



Benefits and Risks of IT Outsourcing

Peter Halachev¹

Abstract: The article presents the main characteristics of IT outsourcing, applied in organizations. The concepts outsourcing, IT outsourcing, offshore programming. Outstaffing are defined and distinguished. The advantages, limitations and disadvantages of the use of IT outsourcing in organizations are analyzed, and possible ways to resolve the limitations and problems are outlined.

Keywords: IT technologies, IT outsourcing, IT outstaffing, benefits, risks

JEL: L86

I. INTRODUCTION

In modern conditions the activity of IT organizations is accompanied by strong competition. Reasons for this is ever wider usage of the Internet in IT business and the possibilities for locating various IT activities geographically distant from the end user. The number and size of IT companies are constantly increasing and in parallel increases the competition between them.

Successful operation of IT organizations and their survival in the market is achieved through effective management of the business, reducing the costs for production and high quality of software applications and services. To increase the efficiency of its operations, IT organizations are increasingly specialized and focus their resources in those areas, where they are most successful.

II. BENEFITS AND RISKS OF IT OUTSOURCING

Outsourcing is one of today's most successful business models, allowing the achievement of real competitive advantages by shifting non-core activities of the organization to external organizations. Thus the organization is capable of focusing its operation solely on these activities in which it has a competitive advantage, and to redirect others (supporting accompanying) functions to a reliable and professional partner.

Activities of the organization that are most often subject to outsourcing are:

- services related to information technology;
- development, integration, implementation and maintenance of software applications;
- administrative management;
- marketing and PR services;
- recruitment, training and development of staff and others.

According to D. Minoli, IT outsourcing is defined as: "Turning over of information systems and/or communications functions, as a whole or in part, to a third-party contractor as a solution to the challenge, problem, and expense of creating and running a corporate information enterprise." [1].

IT Outsourcing (IT outsourcing) is an activity in which the functions of development, integration and maintenance of software applications partially or fully are transmitted to an external organization (subcontractor). IT outsourcing involves one-time or long-term activities related to information technology: maintenance of computer and network equipment, creation and maintenance of information sites on the Internet, consulting, project management, specialized outsourcing companies and others.

Depending on the area of coverage the following IT outsourcing could be distinguished:

Onshore IT outsourcing is a business model that uses an external but local national company for one or more internal business processes and services. Onshore IT outsourcing enables an organization to use a local company for IT and IT enabled products, services, operations and support. This helps companies to reduce internal IT infrastructure and support staff while meeting any legal or operational requirements that may apply [2].

Nearshoring IT outsourcing is "the transfer of business or IT processes to companies in a nearby country, often sharing a border with your own country" [3], where both parties expect to benefit from one or more of the following dimensions of proximity: geographic, temporal (time zone), cultural, linguistic, economic, political, or historical linkages (software development or business process) [4].

Multi-Sourcing: When companies utilize multi sourcing they find several qualified companies overseas to produce their product. This method promotes competitive pricing and eliminates the dependency of "one" company for the product [5].

Offshore outsourcing is a business model more than 2 time zones away and still quite popular in many countries. The Offshore IT outsourcing is related to the development, integration and maintenance and has a number of peculiarities. In recent years in the offshore IT outsourcing contracts include companies that deal professionally with IT business and for them this is their major activity. Western European countries and the United States ordered the development of software applications in outsourcing companies located in countries with relatively low average wage (India, Russia, Ukraine, China and others).

¹ Peter Halachev, Ass. Prof. Ph. D., UCTM – Sofia, Department of Programming and Computer System Application, Bulgaria

Captive IT Offshoring is when companies wholly own the center that is performing the work. Captive Centers are typically in lower cost countries and because the company owns the operation it eliminates the middleman [5].

Alongside widely used is the term IT outstaffing, which is most often defined as removal of staff from the organization and transfer the functions of human resource management to an outstaffing organization. IT outstaffing is applied in cases when for an organization is economical to remove staff, subject to reduction or temporary staff recruited for the implementation of a specific project. Practically assistants work for the contracting organization, but they belong to the staff of organizations providing the outstaffing service. Their employment records are kept in the outstaffing company, their salaries and insurances are paid and deducted by it, and contracting organization pays fixed monthly amount (price of Outstaffing).

In connection with the development of information technology and Internet in recent years, IT Outstaffing is increasingly applied in the form of "virtual offices" [6]. Staff provided to contracting organization by outsourcing or outstaffing companies actually work for IT organization, but does not presents physically in the office (he is working in the office of the outstaffing company, communicating with the contractor company via the Internet. Services of the outstaffing companies' gives additional benefits to organizations because it is eliminates the need for workplaces and equipment. However, with some activities it is not always possible to use "virtual offices". In the area of development of IT projects the usage of "virtual offices" is spreading increasingly.

IT outstaffing helps to:

- reducing the administrative costs and solving the problems related to limitations in the number of permanent staff of the contracting organization ;
- optimizing relationships with staff in individual projects, including salaries, social security charges and bonuses;
- introduction of additional intangible incentives for employees - to attract them at a later stage as permanent staff in the IT organization;
- increase the flexibility and mobility to attract and release of personnel;
- unload their personnel and accounting departments of some of the functions associated with additional staff;
- obtaining the status of small or middle scale enterprise and the opportunity to operate on a simplified scheme of taxation.

Compared to the classic business model, where along with its main activity the organization performs and all supporting functions [7], the application of IT outsourcing has many advantages. It allows the focus of management to concentrate on the core business activity, to reduce the need for investment in non-core activities, to respond quickly and flexibly to market changes. In parallel, the

need to increase the number of staff in the organization fades out, and that helps the reduction of production costs. The advantages of the application of IT outsourcing can be summarized as:

- Improvement of the quality and reliability of auxiliary services because a specialized outsourcing company is responsible for the quality of work that it performs;
- Total concentration of the staff of contracting organization on its core business;
- Usage of foreign experience. Outsourcing organizations often have ready solutions, enabling them to solve the problems of the contracting organization with excellent quality and high performance;
- Implementation of modern technologies. Specialized outsourcing companies are the first to be introduced the new technologies in the field of IT, which provides high competitive advantages to organizations that use their services [8];
- The increasing complexity of IT technologies and operating systems (e.g. Microsoft, Linux) requires periodic training of own specialists or employment of highly skilled professionals from outside companies.

Despite the advantages, however, the application of IT outsourcing is associated with some problems and disadvantages. For example, the salaries of IT professionals tend to increase, while at the same time the pool of qualified IT professionals is limited, and to attract them is needed more and more funds. The main limitations associated with the use of IT outsourcing could be formulated as:

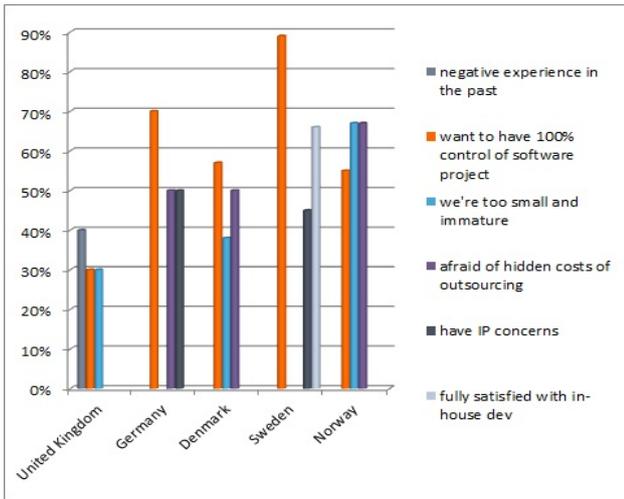
- Services of IT outsourcing organizations often are too expensive;
- The use of IT outsourcing organizations could bring additional risks to the contracting organization that are associated with leakage of important information;
- passing the basic and important to organization functions in "foreign hands" is a prerequisite for creating competitors;
- separation of the management of business practices and fears of lose of operational control over business activities;
- Dependency on the subcontractor or provider of IT services.
- Training of foreign IT specialists, instead of their own, etc.

According The 3d Annual European IT Outsourcing research 2012 one of the key factors keeping Western European companies away from considering outsourcing their high-tech solutions is that they want to have maximum



managerial control of their project (cumulative 60% across all countries polled). See Picture 1 for details [9].

REFERENCES



Picture 1: Factors that prevent companies from outsourcing (est. 2012)

V. CONCLUSIONS

Outsourcing offers several advantages to IT organizations: increase of effectiveness of the operation, reduction of costs, access to modern technologies, improving the quality of service and competitiveness.

However, it is necessary IT Outsourcing to be applied with respect to the type of organization, the specifics of the IT business and the specific tasks to be solved.

The use of IT outsourcing is effective when:

- the activities of the organization and specific tasks are not significantly affected by differences in time, language and nationality of organizations;
- The provision of trade secret is guaranteed by the signing of agreement for non-disclosure of information;
- On the basis of detailed and accurate assessment and analysis to be chosen that forms of IT outsourcing that are best suited to solve the specific problems in the organization;
- Carefully are selected such providers of outsourcing services that have extensive experience and reputation in the market of IT services.
- In IT company there are limitations on increasing the number of personnel or funds for salaries;
- performing temporary work or projects it is necessarily to attract qualified staff and others.

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