Chapter X

Offshore Software Development: An Alternative Solution for Information Technology Staffing

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ABSTRACT
The quiet emergence of Year 2000 supplementation of IT skill sets has become an increasingly viable alternative for many companies to lower costs and speed implementation. Offshore software development continues to grow. More countries recognize its economic impact and are providing infrastructure to nurture continued expansion. The challenges of the client/developer contract reach beyond coding quality and remote...
management. The chapter presents the evolution, rationale, and models used for offshore/nearshore software development with an analysis by major countries engaged in the delivery. Best practices and examples of some firms illustrate the critical success factors of these relationships.

**INTRODUCTION**

Firms have faced the dilemma of recruiting and retaining the best information technology (IT) workforce for decades. Even the repercussions of an economic downturn in the United States emanating from the September 11 attacks such as layoffs, mergers, acquisitions, and bankruptcies induced by accounting scandals do not address the shortage of qualified professionals (ITAA, 2002). A global survey of more than 700 CIOs reported that human capital management ranked fifth overall and fourth for U.S. firms as the top IT issues for 2002 (Poe, 2002). The shift due to the declining economy does not alleviate the demand for special skills dealing with legacy applications and their integration with Web development, project management skills, mobile commerce, telecommunications, enterprise resource planning, and vendor negotiation, to name a few.

The approach most firms take is to look internally to review their recruiting and retention practices. However more firms are turning externally not only to local vendors but also to services across the globe (Carmel, 1999). The simple approach of staff supplementation from domestic contractors has evolved for some organizations to a more sophisticated model of partnering with offshore/nearshore software development firms to address their needs. Many of these relationships may have evolved from a short-term project need for select skills to one of long-term commitment of resources, cultural diversity efforts, and dependencies that integrate vendors as partners.

The chapter describes how organizations have used offshore software development to their advantage and how they have managed the process of developing software offshore. The chapter will describe terminology, rationale, and the importance of offshore software development, its evolution and primary countries offering services, some models in practice, a discussion of critical success factors and issues, and directions for future research. Cases of firms that have used offshore IT firms will be used to highlight particular issues.
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