

## Chapter 6

# Is Information Systems (IS) Offshoring an Extension of IS Outsourcing?: Concept, Definition and Determinants<sup>1</sup>

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### **ABSTRACT**

*Some researchers focusing on information systems (IS) offshoring argue that results from previous studies on onshore IS outsourcing can be extended and applied to IS offshoring. However, others have the opinion that IS offshoring has its unique characteristics because of which, research made in onshore IS outsourcing cannot be extended without testing its applicability to the offshore context. This tension motivates the current research to examine whether determinants of IS offshoring are indeed the same as determinants of onshore IS outsourcing? If not, what are the implications? This chapter examines the role of business related firm level variables in determining the offshoring intensity of firms. The four business related variables that are analyzed in this study are: business size, business cost, business financial leverage, and business performance. The 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.*

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## INTRODUCTION

Arnett & 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 et al., 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 et al., 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 (Figure 1). Simply speaking, the transcending of 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 to effectively access skills from distant places without physical movement of labor (Hirschheim et al., 2005; Rao, 2004). This phenomenon of taking jobs to the country of the skilled worker allows firms to tap the services of that segment of labor, which may otherwise be unwilling to move away physically, from their home country. Hence, firms not only have an incentive in terms of cost reduction but can also exercise a wider choice in terms of labor skills (Rao, 2004).

Another critical difference between onshore IS outsourcing and IS offshoring lies in the *modalities* for such arrangements. Unlike offshoring, it is relatively easier to monitor onshore outsourcing. There are two key reasons for this: the small physical distance, and the fact that both vendor and client are usually in the same time zones. In general, any function, which does not require physical monitoring and can be easily digitized for transmission through electronic means, is an offshore candidate. Thus, IS offshoring includes not only the firm's IS functions and processes but also its IS supported business processes (Trampel, 2004).

Though there has been a phenomenal increase in IS offshoring and the trend seems likely to continue (Gardner, 2006; Ribeiro 2006; Mao et al., 2008; King and Torkzadeh, 2008), scholarly

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