

A Study on Impact of Risk and Benefits of Outsourcing towards the Business Performance in Financial Institutions in Sri Lanka

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Introduction

Throughout the world, usage of Information Technology (IT) has been increasing with the globalization. Presently every organization utilizes the IT based treatment in their common business practices. Network management, application development, data management, maintaining infrastructures and providing hardware are the services that are involved in booming the IT scenario. Furthermore, the IT consultation and the IT solutions for the organization are the treatments which are offered by IT services providers. When the IT decisions are implemented by the organization, they consider the cost of implementation of IT infrastructures. It may relatively be a significant investment that can not be borne by the organization within their cost structure.

In the Sri Lankan context, the IT involvement in the business process has now been increased with a rapid enhancement of Information Technology. Global consulting giant, A.T. Kearneys, Global Services Location Index, 2006 highlights Sri Lanka among the top 50 outsourcing destinations. Sri Lanka finds its place in the index at the ranking of 29th among the 50 nations which were considered by AT Kearny. The A.T. Kearney Global Services Location Index analyzes the top 50 services locations worldwide against 41 measurements in three major categories and they include the cost, people's skills and availability and business environment.

Methodology

Twenty out of ninety seven financial institutions in Sri Lanka were included in the sample and primary data were collected using a questionnaire. Secondary data were collected from information sources of central bank, annual reports of the financial institutions and their official web sites.

Mean and standard deviation were utilized in the descriptive analysis in order to identify the existing level of benefits and risks of IT outsourcing and business in the financial institutions in the Sri Lankan context. Karl Pearson product moment correlation coefficient was applied to measure the relationship between benefits and risks towards IT outsourcing and IT outsourcing towards business performance in financial institutions in Sri Lanka. Further, multiple regression test was also applied so as to analyze the relative contribution of each factor in risks and benefits towards IT outsourcing and business performance in financial institutions in Sri Lanka.

Result and discussion

Results revealed that most of the Chief Information Officers (CIO) accounts for adequate professional qualifications and more than 15 years of work experience. Hence, it is recommended that if anyone has a future ambition to be a CIO in a financial institution, it is better to obtain the professional qualifications in relation to IT. As far as the work experience is concerned, it is advisable to have more than 15 years of work experience at least, to be a CIO in this sector.

Further, it was identified that the financial institutions account for a high degree of IT outsourcing and IT outsourcing benefits while they account for a moderate level of Risks of IT outsourcing. This can be a significant opportunity to the IT companies which are engaged in renting out the IT services as there is a high degree of IT outsourcing in the financial institutions in Sri Lanka.

As far as risks of IT outsourcing are concerned, there is a strong negative relationship towards the degree of IT outsourcing. Hence, the financial institution can reduce the risks of IT outsourcing by engaging in strong contracts with the IT rented companies in outsourcing the IT process. A strong contract would mainly include strong terms on replacing and repairing of IT equipments and tools. Technological changes and actions to the damages can react against the breach of contract by the IT companies in IT outsourcing. Consulting Programs and training campaigns offered by the IT vendors tend to create positive impacts towards increasing the benefits of IT outsourcing.

Moreover, a strong positive relationship could be observed between business performance and degree of IT outsourcing. The degree of IT outsourcing gives a considerable contribution to the business performance in the sense that the degree of IT outsourcing impacts positively and strongly on the business performance.

In addition, CIO should be aware of the technological changes and new services offered by leading IT vendors in the world (IBM, Microsoft, Dell and Intel etc) in relation to the financial institutions.

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