

**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)

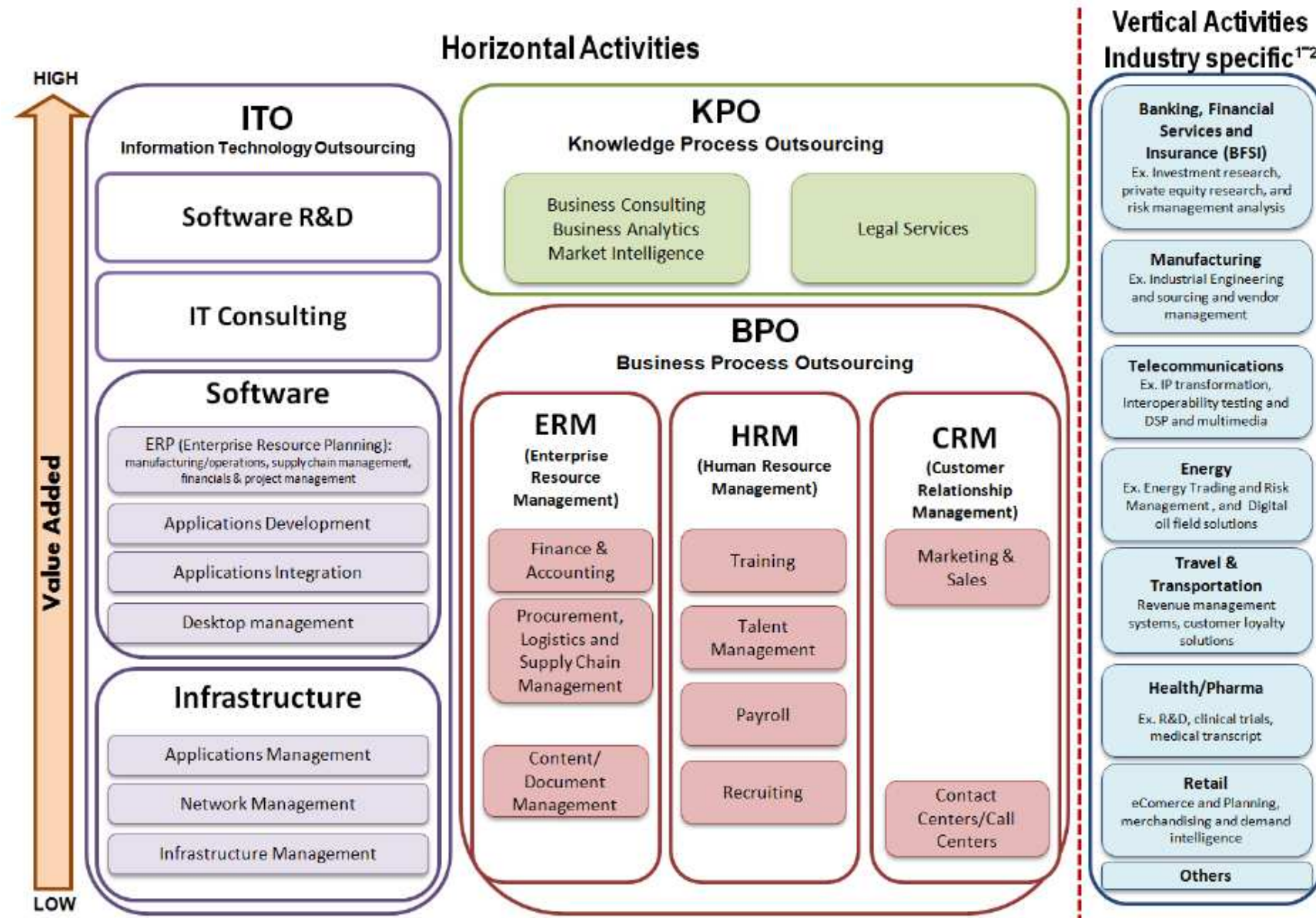
## Economic Geography

- "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., & Fifekova, 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**.

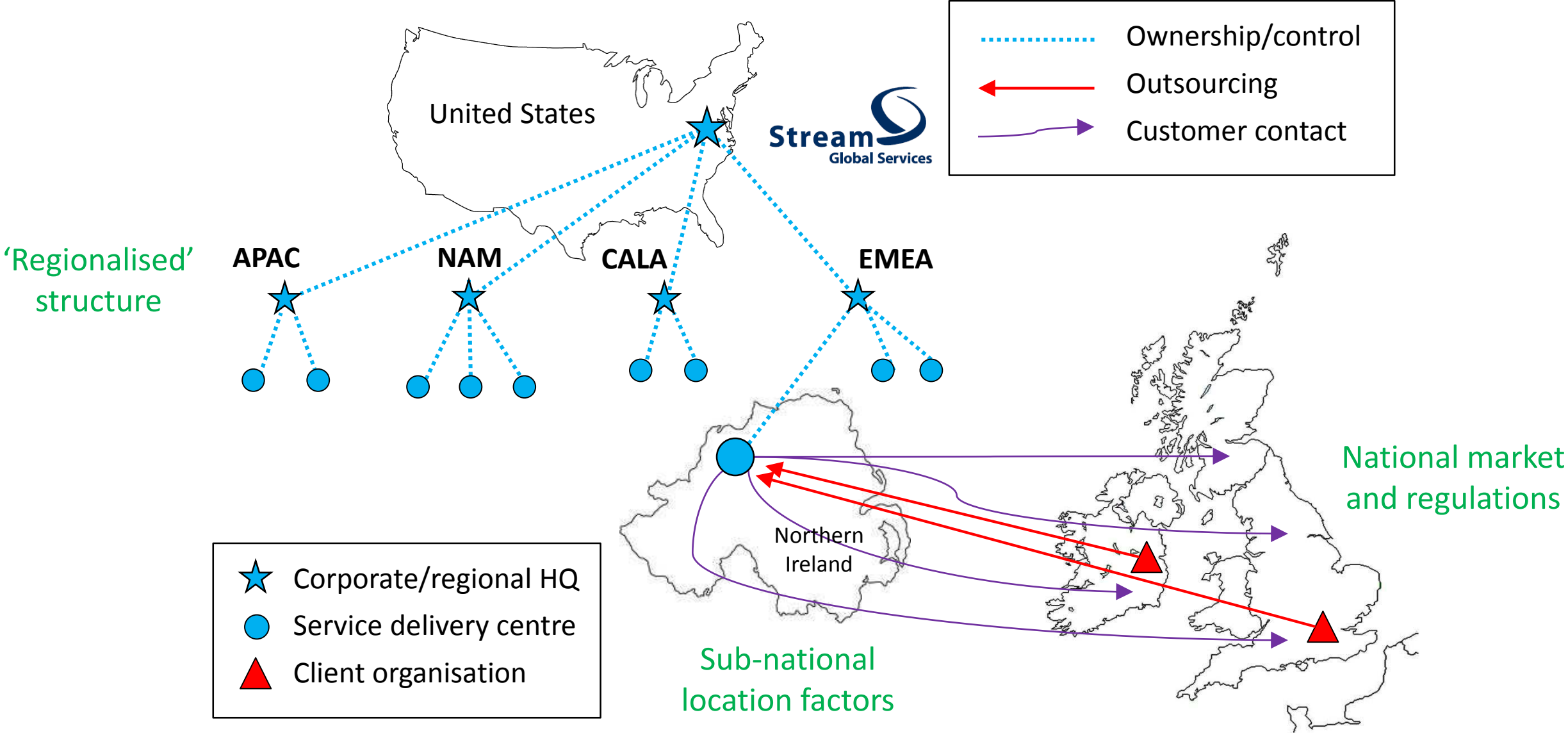
The Global Production Networks (GPN) perspective from EG and the related GVC approach in development studies (which have similarities to Buckley's global factory concept) focus more attention to the **extended network contexts** of TNC activity and may offer additional insights on service offshoring

## Theme 2.

### The geographical unit of analysis and issues of spatial scale

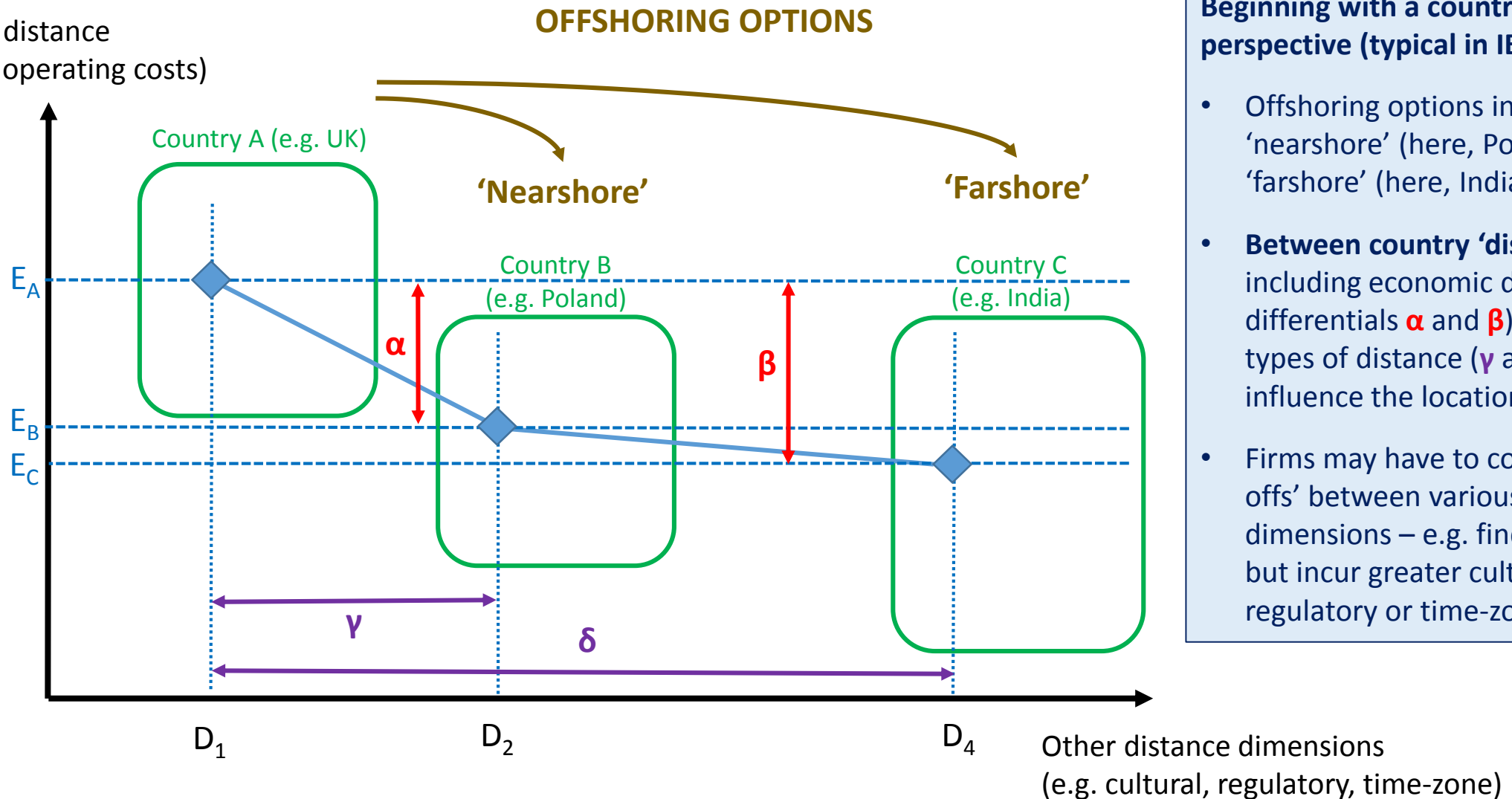
- IB is primarily focused on the **national scale** (Beugelsdijk and Mudambi, 2013), although regionalization, sub-national clusters and (more recently) cities have had some attention
  - in Bunyaratavej et al.'s (2008) study of the offshore services location choices of US MNEs, indicators of location-specific 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)



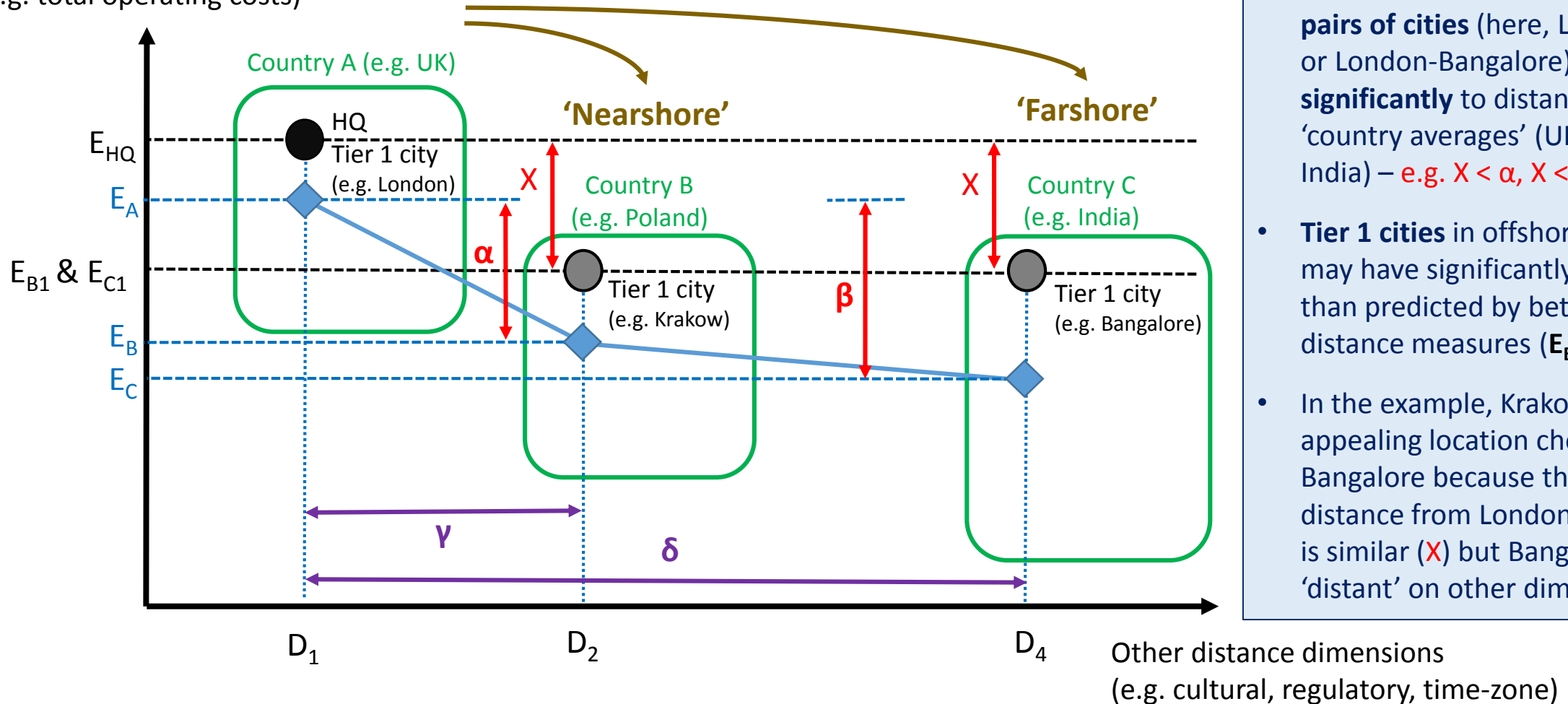
**Beginning with a country-level perspective (typical in IB):**

- Offshoring options include 'nearshore' (here, Poland) and 'farshore' (here, India).
- **Between country 'distances'**, including economic distance (cost differentials  $\alpha$  and  $\beta$ ) and other types of distance ( $\gamma$  and  $\delta$ ), 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  
(e.g. total operating costs)

## OFFSHORING OPTIONS

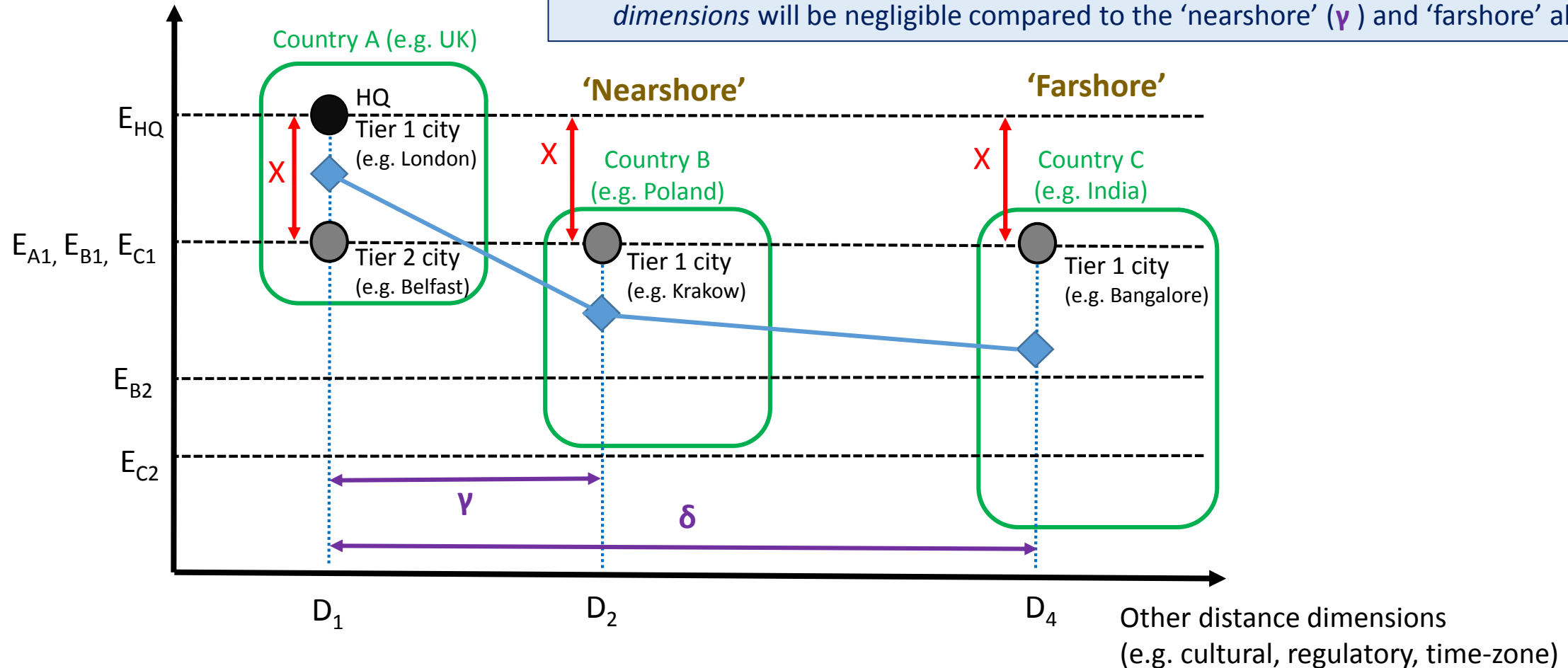


### Now, adopting a city-level perspective:

- 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

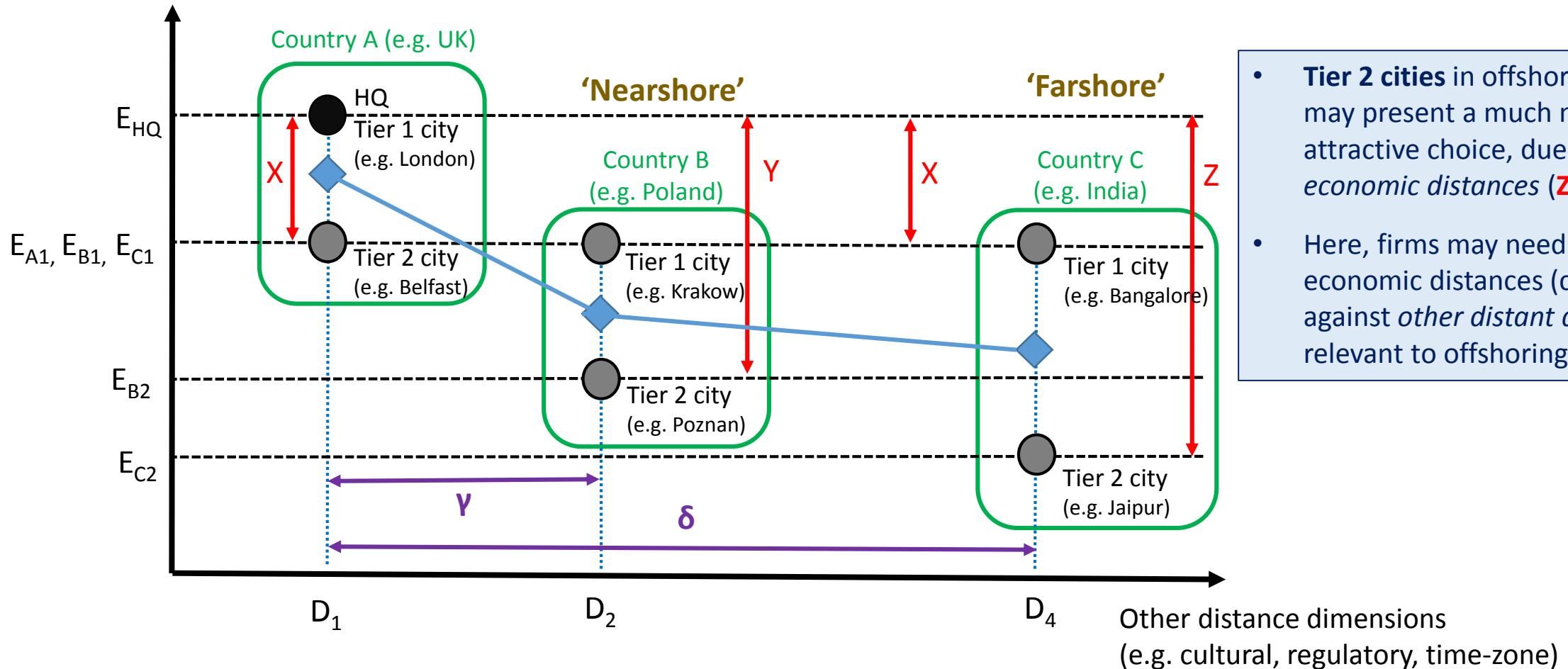
Economic distance  
(e.g. total operating costs)



- 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' ( $\gamma$ ) and 'farshore' alternatives ( $\delta$ ).

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

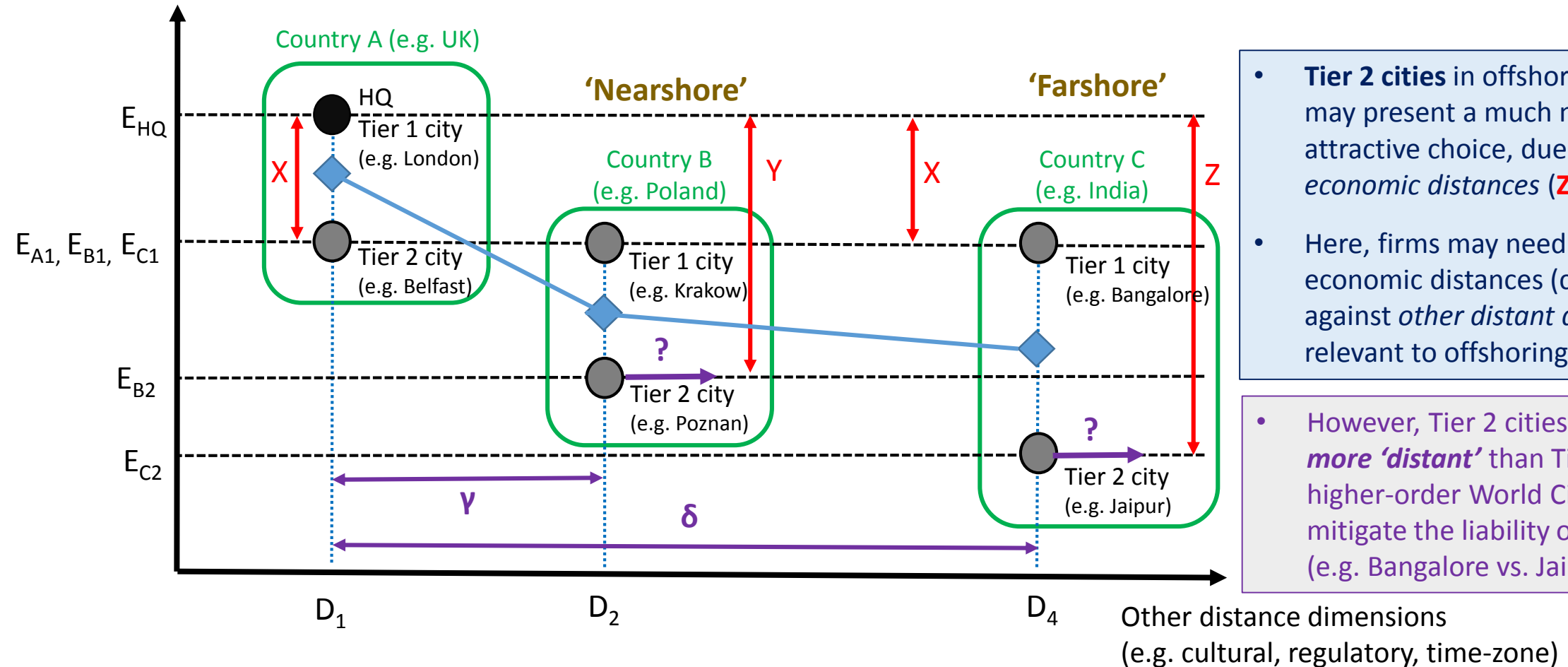
Economic distance  
(e.g. total operating costs)



- **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 ( $\gamma$  and  $\delta$ ).

# 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 ( $\gamma$  and  $\delta$ ).

- 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)