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Chapter III

Offshoring: Evolution or Revolution?

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Abstract

This chapter describes the emergence of offshoring. It defines relevant concepts, and documents its rapid growth. The factors differentiating offshoring from outsourcing are discussed, especially access to markedly lower costs, extra risks, and cultural differences. A methodology for deciding what processes to offshore, and establishing, maintaining, and renewing offshoring projects is proposed. Offshoring is no longer the preserve of organizations; individuals can obtain an increasing variety of services from overseas. Offshoring is contentious because it threatens to replace high-paid jobs in First World countries with less well-paid Third World jobs. Most outsourcing depends on organizations' ability to transfer data instantly, accurately, and at nearly zero marginal cost. This chapter suggests that the ramifications for individuals, organizations, and societies of this technical advance are underestimated. Further research, especially on the ramifications, is suggested. The difficulty of researching offshoring, a sensitive topic for many organizations, is noted.

Introduction

Outsourcing of business processes has become popular among management, management consultants, and governments, although it has been used for centuries. Its recent prominence is attributable to changes in technology— exemplified by the World Wide Web (WWW)—that have made it easy for organizations to share large amounts of data almost instantly, with high fidelity, and at almost zero marginal cost. Outsourcing is perhaps the latest managerial fad (Shapiro, 1995), but has more substance than predecessors such as total quality management, business process re-engineering, and empowerment. The latest manifestation of outsourcing is "offshoring;" organizations have discovered that some costs can be substantially reduced by locating operations in Third World countries. Customers' expectations of constantly improving value for money and competitive pressure will force firms to adopt outsourcing and especially offshoring. Now that techniques such as total quality management and business process re-engineering have been fully exploited, offshoring is the cost reduction method with greatest short-term potential.

This chapter defines relevant terms; describes contemporary offshoring's historical precedents; describes the costs and benefits of outsourcing and offshoring; evidences the growth of offshoring; proposes a methodology for establishing and running offshoring projects, outlines the risks inherent in offshoring; notes the emergence of personal offshoring; and discusses offshoring's social and political implications. Conclusions and suggestions for future research are given.

A Historical Perspective

Modern offshoring is the last of three waves, reminiscent of Krondatief cycles, each driven by access to lower costs and radical technical changes yielding reduced costs, product or service improvement, and/or increases in scope. Increasing scope means operating in more geographic areas; selling to more kinds of customers; and/or selling products and services fulfilling more functions. Offshoring is an aspect of globalization (Business Council of Australia, 2004) that has progressively expanded by including trade in agriculture, manufactures, and services. Globalization's progress has been lubricated by reductions in protection and regulation, and advances in technology exemplified by the World Wide Web.

Agriculture

Agricultural products and minerals have long been obtained by First World countries from overseas. Blainey (1966) points out that, when supplying primary produce (first wool, then meat) to England and Europe, Australia had intrinsic advantages of cheap labor and land. Technical advances (especially to transport) such as railways, refrigeration, and the "stump-jump" plough and cheaper inputs (e.g., of fencing wire) reduced the cost, improved the quality, and increased the scope of Australian products, with disastrous effects on British farmers but beneficial effects for British consumers and downstream industries.

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