FACTORS INFLUENCING GROWTH OF IT OUTSOURCING

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ABSTRACT

Information technology (IT) functions have evolved to be complex, problematic and expensive. A common solution is the public debated outsourcing/off-shoring of IT processes. Politicians have weighed in opposition by playing on public fear about job loss and economic suffering. That debate notwithstanding, outsourcing/off-shoring is an economic necessity. This paper identifies a model of five categories of factors that oppose or support outsourcing of IT functions. This paper is the first step in a research project to discover factors that influence growth of IT outsourcing. The author's goal with this table topic session is to solicit ideas from international MIS colleagues.

INTRODUCTION

Environmental, organizational and technological factors create a highly competitive business environment in which customers are the focal point. To satisfy consumer demand for high quality, low priced products and services, organizations have used strategies to enhance productivity such as standardization, automation, and business process reengineering. Simultaneously, businesses restructured to become flat and lean to enhance flexibility and quick responses to changes in environment and customer's needs. After squeezing all they can out of those options, the latest manifestation to lower costs is to outsource functions to lower-wage labor to countries such as China, India, Ireland, Mexico, and the Philippines.

As products became complex and the scales of operations increased, risk levels elevated and management of entire operations within a corporation became unfeasible. The off-shoring of IT began in 1980s with the transfer of hardware work (production of computer chips) to Asia. Since then, U.S. companies have shifted their emphasis to higher-value microprocessors. This shift, plus globalized production and international trade, resulted in IT hardware becoming up to 30% less expensive [1]. As the Y2K approached, many of the U.S. companies decided to outsource their information technology to India. Logically, businesses have expanded the concept to outsource other white-collar IT jobs. In fifteen years, IT outsourcing has expanded significantly, from outsourcing data center operations to outsourcing business processes and from domestic outsourcing to off-shoring.

This paper is intended to identify the detailed list of determinants contributing/inhibiting the growth in outsourcing/off-shoring of IT function. The next section discusses the historical perspective of outsourcing and off-shoring, followed by discussion on role of IT in gaining competitive advantage, economic perspective, reasons to offshore globally, and advantages vendors have in providing IT functions. The paper then discusses various external and organizational factors which support or oppose the outsourcing/off-shoring decisions. Those are categorized into a model of five groups of factors.

CONCLUSION

The ten-page version of this initial project paper is available now from the authors upon request.