Preface

The current stampede toward outsourcing and offshoring should come as no surprise. Today outsourcing and offshoring is one of the best ways for companies to cut application development and maintenance costs, deal effectively with the software demands and focus on more strategic work. Depending on whom you ask, anywhere from one-half to two-thirds of all Fortune 500 companies are already outsourcing and offshoring to China, India and other countries. If companies are not already sending some development or maintenance work to Beijing, Mumbai or Chennai, chances are they’re either looking into it or their financial department is asking why they are not.

Now from the economic perspective, our interest in this world lies in analysing how these tools are used, how services are chosen, what level of prices and competition will prevail and ultimately whether a market exists or fails. There is another perspective on this issue, which corresponds to the traditional division of the world between the East and the West, that is, the rich West and the developing East.

This book will provide what are the economic impacts of outsourcing and offshoring to the developing countries and developed countries. It will discuss how it is helping developing countries or profits and how savings are just reaped by developed countries. What are the short-term and long-term implications? How is trust and the confidence of customers, as with the shift of call centres overseas, affected? How are telecoms taking advantage of the technology? Will this bring people close culturally? What will be its implications for the East-West countries and how their political-economic relations will unfold in the 21st century? Why are certain countries getting more contracts? How are the wage differentials affecting this equation? Are the outsourcings and offshoring really win-win situations? We will analyse all of these issues in this book. This book will provide information from a socio-economic angle. While paying attention to the current status of intertwined issues of such as technology, standards, policy and legal issues, the focus will be on many economic issues and aspects of the outsourcing and offshoring those other books do not cover. This book will cover various aspects of global production, trade and investment and the effects of technology on outsourcing and offshoring.
The change in the flow of information, computing and communication in the recent past has greatly influenced the world economy. In the emerging digital economy, the players, as well as the rules of the game, are changing fast. Along with those changes has come a lot of confusion and uncertainty. This era creates a borderless environment, which changes the responsibilities of the private sector and the governments. This book builds on the strength of our experience of editing an earlier book: *Digital Economy: Impacts, Influences and Challenges* for Idea Group in 2005. Please see the Idea Group Web site at www.idea-group.com for details on our first book.

Most of the books on the changes in ICTs have covered the experiences of advanced economies; however, the many economies of Asia and emerging economies of Eastern Europe and erstwhile the USSR are also producers and users of information technologies. The digital revolution has influenced the government as well as the private sector. The book aims to provide relevant theoretical frameworks and the latest empirical research findings in the area of outsourcing and offshoring. It will cater to the needs of professionals and many others as stated in the following section who would like to improve their understanding of outsourcing and offshoring in the digital economy.

In addition to the academics, students and other knowledge workers, this book is intended for business people who are thinking about outsourcing and moving offshore for suppliers and partners around the world. If a business person is already directly involved in international trade and business-to-business transactions, either as a manufacturer, distributor, exporter and importer, custom broker and freight forwarder, trade financer or diplomat, then this book will be for him or her. If he/she is involved in international trade, investments in ICTs and the related fields of outsourcing and offshoring — perhaps as a lawyer, management consultant, trade show organizer, site developer, business school professor, executive educator or someone who advises international companies about outsourcing and offshoring, then this book will also be for him or her.

The assembling of the chapters and editing of this volume was a very onerous task, but has proved to be highly worthwhile and rewarding in the end. The response to the call for chapters was overwhelming. We received proposals from top scholars, professionals and practitioners from various parts of the world. We have received chapters from the U.S., Canada, Germany, Australia, Croatia, Singapore, India and many other countries. Authors with backgrounds from various cultural groups and with firsthand knowledge of outsourcing and offshoring have contributed to this volume.

Choosing the chapters for this volume was a highly challenging task, as we received an overwhelming response. Which chapter to include and which to exclude was very difficult. Chapters included in this volume have gone through a very rigorous review process. The ultimate choices of the chapters for inclusion in this volume were guided by the quality, relevance and coverage of the vital issues and proper analysis and depiction of the subject. The brief summaries of the various chapters included in the book in the words of the contributors are provided below for the readers to make their own judgment.

This chapter tracks the evolution of outsourcing theory and practice in order to develop a taxonomy of outsourcing generations. The authors begin by exploring the roots of outsourcing theory and by framing its development in the context of the “bigger-is-better:” vs. “small-is-beautiful” debate. This review is used to identify drivers for, as well as basic features and outcomes of, outsourcing. Then, a critical evaluation of models aimed at guiding the decision of what should be contracted out is undertaken, leading to an original classification of existing outsourcing frameworks, namely, matrix-type, factor-based and process-based models. Appraisal of these models allows to unveil several ambiguities and contradictions over the why and how of outsourcing, and hence uncover theoretical inadequacies on how firms determine what, and under what conditions, to outsource. The authors attribute these inadequacies to the inherent difficulties stemming from the analysis of what we see as a phenomenon “in motion”, in that the very nature of outsourcing has kept changing over time. Given the evolutionary nature of outsourcing, the authors view the development of taxonomy of outsourcing generations as an essential tool for a better understanding of outsourcing activities. Indeed, although the existing literature has already pointed to a shift in the nature of outsourcing, from the procurement of support activities to that of more critical functions, to the authors’ knowledge no formal taxonomy of different waves of outsourcing has yet been developed. Our taxonomy identifies three generations of outsourcing, articulated across five dimensions that help distinguish different waves of outsourcing practice. The first dimension relates to key drivers for outsourcing, ranging from basic efficiency motives to full blown business process transformation. The second dimension refers to the type of activity being outsourced (i.e., peripheral, near-core or core). The third dimension focuses on the characteristics of the relationship between the outsourcing firm and the supplier. The fourth dimension defines the different critical success factors pertaining to the different forms of outsourcing, whilst the fifth dimension highlights the alternative measures of performance across outsourcing generations. Case study evidence based on the operations of companies such as Rank Xerox, General Motors and Dell Inc., is found to be consistent with the taxonomy proposed and provides support to its efficacy as a valuable analytical platform for the study of outsourcing as a dynamic construct.

The second chapter is about Making Sense of the Sourcing and Shoring Maze: Various Outsourcing and Offshoring Alternatives written by Subrata Chakrabarty.

Many terminologies have grown out of the outsourcing and offshoring bandwagon. While the corporate world continues to experience these phenomena, the academic world continues to research the same. An attempt has been made to give an overview of the various alternatives in sourcing maze. The author first discusses the basic sourcing strategies (insourcing and outsourcing) and the shoring strategies (onshoring and offshoring). Then moves deep and wide into the maze and unravel the multiple alternatives that businesses exercise in order to get the best deal for their information system
needs. Approximately 50 terminologies that are related to this growing maze have been discussed. The literature was scanned for various sourcing alternatives and terminologies.

The two basic sourcing strategies are insourcing and outsourcing. Insourcing implies that the service provider is a client entity, while outsourcing implies that the service provider is a non-client entity. The primary shoring strategies are onshoring, nearshoring, and offshoring. In onshoring (onshore sourcing or domestic sourcing) the service provider is located in the same country as the client. In nearshoring (or nearshore sourcing) the service provider is located in a country that is geographically close to the client’s country. And finally, in offshoring (or offshore sourcing) the service provider is located in a country which is geographically far away from the client’s country. Often, the term offshoring is used to broadly imply nearshoring too, and hence one may do away with the specific term nearshoring. Offshoring (or “global sourcing” or offshore sourcing) may therefore be defined as a scenario where the service provider is located in a country which is different from the client’s country.

Furthermore, within this wide framework of sourcing and shoring, some of the various alternatives that are available and practiced are discussed in this chapter. The numerous similar, dissimilar, confusing, and not-so-confusing terminologies were analyzed, deciphered, and often grouped in the following 28 sections: (1) application service provision/application service providing/net-sourcing/on-demand, (2) backsourcing, (3) benefit-based relationships/business benefit contracting, (4) body shop outsourcing, (5) business process outsourcing, (6) complex sourcing, (7) cooperative sourcing, (8) co-sourcing, (9) creative contracting, (10) distributed consulting, (11) dyadic outsourcing arrangement, (12) facilities management, (13) facilities sharing, (14) general outsourcing, (15) global delivery, (16) managed offshore facilities, (17) multi-sourcing, (18) multi-vendor outsourcing/multiple-supplier sourcing/dual sourcing, (19) project management outsourcing, (20) selective/smart/right/flexible/modular sourcing, (21) spin-offs, (22) strategic alliances/partnerships/joint ventures/equity holdings/strategic sourcing, (23) tactical outsourcing/contracting-out/out-tasking, (24) total insourcing, (25) total outsourcing/traditional outsourcing, (26) transformational outsourcing, (27) transitional outsourcing, and (28) value-added outsourcing.

Hence, the purpose of this chapter is to compile and elucidate the various facets of domestic and global sourcing of IS needs. The reader will gain holistic perspective of a phenomenon that is continuously changing the way business is carried out globally.

The third chapter written by Ashima Goyal deals with Global Sourcing: East-West Divide or Synthesis?

This chapter examines the implications of global sourcing for global inequities. Internet and communication technologies (ICTs) reduce frictions and search costs for labour, and allow market access to geographically separated entrants. Labour intensive components of production can be unbundled and sent where it is cheaper. The smaller scale of efficient production induces more entry of new firms; entry costs fall. The rise in scale of aggregate employment raises productivity, and induces more labour-using technological progress. Among the implications of improved matching are:
First, the horizontal splitting and matching of production processes into the least cost due to global sourcing makes jobs in different locations complements, raising aggregate productivity, and aiding the convergence of wages across the globe. Complementary local jobs will be created as profits and activities expand, reducing fears of sustained local unemployment due to some jobs going abroad.

Second, the importance of investing in new technology and in worker training, for business to benefit fully from future trends. A multiplier effect can occur from induced education and technology adoption. Policy that targets education and training of workers can have major effects by stimulating these self-reinforcing trends. Encouraging access to, and the provision of, ICT infrastructure should be a major aim. Regulation should reduce barriers to the entry of new firms and ensure open standards especially in the production of intermediates. Tax of transitory profits or insurance schemes can cover transitional unemployment.

Third, expected income distributional changes, over time, across countries, workers and firms. Although outsourcing is seen as benefiting firms while workers lose jobs or are offered low-wage jobs, the longer-term trends set in motion are exactly the opposite—they favour workers over firms as opportunities increase and more firms enter. There will be more global convergence of wages, but established Western firms will make considerable profits in the short-term. Advantages to the East will only reverse long-entrenched inequalities. Greater prosperity in the East and more intra-firm trade will increase exports from the West and create more jobs there in the medium-run. Again skilled labour gains relative to unskilled initially, but the multiplier effects of outsourcing jobs, the range from low to high end jobs created, and the boost given to education will create gains for unskilled labour in developing countries also. Unskilled labour in developed countries will gain because of a fall in physical migration combined with an expansion of traditional service sector jobs, a large proportion of which are not tradable. These trends will lower social and global tensions.

Fourth, ICTs will allow hitherto excluded segments, whether firms or workers in developing countries or women, to access new networks, thus reducing inequities in power. Modernization did not benefit women as much as it was expected to, since it raised relative returns to work outside the home, thus lowering women’s status. ICTs by allowing flexi-time and distance work can change this state of affairs.

Finally, the analysis is used to understand the rapid changes taking place; these turn out to be consistent with the analysis.

The fourth chapter is about the Strategies of Outsourcing: From De-Risking to Uncertainty written by Parthasarathi Banerjee.

This chapter investigates conditions when economic profit can be made from outsourcing. Ordinarily outsourcing is undertaken in order to reduce cost. Other factors such as local sourcing, advantages of distributed logistics or of reduced labor problems can be ultimately reduced to the aspect of cost. Cost reduction and cost-based competition, however, fail to offer strategic advantage since all the competing firms would rather soon adopt outsourcing. In the absence of strategic advantage the incumbent firm fails to reap economic profit over and above the rent. In order to have
such a profit a firm must pursue certain novel tricks. Strategies of cooperation undertaken in a certain manner, we argue, can generate the economic profit.

Under conditions of no-outsourcing an incumbent firm undertakes all necessary business activities in the vertical as well as in the horizontal dimension. Ordinarily the incumbent will have multiple divisions and a complex matrix structure. Such a large and complex structure necessarily suffers from structural risks. The latter arises from opportunism of managers and transactions of incomplete information. Moreover, managers are not strict followers of rules and do suffer from bounded rationality. This entire set combines to render the large structure of the incumbent risky. Unreliability of structural information leads to this risk.

When outsourcing business processes of the incumbent, a provider unlike the managers of the incumbent necessarily must provide de-risked and more reliable information as well as goods. In fact, rather often the provider suggests value-adding initiatives to the business process outsourced. A provider acts as it were as an extended arm of the incumbent, albeit with a significant difference. The provider is bound by enforceable contracts and liability claims while remaining free from authoritative controls. A very large degree of relative freedom allows this provider to suggest and sometimes allow it to effect changes that the managers of the incumbent would certainly fail to deliver. A provider, therefore while de-risking the incumbent challenges that structure, and through challenging brings the incumbent closer to uncertain business horizons. Outsourcing can then potentially bring the incumbents structure to an economic or the “Knightian” profit.

Strategic interdependence between the client and the provider firms has led us to look into the manoeuvrability of one structure by the other. The client firm in order to de-risk its business from risks generated by its own structure outsources part of the business. The structure of the outsourced partner, described sometimes as the extended enterprise, together with the structure of its client generate endogenous demand for outsourcing. Structures are the sources of demand here. Boundaries of the two structures become fuzzy, and transactions in intermediate outsourced goods shift the management of coordination between the two firms to a novel platform. Now each firm forms an expectation on what the counterparty expects, and through this the parties evolve norm. A norm-based transaction leads to uncertainty and this uncertainty is the source of an entrepreneurial profit. Outsourcing when undertaken strategically thus might lead to a profit solution.

The fifth chapter explores the New Ethics for E-Business Offshore Outsourcing, which is written by Fjodor Ruzic.

Historically, companies have moved activities from one place to another for various reasons, and their mobility has only increased in recent decades. In developing countries, this can encourage mass migration from villages to urban areas, practice development experts generally consider unsustainable. In an era of telecommunications, it is better to move jobs to people than to move people to jobs. Advances in technology and global networking of economies support this trend. Whether jobs move or people move, communities suffer losses. E-business companies with a commitment to corporate social responsibility must work to reduce the pain and stress of disruption in home
countries while increasing the socio-economic benefits of these jobs in the receiving country — both done responsibly and to the best of the ability of the company. The particular insight in the e-business outsourcing as well as offshore outsourcing is the key of successful and sustained development in all countries and regions where the e-business firms work under globally accepted and harmonized rules and universal code of ethics. The idea of this work is to express why and how the role of the global ethics environment is important to e-business, and what is done to make harmonized and balanced platform for sustained development of e-business offshore outsourcing in all regions around the globe. It is obvious that we are considering business ethics. Ethics principally relates to morality of what well-behaved people do, and sometimes, ethical rules are binding as on regulated professionals, such as lawyers and accountants. Hence, ethical rules are generally not incorporated into outsourcing contracts, although e-business outsourcing and offshoring urgently need them.

These notions are introductory explained at the beginning of this chapter, and the author presume that ethics programs are of vital interest for most of current e-business companies especially when offshore outsourcing is in place. Besides the basics on ethics and outsourcing issues, this chapter is focused on finding directions of promoting ethics and social responsibility on regional and global scene.

Furthermore, the author states that e-business should develop outsourcing ethics program that presents the analysis of the nature and the social impact of information technology and the corresponding formulation and justification of policies for the ethical use of e-technologies. Ethics covers both social as well as personal policies for the ethical use of technology. It is a dynamic and complex field of study, which takes into account, the relationships between facts, conceptualization, policies and values with regard to the ever-changing information technology. These notions are considered in efforts to produce globally acceptable ethics program that would articulate both individual company and global interests in an appropriate way. In this context, the chapter is also covering the recent work on international scene in order to develop offshore outsourcing activities in accordance with globally accepted rules/codes of ethics — it will be the new age of global e-business ethics. The author examines e-business ethics development, and new standardization efforts toward unified, globally acceptable code of ethics. Thus, the chapter covers the analysis and discussion on the needs for such instrument and findings on how to reach unified global solution.

The sixth chapter is a Perspective of Advanced Countries about Information Technology Offshore Outsourcing: A Perspective of Advanced Countries, authored by Narendra S. Chaudhari and Smita Gupta.

Offshore outsourcing is a term covering a range of information technology (IT) and business services delivered to companies in developed countries by IT personnel based in developing countries. The widespread use of Internet, standardization of software development methodologies, efficient IT project management techniques, low cost of telecommunications, have provided the necessary thrust for global production of software and services. The significant cost savings achieved by the offshore model is the prime factor in its growing acceptance and use. IT software and service outsourcing is becoming a new reality for employers, employees, government and academicians.
Offshoring has support from the U.S. government. The chief economic advisor of President George W. Bush, Gregory N. Manikw, in his economic report has expressed that offshoring is just another form of trade and has economic benefits to the U.S. The rapid increase in offshore outsourcing of IT software and services has led the U.S. workforce to believe in widespread loss of “white-collar” IT jobs. Offshore developing countries invest considerably high amounts of their resources in science, mathematics, and engineering education. It is relatively less known that, as early as the 1960s and 1970s, countries like India have set up the educational institutions for providing very competitive learning environments; such efforts needed considerable investments in terms of their monitory and human resources. Large numbers of technically skilled students are graduating from such institutions work on the offshore projects.

In this chapter, the authors analyze the impact of today’s offshore outsourcing movement to U.S. economy, education, jobs, wages and social issues. The authors suggest that offshoring is a viable economic model. It leads to improved productivity, lower inflation and eventually growth in jobs and wages. The U.S. will also see significant numbers of “insourced” jobs because of subsidiaries of foreign based companies. Future job growth in different areas of business and skills, require young students and present IT workforce to acquire them with education and training. Federal Reserve chairman Alan Greenspan has also expressed the need to produce highly skilled workers. The offshoring has a positive effect of creation of unstructured jobs requiring very high skills and higher level decision making.

Offshoring results in the loss of well-structured jobs. The jobs lost due to offshoring are typically characterized by their absence of higher level decision making. The loss of such jobs for IT workers is the difficult aspect of offshoring. In this chapter, the authors make some recommendations to reduce, minimize and overcome the hardships caused by the IT outsourcing. The recommendations involve suggestions for the basic educational system as well as social system. From the educational perspective, the higher level thinking skills, involving the balance of creativity as well as competition, should be encouraged. For comparison, the authors give the numbers of engineering degrees awarded in countries like China, Japan, South Korea and Taiwan. For doctorate degrees in the field of engineering, the authors note that, within America itself, American universities award more engineering doctorate degrees to foreigners as compared to Americans. In countries like Singapore, the educational system emphasizes both the aspects of creativity as well as competition from the primary level. From the social perspective, the authors suggest that the laid off workers should be provided assistance to find a new comparable job, both by the U.S. government and companies.


A major phenomenon of globalization, outsourcing is a complex and controversial issue. It occurs when companies contract out activities previously performed in-house or in-country to foreign (usually offshore) companies globally. Couched in the terms of a SWOT analysis and using a modified Harvard-style case study that was subjected to the SWOT analysis, this chapter analyzes business process outsourcing (BPO) to
emerging markets, frequently called outsourcing or offshoring in short. The overarching advantage of outsourcing is that it allows a business to focus on core activities as called for by core competence, strategic alliance, and competitive advantage theories of international business. Such a global restructuring of production has been sometimes called the true WMD (weapon of mass destruction) of jobs in the developed world. However, a more balanced approach could borrow the term “creative destruction” from the prominent Austrian economist Josef Schumpeter and emphasize the all-important transformational aspect of outsourcing. A transformational aspect of outsourcing is evidently very important for emerging markets but also for many companies in the developed world; therefore, BPO is sometimes called BTO (business transformational outsourcing).

The global digital/knowledge economy offers unprecedented opportunities to produce and sell on a mass scale, reduce costs, and customize to the needs of consumers, all at the same time. Whether one lives in a large country such as the U.S. or China, a mid-sized country such as Canada, or a smaller country such as Lithuania, their potential market is of the same global size. And one can source (netsource) inexpensively wherever one wishes. Added to that are immensely increased opportunities to access new knowledge and technologies, driving productivity and living standards further up. BPO to emerging markets is or should be driven by those fundamental reasons having to do with rapid organizational change, reshaping business models to make them viable in the long term, and launching new strategies. This is the essence of transformational outsourcing.

In this chapter, BPO is used in the broader, integrated, and comprehensive understanding of changes in the company’s business models and strategies but first of all the company’s changing core competencies and competitive advantages: partnering with another company to achieve a rapid, substantial, and sustainable improvement in company-level performance. A knowledge management approach is advocated in this research that is to be continued in the future. The chapter concludes that outsourcing is a wave of the future. Postcommunist and other emerging markets countries are well advised to jump to these new opportunities as they represent the best chance yet to realize the “latecomer’s advantage” by leapfrogging to technologies and models of doing business which are new for Western countries as well. The chapter analyzes and outlines some of the ways in which contemporary and future business models are deeply transformed by the global digital/knowledge economy. Global outsourcing provides a compelling platform to research the issues of upgrading competitive advantage in developed countries and contract out non-core competencies to emerging markets. Therefore, suggestions for further research are included in the chapter as well.


Outsourcing, which began as an arrangement of necessity and later a major cost cutting operation, has now evolved to become a mainstream management practice in a myriad of industries. In recent years, outsourcing deals have become prevalent in number and the strategic importance of the decision-making process has correspond-
ingly increased. Like any other business operation, outsourcing involves a magnitude of risk. Research by Gartner indicated that as many as 80% of deals are unsuccessful and that European businesses lost as much as $7 billion on poorly managed contracts, which highlights the potential complexity in decision-making and the financial risks involved. This chapter reviews a number of strategic frameworks which practitioners have attempted to develop for use in outsourcing decision-making, and highlights the differences between proposed theories and current practice.

Outsourcing decision-making is multi-faceted in nature, requiring the consideration of issues within a wide range of domains, such as political (e.g., union pressures), economical (e.g., financial feasibility) and technological (e.g., performance metrics). However, the frameworks reviewed appear to be largely mono-faceted in coverage, which indicates potential inadequacies in existing capabilities. Analysis of the frameworks highlighted a lack of quantitative measures, financial costing and performance benchmarking, which is contradictory as cost savings and service level improvements are commonly identified as the top drivers behind the use of outsourcing. This indicates a possible misalignment between existing theoretical frameworks and current practices, which is the motivation behind developing a new framework.

This chapter proposes a framework to address such inadequacies by means of a tri-perspective approach, which extends the decision-making process to take into consideration various issues from multiple domains. This includes issues commonly overlooked in conventional frameworks, such as the need to maintain internal expertise (i.e., knowledge retention strategies) and the impact from national legislations.

Loss of internal expertise is a commonly cited risk of outsourcing, which increases the level of dependence that the organisation has on the service provider(s). The organisation risks being more locked into the service provider(s) and therefore is more vulnerable to business disruptions from service provision failures. Hence, organisations should take into account the degree of internal expertise which it intends to retain to ensure business continuity in the event of any complication in outsourcing arrangements. Legislations vary from country to country, resulting in different operating environments for organisations, which enforce a unique set of constraints on the outsourcing decision-making process. Examples include the U.S. Sarbanes-Oxley Act (2002), the UK Transfer of Undertakings (Protection of Employment) Regulations (1981), the UK Data Protection Act (1998) and the Basel II Capital Accord (2004).

Hence, in order to provide a more holistic approach which is required of current outsourcing decision-making practices, the framework incorporates both quantitative measurements (e.g., financial costing) and qualitative articulations (e.g., descriptive analysis of impact from internal policies). As outsourcing becomes an increasingly mainstream management practice, the role of such framework techniques in its decision-making process is anticipated to be increasingly significant.

*The ninth chapter is Outsourcing and Offshoring: Issues and Impacts on Venture Capital authored by Alev Efendioglu.*

Recently, outsourcing/offshoring has gained significant exposure in the popular as well as academic publications, with authors arguing the many different facets of the concept and its implications. The ongoing debates have revolved around issues re-
lated to cost of operations, benefits for outsourcing countries and countries that are recipients of outsourcing, the types of skills and associated unemployment, the types of industries that are being most effected, and even its political implications. A research study was undertaken to validate (or disprove) some of the most widely discussed and presented points of view. The findings are based on a survey of 364 individuals from 101 San Francisco Bay Area (California) venture capital firms. This chapter discusses various issues related to outsourcing/offshoring and presents the findings of the research study.

When one considers the major issues associated with the practice of outsourcing/offshoring, the findings of the survey provide a mixed picture. Some of the survey results reinforced the points of view that argue offshored outsourcing can create a competitive advantage and can yield very significant cost savings for the offshoring company. It also reinforced that there are major, identifiable costs associated with low quality product and information from the offshored-company, lost sensitive data and know-how, and investment risk posed by a host of other local environment factors. The results also show that venture capitalists do not view offshoring as a major impediment or negative for funding new or ongoing business enterprises, or see it as having a negative impact on the valuation of the offshoring company or increase its liability exposure. Even though they recognize the practice as an element that increases the “investment risk”, this increased risk was not seen as a factor that would eliminate or significantly limit their funding of organizations that utilize offshoring as a business practice. Other findings were contrary to some of the claims made through various news programs and prevailing popular beliefs. The study respondents did not see increased government regulations, for example, Sarbanes-Oxley, as a compelling reason for offshoring or thought that a cultural connection to the offshored country was critical.

The 10th chapter is about Outsourcing and Offshoring of Finance Activities written by Siri Terjesen.

This chapter focuses on the outsourcing and offshoring of finance activities in the firm from firm, host country and home country perspectives. Globalisation, technology, regulation changes, stakeholder pressures and firm re-organisation changes present challenges and opportunities to firm finance functions to improve their contributions to the business. One of these opportunities is the outsourcing and offshoring of finance services. Finance services comprise 10% of the nearly $250 billion worldwide business process outsourcing (BPO) market (Gartner, 2003) and the total number of finance service outsourcing is expected to increase 71% over the next few years (Accenture & EIU, 2004). Firms are also offshoring these finance activities. A survey of 275 finance executives revealed that 21% send finance and accounting activities off-shore (CFO Magazine, 2003). Finance services offshoring is more commonplace among firms based in the U.S. and Europe than those in Asia Pacific. While the offshoring of finance activities has key implications for firms, there are also socioeconomic issues at the home and host country level.

This chapter begins with an introduction to the hierarchy of firm finance activities, from strategic finance decisions such as corporate risk management, budgeting and fore-
casting to business partnering activities, group finance, tax and treasury, and transaction activities include credit, control, payroll, general ledger, accounts payable, and accounts receivable. The author reports the findings from the author’s structured in-depth interviews with 37 managers at 25 U.S. and European headquartered multinational firms. This study was undertaken by the author and her team: Anne Evison (Organisational Edge), Julian Birkinshaw (London Business School) and Roy Barden (Catalise) in 2003 and 2004 (Evison et al., 2004). The study identified five drivers of finance activity outsourcing and offshoring: automation, disaggregation, consolida-
tion, commercialization and relocation. A theoretical framework for evaluating location choice based on the codifiability and interdependence of finance activities is put forward and five location options are reviewed: co-location, virtual centre of excellence, nearshoring, offshoring and automation “lights out” processing. Case studies illustrate both successes and failures. Next, managers’ perceptions of the costs and benefits of outsourcing and offshoring are reported. The author then turns to issues regarding the implementation of a finance services offshoring model, exploring four key elements of change: disaggregated jobs, loss of control, compromise and business interaction. The critical role of senior management commitment and the organisation’s overall appetite for change are highlighted. The research identifies three important trends among the more sophisticated firms in the study: disaggregation, shifting and monitoring of finance activities.

The author then turns her attention away from the firm and to the country environment, exploring the socioeconomic issues faced by countries where firm finance activities have been relocated and to where they have been traditionally housed: India and the U.S. The increase in offshoring of finance and other BPO activities has led to fundamental changes across in the economy, education, social, cultural and political environment in both host and home countries. The author reviews key transformations in national and regional economic growth, education and training programmes, government initiatives and legislation, and career models.

The 11th chapter is about Open Source and Outsourcing: A Perspective on Software Use and Professional Practices Related to International Outsourcing Activities written by Kirk St.Amant.

International outsourcing practices have grown markedly in the past few years, and one of the more pronounced areas of growth is in the knowledge work sector. Now, activities such as computer programming, accounting, and medical transcription are regularly sent abroad as part of a practice known as business process outsourcing (BPO). Many of these BPO activities, however, require use of software either to perform a task or to provide the technologies that allow clients and outsourcing providers to interact. As a result, cost and copyright factors associated with the use of conventional, or “proprietary,” software can affect who may participate in international BPO and how effective such activities can be. This software factor also affects the way in which international outsourcing can serve as a mechanism for providing access to emerging overseas markets. For this reason, software selection can be an important choice for companies considering the outsourcing of certain knowledge-based activities.
One solution to this situation might be the use of open source software (OSS), which is often free to use and is relatively easy to modify or to update. OSS, however, also has limitations and operating constraints related to areas such as product consistency, user support, and digital piracy. For this reason, companies need to understand and to weigh both the benefits and the limitations of OSS before planning their international outsourcing activities. Only though understanding these factors and making informed choices can organizations hope to reap the manifold benefits of integrating international BPO into their business practices.

This chapter examines the role of open source software (OSS) in international outsourcing practices that involve the transfer of knowledge work from one nation to another. In particular, this chapter focuses on the role of software in relation to the outsourcing of knowledge-based work through a process known as business process outsourcing (BPO). Included in this examination are discussions of the benefits and the limitations of OSS use in international outsourcing. This chapter also presents organization-specific and industry-wide strategies for effective OSS use in outsourcing situations. The chapter then concludes with a discussion of areas of international outsourcing where OSS might have important future applications or effects. The purpose of such an examination is to provide readers with the knowledge and the insights needed to make effective decisions related to the use of OSS in international outsourcing situations.

Chapter XII is the Real Life Case Studies of Offshore Outsourced IS Projects: Analysis of Issues and Socio-Economic Paradigms written by Subrata Chakrabarty.

The primary purpose of this chapter is to present descriptive case studies of two very different offshore outsourced custom software development projects. The case studies explain some contrasting and very effective approaches to offshoring and outsourcing of custom software development, and attempt to be of practical significance to managers and software professionals by analyzing the issues involved. The case studies discuss the business scenario, personnel distribution, project life-cycle, and provide insights into the practical and real life strategies adopted by managers to solve issues and problems in offshore outsourcing.

The first case study discusses the strategies used in two custom software development projects that were offshore-outsourced under fixed-term/fixed-price contracts by a client. The client is a UK/U.S. based telecommunications company and the vendor is a large India-based software service provider. The outsourcing initiative involved two projects, which developed customer relationship management (CRM) software for the client’s Europe and North America operation respectively. The business scenario, stakeholders, specifics of IS systems being developed, contractual negotiations and relationship building issues, personnel distribution strategies (at client and vendor sites), personnel interaction and movement, project life cycle phases (requirements analysis and design, programming, integration, testing and delivery), and a comparative analysis of the two projects (the maturity of relationships over time, importance of defining project scope and requirements, and verification of requirements and design) have been described.

The second case study discusses the strategies used in the offshore outsourcing of a custom software development project to multiple vendors under time-and-materials
contracts, which involved simultaneous insourcing, onshore outsourcing and offshore outsourcing. The client is a leading Europe based provider of telecommunication services. The client outsourced simultaneously to four vendors: (1) a large offshore (India) based software service provider, (2) an onshore (Europe) based IS product and service provider, (3) a small onshore based software service provider, and a joint venture company (between the client and another offshore partner). The business scenario, stakeholders, specifics of IS system being developed, relationship building issues, contractual specifications, personnel distribution, reporting structure at onshore and offshore, cooperation and communication issues within the multiple vendors, issues in the client’s competition inducing multiple-vendor sourcing strategy, and project life cycle (incremental evolutionary approach) have been described.

Furthermore, the observations and issues from these case studies are analyzed by comparing them with the paradigms of socio-economic theories that have been adopted extensively in the academic IS outsourcing literature (namely the agency theory, transaction cost theory, innovation diffusion theory, social exchange theory and power-politics theory). Most of the paradigms in literature resulting from the adoption of socio-economic theories for IS outsourcing research concurred with the observations in the real life case studies. The reasons behind the growth in offshoring of IS work, and also the primary factors that influence the choice of whether to insource or outsource are also addressed.

Offshoring and outsourcing is truly about delivering software that’s value for money. “They come for the cost, and stay for the quality” seems to be an apt summary for the offshoring and outsourcing trend that is not only growing but also maturing.

The 13th chapter deals with the dynamics of Growth of Outsourced IT-Enabled Services in India: A Systems Dynamics Approach, which is written by Varadharajan Sridhar and Sangeeta S. Bharadwaj.

IT-enabled services (ITES) in India have registered tremendous growth in recent years. India controls 44% of the global offshore outsourcing market for IT services and ITES with revenues of US$17.2 billion in the year ended March 2005. At the end of March 2005, India’s outsourcing industry employed 1.05 million programmers and other skilled workers, while giving indirect employment to 2.5 million people in support services such as transport and catering. Availability of English speaking trained manpower and low wages are some of the major factors that have contributed to the growth of ITES sector in India. However, recent political movements against outsourcing, quality concerns of the clients, higher cost and poorer quality of supporting infrastructure such as telecommunications and electricity, data theft, insufficient intellectual property protection have had negative effects retarding the growth of this sector.

In this chapter, the authors address the following issues: (1) determine various techno-economic factors that affect positively and negatively the growth of the ITES industry; (2) build a generic causal model that captures various interactions between these factors and growth of the industry which can be useful to various stakeholders such as the service providers and the government for formulating policies and strategies to augment growth of this sector; (3) illustrate the causal relationships with specific refer-
ences to Indian ITES sector and outline factors of advantages and disadvantages India has in this sector.

Factors such as wages, transaction costs, trained manpower level, job quality, adoption by competitors, cost and quality of telecom and electricity infrastructure, data and intellectual property protection, maturity of the software industry, external medial influence, anti-outsourcing laws and competition from other countries are explored in detail and their positive/ negative effect on the growth of the ITES industry is explained.

The authors use the well-known finite difference equation methodology of system dynamics to develop a model of the mechanics of growth of the ITES industry. For this purpose, they develop a causal model of the growth of the ITES industry. Since the basic construct of a system dynamics model is the feedback loop, insights into cause-effect mechanisms of the growth can be obtained as a by-product of model structure.

Given the data limitations of this rapidly evolving industry, authors embark upon a qualitative rather than a quantitative approach in explaining the effect of various factors on the growth of the ITES industry. Factors of advantages and disadvantages India has in this sector are also discussed. The growth model they have developed in this chapter when calibrated against the available data on ITES industry revenue, can be used for sensitivity analysis of the various factors and their effect on growth. The authors draw some broad conclusions and give some examples as to how the stakeholders such as policy making bodies, the government and the industry associations can use this model to study the effects of these factors on the growth of the industry.

An Overview of Service Level Agreements written by Nicholas B. Beaumont is the 14th chapter of this book.

This chapter explains the increased commercial use of service level agreements (SLAs), advocates a methodology for their expression; proposes a taxonomy of service attributes, and recommends further research into SLAs. Preparing, negotiating, and monitoring performance as specified in an SLA require large amounts of managerial time. The proposed methodology and taxonomy will reduce that time requirement. This chapter draws on formal interviews with a small sample of outsourcing executives (mostly vendors); numerous informal discussions with executives involved in insourcing and outsourcing; examination of a number of SLAs; and negotiating an SLA at Monash University.

Direct and indirect evidence of increased use of SLAs in business (in part a consequence of outsourcing and a desire to formalize internal customer/supplier relationships) is presented. SLAs are contextualized as part of the outsourcing cycle. There is some evidence that well designed SLAs contribute to a fruitful and long-term relationship between business partners; a fruitful relationship will comprise cooperative and competitive aspects. The business advantages of using SLAs are summarized.

The bulk of an SLA comprises service level clauses (SLCs). Each SLC specifies, for a service or group of services: a definition of the service, the client’s obligations, relevant fees, performance targets, ways in which performance will be measured, computation of penalties and/or bonuses, and possibly other causes pertaining to security and privacy and so forth.
Writing, negotiating, updating, and monitoring a SLA are demanding tasks. Writing entails precise and voluminous descriptions of business processes to be transferred to the vendor and methods of measuring the vendor’s performance. The difficulties are exacerbated because, when a business process is performed in-house; the input data, computations, processes ‘customers’, and their requirements are often not explicitly expressed let alone formalized, and the real costs of the process may be unknown. Before serious negotiation can start, internal processes must be carefully defined and their costs ascertained.

The cost of preparing a SLA can be lessened by using the methodology and taxonomy expounded in this chapter. Hierarchical methods minimize repetition; in particular, it will be advantageous to write a general clause and vary it through parameterization. Less voluminous SLAs will facilitate negotiation and revision of documents.

Service level agreements are a live topic in industry but academic research lags practitioners’ concerns. Ascertaining whether organisations use SLAs effectively, seeking better methods of expressing business requirements in an SLA, and ascertaining the effect of SLAs on business relationships is appropriate, even urgent. Especially considering the growing interest in and use of outsourcing and especially offshoring, SLAs have not received proportionate attention from academia.

Understanding Consumer Reactions to Offshore Outsourcing of Customer Services written by Piyush Sharma, Rajiv Mathur and Abhinav Dhawan is the 15th chapter of this book.

Offshore outsourcing is a fast-growing aspect of the world economy today with companies striving to reduce cost and improve productivity by shifting parts of their operations to overseas service providers in order to remain competitive (McCartney, 2003; Ross, 2003). Existing research on offshore outsourcing is primarily focused into the labor and ethical issues of outsourcing or on the effects of strategic outsourcing decisions on organizations (Clott, 2004; Razzaque & Sheng, 1998). There is little research on the influence of outsourcing on consumers, their perceptions, attitudes and behaviors. However, organizations are already facing concerns about offshore outsourcing resulting in dilution of their image, lower customer satisfaction, reduced brand loyalty and an increase in customer complaints due to real or perceived concerns about cultural differences, lower service standards and loss of privacy (Cornell, 2004; Datamonitor, 2004; Economist, 2001; Kennedy, 2002; Reilly, 1997; Roy, 2003).

Prior research in the country-of-origin area shows that consumers in developed countries tend to evaluate products and services from less developed countries unfavorably due to negative perceptions about their quality (Gronroos, 1999; Javalgi, Cutler, & Winans, 2001; Kotabe, Murray, & Javalgi, 1998; Ruyter, Birgelen, & Wetzels, 1998). Chao (2001) showed that for hybrid products where the country of design, components or assembly may be different from each other, country-of-origin effects are still applicable to its various elements. In their research, the authors extend this conceptualization to the context of offshore outsourcing of customer services. The authors call these services as hybrid services, in which different elements of the same service are performed in different countries.
Based on prior literature in COO area, the authors hypothesized several relationships among an antecedent (home country) and moderator (consumer ethnocentrism) with several dependent variables (service quality, customer satisfaction, brand image, brand loyalty, repeat purchase intentions and complaint behavior). The authors used a survey-based research methodology to test these hypotheses. 100 consumers each were approached at local malls in three countries — United States, United Kingdom and Australia. They completed a questionnaire consisting of scales to measure all the constructs used in this study — customer ethnocentrism (Sharma et al., 1995), brand image (Aaker, 1996), brand loyalty (Quester & Lim, 2003), service quality (Parasuraman et al., 1988), customer satisfaction (Oliver, 1997), repurchase intentions (Hellier et al., 2003) and customer complaint behavior (Singh, 1988).

Consumers in all the three countries had lower service quality perceptions and customer satisfaction, greater complaint behavior towards firms using offshore outsourcing. However, the findings on brand image, brand loyalty and repurchase intentions were mixed, with customers in U.S. and Australia showing lower brand image and repurchase intentions in Australia, but only lower brand image in the UK. On the other hand, high ethnocentric customers had distinctly lower perceptions for all the dependent variables compared to low ethnocentrics, thus supporting our hypotheses about the moderating influence of consumer ethnocentrism. The authors also found females and younger customers to be less ethnocentric and less influenced by offshore outsourcing of customer services, compared to older males as reported in prior research. The authors hope that their research would pave the way for a more comprehensive framework and further empirical work in this area because of its high managerial relevance.

Chapter XVI, authored by Michael Amberg and Martin Wiener, explores IT Offshoring From A German Perspective.

Increasing competition in globalized markets drives IT offshoring worldwide. In the United States, the relocation of IT activities and processes to low-wage countries like India is already an established business practice. But also in European countries like Germany, IT offshoring is gaining in importance. A number of German major enterprises are currently planning or are already involved in IT offshoring initiatives, while numerous German small and medium enterprises (SMEs) are currently thinking about how to take best advantage of offshoring.

As a result of the growing IT offshoring trend in Germany, the fear of job losses on a grand scale has encountered strong resistance to offshoring in the German public. The announcement by numerous companies to relocate a remarkable share of their jobs to countries in Asia and Eastern Europe intensified these fears even more. For instance, in July 2003, IBM published plans to move a great number of their jobs offshore until 2015. Siemens, which already operates a software development center in Bangalore (India), also plans to expand their offshoring and nearshoring activities.

As a result of this trend, according to estimations by experts, 10,000 highly skilled IT service jobs are jeopardized in Germany alone. Therefore, the discussion about offshoring attracts vast attention, both in the United States and in Germany. In the U.S. election campaign, for instance, IT offshoring was a major topic and triggered a new wave of protectionism. Even in Germany, parts of the political left-wingers encouraged
protectionism in an attempt to prevent the relocation of IT service jobs to countries like India or Russia.

In consideration of this development, this chapter examines company- and economy-related drivers and economic effects of the rising trend to IT offshoring in Germany as well as possible responses by German companies and policy makers.

The chapter is structured as follows: To start off, section two gives an overview of the German economy, and compares it with economies of developed and developing countries. In the third section, factors driving the offshoring trend in Germany are presented from a company’s and an economy’s perspective. The fourth section points out the extent of the current offshoring trend in Germany and describes the German IT offshoring market. The fifth and the sixth section represent the main part of the chapter. While section five addresses possible impacts of IT offshoring in Germany, section six deals with reforms required for turning offshoring to Germany’s advantage. Finally, section seven summarizes the key points of the chapter and gives a forecast of future developments in respect of the German IT offshoring market.


Outsourcing has been a major issue in literature and managerial practice for the last decade; externalization initiatives spread from complementary, support activities and now lie at the heart of many critical activities. The authors’ point of interest is the sourcing of those activities in which company makes an intensive use of IT resources, in the specific case of small and medium-sized enterprises.

The authors have conducted an experimental study to scrutinize the attitude of Spanish firms about the outsourcing of IT-based services and activities. Primary data about sourcing decisions were collected through a questionnaire and in-depth interviews in a random sample of 530 Spanish companies; complementary data about turnover, capital and so forth were compiled from official public records. The results indicate that up to a 50% of Spanish companies is at this time running at least one outsourcing contract in IT-related areas and services, from data processing to Web development or e-shops management.

Some recent experiments found evidence of a negative relationship between outsourcing and business size; one specific goal of the experiment was to evaluate the attitude of small and medium-sized enterprises (SMEs), in order to verify if these companies show any specific pattern in terms of justification and/or evaluation of IT outsourcing projects. The authors had not found any symptoms of systematic association with size indicators (such as assets value, turnover, or capital), although the data confirm that outsourcing is more frequent (and quantitatively more relevant) among larger companies. Moreover, SMEs show a palpable inclination to outsource some services and activities that larger companies tend to insource, for example, user support, maintenance, or Internet-based services.

This general shape is broken by a group of emergent high-tech, knowledge-intensive companies where most of IT-related activities are performed by internal staff; the main
arguments for internalization are, in these cases, the competitive implications of IT/IS and the need to build invisible assets by managing information and promoting collaboration. Most of these companies are relatively small and are equipped with a flat structure, thus the hypothesized link between size, complexity, uncertainty, and outsourcing attitudes must be revised.

These results contradict the common belief that outsourcing is characteristic of big corporations with efficiency problems, and put in question the prevalence of cost economies as the main argument of externalization, particularly in the case of SMEs and the considered IT-based activities.

In fact, SMEs managers pointed out some other arguments, aside from cost savings, when they were asked why the company had decided to outsource IT-activities: management complexity, technology uncertainty, and some operative risks involved in information systems, such as security and disaster recovery; in some cases, these arguments were reported to be more relevant than savings themselves.

Spanish SMEs rely on outsourcing to cover temporary and exceptional processing needs, and to take advantage of expert knowledge when they deal with complex IT projects, for example, development of integrated systems or implementation of EDI applications. The data indicate that the lack of internal expertise and financial stress are critical factors in SME’s decision to outsource.

The development and maintenance of Internet-related services, such as Web sites or e-commerce applications, were given special attention in the experimental design; data indicate that these activities are commonly insourced in high-tech and “young-looking” companies. On the contrary, SMEs and some basic industries show an inclination towards outsourcing, because management issues entailed by the Net are interpreted as complex and uncertain.

Chapter XVIII, written by Arjun K. Pai and Subhajit Basu, deals with the Emerging Legal Challenges in Offshore Outsourcing of IT-Enabled Services.

A burgeoning outsourcing market for IT-enabled services has outpaced the growth of virtually every other market sector these days. This advancement has led to numerous legal and commercial issues from the perspective of an outsourcing customer. Although this growing mega-trend enables companies to leverage operational efficiency and consolidate costs by taking advantage of the expertise of speciality vendors; outsourcing is not a panacea to cure all business adversities and management problems. This chapter provides insightful information on the impending pressures and challenges on the IT-enabled service industry to minimize operational risks and avoid the common legal pitfalls governing the different aspects of an outsourcing relationship. In essence, this chapter has provided comprehensive guidance on the legal and best practice procedures which are critical components to ensure the long-term success of a company’s offshore relationship with its service providers. Under such a blend of streamlined and integrated business framework, these next-generation outsourcing strategies would deliver value through: cost arbitrage, global competitiveness, superior service management and governance.
Offshore outsourcing of non-core business process has rapidly evolved as a ubiquitous organisational phenomenon. However, failure to follow a clear, systematic and effective outsourcing strategy to evaluate threats, uncertainties and numerous imponderables can cause global enterprise businesses major setbacks. The reasons for such setback could be largely due to lack of core competency, careful legal planning and due diligence to operating models associated with an outsourcing initiative.

This chapter has attempted to collate and exemplify the distinct qualifying processes accommodating contractual and intellectual property rights and has provided a worthwhile debate on intricate legal considerations when structuring multi-jurisdictional outsourcing deals.

Importance of legal intervention and due diligence to service agreements is further elevated as, at every phase of an outsourcing arrangement, compliance issues and contractual obligations can affect the success of an enterprise customer and its relationship with their outsourcing service provider.

The authors suggest that an exhaustive qualitative and quantitative industry specific research analysis be conducted in order to better define the principles and standards governing sub-contracting arrangements.

A broader exposure to the strategic management and regulatory framework might provide firms with vantage points from which they could assess and identify new opportunities, evaluate threats and adopt effective risk mitigation strategies. Compliance to security standards and safeguard of information acquisition, analysis and usage should emerge as the mainstream strategy for outsourcing.

The novelty of this chapter lies in the comparative analysis of strategic legal and management framework by weighing the risks and evaluating the threats which would assist the decision making process of firms when selecting an appropriate offshore partner to carry out their IT-development work.

*Does Strategic Outsourcing Undermine the Innovative Capabilities of Organizations?* is the 19th chapter of this book, written by Andreas Hoecst and Paul Trott.

In this chapter the authors argue that firms have responded to the intense pressure from markets and financial operators to reduce asset investments by outsourcing activities. Outsourcing was originally confined to peripheral business functions and mainly motivated by a cost saving logic, but has now developed into a routine strategic management move that affects not only peripheral functions but the heart of the competitive core of organisations. At the same time there is a move from traditional outsourcing with one or a small number of key partners and long-term contracts to strategic outsourcing with multiple partners and short-term contracts. This chapter investigates the innovation-related risks that can arise from strategic outsourcing. It uses the example of information technology/information systems (IT/IS) outsourcing to highlight the increased risks that arise from a move from traditional to strategic outsourcing and discusses some measures that managers can take to attempt to control these risks. The nature of the risk is closely related to the risk of information leakage that arises from collaborative research and technology development between organisations in technology-intensive sectors that has been analysed by Hoecht and Trott (1999).
Strategic outsourcing goes beyond traditional outsourcing in the sense that competitive advantages are being sought through opening up all business functions, including the core competencies which should provide competitive advantage to whoever can provide the perceived best solution, internal or external. In contrast to traditional outsourcing, there are no protective boundaries around core activities in the hope that the organisations can maximise their innovative capacity by being an active part of a networked economy. This means that rather than having exclusive arrangements with one or very few service providers of long periods of time which will be expected to offer tailor-made solutions, strategic sourcing arrangements will be with multiple partners over short periods of time and with very little protection of internal core competency functions against outsiders.

Reliance on outsider providers can be problematic, not only because key area of expertise may be gradually lost to the outsourcing organisation but also because outside providers may not have the desired leading edge expertise over the long term or may (most likely accidentally but possibly even purposefully) spread their expertise among many clients so that it degrades from “best in world” to mere industry standard. The problem of information leakage lies at the heart of this dilemma. Companies want exclusivity in their relationships with their service providers, but consultants who work with many clients are unlikely to be able not to be influenced and not to spread the best practice they acquire when working with different client firms. Detailed legal contracts may offer short-term solutions as they can protect tangible outcomes form specific projects undertaken, but not every innovation related project outcome is tangible and can be clearly defined in legal contracts. Consultants face a dilemma as they are expected to spread cutting-edge level expertise to their respective client firms yet as the same time honour confidentiality commitments. While some may argue that professional ethics, social control (reputation concerns, etc.) and legal instruments are sufficient to contain this risk of information leakage, the authors highlight that with a move from traditional outsourcing to strategic outsourcing, this problem becomes much more acute and needs addressing. The authors put forward a suggestion how at least larger, resourceful organisations can address this problem, namely by employing “boundary spanners” that can make qualified judgements both on the trustworthiness and expertise of service provider consultants. The advantage of this approach is that the employment of “boundary spanners” can mitigate against the risk of losing the absorptive capacity and expertise arising from strategic outsourcing strategies in particular.

The last chapter of this book, Chapter XX, is the Analysis of a Large-Scale IT Outsourcing “Failure”: What Lesson Can We Learn?, written by Ann Rouse and Brian J. Corbitt.

Much of the research that has been carried out into outsourcing is based on relatively successful case studies. Yet drawing inferences from case studies when those with largely negative outcomes rarely see the light of day represents a significant problem. When negative cases are systematically unrepresented, there is less opportunity to subject theory to scrutiny.

This chapter goes some way towards redressing this trend, by reporting on a large-scale “selective” outsourcing arrangement that has been publicly described as a failure
— the Australian federal government’s “whole of government” IT infrastructure outsourcing initiative. This initiative, originally promoted as likely to lead to a billion dollar saving, was abandoned early in 2001, after a damning public report by the Australian auditor general. However, a detailed study of the initiative suggests that the “failure” occurred despite the project adhering to many of the recommended guidelines for successful outsourcing that had been derived from earlier case analysis. The authors conclude that the expectations decision makers had for cost savings from the outsourcing arrangement were naïve and over optimistic, given that extant empirical evidence reveals that substantial savings (over around 10% of the outsourcing contract) are rare for complex services.

The findings have important implications for decision makers confronted with outsourcing choices. The study suggests that the risks of outsourcing are often downplayed, or ignored in the rush to reap expected benefits. The study also suggests that expectations of savings from outsourcing IT are often substantially higher than those that have been empirically confirmed in the field. Decision makers are advised that key assumptions about costs, savings, managerial effort and the effects of outsourcing on operational performance might be incorrect, and to plan for their outsourcing activity accordingly. Key assumptions should be subject to critical analysis, and decision makers should pay particular attention to coordination and transaction costs, as these tend to be overlooked in the business case. These costs will be magnified if “best in breed” multiple-vendor outsourcing is chosen, and if contracts are kept short. Decision makers are also warned of the difficulties they are likely to have at the end of an outsourcing contract if there is not a large and robust pool of alternative vendors willing to bid against the incumbent.

The authors conclude by suggesting that with the growth of new forms of outsourcing such as offshore outsourcing, decision makers should be careful to critically evaluate the promised benefits and to recognize the substantial risks that these benefits do not eventuate.

All the chapters included in this book are original and have been published for the first time. This book covers various aspects of outsourcing and offshoring and the socio-economic impacts, influences and challenges of this phenomenon.

While paying attention to the technical and related issues of outsourcing and offshoring, the focus is on many socio-economic issues and aspects of these activities that other books do not cover. This book aims to provide relevant theoretical frameworks and latest empirical research findings in this area.

The book provides a compilation of some of the latest literature on the subject. The book serves the invaluable purpose of pointing out the socio-economic implications of outsourcing and offshoring in various countries and uses case studies to highlight pertinent points. The relevance of the book to such a topical area of outsourcing and offshoring should be self-evident.