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Primary reason for offshoring jobs is shortage of skilled workers

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Most American companies engaged in offshoring say a shortage of skilled domestic employees -- not cost cutting -- is the primary reason why they move some job functions overseas.

Also, manufacturers and high-tech/telecommunication companies are less likely to establish offshore operations and are moving increasingly toward the use of third-party providers of offshore labor.

These are among the findings of the sixth annual study on corporations' offshoring trends by the Center for International Business Education and Research's Offshoring Research Network (ORN) at Duke University's Fuqua School of Business and The Conference Board, an independent research association. The study is part of ongoing research into the effects of offshoring trends on American competitiveness and reflects the sentiments of business managers.

"Over half of the participants in our survey say offshoring has resulted in no change in the number of domestic jobs in most functions," said Arie Lewin, Fuqua professor of strategy and international business. "The finding that the U.S. software sector has the highest ratio of offshore to domestic employees -- almost 13 offshored jobs per 100 domestic jobs -- may be a reflection of a scarcity of domestic science and engineering graduates in the U.S."

Survey respondents are broadening the range of factors that influence their selection of an offshore site to include the location of the best service provider and the quality of infrastructure. In spite of placing a high priority on cost savings and labor arbitrage, the survey finds average achieved cost savings offshore have declined at many companies.

For example, IT services and software development have experienced consistent declines over the past five years, while average achieved savings have increased for administrative and innovative functions such as research and development and sales/marketing.

According to the researchers, survey participants have lower expectations than previous respondents for average cost savings in several offshoring functions. Contact center, IT and software development have seen the largest declines among all offshoring functions as companies new to offshoring discover a number of hidden costs involved, including expenses for training, staff recruitment and retention, and government and vendor relations.

"The potential for cost reduction alone is no longer enough to justify moving operations," said Ton Heijmen, senior advisor to The Conference Board. "One survey respondent noted it has taken his company several years to discover the impact of labor arbitrage disappears in fewer than three years. Companies are now shifting from cost-driven offshoring to a multidimensional value proposition in creating a global footprint."

As companies expand offshoring activities by increasing scale or by offshoring more diverse and complex functions, most firms see a decline in the overall efficiency. This may be partially attributed to a loss of managerial control as offshoring operations are expanded, requiring companies to improve coordination and management of their global sourcing.

More information: A published report on the research results is available for purchase. Contact jrussell@duke.edu for details.

Provided by Duke University