



## Why Are Companies Offshoring Innovation?

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In 2007, the U.S. Citizen and Immigration Services announced that the H-1B visa quota for 2008 was oversubscribed by a factor of three in the first week after the quota was opened. This scenario was repeated with the 2009 H-1B quota, which was opened on April 1, 2008 and was oversubscribed in seven days. Why are companies doing everything they can to get a share of the annual H-1B quota of 65,000 skilled foreign workers? Are companies outsourcing the best paying jobs in America? Is it possible that American companies and their counterparts in the European Union are facing an emerging global race for talent?

The purpose of this brief commentary is to highlight the dynamics affecting the competition for talent, as researched by the Duke University Offshoring Research Network ([ORN](#)) project at the Fuqua School.

The key conclusions from the 2006 ORN report **Next Generation Offshoring: The Globalization of Innovation**<sup>1</sup> were:

- Access to qualified personnel has become a key offshoring driver independent of labor cost
- Innovation-centered processes, including product design, engineering and research and development (R&D), are increasingly being offshored
- Small companies are emerging at the forefront of next-generation offshoring; offshoring innovation activities rapidly with available talent while increasing to speed to market

Subsequent research suggests the following dynamics at play. Before 2003, accessing Science and Engineering talent by American corporations primarily was driven by cost considerations. On average, H-1B hires cost employers less than equivalent U.S. employees. Moreover, H-1B employees were legally bound to the employer who received the quota and had no bargaining power to demand higher compensation. However, after 2003 the data show that attracting skilled science and engineering S&E foreign workers and/or locating S&E work in locations offshore was being justified primarily on the basis of the need to attract and retain talent anywhere in the world. Cost consideration issues became secondary.

As illustrated in the figure below, the number of U.S. nationals earning master's and Ph.D. degrees from U.S. science and engineering schools has been declining steadily since 1995. At the same time, the number of foreign workers on an H-1B visa, the majority of whom were in S&E fields, increased between 1998 and 2003 from 65,000 to 195,000 annually. But in 2003, the U.S. Congress did not renew the H-1B visa quota at the 2002 level and the quota lapsed to pre-1998 levels, remaining constant at 65,000. The combined result of these is that in 2006, the

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**Upcoming COP Master Class Schedule**  
Kuala Lumpur, Malaysia  
April 22-25, 2008

**Sao Paulo, Brazil**  
April 22-25, 2008

**North Carolina, USA**  
May 12-15, 2008  
*THREE seats left!*

**Brussels, Belgium**  
May 26-29 2008

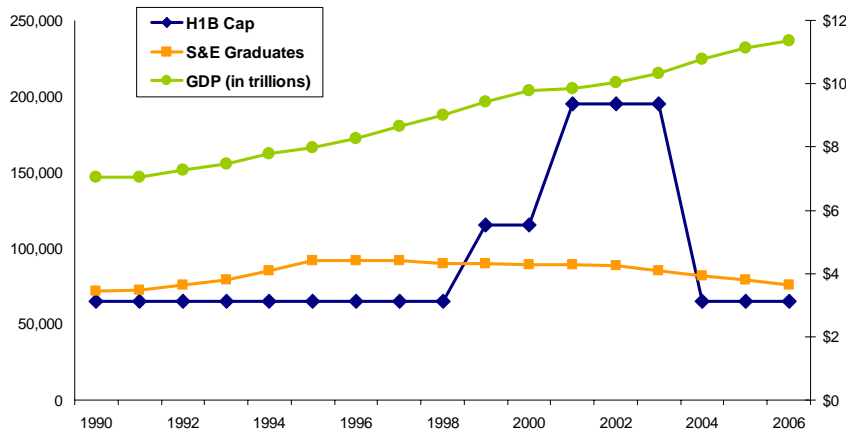
**Dubai, UAE**  
June 2-5, 2008

**The Next Complimentary COP Prep Class**  
April 22, 2008  
12:00 noon EST  
[Sign up here.](#)

number of S&E workers available to work in the U.S. was below the 1995 level. Additionally, the U.S. gross domestic product (GDP) increased by 43 percent between 1995 and 2006, suggesting a growing demand for and a possible shortage of S&E workers. According to economic theory, wages for S&E professionals should adjust upward to attract new individuals into S&E careers to the point where the imbalance between supply and demand will be corrected. However, because the S&E job market has morphed into a global market, the adjustment, if any, is likely to require much more time than when labor markets were largely nationally bound.

**Are you Ready to Become a COP?**  
Start your application today!

Shortage of S&E talent in The US and change in H-1B visa policy<sup>2</sup>



Data on Master and PhD degrees in sciences and engineering come from the US National Science Foundation.

Data for H-1B visa quota come from the US Citizenship and Immigration Services.

Companies now are able to access S&E workers globally to support their business, which reduces any upward pressure on S&E wages in the U.S. and may therefore delay possible market adjustment. However, this may not be the only dynamic at play. The growing shortage of S&E talent in the western economies may be the result of the confluence of other dynamics — an aging population; lack of adequate math and science preparation in high schools; a growing number of “techies” choosing to work as independent contractors; and structural changes in the engineering labor market toward employing engineers on demand also are likely contributing to this trend. Finally, countries like India and China are instituting aggressive policies and incentives to induce their nationals with advanced degrees in S&E fields to return to their home country.<sup>2,3</sup>

The immediate effect that these dynamics have on companies is to experiment with and learn to globalize their innovation activities and to invent new global organization forms for all their activities. First, it was the outsourcing of manufacturing. This was followed by business process outsourcing (BPO) and information technology outsourcing (ITO). The third stage is the globalization of all activities, including innovation. The need to compete globally for S&E talent is forcing companies to reinvent their organizations through new product development, R&D and engineering services. Leading edge companies already are experimenting with decreasing the fixed cost of their engineering and R&D footprint (employment and laboratory space), while at the same time increasing the rate of new product development activities by modularizing and globalizing these activities. The forthcoming 2007/2008 ORN report will highlight these dynamics, the emerging new organization forms and the implications for American companies and the competitiveness of the U.S. economy.

<sup>1</sup> Lewin, A. Y., & Couto, V. 2006. Next Generation Offshoring: The Globalization of Innovation. Durham: Duke University CIBER/Booz Allen Hamilton Report.

<sup>2</sup> Lewin, A.Y., S. Massini, C. Peeters, 2008. [Why Are Companies Offshoring Innovation? The Emerging Global Race for Talent.](#)

<sup>3</sup> Manning, S., S Massini, A.Y. Lewin, 2008. [A Dynamic Perspective on Next-Generation Offshoring: The Global Sourcing of Science and Engineering Skills.](#)

**First Certified Outsourcing Professional Master Class to Be Held in Southeast Asia**

IAOP, with training partner, Quint Wellington Redwood, will conduct an outsourcing professional certification training program for the first time this month in Malaysia.



The four-day [Certified Outsourcing Professional \(COP\) Master Class](#) will be held April 22-25 at the Renaissance Hotel in Kuala Lumpur, Malaysia. The comprehensive educational program provides outsourcing professionals – whether they work as customers, providers or advisors – with an intensive learning experience on the state-of-the-art end-to-end process for outsourcing success. Individuals who complete the course not only will earn 75 points toward the prestigious COP designation, but will immediately be able to improve outsourcing outcomes at the organizations with which they work.

"Based on significant interest in outsourcing training from professionals in Southeast Asia, we're pleased to make our popular COP Master Class accessible in this part of the world," said IAOP Director of Professional Development Kim Maneeley. [IAOP's Malaysia Chapter](#), chaired by Certified Outsourcing Professional (COP) Bobby Varanasi, head of Marketing & Branding for MDeC [Multimedia Development Corporation], has been instrumental in getting government support of this program, further contributing to the success of this program in Malaysia."

The curriculum has been enhanced to reflect the latest in outsourcing and The Outsourcing Professional Body of Knowledge (OPBOK). Individuals completing the course earn half the points needed for certification.

The new class is part of expanded COP training offered by IAOP and Quint Wellington Redwood. New sessions are being held in Sao Paulo, Brazil; Brussels, Belgium; and Dubai, United Arab Emirates. The program also is offered in the U.S. and online.

To register for the Malaysia class or any upcoming COP Master Class, [click here](#).

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## **The Global Outsourcing 100 Rankings and Sub-lists to be revealed May 5**

The International Association of Outsourcing Professionals (IAOP) is compiling its third annual ranking of the world's best outsourcing service providers — *The Global Outsourcing 100*.

*The Global Outsourcing 100* and its sub-lists are essential reference guides for companies seeking new and expanded relationships with the best companies in the industry. The lists include companies from around the world providing the full spectrum of outsourcing services — not just information technology and business process outsourcing, but areas such as facility services, real estate and capital asset management, and manufacturing and logistics. They include not only today's leaders, but tomorrow's rising stars.

The list of companies on *The Global Outsourcing 100* were announced at The 2008 Outsourcing World Summit® in Orlando, Florida this past February, and the rankings will be unveiled in a special advertising feature in the May 5 issue of FORTUNE® magazine. Listings will include the company name, a statement of its services, strengths, and web address. This ranked list, along with numerous sub-lists, also will be highlighted on the IAOP website beginning April 28.



### **How the lists are developed**

The evaluation process mirrors that employed by many top customers and considers four key criteria:

1. Size and growth in revenue, employees, centers, and countries served.
2. Customer experience as demonstrated through the value being created at the company's top customers.
3. Depth and breadth of competencies as demonstrated through industry recognition, relevant certifications, and investment in the development of people, processes and technologies.
4. Management capabilities as reflected in the experience and accomplishments of the business's top leaders and its investment in management systems that ensures outsourcing success.

Companies of all sizes that are providers of outsourcing services may apply. Revenue is just one factor used to rank the companies, but it is not the dominant factor. Others, such as customer outcomes, capabilities, relationship management approaches and management talent and experience are just as important. In particular, revenue growth is more important for "rising stars" than pure revenue, but even here, other factors received just as much or more weight. In the end, the lists are intended to reflect the best companies, not necessarily the biggest.

### **The evaluation team**

The 2008 evaluation team, comprised of IAOP member professionals, was led by Certified Outsourcing Professional (COP) Jagdish Dalal, Managing Director of Thought Leadership at IAOP and a world-renowned outsourcing expert who has worked as a senior executive in customer, provider and advisor companies for almost three decades. (Jag's work as the outsourcing customer for Xerox's \$3.2B contract with EDS was turned into a Harvard Business School case study and is used in many teaching curricula.) The panel included:

- Tina Dacin, E. Marie Shantz Professor of Strategy & Organizational Behavior, Queen's School of Business, Ontario, Canada
- Vera Marques, former CIO, BASF South America; currently, CIO, Roche South America
- Manish Sahai, Vice President, Customer Service International, Service Network Partners, American Express
- Kurt Kohorst, COP, Assistant Vice President, Business Process Outsourcing, Safeco Insurance
- Arno IJmker, Partner, Quint Wellington Redwood (IAOP's Global Training Partner)
- Robert van der Eijk, Partner, PricewaterhouseCoopers
- Eric Storey, Senior Associate, Outsourcing Advisory Services, Booz Allen Hamilton

IAOP congratulates all of the companies that made the 2008 Global Outsourcing 100 list, along with all who applied and will be included on the expanded sub-lists this year. The application process for the 2009 Global Outsourcing 100 list will begin in August 2008; we'll be announcing it in early summer.

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### **The Outsourcing World Summit Conference Series**



#### **THE 2008 EUROPEAN OUTSOURCING SUMMIT**

**The 2008 European Outsourcing Summit will be held October 16-17, 2008 at the IESE Business School, University of Navarra in Barcelona, Spain.** It is designed specifically to meet the educational and business development needs of outsourcing professionals in Europe by connecting the best in global insights to the very real differences in how companies across Europe approach outsourcing.

Keynote speakers will be top business, academic and government leaders, and concurrent educational sessions will feature practitioners who will share hands-on experience and hard-won lessons. The theme of the Summit is *Outsourcing 2008: Universal Truths – Regional Realities* with major emphases on outsourcing's emergence as a global profession; how exceptional results demand exceptional execution; the critical connection between cultural ties and global sourcing decisions; and how the most successful firms simultaneously think globally, but act locally.

Please [click here](#) for more information.

#### **THE 2009 OUTSOURCING WORLD SUMMIT**

**The 2009 Outsourcing World Summit will be held February 16-18, 2009 at the La Costa Resort & Spa in Carlsbad, California.** As always, the Summit's keynote speakers will be top business, academic, and government leaders, and its educational sessions will feature practitioners with hands-on experience and insights into leveraging outsourcing as a powerful tool for organizational transformation.

The 2009 Outsourcing World Summit's program will directly address the issues that arise in today's global marketplace by showcasing the breakthrough achievements of the companies paving the way. The Summit looks at outsourcing as a management practice — from strategy to implementation to ongoing relationship management. Keynote sessions address global developments, while dozens of educational track sessions explore specific developments in the outsourcing of various types of business activities, within specific industries, and by key topics. Please [click here](#) for more information.

Nearly 700 outsourcing professionals from around the world participated in [The 2008 Outsourcing World Summit](#) and learned how outsourcing can help create change, enable growth and add value to their organizations.

**Reserve your seat now and receive the lowest rate** that will be offered. Early registrants are being offered a one-time introductory rate of \$1,200 for IAOP members and \$1,500 for non-members. **Only 100 seats** are available at this special rate, after which normal rates will apply.

[Click here](#) to take advantage of this limited registration offer.

Prime sponsorship and exhibiting opportunities are available at both events. Please contact [renee.preston@outsourcingprofessional.org](mailto:renee.preston@outsourcingprofessional.org) for more details.



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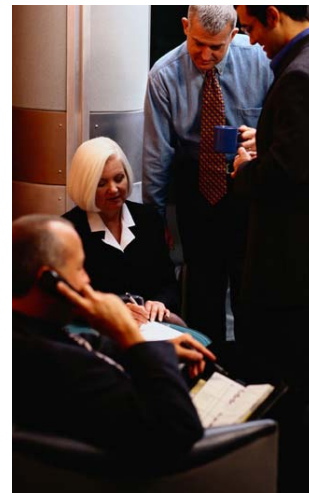
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### IAOP Chapters Spring into Action

As we spring into the second quarter, there are numerous opportunities for you to enhance your knowledge and take in the programs offered by IAOP's chapters. This month began with the Greater Cincinnati Inaugural meeting on April 2, where a dynamic discussion regarding "Strategic Offshoring Reaches the C-Suite" was shared. On April 9, the Australia Chapter discussed "The IT Sourcing Journey", and the Boston Chapter meeting on April 10 provided insight about "Accelerating Growth through Outsourcing and Offshoring." The Dallas Chapter meeting on April 14 will hold a panel discussion on "What Impact Will a Recession Have on Outsourcing Activity and Practice." On April 24, the Pacific Northwest Chapter will highlight "The Nike Story," and the Chicago Chapter will continue to build on their "Lifecycle of a Deal" theme, with presentations on "The Key Elements of the Outsourcing Contract" and "IT Security." We will wrap up the month with a Data Security Chapter webinar on April 30, addressing "The Impending US Economic Down-turn...What does it mean for Outsourcing and the Safety of your Data."

The Global Human Capital Inaugural webinar planned for May 13 will be filled with dynamic information from experts in the human resources field. On May 14, the Healthcare Business Office Chapter will provide two presentations during their webinar, the first being "Focus on the Payer Market: How Acquisitions are Impacting their Bottom Line," followed by "Medicare Changes and the Impact to the Provider and Payer." And the Rocky Mountain Chapter's upcoming May meeting is sure to enhance your knowledge and business practices.

June will bring news from the Central America, London, Boston, TTHL and New York City chapters, plus the possibility of some surprises with newly forming chapters! Check the chapter web pages for the latest news.



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### The Advantages of Membership

With the accounting books closing on the first quarter of 2008, many organizations are gearing up for their busiest season of the year. The calendar's second quarter often finds business plans well established — either in mid-run or coming to a close, depending on the fiscal year. Q2 generally is the time real progress is made and engagements get underway.

Your membership with IAOP is no different. With the rise and fall of various economies across the globe as seen in the keynote address of Outsourcing Insights this month, our membership is turning to IAOP more than ever to support long term engagements and to sustain established ROIs. Regardless if your country's economy is up or down, your commitment to your contracts remains critical throughout the life of the agreement. IAOP can help you. With our code of ethics and professional standards – developed by your peers and leaders in the industry – your engagements have something to lean on as you push the engines to "full steam ahead."

#### Using IAOP

The standards for outsourcing and the code of ethics are just two of the many ways you can utilize your membership to support your organization. Consider reaching out to your colleagues either through the IAOPNetwork or the Customer-only IAOPNetwork this quarter to pose questions and enhance your knowledge of successful agreements. Utilize [Firmbuilder.com](http://Firmbuilder.com) to download the latest Outsourcing World Summit proceedings or white papers to establish your benchmarks or compare your successes. Whether you are a customer, provider or advisor, use IAOP to expand the scope

of your outsourcing knowledge.

### **We All Win**

In a recent conversation with the CEO of a mid-size outsourcing provider, he commented that successful outsourcing agreements ultimately tie us all together. Villages once untouched by technology in remote areas across Africa and Asia are now offering valuable employment and empowerment to the people because two companies got together and found a way to make their project work. What once was considered impossible is now a tangible reality for many.

Regardless if the dollar is falling or the euro is rising, IAOP supports successful engagements the world over. We advocate ethics, standards, fairness and equality with the hope that not only does the Fortune 100 flourish – but the village in Vietnam does, as well. Utilize IAOP to support your engagements and you will support each other.

*Long shots do come in and hard work, dedication and perseverance will overcome almost any prejudice and open almost any door. –John H. Johnson, founder, Johnson Publishing*

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## **New to Firmbuilder.com**



### **The 2008 Outsourcing World Summit® Presentations | February 18-20, 2008 • Orlando, Florida**

The 2008 edition of Outsourcing's best known and most highly respected global conference featured the brightest minds in outsourcing. Keynote presentations may be downloaded in one complete zipped file or individually by speaker. The educational track presentations are available individually or as zipped files by track.

### **Global Operating Model Version 2.0... Capturing Strategic Benefits in a "Flat" World | WNS Global Services**

Global Operating Model Version 1 occurred when leading corporations distributed manufacturing operations globally. Version 2.0 involves the same process in services: developing and providing services from locations distant from the parent, popularly referred to these days as "offshore".

### **Total Cost of Engagement: The Unique Value of Near Shore | Softtek**

The whole concept of offshore outsourcing is created around the idea that cost efficiencies can be attained by shifting work from higher to lower cost locations. Although it is a fact that manhour rates are a fundamental driver to reduce costs, offshore savings should not be determined only by the manhour rate differentials. A holistic view of expenditure measurement should be considered. Total Cost of Engagement (TCE) is an approach that evaluates the total expenditures of offshore engagements.

### **Navigating Economic Uncertainty: Leveraging the Services Globalization Advantage | neoIT**

As the U.S. faces an economic downturn in 2008, many corporations are still running their globalization initiatives as if there was no sub-prime meltdown, as if the housing bubble had not burst, or as if inflation and unemployment rates weren't beginning to tell a story of difficult times ahead. Corporations have not yet aligned globalization initiatives to economic reality.

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