Chapter 5
Captive Offshore IT Outsourcing:
Best Practices from a Case Study

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ABSTRACT

A captive offshore center is a separate business arm of the parent company, wholly owned, to provide IT solutions to its parent company. Some of the reasons for setting up a captive offshore center in the literature include controlling cost and gaining access to low-cost skilled professionals but in the case of a Chicago based Company (Sears Holdings) it was considered a strategic. One hiding agenda was to launch a new line of business offering to its US base customers from a low cost location. This chapter reveals how a Sears Holdings launched a successful captive offshore IT center and why they received outsourcing best practices award from the industry. In achieving the goal of the chapter, interview data was collected from the management team in Chicago and the head of the offshore operation. We compare our result to previous research on offshore best practices and we find many correlations.

INTRODUCTION

A captive center is a wholly owned subsidiary of the parent company in a near-shore or offshore location, with the goal to provide support for to the parent company. Many Fortune 1000 companies in the US and Europe have offshore IT work abroad either to a third party or to their captive offshore center. Companies engage in offshore outsourcing to achieve cost saving and leverage distance talents. Offshore IT centers are setup to support the parent IT operations especially the back office activities. Most offshore centers are located in low cost, high quality, talent rich developing countries like India, Philippines and Brazil. Figure 1 shows some of the countries that US and European companies have established offshore centers. In the recent years there has been an increase in captive offshore centers.

Captive offshore have evolved from the traditional approach of offshoring to a third party. Offshore outsourcing to a third party is used primarily to achieve cost saving while captive outsourcing is used to
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Figure 1. The 25 most attractive offshore location
Source: At Kearney 2004.

achieve a strategic move in addition to cost saving (Oshri, 2013, Lampel and Bhalla, 2008; and Farrell, 2005 and 2006). Captive offshore outsourcing has been prescribed as a tactical solution for alleviating distance in offshore outsourcing and software development (Carmel and Agarwal 2001).

While captive offshore centers have grown in recent years (Oshri, 2013) it is still a challenging proposition for many companies. Some of the reasons why captive offshore center can be more challenging than offshore to third party include the following (a) hiring employees in a new foreign locations, (b) setting up a physical facility including real estate rental, (c) building IT infrastructure (hardware, software and networks), (e) employee attritions due to lack of local knowledge (f) problems associated with integrating offshore center with the headquarters, and (g) senior executive lack of understanding or support / inadequate involvement (h) inability to obtain/attract additional client outsides the parent company – this is only for companies that setup the captive offshore to generate additional revenue from leveraging its capacity. (Adelakun, 2008, Lacity et al. 2010, Oshri and Uhm (2012).

This research was inspired by the work on offshore outsourcing (Carmel and Agarwal 2002; Rottman, and Lacity 2004; and Oshri 2013). Carmel and Agarwal (2002) looked at how US companies gradually progress through a maturation process to achieve success with their offshore outsourcing. One of the outcomes of the research was the four-stage offshore outsourcing model – offshore bystander, offshore experimenter, proactive cost focus, and proactive strategic focus. Carmel and Agarwal’s offshore maturity model was has been used to explain successful relationships between offshore outsourcing client and
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