Navigating Competition in Offshoring Relationships

Completed Research Paper

Suling Zhang
Renmin University of China
158 Renai Rd., Suzhou, China
zhangsuling@ruc.edu.cn

Abstract

The increased IT offshoring presents many benefits as well as challenges to today's organizations. One major challenge is the competition between the onshore and offshore sites or among the global sites in the offshoring relationship for job security, challenging projects, status and resources. The competition in offshoring relationships is complex and dynamic. Unmanaged or inappropriately managed competition seriously undermines IT offshoring efforts. However, very little research has been conducted in this important area. Organizations and managers urgently need guidance on managing competition in offshoring relationships to reap the benefits of offshoring. This paper analyzes the different drivers and strategies of offshoring, investigates into the reasons and affects of competition in different phases of offshoring and proposes a three-stage model on the evolution of the competition. It is proposed that, as offshoring furthers, competition in the offshoring relationship may evolve in three stages: individual competition, territorial competition and resource competition. At each stage the competition varies in intensity, focus and consequences. This model provides for managers a systematic means to analyze the state of competition in their offshoring relationships and also guidelines on coping with the competition.

Keywords: IS offshoring, offshoring relationship, competition in offshoring
Introduction

For the past decade, it has been common practice for organizations of all sizes to offshore information technology (IT) activities. Offshoring has grown at a fast pace in countries such as China, India, Israel and Russia. IT outsourcing service became an industry of strategic importance in these countries. The scope of IT offshoring activities is evolving to include more business processes such as logistics, payroll, human resources, R&D, etc. The global outsourcing market for IT and business services exceeded $485 billion in 2011 and is set to grow at 8-10% per annum until 2015 (Oshri, Kotlarsky & Willcocks, 2011). With more variety of IT activities being offshored, the number of IT employment significantly grew in the offshoring places. IBM alone hired 90,000 workers in low cost countries from 2005 to 2007 (Hamm and Schneyer, 2008). IT offshoring has gained significant global momentum of a magnitude that demands attention and understanding. It changes decision making for individual IT workers and those considering IT as a career, for organizations embarking on offshoring activities, and for nations competing to attract offshoring work or to retain that work domestically. On one hand, offshoring may bring down costs, access previously unavailable expertise and shrink distance to the foreign clients. On the other hand, offshoring challenges the traditional management wisdom and requires new ways of collaboration across geographical, temporal, and cultural distance.

Offshoring presents a number of challenges and risks. While much academic research on offshoring has been published, the social and political implications of offshoring knowledge work are yet to be discussed thoroughly (Nieto & Rodriguez, 2011). One implication warrants in-depth research is the issue of job and status competition in offshoring. Despite broad public concern with the effect of firms' offshoring behaviour on economic and job insecurity, there is scant research (Milberg & Winkler, 2011). It is not clear how the negative opinion about work globalization specifically affect offshoring relationships. In Milberg and Winkler (2011)’s survey, percentage of survey respondents who agree to the benefits of globalization on growth is especially low in France (52 per cent), Greece (43 per cent) and Portugal (56 per cent) where unemployment rate is high.

The impact of offshoring on job displacement or the employer’s investment of developing internal IT skills is prominent in IT job sector. For a period of time, unemployment among IT workers was higher than among U.S. workers overall for the first time since the invention of the computer (Neiderman, Sumner & Maertz, 2006). Blinder (2007) found that 28–42 million service jobs in the US economy could at least potentially be offshored. Recent offshoring survey found that the U.S. software sector has the highest ratio of offshore to domestic employees—almost 13 offshored jobs per 100 domestic jobs (Duke University Center for International Business Education and Research, 2010). Seeing their colleagues leave, the remaining employees may see offshore "new" teams as job rivals. Faced with the trend for more aggressive offshoring, they are stressed by the prospect of losing their importance in the organization or even their job because of offshoring (Zimmerman, 2011). Such detrimental attitudes may leads to subgroup divide which results in destructive relational behaviours, such as scapegoating, exaggerated criticism towards outgroup members, and reduced communication and knowledge transfer (Cohen and ElSawad, 2007; Cramton, 2001; Gibson and Vermeulen, 2003). The authors also observed in several offshoring organizations, the onshore employees see their offshore colleagues as competitors instead of collaborators. Such political issues in offshoring have been rarely researched with only a few exceptions. Nicholson and Sahay (2001) reported that managers may use offshoring to change staff composition and enforce new work standard. Literature review found that addressing the resistance of onshore employees is a key task in offshoring management (Fjermestad & Saitta, 2005). Teams or companies at the "new" sites such as India and China compete for higher status in the organization or in the global supply chain, for recognition from the headquarters, for more challenging assignments or for more valuable clients (Konana, 2006). The new teams are eager to prove their capabilities and to take control of higher-end projects. The offshore employees are not satisfied with "second-class citizen" position and aspire for more leadership roles. Once there is a critical mass of offshoring activities and capabilities in offshore locations, the offshore teams or offshoring vendors at these locations begin to politically influence sourcing decisions and compete among themselves to attract new corporate activities, such as a software development center or a data center (Dedrick et al., 2010). To make things more complicated, the global distance especially the cultural differences make competition even harder to comprehend and manage.

Under the backdrop of competition between onshore and offshore teams and employees, the exchange of
intellectual influence and knowledge sharing may be diminished and the value of offshoring is greatly undermined. However, scant research has been done on the issue of competition in offshoring relationships. Lacity et al.'s (2010) review of 164 empirical IT outsourcing articles only found one empirical study investigated conflicts in the relationship between outsourcing organizations and outsourcing vendors, which does not arise from competition but from incompatibility of resources and goals. A few studies revealed the issue of competition and stress in offshoring relationship when studying a broader phenomenon (Dedrick et al., 2010; Rottman, 2008; Zimmerman, 2011) but did not focus on the competition issue. In-depth analysis has rarely been performed to understand in what way competition may take place and how it may affect the organizational outcomes. Organizations need guidance on handling competition in offshoring relationships. This paper aims to bridge this research gap and provide managerial insights into the competition in offshoring phenomenon. For that purpose, the authors investigate the reasons and effects of competition in offshoring relationships. Drawing from industry reports and existing studies on IT offshoring and workplace competition, the authors propose that competition in offshoring relationships may exist in three different stages. With increasing sophistication and maturation of offshore activities and capabilities, the competition between onshore and offshore employees/groups evolves from individual level to group level with increased intensity. The authors aim to uncover the dynamics of competition in offshoring relationships from a longitudinal view. Offshoring is not a binary static decision. Instead, firms continually look for and find new opportunities to reduce costs and gain access to skills and markets, creating greater capabilities in offshore locations and pulling even more activities offshore (Dedrick et al., 2010). To take a strategic approach on offshoring management and to build long-term partnership in offshoring, longitudinal understanding of competition in offshoring relationships is important.

As an early attempt to address the competition issue in IS offshoring relationship research, this paper proposes a conceptual model of the status and development of competition in offshoring relationship, based on existent offshoring research findings and industry reports. In this paper, the authors first review literature on competition and IT offshoring and discusses the significant influence of competition on IT offshoring activities. Then a 3-stage model is introduced and each stage of competition in offshoring relationships is elaborated in detail. Finally recommendations to managers and researchers are made.

**Competition and IT offshoring**

In the workplace, competition is prevalent and widespread as individuals or divisions compete for limited resources or try to outperform the others. Competition-related terms are commonplace in work context: A person is the best performer; a sales person beats the others, one division outperforms the other. Despite the prevalence of workplace competition, researchers have been debating whether competition is constructive or destructive. Critics point out that competition leads to high anxiety levels, low productivity, and lack of motivation and should be eliminated from workplace (Kohn 1992, 1993; Maehr & Midgley, 1991). For example, Alfie Kohn, a human-behavior expert and author of "No Contest: The Case Against Competition", takes a strong stance against workplace competition "I have been studying this topic for more than 20 years and I have yet to find any evidence that competition produces any benefits that can’t be realized with fewer damaging effects under noncompetitive conditions". However, recent research suggests that under certain conditions such as fair play, no political maneuvering and prior friendly relationship, enjoyable and motivational constructive competition can exist (Loch, Huberman & Stout, 2000; Tjosvold, Johnson, Johnson & Sun, 2003).

Scant direct research has been conducted on the influence of competition on IT work. However, considering the high level of interdependence in IT work, it is speculated that much supervision is needed to mitigate the negative effects of competition. Past research indicates that well-learned, easy and motor tasks will result in constructive competition (Jackson & Williams, 1985; Johnson & Johnson, 1999). The high integration of software products makes it hard to compartmentalize IT development and creates high level of interdependence between individuals or teams. This results in opportunities for competitors to undermine or even sabotage each other’s work. In some cases, simply not going out of their way to help a competing offshore worker or team may not violate any company policy but will impair the performance of the competitor. For example, Zimmerman (2011) reported that job competition leads to onshore German teams’ more critical view of offshore Indian colleague’s work. Hence, competition, with the risk of increasing sabotage or non-cooperative behaviors, may pose immense negative influence on IT
development task.

Offshoring adds another layer of complexity to the influence of competition on IT work. IT development is knowledge-intensive. Therefore knowledge transfer accompanying task transfer is critical to the success of offshoring. Effective transfer of knowledge such as organizational process, client requirements and business domain knowledge is necessary for offshore locations to be able to work on ongoing projects, take over work from onshore teams, or work with current clients (Dedrick et al., 2010). However, transferring knowledge from onshore to offshore staff is one of the most sensitive aspects of offshoring IT work (Chua and Pan, 2008; Rottman, 2008). If onshore employees see offshoring team as competitors who might replace them in the future or have replaced their buddies, onshore employees are much less likely to transfer knowledge. Some companies took a tough stance on the knowledge transfer issue but triggered bad PR and lowered the employee morale. IBM Global Services, for example, was lambasted in the press and by the outraged union for asking laid-off employees to train their offshore replacements (Frieswick, 2004; Smith, 2008).

Competition not only exists among IT employees, but also at a global level. Different countries have put forward national policies or laws to lure IT offshoring tasks or retain domestic IT jobs. Information technology is a source of innovation of new products and new business models for traditional industries such as agriculture, service, healthcare and defense. IT industry also provides numerous high-value employment opportunities, especially for college graduates. Drainage of IT jobs creates the risk of reduced human capital in a country (New York State Department of Labor, 2010). Therefore, a world wide competition for IT work, especially high-skilled work in research and development, is intensifying (ACM job migration task force, 2006). India has responded rapidly to the competition through creating favorable tax policies and improving its universities and training organizations. China is addressing the educational needs of its software industry through centralized planning and invests aggressively into research and development parks. In US, president Obama proposed a new tax policy, disallowing deductions for various offshore business expenses, to curtail IT jobs offshoring. Offshoring companies should be aware of these policies and their effects on the costs and quality of IT offshoring. Offshoring vendors or sites are taking advantage of local favorable policies to improve their competitiveness in the global IT industry landscape.

Based on the above, onshore-offshore competition among individuals, if not effectively managed, can be significantly detrimental to IT offshoring. Global competition, however, creates opportunities for companies to develop offshore capabilities and to have more offshore destination options. Organizations have great stake in the success of IT offshoring which often involves fundamental business process or the new product development. Therefore, management of competition in offshoring relationships should be integral component of offshoring strategy.

The Development of Competition in the Evolving Offshoring

An analogy is commonly drawn between manufacturing offshoring and IT offshoring. Manufacturing of commodity goods are offshored due to labor cost advantages in developing countries. A growth pattern in manufacturing offshoring is observed: a small number of first movers experimenting with offshoring; then a critical mass of offshoring are reached; finally offshoring becomes an integral part of competitive strategy and the offshoring of jobs reaches a plateau. Researchers and industry practitioners posit IT offshoring is following a similar evolution (Carmel & Agarwal, 2002; Shao & David, 2007). Duke University Center for International Business Education and Research’s (CIBER) six annual surveys on corporate outsourcing trend from 2004 to 2010 found that companies are shifting from cost-driven offshoring to a multidimensional value proposition in creating a global footprint (Duke University CIBER, 2010). In initial phase of offshoring, companies primarily offshore low-end routine tasks to a few low-cost destinations. The evolutionary development of telecommunication technology enables collaboration on computer-aided platforms and decouples the linkages between economic value creation and geographic location. Coupling with the rapid improvement of science and engineering education in developing countries, globalization creates global commodity markets for particular IT skills (Levy, 2005). At this point, offshoring locations spreads from a few locations such as Ireland and India to more countries such as China, Philippines, South Africa, and eastern European countries. However, over time, labor arbitrage is reduced due to inflation and income growth. Additional factors other than labor costs influence a
company’s decision regarding where to offshore. Entering the 21st century, offshoring enters a new phase, which is offshoring innovation work to create products or provide services for local customers (Joshi & S. Mudigonda, 2008). The financial crisis in 2008 makes more companies realize the importance of entering emerging markets such as Brazil and China. Forward-looking companies are forming corporate wide strategy of global sourcing which builds a network of tie-one, tier-two and tier-three offshoring locations and balances the objectives of cost savings, access to talents and prompt service to local customers. By this point, global sourcing is more complicated than the initial cost-driven offshoring. Statistics prove the evolution of offshoring. Duke CIBER 2010 offshoring survey proved the furthering of offshoring trend, finding that more than half of the companies surveyed expect to expand their offshoring initiatives during the next 18 to 36 months. The study also found nearly a third have already moved up the value chain to offshore innovation-related services (Duke University CIBER, 2010).

As offshoring drivers and strategies change, the impact of offshoring on the careers of IS employees and the role of IS functions will change, which lead to varying pictures of competition among IS function locations and individuals. In the following sections, based on existing IS literature and industry reports, three different phases of offshoring are analyzed and the competition in offshoring relationship is also explored in each offshoring phase.

**Phase 1: Cost-driven offshoring of Routine IT work**

In this phase, organizations start to move individual projects or routine tasks and commodity services to lower-cost offshore sites (internal or external). The major drive to offshoring in this stage is to reduce the costs of IT operation. The jobs moved overseas may include application development, detailed design, program coding and testing, system maintenance and support, help desk and back office support. These jobs tend to incur substantial labor costs and thus easily become the leading targets for being outsourced offshore (Shao & David, 2007). Organizations may achieve substantial cost savings through IT offshoring. In this stage, business executives view offshoring an imperative for creating and maintaining a lean cost structure as their rivalry companies are also offshoring to cut operating costs. A majority of companies which engage in offshoring activities have moved from sporadic experimental offshoring to this phase (Carmal & Agarwal, 2002).

**Individual Competition**

The impact of offshoring in this phase on IT departments is mixed and competition in offshoring relationships is at the individual level. The onshore IT managers widely acknowledge the cost benefits and appreciate that they can focus on more interesting, higher value-added tasks within their onshore IT units. The low job security and the lack of career growth of the routine monotonous low-value tasks make it increasingly difficult to hire and retain domestic IT professionals to perform these tasks (Carmal & Agarwal, 2002). Therefore, onshore-offshore competition is not in place at the manager level in this stage. However, for the individual onshore IT employees, especially those whose roles overlap with the offshore ones, their offshore equivalents are their competitors who threaten their job security and reduce their value in the organization. The sense of insecurity prompts competitive behaviors. These onshore employees strive to prove they are still important to the company. The offshore employees try to outperform the onshore ones on costs and skill level. Competition in this stage is reactive to the job loss or relocation brought by offshoring. For example, in Germany, from 1995 to 2006, offshoring to low and high-wage countries together can account for about 13% of the total increase in job loss fears and offshoring to low-wage countries significantly raises job loss fears (Geishecker, Riedl, & Frijters, 2012). Layoffs, as a result of offshoring, cause major morale problems among in-house "survivors," leading to disaffection and work slowdowns (Overby, 2003). In some cases, for example at Renois, people refuse to transition to the offshore model because they do not want their friends to lose their job (Overby, 2003). Job displacement also leads to counter-offshoring tactics and makes resistance management a critical issue (Fjermestad and Saitta, 2005). Quoting from a German manager (Zimmerman, 2011)":

“"In some cases, people refuse to collaborate with India. You can do that in a very subtle way, of course. ... there are many possibilities to avoid it or to make sure that it does not happen. It's relatively easy. ... just by means of the task description, you can work towards getting the answer from India: We don’t have
anyone who can do this.’ There are many possibilities. It's easy.”

These individuals’ competitive view of offshoring aggregates into the public’s surging anti-offshoring view in countries like UK and U.S. (Hirschheim et al., 2007).

Based on the above discussion, the following proposition is raised:

*Proposition 1: when routine IT work is offshored for cost saving, individual employees may compete for job security and may engage in destructive or uncooperative behaviors.*

**How to Cope with the Individual Competition?**

To address individual level competition which larges stems from job security concerns, executives need to be clear about the career path of the remaining ones and reduce the anxiety from uncertainties. "You can never underestimate the effect these issues will have on the success of [your offshore venture],” says Textron Financial's Raspallo. CIOs must take time to communicate with their staffs, being "brutally honest," he says. "If your intention is to lay off some workers and move work offshore, let them know. If you want to move legacy systems offshore and retrain staff for other systems, tell them that. And constantly reinforce what the vision is.” (Overby, 2003).

The competition should also be managed by managers who work closely with the competing employees. The managers should acknowledge the existence of competition and seek ways to actively manage it. They need to pay particular attention to the negative emotion arising from competition. A case study of a Fortune 100 company found open hostility between offshore and onshore employees (Rottman, 2008). The offshore employees were viewed with fear and even contempt (Rottman, 2008). To reduce these negative emotions, the managers should exhibit a genuine concern and work on reducing the stress caused by the competition. Industry publication cited companies like Texas Health Resources incorporated the concern for offshoring effects on employees as enabler of success (Stewart, 2001).

Disgruntled IT workers can cause serious damages to a company’s reputation, data security or customer trust. For example, IT workers from companies such as Microsoft, IBM and Merck exposed the companies’ offshoring plans and files to the press and tainted these companies’s public image (Wilson, 2005). Other incidents such as San Francisco network manager hijacking the city WAN (Kravets, 2008) and angry IT consultant impairing the normal functionality of a critical system at Pacific Energy Resources (Constantin, 2009) also related to the negative emotions arising from job jeopardy. Therefore, the authors suggest that managers should carefully watch for the damages which may be caused by the competition and step in before the competition becomes irreconcilably destructive. The managers need to give equal opportunities for the employees to compete and ensure winners are fairly rewarded. Specifically, the performance appraisal system should be fair and consistent. Previous research indicates that relatively equal probability of winning will motivate competitors to achieve (Johnson & Johnson, 1999). When performance and evaluation process are perceived unfair, they contribute to feelings of envy and jealousy (Dogan & Vecchio, 2001) which further compound the competition.

In addition to actively managing competition, managers can also proactively diminish or even avoid competition. In IT development work, substantial opportunities exist to undermine a coworker's performance. For example, someone may react slowly to an offshore employee's request for assistance. The employees have control over many additional discretionary behaviors that are not included in formal job description such as going out of way to help a colleague. Such good citizenship behaviors may be minimized due to competition. One offshoring activity which is particularly sensitive to competitive behaviors is knowledge transfer between onshore and offshore sites. Effective knowledge transfer is necessary for offshore locations to be able to take over work from onshore teams or work with current clients. Certain knowledge which is codified in ways of routine work processes, standard rules of operations, well-defined product specifications and project plans, or customer information are easy to transfer. Other knowledge is more tacit and must be explained through communication and placed in context (Dedrick et al., 2010). Transferring tacit knowledge much relies on a positive relationship between onshore and offshore teams. Rottman (2008) found that a hostile relationship dampened the internal people’s motivation for sharing knowledge, which is easy to avoid in long-distance offshoring work.

Therefore, how to ensure the cooperative and helping behaviors in onshore-offshore collaboration is a challenging question. IBM’s approach of forcing laidoff employees to teach their offshoring replacement is
a much criticized answer to this question. Instead, two other approaches could be more effective. Dedrick et al. (2010) found that team-building activities such as rotation of people and sending experts to work on offshore teams’ sites led to ongoing onshore-offshore communication and knowledge transfer. Another way to avoid uncooperative or sabotaging behaviors is that, when possible, managers should separate the tasks within a project clearly so to reduce overlap of responsibilities and functional areas between onshore and offshore employees. In such a way, head-to-head competition behaviors in projects can be avoided. This also explains why modularity, low interdependence of IT tasks, has been empirically linked to a greater likelihood of offshoring of knowledge work (Tanriverdi et al., 2007). When tasks are more modularized, offshore sites less depend on the onshore teams thus the negotiation and coordination risks and costs from a competitive relationship are reduced.

Competition in this stage can be a lose-lose situation when hostile relationship develops and intellectual exchange diminishes. If companies treat IT professional as mere skills which could be purchased at lower price as reported in the case study of Nicholson and Sahay (2001), disaffection and uncooperative behaviors are more likely to emerge. On the contrary, if professional development programs and career path mentoring are provided to IT professionals, they see growth opportunities beyond current positions other than competing with offshore employees for retaining these positions. This way separating career path of onshore and offshore employees also help reduce or even avoid competition.

In summary, to manage this stage of individual reactive competition, reducing uncertainties and providing career training programs are instrumental. Also the line managers should particularly act as a fair judge and also a caring mentor so to build the onshore-offshore relationship and to improve the morale of offshoring survivors.

**Phase 2: Moving from Cost-Driven Offshoring to Strategic Offshoring**

As the offshoring relationship develops, the offshore units greatly improve their skills and competency, accumulating more experience, gaining access to the increasingly larger supply of local talents and weathering the highly competitive market. The offshore units become more competitive and aspire to take more challenging projects. At the same time, pushed by the need for competing globally, company executives need to shift more responsibilities offshore and use offshore sites to develop new market and to access local customers. Cost is still a major motivator for offshoring and countries with low labor costs continue to take on low-value labor intensive IT work. However, firms begin to explore other offshore options than simply as sources of low cost work or suppliers of lower-valued work. Companies report labor arbitrage effects diminish in three years (Duke University CIBER, 2010). Firms see the potential of offshoring units in achieving a range of strategic objectives in addition to the cost control. Offshore sourcing is now utilized for strategic purposes such as innovation, new product development, access to new markets, and global growth. Companies start the process of strategically integrating some offshore sites into core activities and developing offshore core competency. Offshoring in many technology companies are in this transitional process. For example, Google is setting up R&D center in India; IBM is expanding their strategic offshore center in China; CableVision is using their Indian vendor to plan, design and implement new projects (Vijayan, 2003). Duke CIBER’s 2010 survey found that a third of survey respondents’ companies have already moved up the value chain to offshore innovation-related services (Duke University CIBER, 2010).

**Territorial Competition**

When offshoring moves up the value chain and more locations become viable offshoring destinations, competition in the offshoring relationships escalates from individual competition to territorial competition at both individual and group level. Geishecker, et al. (2012) found that high-skilled workers are more sensitive to offshoring although their objective job loss risk is lower relative to low-skilled workers, which reflects the fact that they have more to lose from unemployment. Onshore groups compete to defend their traditional turf of developing new system, serving core business processes and conducting high-level challenging tasks such as requirement engineering, project management, architectural design, etc. The work in these areas is important to the core competence of the company and contributes to onshore group’s superior position in the global network of IT units. As an onshore German manager puts it (Zimmerman, 2011):
“It is now very clear that we will keep the core competence over here. ... For example, in the simulation task, we have two new colleagues who were employed this year. That was a clear signal to our [German] colleagues: “We want to invest over here, as well”. ... We have a cooperation model that is designed for the long term, with a strong core over here and additional competence and capacity in India. This is absolutely accepted”.

Despite the onshore team’s efforts, the amount of high-end IT work offshored to emerging countries are increased. For example, Olssen et al. (2012) found that as companies progressively offshore to lower cost destinations with increased IT skills, the temporal bridge role of Ireland site in global IT companies is reduced. Also less effort is made to keep up the skills in onshore teams in U.S. with the expectation to offshore more higher-end work to emerging countries (Duke CIBER, 2010).

Offshore sites and vendors compete for new territories which will boost their status, gain headquarter recognition and attract more clients (Dedrick et al., 2010). For example, Indian outsourcing companies are known for using the Capability Maturity Model to demonstrate their quality to prospective clients (Hayes, 2003). Also offshore sites need to provide challenging tasks to retain their brightest. High turnover rate at key positions at offshore sites such as India and China has been cited as a major risk in offshoring (Davison, 2003). IT field is rapidly changing and IT professionals are under great pressure to learn more updated and more marketable skills. If an offshore IT department confines work assignments to "second-class" tasks such as testing, program coding and helpdesk, the managers will not be surprised to see their employees leave. One of top 5 IT service companies in China reported almost 20% turnover rate in staff which perform routine low-end offshoring service (Vanceinfo Case, 2009). Therefore, there has been pressing need for offshore units to gain access to high-level challenging tasks. The competition of this stage is reflected in the fact that IT job security in U.S. plummets five times faster than national average as more high-level jobs move overseas (Brodkin, 2008). For example, the IBM layoff in the recent years not only targeted the low-skilled positions but also involved executives and high-skilled positions across the board in areas such as IBM Global Business Services, Global Technology Services and Application Services (Taft, 2009).

Contrary to the reactive competition in the preceding stage, the territorial competition is more proactive as different sites compete for higher status before the new order of global sourcing network stabilizes. The competition landscape in this stage is also much more complicated. In addition to the competition between individual employees for more value-added jobs, higher-level managers are also involved to defend or compete for the status and territories of their groups. Managers try to grow their own businesses by bringing in more work from the parent unit (Dedrick et al., 2010). Managers may also try to defend their higher position in the globalization work chain through other means. An Irish site manager at a multi-billion dollar IT service company complained to the author: “They (the Indian team) are too eager to take over new projects. They are not ready yet. I insist we have to supervise their work and daily telephone conference should be continued.” In this company, the competition between Irish and Indian teams has led to an intense work relationship between these two sites.

Competition not only exists between onshore and offshore but also among offshore sites. Early entrants in offshoring relationship such as Ireland, Israel and Portugal, while competing with onshore teams, will also defend their turf against “new” sites such as China, Chile and Russia. Dedrick et al’s (2010) case study of five big US corporations found that the offshoring locations begin to politically influence sourcing decisions and compete among themselves to attract new corporate activities, such as a software development center or a data center. Corporate country managers often work with government officials to provide incentives (tax; subsidies) to sway the sourcing decision.

Summarizing the above discussion, the following proposition is raised:

\[ Proposition 2: \text{when offshoring moves up to higher-end IT work and spreads to more locations, territorial competition may happen among different locations of IT functions for higher-end IT work.} \]

**How to Cope with Territorial Competition?**

To address the territorial competition, the CIOs and business executives should shoulder the responsibility of creating constructive competition and preventing the competition from distorting the
company’s global growth strategy. They are faced with the following salient competition issues.

The first is aligning task assignment with the company’s global strategy. Forward-thinking big companies offshore projects that involve some degree of offshore project management or program management. Such projects create opportunities for better career paths offshore, as junior people can get experience and work their way up to management levels (Dedrick et al., 2010). Such an approach also continuously upgrades the capabilities of offshore locations to handle more advanced work and cultivates pool of talent for future course of actions. Gibson (2005) made a similar finding: one software vendor (BroadVision) outsourced development to China not just for the cost savings but to create a pool of talent from which they can benefit later. Therefore, global growth aspirations including getting access to local market, understanding local customers and building a global pool of talent will be important factors which influence the way companies handle the territorial competition.

The second is political maneuvering. Political maneuvering may be used to win the competition instead of competing on merit. It can lead to lower overall global performance (Loch et al., 2000). The authors observed in two Fortune 100 IT companies “old” sites would not relinquish control and leadership of key projects to “new” sites, asserting the new sites were not ready and not willing to provide assistance when new sites need. To avoid such an issue, CIOs and executives should encourage open communication and make sure opinions of all competing sites represented and heard at the headquarters. Due to the geographical distance, headquarters may lack knowledge about the development and capabilities of offshore teams and their decision-making may more likely be swayed by the biased onshore teams. When organizations decide to pursue global growth of IT, headquarters managers should be designated as liaison for internal offshore teams. Or the external offshore vendors can collocate their own liaison with the headquarters of their clients. These liaisons maintain close frequent communication with offshore teams (ideally they physically work with the offshore team for a period of time), understand offshore teams’ competency and needs, know the innovation opportunities at offshore sites and represent them at the headquarters. This is done to ensure that the headquarters hear from all competing sites, not underestimate the potential of any site and reach unbiased decisions when distributing and funding projects. Carmel & Agarwal (2002) observed such a headquarters champion who was committed to the success of the Indian offshore site and personally interviewed every one of the hundreds of job candidates for the Indian site.

The third issue is that some teams may exhibit a tenacity of clinging to their turf. To tame the turf claims, headquarters can start to mix onshore and offshore employees in projects and reshuffle the assignments.

The fourth issue is that competition motivates teams to work harder. However, executives need to be aware of teams trying to outshine the others and making promises they cannot honor.

The fifth issue relates to knowledge transfer again. Knowledge transfer is key to the success of offshoring knowledge-intensive IT work. However, the competing relationship between sites impairs the motivation to share knowledge. Compared to onshore teams, the offshore teams at sites such as India and China generally have younger employees with average 6-year experience (McGee, 2005). They may be trained with latest IT technical skills at school. However to perform high-level IT tasks, especially managerial ones, they need acquire the critical communication, leadership and business skills (Shao & David, 2007). Much of these skills need to be learned on the job through working with and learning from more experienced colleagues, who are often found in the onshore teams. Extra efforts should be devoted to ensuring knowledge transfer not undermined by territorial competition. Previous studies show that mentor program, job rotation and co-training of onshore and offshore employees are instrumental to knowledge transfer in distributed environment (Hong & Vai, 2008; Rottman, 2008). In addition, organizations can reward sharing knowledge so the benefits of sharing knowledge outweigh the costs of reducing one’s advantage in the territorial competition. Cress and Martin (2006) suggest that a bonus system of rewarding knowledge-contributors with special bonus is an effective solution at the both the individual and group level. Dedrick et al.’s (2010) and Zimmerman (2011)’ studies show that team-building activities and cultural similarity foster a cooperative relationship and contribute to knowledge sharing.

In summary, in this stage, competition is proactive and territorial. Corporate-level programs and policies are needed to ensure fair constructive competition.
**Phase 3: Strategic Global Sourcing Network**

Going through previous offshoring phase, a mature stable global sourcing network arises. Different sites settle into roles compatible with their pros and cons. Competency centers are strategically established at sites which excel in certain domain knowledge or technical skill or proximity to major customer base. Dedrick et al. (2010) found that one of the top 3 U.S. IT service companies has a Chennai center which specializes in manufacturing, financial services and government sectors, with technical skills in software testing and in Java, dot.net, and mainframes. A top mobile telecom company has offshore locations which specialize in different technologies, building on existing knowledge. For instance, Russia specializes in Java applications and Java Virtual Machine while Montreal specializes in open source software and Internet applications (Dedrick et al., 2010). For some other companies, they form strategic partnership with a small number of offshoring vendors. For example, U.S.-based CTG (Epstein, 2004) maintains a strategic partnership with the offshore development firm Polaris Software Labs in India. It does so to manage outsourcing projects for mid-sized US/EU banking and insurance companies.

In this stage, coordination of the nodes (sites or vendors) on the global sourcing network is optimized to take advantage of different capabilities, labor cost and time zones. These competency centers are charged with responsibilities of developing certain categories of products or serving a particular group of customers. Low-cost high-quality sites, which expand significantly, may surpass the onshore site and become preferred sourcing nodes. The company’s management practices begin to change to accommodate the new circumstances. Offshore locations can manage their own projects, and sometimes even manage onshore staff (Dedrick et al., 2010). The organizational structure adapts to the growth of offshore sites. More high-level positions are created to oversee major offshore IT development or customer group and to coordinate global IT work. The IT management framework is no longer onshore or offshore. Rather, the organizations respond to global opportunities wherever it occurs and coordinate global sourcing nodes to take advantage of the opportunities. Decisions are made by group of global managers from different sites. Accountability and reward are shared by global project teams and project leadership may be at international sites. For example, with solid partnership with outsourcing vendors, Xcel energy (Havenstein, 2005) used a new IT governance structure, which was led by the strategic advisory board with members from outsourcing vendors, partners and internal management. This stage is where companies aspire to be and many have not reached yet. Several leading technology companies are transiting to Stage Three. For example, In Carmel’s and Awargal’s 2002 study, three of their sample firms built offshore centers which form an international network, with more than one dozen nodes, totaling thousands of software professionals and engineers. Dedrick et al. (2010)’s study also identified five of the big US IT corporations are entering stage 3.

**Resource Competition**

When a strategic global sourcing network forms, competition between individual employees is not salient anymore. A global-level continuous but subdued competition for budget and talent resources appears. As the offshoring relationship intensifies and stabilizes in cooperation for the global growth of the company, the negative correlation between the statuses of the sites in the previous territorial competition disappears. Instead the sites share the success of global collaboration. However, competition still exists. Project teams consisting of members from multiple sites will compete with other projects for corporate budget, and sites which develop new IT products will compete with each other for R&D budget.

Also as offshore sites mature, they provide better growth opportunities for the employees and may attract or recruit talents worldwide. When more sites participate in R&D and innovation, the international mobility of the highly skilled workers is increasing in scale and complexity (OECD, 2009). To foster local IT industry, countries such as China and South Africa are increasingly attract foreign students and returnee workers who were educated or worked in foreign countries (OECD, 2009). In recent years, more and more foreign-origin IT professionals with extensive experience leave stagnant onshore teams and migrate back to their home countries such as India and China. OECD’s (2009) study of global competition for talents found that return rates are higher for skilled workers and for those from countries at a greater cultural, economic, and geographic distance from the host country. These returnee people bring with them business and cultural knowledge and technical expertise. They greatly enhanced the competitiveness of the offshore teams. IT offshoring service companies such as InfoSys and Wipro are recruiting in U.S. It
is not rare to see America-origin managers working in Chinese or Indian sites. On the other hand, a lack of mid-level IT managers with intimate business knowledge and excellent communication skills is reported in U.S. (Abraham et al., 2006). Based on the above, it is predicated that a global-level competition for experienced business-savvy IT talents is arising.

Summarizing the above discussion, the following proposition is raised:

Proposition 3: when a strategic network of globally sourcing IT work forms, competition in the offshoring relationships will evolve around corporate resources and experienced IT talents.

How to Cope with Resource Competition?

The global competition for resources in this stage is less detrimental to the offshoring companies. To manage the competition, executives should decide on the budget based on the merits of the projects and products in view of the company’s global strategy. They need to ensure the company’s goals communicated to and understood by all sites and highlight the contribution of funded projects to the company’s business strategy. Also they need to work on minimizing the influence of political maneuvering on budgeting process, so that competitors sense their requests for budget are evaluated fairly and consistently. In this stage, the HR management should emphasize the development of talents globally and provide professional development programs to all sites. International rotation should be encouraged. Through international rotation, employees get opportunities to participate in the high-speed growth of strategic offshore sites and strengthen their portfolio. International sites can grow their own managerial talents through sending their employees to rotate at experienced offshore sites. These practices will reduce the intensity of talent competition.

In summary, in this stage competition is at global-level and centers on budget and human resources. Managing competition in this stage more relies on institutionalized formal budgeting and human resource management processes.

Model of the Development of Competition in Offshoring Relationship

The above analysis shows that, as IT offshoring evolves from sporadic project offshoring or offshoring of mundane processes/tasks to reaching a stable equilibrium, the competition between onshore and offshore teams or among global sites in the offshoring relationships will also evolve through stages of increasing sophistication. Coupling with the offshoring evolution is the amount of jobs offshored increasing from stage 1 to stage 2 then reaching a stable point at stage 3. The following diagram integrates proposition 1, 2 and 3 and presents the three stages of the evolving competition in offshoring relationships:
Discussion of the Model

In the three-stage model, competition in offshoring relationships develops from individual level to group level then to global level. The competition evolution stems from the growing importance of offshoring option. Offshoring is triggered by cost savings but develops into a strategy for growing international market and developing new IT-based products. The competition is also fueled by the maturation of global IT labor supply which boosts the competitiveness of offshore groups and enhances their competition with onshore teams. The amount of employment offshored is a focus issue in the competition. When jobs offshored increase in quantity and quality from stage 1 to stage 2, competition also escalates. In Stage 3, the relationship among and the roles of different sites/vendors stabilizes, the amount of employment offshored also stabilizes so there is less competition around who get which job.

The trend of offshoring more high-level IT work to the increasingly mature offshore sites is a widely recognized trend. As this trend develops, companies will find competition in offshoring relationships evolve to higher level and a broader scope. The speed of the competition evolution will vary though. For companies where IT only plays a support role, IT is labor-intensive and is a cost center than a profit center. In these companies, offshoring strategy centers on cost savings and the competition will remain in Stage One for a lengthy period. Not all offshoring efforts lead to cost savings, quality and competitive advantage (Lacity & Hirschheim, 1993). Due to their failure experience, some companies may only offshore a small portion of their IT activities which are routine and low-skilled, and then they will stop at Stage 1. Or they do no offshore anymore thus are not concerned with competition in offshoring relationships. For companies where internal politics heavily influences offshoring strategy, they will witness a prolonged Stage Two competition. The politics prevents optimized global sourcing based solely on the merits and demerits of the different sites, thus hurting the overall IT performance and leading to adjustment and corrections until optimization is achieved. The fastest evolution will happen in the technology companies where IT is major component of their product or service. These companies are in highly competitive industry and face great pressure to find the most competent and cost-effective global IT structure. These companies also have better opportunities to achieve global sourcing optimization as they accumulate superior IT management expertise and attract the best IT talents. For example, IBM, as far back as 1974, already saw the great potential of using offshoring to develop new products and spent about 30% of its R&D budget on offshore R&D (Ronstadt, 1977).

Based on the above, proposition 4 is raised:

**Proposition 4:** In different companies, competition in offshoring relationship develops through three stages of individual competition, territorial competition and resource competition at varying speed and for varying time duration.

Based on the three-stage model, competition reaches equilibrium in the third stage where the intensity of competition does not increase and the negative consequences of competition decreases. However, global economic dynamics will lead to new global disparity in market opportunity, IT skill and labor costs. The equilibrium may be broken as companies move IT work to new lower-cost destinations from old established sites or move from sunset market to emerging market. As more types of IT skills become commodity available in more countries, offshoring tends to progress through a staged sequence of progressively lower cost destinations (Olsen, et al., 2008). New sites will embark on territorial competition with old sites and the status order in the global sourcing network will be reshuffled. Therefore, the authors argue competition in the offshoring relationships will be a continuous phenomenon. The three stage model is not to predict an end point of competition but to identify a dynamic process competition in offshoring relationships may follow. Therefore, the paper posits the following proposition:

**Proposition 5:** competition in offshoring relationships continuously evolve as offshoring strategy and driver changes.

Management of the competition in the three stages falls on different organizational levels from individual managers to top-level strategy decision-makers to institutionalized corporate policy and processes. No matter who is managing competition, one common concern is the fairness of competition. Individuals and teams need to be evaluated fairly and consistently. All employees, onshore or offshore, should have relatively equal opportunity for career growth and win. Political maneuvering is especially detrimental to healthy competition and would lead to low morale, negative emotion and uncooperative behaviors. For
companies which are haunted by destructive competition, an examination of evaluation process and internal politics may be a path to solution.

**Contribution and limitation**

Much of the contents in the paper are in a negative or cautionary note. However, it is not to disprove the value of IT globalization. Instead it investigates a potentially destructive relationship issue in offshoring for the purpose of enhancing IT offshoring management. It has high practical value. It addresses a critical yet under-researched issue in global IT management: competition in offshoring relationships and proposes a three-stage model to analyze the competition. Managers can use this model to assess the competition in their companies and identify the possible future development of the competition. The model also points out salient issues for managing competition in each stage and proposes ways to cope with the issues. It offers important guidelines for the practitioners on competition management. The knowledge about the development of competition in offshoring relationships is important to create corporate wide offshoring strategy. The stage model also helps the managers take a longitudinal view of IT offshoring and shape long-term offshoring strategy.

There has been little in-depth study of information systems offshoring and its apparent impact on the nature of the work of, career options in, and the management of the information systems function (King & Torkzadeh, 2008). This paper is an attempt to explore the competition issue in the above under-research areas. This paper confirms previous studies’ findings regarding the existence of competition. In contrast to existent sporadic case studies or industry reports, it integrates findings from multiple angles including the individual IT employees, IT functions and overall corporate strategy. It enhances the theoretical rigor in offshoring competition research. It proposes a framework for academic researchers to examine competition in offshoring relationships. The model may be used to explain other research findings on job security, trust, knowledge transfer and IT people turnover, which are greatly affected by competition. It provides a series of propositions as research questions for future studies. New research can be conducted to test the propositions and the framework. Studies including more factors such as type of industry, internal vs. external offshoring and offshore locations into the three-stage model to give more in-depth explanation about competition.

The limitation of this paper is that the model is generated based on previous studies, research, industry reports and the authors’ observation at IT companies. Empirical studies are needed to verify the model. The authors are conducting a case study at multiple companies in U.S. and China to test the three-stage model.

**Acknowledgements**

The author acknowledges financial support from the New Teachers’ Research Support Fund of Renmin University of China.

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