

The Organizational Implications of Offshore Outsourcing

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As global service delivery takes hold, IS organizations must anticipate the effects on their organization, their business and their people. Underestimating the change will hamper performance and progress.

ANALYSIS

Make no mistake: The changes associated with IT offshore outsourcing and global service delivery are potent, far-reaching and irreversible. They will seep into IS organizations at different paces and in different ways, and they will alter how IS organizations do business, and how IS professionals define themselves. In this IT Management Article Top View, we turn our attention toward the organizational implications of offshore outsourcing. In particular, we focus on the effects of offshore outsourcing — more accurately, the global service delivery model — on IS professionals, IS organizations, and the enterprises and industries in which they operate.

The Impact of Global Service Delivery on IS Professionals: The global IT service delivery model has one fundamental hypothesis: that IT skills, knowledge and services can be competitively extracted, reconstructed and delivered across borders, time zones and business entities. Assuming the hypothesis to be true — and a growing percentage of companies are proving that it is — the hypothesis tests the basic value assumptions of individual professionals, forcing them into a defensive posture. Global service delivery challenges three professional assumptions: 1) Skill-based knowledge work is intrinsically unique and, hence, not repeatable. 2) Enterprise IT is so complex and so exotic that it must be handled only by hands-on employees. 3) Advanced education and specialized technical skills are immune from global transfer.

A reality check is warranted: Offshore outsourcing will not be applicable to all enterprises, all IS roles or all IS professionals. For now, offshore outsourcing tends to concentrate on application development and application maintenance, which together represent about 25 percent of the IS staff count and 25 percent of the total IT budget. Infrastructure roles and skills, representing about 35 percent of IS staff count and 40 percent of the IT budget, are only nominally outsourced today. In infrastructure, however, the concern is less about displacement by distant IT workers and more about displacement by IT automation. IS professionals are not powerless in the matter. They can reposition themselves for new roles and new enterprises and start differentiating themselves professionally.

Regardless of whether offshore outsourcing affects IS professionals directly or indirectly, the cumulative effects — competition, salary changes, shifts in added value —are a wake-up call for IS professionals to review and revamp their professional portfolio and their organizational positioning.

The Impact of Global Service Delivery on IS Organizations: Offshore outsourcing, which is itself a manifestation of the global service delivery model, has emerged both as an opportunity and as a threat to many IS organizations. On the opportunity side, offshore outsourcing is a fiscally sound way to distribute work globally, take advantage of regional labor markets and reduce operating costs. Moreover, the general pursuit of outsourcing, ironically, raises the business credibility of the IS organization: If CIOs and IT managers use outside providers to complement their own service delivery, their organizations appear more balanced and competitive.

On the threat side, the introduction of offshore outsourcing causes IS organizations to react reflexively, as if burned. Amid uncertainty, some groups in the organization become paralyzed, others jockey for surviving positions, others falter under "change fatigue," and others quickly attempt to quantify their value (often too late). Unlike domestic outsourcing, in which affected IS professionals might conceivably be transferred to the payroll of the outsourcing vendor, offshore outsourcing typically displaces groups of people after the hand-over period. Such dislocation weakens organizational productivity and performance. In some cases, middle- and lower-level IS managers are poorly equipped by their executive team or by their change-management organization to deal with the organizational backlash and its effect on performance.

Offshore outsourcing forces IS organizations to flex new muscles in competitive cost management, effective service design, industry insight and business process expertise. Although the immediate or short-term impact on IS organizations is one of disorientation, the rise of global service delivery will cause IS organizations to focus on how they define themselves, on their organizational competencies and on their ability to manage change.

The Impact of Global Service Delivery on Enterprises and Industries: As with any major shift in markets, the global service delivery model will face different responses. Enterprises in some industries will be early adopters, others will wait, and still others will ignore the trend entirely. Many will move beyond IT offshore outsourcing and explore the impact of business process outsourcing. The financial industry, for example, is among the more-aggressive adopters of offshore outsourcing, using it not only for IT-related activities, but also for customer call centers and financial and HR business processes. Manufacturing, too, has had success in offshore fabrication operations, so it accepts offshore outsourcing with more aplomb than does, say, the healthcare or the pharmaceutical industry. Whether and how enterprises opt for global service delivery depends on their risk profile, their willingness to share control, their comfort with a global supply chain and their ability to accommodate differences in language, politics and culture. This is no easy decision, no matter what the impetus.

Enterprises should be clear about why they are pursuing offshore outsourcing: Are they pursuing it because it is appropriate? Are they pursuing it because everyone else is? Have they adequately identified and analyzed the impact on innovation and business knowledge? Domain knowledge, process knowledge, industry expertise, integrated workflows and risk tolerance all will determine whether particular enterprises or industry segments will accept, tolerate or decline offshore outsourcing.

A Final Word

The global migration of IT and other services is an irreversible megatrend that represents opportunities for some, threats for others and change for everyone. CIOs and IT managers must anticipate the discontinuity that global service delivery introduces into organizational structure, workforce, focus and mission.

Features

Impact on IS Professionals

"Percentage of IT Budget Devoted to Internal Staff Declining" — Companies are increasing their overall IT spending in 2003 and 2004, but devoting less of their IT budgets to internal staff. **By Barbara Gomolski**

"Business Forces Spur Career Changes for IT Professionals" — Through 2005, outsourcing, global service delivery and IT automation will challenge the traditional career direction of IT professionals. **By Diane Morello**

"Virtual Teams Tackle the Global Sourcing Challenge" — Global sourcing requires coordinating internal and external employees with differing organizational styles and structures into effective virtual teams. **By Michael Bell**

"Employee 'Stay Incentive' Programs During Outsourcing" — Outsourcing deals depend on the respectful treatment of the employees whose knowledge, skills and cooperation will be required to ensure a successful transition. **By Diane Morello and Guy Lavalette**

Impact on IS Organizations

"Building the Case to Retain Staff After Offshore Outsourcing" — CIOs who fail to make the case for retaining key roles for their internal staff jeopardize IS credibility and enterprise agility. **By Susan Dallas**

"Offshore Infrastructure: Where Does It Work?" — IS organizations should conduct rigorous feasibility studies to determine which services are appropriate for outsourcing before shifting infrastructure functions or departments overseas. **By Richard T. Matlus**

"Balancing the Risks Involved With AD Roles Outsourcing" — CIOs and IS managers must consider the management of costs, retention of expertise and tolerance for risk when determining which application development roles and activities should be outsourced. **By Michael J. Blechar**

"Expatriates Help Reduce Risks in Offshore Outsourcing" — The participation of multiculturally experienced individuals in an offshore sourcing project will help avert cross-cultural misunderstandings and ensure project success. **By Steve Bittinger**

Impact on Enterprises and Industries

"Will Your Industry Embrace or Reject Offshore Services?" — Enterprises should investigate offshore services if their industry is characterized by global operations, global supply chains, large-scale operations that are supported by packaged applications, and historical use of outsourced IT and business processes. **By Geraldine Cruz**

"CIOs Play a Larger Role in Making Offshore BPO Decisions" — CIOs are participating more often in the decision process for offshore business process outsourcing initiatives as the use of offshore resources expands from pure IT projects to BPO. **By Rebecca S. Scholl**

"The Impact of Offshore Sourcing on ESPs" — External service providers are reformulating their strategies and value propositions to attract the attention of CIOs and business managers. **By Frances Karamouzis**

Recommended Reading and Related Research

"Offshore Outsourcing Rattles IT Profession in U.S., Europe" — The trend toward IT offshore outsourcing by North American and European enterprises has had a severe impact on the IT profession, with many jobs changing or disappearing. **By Diane Morello**

"AD Sourcing Cost Model: Can Indiana Compete With India?" — Enterprises should not source AD projects offshore without considering factors beyond billing rates, particularly communication and effectiveness issues. **By Joseph Feiman and Audrey L. Apfel**

"U.S. Offshore Outsourcing: Structural Changes, Big Impact" — CIOs who make ill-informed offshore outsourcing decisions will be unable to find or develop qualified talent when they need it. **By Diane Morello**

"Globalization Isn't Always Right for Application Development" — Maintaining separate national versions of an application is sometimes more beneficial than creating a globalized application. **By Nick Jones**

"Outsourcing Backlash: Globalization in the Knowledge Economy" — The latest round of globalization is occurring almost instantaneously over a vast, sophisticated communication network — disorienting entire professions, societies and organizations. **By Dion Wiggins and Diane Morello**

— "Linking Globalization to Intellectual Capital" Enterprises should investigate IT and BPO opportunities in countries that have the foundations for effective intellectual-capital management. **By Debra Logan, Waldir Arevalo, Lane Leskela and Dion Wiggins**

This research is part of a set of related research pieces. See "IT Offshore Outsourcing Is Here to Stay" for an overview.

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