Factors Influencing Performance of ITES Firms in India

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ABSTRACT

Firms from developed countries are increasingly offshore outsourcing services to developing countries to have cost as well competitive advantages. Although this is a growing practice, 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. Despite growing trends to outsource, only a few service provider firms report success. This puts the service provider firms under increasing pressure to add value and improve quality of relationship. They have to depend not only on tangible factors but some intangible factors also play an important role in their performance. In this paper, the authors try to find out 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.

Keywords: Information Technology Enabled Service (ITES), Multiple Regressions, Offshore Outsourcing, Performance, Service Provider Firm

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 (Burn & Ash, 2000). Firms go offshore to have competitive advantages, access to unique resources, early entry into market, etc. (Kakabadse & Kakabadse, 2005; Khan & Fitzgerald, 2004). A firm needs to take care 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.

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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 as capable of serving the world’s IT-related sourcing needs (Sharma & Chen, 2010).

India with favorable 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% in 1988 and 6.4% 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 INFLUENCING PERFORMANCE OF ITES FIRMS

Most of the earlier studies on outsourcing are based on resource based theory (RBT) of firms and talk about certain resources and organizational capabilities in determining firm performance (Barney, 1991; Teece, Pisano, & Shuen, 1997). Firms are viewed as integrated source of various types of resources and capabilities (tangible and intangible), which are linked to organizations (RBT). These are valuable, inimitable, rare or non-substitutable. By utilizing these resources, firms tend to capitalize environmental opportunities, neutralize threats, and are able to obtain competitive edge over rival firm. Thus, firms can gain the benefit of economies of scale, access to scarce knowledge, skills, innovation, etc. (Porter & Fuller, 1986). There are few unique and organization specific factors that motivate organizations to make outsourcing decisions. Researchers had also examined inter-relationship of various factors that determine success or failure of a firm (Gonzalez, Gasco, & Llopis, 2006).

Success of outsourcing depends on the ability of the service provider firms. There are earlier studies that dealt with the requirements of the service provider firms (Lahiri, Kedia, & Mukherjee, 2011). Findings of Hussein, Abdu-Karim, Mohamed, and Ahlan (2007) indicated that IT related factors of firms are significantly correlated with information system (IS) outsourcing success (Goles, 2001; Claver, Gonzalez, Gasco, & Llopis, 2002; Levina & Ross, 2003; Han, Lee, & Seo, 2008; Khan & Fitzgerald, 2011). Results of the study of Bandyopadhyay and Pathak (2007) found the involvement of top management in negotiating the contracts as well as in getting better payoffs and also found the positive relationship between corporate reputation (brand image) and financial performance.

Some researchers had suggested that employees (human capital) are essential for firms to achieve above-average performance, which ultimately results in generation of competitive advantages (Sullivan, 1999; Currie, Michell, & Abanishe, 2008; Lahiri & Kedia, 2009; Khan & Fitzgerald, 2011). Bresnahan, Brynjolfsson, and Hitt (2002) found that IT capability, education, and experience of employees altogether influence performance of firms (Grover, Cheon, &
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