

## Chapter 7.6

# Establishing Trust in Offshore Outsourcing of Information Systems and Technology (IST) Development

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### **ABSTRACT**

This chapter explores the issues and challenges faced in establishing trust among individuals and teams participating in offshore outsourcing of software development projects. While technical and project management aspects have been recognized as important for the success of offshore software outsourcing, the issue of establishing trust among the participants has not received specific recognition. The chapter discusses the special characteristics of offshore software outsourcing relationships which make the establishment of trust a challenge. The discussion emphasizes that a specific and planned approach of utilizing communication and coordination technology in software offshoring relationships will contribute towards trust formation. Use of communication and coordination technology in offshoring en-

vironments is recommended to be designed to increase the culture of communication, to establish a culture of transparency in communication, and to systemically maintain a trail and evidence of the communication.

### **INTRODUCTION**

Over the past few years several organizations have embarked on ambitious offshoring projects as a way to respond to pressures for keeping profits up and keeping costs down. “Offshoring” refers to the practice of organizations transitioning part of their business operations to lower cost overseas destinations. The basic idea entails utilizing equivalent skill levels at lower wages in the destination country.

The information systems and technology (IST) services industry segment has been the forerunner in establishing offshore bases. Offshore IST services, involving applications development, maintenance, and R&D services, is approximately 75% of the total global offshoring market today (Hatch, 2005). Several other industry segments have been increasingly utilizing offshore destinations, notably among them hardware and software maintenance, network administration, help desk services, call centers, and telemarketing organizations. The latest entrant in the offshoring race is back-office processing for a myriad of industries ranging from banking and insurance to retail banking, deposits and lending, credit card processing, and mortgage processing to corporate finance and accounting.

Irrespective of the industry or organizational operations, offshored projects entail distance coordination between virtual teams. As a result, one major characteristic shared by all offshored projects is that they are, in large part, IST-mediated. Unlike in offshoring relationships of the manufacturing era, the offshoring relationships in the IST-mediated era (sometimes referred to as computer-mediated communication) require very frequent coordination, sometimes multiple times a day. The ironic part of this close and frequent coordination is the fact that offshored relationships are usually managed by employees in the home-base country, who often harbor ill-will and insecurity against the offshore partners because offshore projects almost always threaten jobs in the home-base country. In addition, differences in culture and work practices between the two participating teams from two different countries also increase the tension between the two teams in the offshoring context.

With this backdrop, establishing trust between participating individuals and teams in offshoring relationships is critical for success in the project but presents several challenges. In this chapter we will explore some of the structural and procedural mechanisms that can be utilized and

established as antecedents for trust in offshoring relationships. A short case study of offshoring relationships in a large Fortune 100 company in the U.S. is utilized for illustrating a trust building framework in action. In the case study discussed here, the offshoring destination nation is India, an increasingly popular venue.

## **BACKGROUND**

The explosion of the Internet along with a boom in telecommunications capacity has made it feasible to get IST projects completed remotely. The communications between the U.S. and offshore locations became not only feasible but also efficient and cheap. At the same time, foreign offshore locations produced a worker pool that was well-trained in a wide array of technology skills, who also worked at much lower wages compared to the U.S. So, with available supply of technology skills, favorable economics of IST production, and a means to accomplish the projects, offshoring became a natural business initiative.

Experts assess the global offshore market to be close to a \$300 billion opportunity and the size of offshored IST services and business processes is regarded to have almost tripled since 2001 (Chakrabarty, Gandhi, & Kaka, 2006). They estimate that the market has grown by nearly 21% a year in the past five years and over the next five years it will grow by an additional \$80 billion. Offshoring is a relatively young market and widely different statistics and trends are quoted. For example, according to Robinson and Kalakota (2004), a McKinsey and National Association of Software and Service Companies (NASSCOM) study estimates that the information technology and enterprise solutions market in India is likely to reach \$142 billion in 2009. This estimate contrasts with the current price tag of \$532 billion to provide these services in the United States. The difference of \$390 billion would be the net savings for the U.S. economy due to offshoring. The

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