IT Outsourcing Strategies:
The Case of Indian Banking Sector

Siva Prasad Ravi, Thompson Rivers University, Canada

Ravi Kumar Jain, IFHE University, India

Wei Song, Thompson Rivers University, Canada

ABSTRACT

Several studies pertaining to outsourcing in the banking and financial services sector in developed countries show a gradually growing trend of outsourcing among banking and financial organizations, both in terms of nature and scope of activities outsourced. Outsourcing of Information Technology (IT) services to achieve competitive advantage has become a key part of the organizational strategies in the banking industry. However, not many studies focus on outsourcing trends and practices of banking industries in developing countries like India and China. The present paper investigates the trends in IT outsourcing (ITO) practices among the private and public sector banking institutions in India and makes a comparative analysis of these practices with reference to four importantt dimensions of outsourcing, shoring, sourcing, engagement and duration.

Keywords: Banking Sector, Engagement and Duration, Four Dimensions, Indian, IT Outsourcing Strategies, Shoring, Sourcing

INTRODUCTION

According to Federal Bank of New York (1999), not only there is a gradually growing trend in financial services sector in outsourcing, both in terms of nature and scope of activities outsourced, but also outsourcing has become critical imperative for survival of financial institutions in today's business environment.

Ackermann (2003) observed that financial services have become the second largest sectoral user of outsourcing services after manufacturing. Basel Committee on Banking Supervision (2004) estimated that more than US$356 billion (represents 15 percent of the total industry's cost base) of the US financial services industry would be outsourced, especially to offshore locations.

Accenture (2002) survey has shown that a number of banks in the USA outsourced not just functions like credit card processing, HR and IT, but also data sensitive finance and accounting functions like GL, tax accounting, fixed asset accounting, accounts payable and receivable, account management, reconciliation, treasury and capital management.

Some study also observed increasing trends of outsourcing (especially 'offshoring') of more complex, traditional core processes, white-collar business processes in the UK's financial services industry. In fact this triggered a tremendous growth in outsourcing and off-shoring within the international BFSI sector.

LITERATURE REVIEW

As outsourcing decisions are key elements of organization's strategy, it is very important to understand the implications of outsourcing on a particular activity/process/function. Both in practice and literature, various dimensions of outsourcing have been identified which need to be considered while taking an outsourcing decision. A few dimensions as identified in the outsourcing literature are – type of activities being outsourced; nature of services outsourced or service individualization; scope or extent of outsourcing; ownership of assets or transfer of assets (also called degree of independence); geographical location of service providers; and number of service providers engaged (i.e., service creation). The same can be summarized into four major dimensions, first, the sourcing model based on vendor type, second, shoring model based on vendor location/service creation, third, engagement model (based on number of vendors engaged), and fourth, the duration of the engagement based on the period of contract.

Outsourcing, as a business practice, is identified in two broad categories, namely Information Technology Outsourcing (ITO) and Business Process Outsourcing (BPO) (Fröschel, 1999). BPO involves outsourcing of business related and functional activities like payroll, accounting, customer support, recruitments etc. ITO involves outsourcing of all information technology related activities like IT application development, IT infrastructure etc. Fröschel (1999) also highlights that both ITO and BPO can encompass different activities such as development, operations, maintenance, customization and further development. This categorization of outsourcing is based on the nature of activities involved in an outsourcing engagement.

Lancellotti, Schein, Spang, and Stadler (2003) undertake a similar classification as they studied the "outsourcing stack". Their classification of outsourcing was based on the type of outsourced activity. According to them, the outsourcing stack consists of IT infrastructure, IT applications and the respec-

tive business processes. They suggest that the service components of this "stack" can either be outsourced individually or as a bundle, i.e., the vendor may perform different activities, such as development, operation or maintenance, for each of these components.

Willcocks and Lacity (1998) describe six forms of the emerging models of outsourcing – Value added Outsourcing, Equity holding, Multi-sourcing, Co-sourcing, Spin-offs, and Creative contracting.

A study by Dibbern and Heinzl (2001), identifies various vendor types based on the ownership of the outsourcing facility and the transfer of assets. According to them outsourcing activities can be based on procurement of outsourcing services from a legally independent entity (third party vendor) vis-a-vis a profit center with capital ties to the enterprise (e.g., subsidiary or joint venture).

Another important dimension of outsourcing is the number of vendors engaged by a client (Lacity & Hirschheim, 1995; Lacity & Willcocks, 2001). An organization may choose to engage a single vendor (single outsourcing) for all its outsourcing needs or may engage multiple vendors for the same (multiple outsourcing) depending upon several factors like nature of the activities, vendor's capabilities, client's ability to manage vendors, availability of vendors, and maturity of outsourcing market, and so on. Gallivan and Oh, (1999), have described four outsourcing models, namely, Dyadic outsourcing arrangement, Multi-vendor, Co-sourcing, and Complex sourcing, based on number of vendors involved in an outsourcing engagement. Gallivan and Oh (1999) viewed IT outsourcing relationships as business alliances while describing client vendor relationship (single client/single vendor; multiple clients/ single vendor and so on) and observed that the dependency on a single vendor can be risky to the client.

The scope or the extent of outsourcing is also a very important dimension of an outsourcing decision. Albright, (2003), Lacity and Hirschheim, (1995), Lacity and Willcocks, (2001), use the terms of "total" and "selec-

Related Content

Ethos, Pathos, and Logos of Doing Business Abroad: Geert Hofstede's Five Dimensions of National Culture on Transcultural Marketing
Ben Tran (2016). *International Business: Concepts, Methodologies, Tools, and Applications (pp. 1601-1626).*
www.igi-global.com/chapter/ethos-pathos-and-logos-of-doing-business-abroad/147923?camid=4v1a

Exploring Client Perceptions and Intentions in Emerging Economies: The Case of Green Banking Technology
Mehree Iqbal, Nabila Nisha, Afrin Rifat and Pradiptarathi Panda (2018). *International Journal of Asian Business and Information Management (pp. 14-34).*
www.igi-global.com/article/exploring-client-perceptions-and-intentions-in-emerging-economies-the-case-of-green-banking-technology/204378?camid=4v1a

Innovative Retailing: Uplifting the Lives of Basic Ecclesial Community in Camarines Sur, Philippines
Anne Marie F. Bagadion (2013). *International Journal of Asian Business and Information Management (pp. 16-26).*
www.igi-global.com/article/innovative-retailing/88087?camid=4v1a

The Bhagavad-Gita and Business Ethics: A Leadership Perspective

Balakrishnan Muniapan (2015). *Asian Business and Management Practices: Trends and Global Considerations* (pp. 232-253).

www.igi-global.com/chapter/the-bhagavad-gita-and-business-ethics/116588?camid=4v1a