

# Chapter 1.7

## Business–Related Determinants of Offshoring Intensity

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### ABSTRACT

Some researchers view information systems (IS) offshoring as extension of onshore IS outsourcing. However, others have the opinion that IS offshoring has its unique characteristics because of which, we cannot extend research made in onshore IS outsourcing without testing its applicability to the offshore context. This tension motivates our research to examine whether determinants of IS offshoring are indeed the same as determinants of onshore IS outsourcing? We examine the role of some firm level determinants of offshoring intensity. The four business related determinants that we analyze in this study are: business size, business cost, business financial leverage, and business performance. Results indicate a significant relationship between business size and

offshoring intensity, and also between business financial leverage and offshoring intensity. Based on the results, we analyze similarities and differences between traditional onshore IS outsourcing and IS offshoring. Implications and contributions arising out of this study are also discussed.

### INTRODUCTION

Arnett and Jones (1994) define information systems (IS) outsourcing as the transfer of IS assets, leases, and staff to outsourcing vendors. In other words, IS outsourcing can be viewed as the decision and process by which firms transfer various functional aspects of their IS to third-party vendors. IS outsourcing has been a popular phenomenon since the time Kodak signed its

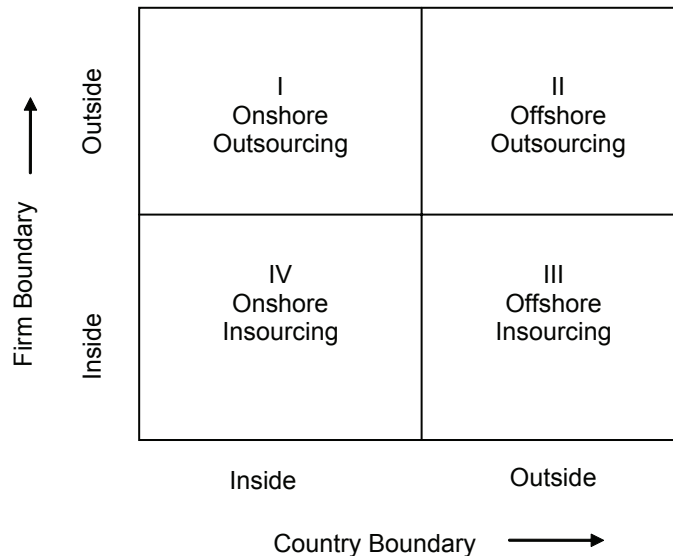
first outsourcing deal in 1989 (Dibbern, Goles, Hirschheim, & Jayatilaka, 2004). But during this period, most of the outsourcing phenomenon was restricted within the borders of the country. In other words, most of the IS outsourcing work was onshore outsourcing. It is for this reason existing literature on IS outsourcing primarily focuses on onshore outsourcing. IS offshoring, which is an offshoot of IS outsourcing, is a relatively new phenomenon. IS offshoring refers to the migration of all or part of the development, maintenance, and delivery of IS services to a vendor in a country different from that of the client (Hirschheim, Loebbecke, Newman, & Valor, 2005). Developments in information and communication technologies (ICTs) in the last decade enabled effective and efficient delivery of digitized information across borders. Along with this, deregulations and removal of trade barriers spurred the development of IS offshoring. Firms now have convenient, real-time access to the skills of knowledge workers from countries across the globe.

IS outsourcing and IS offshoring can be visualized as a decision which firms make regarding their strategy to cross the firm and the country

boundaries. This can be represented in a 2x2 matrix (see Figure 1). Simply speaking, the transcending of a firm's boundary for IS functions can be described as IS outsourcing, whereas crossing the nation's boundary for IS-enabled functions can be viewed as IS offshoring. Figure 1 illustrates that offshoring (quadrants II and III) can be both outsourcing and insourcing, bringing out the fundamental difference between *definitions* of onshore outsourcing and offshoring. Offshoring projects might be outsourced, or alternatively they might be insourced to a subsidiary of the parent company.

In addition to the differences in definitions of outsourcing and offshoring, the firms' *motivations* for such actions might also be very divergent. Outsourcing normally enables firms to focus on their core competencies. Firms can strategically outsource those business processes which they do not intend to develop and nurture as a core competency (Slaughter & Ang, 1996). In contrast, in addition to focusing on core competencies, offshoring purports to strategically route the required services from those countries which offer comparable or better skills at a cheaper price. It makes it possible to extend enterprise boundaries

*Figure 1. The boundaries of outsourcing and offshoring*



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