

MBA 848

Management of International Operations



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I. 50 points

While there is little disagreement in the IT industry that offshore outsourcing is likely to grow, there is little agreement on what to do about it. Though some European workers associations have put pressure on legislators to re-examine labor policies, friction among politicians, labor leaders and IT industry insiders caused the controversy to flare especially brightly in the U.S., making it one of this year's most public IT-related debates in the country. As more work gets outsourced abroad, the controversy is bound to grow in 2004.

II. 50 points

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Table 1. Matrix of the Results of Outsourcing Decisions

| | Costs of Outsourcing Decisions | Benefits of Outsourcing Decisions |
|--|--|--|
| Home Country (IT example – United States) | <ul style="list-style-type: none"> • Loss of high paying professional positions; • Loss of connection between professional executing the work and the local consumer (i.e. 9.5 hour time difference to India requires telephone support call staff to operate in the middle of Indian night). Loss of connection to your staff which can lead to a lack of motivation, improper quality and management control, and high employee turnover; • Costly travel expenses to manage external resources; • Home countries trade position could deteriorate or a trade deficit could be created by an excessive inflow of imported products. | <ul style="list-style-type: none"> • Creates a more prosperous economy by delivering less costly products creating a lower cost of living and subsequently more disposable income for society; • Creates a higher quality product by redeploying professional design services to creativity rather than production (i.e.- MBA graduate earning \$80/hr to redesign financial models instead of spreadsheet data entry); • Inward flow of foreign earnings, repatriated profits; • Foreign demand for products can create an employment gain; • Creates a reverse-resource-transfer effect when knowledge or improvements are gained from operating in a foreign market (i.e. Wal-Mart’s ability to enhance its internal supply chain in food delivery service); • Frees home country resources to focus on markets where it has a comparative advantage. |
| Host Country (IT example – India) | <ul style="list-style-type: none"> • Some loss of economic independence “foreign economic ransom theory”; • Foreign competitors often have more capital and economic power and can subsidize their production to put competition out of business, creating a monopoly; • Import controls may be in place to help local producers benefit from foreign knowledge and reapply their business model locally; • Profits and benefits from foreign investment are repatriated to the parent firm; • Must ensure a positive trade balance and a net gain in employment otherwise a loss of local ownership and control; • If businesses reserve the higher paying professional jobs and management positions for home countries, there is little skill transfer; • Development of services and infrastructure to meet the new demands of the economy. | <ul style="list-style-type: none"> • Resource transfer effects where the foreign investment supplies capital, technology and management resources • Creates new localized jobs that raise the base pay and standard of living for residents • Technology stimulates the enhancements of local knowledge and skill and process, leading to better local market products • Creates the inflow of funding for research and development • Foreign management skills are transferred when trained to local staff as well as driving local businesses to improve their own processes and learn new skills • Foreign investment stimulates local economic growth through the use of local suppliers, distributors and competitors |



**To the Board of Directors:
Intellicorp Cellular Systems**

RE: Opportunities & Challenges Facing Intellicorps' Existing Offshore Outsourcing

To the Board of Directors:

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Project 1

Project 2

Project 3

Project 4

Project 5

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Project 1

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Project 2

Project 3

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Bibliography

Bibliography