

Report: Offshoring Evolving at Rapid Pace

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(PhysOrg.com) -- The number of U.S. companies with an offshoring strategy has more than doubled from 2005 to 2008 and very few plan to relocate activities back to the United States, according to Duke Offshoring Research Network's fifth annual report on offshoring trends, published in collaboration with The Conference Board.

Last year, more than 50 percent of companies had a corporate offshoring strategy in place, up from 22 percent in 2005. Sixty percent of companies currently offshoring say they have aggressive plans to expand existing activities.

The report also confirms the globalization of innovation -- the major finding of last year's report -- is continuing at an increased rate in all areas of industry. Speed to market and the domestic shortage of science and engineering talent are two key drivers for offshoring projects.

The report is a collaborative effort between The Conference Board -- a global, independent [business](#) membership and research association -- and the Offshoring Research Network at the Duke University Center for International Business Education and Research. The survey, now in its fifth year, examines all aspects of offshoring -- including drivers, risks, location and delivery models, performance outcomes and future plans -- for a wide range of companies and industries in the U.S., including financial services, manufacturing, software companies and technical/professional services.

Companies that have implemented a corporate-wide offshoring strategy

often report significantly better performance in cost savings, meeting target service levels, improving relations with providers and overcoming internal resistance, said Ton Heijmen, senior advisor, outsourcing/offshoring at The Conference Board, and one of the report's authors.

“Outsourcing innovation in engineering, research and development, product and software development, and knowledge processes makes companies, whatever their country of origin, more competitive by increasing speed to market and compensating for domestic talent gaps,” Heijmen said.

Other findings from the report:

- Of all the offshoring/outsourcing projects initiated in 2007, most were related to product and software development;
- The loss of managerial control and employee turnover were cited as the most important risks associated with the globalization of innovation through offshoring;
- Small and midsize companies are increasingly sourcing innovation offshore. Many of these companies find it difficult to compete for highly qualified talent domestically;
- Small companies are also more adept at identifying and accessing new geographical talent clusters (i.e., Brazil, Egypt, Sri Lanka, Russia) and other locations outside of China, India and Eastern Europe;
- Small companies are sophisticated users of web-based collaboration technologies and prefer specialized small providers.

“Simply offshoring more functions isn’t the solution,” said Arie Lewin,

professor of strategy and international business at Duke and director of the Center for International Business Education and Research. “To achieve real savings, companies need to get the process right. Successful companies direct their attention to risk management, establish corporate-wide resource centers, and avoid ‘reinventing the wheel’ for each new offshoring initiative.”

Successful strategies help companies estimate both hidden costs and anticipated savings. The report provides a blueprint for successful offshoring initiatives. Some best practice insights gleaned from companies who participated in the survey include:

- having a senior-level champion for offshoring efforts;
- using a service provider selection model;
- conducting onsite visits to providers;
- using a master service agreement;
- having internal stakeholder buy-in for offshoring;
- establishing a global corporate offshoring resource center.

Results of the fifth annual Conference Board/Duke Offshoring Research Network survey will be discussed at the upcoming Strategic Outsourcing Conference, Sept. 24-25 in Dallas. For more information on the event, visit www.conference-board.org/conference.cfm?id=1952

Provided by Duke University ([news](#) : [web](#))

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