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978-0-521-19353-5 - Global Outsourcing and Offshoring: An Integrated Approach to Theory and Corporate Strategy

Edited by Farok J. Contractor, Vikas Kumar, Sumit K. Kundu and Torben Pedersen  
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## *Global Outsourcing and Offshoring*

### An Integrated Approach to Theory and Corporate Strategy

Companies are increasingly asking which of their value chain activities are best performed within their own company and which may be outsourced. In addition, they are also considering which pieces of their value chain may be better performed abroad. These interrelated decisions concerning outsourcing and offshoring have not only changed entire industries, they have also transformed the lives of people across the world. Hundreds of millions of jobs in emerging nations have been the direct result of outsourcing and offshoring decisions. At the same time, many people in the developed world have lost their jobs because a company has been able to find a cheaper alternative. Featuring contributions from scholars in eleven different countries, this book is the first to examine the theory and practice of outsourcing and offshoring simultaneously. It includes studies of a variety of different industries, including pharmaceuticals, automobiles, medical records, appliances, human resource management, and telecommunications.

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interests focus on qualitative research methodology in organization studies, the interplay between technology and organizational choices, work teams, and offshoring of professional activities. She holds a PhD in Management Engineering from the University of Padua and in 1997 and 1998 she was a post-doctoral fellow at the Department of Management Science and Engineering at Stanford University. She has recently written a book on doing qualitative studies in organizations.

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## *Preface:* *The reconfiguration of the world economy*

A heavily mustachioed man, with a passing resemblance to the comic character Asterix, regularly enjoys gourmet meals at Brussels restaurants, paid for by the European taxpayer. He draws a salary and allowance of at least €11,867 per month (not counting the salaries of his staff, travel per diem, fringe benefits and other overheads). His total expense to the taxpayer could easily total €500,000 per annum.

José Bové is a Member of the European Parliament (MEP) representing the southwest of France and a leading anti-globalization activist. Reporters and pundits seek his opinion. Think tanks, universities, and even companies invite him to express his opinion on a range of subjects from multinational investment, to agriculture, to outsourcing. When his name is mentioned to French people, their faces light up with instant recognition, and secret approval – even from those who overtly oppose his views. There is something about José Bové that resonates with the French soul.

Mr. Bové is also a thrice-convicted felon. Not so long ago, he periodically vandalized and demolished McDonalds restaurants in France, burnt genetically modified crops in Brazil and France, entered Yassir Arafat's Fatah headquarters while it was under siege by Israeli forces, and has periodically been tear-gassed at anti-globalization protests in various world cities. Although he is the scion of academic and intellectual parents, Mr. Bové today parades as a sheep farmer from the village of Millau (population 22,000). But he is hardly there, preferring instead to give a speech in Kathmandu to *Via Campesina* (an international movement of small farmers) or to sail in the South Pacific on the *Greenpeace* ship, the *Rainbow Warrior*.

When asked, French executives will give carefully worded and circumspect opinions about Mr. Bové. Their heads tell them that the views of protesters like José Bové are antithetical to business, to efficiency, and to the surge in worldwide prosperity spurred by multinational investment and trade in the last five decades. But their hearts are

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ambivalent, or secretly sympathetic. They know that globalization also dulls the taste of dishes derived from agribusiness food stocks, relocates jobs to China, threatens their cuisine and culture, forces some French companies into bankruptcy, and tinges the simple pleasures of life – such as lingering over a Café Noisette – with anxiety and guilt in the name of productivity and global competition.

This book is about efficiency, and about anxiety. By the division of labor and reallocation of jobs to lower-wage nations, companies reduce their costs, fatten shareholders' profits, but, importantly, also reduce the price their final product is sold for in the marketplace. Consumers in the rich nations, and worldwide, benefit. Hundreds of millions of jobs in China, India, Brazil, Korea, and similar emerging nations have been the direct result of "Offshoring" (relocating jobs to a foreign country) and "Outsourcing" (giving jobs that were formerly conducted by company employees to external contract providers).<sup>1</sup> These offshore workers, in turn, become more affluent and more avid customers of American, European, and Japanese goods and services. It is no exaggeration to say that, in the last century, billions have been raised from poverty to a middle-class status – in part as a result of the global reallocation of economic activity. In the millennia to come, all the wars, terrorist incidents, and politics of the twentieth century will recede to become small footnotes or blips in history. But the one salient event that will be remembered and noted will be the transformation of humankind from poverty to affluence, from protectionism to liberalized economic policies, from tribalism to a global identity, and from ignorance to productivity.

It is a transformation still in the making. Moreover, there are no guarantees of an inexorably upward trend. History is replete with temporary U-turns. Two thousand years ago there was significant trade between Europe, China, and India. Technology had reached levels not seen again until the eighteenth century. But the glories of Imperial Rome, Chang An, and Pataliputra were followed by lapsed centuries of anarchy and "dark ages." However, this time, there is a difference and greater reason for hope. This time, through information technology, communication, democracy, and unprecedented levels of education worldwide, we have managed to achieve a collective global consciousness as citizens of a shrunken planet. There is a willingness to take collective global remedial action, on a scale that was unthinkable even two decades ago.



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For example, this book contains the contributions of academics from over a dozen nations, some of whom met only briefly in April 2008 at Bocconi University in Milan at a conference on *Offshoring and Outsourcing: The Organizational and Geographical Relocation of High Value Company Functions*. The four organizers of the conference (and editors of this volume) only met once prior to the conference and conducted all their preparations by email. Subsequently, all the work and communications between volume editors, Cambridge University Press, and contributors has been done electronically. Cambridge University Press, in turn, will likely outsource part of the production of this book to India.

One focus of the conference, and much of this volume, is on “high-value” company functions. Even now, the bulk of Outsourcing and Offshoring entails rather mundane functions such as call centers, data entry, accounting services, and copy-editing of books and journals. However, there is the beginning of a trend where even the more strategic, “core,” or high-value portions of a firm’s value chain – such as R&D – are being relocated to foreign nations and external providers. This is disturbing to some strategic thinkers who assert that every firm distinguishes itself by its core knowledge or other inimitable assets which are the foundation of a company’s competitiveness. Relocating these core assets would leave the company more vulnerable to technology leakage, piracy of intellectual property, and a heightened danger of global supply chain disruptions.

The question then reduces to what portions of a company’s operations may safely and efficiently be outsourced or geographically relocated. And which portions of the value chain had better be retained in company headquarters and in the home nation? This entails slicing or breaking down each of the company’s operations (R&D, Production, Marketing, Service), as well as staff functions (such as Accounting, Finance, Human Resource Management, Information Technology, etc.) and asking where each may best be performed. This is a central question in research and the practice of International Business:

What is the optimal allocation, or spread, of a company’s operations and functions over

- Space (nations or geography)
- Time, and
- Organization type (in-company versus external providers).

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The book is divided into four sections. The first develops conceptual frameworks and theories. It looks at the strategic drivers, as well as the limiting factors, for offshoring and outsourcing. It traces trends in emerging and advanced nations that have fostered an acceleration of these trends in the last decade. The second section of the book specifically treats the relocation of R&D and innovative activity – what is still generally considered the “core competence” of a firm or the crown jewels of its continued internal vitality. The third section examines organization behavior and politics in virtual teamwork, when personnel and groups are geographically and chronologically separated. The final section of the book has several examples and case studies on particular industries including telecommunications or appliances, as well as specialized areas such as medical transcription and human resource management.

We owe SDA Bocconi School of Management and Professor Vikas Kumar thanks for organizing and funding the conference which was the genesis for this volume. The editors wish to particularly acknowledge and are thankful for the considerable organizing skills and academic acumen of Ms. Pooja Thakur (doctoral candidate at Rutgers University) whose own dissertation is on the Outsourcing and Offshoring of Pharmaceutical Company R&D. Ms. Thakur brought a thorough understanding of the subject to the conference and preparation of this volume – besides fielding several hundred emails from participants and authors with dispatch and cheer.

This book is a microcosmic representation of humankind’s future. Its fruition and contents, although geographically and organizationally separated, were nevertheless unified by an idea, and brought together by the evanescent dance of photons on intercontinental fiber-optic networks.

#### Note

- 1 *Definitions*: “Outsourcing” is an *organizational* restructuring: a company can “outsource” a function to a contract provider (either in its home country, or abroad). By contrast, “Offshoring” is simply the *geographical* relocation of a job to another nation (under the aegis of the same company’s foreign subsidiary, or to a foreign contract provider). Chapter 1 provides more details on the distinction between the two.