Chapter III
Information Technology/Systems Offshore Outsourcing: Key Risks and Success Factors

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ABSTRACT

The offshore outsourcing of information technology and information systems (IT/IS) is being increasingly practiced among firms that are focusing on core competencies and cost-effectiveness. With the increase in offshore IT/IS operations, a growing number of companies are encountering negative experiences and unpredicted results. The analysis performed in this chapter reveals the possible risks and perceived success factors of companies outsourcing IT/IS operations offshore. The major points of interest are operational and strategic risks; legal contracts; cultural, security, and financial issues; and noted success factors by companies that participate in offshore outsourcing. The research indicates the importance of risk identification and the formulation of strategic plans that include preventive, detective, and corrective control methods of implementation and evaluation. Effective methods and metrics for measuring the success or failure of IT/IS offshore outsourcing operations is expected to be a continuing development with the increasing growth of this phenomenon.
It is not the strongest of the species that survives, or the most intelligent, but the one most responsive to change.

—Charles Darwin

**INTRODUCTION**

Offshore outsourcing with respect to information technology and information systems (IT/IS) or business processes is a key commercial phenomenon. IT/IS offshore outsourcing is the focus of this chapter and is defined as a process undertaken by an organization to subcontract or to sell the organization’s IT/IS assets, staff, and/or activities to a foreign supplier, rather than develop IT/IS resources internally. The contractual relationship requires the vendor to assume responsibility for the client firm’s IT/IS requirements. IT/IS services include software development and maintenance; network and computer operations; and research and development (see Table 3.1) (Dolan, 2006).

An extensive report by the National Academy of Public Administration prepared for the United States Congress and the Bureau of Economic Analysis defines offshoring as follows: “United States’ firms shifting service and manufacturing activities abroad to unaffiliated firms or their own affiliates” (Norwood et al., 2006).

In offshore outsourcing work is outsourced to foreign countries that have cost advantages in various tasks such as application development, product manufacturing, and/or call center and back office operations. It involves complexity and risk not found in typical domestic outsourcing due to factors such as cost (i.e., labor, infrastructure, real estate, and corporate taxes); availability of

<table>
<thead>
<tr>
<th>IT/IS Service</th>
<th>Function</th>
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<tbody>
<tr>
<td>Access Controls</td>
<td>Help organization establish and provision authentication needs</td>
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<tr>
<td>IDS Monitoring</td>
<td>Monitor intrusion detection systems on a 24/7 basis</td>
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<tr>
<td>Contingency Planning</td>
<td>Help facilitate crisis plans and responses, that is, disaster recovery sites</td>
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<tr>
<td>Firewall Management</td>
<td>Assist in configuration of software and monitor logs</td>
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<tr>
<td>Antivirus services</td>
<td>Monitor and act upon malicious attacks</td>
</tr>
<tr>
<td>Website Blocking</td>
<td>Filter services</td>
</tr>
<tr>
<td>Network Scanning</td>
<td>Identify network vulnerability</td>
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<tr>
<td>Remote Management</td>
<td>Monitor network</td>
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<tr>
<td>Encryption Services</td>
<td>Manage PKI</td>
</tr>
<tr>
<td>Software Development</td>
<td>Develop software application/s</td>
</tr>
<tr>
<td>Business Process Reengineering/Outsourcing</td>
<td>Reengineer and/or outsource business process to evaluate and eliminate non-value-added activities</td>
</tr>
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