

Chapter 1.8

Making Sense of the Sourcing and Shoring Maze: Various Outsourcing and Offshoring Alternatives

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ABSTRACT

Many terminologies have grown out of the outsourcing and offshoring bandwagon. While the corporate world continues to experience these phenomena, the academic world continues to research the same. An attempt has been made to give an overview of the various outsourcing and offshoring alternatives. We first discuss the basic sourcing strategies (insourcing and outsourcing) and the shoring strategies (onshoring and offshoring). We then move deep and wide into the maze and unravel the multiple alternatives that businesses exercise in order to get the best deal for their information system (IS) needs. Approximately 50 terminologies that are related to this growing maze have been discussed. The literature was scanned for various sourcing alternatives and terminologies. The purpose of this chapter is to compile and elucidate the various facets of domestic and global sourcing of IS

needs. The reader will gain holistic perspective of a phenomenon that is continuously changing the way business is carried out globally.

INTRODUCTION

“*Outsourcing*” and “*offshoring*” are two of the media-friendly terms being bandied about in recent times. However, there are many other aspects to the phenomenon. These terminologies are often confused and misunderstood.

The notion that jobs move out of some economically rich countries due to “*outsourcing*” may not be terminologically correct. For example, in “*on-shore-outsourcing*” (or “*domestic-outsourcing*”) the jobs have simply been outsourced to a vendor in the same country. The terminologically correct notion is that jobs move out from one country to another country due to “*offshoring*.”

Similarly when programmers think that “*offshoring*” of software development implies that

their code will be written by people of a different company, they may not be terminologically correct. In “*offshore-insourcing*” (or “*global-insourcing*”), the task is still performed by the same company, though in a different land.

In brief, work is “*outsourced to vendors*” and “*offshored to another country*.” *Outsourcing* of work is *across organizational borders*, while *offshoring* of work is *across geographical borders*.

A large number of terminologies are already being used, and as the business world explores and experiences new information system (IS) sourcing alternatives, newer terminologies will be coined, and existing terminologies may be subjected to multiple interpretations. This chapter will attempt to elucidate many the existing terminologies.

We broadly define a *client* as anyone in need of services. For the purposes of maintaining clarity, the terms “*client*”, “*customer*” and “*buyer*” have been treated synonymously to imply a firm (or even an individual) that is seeking services, from either internal service providers (like the client’s own internal department, or a subsidiary) or from external service providers (a vendor/supplier). The client *owns* any “*client-entity*” such as the client’s internal IS department or a subsidiary. In the same vein, the terms “*vendor*,” “*supplier*,” “*third party*”, and external “*consultant*” have been treated synonymously to imply an “*external service provider*” or a *non-client entity* whose business is to provide services to the client.

In this chapter, the term “*information system*” (IS) has been assumed to broadly refer to not just *information technology* (IT), but also various types of information systems whose functioning has been influenced by use of IT (e.g., financial, accounting, health care, educational, human resource, customer service, logistics, management and other information systems). This has been done as the concepts in this chapter can be applied to a wide variety of industries and services that gather, process, store, transmit, display, disseminate, and act on information. For example,

the term *IS* department when understood in the context of this chapter, can be considered as *any* department that engages in collecting, processing, editing, storing, transmitting and supplying data or information relating to a certain area of application.

THE BASIC “SOURCING” STRATEGIES

Insourcing and *outsourcing* are the two basic sourcing strategies. Simplistically, it is the choice between either “*walking the path alone*” or “*building on acquaintances along the way*” such that a firm’s business interests are best served.

Insourcing

- *The service provider is a client entity*

Often organizations have their own IS departments or IS subsidiaries from where they *insource* their IS needs. The responsibility and delegation of tasks involved the firm’s IS needs are handled internally (*in-house*). Hence, when the service provider to the client is a *client-entity* such as a *subsidiary* or the *internal IS department*, it is known as *insourcing*.

Insourcing has also been interpreted as being part of a *multi-sourcing continuum* having two possible insourcing strategies: (a) the “*OK as is*” strategy where the status quo of insourcing IS activities is considered the best sourcing strategy, and (b) the “*fix and keep in-house*” strategy where insourcing is again considered the best strategy but the internal IS department needs to adopt better practices to become more efficient and effective (Wibbelsman & Maiero, 1994, as cited in Dibbern, Goles, Hirschheim & Jayatilaka, 2004, p. 11).

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