

Comparing and Contrasting International Business and Economic Geography Perspectives on the 'Place, Space and Organisation' of Service Offshoring

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Comparing and Contrasting International Business and Economic Geography Perspectives on the 'Place, Space and Organisation' of Service Offshoring

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Positioning , rationale and purpose

- The paper contributes to an **ongoing conversation between IB scholars and economic geographers** - renewed momentum in recent years.
- **Service offshoring** as an important contemporary IB phenomenon that has received attention from scholars in both fields – hitherto largely disconnected
- Compares the perspectives and analytical insights of these two disciplines on **geographic and organisational aspects of ‘service offshoring’** – aka **‘place-space-organisation’** (Beugelsdijk, McCann & Mudambi, 2010)
- A conceptual ‘ground-clearing’ exercise – a necessary step towards an **enhanced, inter-disciplinary understanding of this important phenomenon**

Comparing the two disciplines

International Business

- "IB scholars explore **how and why cross-national differences matter** and **how businesses are able to transcend national (and other) differences...**" (Meyer, 2013, p.10)
- "A central theme in IB studies... is the **search for 'universal truths' or general principles**. This sits alongside a second IB theme, that locations or places vary and context matters..." (Collinson et al, 2013)
- A core research theme: the activities, strategies, structures and decision-making processes of **multinational enterprises** (but an increasingly diverse research agenda)

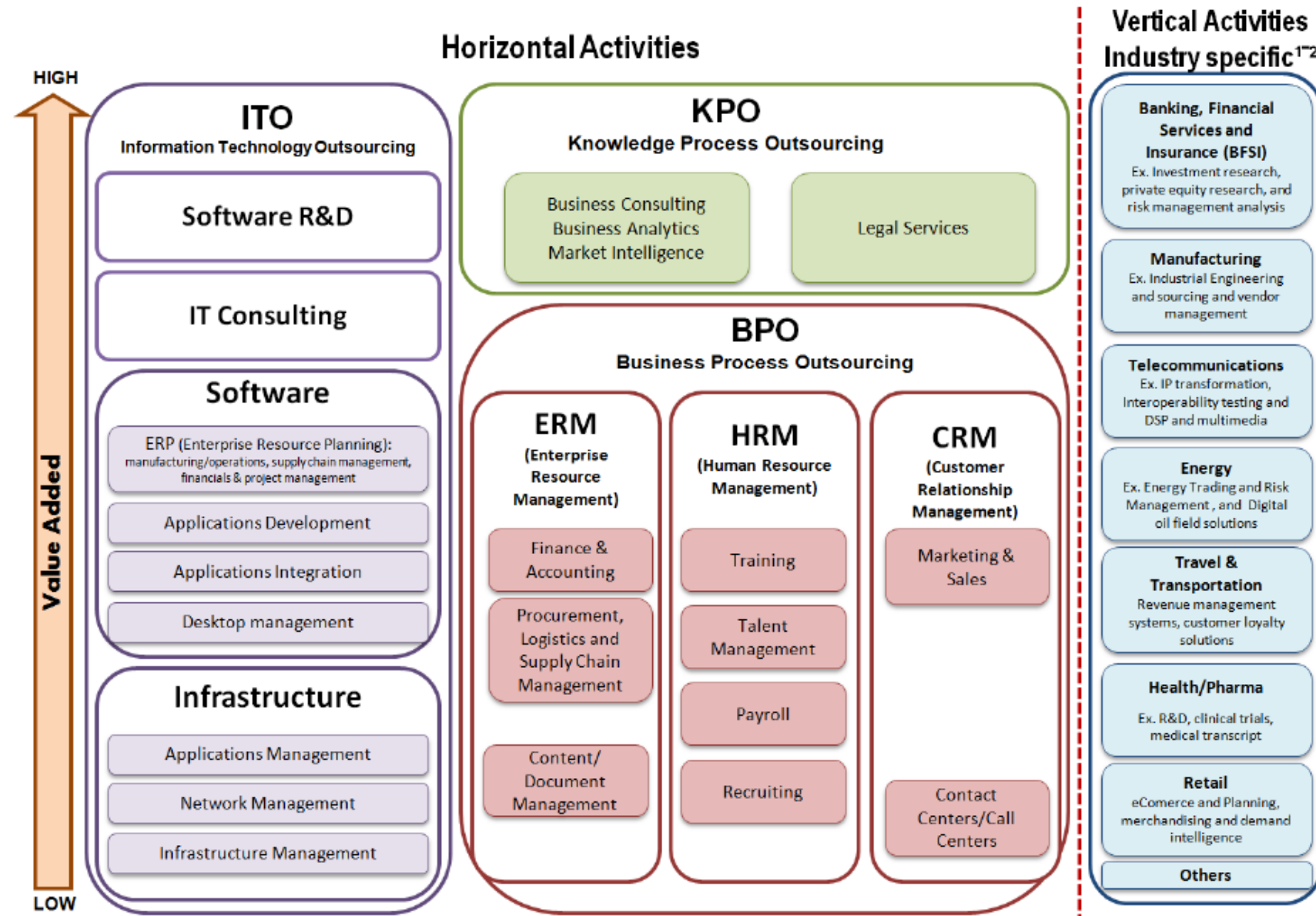
Economic Geography

- "The discipline's goal has long been to offer **multi-faceted explanations for economic processes** – growth and prosperity as well as crises and decline – **manifested across territories at various scales...**
- geographers study **geographically-specific factors** that shape economic processes and identify key agents (incl. firms) and drivers that prompt **uneven territorial development...**" (Aoyama et al., 2010, p.1)
- economic geographers are interested in, and concerned to explain, **unique, one-of-a-kind outcomes for particular places**, which are viewed as a consequence of the interplay between **wider trans-local processes** and particular **local conditions**

Service offshoring

- A significant phenomenon attracting widespread attention:
 - ‘tradability revolution’/’global shift in services’ (UNCTAD, 2004)
 - ‘second global shift’ (Bryson, 2007)
 - ‘next industrial revolution’ (Blinder, 2006)
 - ‘trade in tasks’ as well as trade in goods (Grossman/Rossi-Hansberg, 2008)
- One possible definition of service offshoring (though potentially problematic):
 - the relocation by a firm of certain ‘white-collar’ service activities, processes, or tasks from one country (typically – but not always - the firm’s home country) to another country (often - but not always - a less developed country)
- Two commonly recognised ‘governance’ models: *captive offshoring* versus *offshoring outsourcing*
 - Hence involves both *firm boundary* and *geographical location* decisions (Contractor et al, 2010)

Figure 3. Offshore Services Value Chain



Source: Gary Gereffi & Karina Fernandez-Stark (2010) *The Offshore Services Global Value Chain*.
Center on Globalization, Governance & Competitiveness, Duke University.

Exemplar empirical studies of service offshoring in IB & EG

International Business

- Bunyaratavej, K., Hahn, E. D., & Doh, J. P. (2007). International offshoring of services: A parity study. *Journal of International Management*, 13(1), 7–21.
- Doh, J. P., Bunyaratavej, K., & Hahn, E. D. (2008). Separable but not equal: The location determinants of discrete services offshoring activities. *Journal of International Business Studies*, 40(6), 926–943
- Hahn, E. D., & Bunyaratavej, K. (2010). Services cultural alignment in offshoring: The impact of cultural dimensions on offshoring location choices. *Journal of Operations Management*, 28(3), 186–193.

Economic Geography

- Hardy, J., Sass, M., & Fifeekova, M. P. (2011). Impacts of horizontal and vertical foreign investment in business services: the experience of Hungary, Slovakia and the Czech Republic. *European Urban and Regional Studies*, 18(4), 427–443.
- Kleibert, J. M. (2014). Strategic coupling in “next wave cities”: Local institutional actors and the offshore service sector in the Philippines. *Singapore Journal of Tropical Geography*, 35(2), 245–260.
- Micek, G., Dzialek, J., & Górecki, J. (2011). The Discourse and Realities of Offshore Business Services to Kraków. *European Planning Studies*, 19(9), 1651–1668.

Four focal themes relating to the conceptualisation of 'space, place and organisation' in service offshoring

1. Conceptualising 'organisation': theorising the firm, extended network contexts and intra-firm network relations;
2. The geographical unit of analysis and issues of spatial scale
3. Conceptualising location and the firm-location 'nexus'
4. Conceptualising 'distance' and its influence on firm behaviour

Note: Theme 1 is only briefly considered in this presentation, Themes 2 & 3 are the main focus, Theme 4 is not considered (due to time constraints).

Theme1.

Conceptualising 'organisation': (a) theorising the firm, (b) intra-firm network relations and (c) extended network contexts

- a) **The firm** (MNE/TNC) is under-theorised in EG compared to IB
- b) The subsidiary management stream in IB offers valuable insights on **intra-firm network relations** (a weakness of EG) – although there seems to have been little specific attention to service offshoring in the SM stream so far
- c) However, the IB literature has tended to focus on explaining discreet location decisions for specific offshore projects, thereby analysing service offshoring in isolation from its **extended network context**.

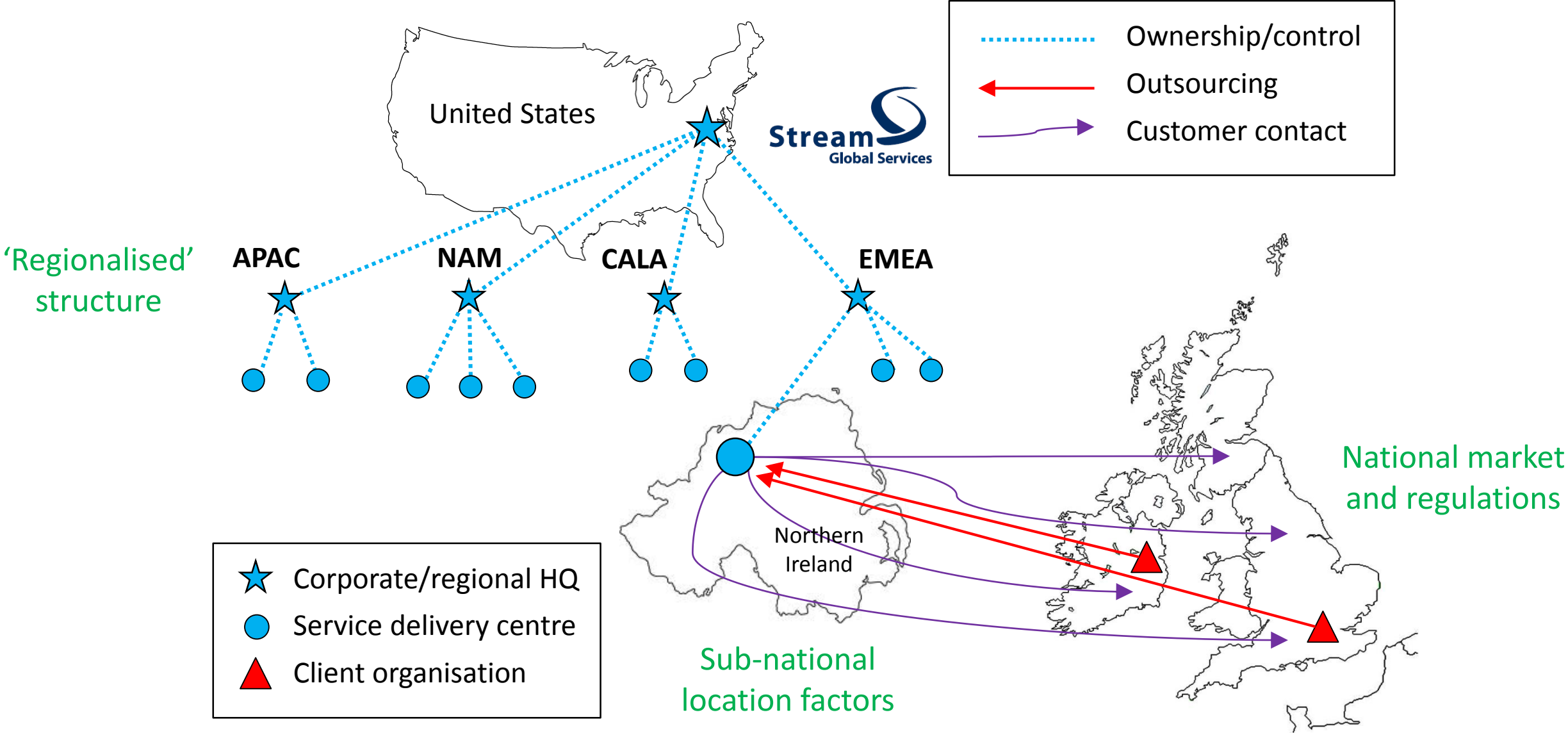
The Global Production Networks (GPN) perspective from EG and the related GVC approach in development studies (which have similarities to Buckley's global factory concept) focus more attention to the **extended network contexts** of TNC activity and may offer additional insights on service offshoring

Theme 2.

The geographical unit of analysis and issues of spatial scale

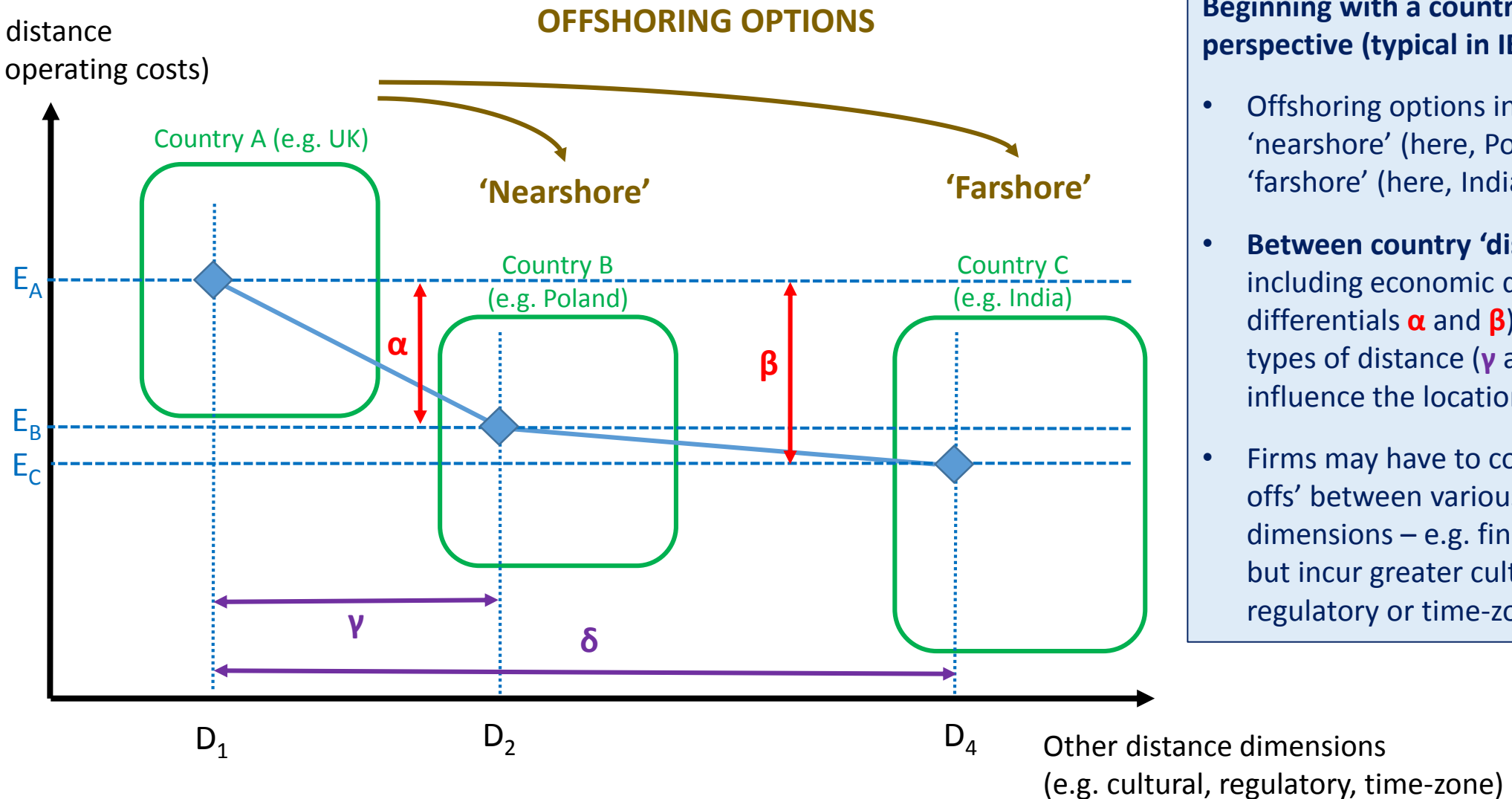
- IB is primarily focused on the **national scale** (Beugelsdijk and Mudambi, 2013), although regionalization, sub-national clusters and (more recently) cities have had some attention
 - in Bunyaratevej et al.'s (2008) study of the offshore services location choices of US MNEs, indicators of location-specific advantages and factor costs are **only considered at the country level**, even for countries like India that are clearly characterised by **huge sub-national variations** in key explanatory variables
- In contrast, a concern for the operation of economic process **at and across various spatial scales** is a central element in contemporary EG
 - in the **GPN approach**, there has been explicit recognition of the need to incorporate '**multi-scalar**' analysis, since the economic processes that shape the fortunes of particular places operate at a variety of spatial scales from the local (e.g. city-level), regional (sub-national) and national (country-level) to the macro-regional ('regional' in IB) and global (Dicken, 2011; Henderson et al., 2002).
- Neither country-level analysis nor the regionalization perspectives are in themselves likely to be sufficient to make sense of the 'space, place and organization' of service offshoring

The relevance of a multi-scalar perspective in analysing the global footprint of an outsourced contact centre specialist



The relevance of sub-national distance in service offshoring location decisions: Stylised example of a UK-based MNE decoupling and offshoring a service task

Economic distance
(e.g. total operating costs)

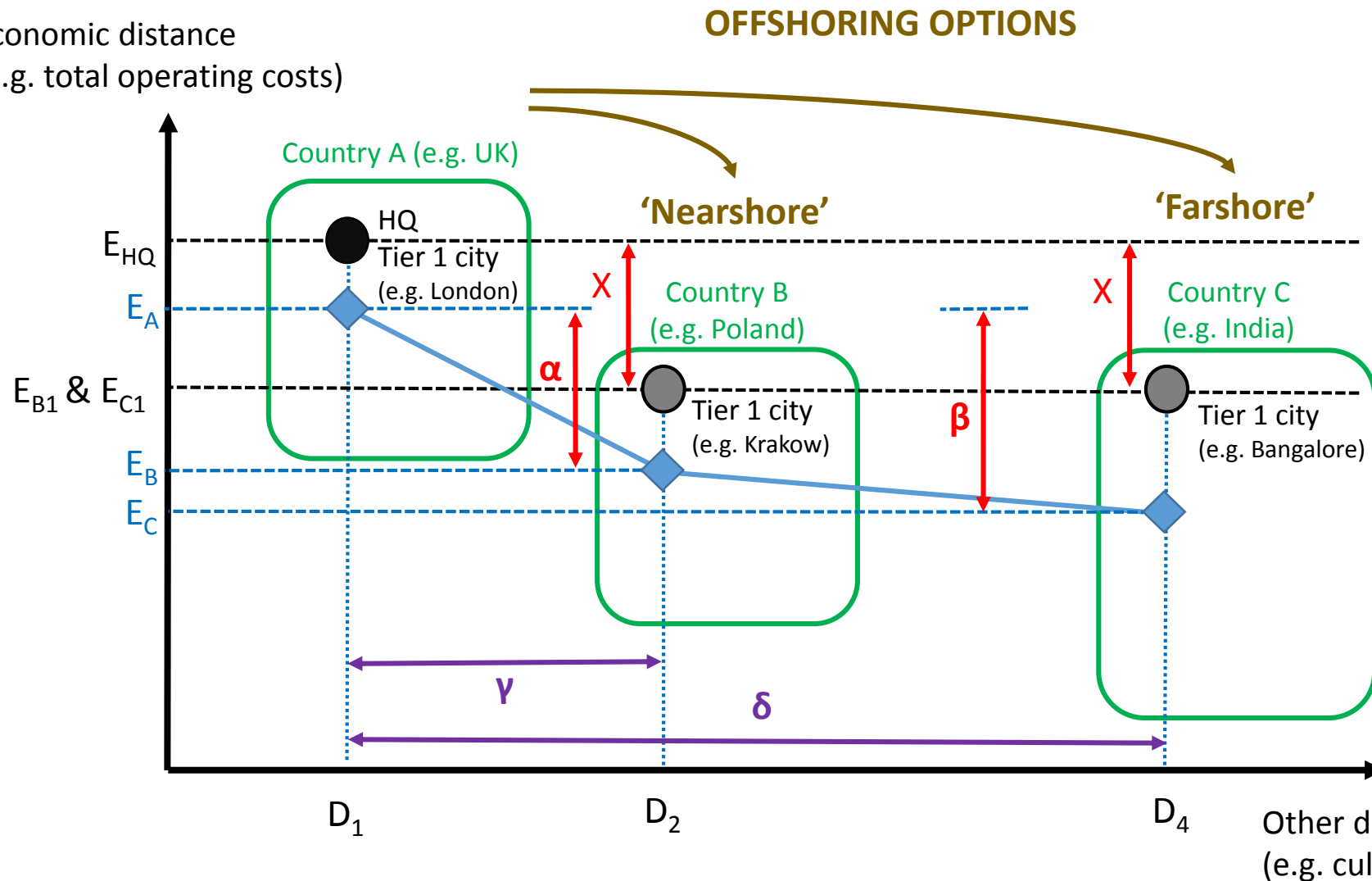


Beginning with a country-level perspective (typical in IB):

- Offshoring options include 'nearshore' (here, Poland) and 'farshore' (here, India).
- **Between country 'distances',** including economic distance (cost differentials α and β) and other types of distance (γ and δ), may influence the location choice
- Firms may have to consider 'trade-offs' between various distance dimensions – e.g. find lower costs but incur greater cultural, regulatory or time-zone distances.

The relevance of sub-national distance in service offshoring location decisions: Stylised example of a UK-based MNE decoupling and offshoring a service task

Economic distance
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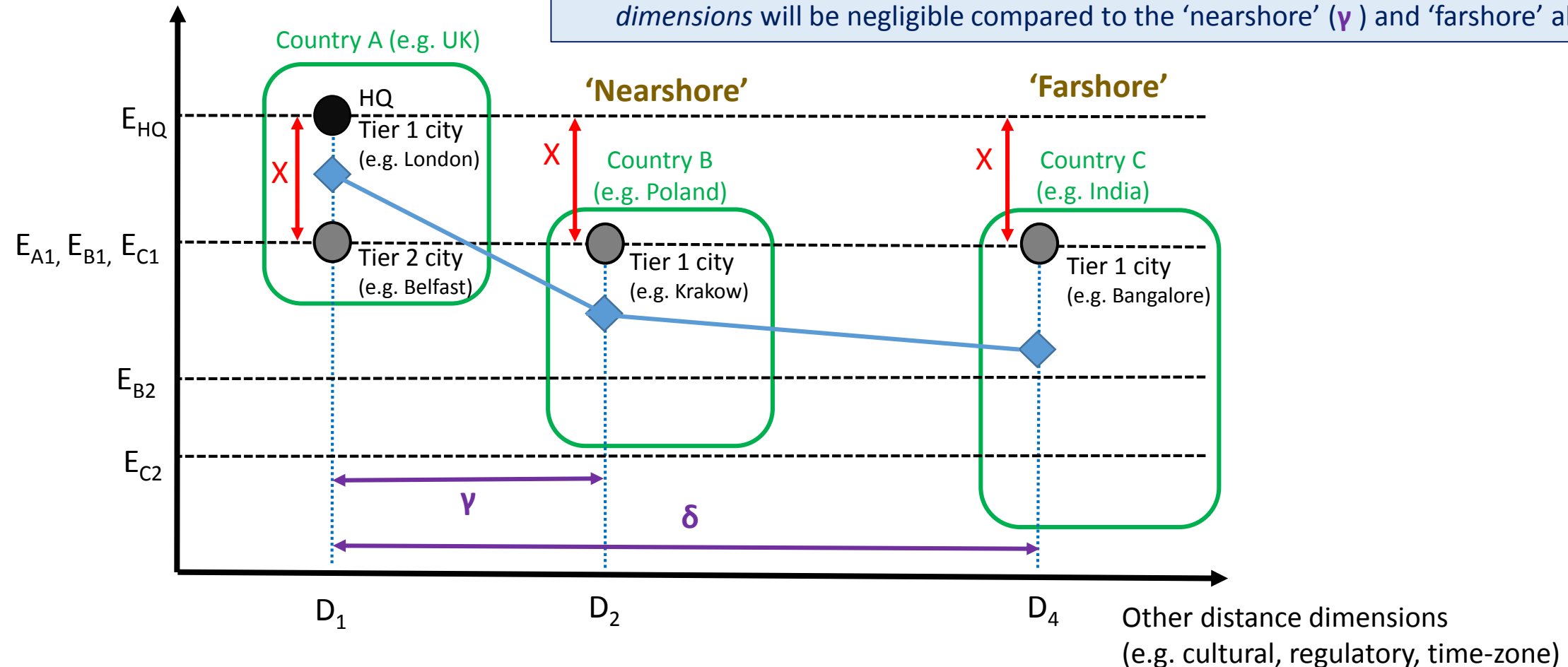


Now, adopting a city-level perspective:

- The economic distances between **pairs of cities** (here, London-Krakow or London-Bangalore) may **differ significantly** to distances between 'country averages' (UK-Poland or UK-India) – e.g. $X < \alpha$, $X < \beta$
- Tier 1 cities** in offshore locations may have significantly higher costs than predicted by between country distance measures ($E_{B1} > E_B$, $E_{C1} > E_C$)
- In the example, Krakow is a more appealing location choice than Bangalore because the economic distance from London of both cities is similar (X) but Bangalore is more 'distant' on other dimensions ($\delta > \gamma$)

The relevance of sub-national distance in service offshoring location decisions: Stylised example of a UK-based MNE decoupling and offshoring a service task

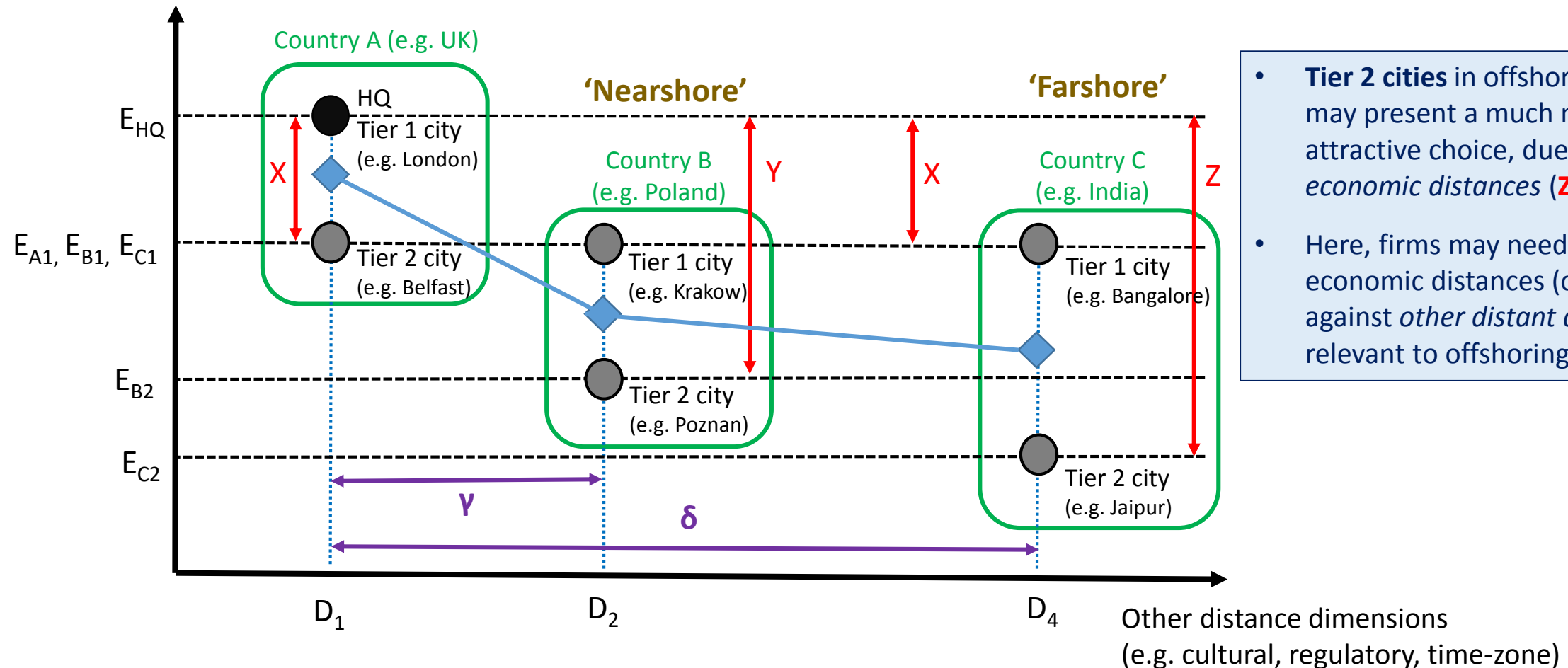
Economic distance
(e.g. total operating costs)



- If *sub-national economic distances* within the home country are significant ($X = E_{HQ} - E_{A1}$), and perhaps comparable to economic distances to Tier 1 offshore cities (X), a **domestic (Tier 2) inter-regional solution** (here, Belfast) may be preferable to offshoring, since *other distance dimensions* will be negligible compared to the 'nearshore' (γ) and 'farshore' alternatives (δ).

The relevance of sub-national distance in service offshoring location decisions: Stylised example of a UK-based MNE decoupling and offshoring a service task

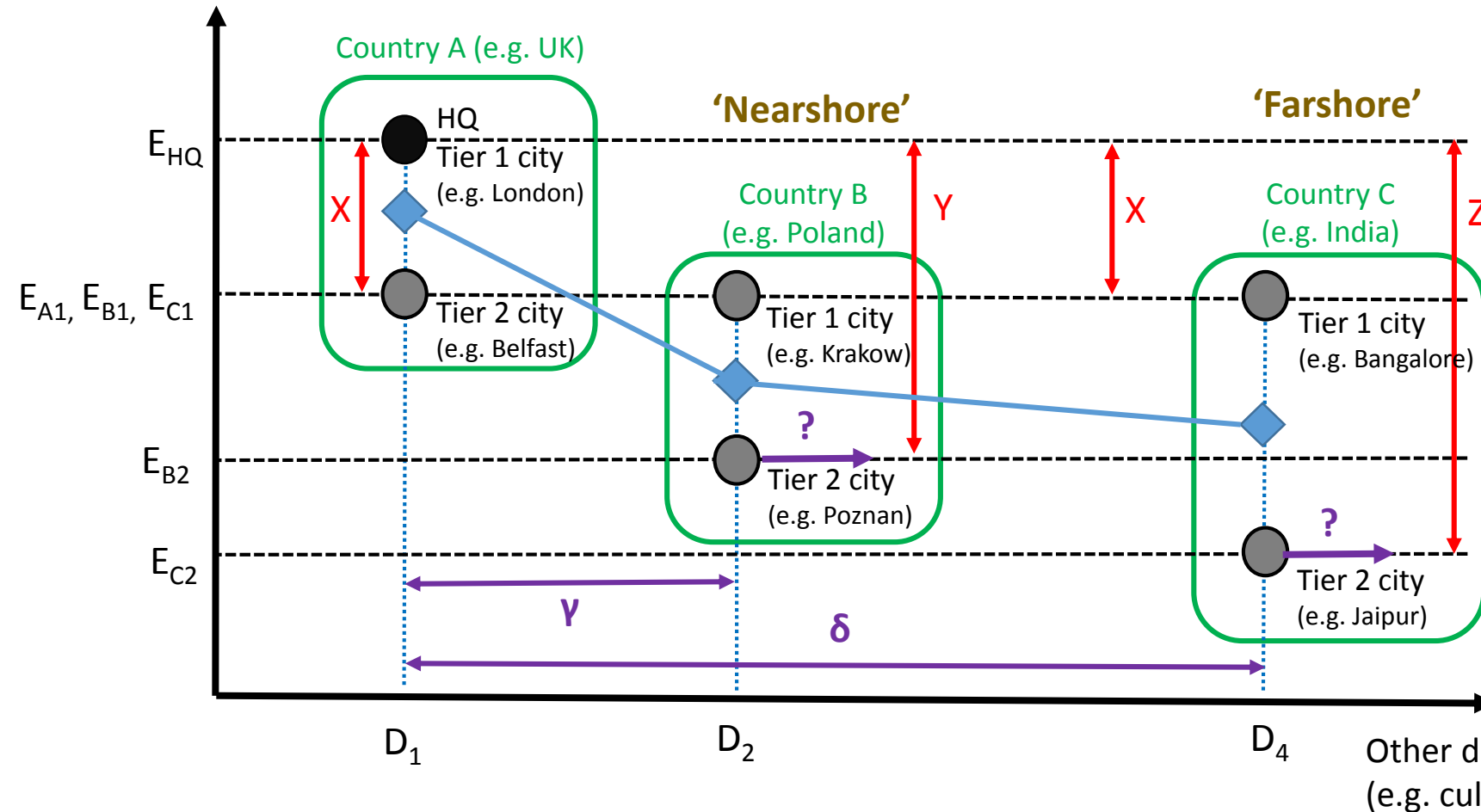
Economic distance
(e.g. total operating costs)



- **Tier 2 cities** in offshore locations may present a much more attractive choice, due to *greater economic distances* ($Z > Y > X$).
- Here, firms may need to 'trade-off' economic distances (cost savings) against *other distant dimensions* relevant to offshoring (γ and δ).

The relevance of sub-national distance in service offshoring location decisions: Stylised example of a UK-based MNE decoupling and offshoring a service task

Economic distance
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- **Tier 2 cities** in offshore locations may present a much more attractive choice, due to *greater economic distances* ($Z > Y > X$).
- Here, firms may need to 'trade-off' economic distances (cost savings) against *other distant dimensions* relevant to offshoring (γ and δ).

- However, Tier 2 cities may also be *more 'distant'* than Tier 1 cities since higher-order World Cities may mitigate the liability of foreignness (e.g. Bangalore vs. Jaipur)

Theme 3.

Conceptualising location and the 'firm-territory nexus'

a) Location versus 'place'

- The notion of 'location' in IB is *mostly* associated with countries as the spatial unit of analysis
- IB tendency to see geographical units as bounded 'containers' (hence attention to cross-national distance or difference) and internally homogenous (i.e. there is rarely attention to sub-national variation)
- Meyer et al (2011) on MNEs and local contexts (does local mean national here?) are seen as containers of :
 - 'resources' that may be utilised by firms
 - 'institutions' that may act as constraints on (or enablers of) firms' strategies
- EG conception of **place** is quite different from the traditional IB view:
 - Places are endowed with meaning and significance, have economically-significant cultural and political aspects, are unique and specific, and are the product of the interaction of wider extra-local processes and local specificities and history

Theme 3.

Conceptualising location and the ‘firm-territory nexus’

b) The ‘firm-territory nexus’: location choice and ‘strategic coupling’ and agency

- interactions between firms (e.g. MNEs) and particular places (locations) have been identified as an area of mutual interest to IB and EG
- described by some EGs using the phrase ‘firm-territory nexus’ (Dicken & Malmberg, 2001).
- In IB, FDI decisions as a discreet (usually country) location choice for a particular project
- Places (locations) are implicitly viewed as ‘**passive**’ **recipients** of investment and MNEs are typically seen as making rational - or more recently ‘boundedly rational’ - decisions
- Within the EG (GPN approach), this process is encapsulated in the concept of:
 - ‘**strategic coupling**’ of global production networks and TNC lead firms with ‘regional assets’ – an **interfacing mechanism** (Yeung 2009) *mediated by the intervention of local institutional actors*
 - i.e. there is greater recognition of agency and the ‘coupling’ process is seen as more complex than in IB

Towards an inter-disciplinary conceptualisation of service offshoring? 6 challenges across the two disciplines

1. (How) can EG studies of SO better incorporate appropriate **theorisations of the firm** (TNC) [and firm boundary decision re offshoring mode - captive or outsourced?] and intra-firm network contexts? (drawing from work in IB & Subsid-Mgt)
2. (How) can IB studies of SO take better account of the **extended network contexts** within which SO takes place? (drawing on EG, e.g. the GPN approach) - i.e. move beyond a focus on the discreet offshoring decision for a specific project to take a more holistic perspective on these decisions within the overall GPN/GVC context (e.g. involving client firms) and TNC global operations strategy
3. (How) can IB better incorporate **a multi-scalar perspective on place and space** into the analysis of SO? (perhaps drawing on the relational EG literature?) methodological challenges relating to multiple spatial scale and quant modelling? see work on FDI location at country and regional scale?
4. (How) can IB accommodate more **sensitivity to local contexts** (and their specificities, uniqueness and richness) into studies of SO? [methodologically challenging?] partly relates to ontological differences - quest for generalizable theory in case of IB and concern to understand variance and the specific in EG
5. (How) can IB better accommodate **the role of agency** (both firm actors and local institutional actors) into studies of SO?
6. How can EG incorporate **a more formal conception of 'distance'** into its studies of SO? see Coe & Yeung 2015 book on GPN theory - risk factors can be related to distance dimensions in IB and notion of MNE as a boundary-spanning multi-site firm?

Towards an inter-disciplinary conceptualisation of service offshoring? 4 essential elements

It seems any inter-disciplinary framework ought to take account of 4 key elements:

1. **Space** (distance effects, and not just between-country distance)
2. **Place** (viewed in a multi-scalar and relational sense)
3. **Organisation** (including intra-firm and inter-firm network relations), and
4. **Task attributes** (e.g. contact intensity/interactiveness, repetitiveness/ degree of standardisation, skill and knowledge content/innovativeness)