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EDITORIAL

Beyond Offshore Outsourcing of Business Services

Graham Hollinshead
University of Hertfordshire, UK

Paweł Capik
Sheffield Hallam University, UK

Grzegorz Micek
Jagiellonian University, Krakow, Poland

The re-organization of production across national boundaries has been extensively practised in industries such as motor manufacturing and clothing for the past four decades. This follows a realization by companies that competitive advantage would flow from retaining certain business functions 'in-house', while disaggregating, or externalizing, elements of the production process overseas to gain cost efficiencies (Ghoshal, 1987). Resting on the underlying principles of international division of labour, such sourcing decisions have tended to retain higher 'knowledge orientated' skills in advanced nations, while lower 'value-added' functions have been devolved to less-advanced regions.

Following these earlier examples from manufacturing, it has become evident that a wide range of corporations, straddling a diverse range of industrial and service sectors, are recognizing the potential operational and competitive advantages of disaggregating business processes and services and relocating them on a geographically dispersed basis. Business functions amenable to international sourcing have included IT services, software, administrative and call centre or 'voice' facilities. It is perhaps not surprising that the United States, as a 'liberal market' economy (Hall & Soskice, 2001) has been at the epicentre of corporate moves to 'marketize' various components of business activity and to externalize such functions on the basis of cost–benefit-based criteria. At the outset we would note that *outsourcing* refers to the contracting of a job to another company, whether or not in the home country, *offshoring* means moving jobs out of the country, whether or not they leave the company (Blinder, 2009). The term *offshore outsourcing* therefore refers to the transference of an activity or function both outside the company and outside the country.

This special issue originated in a symposium convened at the University of Hertfordshire Business School in September 2011, under the auspices of GEBRU (Global Economy and Business Research Unit), entitled 'the Offshore-Outsourcing of Business

Services'. This symposium was financed by a network grant from the Regional Studies Association. The forum comprised scholars from a variety of disciplinary backgrounds (including economic geography, international management, organizational studies, finance, business ethics, industrial sociology and industrial relations), as well as practitioners experienced in the management of international sourcing in a range of sectors, including financial services and software development. Participants could also be characterized by their international diversity, some hailing from countries primarily associated with the instigation of offshore outsourcing activity (for example, the US and the UK) and others representing 'recipient' destinations (for example, Poland, Hungary and India). Through a series of debates at the symposium, which sought to expose the phenomenon of offshore outsourcing of business services to critical evaluation from interdisciplinary vantage points, it emerged that the status of and strategic rationality for such international sourcing has been subject to modification and flux even over its relatively brief period of existence.

It is the acknowledgement that the international sourcing of business services has been subject to evolutionary tendencies, both concerning its geography, and its strategic and operational rationality, that provides the point of departure for the current special issue. Qualitative shifts in the logics and dynamics of offshore outsourcing over the past decade or so have been well captured in the extant literature and may be exemplified with reference to developments in two significant and emblematic sectors: software development and financial services.

The software development industry offers a complex picture of the international division of labour. On one hand, the sector exemplifies 'path dependent' tendencies towards concentration of people and processes in specific geographic localities in advanced Western countries, for example Silicon Valley, California and the South East of England. Carmel and Tija (2005) state that the 'crown jewel' for a software product company is its code, which tends to be rigorously protected in corporate headquarters. Geographical concentration of innovation continues to be perpetuated by two key factors; first, through access to talented designers, software engineers and programmers and, second, through proximity to large and technically sophisticated users. The US dominates on both of these counts (Aspray et al., 2006). However, offsetting the concentration of the 'higher order' creative and architectural R&D based functions, there has been a strategic realization in recent years that economies can be gained, in a highly competitive market environment, by separating out more programming-based activity and relocating its execution to lower-cost locations overseas. The introduction of microcomputers and networked computer terminals has added impetus to the decentralization of more routine functions. While IT companies in the US and the UK have been the primary instigators of the international sourcing of software developmental activity, as Carmel and Tija (ibid) describe, a global 'pecking order' has emerged in the provision of offshore services. The 'leading' offshore recipient nations, namely India, China and Russia, and also Israel and Ireland, possess reservoirs of engineering talent that have ascended the value chain to provide more architectural functions. However, as a spatial concomitant of this primary international sourcing dynamic, a significant trend has been a move towards 'near-shoring' in the European region (for example, from Scandinavia and the Netherlands to the Baltic States and Central and Eastern Europe), in North America (from the US to Canada) and in Asia (for example, from Japan to China, Vietnam and Korea) (ibid).

Even though the offshore outsourcing of IT development and design has only gained prominence since the mid-1990s, its international shape and operational anatomy has been subject to perpetual reconfiguration. As Aspray et al. (2006) point out, while the primary 'nerve centres' of creative design activity in IT tend to remain in the West, there is undoubtedly diffusion of higher level research and development activity to other global localities (most notably India) as providers grow in maturity and experience rapid 'learning curves', thus threatening to challenge the 'monopoly' of architectural activity which has resided in Silicon Valley and similar prestigious localities. As a consequence, the international IT industry has manifested profound structural change over the past few years, with Indian and Russian companies emerging as autonomous 'players' and erstwhile offshore providers in emerging and developing countries themselves engaging in outsourcing activities. Such developments have coincided with a realization among Western international corporations that India may be reaching 'saturation point' as the preferred international sourcing host, with excessive demand for labour and rapidly rising labour costs.

Similarly, the financial services sector has witnessed widespread international process re-engineering over the past decade. A report by the US Department of the Treasury (2009) showed that eight of the ten largest US financial services companies globally adopted outsourcing in 2008, contrasting with an equivalent figure of three in 2000 (Blackmore & Young, 2009). A bifurcated picture of division of labour also characterizes financial services, with 'nerve centres' being concentrated in major metropolitan centres, particularly New York and London. Dicken (2011) suggests that tendencies towards concentration may be attributed to the distinctive features of the finance industry, which relies on cooperation as well as competition between firms. In a profession where contacts are vital for generating business and information about business, relationship management, micro-networking and 'buzz' constitute vital business assets (Asheim et al., 2007; Thrift, 1994). Offsetting the trend towards the concentration of higher order functions, there has been managerial realization in recent years that advantage can be gained in a highly competitive market environment by conceptually and geographically separating out back office activity and reallocating these functions to lower-cost locales (Robert-Nicoud, 2008). Iterative advances in information and communication technologies have only further impelled the decentralization of routine functions.

The deverticalization and re-engineering of firms has facilitated the arbitrage of labour and production costs and the quest for new knowledge and innovation (Jacobides, 2005). The separation of work geographically and administratively has involved longer and more complex value chains for the generation of goods and services (Gupta, 2006). The increased standardization of technology has made skills more portable between firms, resulting in declining labour costs (Grimshaw & Miozzo, 2006; Miozzo & Soete, 2001), while the increased production standardization within industries has diminished the quality risks of offshoring (Graz, 2008). Taken together, these factors have increased the distances over which the transmission of knowledge and the reallocation of labour has occurred. Processes of offshoring and outsourcing have been shaped by institutional influences in both sender and receiver countries (Balasubramanyam & Balasubramanyam, 1997; Grimshaw & Miozzo, 2006; Lakha, 1994). At an international level, important institutional developments such as the deregulation of financial markets and the enlargement of economic collectivities (such as the EU) have simultaneously evened and intensified the competitive landscape (Ellis & Taylor, 2006).

However, in the financial services sector, as in software development, there has been a discernible shift in the strategic logic underpinning the form of offshore outsourcing in recent years. As Gupta argues in the current special issue, the initial driving rationality of achieving cost effectiveness through labour arbitrage has given way to a dawning managerial realization that 'agility' is vital in highly competitive circumstances, this being associated with the broader need to source talent and skills rapidly and expeditiously on a global basis. We would note also that, in the aftermath of recent financial crises, financial services companies may be less inclined to source overseas, as the prevailing organizational and governmental instinct potentially turns towards retrenchment.

In sum, therefore, there are strong empirical indications to suggest that the initial drivers for international sourcing of business services, formerly significantly influenced by labour cost arbitrage considerations, have given way to more sophisticated and complex global sourcing models, which are concerned with optimizing combinations of skill and competence from across regions to maximize competitive advantage. In such circumstances, one might indeed question, following Gupta in this special issue, whether the term 'offshoring' has outlived its usefulness. Redefinition of primary concepts to meaningfully guide debate in this field may now usefully turn to the emergence of international and multi-latticed models for sourcing business services. In taking forward this line of theoretical inquiry, and following Doh (2005), the resource-based view of the firm RBV (see also Barney, 1991; Nelson & Winter, 1982; Penrose, 1959) offers a promising conceptual path forward by suggesting that competitive advantage can be achieved by optimizing the combination of internal and external knowledge based resources. Building upon such theorization, the 'dynamic capabilities' perspective holds that fundamental competitive advantage may be derived from combining and synthesizing resources of knowledge and skill from a variety of geographically dispersed organizational sources rapidly and flexibly (Kogut & Zander, 1992).

Such an analysis inevitably brings to the centre of discussion the pivotal role of the 'offshore' locality or productive site in sustaining viable models of international sourcing, this factor arguably having been neglected in previous deliberations on this subject. In highlighting the significance of the offshore provider in strategic formulations of international sourcing, inevitably the well-rehearsed political and economic sensitivities concerning offshore-outsourcing (see, for example, Blinder, 2009) are invoked. Clearly, if labour arbitrage is the major driving force underlying offshore outsourcing initiatives, then asymmetry is inherent in the fabric of the strategic relationship between host country provider and host country recipient of services and the ethical premise binding these parties is open to question. In the context of growing maturity of offshore providers in more recent years, and their assumption of 'higher value' business functions, it may be tempting to conclude that previous concerns about the 'ethics' of international sourcing are alleviated. Yet, as Levy (2005) contends, even if research and development and other creative functions are devolved to the offshore host locality, stakeholders in this region will not necessarily reap the fruits of this activity, as the sourcing model that has been created, combining internal and external capabilities, provides disproportionate advantage to major vested interests connected with this market-dominant corporate configuration in its country of origin. Accompanying, therefore, the acknowledgement that new and sophisticated models of global sourcing are emerging, is a parallel and pressing commitment for scholars and others to comprehend the new ethical complexities associated with international business re-organization.

In this special issue, contributors seek to embark on new trajectories in the offshore outsourcing debate. Park and Hollinshead explore the 'genealogy' of offshore outsourcing activity of a 'flagship' US financial services institution since the mid-1990s, observing a progressive diminution of the 'centre' of the business, and growing complexity and sophistication in the company's approach to externalizing business functions on a widespread geographical basis. These authors examine the potential strategic contradictions inherent in intensifying a programme of international sourcing whilst seeking to maintain a high profile in relation to corporate citizenship and corporate social responsibility.

Chadee, Raman and Michailova engage in an overdue examination of the factors that promote competitiveness among offshore service providers (OSPs). Conducting empirical investigation among leading OSPs in India, it is found that such providers draw their competitiveness from their possession of superior human capital combined with effective knowledge management processes and ability to leverage relational capital and follow a quality-based strategy. In formulating a 'conceptual framework' in order to systematize understanding of OSP competitiveness, the authors also specify the vital role of government in creating an environment that is conducive to growth in this industry.

In a different and comparative example drawn from the manufacturing industry, Raj-Reichert brings to the fore the challenges and complexities associated with seeking to regulate and harmonize social, environmental and other conditions in global production networks (GPNs). Drawing upon extensive empirical investigation of electronics industry manufacturing sites in Penang, Malaysia, the paper describes how the Electronics Industry Code of Conduct (EICC) came into being, and how inter-firm and non firm relationships shape GPN governance outcomes. It is argued that resource constraints, changing power dynamics among firms and contestation by external stakeholders are significant factors in influencing the implementation of private governance measures. The paper provides valuable insight into the employment and ethical dimensions of international sourcing, which potentially resonates in the field of offshore outsourcing of business services as patterns of international organization and control become increasingly complex and diffuse.

Gupta offers an explicitly practitioner-orientated perspective on process re-engineering in the financial services industry. As a leading and influential exponent of new operating models within the sector, this author provides a 'best practice' formulation which holds that moves towards 'componentizing' business activities and functions should be multifaceted and 'fit for purpose'. Implicitly questioning the utility of frequently used concepts to describe contemporary international management practice, including 'offshoring', Gupta asserts that financial services corporations will require a broad and complex repertoire of re-engineering tools at their disposal to engender 'agility' in the hyper-competitive environment that persists in the wake of the financial crisis. Gupta's paper offers an intriguing insight into the nuances of senior management thinking that have guided re-organization and rationalization programmes in an industry occupying the epicentre of the global economy.

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