A Strategic Perspective on IT Outsourcing

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ABSTRACT

In the current business environment IT outsourcing has gained prominence. Many firms in Europe outsource their IT requirements to Asia. This study analyzes the factors which favor this trend in which clients are based in Europe and vendors are based in Asia. From a strategic perspective, this study identifies the characteristics that IT activities must possess for them to be outsourced from Europe to Asia. In addition to contributing to academic literature this study will put forward the implications for organization adopting IT outsourcing.

Keywords: Business Environment, Information Technology (IT), Outsourcing, Resource Based View, Strategic Value

1. INTRODUCTION

As a result of new opportunities created by the advancements in the Information Technology (IT) it is possible for firms to conduct their businesses more efficiently than in the past (Cusumano, 2006). The utilization of IT has helped to improve existing processes and to change the way business is done. The developments in IT have been helpful to explore, analyze, exchange and present information. With IT developments having led to increased international interconnectedness, nowadays it is possible for the firms to do business either by utilizing their own resources or by outsourcing some of the internal functions to outside contracting firms that are focused on specific functions.

Along with IT outsourcing growing fast one phenomenon has developed to be obvious recently. It is that the organizations based in Europe are looking out for third-party service providers in Asia where there is quality IT skills available (Rottman, 2006; Lacity et al., 2009). In this study we focus on why firms in Europe decide to outsource the IT activities to Asia. First of all the concept of IT outsourcing is explained. Then relevant available data is presented to illustrate the significance of the current trend of IT outsourcing from Europe to Asia. Subsequently we analyze the reasons that result in the decision for the firms in Europe to outsource IT activities to Asia. In the light of this examination certain propositions are put forward regarding the tendency of the organization to outsource their IT activities. To conclude this study presents the implications for organizations adopting IT outsourcing.

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2. THE CONCEPT OF IT OUTSOURCING

Outsourcing is designating to another party the authority for the provision of services under a business contract (Lacity & Willcocks, 2001). Considering the fact that a firm has to manage diverse business processes it will be difficult for it to manage all of its processes by entirely relying upon its own competence (Rottman, 2006). Even if it is feasible, the firm may lose its focus and efficiency (Sahay et al., 2003). By outsourcing the non-core business processes a firm can concentrate on their main activities, rather than on services that are external to their expertise (Lee et al., 2003). This will help to enhance the effectiveness and flexibility of the function by securing a support network with highly qualified and specialized workforce. In addition it helps firms to control their costs and business risk.

Various functions such as assembly lines operations, proceedings of legal matters and documentation of office services have been outsourced by firms for years (Rottman & Lacity, 2009). Even though the meaning of outsourcing has not changed, its nature has developed over time, expanding both the range and depth of services being outsourced. Organizations today have a preference to outsource their business processes to firms that are highly focused in using IT for business purposes (Lee et al., 2004). IT Outsourcing is the sub-contracting of an organization’s IT services to an external service provider with the intention of accomplishing the goals of the organization (Sahay et al., 2003). In other words, IT outsourcing is advancing the tasks related to IT through a third-party service provider. This third-party service provider is called vendor. The organization which is obtaining the service is called the client.

There are widespread functions in IT which are generally outsourced such as software development and testing, systems software management, applications software functions, applications software maintenance and networks maintenance (Lander et al., 2004). In all these IT outsourcing projects there are a few common characteristics. First, IT outsourcing is a decision that involves the external contracting of determined non-strategic activities necessary for the provision of IT services by means of agreements or contracts with higher capability vendors to carry out those activities with the objective of enhancing the competitive advantage (Rodríguez & Robaina, 2006). Second, the clients must be able to identify which IT activities are candidates for IT outsourcing and must be developed by vendor whose capabilities and skills are superior to those of the firm (Lacity et al., 2009). This means recognizing that IT outsourcing is related to the resources and capabilities of the client and vendor. For this reason, with the RBV providing an approach that regards the firm as a set of resources and capabilities that are treated as the strengths that must be supported and that should guide the firm’s strategy, this theory will be useful in explaining the reasons for the phenomenon of IT outsourcing to become increasingly widespread.

The objectives for IT outsourcing are evolving from the principal focus on cost reduction to an emerging emphasis on improving the performance (Lee et al., 2003). Even firms with capable IT departments that are large enough to obtain the level of specialization benefits as a vendor are engaged in important IT outsourcing deals (Lacity et al., 2001). Besides, as the significance of information and communications technologies become widely recognized, firms regularly face a widening gap between the capabilities and skills necessary to realize the potential of these technologies and the reality of their own in-house technology capabilities and skills (Lee et al., 2003). IT outsourcing is playing an increasingly prominent role in strategies designed to close this gap. IT outsourcing is increasing with the expectation that by 2015 it will increase by tenfold to the current trends (Nasscom, 2012). The rapid developments in Information and Communications Technologies (ICTs) have led many to identify new opportunities for IT outsourcing (Rottman & Lacity, 2003).
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