

Risks in Outsourcing Information Technology Overseas

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Abstract

Information technology (IT) outsourcing has become a popular trend, but American companies need to take additional steps with regard to risk management in order to ensure that the venture runs smoothly. Ramingwong and Sajeev (2007) elaborated that offshore outsourcing is intensively popular today due to such advantages as accessing credible work at a lesser cost and uninterrupted operations. However, these American companies need to investigate the risks involved with this trend to ensure they can profit from this venture. This research paper will evaluate various risks pertaining to IT outsourcing.

Introduction

Information technology outsourcing has become a popular trend, but American companies need to take additional steps with regard to risk management in order to ensure that the venture runs smoothly. Ramingwong and Sajeev (2007) elaborated that offshore outsourcing is intensively popular today due to such advantages as accessing credible work at a lesser cost and uninterrupted operations. However, these American companies need to investigate the risks involved with this trend to ensure they can profit from this venture.

In a recent study, Ullberg, Rodriguez and Stormby (2002) stated that with regard to comparing risk and outsourcing, “classical theory of risk-and-opportunity, economic factors basically have to take more risk to make the new opportunities beneficial to them and their customers” (p. 468). American companies are assuming substantial risks when they follow this trend, but if they take the time to investigate and implement some sort of strategic plans that pertains to the challenges involved, IT outsourcing can be a success. Risk management and selective or smart sourcing is the way to go in order to increase the probability that the IT outsourcing will be profitable for the companies involved (Ramingwong & Sajeev, 2007).

This research paper will evaluate various risks pertaining to IT outsourcing. In addition, research concerning this topic will be displayed as to what the participants of the study felt which risks that American companies should consider when following this trend.

Research Methodology

This study of the risk factors related to outsourcing information technology overseas was conducted using a qualitative methodology method by asking an ‘open ended’ question to the participants of the research. The question stated in this study expressed that the participants in their opinion assert five risk issues that could happen when outsourcing information technology overseas.

A specific ‘open ended’ question were designed to align the topic being studied and geared towards the participants being investigated in this study. This also included that the participants had some common traits desired to ensure that the overall outcome was accurate. The question was submitted to 29 participants who were in a master’s level online project risk management course. From these 29 participants, only 12 showed interest in the study by submitting ‘in their opinion’ answers as to what five areas that they felt was most pertinent when it comes to risk in outsourcing IT overseas. .

The participants in this study all have some traits in common that gear towards working in the project management field and facilitate on various types and sizes of projects in different capacities. The table below shows the demographics of the participants in this study:

Demographics of Research Participants

Table 1 contains of the demographics for each of the 12 research participants interviewed during the research.

Table 1.
Demographics of 12 Research Participants

Mock name	Gender	Age group	Level of education	Job title
David	M	30-39	Undergraduate	Project Manager
Andrew	M	30-39	Undergraduate	Project Manager
Francisco	M	40-49	Undergraduate	Project Manager
James	M	30-39	Undergraduate	Project Manager
Deoncia	F	30-39	Undergraduate	Project Manager
Pamela	F	40-49	Undergraduate	Project Manager
Vicki	F	40-49	Undergraduate	Project Manager
Carlos	M	30-39	Undergraduate	Project Manager
JD	M	30-39	Undergraduate	Project Manager
Amanda	F	30-39	Undergraduate	Project Manager
Richard	M	40-49	Undergraduate	Project Manager
Mike	M	30-39	Undergraduate	Project Manager

After observing the above table, one would notice that the participants have much in common as it deals with level of education and job title. However, the gender and age group had much to do with the results of the study as to what six risks that the participants felt that a company needs to consider when outsourcing information technology overseas due to extreme dissimilarities.

Research Findings

After the results were calculated from the participants for the open ended questions presented, the following size areas were most common:

1. Quality Problems – The finished product and/or level of service are not up-to-par compared to being implemented in the states.
2. Language Problems – Customers have a hard time understanding either technical support or customer service representatives due to heavy accents.

3. Culture Differences – The differences between the Western and Eastern vary greatly and can cause conflicts between customer and vendor.
4. Security Issues – Once technologies are outsourced overseas, security can become an issue since the laws in the states cannot be enforced in foreign countries.
5. Overall Cost – Even though the customer may feel that they are getting a substantial savings in outsourcing IT overseas, studies has shown that this is not totally true. In fact, there have been some hidden costs that were discovered too late in the process (Dhar & Balarishnan, 2006).
6. Different Time Zones – The different in time zones between the states and the foreign maybe too great for the company to operate in regular business hours. For instance, when it is 9:00am ET in the states, it could 9:00pm in the foreign country. This can cause various problems for all concerned.

Shown below are the actual results from these categories that were taken from the 12 participants:

Table 2
Research Results

Research Category	Research Results
Quality Problems	7
Language Problems	6
Culture Differences	6
Security Issues	5
Overall Cost	4
Different Time Zones	4

From this study, there were other areas that the participants felt would cause risk in outsourcing IT overseas that had lower results, but still pertinent to the investigation. Some of these areas include tax and legal issues, vendor failure to deliver, and, misinterpretation of requirements. In most of these categories, only one result was stated and due to this lower number, was not included in Table 2 – Research Results.

Outside Studies

While many companies today have found it advantageous to outsource IT overseas to such broad issues as lower costs, faster delivery to market, high expertise in some areas, and improved productivity (Dhar & Balarishnan, 2006), there are many disadvantages.

Even though various organizations will be attracted to the low costs in producing or even providing service for the technologies that they represent, there are downsides to this trend that the companies need to be made aware of generally. For example, some companies may feel they are getting a substantial savings in outsourcing overseas, but in reality, the outcome is not so

attractive. According to Dhar and Balarishnan (2006), the total issue in cost deals with production and transactions of services and goods. The production cost maybe a great advantage, but the problem starts with the transaction cost. This is due to the fact that the higher transaction cost deals with monitoring and managing the vendors overseas. To anyone, it would become obvious that the vendors would be hard to observe on a 24x7 basis.

Conclusion

In conclusion, this research paper dealt with the exploration of risks that involved with American companies outsourcing IT overseas. A qualitative study was performed utilizing open-ended questions presented to 12 participants of various ages and gender, but had the same professional position (project manager) and amount of education (undergraduate degree). The outcome of the study showed that the participants felt that the six following categories have the great risk when outsourcing overseas (highest to lowest): quality problems, language problems, culture differences, security issues, overall cost, and, different time zones.

References

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