

# Chapter 17

## Performance of Firms: A Study of Offshore Outsource Service Providers

**Soni Agrawal**

*Indian Institute of Technology, Kharagpur, India*

**Kishor Goswami**

*Indian Institute of Technology, Kharagpur, India*

**Bani Chatterjee**

*Indian Institute of Technology, Kharagpur, India*

### ABSTRACT

*With the evolution of information technology, firms offshore outsource services to developing and low service cost countries to have cost as well competitive advantages. This is a growing practice, but there has been limited empirical attention in understanding the outsourcing phenomenon, particularly from the perspective of service provider firms that execute important business processes for their overseas clients. This shows the need to study the factors that play a significant role in the growing trend to outsource and why only a few service provider firms report success. In this chapter, the authors try to find factors that influence performance of service provider firms. Multiple regressions using four indicators of firm performance are carried out to see the influence of certain factors on Information Technology Enabled Service (ITES) firms' performance.*

### INTRODUCTION

This paper investigates factors influencing performance of ITES provider firms. Traditionally, value chain activities related to a particular business are done in-house. However, with the development

of information technology (IT) and the availability of services at competitive price, offshore outsourcing of different value chain activities is taking place. Firms go offshore to have competitive advantages, access to unique resources, early entry into market, etc. A firm needs to take care

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of certain factors that are important in its survival and growth. Each firm possesses fundamentally different predisposition to evaluate their value, assimilate, and apply them into final goods. In order to attract clients, a service provider firm has to exhibit such values to their client firms. In offshore outsourcing of services, clients want certain quality or cost related advantages from a third party service provider firm. Moreover, relationship between the service provider and the service receiver plays an important role to be successful, as the locations of the service provider and the receiver are different in this case. For improving the quality of relationship, service provider firms often go beyond rules, agreements, and exceptions. Several Asian countries, notably India, China, and Philippines had made rapid strides in projecting themselves reliable and low-cost destinations that are capable of serving the world's IT-related sourcing needs. India with favourable government policies i.e., ten-year tax holiday, rebate on custom duties, etc., provide a more conducive regulatory environment to global corporations. This helps India in becoming leader with a considerable number of offshore service provider firms. The contribution of IT-BPO sector revenue in national GDP was 1.2 per cent in 1988 and 6.4 per cent in 2010. It is estimated that Indian IT-BPO sector generated US\$ 76 billion revenue in the financial year 2010. It is also estimated that the sector generated employment of nearly 2.5 million during this period (NASSCOM, 2011). Considering the immense growth potential of ITES and the active role of the Indian service provider firms, it becomes essential to analyze the factors that influence performance of ITES firms in India to remain sustainable. It is also challenging because source of firm-level data in the context of Indian BPO sector are mostly middle-of-the-road private firms and are cautious in sharing data. The other challenge is to gather required information from the top level executives of these firms, who are usually having a very busy schedule.

Factors that influence performance of ITES firms are many as these firms have to remain sustainable in the global competitive market. These ITES firms provide services to overseas clients, who are having different language, culture, and even their time-zones are not same in most of the cases. Although, demand for these services is increasing as overseas firms in developed countries are getting services at a relatively lower price from developing countries. On the other side, service provider firms in developing countries are responding to the needs of the overseas client firms by enhancing their products and services, and they are also trying to utilize location based advantages in executing various business activities and processes. These ITES firms are trying hard to improve their performance. This needs a careful attention to look into the issue to understand the factors that are important for these ITES provider firms for their performance.

## **FACTORS INFLUENCING PERFORMANCE OF FIRMS**

Review of studies from the perspective of service receiver firms show that performance of offshore outsourcing receiver firms depend on a variety of factors. These factors are their readiness, superior strategy, selection of suitable processes for outsourcing, sound contracts, and good relationship management (Feeny & Willcocks, 1998; Willcocks & Lacity, 2006). Client firms want the provider firm to take them into account with their special technological and business characteristics (Lacity & Hirschheim, 1993). There are other factors also that are identified important in earlier studies. Moreover, a detailed discussion of the identified factors of firms' performance is discussed below.

Lee et al. (2007) explained that organizational learning and knowledge management capabilities are important antecedents of e-business value. Findings of Hussein et al. (2007) indicated that

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