

Financial And Strategic Determinants Of IT Outsourcing Success: An Empirical Analysis

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Abstract

The dynamic landscape of the IT and IT-enabled services (ITES) sector has positioned outsourcing as a pivotal strategic tool for organisations seeking operational efficiency, scalability, and global competitiveness. Traditionally, financial imperatives—such as cost reduction, profit maximisation, and compliance—have been the dominant motivations behind outsourcing decisions. However, with increasing complexities in global service delivery, strategic factors—such as governance mechanisms, risk mitigation strategies, location planning, and alignment with long-term business objectives—have emerged as equally, if not more, influential in determining the overall success of outsourcing engagements.

This research aims to empirically examine the relative impact of financial and strategic determinants on the successful adoption of outsourcing in the IT/ITES industry. Employing a structured, quantitative methodology, data were collected through a self-administered survey targeting experienced professionals in the field. A total of 160 valid responses were analysed using Structural Equation Modeling (SEM), providing robust insights into the interactions between key variables.

The findings reveal that while financial considerations serve as a crucial foundation for initiating outsourcing arrangements, it is the strategic dimension that significantly drives sustainability and long-term value. Moreover, strategic factors were found to mediate the influence of financial drivers, highlighting the necessity for integrated decision-making frameworks. These results suggest that organisations need to shift from a purely cost-centric view of outsourcing to a more holistic model that embeds strategic alignment at its core.

This study offers meaningful contributions to both academic literature and industry practice. Theoretically, it bridges gaps in outsourcing research by integrating the Resource-Based View (RBV) and Technology–Organization–Environment (TOE) frameworks to explain outsourcing success. Practically, it equips decision-makers with actionable insights to craft outsourcing strategies that are financially viable, strategically sound, and operationally effective. As outsourcing continues to evolve in response to technological and market shifts, these findings underscore the importance of aligning financial rationale with strategic foresight.

Keywords: IT Outsourcing, ITES Industry, Financial Determinants, Cost Optimization, Operational Efficiency.

INTRODUCTION

2.1 Background

In recent decades, the global IT and IT-enabled services (ITES) industry has experienced unprecedented growth, with outsourcing emerging as a central strategy for organisations seeking competitive advantage, operational efficiency, and innovation at scale. The surge in outsourcing activity has been primarily driven by the rapid evolution of digital infrastructure, increased global connectivity, and the constant pressure on organisations to remain lean, agile, and responsive in an increasingly volatile business environment.

Outsourcing in the IT/ITES domain began as a financial strategy—focused on cost reduction, labour arbitrage, and improving profit margins. Early adopters were attracted by the promise of lower operational costs through offshoring and the potential to convert fixed costs into variable ones. Over time, these benefits were complemented by financial goals such as increased profitability, enhanced compliance with regulatory standards, and reduced capital expenditure. Such financial motivations have been extensively cited in outsourcing literature as the primary triggers for adopting external service engagements.

However, with the growing complexity of outsourced operations and the increasing reliance on external vendors for critical business functions, organisations began to encounter new challenges. It became clear

that financial advantages alone were not sufficient to ensure the long-term success of outsourcing initiatives. Strategic considerations such as the selection of appropriate outsourcing models, development of governance frameworks, alignment with organisational goals, risk mitigation strategies, and quality control mechanisms started playing a more central role.

The evolution of outsourcing from a transactional cost-saving mechanism to a strategic partnership model reflects the growing understanding that outsourcing is not merely an operational shift but a transformative business decision. As a result, the need for an integrated approach that balances financial imperatives with strategic planning has become essential for realising outsourcing success.

2.2 Problem Statement

Despite the widespread adoption of outsourcing across the IT/ITES industry, a significant proportion of initiatives fail to meet their intended financial or strategic goals. A recurring issue lies in the overestimation of cost benefits due to overly optimistic business cases. Many organisations overlook hidden costs such as knowledge transfer efforts, vendor onboarding, contractual disputes, and the reintegration of outsourced capabilities in the event of termination. These hidden expenses can erode the expected cost savings, leading to underperformance or even failure of outsourcing initiatives.

Additionally, outsourcing engagements often suffer from a lack of robust strategic planning. Without a well-defined governance structure, clearly articulated performance metrics, and aligned incentive systems, organisations risk developing fragmented outsourcing relationships that are misaligned with their core business objectives. The absence of a strategic roadmap can also result in unclear ownership, communication gaps, and a failure to adapt to evolving technological and business demands.

These shortcomings contribute to a persistent gap between projected financial outcomes and actual performance. Despite initial savings, the lack of strategic depth often leads to diminished returns, reduced flexibility, and, in some cases, long-term capability erosion. The interplay between financial assumptions and strategic oversight is frequently underexplored, leaving organisations ill-equipped to manage the complexity of outsourcing in a dynamic global environment. Addressing this gap requires a comprehensive understanding of how financial and strategic determinants jointly influence outsourcing success.

2.3 Research Questions

In light of the challenges outlined above, this study seeks to answer the following key research questions:

- **RQ1:** To what extent do financial considerations—such as cost reduction, profitability, and compliance—impact the success of IT/ITES outsourcing initiatives?
- **RQ2:** What is the role of strategic factors—such as governance frameworks, risk mitigation, and location strategy—in enabling successful adoption and implementation of outsourcing?
- **RQ3:** Do financial considerations exert an indirect influence on outsourcing success through their impact on strategic planning and alignment?

These questions aim to unpack the multidimensional nature of outsourcing decisions and explore the interdependencies between financial motivation and strategic execution.

2.4 Research Objectives

In alignment with the research questions, the core objectives of this study are:

- **Objective 1:** To critically evaluate the influence of financial drivers—including cost optimisation, profit margins, and regulatory compliance—on the adoption and success of outsourcing practices in the IT/ITES sector.
- **Objective 2:** To analyse how strategic dimensions—such as governance design, location planning, risk management, and quality control—contribute to the effectiveness and sustainability of outsourcing engagements.
- **Objective 3:** To investigate the potential mediating role of strategic factors in shaping the relationship between financial considerations and outsourcing outcomes, thereby highlighting the interconnectedness of these dimensions.

These objectives seek to provide both empirical evidence and theoretical insights into how financial and strategic determinants jointly influence the trajectory and success of outsourcing strategies.

2.5 Significance of the Study

This study makes a valuable contribution to the academic discourse on IT outsourcing by offering a nuanced and empirically grounded examination of both financial and strategic factors. While prior research has largely treated these variables in isolation, this study integrates them into a unified conceptual and analytical framework. It leverages established theoretical lenses such as the Resource-Based View (RBV) and the Technology–Organization–Environment (TOE) framework to enrich the understanding of outsourcing dynamics and outcomes.

From a practical perspective, the study offers critical insights for business leaders, CIOs, procurement officers, and strategy professionals involved in outsourcing decisions. By highlighting the pitfalls of cost-centric outsourcing and emphasising the importance of strategic alignment, the research provides actionable guidance for designing, managing, and evaluating outsourcing relationships. These insights are particularly relevant in today's business environment, where organisations must optimise operations while navigating uncertainty, digital disruption, and heightened expectations around value delivery.

Ultimately, this research aims to bridge the theory–practice divide by delivering a comprehensive, evidence-based guide to successful IT/ITES outsourcing—grounded in financial prudence and strategic foresight.

3. LITERATURE REVIEW

3.1 Theoretical Foundation

Outsourcing decisions in the IT and ITES sectors are grounded in a variety of theoretical perspectives that help explain both economic and strategic behaviour. One of the foundational frameworks is Transaction Cost Economics (TCE), proposed by Williamson (1985), which suggests that organisations choose to outsource when the costs of performing a task internally exceed the costs of using an external provider. This theory focuses on minimising transaction-related inefficiencies by optimising governance and contractual structures.

Complementing this is the Resource-Based View (RBV), which highlights the strategic rationale for outsourcing. According to RBV, firms achieve a sustainable competitive advantage by leveraging valuable, rare, inimitable, and non-substitutable resources. Outsourcing becomes a strategic enabler when it allows organisations to concentrate on core competencies while accessing external expertise and innovation capabilities not available in-house.

Agency Theory further contributes to the outsourcing discourse by examining the relationship between principals (client organisations) and agents (service providers). It underscores challenges such as information asymmetry, goal misalignment, and the need for robust monitoring and incentive systems to ensure compliance and minimise opportunism. In the outsourcing context, Agency Theory explains why clear contracts, performance metrics, and accountability mechanisms are essential.

These three theoretical lenses—TCE, RBV, and Agency Theory—together provide a comprehensive foundation for analysing outsourcing from both financial and strategic dimensions.

3.2 Financial Factors in Outsourcing

Financial motivations remain a key driver behind outsourcing decisions, especially in the IT/ITES industry. One of the most cited objectives is cost reduction, achieved through lower labour costs, streamlined operations, and reduced infrastructure investment. This cost-centric approach has historically guided outsourcing, particularly for routine or non-core processes.

However, the actual financial outcomes are often clouded by hidden costs that are not factored into initial business cases. These may include transition costs, vendor management overheads, legal expenses, contract renegotiations, and investments in relationship governance. Such unanticipated expenditures can significantly diminish the expected cost savings and lead to suboptimal results.

Additionally, return on investment (ROI) and profitability metrics are crucial for evaluating outsourcing effectiveness. Yet, many organisations struggle to measure ROI accurately, especially when outcomes are qualitative or long-term in nature. Proper financial tracking requires a holistic view that accounts for both direct and indirect costs and benefits.

Another important dimension is the risk-cost trade-off. While outsourcing may initially appear financially beneficial, it can expose organisations to various risks, such as data security issues, service disruptions, dependency on vendors, and regulatory compliance challenges. Hence, managing this trade-off is essential to ensure that financial gains do not come at the expense of strategic resilience or business continuity.

3.3 Strategic Factors in Outsourcing

Beyond financial considerations, strategic factors play a pivotal role in determining outsourcing success. A key strategic decision involves correctly identifying and preserving core competencies—the unique capabilities that provide a firm with its competitive edge. Outsourcing non-core functions can help firms remain focused, but misjudging what is ‘core’ may result in long-term capability erosion.

Robust governance mechanisms are essential for monitoring and managing outsourcing relationships. These include well-defined contracts, performance metrics, escalation procedures, and service-level agreements (SLAs). Effective governance ensures accountability, reduces ambiguity, and fosters a collaborative relationship between client and provider.

Strategic vendor selection is another critical factor. Choosing partners based solely on cost can be shortsighted. Instead, successful outsourcing often depends on selecting vendors with the right technical expertise, industry knowledge, cultural compatibility, and proven track record. Long-term partnerships require alignment not only in capabilities but also in values and objectives.

Location strategy also matters. Offshoring to cost-effective regions offers financial benefits but may increase complexity in communication, time zone coordination, and legal compliance. Strategic location decisions must consider both cost and risk mitigation, especially in volatile or highly regulated environments.

Lastly, the implementation of quality management systems, such as ISO certifications and continuous improvement processes, helps maintain service standards and customer satisfaction. These systems are crucial for ensuring that the outsourcing engagement delivers consistent value and aligns with organisational expectations.

3.4 Finance–Strategy Interaction

While financial and strategic factors are often examined independently in literature, their interaction can be a decisive factor in outsourcing success. Aligning financial goals with strategic intent ensures that cost-saving measures do not compromise long-term organisational capabilities or innovation potential.

The integration of governance frameworks with financial oversight can help organisations control costs while ensuring quality and accountability. For example, performance-based contracts that include financial incentives for meeting strategic KPIs can balance short-term gains with long-term objectives.

Furthermore, risk management strategies act as a bridge between financial prudence and strategic stability. Identifying and mitigating financial risks such as cost overruns, vendor failures, or currency fluctuations ensures continuity and reliability in service delivery, even in uncertain environments.

Overall, viewing outsourcing through the lens of finance–strategy alignment allows organisations to move beyond reactive, transactional decisions toward a more integrated and proactive outsourcing model.

3.5 Gaps in Literature

Despite substantial academic interest in outsourcing, certain gaps remain underexplored. Notably, there is a lack of empirical research examining how strategic factors mediate the relationship between financial drivers and outsourcing success. Existing models tend to analyse these dimensions in isolation, ignoring their interdependence and combined influence.

Moreover, current frameworks often fall short in offering comprehensive cost–benefit analyses that account for both tangible and intangible outcomes. While upfront savings are easy to quantify, the long-term impacts—such as knowledge transfer, employee morale, innovation loss, and capability rebuilding—are rarely included in cost assessments.

These limitations suggest the need for a more holistic, empirically validated model that integrates financial, strategic, and operational variables to better guide outsourcing decisions in the IT/ITES industry.

4. THEORETICAL FRAMEWORK AND HYPOTHESES

4.1 Conceptual Model

The theoretical framework of this study is grounded in the integration of Resource-Based View (RBV), Transaction Cost Economics (TCE), and Agency Theory, offering a multidimensional perspective on outsourcing decisions in the IT/ITES sector. These theories collectively explain the rationale behind outsourcing from both financial and strategic viewpoints.

- **RBV** emphasizes leveraging external capabilities to complement core competencies, thus aligning outsourcing decisions with long-term strategic goals.
- **TCE** highlights the importance of cost efficiency, focusing on minimising transaction and governance costs.
- **Agency Theory** addresses the contractual and governance challenges inherent in outsourcing relationships, especially in managing information asymmetries and goal conflicts.

Based on these theoretical underpinnings, the conceptual model of this study proposes three key relationships:

1. **Direct effect of financial factors on outsourcing success:** Financial considerations such as cost optimisation, return on investment (ROI), and regulatory compliance are expected to have a direct influence on outsourcing outcomes.
2. **Direct effect of strategic factors on outsourcing success:** Strategic elements—such as governance mechanisms, vendor selection, location strategy, and quality management—are anticipated to independently drive the success of outsourcing engagements.
3. **Mediating role of strategy in the relationship between finance and outsourcing success:** It is hypothesised that strategic planning mediates the influence of financial considerations on outsourcing outcomes. In other words, financial motives may only lead to successful outsourcing when accompanied by sound strategic execution.

These relationships are visually represented in the conceptual model below:

Finance → Outsourcing Success (Direct Effect)

Finance → Strategy → Outsourcing Success (Mediated Effect)

Strategy → Outsourcing Success (Direct Effect)

This model sets the stage for empirical investigation by articulating how financial and strategic considerations, individually and collectively, shape the success of outsourcing initiatives.

4.2 Hypotheses Development

In line with the conceptual model, the following hypotheses are proposed to guide the empirical component of this study. These hypotheses aim to test the influence of financial and strategic determinants on outsourcing outcomes, as well as the mediating role of strategy in linking finance to success.

Hypothesis 1 (H1): Financial aspects significantly influence successful outsourcing adoption.

This hypothesis is grounded in the idea that financial drivers have traditionally been the primary impetus behind outsourcing. Cost savings, profitability, budget control, and return on investment are often among the first metrics considered by decision-makers. It is assumed that when financial objectives are clearly defined and well-managed, they contribute positively to outsourcing outcomes. However, this relationship may vary depending on the organisation's ability to sustain these benefits over time.

Hypothesis 2 (H2): Strategic considerations significantly influence successful outsourcing adoption.

This hypothesis highlights the critical role of strategic planning in ensuring outsourcing success. Elements such as effective governance, well-defined service levels, vendor selection protocols, risk mitigation plans, and quality management systems collectively form the strategic infrastructure necessary to manage outsourcing relationships. When these elements are properly implemented, they enhance coordination, reduce uncertainty, and align service delivery with organisational goals—thereby improving the likelihood of success.

Hypothesis 3 (H3): Financial factors influence outsourcing success through the mediation of strategic factors.

This hypothesis proposes an indirect or mediated relationship, suggesting that financial motivations alone

may not be sufficient to guarantee outsourcing success. Instead, it argues that financial goals must be channelled through strategic actions in order to be realised effectively. For instance, cost reduction targets may only lead to sustainable outcomes when supported by structured vendor management, performance monitoring, and proactive risk control. Hence, strategic execution serves as a crucial conduit through which financial objectives translate into operational success.

These hypotheses acknowledge the complex and multidimensional nature of outsourcing decisions, moving beyond simplistic cost-benefit paradigms to embrace a more integrated and strategic approach. By empirically testing these relationships, the study aims to contribute to both theoretical development and practical application in the domain of IT/ITES outsourcing.

5. RESEARCH METHODOLOGY

5.1 Research Design

The present study adopts a quantitative, explanatory research design aimed at investigating the direct and indirect effects of financial and strategic determinants on outsourcing success within the IT/ITES sector. This design enables the formulation and empirical testing of causal relationships using a theory-driven, deductive approach.

A cross-sectional survey method was employed, which involves collecting data at a single point in time from a specific population segment. This design facilitates the testing of theoretically grounded hypotheses and is appropriate for analysing structural relationships among latent variables.

The target population includes professionals employed in IT/ITES organisations who are directly involved in strategic decision-making, financial planning, or outsourcing governance. This includes roles such as project managers, operations heads, procurement officers, and IT strategy executives. Their practical involvement ensures that the collected data accurately reflects real-world outsourcing dynamics.

5.2 Sample and Data Collection

A purposive sampling technique was used to identify respondents with relevant exposure to outsourcing decisions. The sample size was determined based on structural equation modeling (SEM) best practices, which require at least 10 observations per free parameter estimated (Bentler & Chou, 1987). Given the model includes approximately 15–20 indicators, the minimum required sample size was estimated at 150–200. The study achieved a final valid sample of 160 responses, which meets these criteria and supports generalisability within the IT/ITES context.

Data were collected using a structured questionnaire, designed to operationalise latent variables and their observed indicators. The survey consisted of multiple-item measures using a five-point Likert scale, where respondents rated their level of agreement (1 = Strongly Disagree to 5 = Strongly Agree).

To ensure instrument validity and reliability, the questionnaire underwent:

- **Content validation** through expert review,
- **Pilot testing** with 20 industry professionals, and
- **Refinement** based on feedback regarding item clarity and construct relevance.

The final survey was distributed electronically. Out of 209 initial responses, 160 completed and usable responses were retained after applying data cleaning procedures including:

- Handling of missing data (pairwise deletion),
- Reverse coding of negatively framed items,
- Identification and treatment of outliers using Mahalanobis distance.

5.3 Variables and Measurement

The constructs in the conceptual model were operationalised as latent variables (η), each measured through multiple observed variables (indicators or manifest variables, x or y). Three primary constructs were analysed:

A. Financial Factors (η_1)

These represent the economic rationale behind outsourcing. Key indicators include:

- **Cost savings (x_1)** – reduction in operational expenditure,
- **Profit margin improvement (x_2)** – expected financial gain from outsourcing,
- **Compliance cost management (x_3)** – reduction in legal/regulatory overhead.

Each indicator is measured on an interval scale and subjected to exploratory factor analysis (EFA) to validate dimensionality.

B. Strategic Factors (η_2)

This construct captures the strategic infrastructure underpinning outsourcing success. Indicators include:

- **Governance framework quality** (x_4),
- **Vendor risk mitigation mechanisms** (x_5),
- **Implementation of quality systems** (x_6),
- **Location strategy appropriateness** (x_7).

These variables are modelled as a mediator (M) in the SEM analysis.

C. Outsourcing Success (η_3)

The outcome variable includes:

- **Performance outcomes** (x_8) – efficiency, cost, and service delivery,
- **Stakeholder satisfaction** (x_9) – internal and external satisfaction,
- **Goal achievement alignment** (x_{10}) – congruence between planned and realised benefits.

Construct validity was confirmed using Confirmatory Factor Analysis (CFA), ensuring all indicators exhibit high factor loadings ($\lambda > 0.60$), and composite reliability (CR > 0.70) and average variance extracted (AVE > 0.50) were achieved.

5.4 Data Analysis Techniques

A multi-step analytical strategy was followed to assess the hypothesised relationships among the constructs:

A. Descriptive Statistics

Preliminary analysis involved computing measures of central tendency (mean, median), dispersion (standard deviation, variance), and distribution (skewness, kurtosis) to understand respondent demographics and variable distributions.

B. Correlation Analysis

Pearson's correlation coefficient (r) was used to assess bivariate relationships between constructs. Significance levels (p -values) were examined to confirm linear dependencies and multicollinearity was checked using Variance Inflation Factor (VIF < 5) to ensure the appropriateness of SEM.

C. Structural Equation Modeling (SEM)

SEM was employed using ADANCO 2.4.1 to test the theoretical model. The analysis consisted of:

- **Measurement model estimation** (outer model): Assessing reliability, convergent validity, and discriminant validity.
- **Structural model estimation** (inner model): Testing path coefficients (β), significance (t -values), and explained variance (R^2).

The structural model was specified as:

$$\begin{aligned}\eta_2 &= \alpha_1 + \beta_1 \cdot \eta_1 + \zeta_1 \\ \eta_3 &= \alpha_2 + \beta_2 * \eta_1 + \beta_3 * \eta_2 + \zeta_2\end{aligned}$$

Where:

- η_1 : Financial factors,
- η_2 : Strategic factors (mediator),
- η_3 : Outsourcing success,
- β_i : Path coefficients,
- ζ_i : Error terms,
- α_i : Intercepts.

D. Mediation Analysis

To evaluate the mediation effect of strategic factors (η_2), the Baron and Kenny (1986) four-step method was used alongside the Sobel test, calculated as:

$$Z = \frac{a * b}{\sqrt{b^2 * s_a^2 + a^2 * s_b^2}}$$

Where:

- a : Path coefficient from finance to strategy,

- b : Path coefficient from strategy to outsourcing success,
- s_a, s_b : Standard errors of a and b respectively.

A significant Sobel Z ($p < 0.05$) confirms partial or full mediation. Bootstrapping (5000 resamples) was also applied to estimate the indirect effect confidence intervals (CI), further validating the mediation. This rigorous methodological framework ensures both statistical reliability and theoretical integrity in evaluating how financial and strategic factors shape outsourcing outcomes in the IT/ITES industry.]

6. RESULTS AND ANALYSIS

This section presents a comprehensive analysis of the data collected through the structured survey of professionals from the IT/ITES sector. The findings are organised into three key areas: (1) descriptive statistics and sample characteristics, (2) hypothesis testing using structural equation modeling, and (3) additional insights based on moderator analysis and industry-specific patterns.

6.1 Descriptive Statistics

Sample Profile and General Trends

The final dataset consisted of 160 valid responses from experienced professionals involved in outsourcing functions—such as finance managers, IT strategists, vendor managers, and operations leads—across small, medium, and large-scale IT/ITES organisations. These professionals were drawn mainly from India's prominent technology hubs, including Bangalore, Hyderabad, Pune, and NCR, ensuring geographic diversity.

A demographic breakdown revealed:

- 58% of respondents worked in large-scale organisations, while 42% were from mid-sized or smaller enterprises.
- Around 67% of participants had more than five years of experience, adding credibility and insight to the responses.
- The majority of respondents reported active involvement in outsourcing decision-making and contract oversight processes.

Variable Distributions and Relationships

All variables used in the analysis were subjected to descriptive statistical evaluation. Measures such as mean, standard deviation, skewness, and kurtosis indicated that the data was normally distributed and free from significant outliers or non-linearities, thus fulfilling the assumptions for further parametric testing.

To explore preliminary relationships between key constructs—financial factors, strategic factors, and outsourcing success—Pearson correlation coefficients were calculated. Results are summarised below:

- A moderately strong positive correlation was observed between financial and strategic factors ($r = 0.58, p < 0.001$), suggesting that organisations with a strong financial rationale also tend to adopt formal strategic processes.
- Both financial ($r = 0.51$) and strategic ($r = 0.63$) factors showed significant positive correlations with outsourcing success ($p < 0.001$), reinforcing the hypothesised influence of both constructs.

These initial observations set the stage for more robust causal testing using structural equation modeling.

6.2 Hypothesis Testing

To rigorously evaluate the theoretical model, Structural Equation Modeling (SEM) was applied using ADANCO 2.4.1. The model included three latent constructs: financial factors, strategic factors, and outsourcing success. Each construct was measured through multiple observed indicators validated through Confirmatory Factor Analysis (CFA).

H1: Financial factors significantly influence outsourcing success

The SEM analysis confirmed a positive and statistically significant relationship between financial factors and outsourcing success.

- Path Coefficient ($\beta = 0.29$)
- t -value = 4.75, $p < 0.001$

This finding supports Hypothesis 1, confirming that considerations such as cost savings, increased profitability, and regulatory cost management have a direct and meaningful impact on the perceived

success of outsourcing engagements. However, this influence, while statistically significant, was relatively moderate, suggesting that financial gains alone may not be sufficient to guarantee outsourcing success.

H2: Strategic factors significantly influence outsourcing success

The results also validated Hypothesis 2, demonstrating a strong and significant effect of strategic planning on outsourcing outcomes.

- **Path Coefficient ($\beta = 0.47$)**
- **t-value = 6.83, $p < 0.001$**

This highlights that strategic elements—such as vendor governance, risk management, and service quality systems—contribute substantially to achieving outsourcing objectives. The strength of this relationship suggests that organisations with clear strategic frameworks are more likely to derive sustained value from their outsourcing efforts.

H3: Strategic factors mediate the relationship between financial factors and outsourcing success

To test Hypothesis 3, a mediation analysis was conducted following the Baron and Kenny (1986) framework, supplemented by the Sobel test and bootstrapping for greater accuracy.

- **Indirect Effect (Finance $\rightarrow$ Strategy $\rightarrow$ Success): $\beta = 0.27$**
- **Sobel Z = 3.69, $p < 0.001$**
- **Bootstrapped 95% CI: [0.16, 0.38]**

The analysis revealed a significant partial mediation, indicating that while financial considerations directly influence outsourcing outcomes, a considerable portion of their effect is channelled through strategic initiatives. In simple terms, organisations that align their financial goals with strategic execution—such as proper vendor selection and monitoring—are more likely to achieve outsourcing success.

The final model demonstrated a high explanatory power, accounting for 68% of the variance ($R^2 = 0.68$) in outsourcing success, which reinforces the model's robustness and practical relevance.

6.3 Additional Findings

Moderating Effects

Further exploration was conducted to identify whether any variables moderate the relationship between strategic factors and outsourcing success. Two moderators were tested: organisation size and managerial experience level.

- The interaction between organisation size and strategic alignment was not statistically significant ($p = 0.11$), indicating that the strategic effect holds across both large and smaller firms.
- In contrast, experience level showed a significant moderating effect ($p < 0.05$). The strategic influence on outsourcing success was more pronounced among respondents with higher experience levels, implying that experienced managers are more adept at converting strategy into successful outcomes.

Industry-Specific Patterns

The sample was further segmented into sub-sectors—BPO, IT infrastructure, and software services—to uncover industry-specific patterns.

- BPO firms placed the highest emphasis on financial benefits, with cost savings being a primary motivator.
- IT infrastructure providers showed a more balanced view, with attention split between governance and cost.
- Software firms prioritised strategic quality mechanisms, such as agile delivery frameworks and ISO certifications, to ensure high-end service delivery.

These insights suggest that while the overarching model is broadly applicable, the weightage of financial vs. strategic drivers varies by industry niche.

SUMMARY OF RESULTS

The results of this study provide robust empirical support for the central argument that both financial and strategic factors are critical to outsourcing success, particularly within the IT/ITES domain. The strategic dimension not only influences success directly but also plays a pivotal mediating role, transforming financial intent into operational performance.

Moreover, the findings offer practical insight: decision-makers should not rely solely on cost savings but must develop strategic capabilities—such as vendor governance, risk controls, and quality assurance—to fully realise the value of outsourcing.

7. DISCUSSION

This section interprets the key results of the study in light of the theoretical framework and prior research. It explores how financial and strategic factors influence outsourcing success, reflects on the implications for academic theory, and outlines actionable insights for managers. The findings not only confirm established ideas but also present new perspectives on how finance and strategy work together in the real-world context of IT/ITES outsourcing.

7.1 Interpretation of Results

Consistency with Theoretical Foundations

The findings of this study strongly align with the underlying theories that guided its development—Resource-Based View (RBV), Transaction Cost Economics (TCE), and Agency Theory. Each of these theories played a role in shaping the study's expectations, and the results reinforce their relevance.

The Resource-Based View argues that organisations can gain competitive advantage by leveraging external resources, especially when those resources complement internal capabilities. Our findings support this idea: strategic capabilities like vendor management, risk mitigation, and governance mechanisms were shown to be key drivers of successful outsourcing.

Transaction Cost Economics, which focuses on minimising costs through efficient contracting and coordination, was also validated. Financial goals like cost reduction and profit improvement were found to positively influence outsourcing outcomes. However, the study showed that these financial goals alone do not guarantee success—they must be strategically implemented and governed. This interdependence is where Agency Theory becomes especially relevant, highlighting the importance of contracts, monitoring, and alignment between outsourcing clients and vendors.

Comparison with Prior Research

When compared to earlier studies in the outsourcing literature, this research builds upon and extends their conclusions. Many past studies, such as those by Lacity et al. (2011) and Willcocks et al. (2007), acknowledged the importance of cost savings and vendor relationships. However, they often examined financial and strategic factors independently, rather than as interlinked elements of a unified system.

This study offers a fresh contribution by demonstrating that strategy mediates the relationship between financial intent and outsourcing success. In simpler terms, just having cost-reduction goals is not enough—what matters is how those goals are executed through thoughtful planning and strategic governance. This mediating effect, supported by both statistical evidence and theoretical rationale, adds a deeper understanding of how outsourcing really works in practice.

Real-World Relevance

Practically speaking, the findings serve as a caution to decision-makers who focus narrowly on short-term cost reductions without investing in the strategic systems needed to sustain those savings. The message is clear: outsourcing success is not a result of cost-saving alone—it depends on how well that cost-saving is integrated into the broader strategic context. Organisations that fail to make this connection may experience lower-than-expected returns, service quality issues, or even contract failure.

7.2 Theoretical Contributions

Strengthening RBV and TCE in Outsourcing Research

This study contributes to theory in multiple ways. Firstly, it reinforces the explanatory value of RBV and TCE in outsourcing decision-making. While RBV focuses on accessing valuable external resources and TCE centres on reducing costs, our findings suggest that both must operate in tandem. Strategic mechanisms are not just desirable—they are essential for translating financial objectives into real value. This insight helps reconcile two schools of thought that have sometimes been treated separately in the literature.

Proposing a Finance–Strategy Interaction Model

Perhaps the most novel theoretical contribution is the finance–strategy interaction model proposed and tested in this study. Unlike earlier models that treated financial and strategic factors as parallel influences, this model suggests a more dynamic relationship—financial goals flow through strategic systems to produce success. This model gives future researchers a new framework for studying outsourcing outcomes and fills an important gap in existing literature, where the interaction between cost expectations and execution mechanisms was often underexplored.

By confirming this mediation empirically, the study provides a strong foundation for further exploration of how strategic planning amplifies or moderates financial priorities in outsourcing contexts.

7.3 Managerial Implications

The practical takeaways from this research are both clear and actionable. For organisations engaging in IT/ITES outsourcing, the findings offer a roadmap for smarter, more sustainable decision-making.

Rethinking Financial Planning

Financial planners and budget managers should be aware that initial cost projections often underestimate hidden expenses, such as contract transition costs, vendor relationship management, and post-deployment adjustments. Instead of relying on overly optimistic cost models, companies should adopt a more conservative and layered approach that includes both direct and indirect costs. This will lead to more realistic ROI expectations and better budgeting.

Strategic Execution Is Non-Negotiable

The role of strategy cannot be treated as secondary. This study highlights that governance frameworks, service-level agreements, risk management plans, and vendor evaluation systems are not optional—they are foundational to outsourcing success. Firms that ignore or delay these mechanisms risk falling short of their financial and performance goals.

This insight should encourage IT directors, procurement heads, and operations leaders to invest early in strategic infrastructure, particularly in large or multi-vendor outsourcing arrangements.

Risk Management as a Value Enabler

Finally, the study reinforces the importance of building proactive risk management into every stage of the outsourcing lifecycle. From the pre-contract stage to performance monitoring, organisations must prepare for variability in service quality, data security, geopolitical risk (in offshoring), and regulatory shifts. Strong risk management does more than prevent failure—it actively enhances the stability and predictability of outsourcing relationships.

Final Reflection

Taken together, these findings advance both academic understanding and practical thinking in the field of IT/ITES outsourcing. They reveal that outsourcing success is not simply a financial decision, but a complex strategic journey. When financial goals are supported by strong strategic practices, outsourcing can deliver not only cost benefits but also long-term innovation, agility, and performance.

This research encourages decision-makers to move beyond short-term cost thinking and embrace a more strategic, holistic approach—one that aligns finance and strategy to unlock the full potential of outsourcing.

8. CONCLUSION

8.1 Summary of Findings

This study set out to explore what really drives success in IT/ITES outsourcing—looking beyond cost savings to understand how financial goals and strategic planning work together. The results offer valuable insights.

We found that financial factors, like reducing costs and improving profit margins, do play a role in outsourcing success. But even more important are the strategic elements—such as having a solid governance structure, managing vendor relationships effectively, and mitigating risks. These strategic practices not only have a stronger direct impact on outcomes but also help organisations get more out of their financial investments.

In simple terms, outsourcing is most successful when companies don't just focus on saving money, but also put the right strategic mechanisms in place to make those savings count. The data shows that strategy serves as a bridge between financial intent and real results.

8.2 Limitations

Like any research, this study has its boundaries.

First, it captures a snapshot in time—a cross-sectional view—so it doesn't show how outsourcing dynamics might change over the long run. Second, the focus was limited to Indian IT/ITES companies, which means the findings may not apply equally to other regions or industries. Finally, the study relied on self-reported responses, which, while useful, can sometimes be influenced by personal bias or optimism.

These are important to keep in mind, but they don't take away from the core insights this research offers.

8.3 Future Research Directions

There's still much more to explore.

Future studies could take a longer-term approach, tracking how outsourcing decisions and outcomes evolve over time. It would also be helpful to compare across countries or industries, to see how different environments affect the finance-strategy-success relationship. Researchers might also look at other influencing factors—like leadership style, organisational culture, or digital maturity—that could strengthen or weaken the effects observed here.

Another valuable direction would be developing a detailed cost-benefit framework that includes not just visible expenses but also hidden costs, such as transition challenges, vendor turnover, or cultural mismatches. This could help managers make better, more informed outsourcing decisions.

In closing, this research shows that outsourcing success isn't just about making the right financial call—it's about following through with the right strategic support. When financial and strategic goals are aligned, companies are far more likely to achieve lasting, meaningful results from their outsourcing partnerships. This is the direction where both theory and practice need to move—towards a more balanced, thoughtful, and integrated approach to outsourcing.

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