Chapter 2.7
The Journey to New Lands:
Utilizing the Global IT Workforce through Offshore–Insourcing

Subrata Chakrabarty
Texas A&M University, USA

ABSTRACT

This chapter introduces a prescriptive conceptual framework from the practitioner's perspective for the "offshore-insourcing" journey. In the decision phase of offshore-insourcing, we answer the questions "Why to insource from offshore?" "What to insource from offshore?," and "Where to offshore?" In the implementation phase we answer the question "How to insource from offshore?" and describe the importance of evaluating outcomes. In the process of answering these questions, we discuss insourcing vs. outsourcing and the possible need for offshoring. We think of ways to select the IT functions that can be insourced from offshore, and also look at the popular offshore destinations. We discuss process of managing change, setting up the offshore center, recruiting IT professionals at offshore, and managing the IT professionals at onshore and offshore within the ambit of the global delivery model. Throughout the decision and implementation phases of offshore-insourcing, the focus is on the challenges related to managing IT personnel.

INTRODUCTION

The pressure to lower information technology (IT) costs is high on companies worldwide. The cost of IT, *a major component of which is the cost of IT professionals,* is sometimes a stumbling block in the decision to upgrade to newer and better technology alternatives. The internet provides new opportunities for offshoring of IT or IT enabled work. When a service is made available on-line, all the user knows is what they see on the screen. If they type in an internet address and access a service, they do not need to know about the nationality or race of the IT professionals that have actually developed the Web site. Companies in advanced economies are being driven to look across the horizon by the lure of low costs of IT professionals in other countries and the desire for high software quality. Dibbern, Goles, Hirschheim, and Jayatilaka (2004) note the following:

*Even the popular press (*Business Week*, 2003;* USA Today*, 2003) have reported on this issue*

noting that as much as 50% of IT jobs will be offshored to India and other off- and near-shore destinations in the next 10 years. Such change it is argued is nothing more than the natural progression of first moving blue-collar work (manufacturing, textile production, etc.) overseas followed by white-collar work.

By *offshore-insourcing* of IT work, a company sets up its own IT department or subsidiary in another country (that is, it *insources* IT work from its own IT department or subsidiary located in an *offshore* country). However, there are also some concerns regarding the larger impacts of *offshoring* by a nation on its job market and its knowledge centric competitiveness. Process and operations knowledge may get leaked to local entrepreneurs and competing companies at *offshore* locations (Karamouzis et al., 2004). The other major concern that is often highlighted by the popular media is that of job losses. *Offshoring* is sometimes regarded as a reason for the slackness in growth of employment opportunities in developed economies. However, Karamouzis et al. (2004) of Gartner Research interestingly note the following about job losses:

According to U.S. labor statistics and several academic studies, less than 5% of jobs lost in the United States are attributed to offshoring IT services. A study commissioned by the Information Technology Association of America and developed by Global Insight put the estimate at 2.8%. U.S. government statistics for the last 15 years show that most job losses have occurred due to automation, changes in industry dynamics and process re-engineering.

Many proponents of the above logic face criticism that job growth at onshore may be slower due to offshoring of new projects. Karamouzis et al. (2004) however state that "*new job creation has decelerated in the past three years, perhaps due to greater efficiencies, automation, the economic downturn or pressure on companies to improve productivity without new hires."* Karamouzis et al. (2004) go on to state that concern should not be the number of jobs displaced which is a cyclical trend, but rather the *"potential loss of critical competencies and knowledge-centric roles."* Hence, *offshore-insourcing* is an option to gain access to low-cost & high-quality skills of offshore IT professionals, and also to retain critical competencies and knowledge centric roles within the company, but not necessarily within a nation.

This chapter will explore the *offshore-insourcing* process by asking the questions "Why?," "What?," "Where?," and "How?" in a prescriptive conceptual framework. It will analyze the forces that are driving offshoring in the internet age, and how various organizations can respond to this demand. The process of implementing a decision to insource from offshore is studied by discussing the process of recruiting IT professionals at offshore, understanding the need for change management, and discussing the management of IT professionals at onshore and offshore within the ambit of the *global delivery model*.

The Terminologies

Before we delve deep into this chapter, a quick brush up on the basic terminologies will help. We broadly define a "*client*" as anyone in need of services. The terms "*client*" "*customer,*" and "*buyer*" imply a firm (or even an individual) that is seeking services, from either *internal service providers* (like the client's own internal IT department, or its subsidiary) or from *external service providers* (a vendor/supplier). The term "*client-entity*" implies any entity that is owned by the client, such as the client's internal IT department or its subsidiary. In the same vein, the terms "*vendor*," "*supplier*," "*third party*," and external "*consultant*" imply an "*external service provider*" or a "*non-client entity*" whose business is to provide services to the client.