ABSTRACT

This article presents some new conceptual and interpretative paradigms concerning offshoring Information Technology services, in the light of the most recent market trends. In the current competitive scenario, IT structures are increasingly asked to “participate” in the development and innovation of business, rather than being merely a “support” for the value chain activities, managed merely on the basis of technical and economic efficiency. We start by confuting two traditional concepts: first, that only activities which are quite distinct from the core-business can be candidates for outsourcing, and secondly that the advantage to be derived from offshore outsourcing is above all a matter of costs. What is meant by “success” in this new perspective? We analyse the main critical factors in an offshoring contract enhancing value creation and business strategy. Particular attention is paid to the analysis of the main drivers of solution design and ongoing management in IT offshoring strategies. [Article copies are available for purchase from InfoSci-on-Demand.com]

Keywords: Business IT Strategy; IT Offshoring; IT Outsourcing; Outsourcing Decision; Relational View; Strategic Sourcing; Transaction Cost Theory

INTRODUCTION

In the past, the decision to outsource information technology (IT) activities and processes responded above all to the need to call in specific competences, reduce management costs and free up financial and human resources to be concentrated in the core-business processes and reinforcement of distinctive skills (Quinn and Hilmer, 1994). Companies turned to IT outsourcing to take advantage of the competences of third parties, the investments they have made and the related scale economies provided by a multiclient offer.

In the competitive scenario of today, there is an increasing demand on IT structures to contribute to making management processes not only more efficient and economical but also flexible in both operative and strategic terms. In other words, the IT structures are increasingly considered as crucial factors in the implementation of business plans. They affect the efficacy and efficiency in the value creation process, rather than being merely supporting factors for
the activities of the value chain. In this context they must demonstrate to be prepared to change depending on business needs, provide tools to increase the quality level of both material and immaterial components of the company’s offer, and contribute in increasing the strategic and operative flexibility of the management processes.

Recent empirical analyses have highlighted some interesting phenomena. Dissatisfaction with the services offered by IT providers is increasing with the growing demand for quality and levels of innovation with respect to expectations of savings on costs; IT outsourcing is becoming increasingly selective, related to certain IT components, and no longer responds merely to full outsourcing options, involving the entire IT system of the company; providers of IT services are specialising more and more, basing their pursuit of competitive advantage on differentiation rather than cost leadership relying on a standardization approach. These are all phenomena which show how the paradigm of outsourcing in the IT sector is changing, moving from motivations of economy and efficiency to strategic developmental business innovation. The company system is being opened up to the contribution of knowledge possessed by third parties, seen as owners of integrative and complementary resources with respect to those in-house.

On the basis of these brief considerations we investigate the outsourcing contracts in the IT sector going beyond the axioms of a traditional approach, to view it as the vector for developing the firm’s capacity for innovation and hence competitive edge. We start by confuting two traditional concepts: first, that only activities which are not directly involved in the core-business can be candidates for outsourcing, and secondly that the advantage to be derived from offshore outsourcing is above all a matter of costs. Our approach is framed into the principles and contents of strategic outsourcing, analysed with specific reference to IT offshoring.

THE SCENARIO FOR DECISIONS REGARDING IT SERVICES OFFSHORING

In the current global competitive scenario IT services offshoring represents a strategic choice, in constant expansion since the early 1990s, pursuing the optimal economic and organizational conditions for implementing activities or processes which had previously been taken care of in-house, and entrusted to specialised operators in foreign countries, by means of outsourcing contracts.

The development of high level IT competences globally has seen countries with emerging economies taking the lead in offering IT services, thanks to a considerable level of investment in research and development and in training human resources in the IT sector, as a strategy for developing their economies and increasing their competitive edge with respect to Europe and the USA (Leonard, 2006). The domain of IT is part of the industrial sector identified by many countries in Eastern Europe, India, Philippines, China, Canada, Brazil and Ireland for attracting foreign investments and increasing GNP\(^1\). They can base their competitive standing in the global arena on significant and objective cost advantages in productive factors, notably human resources\(^2\).

The increasing choice to offshoring has also been due to the traditional make or buy approach. Outsourcing activities or processes were a valid option for companies seeking to increase their levels of efficiency and productivity, maintaining in-house the more strategic areas of activities ensuring their competitive advantage.

The considerations we have outlined are valid in general for any process of IT services outsourcing, including on-shoring and near-shoring. They are however all the more relevant to offshoring, considering the significantly greater economic advantage obtainable and the extraordinary diffusion of knowledge and competence in the IT domain seen in recent years in the emerging countries.
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