

***PLUGGING INTO OFFSHORE OUTSOURCING OF SOFTWARE DEVELOPMENT:
AN EXPLORATORY CASE STUDY***

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Abstract

This paper explores the practice and trends of offshore outsourcing of systems development in two countries; namely, Finland and India. In particular, it deliberates upon the driving forces and obstacles of the offshore outsourcing. The viewpoints of the participating companies got researched using a multiple case study method. The findings indicate that the imperative for engaging in offshore outsourcing systems development and the obstacles encountered do not depart from findings in information technology (IS) literature. However, a novel finding of this study of this present study is the use of a software house (broker) on the Finnish side that acts a buffer for other local firms with little or no experience in offshore outsourcing. On the other hand, the Indian software house in this study engages in offshore systems development with their Finnish counterparts for reasons espoused in IS literature. Furthermore, the role of trust and the importance of selecting the right partners are considered vital to the success of the arrangement. The implication of the study is that it enhances our knowledge of cross-cultural outsourcing in systems development, which may be useful to practitioners and academics alike.

Keywords: *One, Two, Three, Four.*

1 INTRODUCTION

The impact of globalisation of resources has led to dramatic increases in cross-country business cooperation. The global software industry is one of such businesses experiencing exponential growth since the 1980s (Correa, 1995; The Outsourcing Institute, 2004; Greenemeier, 2002; Patane and Jurison, 1994). Within the global software industries, there are a host of segments; for example, applications and systems development (SD), business process outsourcing (BPO) and so forth. In this study, we will be deliberating upon an arrangement involving SD between two countries – Finland and India. Realistically, the two countries have been noted as major players in the global software industry (Heeks, 1996a; Carmel, 2003). Importantly, outsourcing has become an appealing option to organisations operating within the global economy for a variety of reasons. Some of those include the desire to be competitive (Porter, 1990), occasioned by intense global competition, scarce human resources, cost reduction and time-to-market considerations and so on (Elmuti and Kathawala, 2000; Lacity and Willcocks, 2002; Gupta and Gupta, 1992; Clark, 1992). Outsourcing of software production and other systems development has in the recent decades taken up global dimensions in which companies from the developed countries outsource information

technology (IT) functions involving software development and maintenance, application development, business process maintenance, etc. to the developing countries (Bagchi, 1999; Rajkumar and Mani, 2001; Heeks, 1996b; Ke, 1989; Carmel, 2003). More recently, the flow of traffic has seen organisations from developing nations outsourcing to Western-owned firms (Rosencrance, 2004). Furthermore, the milieu also include firms from the developed world scampering to establish offshore operations or presence either through joint ventures or technical collaborations with partners in the developing parts of the world (Bhatnagar and Madon, 1997; Gupta, 2002).

Offshore outsourcing of systems development refers to the business practice whereby a business entity in one country looks for a foreign vendor or partner in another country that has expertise in developing operations in IT/IS development that were previously performed in-house domestically. The term offshore, according to some authors might have been used to implicitly describe non-traditional software development sites in developing countries (Smith et al., 1996). However, recent trends (Carmel, 2003b; Vijayan, 2003) offer a wider view of the definition. Countries such Ireland and Canada are also involved in offshore outsourcing. Also, Rajkumar and Mani (2001) define offshore outsourcing as: “When the supplier of software development is from another country than the firm that decide to outsource information systems”. Offshore outsourcing itself is couched in global IS/IT outsourcing, which describes the arrangement in which organisations contract all or part of IS development and maintenance, application development and other IT operations to one or more foreign suppliers (Chen, 1988; Rajkumar and Mani, 2001; Smith et al., 1996). Global IS/IT outsourcing, in turn, stems from outsourcing, which is a term that different authors have ascribed a variety of definitions and frameworks; for example, (Rands; 1992; Williamsons, 1985; Willcocks and Fitzgerald, 1993) views it in terms of the market – “market versus hierarchy and make-or-buy”, whilst others describe it from the viewpoint of “vertical integration” (Gurbaxani and Whang, 1991; Porter, 1980).

Nonetheless, our literature review indicate that much attention has be paid to the various segments and examples of outsourcing, including offshore outsourcing in which anecdotal and empirical evidence have dealt with issues such benefits, risks, management decision and practices of outsourcing. Very little attention seems to be paid to case studies involving cross-national arrangements in offshore systems development, especially where the expertise of a broker software house is employed in order to minimise the risks that might arise in an outsourcing arrangement. Furthermore, very limited information regarding the Finnish customer perspective of offshore outsourcing has been disclosed. To that end, this present study aims to fill such gaps in research.

In this paper, we will discuss findings relating to the practice, the driving forces and the inhibitors of offshore outsourcing at the country and organisation level in Finland and India. Thus, the main objective is to explore the initiation and management of the offshore partnerships between the organisations in the two countries. This research paper is not aimed at presenting conceptual frameworks and models for offshore outsourcing as several already exist; see, for example (Ang, 1994; Smith et al., 1996; Feeny and Willcocks, 1998; Kern and Willcocks, 2000; McFarlan and Nolan, 1995), rather it sets out to explore and presents its findings in regard of the foregoing in tune with prior IS literature on offshore outsourcing of systems development. The rest of the paper is organised as follows: We begin by reviewing the historical background and trends in outsourcing including offshore outsourcing. The next sections specifically deal with the software and the systems development industries in Finland and India. Drivers and inhibitors and sourcing strategies/relationships of offshore outsourcing

are presented. The following sections cover the research methodology and the case analyses. Finally, we present the discussions and conclusions of the paper.

2 HISTORICAL BACKGROUND, TRENDS AND PRACTICE OF GLOBAL OUTSOURCING

The historical roots of IT outsourcing can be traced to the 1960s when computer systems were physically bulky and large. Such computers, namely mainframe were used for time-sharing services (Cohen, 2003; Apte et al. 1997; Harindranath and Dhillon, 1997). The expensive nature of such systems led many organisations to contract out routine data processing activities to large externally managed operators. The arrangement came to be known as facility management. The underlying motivation for businesses to outsource during this period was cost reduction.