

# Chapter 1.18

## Offshoring in the ICT Sector in Europe: Trends and Scenario Analysis

**Esther Ruiz Ben**

*Technische Universität Berlin, Germany*

**Michaela Wieandt**

*Technische Universität Berlin, Germany*

**Martina Maletzky**

*Technische Universität Berlin, Germany*

### ABSTRACT

In the context of globalization and internationalization, offshoring processes in the ICT Industry have increased considerably in the software and service sector in recent years due to the cost saving strategies and market entry policies of ICT organizations. Through the heterogeneity of the European ICT sector a regionalization trend regarding host country selection for ICT offshore is, nevertheless, observable. Historical and cultural ties between host and home countries as well as related national stereotypes play an important role in the regionalization process. Moreover, due to favorable EU policies and regulations, off- and nearshoring within the European Union acquire an additional attractive character for some

major European producers, such as, for example, Germany. Thus the Eastern European Member States, which already build out certain sectoral specialization in regard to ICT service provision, have benefited from direct foreign investments. Off- and nearshoring also imply risks and hidden costs linked to structural aspects in host countries as well as to the overestimation of cultural and historical nearness. In our chapter we discuss the trends of the internationalization process in the European ICT sector taking into account related risks in off- and nearshore processes. We argue, furthermore, that long-term cooperation and intercultural training, with the support of local and European institutions, should be considered to confront in a better way the challenges of the internationalization of ICT in Europe.

## INTRODUCTION

During recent years and particularly in the period following the dot.com crisis, offshoring processes in the ICT sector experienced a very important increment primarily due to the pressure to cut costs. The acute labor shortage in the sector prior to the crisis decreased and the maturity of the technological and organizational developments of the late nineties facilitated the increasing standardization of some working processes permitting the delegation of tasks to foreign countries with cheaper labor costs. Thus, the perspective of many ICT organizations changed from attracting foreign workers to a relocation of tasks to foreign destinations.

Focusing on the situation in Europe, since 1995 there has been a rapid growth of foreign workers in the ICT sector in western European countries. According to Kolb et al. (2004):

*In the UK the numbers of foreign workers in the ICT sector rose by 64.3% (from 55,501 to 91,184), the increase in Switzerland was 59.6% (from 6,986 to 11,149) and in Germany 54% (from 10,725 to 16,514). Also, The Netherlands display a 21.4% increase (from 28,000 to 34,000) in that period. There are, however, a number of differences in the occupational categories used in data collection, so that the validity of this data should not be exaggerated. The indicated trend, however, is unmistakable.<sup>1</sup> (p. 157)*

Until 2003 this growth trend in the international immigration of high-qualified workers in EU countries focused especially on the ICT sector remained. Due to the labor shortage prior to the dot.com crisis foreign workers already working in Europe or in the USA played an important role in the early phases of ICT offshoring (Aspray, Mayadas, & Vardi, 2006, p. 17), so we can consider the policies of acquiring ICT foreign specialists since the late 90s the basis for an early development of the IT offshoring processes and for the long term internationalization of the ICT industry.

Educational policies play an important role in this process in the European Union not only at the tertiary level, but also regarding official training programs for continuous education mostly conceived within the framework of the information society concept of the EU. Because the EU cannot be viewed as a unified, homogeneous market, in the following pages we focus on ICT near- and offshore processes in the following European countries: United Kingdom, France and Germany as home countries sending work and Ireland, Poland, Czech Republic and Hungary as host countries acquiring work. Furthermore, we look closely at the importance of particularly large ICT organizations as major players in the professionalization processes within the ICT sector. First, we will show the main features of internationalization of the European ICT sector defining the meaning of ICT near- and offshoring in the following section. The main thrust of our paper focuses on the situation of near- and offshore processes in the EU with special attention to the new Eastern European Member States. Then we will explain the hidden costs as well as the risks involved in near- and offshore projects. This will lead us to possible solutions and recommendations and, finally, to the scope of future trends and further research directions.

## BACKGROUND: THE EVOLUTION AND INTERNATIONALIZATION OF THE EUROPEAN ICT SECTOR

The European ICT sector includes a broad variety of products and activities. Due to unclear production areas because many companies are engaged in different segments of the sector and due to country-specific measurements and data collection, a consistent and overall definition is still missing.<sup>2</sup> In its definition of the ICT sector, EITO (2006, p. 251) distinguishes between, first, information technology (IT), including hardware production (office machines, data processing

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