

A typology of offshoring and outsourcing in electronically transmitted services

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Abstract

The offshoring and outsourcing of service work from high-wage to low-wage countries has received considerable exposure in the popular press. Some have claimed that virtually all services that can be electronically transmitted should be offshored due to the extreme labor rate differentials. Relatively little work has actually been offshored to date, making empirical assessment difficult. Here, a normative model of the appropriate role of offshoring is proposed. We present a strategic contingency model, to be viewed at the process level, intimating that firms with the same processes should come to different solutions regarding these decisions.

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Many service processes can be performed thousands of miles away from the customer. Here, we limit our analysis to service processes that can be transmitted electronically. “Transmitted electronically” encompasses data sent via computer, voice and video communication, as well as scanned documents. Any task that can be transmitted electronically is a candidate for being performed offshore, barring legal restrictions. Offshoring is attractive for many reasons, but chief among them is cost savings. A typical call center employee that may have a salary of US\$ 20,000 year in the U.S. may make only US\$ 4000 year in India (Dhawan, 2003; Dony and Pande, 2003). Electronically transmitted service processes currently offshored range from mundane back-office activities (e.g., data entry, medical transcription, accounts receivable/payable) to processes with customer contact (e.g., call centers, customer contact centers) to higher-order analysis (e.g.,

product design, radiological medical diagnosis, stock analysis).

Predictions appearing in the popular press seem to assume that because processes can be offshored, they will. In a widely reported forecast, it was stated that 3,400,000 white collar jobs with US\$ 151 billion in annual wages will leave the U.S. for low wage countries by 2015 (e.g., Hilsenrath, 2004). A Silicon Valley venture capital firm partner stated, “in a couple of years, 90% of all start-ups will have some connection to India or China” (Grimes, 2004). Scott Bayman, then CEO of GE India, overseeing 17,000 GE employees there, stated: “Any job that is English language based . . . can be done in India” (Clott, 2004, p. 166). The fear that this viewpoint expressed, that virtually every high-wage country white-collar job could be offshored, seemed to be perfectly captured by the Business Week magazine cover page: “Is Your Job Next?” (February 3, 2003).

We contend that this view is too simplistic. Here, we present a prescriptive typology for competitive positioning with respect to strategic operational focus and the offshoring decision. Further, we contend that the

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organizational ownership form is an integral part of the offshoring decision. We include the decision of “process ownership” in our model. Process ownership being the decision to outsource the process or retain ownership of a process (a ‘captive’ process). In the typology presented the decision pair of outsourcing/captive and offshore/domestic are tailored according to individual firm strategic objectives desired from a process. Four ideal types are developed. In short, we posit a series of strategic contingencies that would cause ample use of all combinations of the offshoring and outsourcing decisions. A principal contribution of this work is to provide a vocabulary and theory behind the decisions involving offshoring and outsourcing of these processes.

The seemingly distinct choices of offshoring and outsourcing are presented in the same framework because the decisions are often linked in a firm. The most common issue that links these decisions is scale. While large multi-national firms can choose any combination of offshoring and outsourcing, many firms lack the scale necessary to establish a captive, offshore unit, so if offshoring is chosen, outsourcing must also be present.

This work touches on both global service operations and conceptual models of service operations. Consequently, in the next section we review existing literature on both topics. Subsequently, we detail the conditions we believe are favorable for various offshoring and outsourcing decisions.

1. Prior literature—International service operations

Although forecasts indicate a robust and significant market for services offshoring in the future, very little offshoring of these processes has actually occurred at present. It is estimated that less than 2% of call center work worldwide is performed offshore (Oates, 2005). McKinsey Global Institute (2003) estimated that total world-wide services offshoring amounts to US\$ 30–35 billion for the U.S., with Ireland and India the two leading countries to offshore to, and Forrester Research has estimated that 400,000 U.S. jobs have been lost to offshoring (Vina and Mudd, 2003). While this is not a small amount, it represents far less than 1% of the service economy in the U.S. Put in a different context, the entirety of offshored U.S. jobs is less than half the workforce of WalMart. In this way services are dramatically different than manufacturing, where a large percentage of the manufactured goods consumed in the U.S. are made offshore. Since we use the term

“supplier” rather than “outsourcer” for manufacturing inputs, comparable data cannot be found, but the value of products consumed in high-wage countries that were once manufactured in high-wage countries that are now manufactured in low-wage countries (a traditional definition of offshoring) is vast.

This paucity of actual international service operations practice is reflected in the paucity of international service operations research. A literature review of “international operations strategy” articles (Prasad et al., 2001) found 92 such articles in 31 selected journals from 1986 to 1997. The word “services” was mentioned in the article only once. None of the 92 articles listed focused on services and only one of the articles listed appeared to have services content. In a highly similar study, Prasad and Babbar (2000) reviewed 548 “international operations management” articles in 28 selected journals published from 1986 to 1997. The authors note that “few articles on international services appeared in the set of journals reviewed” (p. 229). The main topic of “service” was listed for only 14 of the 548 articles, with several of those being the service aspects of manufacturing firms.

International service operations research does exist. A general survey of service operations and “cultural adaptation” by McLaughlin and Fitzsimmons (1996) and the “International Service Study” of Roth et al. (1997) serve as examples. Work on offshore service operations by Wilson (1995) depicts the pre-electronic transmission era. Other work by traditional operations management researchers focuses on international consumer behavior. For example, Voss et al. (2004) explored the differences between U.K. and U.S. consumers evaluating service quality, and the behavior of international students in U.S. schools as consumers was explored by Youngdahl et al. (2003). Instead of viewing *consumer* global effects, we focus on the international aspects of the *production* of services.

2. Prior literature—Service operations typologies

As noted by Doty and Glick (1994, p. 243), “typologies are complex theoretical statements developed to predict variance in dependent variables.” Typologies “are a unique form of theory based on a set of ideal types” (p. 235).

Many other authors have also proposed service sector typologies and taxonomies (a review is in Metters and Vargas, 2000). Perhaps the service sector typology that has been most influential to researchers has been Chase (1978, 1981), who categorizes service industries

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