

# From Application Outsourcing to Infrastructure Management: Extending the Offshore Outsourcing Service Portfolio

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Offshore Outsourcing is an increasing IS/IT strategy that relies on third party Service Providers typically located in developing, low wage countries. The scale and scope is extending from traditional application development activities to embrace infrastructure management. It poses additional risks on both Service Recipients and Providers, which need to be carefully evaluated and assessed. In this paper, we convey the results from case-based research into three firms. Firms seeking to offshore infrastructure management need to develop effective risk mitigation strategies for selecting service providers. Therefore it will become increasingly necessary for Service Providers to develop offshore outsourcing capabilities.

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## Introduction

For most Western European and North American multinationals, offshore outsourcing has become an essential component of their long-term IS/IT strategy. Since the late 1980s and early 1990s, offshore outsourcing has enabled countries like India to expect revenues of between \$8-10bn by 2002 (Nasscom.org). Analysts predict double-digit growth rates for offshore outsourcing over the next decade (Marriot, 2003; Kakabadse and Kakabadse, 2002). These figures are considerable given that the IT outsourcing market in North America alone is estimated to be \$125 billion in 2004 (Palvia, 2002).

Key drivers for offshoring are cost savings and globalisation (Carmel, 1999). For offshore infrastructure management quality is still a concern for most of the managers in developed countries (Caldwell

*et al.*, 2004). At the same time, offshoring raises new societal issues. White-collar job losses in the developed regions dominate the political agendas in the US and Europe, although some economists tend to emphasize beneficial implications of offshoring. Nevertheless Shell recently announced an engagement with IBM Global Services and Wipro. Also Procter & Gamble and General Motors have offshored substantial parts of their IT services.

In terms of sourcing location, currently most of the offshoring services are delivered out of India (Nasscom and McKinsey, 2002). In addition, countries like China have an almost inexhaustible pool of (reasonably) qualified resources available (Dedrick and Kraemer, 2001; Qu and Brockelehurst, 2003). Coupled with this, European countries such as the Czech Republic, Hungary, Ireland, Poland and Russia are also suitable candidates for offshoring (Marriot, 2003). Offshoring will have a major contribution to the economies of these developing countries (Carmel and Agarwal, 2002).

### Three Types of Offshore Service Providers

The type of service provider in part determines the organisational and contractual arrangement of offshore outsourcing. There are three different types of offshore service providers: (1) captive service providers, (2) native service providers and (3) foreign service providers (Carmel and Beulen, 2005, forthcoming). First, captive service providers involve insourcing and are therefore out of the scope of our research. Second, native service providers—companies such as Atos Origin, CAP Gemini, CSC, EDS, IBM and Logica CMG—provide services from local operations in different developing countries all over the globe while having their headquarters in the developed regions. The native service providers are also called “traditional external service providers” (Caldwell *et al.*, 2004). Infrastructure management is commonly part of the service portfolio of full service providers in developed countries. These players are different from the third type of foreign offshore providers. The foreign offshore providers are major players in offshore application development such as Cognizant, Tata CS, Wipro, IMR and Xansa. These companies are based mainly in developing countries. Their presence in developed countries is commonly limited to sales offices. These companies are currently exploring opportunities in infrastructure management (see for example [www.cognizant.com](http://www.cognizant.com) and [www.satyam.com](http://www.satyam.com)). In our research we limit ourselves to the second type, i.e., native service providers. The reason is that the limited maturity of foreign offshore providers at present introduces an additional factor that compounds the analysis of risks and strategies.

Offshoring of IT services is no longer limited to application development. Infrastructure management has

recently emerged (Ribeiro, 2004; Businessline, 2004a; Businessline, 2004b). A contract in offshore outsourcing partnerships is as essential as in outsourcing relationships. But governance of relationships also requires trust and the implementing structures (Barthelemy, 2003).

In both management and research publications offshoring of infrastructure management is not yet clearly described. It therefore requires the development of risk analyses and strategies for both service recipients and service providers. On one hand, some lessons will be similar to current expertise on offshore application development. On the other hand, new risks and strategies are likely to emerge due to the differences between application development and infrastructure management. The objective of this paper is to compare infrastructure management and application development in terms of risks and strategies, and to identify strategies for managing risks associated with infrastructure management.

Apart from infrastructure management, there is a trend to offshore entire back office processes such as human resources and finance & accounting to developing countries (McCarthy *et al.*, 2003). Companies such as Ford, General Electric and Intel Corporation are moving their back offices to developing countries (Carmel and Agarwal, 2002). This phenomenon is outside the scope of our research.

The paper is structured as follows. We examine current literature to compare the characteristics of application development and infrastructure management. It is followed by a detailed investigation of risks associated with offshore application development. We then introduce our research methodology and results from a research program consisting of multiple case studies focusing on risks and strategies for infrastructure management in offshore outsourcing relationships. The strategies detail ways of working and best practices in infrastructure management in offshore outsourcing relationships. The paper concludes with implications for research and practice.

## Characteristics of Application Development and Infrastructure Management

Application development and infrastructure management have different characteristics along a number of dimensions (Table 1). We elaborate on the two forms of outsourcing in this paragraph.

### Application Development

Application development encapsulates three types of activities. First, it consists of services aimed at

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