Chapter XII

Offshore IT Outsourcing

The shifting geography of business processes can de defined as the third wave of geography-related change in the design and operation of corporations. During the first wave, the improving transportation infrastructure of the 20th century enabled corporations to seek effective production capabilities in increasingly far-flung locations that provided access to new markets and tangible resources — land, local factories, mines, and production workers. During the second wave, as capital markets became global and interconnected in the latter half of the 20th century, corporations began to capitalize on vibrant global financial markets for both debt and equity. Now we are in the midst of a third wave — in which digitized business processes like order processing, billing, customer service, accounts and payroll processing, and design and development can be carried out without regard to physical location (Venkatraman, 2004).

According to Kaiser and Hawk (2004), all executives need to explore offshore outsourcing. Competitors' use, or perceived use, makes evaluation inevitable. Even IT organizations that choose not to use offshore companies must be able to convince their senior management that they have carefully considered the option. Those who do choose to outsource need to decide how they want to work with an offshore organization.

Offshore vs. Onshore IT Outsourcing

Underpinning the move toward outsourcing has been a confluence of structural and theoretical changes in the nature of business and organizations dating back approximately two decades. Theorists have suggested that the changing nature of competition has resulted from two factors: (a) globalization of commerce engendering worldwide competition, and (b) technology developments that have changed basic business processes related to time and distance. Globalization and technology have placed enormous pressure on firms to cut costs and improve efficiency in the interests of self-preservation (Clott, 2004).

Wage rate differentials generate cost savings, but the compelling gains come from pairing savings with top-flight skills. While only a few Asian countries offer enough English-speaking call-center representatives and help-desk functions to deal with foreign customers, many other skills are more abundant in Asia than in Europe and the U.S. China, for example, produces 350,000 graduate engineers every year, compared to 90,000 for U.S. engineering schools. And most leading Indian IT-outsourcing firms operate at level five — the highest degree of expertise — of the IT service capability maturity model, whereas most internal IT departments in the United States operate at levels two or three (Hagel, 2004).

Many skills of Asian companies are distinctive. Product engineers in China and Taiwan, for instance, are more focused on designing for production than are their U.S. counterparts, who tend to emphasize features and product performance (Hagel, 2004).

The combination of low wages and a plentiful supply of skilled applicants make it possible for Asian companies to use managerial practices very different from those generally found in developed economies. To begin with, the best offshore companies invest heavily to recruit the right staff because they can afford to be more selective. Furthermore, there are more managers to staff, so that they can spend more time building the skills of employees (Hagel, 2004).

Offshoring Solutions

As of 2004, among the fastest-growing aspects of global outsourcing is business process outsourcing (BPO). BPO began as back-office process arrangements to run finance and accounting operations such as payroll, accounts payable and receivable, financial, insurance, and property accounting. These services have expanded into new areas such as call centers, with staff trained to answer and transact basic service-related areas, including order entry and credit card processing (Clott, 2004).

Kaiser and Hawk (2004) argue that there is currently an evolution of offshore software development from outsourcing and cosourcing. "Financial Insurance Services Company" (FISC) (a pseudonym) is a major U.S. financial services company with thousands of representatives across the country. "Offsource" (a pseudonym) is a leading India-

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