

# Offshoring



Offshoring is an irreversible trend that is already expanding to include not just routine processes but also the core activities of Western service firms (Jagersma and van Gorp)



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### Introduction

Offshoring was established as a business practice more than 50 years ago (Lewin and Peeters, 2006). In the early days and subsequent four decades, it primarily affected manufacturing work. The driver behind this phase of offshoring was to cut costs by shifting manufacturing or assembly operations to low wage countries. Essentially, this enabled firms from high-cost economies to align their cost structures with global competitors and gain better access to emerging markets by establishing a presence there. Since the late 1990s the offshoring of business and IT processes has become common and is mediated by advances in information and communication technologies and the development of stable, secure and high-speed data transmission systems (Lewin and Peeters, 2006). Declines in shipping costs, the proliferation of the internet and decreasing communication costs mean that, increasingly, organisations can afford to locate activities in whichever country offers a cost advantage and favourable environment (Garner, 2004).

Organisations sometimes confuse outsourcing and offshoring. Outsourcing always requires the involvement of a third party whereas offshoring does not necessarily (Jagersma and van Gorp, 2007). Moreover, offshoring always involves a foreign location, whereas outsourcing can be done in the home country of operation (Jagersma and van Gorp, 2007). There are several theories that help to explain instances of offshoring. The core/periphery model argues that core activities – those that contribute strongly to competitive advantage – should be kept in-house whereas periphery activities may be outsourced to providers who can undertake them more efficiently and for lower costs. For example, in terms of HR, offshoring administrative tasks is seen as a means of freeing up internal HR professionals so that they can perform a more strategic role aimed at implementing programmes to retain, develop and enhance employee performance (Cooke and Budhwar, 2009). This is the core function of strategic human resource management.

### Definition

Offshoring is the practice of relocating business activities, including jobs, to a location outside the home country of operation (Garner, 2004; Jagersma and van Gorp, 2007).

### Successful Application

Organisations should not go into offshoring decisions lightly: they must have a clear idea about how to monitor, report and measure processes, as well as conduct adequate research into offshoring provider firms (Jagersma and van Gorp, 2007). While the benefits of offshoring can mean reduced costs and increased competitiveness in a dynamic global market, offshoring starts at home and is highly demanding in terms of management time involved.

### Steps to Successful Application

- Making: what are the motives for offshoring? Motives related to expansion, competitiveness and cost reductions are major factors behind offshoring for service firms.
- Mapping: decide on the offshoring profile. What are the offshoring activities, types of offshoring and offshore location? Have financial resources been approved and management support received?

- Managing: offshoring is politically sensitive. Pay attention to the consequences of offshored activities at headquarters, for example, employees who see their jobs or part of their jobs being relocated abroad.
- Measuring: systematically evaluate (and feedback to stakeholders) the value and potential drawbacks that offshoring has brought to the firm.

*Jagersma and van Gorp (2004)*

### Hints and Tips

- Frequently, the evaluation of cost-benefit perceptions are not carried out in a systematic manner. It is then difficult to reliably establish indicators for future offshoring policies (Jagersma and van Gorp, 2004).
- Organisations with a strong union presence may encounter considerable resistance toward offshoring, so a clear strategy needs to be in place prior to the process that encourages staff buy-in.
- It is important to be clear on what constitutes core and periphery activities: competitive advantage may be compromised if the organisation's core competencies are offshored.
- It is essential to have an exit strategy which offers a critical contingency measure for if the offshoring process or relationship breaks down.

### Potential Advantages

- Organisations can realise potentially lucrative cost savings through strategically planned and executed offshoring of business services (Jagersma and van Gorp, 2007).
- By outsourcing periphery business activities, core activities remain in-house and are retained as a source of competitive advantage (Cooke and Budhwar, 2009).
- Because infrastructure costs are lower in China and India, for example, offshoring results in significant savings on capital (Berry, 2006).

### Potential Disadvantages

- Despite popular belief, offshoring does not always result in financial benefits through cost-cutting (Jagersma and van Gorp, 2007).
- Offshoring inevitably results in job losses in the home country (Cooke and Budhwar, 2009).
- Offshoring has substantial risks in terms of leaking knowledge: knowledge as a key intangible asset is ceded to an outside provider (Berry, 2006).

### Performance Monitoring

- Scorecards: help to conduct a systematic evaluation of the pros and cons of offshoring (Jagersma and van Gorp, 2004).
- Comparing objectives that were set at the beginning of the process and goals achieved (or not) with the relocation of the business processes (Jagersma and van Gorp, 2004).
- Assess employee opinions in the home country toward offshoring prior to initiating the process, for example, surveys and focus groups (Jagersma and van Gorp, 2004).

### Case Studies

- Microsoft offshores various technology projects to the Indian firm Infosys. In one instance, Infosys helped to reduce the time from product release-to-market to availability of downloads from 6-8 weeks to less than 10 days (Berry, 2006).
- ABN Amro offshored US\$2.2bln worth of IT activities in 2005 mainly to low-wage countries, resulting in projected annual cost reductions of US\$720m (Jagersma and van Gorp, 2007).
- ClientLogic used an offshoring provider to boost revenues by implementing a US\$30m cost-cutting drive to consolidate its North American and European finance, marketing and sales operations (Jagersma and van Gorp, 2007).

### CIPS Source Downloads

- CIPS & PACG: Business process re-engineering & business process outsourcing
- CIPS: The decision to outsource the procurement function
- BuyIT: IT outsourcing

### Further Reading/Reference

#### Web Resources

- Alternative to offshoring <http://blogs.hbr.org/2011/01/chinas-rising-costs-whats-next/>
- Offshoring: Jobs <http://www.businessweek.com/stories/2007-06-17/the-real-cost-of-offshoring>
- Should America fear offshoring?  
<http://www.economist.com/blogs/freeexchange/2010/07/trade>
- Offshoring as a win/win phenomenon <http://www.economist.com/node/14301171>
- The future of outsourcing <http://www.businessweek.com/stories/2006-01-29/the-future-of-outsourcing>

#### Books

- The Handbook of Global Outsourcing and Offshoring, Ilan Oshri , Julia Kotlarsky & Professor Leslie P. Willcocks, ISBN 978-0230235502
- Offshore Tax Planning, Giles Clarke & Dominic Lawrence, ISBN 978-1405757539
- The Offshore Nation, Atul Vashistha & Avinash Vashistha, ISBN 978-0071468121
- Offshoring, Diana Farrell, ISBN 978-1422110072
- Managing Global Offshoring Strategies, Jacob Pyndt & Torben Pederson, ISBN 978-8763001694

### References

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- Garner, C.A. (2004) Offshoring in the Service Sector: Economic Impact and Policy Issues, Economic Review, Vol. 89(3), pp. 5-37.

- Jagersma, K.P. and van Gorp, D.M. (2007) Redefining the Paradigm of Global Competition: Offshoring of Service Firms. Business Strategy Series, Vol. 8(1), p. 35.
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- Thilmont, B. (2006) Competing Against Offshoring: A Case Study, Mountain Global. [Online] Available at: [www.mountainglobal.biz/publications/Competing-Against-Offshoring.pdf](http://www.mountainglobal.biz/publications/Competing-Against-Offshoring.pdf) [Accessed: 20 January 2011].

### Video

Future of outsourcing and offshoring

[https://www.youtube.com/watch?feature=player\\_embedded&v=5ZwCDYLCIPM](https://www.youtube.com/watch?feature=player_embedded&v=5ZwCDYLCIPM)

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