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Captive-Site Offshoring: Is it Right for Your Company?

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June 21, 2004 ([Computerworld](#)) -- One of the most provocative trends in business today, especially in the IT industry, is the movement of U.S. jobs to low-cost labor centers overseas. Offshore outsourcing has surged, in part because of the escalating need for companies to reduce their operating costs in light of the current economic slowdown.

Traditionally, companies have tapped offshore resources through third-party providers, typically based overseas. In this outsourcing model, a company or client hires an outsourcing company and essentially pays for contract labor. These providers offer a two-tier service, where U.S.-based consultants package work for their offshore-based colleagues.

An alternative to the traditional offshore outsourcing model that's rapidly gaining popularity is the captive-site model, where a company creates its own captive site, or subsidiary, at an offshore location and staffs it with locals who become the company's employees. The upside is that the company can take advantage of some of the financial benefits of outsourcing while assuming greater resource control and security. For Fortune 500 companies, captive sites are commonplace. Such companies have long since established that captive-site offshoring offers significant cost savings through cheap labor, inexpensive resources and tax benefits. In addition, these companies have used subsidiaries to gain access to specialized labor and resource pools and to markets that would otherwise be closed because of political or cultural factors. However, there are challenges that must be addressed prior to jumping in overseas. The company must have fortitude, since a tremendous amount of financial investment is required from the outset. It must also contend with an unfamiliar culture and foreign accounting, legal, regulatory, operational, political and business process practices. Navigating the complexities of foreign laws drives home the importance of staffing managers and executives familiar with local practices or hiring knowledgeable contractors.

Companies of all sizes can open captive sites, but there are some barriers and benefits specific to corporate size. One of the first considerations for a company considering a captive site is the capital needed to build, set up and staff a new office building. These

costs aren't a barrier to entry for large corporations with significant resources to draw upon, but they can be for smaller companies.

Nonetheless, new alternatives can be explored. For instance, instead of building its own facility, a small company can rent space in an office building specially designed to house foreign subsidiaries. Another option is for a group of noncompeting companies to pool their resources and share the costs and facility space. While it may be difficult to locate other companies considering this option, with the increased awareness of the benefits of captive-site offshoring, it will only become easier.

Small and midsize businesses are subject to many of the same challenges faced by their larger brethren. They too must address challenges raised by cultural barriers in politics and human resources. Some companies feel comfortable addressing these issues on their own, while others hire individuals or businesses that specialize in navigating local complexities. Another challenge is managing the time to oversee an offshore operation. Executives at small companies who already have their hands full managing day-to-day operations may find oversight of an offshore program to be too much of an additional burden.

Regardless of size, a company must fully evaluate why it wants to create an offshore entity and what it hopes to accomplish. Offshore captive sites can result in remarkable cost savings, but the expectation of an instant financial benefit shouldn't be the only reason to pursue a project. Ultimately, a company needs to fully evaluate its needs and those of its customers -- there is no one-size-fits-all approach. While many companies are initially attracted to offshoring by the allure of dramatic cost savings, offshoring isn't necessarily the right strategy for every business. But by planning ahead and acknowledging the challenges of setting up shop abroad, companies can make half-a-world-away seem much closer.

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