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# IT Outsourcing


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## IT Outsourcing

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**Abstract** Businesses, shareholders and all other interested parties (Custom, Tax Administration and Customers) require just in time information regarding profit, price, stock and support. Businesses have responded to those requests with implementation of IT (Information Technology) infrastructure, but implementation of advanced IT system infrastructure has created cost for shareholder and there was immediate need to recruit and to train existing staff. With this step, management focus was oriented in non-strategic processes, and for the implementation and managing of those processes, the management did not have necessary skills, due to this reason many companies in US, Europe and Asia have started to outsource those processes. Regarding process of outsourcing Glassman (2010) concludes, “outsourcing of non-strategic processes eliminates a distraction, enabling management to focus its distinctive capabilities on areas critical to its strategic success” (p.1).

**Keywords:** IT, Shareholders, Outsourcing

### 1. Shareholder Value

IT outsourcing and shareholder values are in correlation, according (Glassman, 2010) “IT outsourcing has a discernible positive impact on share prices”, (p.1) and according to conducted research in “27 companies undertaking large IT outsourcing initiatives indicates an average gain in shareholder value of 5.7% and above the general market trend” (Glassman, 2010, p.2).

Shareholder value is increasing for companies that outsource IT, since companies are sharing risk with vendors and at the same time, companies are benefiting from vendor expertise and knowledge regarding IT systems. Leijdekker, (2002) states that “One way to outsource receivables management and feel comfortable about it is to hand off the risk and/or the financing to an outside vendor” (p.27). Risk is shared in that way since vendors are taking care for all software license fees, data storage and data processing. Despite this it is in duty of vendor to invest on training for their staff and to provide proper IT solution systems that are matching requirements of companies.

Businesses benefits from outsourcing their IT because they are using other people and other companies experience, for one company may be very difficult to implement an IT solution, while the other one, the implementation of IT solution is a routine job.

Auguste, Hao, Singer, and Wiegand, (2002) are concluding that despite the difficulties, there is a potential to gain profit by conducting routine operations for other companies.

In another research conducted by Palvia and Xia, and, King, (2011) conclusion is that outsourcing of IT functions is important component of IT strategy for companies in U.S, Japan and in Western European countries.

### 2. Challenges and Examples of It Outsourcing

Practice and literature confirms that IT outsourcing have positive impact on increasing shareholder value and Lee, Huynh, Kwok, & Pi, (2003) states that:

“The future prosperity of an organization depends on the quality of its information services. An organization’s overarching objective in managing its information resources should be to maximize flexibility and control in order to pursue different options as its circumstances change”, (p.89).

Even that outsourcing will create a profit and it will increase shareholder’s value, this process has its challenges and risks. Among the risks that can influence successful implementation of outsourcing of IT are culture differences, labor laws and government rules. One company may outsource it’s IT

services in domestic country or in a third party countries, for example many U.S based companies are outsourcing their IT system processes in India, Philippines and in other less developed countries where labor force is cheaper but the knowledge and expertise already exists. Before getting involved in outsourcing process companies should consider cultural differences and time zone since those factors will affect working culture and schedule. For example, in author's country (Republic of Kosovo) is operating 3 CIS, which is IT solution provider company and this company is sub contracted by many companies in U.S in order to maintain their IT servers.

Many companies had already invested a lot on their hardware, software and in their staff, but the problem is that they are using those resources only two or three days in a month, only when they need to produce bills for their customers. Since they have unallocated resources and to gain profit those companies are offering their services for other companies. Because of government rules and regulation regarding protection of personal and confidential data, many companies are limited and cannot outsource their IT services to other vendors. This is a case with Croatian Telecom, this company is part of German Telecom and German Telecom already has up and running proper billing system. It seems to be logical to compute all invoices of Croatian Telecom, but since by the law it is forbidden to send customers data out of the country, Croatian Telecom is forced to invest in hardware and in software and to compute invoices in Croatia. However, the laws are different in each country, for example in author's country (Republic of Kosovo), laws regarding protection of customers are not imposed by government. Many companies are using this opportunity to outsource some of their operations, for example KEC (Kosovo Electro energetic Company), is outsourcing billing system in another country.

But not all the companies are outsourcing their IT systems, some of them had decided to do everything in house, for example in a company where the author is employed, Post and Telecom of Kosovo (PTK), all the services are conducted in house and nothing is outsourced. PTK could outsource some of non-strategic services, like billing system, online customer support and IT help desk. With this measures PTK shareholder value would be increased and best practices will be implemented.

Sometimes those kinds of decisions could create an opportunity and competitive advantage for companies. For example, Learning Tree, an international training provider company, in early 1980, was a hardware producing company based in U.S. This company had started to organize training for their staff and at the meantime, they had discovered that they are very good in the field of training so today they are offering only professional training in the field of IT and management.

## Conclusions

Nowadays the success of one company is measured by companies' ability to compute and to provide accurate information. Businesses, shareholders and all other interested parties (Custom, Tax Administration and Customers) require just in time information regarding profit, price, stock and support. In order to respond to those requests businesses had implemented IT systems. With this step, management focus was oriented in non-strategic processes, and for implementation and managing those processes management did not have necessary skills, for this reason many companies in US, Europe and Asia had started to outsource those processes.

Outsourcing as a concept was introduced in 1990, and after year 2000 many companies had started to outsource their IT non-strategic processes. With this step, companies are taking a certain amount of risk, but as the benefit they can focus on their strategy instead losing time and energy on implementation of different IT systems which are requiring knowledge of latest IT technology and in a same time they require more human resources.

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Practice and literature confirms that IT outsourcing have positive impact on increasing shareholder value. Even that outsourcing will create a profit and it will increase shareholder's value, this process has its challenges and risks. Among the risks that can influence successful implementation of outsourcing of IT are culture differences, labor laws and government rules.

But not all the companies are outsourcing their IT systems, some of them had decided to do everything in house and some had discovered that they are very good in different fields.

Generally outsourcing IT creates value and require a willingness to nurture a partnership with another company, but in the end of day, decision for IT outsourcing is matter of corporate or company culture. Some companies possess skills and believe that they should do everything in house, while 'modern' companies outsource their non-strategic IT operations. IT outsourcing is associated with a certain risk but in a same time, this process create opportunity for experience exchange and outsourcing can be used an entry gate to new markets, because during this process companies will gain knowledge regarding market, labor skills and potential investment opportunities.

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