The Value Proposition of Captive Offshore Development Centers: Exploring the Role of IT Capabilities and Antecedent Factors

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Abstract
Increasingly, organizations establish offshore captive centers to exploit the large IT labor pool and to retain proprietary knowledge. However, a key management issue facing these organizations is one of realizing value beyond economic cost advantages from its captive centers. To address this issue, we adapted Venkaraman's value center concept and the global subsidiary evolution model to this context. Using the data gathered on the evolution of captive centers of GLOBALIS, a large US financial services firm, we explored the role of IT capabilities and antecedent factors on captive center's value proposition. Our findings indicate that headquarters assignment of responsibilities and captive center's choice of activities lead to the development of distinct human, technological and relationship capabilities that enable a captive center to generate superior value for its parent IT organization. This study extends prior research in IS outsourcing, and has important implications for researchers and practitioners alike.

1. Introduction

Increasingly, advances in communication technologies have enabled US firms to take advantage of the global wage differentials and source IT and knowledge work from the US to countries like India and China [28]. For reasons that vary from ensuring presence in countries with potentially large IT labor pool, to retaining proprietary knowledge and patents within the organization [24], many firms establish wholly-owned subsidiary IT facilities located overseas called captive offshore development centers. Notably, establishing captive centers are seen as a ‘viable alternative’ to offshore outsourcing of IT services [19].

Prior academic and practitioner research in captive centers has focused primarily on the decision factors relating to the establishment of captive centers [19], and success factors relating to the establishment of captive centers [27]. Recently, researchers have begun to focus on studying how captive centers can be managed effectively. For instance, Oshri [24] documents the different types of captive centers (such as basic center, hybrid center) and discusses through case studies, the conditions which transform a captive center from one type to another [26]. However, a key research gap is whether captive centers can deliver value to the parent firm beyond cost advantages, and what factors in the parent organization and captive centers, contribute to the realization of such value.

Our paper addresses this research gap by classifying the value proposition of a captive center to their parent organization, and studying the antecedent factors that contributes to the value proposition. Our research model is rooted in two theoretical lenses. First, we adapt Venkatraman’s [34] notion of value center to the context of captive centers, to define the value proposition provided by a captive center to its parent firm. Second, we apply the subsidiary evolution model that posits that antecedent factors in the parent firm or the subsidiary can affect the value proposition of the subsidiary. The subsidiary’s stock of capabilities is further argued to be closely tied to its capacity to provide value to the parent firm [2, 11]. Therefore, the overarching research question for this study is:

- How do IT capabilities and antecedent factors contribute to the value proposition of a captive center to the parent firm, beyond economic cost advantages?

We apply the global subsidiary evolution perspective to GLOBALIS, a large financial services firm, with four captive centers in Ireland and India, and observed the IT capabilities as these centers evolved in terms of their capacity to deliver different types of value to the firm. Our data analysis and findings are based on an embedded case study in the four captive centers, through interviews, video-conference sessions, site visits and participation in team meetings.

The rest of the paper is organized as follows. First, we discuss the theoretical perspectives for this paper. Next, we explain the methodology, followed by the description of the case sites. We then discuss the findings from our case study, followed by limitations and implications for research and practice.
2. Theoretical Perspectives

The research framework for this study, shown in Figure 1, is based on the global subsidiary evolution model [2] and Venkatraman’s [34] concept of value center. The global subsidiary evolution model posits that antecedent factors: a) head-office assignments of responsibilities, and b) subsidiary’s choice of activities [1-3] affect the addition of capabilities. Head-office assignment of responsibilities refers to the centralized set of decisions taken by the parent firm, to allocate activities to the subsidiary. Subsidiary’s choice refers to the decentralized decisions taken by the subsidiaries, regarding their own activities [3]. These factors can lead to a change in the ‘charter’ of the global subsidiary, which refers to the role of the subsidiary. The subsidiary can play a subordinate role or an equal partner with the head-office. It is defined as:

“…markets served, products manufactured, technologies held, functional areas covered or any combination thereof. …. Is typically a shared understanding between the subsidiary and the headquarters regarding the subsidiary’s scope of responsibilities” ([3] p. 782).

In the context of global sourcing, a captive center is a global subsidiary [27], whose ‘charter’ may be influenced by the accumulation of distinct capabilities. We postulate that similar to global subsidiaries, the antecedent factors: a) headquarters assignment of responsibilities, and b) captive center’s choice of activities, can drive the development of IT capabilities in the captive centers.

A captive center’s IT capabilities can be divided into human resource (HR) capabilities, technological capabilities and relationship capabilities [1, 30]. HR capabilities refer to the accumulation of technical and business expertise required for IT implementation activities [34]. Technological capabilities refer to the utilization of software, hardware and communication technologies [29], while relationship capabilities refer to the utilization of IT-Business partnership in IT implementation activities [13]. Empirical studies in IS outsourcing show that a combination of these capabilities provides superior operational benefits to the parent organization [10, 17, 23], when they are properly aligned with the business strategy [32, 35].

The ‘charter’ of a captive center in our research model refers to the value generated by the captive center for its parent organization. Venkatraman [34] identifies four independent sources of value to the firm from IT, and calls them cost center, service center, profit center and investment center. Cost center benefits are measured strictly based on rigid quantitative payback criteria, and their utility are independent of firm’s business strategy. Service center benefits are IT-enabled business capability to support current strategy of the firm. Profit center benefits include, besides revenue generation, market-based bench marking, rapid learning, confidence building and experience in becoming a world class IT organization. Investment center has a long-term strategic focus and seeks to maximize business opportunity from IT. Adapting Venkatraman’s classification to the context of captive centers, we classify the value-adding roles into one of three types of captive center charter: cost center, profit center and strategic center, merging the strategic orientation of the service center and investment centers into one category called strategic center.

The cost center charter implies that the captive center fulfills a support role [9]. It provides technical expertise in software development [8], and provides services such as desktop management and infrastructure services. The cost center’s stock of IT capabilities is utilized to provide economic cost advantages to the parent IT organization [20]. In comparison, the profit center charter refers to the delivery of IT services to the external market in addition to serving the in-house IT needs. It assumes that the captive center can potentially compete with other offshore vendors for the full range of development activities, and the IT capabilities of the center are used to generate revenues for the company [25]. Finally, the strategic center charter implies that the center is closely aligned with and supports the existing business strategy. It also utilizes its IT capabilities to proactively provide innovative ideas to build new technological capabilities, delivering business agility and strategic benefits to the firm [25]. To evolve from cost center to profit center or strategic center, the stock of captive center IT capabilities must expand and align with the specific role [2].

3. Research Methodology

We applied a workplace studies approach [12] to observe four captive offshore centers of GLOBALIS, a US-based financial services firm, over a period of six years.
To compare and contrast the evolution of the different captive centers, we adapted an embedded case study approach. Our research approach involved a detailed analysis of in-situ social order [21-22, 33], that contributed to the strategic imperatives in each captive center. We documented the antecedent factors and the IT capabilities of the captive centers as they evolved through the captive center charters, providing the building blocks of value to the parent IT organization and the firm.

Our data sources consisted of in-person interviews, direct observations, on-site visits, as well as attending team meetings, training programs and presentations (Table 1). We interviewed 40 employees including six senior management personnel, six project managers and twenty-eight workers associated with the four captive centers. The monthly video-conference meetings of engagement managers were observed over a period of ten months - six at the US site, and one each at Ireland and India. We visited four onshore sites in the New England region, two each in Ireland and India. We monitored two team meetings conducted via conference calls between the team leader in the US and software testers in India. We also attended GLOBALIS’ cross-cultural training program and made six management presentations of our findings at the headquarters site in the US, in addition to Dublin and Gurgaon.

Our research initiative started with the monthly video conference meetings of engagement managers. The meetings provided us with an overall perspective of the challenges faced by GLOBALIS in establishing and integrating the offshore sites into a unified global workplace. The interviews occurred in both individual and group format. Most of the interviews happened in person, with each interview lasting approximately an hour, resulting in about 22 pages of transcript per interview. The interviews were semi-structured and conversational in nature. A range of topics related to strategy, global work processes, challenges, and approaches of the IT site at GLOBALIS were covered. The site visits and team meetings helped us observe the impacts of the strategic decisions in the captive centers. The presentations to top management helped us obtain valuable feedback about our findings, which helped us refine our theoretical model further. We provide the description of the company, followed by our data analysis and findings below.

4. Company Description

GLOBALIS is a large US-based financial services firm, employing about 60,000 employees. Ninety-eight percent of its employees are located in the US, with the remaining located in Europe and India. Each of its 12 operating divisions was organized as an independent company. GLOBALIS-Sys, our primary research organization, was the corporate IT unit with about 8000 employees, rendering IT planning, consulting, infrastructure and software development services to other GLOBALIS companies (called business sponsors hereafter). GLOBALIS-Sys was organized into three divisions: telecommunication services, system and desktop operation services, and software development services.
The software development services division had about 3800 employees headquartered in the New England area. This unit served as the IT software and services vendor to other business sponsors. Some business sponsors however, had their own IT units and they were free to outsource their IT work to external vendors, both onshore and offshore.

Since GLOBALIS-Sys competed for IT development and support work with other offshore vendors, it began establishing subsidiary IT sites outside the New England region to better serve the needs of its business sponsors. A center in West Lake in Texas was first to be launched, which was immediately followed by the Salt Lake City center in Utah. The top management of the parent firm GLOBALIS articulated their vision for establishing captive centers as follows:

“*Our strategy is ‘Globalization’ and not ‘Offshore Outsourcing’. It means – 1) Serving global customers and markets, and funding them with near term labor arbitrage, 2) Developing global intellectual capital, global growth capacity and global ideas and 3) Leveraging time zones, speed and service differentiation.*”

### 4.1 Captive Centers in Ireland

The Dublin center was the first offshore captive center to be established. Dublin’s charter was initially limited to technical aspects of software development work. By early 1998, the Voice Technology Group was transferred from the US to Ireland, and its charter expanded from technical work to include enterprise-wide implementation of voice technology. In 2000, Dublin set up a commercial software development and services business for the financial services industry in Ireland, U.K. and Europe. A one year post-graduate program was established in 2002 to recruit 20 top graduates from key universities in Ireland. The graduates were to be trained in the software development methodologies of GLOBALIS, in order to be employed at the firm. As a result, the Dublin center which started with just 11 employees in 1996 had grown to 210 at the end of 2002.

Early 2003, the captive center in Galway was established to create a multifaceted offshore capability in Ireland that could attract diverse talent from around the globe. These two Ireland centers together managed and supported sub-projects for business partners in the US and end-to-end projects for customers in U.K. and Ireland. In addition, they managed complete projects with globally distributed teams for US customers, were given full ownership of enterprise systems that served all business sponsors and served as a center of excellence in voice technology for GLOBALIS.

### 4.2 Captive Centers in India

The Gurgaon center was incorporated in 2002 under GLOBALIS-Int (A separate international
company). The top management of GLOBALIS made a strategic decision in 2003 to develop a global presence for developing and delivering its IT services to all business sponsors and customers. GLOBALIS-Sys was in-charge of implementing this new strategy. In this strategic initiative, the first step was to transfer the ownership of the back-office support center in Gurgaon from GLOBALIS-Int to GLOBALIS-Sys. The second step was the establishment of a comprehensive captive IT center in Bangalore, India.

In 2003, the Gurgaon center had a headcount of 59 full-time employees, and reported directly to GLOBALIS-Sys. Around the same time, GLOBALIS-Sys made the decision to establish another center in Bangalore. Since the business model assumed that customer facing tasks of requirements gathering and specifications, analysis and design, forecasting and delivery will be performed onshore, the role of the global centers was envisioned to support only the technical tasks of database porting, coding and testing. As a consequence, graduates with three plus years of technical experience in Web technologies, Unix environment and Oracle tools were recruited in India. In 2004, a senior vice president at one of GLOBALIS companies, a business sponsor for GLOBALIS-Sys projects, was appointed head of the Bangalore site, leading to its quick transition into an important center.

5. Headquarters Assignment of Responsibilities

The assignment of roles and responsibilities by the IT headquarters is an important antecedent factor in the development of IT capabilities in the captive centers. Birkinshaw and Hood (1998) define this phenomenon in the context of global subsidiaries as ‘Head-office Assignment of Responsibilities’. The headquarters, being responsible for establishing the captive center, invests resources for the smooth functioning of the center. Consequently, the headquarters continuously strives to impose a top-down assignment to shape the charter of each captive center, to benefit the strategic imperatives of the parent firm.

5.1 Development of Technical HR capabilities

In the initial stages of the establishment of GLOBALIS’ captive centers, two key aspects of the dynamics between the headquarters and the captive centers became apparent from the monthly video-conference meetings and interviews. First, the video-conference sessions, which lasted for about two hours, started at 8 AM Eastern Standard Time. The management teams at Dallas, Dublin, Gurgaon and Bangalore joined the meetings through the video conferencing facility. As the meeting started according to the Eastern Standard Time, the captive centers in both Ireland and India, had to adjust to the schedule set by the headquarters in Boston. While there is no universally convenient time for meetings whose attendees are distributed globally, the time that was selected was the most convenient for those at the headquarters. Every meeting was run by the manager at the headquarters. That is, the headquarters initiated the meeting and also set the agenda. They also acted as the arbiters, ensuring that everyone followed the agenda for the meeting.

The questions raised by the headquarters tended to be what could be called accountability-type questions. For example,

“Why is there a delay in the project? Why was this part of the project not done? What are the employee allocations for this month?”

On the other hand, the questions raised by the captive centers tended to be clarification-type questions. For example,

“What tool needs to be used for this part of the project? Can we move person X from the project? How do we match the metrics in the project?”

This unidirectional flow of accountability indicates that an arms-length relationship existed between the headquarters and the captive centers. Although the headquarters and the captive centers belonged to the same organization, the relationship between the two entities resembled more an outsourcing (client – vendor) relationship, than an insourcing (within company) relationship. Thus, the parent site headquartered in Boston controlled the resources in the projects implemented at the captive centers, and was the planner and implementer of important decisions regarding the charter and role of the offshore captive centers.

Second, for software development projects, the headquarters retained the functional IT work of designing the software, and delegated technical IT work of implementing the software to the captive centers. At GLOBALIS, one of the primary focus areas in 2003-2004 was on the design, development and implementation of Global Delivery Services (GDS). A senior manager summarized GDS as follows:

“Global Delivery Services (GDS) emerged out of the realization that there is need to build a more integrated workforce within the company and get away from the separate identities that did exist between the sites.”

During the video-conference sessions, the GDS development tasks were split between the onshore teams and the offshore teams. The onshore teams in the
headquarters in Boston developed the best practices for the GDS system that included project management and requirements management activities. The offshore team at Dublin was responsible for the software tool called Kintana, to support the GDS pipeline.

“The folks in CB (Commercial Business portion of Dublin site) had developed a pipeline process tool [Kintana] to manage the portfolio of their projects. We took their pipeline process and turned that into an automated workflow to capture all the opportunities that come in and begin to access the level of effort, the level of effort by site or solution center, and the solution center that work is being targeted for. We have instituted a series of bi-weekly pipeline reviews based on Kintana’s data.”

5.2 Investment in Technological Capabilities

In addition to HR capabilities, the headquarters assignment of responsibilities also impacted the development of technological capabilities. Each captive center was assigned by the headquarters to become a center of excellence (COE) in a specific technology - The Dublin center in voice technology, the Bangalore center in software testing technologies, and the Gurgaon center in Linux technology. A senior manager summarized the Gurgaon COE:

“Gurgaon office has been chartered to become a center of excellence in Database and Linux. Sybase to Oracle migration, performance tuning, database design, disaster recovery, database technology and Linux should be the strategic objectives for the Gurgaon COE. ... Indian software engineers in Gurgaon wanted more interesting work and they dropped database porting because it was viewed as mundane work. The COE objective was ‘The Gurgaon team wants to become better than the Boston team.’”

The center of excellence concept resulted in the captive center acquiring the capabilities to research tools in the assigned technology, select the tool, develop a training program and implement the tool across the enterprise. The center of excellence concept therefore expanded the charter of the captive centers from a ‘doing’ role to a ‘planning and enterprise implementation’ role. Thus, the captive centers acquired new capabilities in technology evaluation, technology implementation and process improvement, to fulfill this new role.

6. Captive Center’s Choice of Activities

The second critical antecedent factor that can impact the acquisition of IT capabilities and the charter is the captive centers’ choice of activities [3, 6]. Aside from the headquarters assignment of activities, captive centers can also strive to expand on their activities by themselves. This in turn can change the IT capabilities acquired and the corresponding charter. In the global subsidiaries literature, this type of transformation is referred to as ‘subsidiary’s choice of activities’ [2]. Captive centers gain legitimacy with the parent site as they continue to accomplish turnkey projects. Therefore, as the maturity level of the captive center increases, it seeks to expand its ‘voice’ through deliberate investments in new capabilities [4].

6.1 Development of Business HR Capabilities

IT implementation, specifically software development, is a knowledge intensive activity [15] that requires a combination of technical and business skills [34]. Complex engagements require boundary spanners at the interface between the firms, to integrate technical and business knowledge [18]. In offshore outsourcing, these boundary spanners either travel from the client or vendor side. However, for captive centers, instead of boundary spanners, it might be cost effective to retain employees with both skills within the same center.

Initially, all the GLOBALIS captive centers performed only coding and testing activities. However, the payoffs of this activity varied across these centers. For example, the software developers at the Gurgaon center lacked domain expertise. They also lacked an understanding of how their coding work fitted within the overall system. As a consequence, even the coding and testing tasks allocated to the Gurgaon center were discrete, and managed directly by the onshore team leaders at the headquarters.

Conversely, as the Ireland centers improved in process maturity, the coding and testing performed at the Ireland centers transformed into management and delivery of full sub-components. It now entailed the entire range of project activities including the planning and acquiring the resources needed such as the use of external consultants, defining the interfaces with the boundary systems, developing the technical architecture of the sub-system, planning and scheduling the project tasks and activities, and developing and monitoring the budget. The changes in the capability profile became apparent in the maintenance of enterprise-wide systems projects. These projects mandated that the Dublin and Bangalore captive center employees possess not only technical skills, but also an understanding of system architecture, the business processes supported by the system, and help desk process.
For a crucial enterprise system for security tracking and access control (STAC), the customer-facing day-to-day support was provided by the well-established Dublin center, whereas a two-person Gurgaon team only provided technical support such as developing the compliance monitoring reports and the user manual.

“STAC manages access privileges by enabling access removal for terminated or transferred employees in a timely manner and producing a set of reports that assist in achieving compliance ... Has service-oriented architecture using Web services and middleware and is a pillar of access control.”

Similarly, in 2006, as the Bangalore center expanded, it provided 24/7 support of the problem and change management enterprise (PACE) system.

“PACE provides a robust approach and technology to GLOBALIS companies to report IT problems and monitor the work tickets.”

In summary, the captive centers, when initially established, merely served as an inexperienced labor pool for coding and testing that require continual guidance and micro management by the headquarters to fulfill its responsibility. Over time, through their own choice, the centers began to acquire domain and process knowledge to perform the activities independently. Thus, changes in the HR capability from technical HR capability to business HR capability can occur as a result of the increase in the maturity level of the captive center.

6.2 Development of Relationship Capabilities

Building effective relationships can help a captive center provide superior value to the parent IT organization [16, 20], and can occur along two dimensions. At the operational level, as the activities are performed virtually, developing trusting relationships among virtual team members contributes to the success of the project [7, 14-15]. At the strategic level, an equal partner relationship between the headquarters and the captive center is needed.

6.2.1. Dublin Center. A turning point in the role of the captive center occurs when the center begins to seek its own customers. Beginning in 2000, the Dublin center launched a commercial software development and services business to first serve the international unit of GLOBALIS and later expanded its role to provide consulting and development services to financial firms in Ireland, U.K. and Europe. The head of the Dublin center mentioned:
“We needed to develop new competencies in contract management and partnership nurturing, extend business domain knowledge, and sharpen manpower planning and order planning processes.”

Since the Dublin center executed projects using global team members residing at other GLOBALIS sites, it required the ability to develop virtual interpersonal relationships among the globally distributed members of the project teams. This was accomplished using the GDS (Global Delivery Services) processes and software systems. One complaint was that the Dublin center assigned well-established teams for its commercial business, but allocated novices to parent’s projects. However, these misperceptions evaporated as the Dublin center established a ‘business partnership’ with headquarters.

6.2.2. Bangalore Center. The Bangalore center utilized a different relationship-building strategy to seek its own customers. The Bangalore center organized an India day at the headquarters of GLOBALIS in Boston. It was attended by all the business partners of GLOBALIS-Sys. The business partners were provided a range of information about the IT services in the two India captive centers, and the labor cost for these activities. Notably, they learned that significant cost savings can be accomplished by using Indian resources.

This proactive action by the Bangalore site enabled the two centers to bypass GLOBALIS-Sys, and approach the business sponsors directly. The Bangalore center grew in size and developed competencies equivalent to the sites in Ireland. By the beginning of 2006, the head count at the Bangalore center had reached 1500 employees from a modest beginning of 200 employees. Compared to the growth of the Bangalore center, the head count at the Gurgaon remained stagnant at 200 employees. Due to the rapid growth, the Bangalore center was spun off into an independent company in 2007, providing offshore IT services to all twelve divisions.

7. Discussion of Findings

Our findings indicate that headquarters assignment of responsibilities led to the acquisition of technical HR capabilities and technological capabilities in the captive centers, and these capabilities had a direct impact on the charter of the captive centers. All the captive centers were initially cost centers providing economic cost advantages. GLOBALIS’s headquarters retained much of the design work initially, and offshored only the technical IT tasks to its captive centers. The increased delegation of technical activities to the captive centers required expanded and deeper technical skill-set of the captive centers. Assigning captive centers the responsibility to become a center of excellence in a given technology enabled each captive center to acquire state-of-the-art capability in a technology that had long-term strategic implications for GLOBALIS. This led not only to an expansion of both technical HR capability and technological capability in the captive centers, but a voice and role in selecting, testing and implementing strategic technologies to the firm.

An interesting finding from our study is that a captive center’s transformation from a cost center to profit center involves expansion of all three dimensions of IT capabilities: HR, technological and relational capabilities. This confirms prior research in IS outsourcing about the enabling role of IS capabilities [1, 10], and extends it to the context of captive centers. For example, in the Dublin center, the extension in its charter from cost center to profit center required it to: 1) develop new competencies in contract management and partnership nurturing, 2) extend business domain knowledge, and 3) sharpen manpower planning and order planning processes. In summary, the change in charter of a captive center from doing tasks assigned by the parent firm to doing tasks contracted directly from customers transforms the role of the offshore center from being a cost center to a profit center.

However, findings from the study also indicate that the transformation from cost center to strategic center requires a different strategic imperative. One unexpected outcome of divesting the captive offshore centers in Bangalore and Gurgaon into an independent GLOBALIS-India company turned out that the head of GLOBALIS-India procured a seat on the CIO council at the headquarters. Being part of the upper echelons of management [5], meant that the captive centers in India evolved into an offshore entity that participated in planning the IT strategy of GLOBALIS [31]. Therefore, the charter of the Bangalore center evolved into a more strategic role i.e., strategic center. However, the Gurgaon center did not have any representation in the executive team. As the center did not have a growth strategy, and since it could not provide sufficient value addition compared to the operating costs involved, the center was subsequently closed.

8. Limitations

Although our study makes important contributions to theory and practice, it has some
9. Contributions and Future Research

Our study makes three important contributions to the IS outsourcing literature. First, prior outsourcing literature suggests that firms engage in market-oriented mechanisms (i.e., vendors) over hierarchies (i.e., captive centers), to achieve production and transaction cost economies [14]. However, our study diverges from prior research in that it emphasizes the strategic importance of hierarchies over market-oriented mechanisms, by illustrating how hierarchies can deliver value beyond economic cost advantages to the parent firm. Second, prior research posits that IT capabilities form the fundamental building block of a client’s offshoring effectiveness [10]. In reinforcing this idea, our study extends the notion of IT capabilities to the context of captive centers, by highlighting the extent to which each of the IT capability dimensions are important for achieving the corresponding value proposition. Third, few outsourcing studies in the past have examined antecedent factors to IT capabilities. However, this study examines the interplay of both the headquarters and captive center in shaping the IT capabilities, thereby demonstrating the importance of not only including the antecedents, but also including factors that reflect both the parties involved.

Future research can expand on our study in three important ways. First, prior research has examined the impact of the complementary role of IT capabilities on a client’s effectiveness. By effectively combining HR and technical capabilities, vendors can provide better value proposition to the client [20]. Similarly, researchers studying captive centers can examine how HR, technical and relational capabilities complement each other, to drive the value proposition to the parent firm. This would shed light on the relative importance of each of these capabilities in a captive center. Second, this paper focused on the pathways from the antecedent factors to the captive center charters. However, researchers can further examine the feedback loop from the charters to the antecedent factors. Understanding the reverse causal factors could further enhance the model, and complete the evolutionary cycle of captive centers. Third, although this paper focused only on software development projects, future research can expand the model to other types of IT projects. Researchers can also replicate our model in other captive center contexts. A key research question is: What impacts do industry and country have on the evolution of captive centers? Future research can also explore if a captive center can ‘leapfrog’ from a cost center to a strategic center.

10. Implications for Practice

Our study findings also have important implications for practice. This paper establishes that companies can consider captive centers as a key component of their offshore outsourcing strategy. Contrary to the notion that economic costs are the only value proposition [25], this paper shows that the value proposition of a captive center can be achieved in different ways: cost reduction for a cost center, rent generation for a profit center, and competitive advantages for a strategic center.

Firms interested in deriving strategic benefits from their captive centers can also benefit from the findings from this study. When a captive center is first established, the focus may be on cost reduction benefits and the captive center acquires the charter of a cost center. However, through initiatives of headquarters and captive centers and through the clever exploitation of IT capabilities, firms can strive to transform their captive centers, to provide strategic value to the parent organization.

11. References
