

# Chapter 6.1

## Risks, Benefits, and Challenges in Global IT Outsourcing: Perspectives and Practices

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### ABSTRACT

Many large organizations are increasingly outsourcing their IT functions. Factors like lower costs, improved productivity, higher quality, higher customer satisfaction, 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. In this article, we identify the main risk factors and best practices in global IT outsourcing. In addition, we delve into some important issues on IT outsourcing, particularly the challenges along with benefits. Finally, we 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 the management to identify the risk factors and take the necessary remedial steps. Hence, this study is timely and relevant from both an academic and a practitioner's perspective.

### 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 (Adel-eye, Annansingh, & Nunes, 2004; Alvares et al., 1995; Bahli & Rivard, 2003; Beamish, Marcolin, & McLellan, 1995; Cross, 1995; Dibbern & Goles, 2004; Feeny, Lacity, & Willcocks, 1995; Lacity & Willcocks, 1995; Lee, Huynh, Kwok, & Pi, 2003; Nam, Rajagopalan., Rao, & Chaudhury, 1996; Rothman, 2003; Sabherwal, 2003).

*IT Outsourcing* is as an act of delegating or transferring some or all of the IT related deci-

sion 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, Gangurde, & Sridar, 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 (Antonucci, Lordi, & Tucker, 1998; Aubert, Patry, Rivard, & Smith, 2001; Clark, McCray, & Zmud, 1995; Earl, 1996; King & Malhotra, 2000; Lacity & Hirschheim, 1993).

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

1. What are the objectives for 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 in analyzing the issues like risks, benefits, challenges, and best practices in the context of global outsourcing. In addition, many of the important risk factors are not properly analyzed that are quite important to global outsourcing. 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 are not well studied and 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 along with two case studies and 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 article 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 article 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 are involved in outsourcing for quite sometime and the outsourcing work is done on remote offshore locations in India, China and some other countries in Asia. So 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.

## **THEORETICAL CONCEPTS BEHIND OUTSOURCING**

There are various theoretical justifications for outsourcing. The most popular ones are Trans-

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