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information technology enabled services (BPO/ITES) firms in India: A strategic
gamble

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Information technology (IT) outsourcing by business process outsourcing/information technology enabled services (BPO/ITES) firms in India

A strategic gamble

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Abstract

Purpose – The purpose of this paper is to understand the roles various drivers such as cost, strategy and risk play when business process outsourcing/information technology enabled services (BPO/ITES) firms in India outsource their information technology (IT) functions to third-party vendors. If all key drivers associated with IT outsourcing were understood, and such knowledge of those variables was incorporated into the reasons for outsourcing, there would be a greater probability of a successful outcome.

Design/methodology/approach – A “hybrid” (quantitative and qualitative) research methodology was used to gain insight into the IT-outsourcing paradigm by BPO/ITES firms in India. A structured questionnaire related to IT-outsourcing activities conducted from 1999 to 2010 was distributed to nine firms. The resulting data were then analyzed. In addition, two Indian BPO/ITES firms that had outsourced their IT to a third-party vendor to cut cost generously granted in-depth information into their IT-outsourcing paradigm and life cycle.

Findings – IT outsourcing is perhaps more complicated than other types of outsourcing. Focussing purely on cost is very risky. Practitioners need to take all three drivers – cost, strategy and risk into consideration. Any degradation of services or responsibilities due to IT outsourcing would mean a very unhappy client or even loss of business.

Originality/value – BPO/ITES firms in India tend to focus only on cost reduction from IT outsourcing without taking into consideration other equally important drivers such as strategy and risk. This paper counsels a holistic approach toward IT outsourcing for a successful outcome. In addition, an IT-outsourcing framework and guide is proposed for practitioners.

Keywords Risk, Strategy, Cost benefits, Business process outsourcing/information technology enabled services, Conceptual framework and guide, Information technology outsourcing drivers

Paper type Research paper

1. Introduction

The outsourcing phenomenon has been around since the industrial revolution. Organizations have exploited labor arbitrage in various regions to stay competitive in the market and maximize profit margins (Domberger and Hall, 1995; Kakabadse and Kakabadse, 2003). In the late 1990s a new era of outsourcing emerged when Kodak decided to outsource major components of its information system functions (Lacity and Willcocks, 1998). This consolidated outsourcing as a legitimate business management



tool (Hemphill, 2004). For over a decade, outsourcing has been a key methodology to manage information technology (IT) resources in various industrial sectors (Choudhury and Sabherwal, 2003; Kishore *et al.*, 2003). Many have studied trends of outsourcing, including business process outsourcing, application service (software development) provision outsourcing and IT outsourcing. Within the context of this research, the term IT outsourcing relates to “the set of activities that an organization must undertake in engaging with external service providers for provision of outsourced services” (McMahon, 2008).

IT outsourcing by business process outsourcing/information technology enabled services (BPO/ITES) firms in India, who themselves are outsourced firms (providers of outsourced services to firms mainly from the UK and USA); offer an opportunity to further research the subject. To gain more insight into the IT-outsourcing paradigm by BPO/ITES firms in India, this paper argues that even if the primary motivation for IT outsourcing is cost reduction, other drivers such as strategy and risk are equally important (Lacity and Hirschheim, 1993; Willcocks and Fitzgerald, 1993). In IT outsourcing, the responsibility of the function still remains with the firm and is not transferred to the outsourced vendor (Bojonny, 2005). This paper investigates the IT-outsourcing process (phenomena, reasons and methodology) in a holistic view to yield knowledge germane to practitioners. The aim is to offer practitioners a 360 degree insight into the IT-outsourcing paradigm. If the strategy and risk associated with IT outsourcing were understood, such knowledge could to be incorporated into the reasons for outsourcing, resulting in a greater probability of a successful outcome.

2. Background and literature review

Outsourcing is an attractive alternative that provides capital market gains, cost savings, a larger pool of skilled vendors and quicker development cycle time (Godwin, 2000). Virtually every Fortune 500 company and a number of countries throughout the world, outsource some significant portion of their IT services. Therefore, it is easily understood how ITO has become a \$536 billion industry worldwide (Halvey and Melby, 2006). Research finds that outsourcing can deliver value to client organizations, but it takes a tremendous amount of detailed management by clients and providers to realize expected benefits (Lacity and Willcocks, 2012). In the year 2000-2001, the BPO/ITES industry experienced rapid growth, which fueled the need for expansion of infrastructure. Outsourcing was the only option to accomplish their business requirements.

There is evidence that the IT outsourcing decision by firms in India is based on strategies (Aubert *et al.*, 1998, 1999), benefits (Wang *et al.*, 2008) and risks (Sullivan and Ngwenyama, 2005; Lin *et al.*, 2007). Most of the industry primarily outsourced the management of software applications and data centers to third-party vendors (Brooks, 2004; Brown and Wilson, 2005; Corbett, 2004; Factor, 2002; Misra, 2004; Reilly, 2003; Willmott, 2005). Despite the widespread trends in IT and business process outsourcing, there has been too little focus on what happens to knowledge when an organization outsources (Willcocks *et al.*, 2006). Given the complexities of the two paradigms of outsourcing (BPO and ITO) and their drivers, IT outsourcing by BPO/ITES is quite challenging to comprehend. Many questions remain unanswered. How do firms analyze their outsourcing environment? Is cost benefit the main goal of IT outsourcing? What are the risks involved? How do firms mitigate these risks? Do they have a contingency plan? What was the decision-making process?

2.1 Drivers of the outsourcing decision

2.1.1 Cost reduction. The primary driver for organizations outsourcing their IT is cost. However, Metters and Verma (2008) show that those companies with < US\$500 million turnover averaged only a 6.7 percent cost reductions from off-shoring, with nearly half of those companies reporting either an increase in cost or no cost reduction at all. On the other hand, companies with more than US\$1 billion annual turnover enjoyed a 24.8 percent cost reduction, on average.

2.1.2 Strategic reasons. The decision to outsource IT is driven by numerous factors, one of which is to obtain a strategic advantage by keeping up with ever changing technology (Mojsilovic, 2007). Chesnais (1992) shows that as a global corporate strategy, companies with IT as their core business outsource some IT functions to less developed host countries (India, China and Southeast Asia) to gain a competitive advantage.

2.1.3 Risk and contingency plan. When a firm decides to outsource its IT functions to a vendor, there are certain risks involved (Aubert *et al.*, 1999). A misconception held by many is that if IT is outsourced there is always a huge cost savings (Barthelemy, 2001; Earl, 1996). Wang *et al.* (2008) illustrates that if the risks associated with outsourcing are not properly mitigated, the strategic and cost advantages can be nullified (Wang *et al.*, 2008).

Literature review shows that IT outsourcing is perhaps more complicated than some other business contracts as it involves the transfer of assets such as hardware, software, sites and people to the service provider (Meyer, 1994).

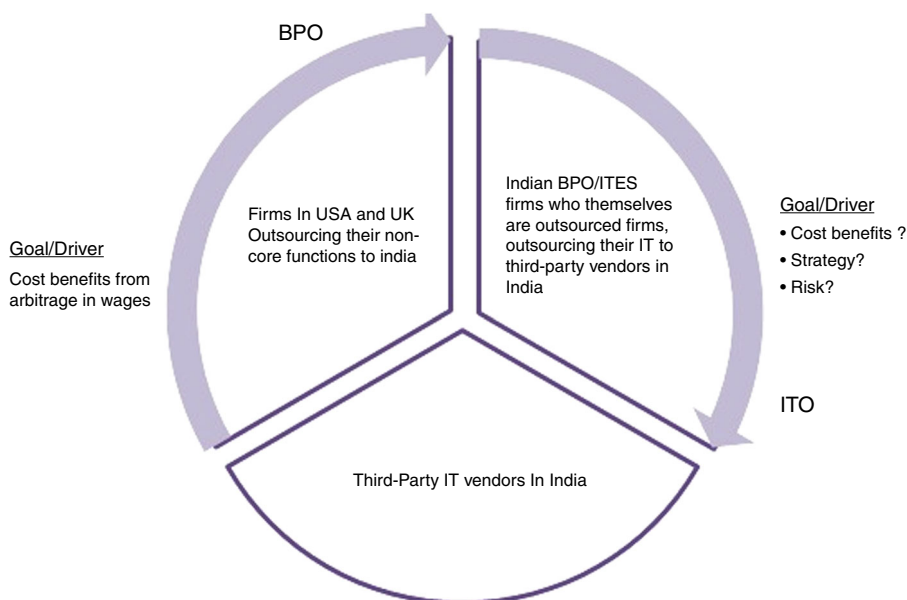
Within the literature review, it is observed that “cost benefit” from outsourcing is highly researched and is established as a primary goal/driver by firms opting for IT outsourcing. While cost benefit is still the primary motivator for IT outsourcing as per the “world view,” when applied in the environment of BPO/ITES industry in India, there are compelling indicators that other drivers also influence the IT-outsourcing decision. The literature review gives enough evidence that the decision for IT outsourcing is based on benefits (Wang *et al.*, 2008), strategies (Aubert *et al.*, 1998, 1999) and risks (Sullivan and Ngwenyama, 2005).

2.2 Research problem

Over the past few years, multi-billion dollars outsourcing industry, has become an indispensable strategic tool for organizations to minimize their operations cost. Organizations have exploited labor arbitrage in various regions to stay competitive and maximize profit margins. BPO/ITES firms in India adopted the outsourcing paradigm to remain focussed on their core business and enjoy cost reductions, which were critical for their growth.

Figure 1 shows two different outsourcing phenomena – business process outsourcing and IT outsourcing. Firms in the UK and the USA adopted the business-process-outsourcing paradigm and achieved cost reductions from arbitrage in wages. The rationales and benefits for IT outsourcing by Indian BPO/ITES firms’ needs verification.

An attempt is made to understand the impact of the same variables/drivers such as “cost,” “strategy” and “risk” applicable to the IT-outsourcing paradigm by BPO/ITES firms in India (Chou and Chou, 2008). This study is carried out to confirm if these “world views” (paradigm) are justified or negated when BPO/ITES firms in India opt for IT outsourcing. While carrying out this research, knowledge on IT outsourcing will be advanced, added to or confirmed.



Source: Developed for this research

Figure 1.
Drivers influencing
IT outsourcing by
Indian BPO/ITES

3. Research methodology

When scientifically researching a “world view,” it is not possible to focus on one research methodology. To avoid discretionary judgment, realists recognize all research methods as inherently imperfect and therefore believe and advocate a combination of both quantitative and qualitative (hybrid) research methodology (Patton, 2002).

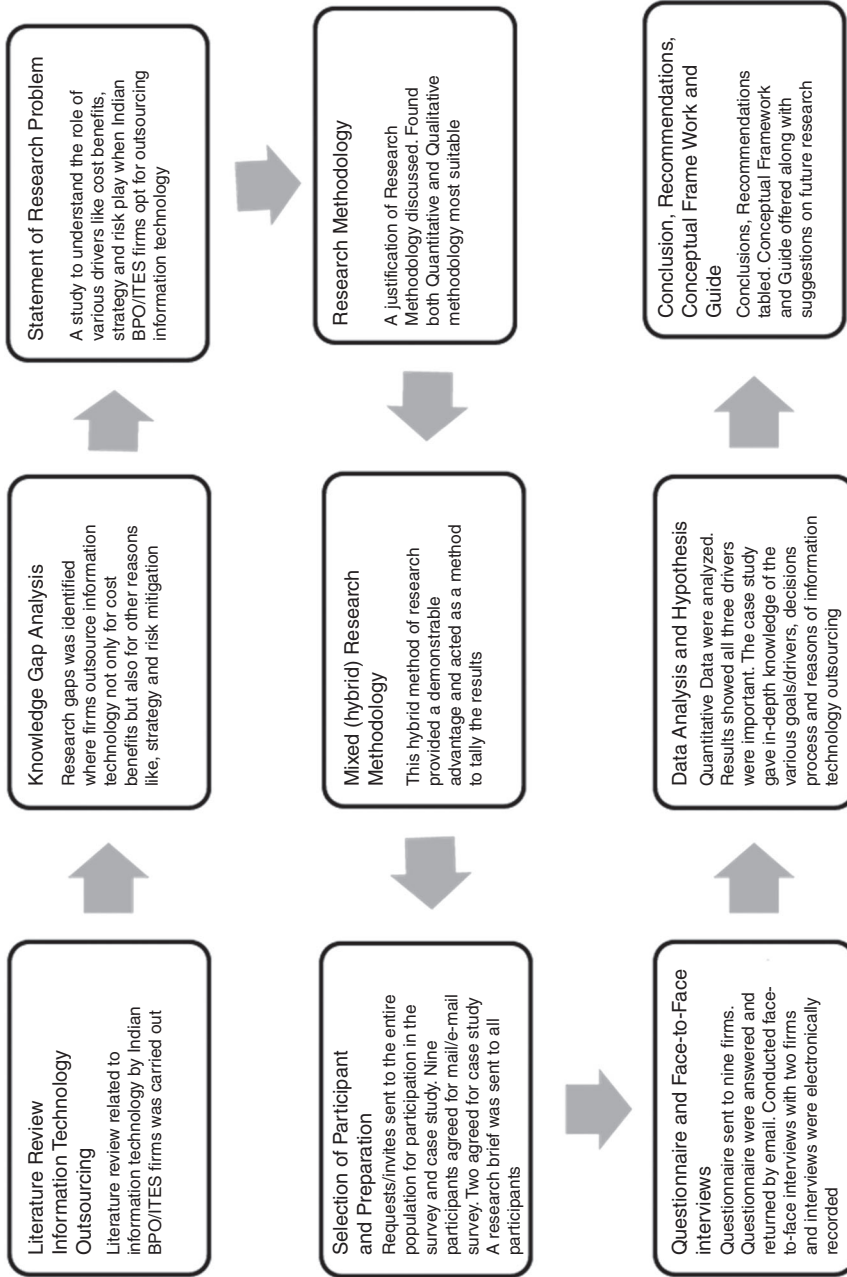
The research was set in a real environment within a constructivism (qualitative by nature) paradigm. Qualitative research methodology that suited the research involved collecting data (case studies) in the form of detailed descriptions relating to complex business activities of IT outsourcing. Data gathering produced a large amount of empirical data, which were collected from the nine participants in the form of structured questionnaires. These data were the basis for subsequent quantitative data analysis.

Taking into consideration the advantages of quantitative and qualitative research methodologies, a mixed (hybrid) method of research was adopted. This hybrid method of research provided a demonstrable advantage and acted as a method to tally the results from both the research methodologies (Leedy and Ormrod, 2001). Figure 2 shows the research design outline, approach and flow taken to accomplish this research.

3.1 Research design, outline, approach and flow

A detailed review of the literature relating to outsourcing involving the characteristics, history, growth, objectives and methodologies of outsourcing was undertaken and examined. The process of IT outsourcing by Indian BPO/ITES firms was studied and analyzed. A gap analysis was carried out and a research question tabled.

A large number of participants were approached to participate in the survey and data were collected in the form of questionnaires. The participants were contacted in person, on the telephone and via e-mail. A brief summary of the research was presented. The questionnaire asked respondents to rank the significance of different



Source: Developed for this research

Figure 2.
Research design,
outline, approach
and flow

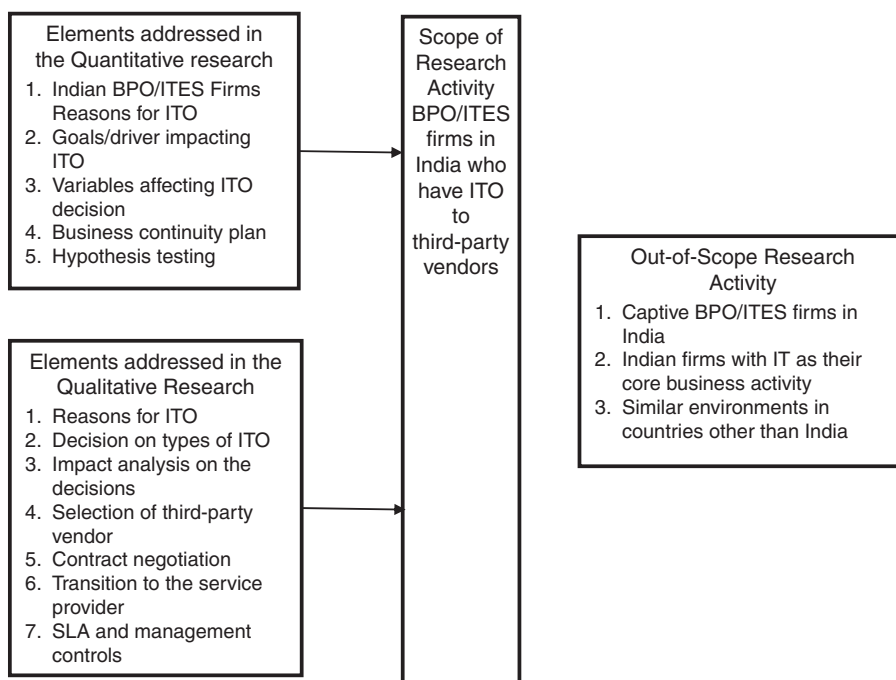
factors in their firm's decision to outsource IT functions. Respondents were asked to rank each factor on a five-point Likert scale, in which 5 means the factor was considered "business critical" and 1 means the factor was "insignificant." The questionnaire aimed at measuring the salience of different IT-outsourcing drivers. The questionnaire was duly answered and returned to the researcher by e-mail.

The survey data were grouped under the three drivers "cost," "risk" and "strategy" using the data analysis technique suggested by Boone and Boone for Likert scale data (see Table III).

The case studies involved, a face-to-face interview format using semi-structured open-ended questions for data collection and offered an insight on the IT-outsourcing life cycle where companies table their needs and make decisions to opt for IT outsourcing or not (DiCicco-Bloom and Crabtree, 2006). Based on the results, the case studies have provided conclusions, recommendations, envisioning a conceptual framework and guide for outsourcing practitioners.

3.2 Scope and limitations

The limitation of quantitative research methodology (e.g. questionnaire/mail surveys) is that the subjects may not understand the questions properly or may be unwilling uncomfortable sharing data pertaining to their firms. A large number of firms were approached to participate in the research. However, only two firms agreed to participate in a qualitative (case study) interview, while others were reluctant to share data and expose themselves to this research. The in-scope and out-of-scope activities and limitations for this research are summarized in Figure 3.



Source: Developed for this research

Figure 3.
Scope and limitations
of the research

4. Findings

As BPO/ITES industry activities grew in India, companies like Ac, Co, W, G, FSL and ABPO (names of companies coded), needed to expand their operations rapidly. The objective for the organizations to move toward IT outsourcing to a third-party vendors like Mi, ATech, OBS and I (names of companies coded) are discussed and analyzed below.

4.1 Case study analyses

In this section, results from two in-depth case studies, FSL and ABPO, are summarized and discussed.

4.1.1 The FSL case study. FSL is a leading global provider of business process management services with headquarters in Mumbai, India. It offers a wide range of BPO/ITES across banking, financial services, telecommunications, media and the healthcare industries. FSL is listed on India's leading stock exchanges, the National Stock Exchange and the Bombay Stock Exchange (Source: FSL web site 2012).

Due to its rapid organic and inorganic growth, FSL needed to urgently address the expansion of its IT infrastructure and services. How did FSL achieve its goals, analyze its outsourcing environment, maximize cost benefits and strategically have control over its IT assets? What parts of the IT functions needed outsourcing and what parts were the risks involved?

To stay competitive in the market, FSL need to minimize its capital and operational costs. One answer was outsourcing their IT services. Since it was a BPO firm and IT was not its core competency, the management readily accepted the decision. The management opted to outsource its IT service function to a third-party vendor, which offered them sizable savings in comparison to the cost of hiring and managing an in-house IT team.

FSL is a business-process-outsourcing firm connected to client's network through data and voice by international private lease lines. Due to rapid growth in business, it needed to establish a large IT infrastructure immediately. To achieve this task, it needed to hire a large and skilled workforce in a very short period. To stay competitive, it took a strategic decision to outsource IT functions to a third-party vendor in India. This strategy contained two options, total outsourcing or selective (quasi) outsourcing. The management chose the latter. Managers reasoned that overseas clients were comfortable with FSL outsourcing the services part but wanted the company to have control over the assets. A quasi-outsourcing methodology was agreed upon as the third-party vendor offered guaranteed high level of quality services, with cost savings.

Outsourcing IT to a third party had a fair amount of risk for FSL and its overseas client's data. Opting for an in-house IT team would have been very expensive and cumbersome to manage. The FSL management made a conscious effort to move toward quasi outsourcing, which would offer them adequate control of their IT assets and have reasonable cost benefits from outsourcing. To have competitiveness and avoid vendor opportunism (vendor lockdown scenario), they hired multiple vendors at their various sites in India.

The case study shows that even though FSL started the IT-outsourcing process with cost as its primary goal, during progression they observed that strategy and risk also played an important role in their decision-making process.

Table I summarizes the complete IT-outsourcing process at FSL, explains the reasons behind the decision and the impact of controlling drivers/variables in the decision-making process.

Because FSL was accountable for delivering an uptime of 99.99 percent to clients, the following IT-outsourcing management processes were applied on engagement with a third-party vendor:

- competitive bidding process with multiple vendors;
- ensuring contractual viability through continuous review, improvement and close supervision;
- region-wise deployment of cross-trained multiple vendor staff across various sites as a contingency plan if any of the vendor turned opportunistic or went bankrupt;
- day-to-day supervision of vendors by their in-house IT team ensuring contractual obligations were fulfilled through service-level agreements and operating-level agreements; and
- continuous evaluation of vendor performance, user satisfaction and cost effectiveness.

Drivers/ variables	Decisions	Results and actions
Cost	Cost of management	Moderate cost of management as cost toward maintaining in-house team and handling multiple vendors
Cost	Skilled technology professionals	A small top-level team of skilled technology professionals was hired
Cost	Cost benefits	Moderate cost benefits came from just rendering the IT services without the involvement of assets
Risk	Loss of control of IT assets	Only low-end IT process outsourced to vendors. No loss of control over assets
Risk	Risk of depending on a third-party vendor and vendor opportunism	Multiple vendors were hired across various sites in India. Vendor personnel's were cross-trained and could handle any site in case a vendor withdrew services
Strategy	Quasi outsourcing	Only low-end IT services were outsourced, as a risk mitigation process the IT assets were still under the control of FSL
Strategy	Multiple vendor	Having multiple vendors, offered healthy competition, flexibility in resources management and guard against vendor opportunism
Strategy	Delivery of projects and rapid expansion	IT projects were considered as services to its core business. Timely deliveries of project were important but did not adversely affect the nature of its core business
Strategy	Strategic importance (IT outsourcing)	FSL management realized that it was of strategic importance for them to outsource their IT to meet their rapid growth and stay competitive in the market
Strategy	Short term/long term	Initially IT outsourcing was for short-term basis (expansion) as the relationship matured between the client and the vendors, it moved toward long term
Strategy	Guaranteed services and systems	The requirements of FSL overseas client defined the level and quality of services offered by the third-party vendors

Table I.
Drivers influencing
IT outsourcing by
FSL

Source: Based on the original table by Lee *et al.* (2000)

4.1.2 The ABPO case study. ABPO has its headquarters in Mumbai, India. The company is a wholly owned subsidiary of E Group (names of company coded), which is a \$17 billion conglomerate. ABPO has a presence in 13 countries across the world including India, the USA, the Philippines, the UK and Australia. They have more than 55,000 employees in 55 delivery centers spread across 13 countries. ABPO serves more than 300 clients a year with their back office solutions. ABPO was recently ranked 14th in the 2012 Global Outsourcing 100 by the International Association of Outsourcing Professionals.

ABPO is one of the aggressive players in the BPO/ITES market. Due to its fast inorganic growth, it had a mixed bag of in-house IT and outsourced IT function at its various sites. ABPO management decided to consolidate all their IT teams. This consolidation was so large that it led to the formation of an independent group company called ATech (names of company coded), which provided IT services as a third-party vendor to ABPO and other firms. Total outsourcing their IT functions and assets to ATech not only gave huge cost benefits but also decreased their management functions.

ABPO's decision to totally outsource IT functions was strategic. The move guaranteed services for rapid expansion at no additional capital expenditure on IT hardware. ABPO only had a small in-house IT service delivery team to cater to their clients' needs and supervise the vendors.

Opting for total IT outsourcing had fair amount of risk. The company lost control of all the IT assets and capabilities, and was completely dependent on ATech. However, these risks were mostly mitigated; as ATech is also a group company (E Group to which ABPO belongs). Commonality of corporate management control ruled out the threat of vendor opportunism and the vendor going bankrupt.

Table II summarizes the complete IT-outsourcing process at ABPO, explains the reasons behind the decision and the impact of controlling drivers/variables in the decision-making process.

4.2 Survey results and analysis

All the participants were contacted in person, on phone and via e-mail. A brief summary and objective of this research was presented. An 18-point questionnaire (refer the Appendix) was sent to the General Manager/Director/Vice President IT or designated executive participating in the research, where they answered the question and e-mailed the questionnaire back to the researcher.

The best suited measurement method when using Likert scale data are to use the mean (Boone and Boone, 2012). This paper follows and uses the data analysis technique for Likert scale data as shown in Table III.

A summary of the survey findings is presented in Figure 4.

Figure 4 shows the results of the survey grouped under the three drivers "cost," "risk" and "strategy" using Likert scale data. The best suited measurement method when using Likert scale data are to use the mean/average which projects the "central tendency" (Boone and Boone, 2012). As an example, on "cash flow improvement," participants were asked what cash flow improvements were experienced when IT was outsourced to a third-party vendor. The participants responded that there was an improvement in cash flow (average results 2.67 in reference to five-point-Likert scale) which is somewhere between low and moderate compared to the scenario when IT was in-sourced.

Based on returned survey questionnaires, two factors under the "strategy" grouping stood out as most important, namely "guaranteed service" and "rapid expansion." These findings refute the standard claim that the key benefit of outsourcing

Drivers/ variables	Decisions	Results and actions
Cost	Cost of management	Low cost of management
Cost	Skilled technology professionals	No skilled technology professionals were hired, all IT functions and assets were outsourced to ATech (vendor)
Cost	Cost benefits	High-cost benefits were achieved as there was no capital expenditure. However, there was a cost toward operational expenditure
Risk	Loss of control of IT assets	Total loss of control of IT assets as IT assets utilization was not tracked
Risk	Risk of depending on a third-party vendor and vendor opportunism	Total dependency on third-party vendor (ATech) for delivery of services and assets
Strategy	Total outsourcing	High-risk strategic decision. Since ATech (vendor) was a group company of ABPO, there was a common corporate control of its parent company (E Group)
Strategy	Multiple vendor	Only single vendor, vulnerable to vendor opportunism. Low risk as ATech and ABPO belonged to the same group of company
Strategy	Delivery of projects and rapid expansion	Timely delivery of assets and services as per contractual obligations. The vendor handled all the delivery schedules and project execution
Strategy	Strategic importance (IT outsourcing)	Total IT outsourcing was a very important strategic decision. In fact, it led to the formation of a new subsidiary company "ATech" (third-party vendor)
Strategy	Short term/long term	Strategically a long-term client and vendor relationship is sustainable when opting for total IT outsourcing
Strategy	Guaranteed services and systems	ATech being a group company with total IT outsourcing offered a guaranteed high level of service and systems on a long term basis

Table II.
Drivers influencing
IT outsourcing by
ABPO

Suggested data analysis procedures for Likert scale data

Central tendency	Likert scale data
Variability	Mean
Associations	Standard deviation
Other statistics	Pearson's r
	ANOVA, t -test, regression

Table III.
Suggested data
analysis procedure
for likert scale data

Source: Table III is adapted by using the original table by Boone and Boone (2012)

is cost reduction. Clearly, practitioners inside firms actively involved in the IT-outsourcing process view other "strategic" drives as being more important than simple cost savings. Survey results also confirmed that cost savings were still a prominent driver in the outsourcing decision. "Cost management" and "long-term cost savings" were rated as moderate to high in terms significance. On average, the factors grouped under "risk" scored the lowest on the survey. Apparently, decision makers did not consider the risk of losing IT competitiveness or corporate memory as a major threat from outsourcing.

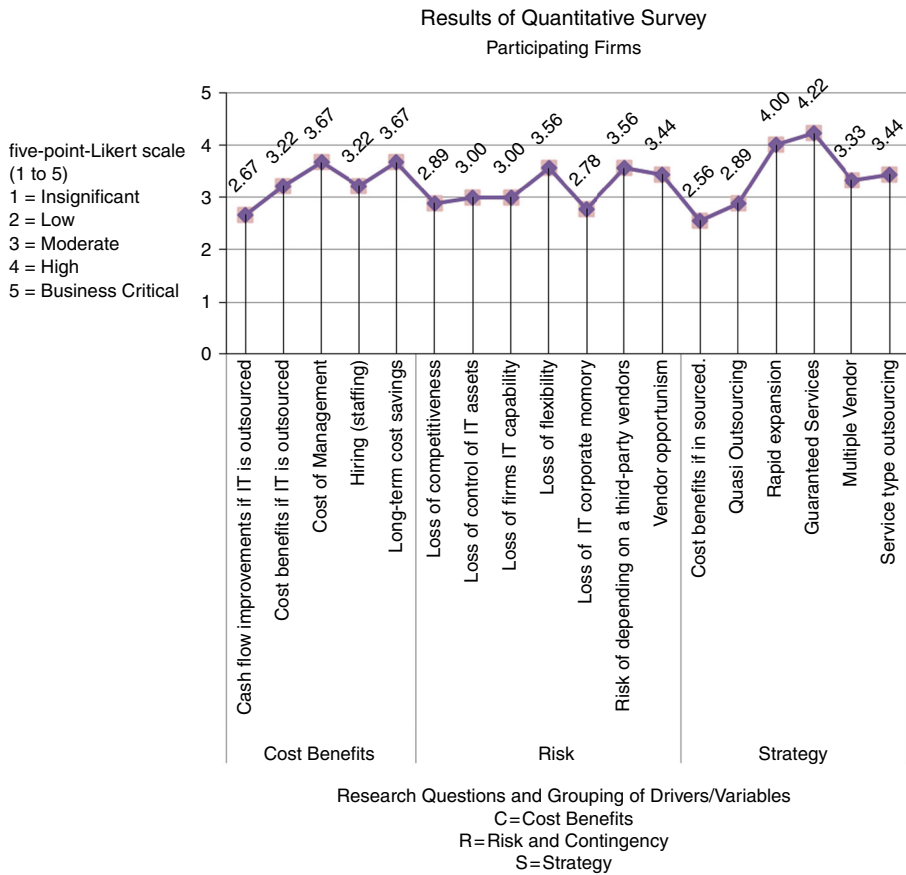


Figure 4. “Central tendency” average scores for IT outsourcing drivers from the survey

Source: Developed for this research

IT outsourcing is perhaps more complicated than other outsourcing processes, as it involves the transfer of assets such as hardware, software, sites and people to the service provider. In addition, the difference between a successful outsourcing project and a failed outsourcing attempt may simply rest on the selection of the service provider and the terms of the contract (Meyer, 1994).

It is observed that all three drivers (“cost,” “risk” and “strategy”) played important roles in the decision-making process of outsourcing even if the reasons for doing so were strategic or cost. If any of the three drivers were found negatively affecting the firm’s decision to outsource, the safe option would be to in-source IT functions. Any degradation of service or responsibility toward the client due to IT outsourcing would increase the risk factor considerably.

5. Discussions and conclusions

The objective of this research was to understand the role of various drivers of IT outsourcing by Indian BPO/ITES firms in. Results indicate that even if firms opted for IT outsourcing for cost reduction other drivers like strategy and risk played a

major role in their decision-making process. Some of the firms were more cautious and opted for quasi outsourcing and mitigated the risk of vendor opportunism with moderate cost benefits. Firms with strategic goals to grow fast and stay competitive in the market opted for service type outsourcing and gained moderate cost reductions from long-term contracts. The risk of vendor opportunism or the vendor going bankrupt was mitigated with having multiple vendors at various sites. There is a possibility that the firm will have low or no cost reductions. Firms with one-point agenda for lowering cost from IT outsourcing should understand that there are risks inherent in this option as well. Any degradation of service or responsibility toward the client due to IT outsourcing would increase the risk factor considerably.

5.1 *Implication of research on theory*

This paper has attempted to explore and understand the various drivers and their role in ITO by BPO/ITES firms in India. It started out with understanding the reasons for IT outsourcing, and tagged along with the “world view” that IT outsourcing was driven by sheer cost arbitrage. All the participants in our research applied this driver and the results show that when it comes to “outsourcers” outsourcing their IT functions there are other drivers like strategy and risk, which have gained importance. What looked like a one-point goal of cost benefit from ITO turned out to be much more complex and nuanced.

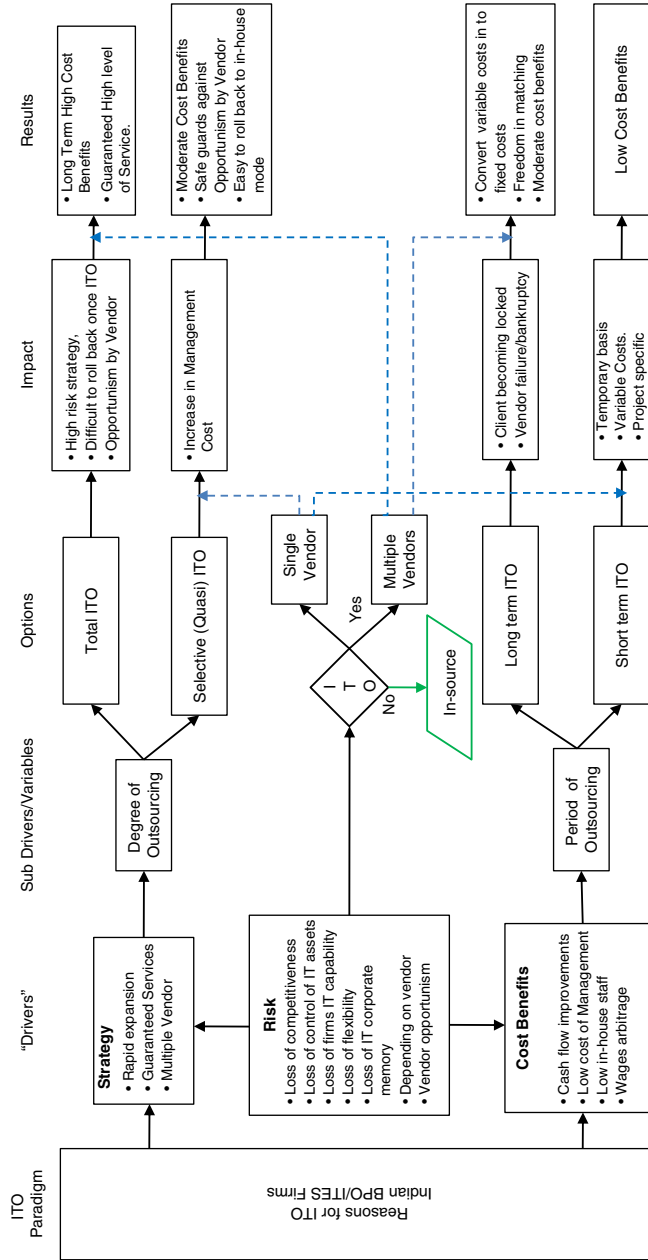
5.2 *Lessons learnt*

The results suggest that the decision to opt for IT outsourcing includes a multi-level analysis of the strategy, risk, methods of outsourcing (single vendor/multi-vendor) and degree of outsourcing (total/quasi). This research erudite that ITO is perhaps more complicated than some other outsourcing process. In IT outsourcing, a holistic (cost benefits, strategy and risk) approach is needed as it involves the transfer of assets such as hardware, software, sites and people to the service provider. In addition, the difference between a successful outsourcing project and a failed outsourcing attempt may simply rest on the selection of the service provider and the terms of the contract (Meyer, 1994). Accordingly, organizations should recognize the importance of contract and its management (Lee *et al.*, 2000).

As a cardinal rule, practitioners are advised to consider all the parameters inherent in ITO before taking a decision. Whatever the reasons for IT outsourcing (cost or strategy) a risk and mitigation analysis is warranted.

Based on the results of the case studies, a framework has been developed as a guide for practitioners considering IT outsourcing. According to Figure 5, if there is a strategic reason, firms can opt for total or selective (quasi) outsourcing. Total outsourcing involves a higher amount of risk but offers greater opportunity for cost reduction. Risk from vendor opportunism and bankruptcy can be mitigated by having multiple vendors. This will lower the risk factor and offer moderate cost benefits. On the other hand, selective (quasi) outsourcing involves outsourcing only the service part of IT functions and allows firms to have control over the assets and software. Moderate to low-cost benefits can be achieved from having a single vendor.

If the reason of outsourcing is cost, the practitioners have options of a long-term or a short-term period of outsourcing. The long-term option offers moderate cost benefits



Source: Developed for this research

Figure 5. Proposed framework for BPO/ITES Firms in India opting for IT outsourcing

with the risk of vendor lock-down, but this risk can be mitigated by having multiple vendors. The short-term option is used on temporary basis or for specific projects. This option offers low-cost benefits and entails lower risk. It is essential that practitioners study and consider all the three drivers. Most importantly, if major risks cannot be mitigated, it is safe to in-source IT functions. The proposed framework and guide shows the results and benefits of each parameter and offers the most favorable options as per their requirement.

This paper has attempted to understand and explore the various drivers and their role in IT outsourcing by BPO/ITES firms in India. It started out with understanding the reasons for IT outsourcing. All the participants in our research initially applied the cost driver and the results show that when it comes to “outsourcers” outsourcing their IT functions, there are other important drivers including strategy and risk. Making an outsourcing decision using cost as a single criterion involves a far too great amount of risk.

The two case studies presented corroborate that FSL opted for IT outsourcing primarily for cost benefits. Whereas ABPO had strategic reasons. Both firms had to address the various risks involved toward IT outsourcing and had to mitigate those risks. Some findings highlight unique characteristics of IT outsourcing and its practices. For instance, FSL with strong IT knowledge (skilled in-house team) opted for quasi outsourcing. ABPO opted for total outsourcing and consolidated its large IT team to form ATech, which offered IT services not only to ABPO but also to other firms. As a cardinal rule, practitioners are advised to consider all the parameters inherent to IT outsourcing before taking a decision. Whatever the reasons for IT outsourcing, a risk mitigation analysis is warranted.

Researchers are encouraged to study the role of various drivers like cost, strategy and risk in outsourcing decisions made by BPO/ITES firms in other countries such as the Philippines, Argentina and Mexico. Alternative or complementary findings from firms in a variety of geographical locations will be most helpful for a lot practitioners who at one point will likely be considering outsourcing their IT functions to a third-party vendor.

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Appendix. Sample of survey questionnaire

Questionnaire interview

Topic: Why outsourced firms (Indian BPO/ITES) outsource their IT? A study to understand the role of various drivers like cost benefits, strategy and risk play when Indian BPO/ITES firms outsource their IT functions to third-party vendors.

Participants: DBA candidate (interviewer)

Organization: Spanco-Vodafone

Name of (interviewee): Jitendra Kumar Srivastava

Designation: IT Head Lucknow

E-mail: jitendrakumar.srivastava@vodafone.com

Contact details:

Background

Research information document already shared with the participant and on his/her consent the questionnaire was sent to them.

Format: Questionnaire

Reasons/variables/goals/drivers for ITO by the firms

List no.	Questions	Insignificant (1)	Low (2)	Moderate (3)	High (4)	Business critical (5)
1.	Cash flow improvements if IT is outsourced		2			
2.	Cost benefits if in-sourced			3		
3.	Cost benefits if IT is outsourced			3		
4.	Cost of management				4	
5.	Guaranteed services			3		
6.	Hiring (staffing)				4	
7.	Long-term cost savings			3		
8.	Loss of competitiveness			3		
9.	Loss of control of IT assets				4	
10.	Loss of firms IT capability				4	
11.	Loss of flexibility					5
12.	Loss of IT corporate memory				4	
13.	Multiple Vendor				4	
14.	Vendor opportunism				4	
15.	Quasi outsourcing				4	
16.	Rapid expansion				4	
17.	Risk of depending on a third-party vendor				4	
18.	Service type outsourcing				4	

Notes: A five-point-Likert scale (1-5) will be used where 1, insignificant; 2, low; 3, moderate; 4, high; 5, business critical

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2. Mohd Nishat Faisal Department of Management and Marketing, College of Business & Economics, Qatar University, Doha, Qatar Syed Asif Raza Department of Finance & Economics, College of Business & Economics, Qatar University, Doha, Qatar . 2016. IT outsourcing intent in academic institutions in GCC countries. *Journal of Enterprise Information Management* **29**:3, 432-453. [[Abstract](#)] [[Full Text](#)] [[PDF](#)]