Chapter 14
IT Services Offshoring: Opportunities and Critical Factors from a Strategic Perspective

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ABSTRACT

In light of new changes in the market, in supply as well as demand, IT offshore outsourcing may be interpreted as an articulate and complex tool for pursuing strategic goals which go well beyond the traditional objective of cost saving. Indeed, IT services today are required not only to make management processes more efficient and economical, but also to help increase a company's capacity to create value, and thus gain a greater competitive advantage. From a strategic point of view, IT structures are increasingly crucial in the implementation of business, and are no longer mere support factors in value chain activities. At the same time, the increased potential of this tool has also led to a greater complexity of management, which can only be properly matched by a flexible, dynamic governing model. This paper will identify some critical elements in managing offshoring relationships aimed at the innovation and improvement of the value creation processes.

INTRODUCTION

In the era of globalization, offshoring IT services aim to improve economic conditions and organizational systems to carry out activities or processes previously performed within the company. Since the nineties, there has been a remarkable global expansion of high-level IT skills, taking place mainly in countries with emerging economies. These countries have been able to reap the benefits of a considerable amount of research and development investment and human resources training in the IT field, thereby developing their own economies and GNP, and in turn attracting foreign investment, thereby increasing their own competitive position in respect to the U.S.A. and European countries (Leonard, 2006).

Consequently, India, the Philippines, China, Canada, Brazil, Ireland, and many eastern European countries have become the real protagonists

DOI: 10.4018/978-1-60960-138-6.ch014

of IT services, basing their competiveness not only on significant advantages in production costs (especially human resources), but also on their well known, high-level information technology skills. Today, these countries can count on a high level of professionalism and specialization that, in many cases, proves to be superior to that in the U.S. or Europe.

Take, for example, companies like Tata Consultancy, Infosys, Wipro Technologies, HCL Technologies, which operate in Electronics City in Bangalore, India; Flextronics in Singapore, or Celestina in Canada. These companies hold the top positions in the global arena of highly qualified IT providers. With the quality of IT service they offer, these companies have been able to earn a position of excellence in one of the most prestigious systems of international certification, the "CMMI: Capability Maturity Model Integration for Software", developed by the Software Engineering Institute (SEI) of Carnegie Mellon University. This is a set of rigorous standards for assessing the "level of maturity" companies demonstrate in the organization and management of their software process. The CMMI system has five levels of certification[1]; 50 to 60% of the companies who have earned the highest levels of certification (the fourth or fifth level) are Indian.

Consider also that, as Popoli A. (2009, p. 59) shows, "many of the players from emerging countries – if this term makes sense any more – have opened branches in Europe, for not only commercial but also traditional on-site consulting services. At the same time, the main players in the global market such as IT, Accenture, IBM, HP and EDS have long included in their offer *delivery centres of excellence* in countries such as India, Brazil, Russia, China and the Philippines, with highly qualified personnel dealing with all the most innovative platforms and technologies. In this way the major holdings can resist global competition since they are able to combine the best of their more traditional onsite activities with the need for industrialization and efficiency offered by the delivery centres of excellence".

From these brief considerations, we see that what was once the domain of European countries and the U.S., is no longer (Garner, 2004; Pfannenstein and Tsai, 2004; Kedia and Lahiri, 2007; Lewin and Couto, 2007). It is this changed geography in the global arena of high-level IT services which is at the base of not only of the widely diffused practice of offshoring, but also the change in the content itself, which today goes beyond mere cost advantages to incorporate business development systems based on medium-long term partnerships with IT service providers. If, in the past, the principal motivation for opting for offshoring was the possibility of cost savings, today the appeal of offshoring lies in obtaining highly specialized IT capability, which increases the capacity to create value, and therefore, to gain competitive advantage.

Phenomena emerging from recent empirical studies confirm a shift in the IT offshoring paradigm. Once economy and efficiency were the main concerns of businesses considering IT offshoring. Now, businesses are more interested in the strategic innovation and development resources and knowledge that IT offshoring firms have to offer resources and knowledge that complement and can be integrated with internal resources the company already possesses. Recent research shows that first, dissatisfaction with the services offered by IT providers increases with quality requirements and levels of innovation, compared to expectations of cost savings. Secondly, IT outsourcing is becoming increasingly *selective,* regarding information system components, as opposed to *full outsourcing,* regarding a company's entire IT system. Thirdly, IT service suppliers are becoming increasingly specialized, based on research of competitive advantage in differentiation rather than cost leadership obtainable through an approach of standardization.

In conclusion, the analysis of changes in the market and the identification of some critical