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Outsourcing decision-making aspects considered by IT departments in Brazilian companies

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ABSTRACT

The study of Information Technology (IT) outsourcing is relevant because companies are outsourcing their activities more than ever. An important IT outsourcing research area is the decision-making process. In other words, the comprehension of how companies decide about outsourcing their IT operations is relevant from research point of view. Therefore, the objective of this study is to understand the decision-making process used by Brazilian companies when outsourcing their IT operations. An analysis of the literature that refers to this subject showed that six aspects are usually considered by companies on the evaluation of IT outsourcing service alternatives. This research verified how these six aspects are considered by Brazilian companies on IT outsourcing decisions. The survey showed that Brazilian companies consider all the six aspects, but each of them has a different level of importance. The research also grouped the aspects according to their level of importance and interdependency, using factorial analysis to understand the logic behind IT outsourcing decision process.

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1. Introduction

The outsourcing movement is growing in all sectors of the economy, mainly in the Information Technology (IT) services area. In Brazil, the number of IT outsourced professionals, functions or activities increased by 127% in 10 years (Portal Exame, 2006). This movement shows the fact that companies are outsourcing their IT activities more than ever. Considering such scenario, it is important to study and understand the main aspects of this movement and its consequences, mainly in countries where this increase is more significant.

IT outsourcing has been used by companies over the last 50 years and researched by the academy since then (Vassiliadis et al., 2006). Many companies (specially small and medium enterprises) depends on new IT applications to maintain their competitiveness and outsourcing IT is,

frequently, the only way to implement these applications (Chen and Wang, 2008; Offodile and Abdel-Malek, 2002). The decision to outsource IT, in different degrees and in different ways, has been an important focus in IT research and practice. In the last years, the decision to switch vendors or to backsource (or insourcing) has gained the interest of the academy (Whitten and Leidner, 2006). Therefore, researches concerning the aspects related to IT outsourcing decisions are important in order to develop knowledge about this subject.

The purpose of this study is to understand if Brazilian companies consider the same IT outsourcing decision aspects that are described in the literature and, in case they do so, this research tries to find out the level of importance attributed to each decision aspect.

In order to achieve this purpose, this study will research the literature that covers IT outsourcing to address the main aspects considered by the companies in an IT outsourcing decision. In the following steps, the study will research, through a survey, IT professionals of Brazilian companies aiming to evaluate if their companies

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consider the aspects found in the literature, and the level of importance that each aspect represents to them. The data received by the survey will be statistically analyzed and discussed. The study is then finalized with the conclusions, the study limitations, and suggestions for future research.

2. Aspects involved in IT outsourcing decisions

IT outsourcing has been considered an important aspect by companies managers and also by academic researchers along the last five decades.

Rockart et al. (1996) discussed the importance of IT outsourcing as a way of obtaining skills that companies do not have. As an example, manufacturing companies are getting resource skills strategic related benefits from IT outsourcing (Offodile and Abdel-Malek, 2002). However, Rockart et al. (1996) highlighted the difference between deciding about IT outsourcing and making IT outsourcing work properly. Besides, managers should be able to distinguish when the IT outsourcing decision is just a transactional choice and when IT outsourcing is strategically relevant.

The outsourced IT activities lead to a change in the way IT should be managed: instead of managing professionals, companies have to manage contracts (Ho et al., 2003). The complexity of this new scenario is also affected by the fact that IT industry has changed to a network configuration, in which many players in this industry develop their activities in collaboration or in a complementary way with other IT companies (Hallikas et al., 2008; Yu et al., 2008). In this context, it is increasingly important to make the right decisions about the evaluation and selection of possible IT suppliers (Chen and Wang, 2008).

The decision to outsource IT functions is considered by Olson (2004) as one of the main strategic decisions. Strategic decisions are those that involve the commitment of a large number of organizational resources for attaining goals (Lacity and Willcocks, 1998). As a result, strategic decisions change a series of organizational aspects and functions; they also influence the direction that the company will take. Strategic decisions also change organizational management and structure (Paisittanand and Olson, 2006). For being strategic, the evaluation of the outsourcing decision contains other components. Revising the literature that covers this theme, it was possible to verify the prevalence of some aspects in IT outsourcing decisions. These aspects are presented below.

Strategic issues: This aspect concerns the benefits incurred with the construction of alliances among the customer and the outsourcing supplier. Some examples of these benefits are: use of supplier's innovations and professional capacities; possibility of fast market changes and technological scenarios, etc. The alliance building process was studied by some researches and, according to these studies, the process evolves from a cost relationship, going through a resource relationship and finalizing on a partnership (Lacity and Hirschheim, 1993; Quinn and Hilmer, 1994; McFarlan and Nolan, 1995; DiRomualdo and

Gurbaxani, 1998; Lonsdale and Cox, 2000; Gottschalk and Solli-Seather, 2006).

Costs: This subject approaches not only the details related to outsourcing costs, but also collects issues related to "hidden" costs; in other words, the costs incurred with the contract management. Transactional costs concepts can be applied to this specific point. Within this group of costs one can find the costs related to supplier change or the costs associated to technological updates (Lacity and Hirschheim, 1993; Quinn and Hilmer, 1994; DiRomualdo and Gurbaxani, 1998; Lonsdale and Cox, 2000; Barthelemy, 2001; Aubert et al., 2004).

New management forms: The choice of outsourcing necessarily implies changes in the management style of the IT function. Before outsourcing, the people involved in the operation of the area have technical abilities to guarantee the service operation. After outsourcing, the involved people's abilities change from technical to administrative. On the other hand, due to the outsourcing movement, some companies are demanding professionals with skills in buying strategy, hiring, legal issues and selection, development and management of suppliers. Besides, outsourcing can bring strategic and new business impacts (Quinn and Hilmer, 1994; Venkatraman, 1997; Bullen et al., 2007).

Risks: The outsourcing risks have a direct relationship with the other aspects discussed in this text. For instance, the hidden costs of an outsourcing process are directly related to failure risks. In the same way, the loss of information privacy and safety, in addition to the loss of IT technical experience seems to be quite related to the strategic issues aspect. Besides, the risks can be linked to the decision process and with the outsourcing scope. One of the risks presented in the literature is the one originated by the supplier, by the fact that this part has to handle the dichotomy between delivering a good service and obtaining high revenues (Lacity and Hirschheim, 1993; Quinn and Hilmer, 1994; Earl, 1996; Tafti, 2005; Taylor, 2007).

Contracts: Outsourcing contracts discuss the points that allow a long-lasting relationship among the parts. In other words, the contract should: guarantee a strategic alliance among the parts; allow the customers to have access to the technical knowledge of the supplier; possess a very defined measure system so that the performance of the delivered service can be constantly evaluated; determine growth ratios and be adjusted to business changes; and so on (Lacity and Hirschheim, 1993; Quinn and Hilmer, 1994; McFarlan and Nolan, 1995; DiRomualdo and Gurbaxani, 1998; Lonsdale and Cox, 2000).

Benchmarking: Covers the study of similar cases accomplished by other companies or is described in the literature. Also, it can provide a differentiated vision on the process as a whole, facilitating the decision making process (Huber, 1993; Lacity and Hirschheim, 1993; Arnett and Jones, 1994; Quinn and Hilmer, 1994; Cross, 1995; Hurley and Schaumann, 1997; DiRomualdo and Gurbaxani, 1998; Lonsdale and Cox, 2000).

When approaching costs in outsourcing decision or in outsourced operations, authors such as Aubert et al. (2004) highlight the relationship of these aspects with

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