Recent Trends In Offshoring Relationships

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ABSTRACT

The nature and type of IT work being offshored is expanding as more sophisticated vendors and technologies make it feasible for new, often more complicated IT work to be offshored. Information Technology (IT) is continually improving, transforming formerly non-offshorable, personal tasks into offshorable, impersonal tasks. The relationships between clients and their offshore vendors have been changing, most obviously in the sheer volume of offshoring being undertaken. This study uses social exchange theory to examine the relationship between clients and vendors as partners in offshoring.

Keywords: Offshoring; Outsourcing; Client-Vendor; Client-Vendor Social Exchange Theory

INTRODUCTION

As the sheer volume of IT being offshored continues to grow, other changes are occurring. The type of IT work being offshored is expanding as more sophisticated vendors and technologies make it feasible for new, often more complicated IT work to be offshored. Bandwidth continues to increase while costs continue to decrease, reducing barriers to offshoring and changing the nature of what can be offshored. Information Technology (IT) is continually improving, transforming formerly non-offshorable, personal tasks into offshorable, impersonal tasks. Vendor countries such as India and China continue to modernize and gear their infrastructure and workforce towards offshoring. There has been an increase in the complexity, sensitivity and critical nature of the work being offshored partly because of the billions of dollars in potential cost savings previously mentioned, as well as a widespread failure of offshoring to deliver as promised continues(Overby, 2012).

According to one early study, half the organizations that have shifted processes offshore have failed to generate the expected financial benefits (Aron & Singh, 2005). As the wages of offshore developers continues to rise, these savings become even more elusive. A recent survey by Deloitte Consulting LLP of 25 large companies in a range of industries found that 70% of the companies experienced negative outcomes in their outsourcing contracts. The negative outcomes being associated with the outsourcing contract suggests that the problem is more than just a cost savings problem. Strict adherence to tightly controlling contracts (and maintaining power and control) are solutions often cited to help client companies reduce their risk of failure.

Offshoring relationships are dynamic and evolve over time due to changes in the external environment and the client's internal requirements. These changes include increasing wages for offshore employees and more competition between vendors for clients and clients for vendors (Heineman, 2013). Additionally, technology improvements are allowing the offshoring of more work and more types of work. Clients are requiring more complex, value-added work of a strategic rather than cost savings nature (King, 2005). These changes require closer, more complex relationships between client and vendor (Kaiser & Hawk, 2004).

OUTSOURCING AND OFFSHORING

Outsourcing and offshoring are terms that sometimes have been used interchangeably in the literature to refer to an arrangement by which a company turns over some IT functions to another company (Phannenstein & Tsai, 2004). However, for the purposes of this study, outsourcing and offshoring are two separate terms having two distinct meanings.

Outsourcing has been referred to as the practice of turning over an organization's IT functions, in whole or in part, to an external service provider (Roberts, 2013). Two types of outsourcing identified by Palvia based on relative location from the client are shore and offshore (2005). Shore outsourcing refers to information technology development that is turned over to an external vendor within the client's country of origin, while offshore outsourcing, or simply offshoring, means the external vendor is located in a country other than the client's country. A simple definition of offshoring is moving all or part of your work to another country with cheaper labor (Roberts 2013)

CLIENT-VENDOR RELATIONSHIPS

The general purpose of this study was to determine whether offshoring success varies depending on the type and quality of the client-vendor relationship. Rather than examining economic and strategic measures of offshoring success, the focus was on the client-vendor relationship and its association to offshoring success. Previous research on the offshoring client-vendor relationship has been primarily case studies, literature reviews, and opinion articles. In an early comprehensive survey and analysis of the outsourcing literature, Heineman (2013) concluded that there was a lack of research directed towards an examination of the relationship between the outsourcer and the customer, and that although several studies comment on the importance of the relationship there is a relative lack of analyzing that relationship. This scant research becomes even more lacking when the outsourcing relationship is restricted only to offshoring relationships.

Although client-vendor relationship advice is often given or surveyed, different types of offshoring based on the client-vendor relationship are not acknowledged. Relationship advice is given as if it applies to all offshoring ventures equally. These findings point to an increasing trend in offshoring despite mixed findings regarding economic benefits, political benefits and strategic benefits and the success rate of offshoring ventures. Spurring this study are the all too often lackluster economic and strategic benefits of offshoring, contradictory how-to advice on maintaining a client-vendor relationship and the low success rates of offshoring being reported by numerous trade sources. Given that research in the area of relational offshoring is not prevalent in the general IT outsourcing literature and novel to the IT offshoring literature, an exploratory study was chosen with three research questions that seemed particularly pertinent. They are:

- What are the important relationship factors that lead to offshoring failure or success?
- How are these factors related to one another in terms of relationship building?
- What is the impact of these relationship factors on IT offshoring success?

Relationship Variables

Social exchange theory was used as a basis for examining the relationship between the client and vendor. Social exchange theory requires that as members of an exchange relationship receive benefit, they must return an equivalent amount of benefit to maintain relationship equilibrium.

Variables were identified by a review of the literature primarily from IT outsourcing and offshoring but also from general IT, marketing, sociology and organizational science literature. Client-vendor relationship variables identified include:

- Communication
- Trust
- Shared Values
- Dependence
- Power
- Partnership
- Offshoring success

The exploratory study used a descriptive research design in the form of a survey. The questions used in this survey were gathered from a review of relevant outsourcing and offshoring literature to determine meaningful

data to collect and analyze. An expert panel of IT researchers reviewed the proposed survey questionnaire for completeness, relevance, accuracy, and thoroughness. Based on their responses, all necessary revisions were made to the survey questionnaire. The target population for this study was American companies that employ offshoring. The parent population from which the subject companies were chosen was the list of all Fortune 500 companies. The survey was sent directly to the CIO of Fortune 500 companies. They were asked either to complete the survey themselves or to pass the survey to the person most familiar with their company's offshoring activities.

RESULTS

This study identified several variables for investigation. These social relationship variables included trust, dependency, power, shared values, communication and the type of relationship structure. Communication and shared values are related to trust as well as partnership. The study suggests that trust affects partnership. Furthermore, dependence and power are related and affect partnership. Finally, the model suggests that partnership is related to offshoring success as a mediating variable. Correlation analysis indicated that communication and shared values both correlate with trust and indicated that trust, shared values and communication are all important aspects of Partnership type relationships.

It was found that Partnership was related to offshoring success, and that Partnerships did indeed report a higher level of offshoring success than either buy-in or fee-for-service structures. This project was an exploratory study investigating hypothesized relationships without attempting to reach conclusions about cause-and-effect.

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