Chapter 1.6
Offshoring:
Evolution or Revolution?

Nicholas Beaumont
Monash University, Australia

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;" or-

ganizations 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.

Manufacturing

In the 1970s and 1980s, manufacturing's migration to the Third World caused much First World angst. This migration was caused by improvements in communication (exemplified by the fax machine, cheaper and more reliable international phone calls, and cheaper and better travel), lower wage costs, and lower transport costs (exemplified by the container). Better control systems exemplified by information technology, total quality management, and just-in-time made it easier to specify and monitor manufacturing processes. Increased Third World literacy was perhaps a contributing factor. Bronfenbrenner and Luce (2004) and Bardhan and Kroll (2003) report on the transfer of manufacturing from the United States to countries such as Mexico, China, and India; the rate of transfer increased between 2001 and 2004, and the lower cost of manufacturing in Third World countries offset the extra costs of transport and managing at a distance (Bronfenbrenner & Luce, 2004). Conventional wisdom is that more skilled aspects of manufacturing such as product design and market analysis could be retained in America, but Bardhan and Kroll (2003) note that foreign manufacturers' skills constantly improve.

Services

A wide variety of services is being, or could be, sourced more cheaply from low-wage countries, exemplified by India, than from the First World.

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