IT outsourcing. This study will help management to identify risk factors and take the necessary remedial steps.*

### INTRODUCTION

In today's global economy, outsourcing has become a very common phenomenon. Many large organizations have outsourced some or all of their IT functions. Factors like lower costs, improved productivity, higher quality, higher customer satisfaction, time to

market, and ability to focus on core areas are some of the benefits of outsourcing. However, there are many challenges and risks associated with IT outsourcing (Alvares et al., 1995; Beamish et al., 1995; Feeny et al., 1995; Lacity and Willcocks, 1995; Cross, 1995; Nam et al., 1996; Bahli and Rivard, 2003; Lee et al., 2003; Rothman, 2003; Sabherwal, 2003; Adeleye et al., 2004; Dibbern and Goles, 2004).

IT outsourcing is as an act of delegating or transferring some or all of the IT related decision making rights, business processes, internal activities, and services to external providers, who develop, manage, and administer these activities in accordance with agreed upon deliverables, performance standards and outputs, as set forth in the contractual agreement (Dhar et al., 2004).

Whenever there is an outsourcing decision, there is an inherent risk associated with it. In addition, in any outsourcing deal, there are some hidden costs, unexpected outcomes, diminishing service levels, to name a few (Earl 1996; Lacity & Hirschheim, 1993; Antonucci et al., 1998; Aubert et al., 2001; Clark et al., 1995; King et al., 2000).

There are four major aspects of the proposed research that are summarized by the following questions:

1. What are the objectives of outsourcing?
2. What are the major factors that contribute to risk in global offshore IT outsourcing? How do we minimize the risk in IT outsourcing projects?
3. What are best practices for outsourcing?
4. How do we validate some of the assumptions made by prior research?

Although there are quite a number of studies that address the risk factors and hidden costs in outsourcing, we found out that there is no single study that takes a comprehensive approach to analyzing the issues like risks, benefits, challenges, and best practices in the context of global outsourcing. In addition, many of the important risk factors that are quite important to global outsourcing are not properly analyzed. Of particular interest to us are the effects of risk assessment factors like geographical location, political, cultural, quality standards, legal contracts and intellectual property, as many of these were not well studied or well documented before. These are some of the motivating factors behind this study, where we address not only the risks and benefits, but also the challenges and best practices, two case studies, and to validate some of the claims made by previous researchers on IT outsourcing. Hence, this research fills the

gap in the current literature with regards to risk assessment factors in offshore outsourcing in a global context.

This paper discusses current trends in IS outsourcing, cross cultural issues and presents case studies of two Global 200 organizations and validates some of the claims made by previous research on IT outsourcing. Our main contribution in this paper is to identify sixteen different risk assessment factors that are quite sensitive to global IT outsourcing. In addition, we also analyzed two large organizations (FIRM-1 and FIRM-2) that are currently outsourcing their IT functions and identify the objectives, key benefits, important risk factors, challenges and best practices. We also found how transaction cost theory has played an important factor in the decision making process for outsourcing. This research is unique in the sense that it analyzes two multinational organizations FIRM -1 and FIRM-2 that have been involved in outsourcing for quite sometime. The outsourcing work is done on remote offshore locations in India, China and some other countries in Asia. Hence, this study is truly global in nature as both the organizations conduct business in various parts of the world including the Americas, Europe, Asia, and Australia and in some parts of Africa. In addition, FIRM-1 is one of the suppliers of FIRM-2. Thus both organizations have common goals of making their global supply chain successful, and maximizing the overall profitability. Finally, we do a comparison of each of these factors for both the organizations. Hence, this study is timely and relevant from both an academic and a practitioner's perspective.

## **CURRENT TRENDS IN GLOBAL IT OUTSOURCING**

In recent years, with globalization and improved communication infrastructure, there has been a spur of activities in global outsourcing also known as offshore outsourcing. Offshore outsourcing had been considered as an irreversible megatrend, in view of such factors as lower domestic economic growths during the years 2001-2003, increased domestic wage

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