INTERNATIONALIZATION OF FIRMS: EFFECTS OF OFFSHORING PROCESS IN EMERGING COUNTRY FIRMS

Author: Paulo Roberto Gião

Abstract

The offshoring business is booming and what was used by few US pioneers are now spreading through the world (Economist Intelligent Unit, 2006) and in the last two decades not only involving manufacturing products but also more intangible activities as services (from call centers to R&D activities). McCarthy & Anagnostou (2004) argued that during last 15-year period, the economic value, strategic importance and complexity of the outsourced function (when considering manufacturing organizations) has increased.

In this accelerated environment, firms need to handle with different, important and complex tendencies in management, trying to coordinate many outsourced firms spread through the world (Kedia & Mukherjee, 2009), understanding their value chains and defining what can and what cannot be outsourced. The first objective seems to be not allowing the share of significant information or knowledge to outsourced firms, through formal or informal ways. This may be a reason for some firms are missing their competences and some other appearing in international market (Bettis et. al., 1992).

The concepts of value chain (Porter, 1985) and resource-based view (RBV) (Barney, 1991; Teece et al., 1997; Wernerfelt, 1984), in special the core competencies (CC) (Prahalad & Hamel, 1990), are frequently used when outsourcing process is studied and implemented in an organization. The possibility to understand internal activities, identify those really important, keep their home and outsource non-core activities seems a good idea with many purposes but especially for focus on the core business (Quinn, 1999).

So, based on these considerations, is the value chain (VC) perspective enough to define what can be outsourced to a third-party firm? Can the internal characteristics of a firm based on RBV research line help to clarify what exactly should be outsourced and what is really being outsourced? An analysis of VC and RBV concepts and understandings is done and some gaps seem to exist in both areas not allowing a conclusive method for outsourcing / offshoring purposes without risks.

The main objectives of this paper are to explore these gaps; to propose a new interpretation for the value chain, and present some scenarios showing that these gaps can be responsible for the appearance of new firms in the international market. First we contextualize the offshoring and outsourcing process, especially the case of offshore outsourcing (OO) when a firm from a country outsources a value chain activity to a firm in another country. Second, there is the definition for VC and some developments after its introduction and as there are also many quotations about RBV theory, we extend the interaction of VC with the RBV overview, in special with the CC understanding.

With this theoretical framework, we present an overlapping (or dynamic) perspective of the value chain and its activities and why this approach can be helpful to understand the possible losing of knowledge from outsourcing firms and, the acquiring of knowledge from outsourced firms. Following this new dynamic interpretation of VC we try to explain the internationalization of firms from emerging countries.
INTRODUCTION
The offshoring business is booming and what was used by few US pioneers are now spreading through the world (Economist Intelligent Unit, 2006) and in the last two decades not only involving manufacturing products but also more intangible activities as services (from call centers to R&D activities). In this accelerated environment, firms need to handle with different, important and complex tendencies in management, trying to coordinate many outsourced firms spread through the world (Kedia & Mukherjee, 2009), understanding their value chains and defining what can and what cannot be outsourced. The first objective seems to be not allowing the share of significant information or knowledge to outsourced firms, through formal or informal ways. This may be a reason for some firms are missing their competences and some other appearing in international market (Bettis et. al., 1992).

The concepts of value chain (Porter, 1985) and resource-based view (Barney, 1991; Teece et al., 1997; Wernerfelt, 1984), in special the core competencies (Prahalad & Hamel, 1990), are frequently used when outsourcing process is studied and implemented in an organization. The possibility to understand internal activities, identify those really important, keep their home and outsource non-core activities seems a good idea with many purposes but especially for focus on the core business (Quinn, 1999).

So, based on these considerations, is the value chain (VC) perspective enough to define what can be outsourced to a third-party firm? Can the internal characteristics of a firm based on RBV research line help to clarify what exactly should be outsourced and what is really being outsourced? An extensive analysis of VC and RBV concepts and understandings is done and some gaps seem to exist in both areas not allowing a conclusive method for outsourcing / offshoring purposes without risks.

The main objectives of this paper are to explore these gaps, to propose a new interpretation for the value chain based on them, and present some scenarios showing that these gaps can be responsible for the appearance of new firms in the international market. This paper presents the following structure. First we contextualize the offshoring and outsourcing process, especially the case of offshore outsourcing (OO) when a firm from a country outsources a value chain activity to a firm in another country. Second, there is the definition for value chain (VC) and some developments after its introduction and as there are also many quotations about resource-based view (RBV) theory, we extend the interaction of VC with the RBV overview, in special with the core competencies (CC) understanding.

With this theoretical framework, we present an overlapping (or dynamic) perspective of the value chain and its activities and why this approach can be helpful to understand the possible losing of knowledge from outsourcing firms and, the acquiring of knowledge from outsourced firms.

THEORETICAL FRAMEWORK
Offshoring / Outsourcing
Offshoring is a reality and has an expressive pace since its appearance. Kedia & Mukherjee (2009) said that is not new and takes place all over the world industry leaders such as AT&T, Boeing, Citibank, General Electric, Morgan Stanley, Philips, Reebok, Sony, Swissair, Wal-Mart, etc. are using offshoring as a strategic tool.

For the purpose of this work, we used the definition provided by Lewin, Massini & Peeters (2008) that offshoring refers to the process of sourcing and coordinating tasks and business functions across national borders, and with the contribution of Abramovsky, Griffith & Sako (2004), it is possible to clarify the cases for in sourcing, outsourcing and offshoring:
inshore insource (II), offshore insource (OI), insource outsource (IO) and offshore outsource. So, for instance, offshoring can be done through affiliates or subsidiaries (OI) or third-party firms (OO). Outsourcing can be done inshore (IO), inside the host country, or offshore (OO).

For this paper, the main case under study is the one related to offshore outsourcing (OO), but also references to offshoring and outsourcing are done for clarification of important points. However, outsourcing process seems to have advantages and disadvantages. Bettis et al. (1992) associate outsourcing with the industrial decline of West firms. Presenting what the authors called the spiral of decline, because of pressure for improved returns, firms begin their outsourcing process as an incremental approach. An example to evidence this approach is in consumer electronics industries when, in that time, 1992, brands like Sony Toshiba, Panasonic, and Sharp substitute the Americans Zenith, RCA and Ampex.

Also, as presented by Chesbrough & Teece (1996), there are two different points of view and each party to joint development activity necessarily acts in its own self-interest. The example of IBM with the PC development can be useful to understand the interest and also the opportunity presented to each one. IBM used outside parties for hardware, software, and distribution, IBM greatly reduced its investment in bringing the PC to market. However, as the knowledge was disseminated and understood, manufacturers could purchase the same CPU from Intel and the same operating system from Microsoft, run the same application software and sell through the same distribution channels. Through this example it is possible to see that IBM had its competitive advantage eroded in short term, in a product that was developed by itself.

For Heimeriks et al. (2009), one path to develop alliance capabilities is simply by accumulating experience (‘learning by-doing’); also Griffith et al. (2009) argue that OO creates avenues for inter-firm learning and provides for global leverage. So, why only the contracting company can be beneficed in an outsourcing process? If the outsourcing company is having access to new technologies, and improving its time-to-market, becoming lean and with better financial results, what happen with outsourced companies? The contracted company also is having access to international trade laws and rules, international specifications, and, there is no completed contract, some subtleness and maybe tacit knowledge can be accessed to clarify specifications and requirements. They also are improving their internal processes, products and services until an international level and, in a specific moment, why not provide their own products, services and brands?

As contracting firms have their strategic objectives with the outsourcing process, the same thing happens with the outsourced firms. What are their intentions and are they learning with this process? The interdependence of firms is a reality and the knowledge is flowing in both directions. To handle with the offshore outsourcing process, some important research lines must be understood to help to comprehend the firm, identify what can be outsourced and what not. Based on that, next sections present value chain and resource-based view for clarifications purposes for an OO perspective.

**Value Chain (VC)**

Value chain (VC) is a good starting point for understanding an organization’s activities and what can be identified in essential and complementary functions. Porter (1985, 1991) states that the value chain is the set of activities required to produce and to ensure the availability of products for markets, adding that the VC has a discrete number of activities and that VC reflects the enterprise’s history and even its strategy. Porter himself (1985, p.48)
voiced a sensible warning when he said that “the value chain is not a collection of independent activities but a system of interdependent activities.”

Since then, the concept continues to be used, clarified and helpful in many cases and lots of papers and citations were done related to this issue. For instance, Hansen & Birkinshaw (2007) applied in an innovation value chain, and Mudambi (2008) grouped the activities grouped into three categories: the upstream (input) end, the downstream (output or market) end and the middle, trying to identify where more value are created, but complement that maybe more important than the activities themselves (in a value chain) are the linkages between them.

Of course there are relevant information among the activities (otherwise it will not be a firm) but not as important as the activities. If it really happens, the solution could be shift the actual boundaries of VC to the interfaces having instead of Inbound logistics, operations and outbound logistics something like Inbound logistics – operations activity and operations – outbound logistics activity. There is also interfaces among these new activities and also important information among them. Fine et al. (2002) contribution is important in two aspects. The first when saying that the value chain was traditionally seen as a static view and second with the increase use of technologies and the increasing pace of markets, there is a necessity to continually disintegrate and reintegrate the value chain and keep the static approach can be an obsolete strategy.

In practice, a value chain cannot be understood as a chain of perfectly juxtaposed links. In reality, the links overlap and the boundaries are neither very clear nor well defined. This subdivision or even superposition of activities is important in an outsourcing process. For instance, who can define precisely the boundaries between the marketing and the sales areas? Or who can define precisely where exactly the Research and Development (R&D) and engineering departments of a great corporation begin? In this example, R&D encompasses creative work conducted systematically, with the objective of increasing the knowledge of man, culture and society, and of making use of this knowledge in new applications (UNCTAD, 2005). According to another point of view, R&D includes basic and applied research and its integration with the development area, its being difficult, in practice, to precisely distinguish one stage from the next (UNCTAD, 2005).

Moori & Zilber (2003), in a survey of 100 companies, found that there is a flow of activities between primary and support tasks and vice-versa, as a fluidic perspective. This shows that important information (core information) from an area is communicated or transferred to another and vice-versa. And what can happen if the areas are not within the same organization? This seems a natural statement and it is to be expected that some sort of interaction should exist among the various chain links, but is it possible that parts of core competencies lie in these interfaces? In these cases, how can one avoid them and block this knowledge transfer in the case of outsourcing?

These approaches show the importance of value chain in outsourcing process. Identifying the main activities and maybe outsourcing others based only in value chain can be helpful for a firm. However, some complications appear when there are information and knowledge at the boundaries of the activities and that they are interdependent, linked among them and also fluidic. The disintegration advantages stem from increased modularity in their structure and enhanced focus on their core capabilities. As each generic activity in the value chain can be subdivided into distinct sub activities (Kedia & Mukherjee, 2009).

Naturally, the VC is helpful for many applications but has limitations in regard to other interpretations. When it enables one to systematically visualize the activities of an organization, not necessarily dividing them into primary activities and support activities, it is
possible to understand how a company works, on whom it depends, what it does, who are its clients and how its operations may be optimized. And also, because many of the quoted authors correlated value chain and outsourcing with core capabilities, crucial activities, some expressions and attributes of the resource-based view (RBV) theory. So, to clarify and to complement our relationship between value chain and outsourcing, the next section presented from a more general perspective relating many concepts and understandings based on resource-based View (RBV).

Knowledge, Skills, Capabilities, Competences and others

Organizational competencies became relevant during the 1980s and 1990s as an alternative in the strategy definition process, complementing the perspective of external environment analyses and company positioning within it (Insinga & Werle, 2000). This approach allows firms to identify its strengths and weaknesses to define their strategies and acquire competitive advantage.

The resource-based view of the firm (RBV) is an influential theoretical framework for understanding how competitive advantage within firms is achieved and how that advantage might be sustained over time and presented a list of authors in this research line (Eisenhardt & Martin, 2000). This perspective considers internal strengths and weaknesses as the starting point for an analysis of firms’ competitive strategy (Barney, 1991; Wernerfelt, 1984; Mol, 2007).

For Wernerfelt (1984), resources and products are two sides of the same coin. For this author, firm’s resources are defined as those assets (tangible and intangible) under responsibility of the firm. Examples of resources are: brand names, in-house knowledge of technology, employment of skilled personnel, trade contacts, machinery, efficient procedures and capital. Barney (1991) extends the understanding saying that the resources of the firm must be valuable, rare, inimitable and hard to substitute.

In 1982, Nelson & Winter argue that knowledge is part of the firm as a whole and that is not deductible to individual knowledge, competences and capabilities neither to various individuals, equipments and installations of the firm. Based on these arguments, they proposed that knowledge resides in organizational memory and that it is found in internal routines’ firms.

Questions like what makes a firm distinctive or unique, why customers buy from us, why we are profitable were presented by Amit & Schoemaker (1993). And the authors say that typical responses are related to know-how, design and engineering capability, among others. And the authors define resources as stocks of available factors that are owned or controlled by the firm and capabilities as refer to a firm’s capacity to deploy resources, usually in combination, using organizational processes, to affect a desired end, and finally unify resources and capabilities as strategic assets.

Teece (1980, 1982) suggest that as resources are firm-specific, a way to handle with them is: identify the firm’s unique resources, for which markets apply them, and decides the applicability (internal or externally) of these resources. For Zander & Kogut (1995) the capabilities of a firm, or any organization, lie primarily in the organizing principles by which individual and functional expertise is structured, coordinated, and communicated.

Eisenhardt & Martin (2000) presents that recently, scholars have extended RBV to dynamic markets (Teece et al., 1997). The rationale is that RBV has not adequately explained how and why certain firms have competitive advantage in situations of rapid and unpredictable change. Indeed, Teece et al. (1997) refer to this ability to achieve new forms of competitive advantage as dynamic capabilities (DC) to emphasize two key aspects that were
not the main focus of attention in previous strategy perspectives, and argue that dynamic refers to the responsiveness to business environment changes and capabilities to the use of internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment.

More recently, Teece (2007) presented new information and complements the DC approach. Dynamic capabilities enable business enterprises to create, deploy, and protect the intangible assets that support superior long-run business performance. The microfoundations of dynamic capabilities—the distinct skills, processes, procedures, organizational structures, decision rules, and disciplines—which undergird enterprise-level sensing, seizing, and reconfiguring capacities are difficult to develop and deploy and associated DC applications with an entrepreneurial management pace to catch and not miss opportunities. And at the end, the authors said that the presented framework is a beginning in strategic management theory in open economy with innovation, outsourcing, and offshoring.

Until here, we saw a diversity of terms and definitions for something very interesting and helpful for firms understand themselves culminating with the opportune relationship stated by Teece with outsourcing process, but some of them seem difficult to identify and handle in day-by-day operational environment of the firms. Some of the presented terms are comprehensible to identify for instance, brands of a firm, the ownership of an iron mining, the property of a technology or some concessions from governments to provide some services (electricity, wireless network, etc), but how to identify the skills, capabilities (dynamic or static), or in other words, more ethereal things? And how to protect or take even more advantages from them? Never forgetting that our perspective in this paper is to identify what can or cannot be outsourced in value chains with the increment of RBV understandings.

One of the most famous and quoted approach – core competences (CC) - was proposed by Prahalad & Hamel (1990), that stated that “in the long run, competitiveness derives from an ability to build, at lower cost and more speedily than competitors, the core competencies that spawn unanticipated products” and that “core competencies are the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies”. The characterization of core competencies is not a simple task and the authors try to clarify how to identify them. At least three criteria can be applied to identify core competencies in a company. (1) a core competency provides potential access to a wide variety of markets; (2) a core competency should make a significant contribution to the perceived customer benefits of the end product; and (3) a core competency should be difficult for competitors to imitate.

After that Hamel (2002: 77, 78) reaffirms that CC are what the firms knows. It encompasses skills and unique capabilities, and proposes some questions to identify CC: What do we have that is (a) unique, (b) valuable to customers, and (c) transferable to new opportunities? Also Hamel (2002: 78) differentiate CC from strategic assets that are things rather than know-how, brands, patents, infrastructure, proprietary standards, customer data and anything else that is both rare and valuable. Finally the author synthesizes that both, CC and strategic assets, are part of strategic resources.

However, there seems to be no consensus regarding the applicability of the definition or of these criteria to identify the core competencies. Quinn (1999: p.11) added: “core competencies are not products or ‘those things we do relatively well’; they are those activities – usually intellectually-based service activities or systems – that the company performs better than any other enterprise”.

Unfortunately, the true nature of these core capabilities is usually obscured by the tendency of organizations to think about their strengths in product terms, rather than in terms
of activities or services, and by each functional group’s need to see itself as the source of strategic strength (Quinn et al.; 1990). And if they represent collective learning plus “communication, involvement, and a deep commitment to working across organizational boundaries” (Prahalad & Hamel, 1990, p.82), they can be confused with other management concepts such as strategy, ideology and even organizational culture.

These misunderstandings of the definitions of core competencies are still at play to this day. Many authors have tried to clarify all this, but it is not easy. Drejer & Sorensen (2002) saw four central components in a competency: (hard) technology, employees, organizational structure and culture. From a different point of view, Heikkila & Cordon (2002) warn that “classifying an activity as non-core may lead to a serious oversimplification of the complexity for the real business situation”. For Onyeiwu (2003: 59) the thing is even more complex: “…the notion of core competencies has remained largely amorphous”. These different understandings and complements did not help our purposes even more when Hätönen & Eriksson (2009) argue that the rapid changes across industries have made core competences only temporary. This search and research for core competencies seems to be a good idea but when using more and more accurate lens, what was first found presents some holes and spaces among entities we are trying to define.

Returning to main purpose of this paper, the intention was to use some concepts of RBV to clarify what happens in the firms value chains and keep clear what exactly are being outsource (or can be outsourced) avoiding missing of knowledge, skills, resources, capabilities, etc., to outsourced firms. But the similarities and symbiotic meanings of the concepts cause more confusion than help our purposes. Maybe because this that some authors said that:

At its worst, the resource-based view is circular. Successful firms are successful because they have unique resources. They should nurture these resources to be successful. But what is a unique resource? What makes it valuable? Why was a firm able to create or acquire it? Why does the original owner or current holder of the resource not bid the value away? What allows a resource to retain its value in the future? There is once again a chain of causality that this literature is just beginning to unravel (Porter, 1991: 108);

I do not attempt a sustained critique here but do pose two related concerns: obscure and often tautological of key terms; and failures of operationalization (Williamson, 1999: 1093).

These thoughts from different authors lead to inconclusive conclusions. Either CCs are almost everything or they are almost nothing. If they exist but there are other activities used to protect the CC, these complementary activities are a CC as well and they cannot be considered as filler activities. The trouble with these definitions (or attempts) seems clear given, their difficulty in answering a simple question: what is the core competence of the reader him (her) self?

And finally, even we could found some developments in RBV to help us in a better understand about what can be outsourced or not, how to handle with the following citation? Gottfredson et al. (2005) proposed a framework for capability sourcing according to which the first step is to identify the components of the business that represent the core of the core, and also Lisle (2003), suggested that even a core competency can be outsourced.

**ANALYSIS AND DISCUSSIONS**

With the presented concepts, tendencies and theories, we think there is a gap or an opportunity to present a new interpretation for the value chain for OO purposes, considering also that some of the RBV approaches are not enough clear to classify and identify exactly
what can or cannot be outsourced, considering missing of knowledge, information, capabilities, etc. From now on we are going to refer to these characteristics and attributes as potentialities. This interpretation considers two main aspects. The first one is related to value chains and consider that there are potentialities at the interfaces among activities. The degree, quality and quantity depend on each firm and must be handle carefully especially in OO processes. The second is related to potentialities and consider the difficult to precise the meaning and the importance of potentialities for a firm, they are spread through the firm but, at least the main part of each one is concentrated in an activity responsible for that. It does not means that potentialities cannot stay in routines, communication and linkages among the value chain activities but that there are VC activities responsible for the content and the handling for these interaction processes.

Porter (1991) described a firm as a collection of discrete, but interrelated economic activities and the basic unit of competitive advantage is the discrete activity. This seems a natural statement and it is to be expected that some sort of interaction should exist among the various chain links, but is it possible that parts of potentialities lie in these interfaces? In these cases, how can one avoid them and block this knowledge transfer in the case of outsourcing?

However a complement to value chain can be done if we consider the VC as a discrete set of activities (10, 100, or even 1,000 activities) but that each activity has a continuous approach and not discrete to correctly represent the “system of interdependent activities” and with “interrelated economic activities”. In other words, the presented framework shows the value chain as a discrete set of continuous activities. This small complement may represent a different value chain interpretation and can be comprehensive with available potentialities among activities reported by many presented authors. Also a discrete number of activities is necessary to keep the firm manageable and continuous activities mean that a main part of an potentiality can be confined in an activity but not all.

So, thinking this way, each activity could be more realistic represented by a Gaussian distribution curve. This curve has some especial characteristics very helpful not to understand that there are potentialities flowing through activities and the management needs to handle with that, especially if some outsourcing / offshore outsourcing are under firm’s ideas and also with this increase peace of these processes. The first point is related to the accuracy of potentialities that can be present in an activity. For this purpose, the statistical common accuracy (related to standard deviation), normally 5% in management studies, representing that 95% of the activity is contained in the defined activity but 5% is overlapping with adjacent activities. The second is that the normal distribution never touches the horizontal axis or, in this management interpretation, no activity or sub activity can be 100% confined in its boundaries unless considering that those boundaries could be infinite!

From this point of view, a value chain could be seen as presented in figure 1, with some superposition among activities. This figure can represent the best case where the potentialities are really confined in the main part of activities and only a small quantity (maybe only the necessary) is shared with the remaining activities of the value chain.

Adapted from Porter (1985)
Figure 1 – An interpretation for a value chain
Each activity shares X% of its potentialities with the next ones (not for the activities at the extremes of the value chain) and has contact with Y% of the neighbor activities. With this approach it is possible to understand and visualize the difficult to keep potentialities in certain activities and also in the firm boundaries. However, the situation can be even worse. Why in some industries or firms the superposition of activities could not be as presented in figure 2?

This representation seems to be more coherent with practical observations and shows that areas overlap to some extent. The previous questions about the boundaries between marketing and sales areas and research and development areas can be remembered. Porter (1985, p. 46), for instance, split the Marketing & Sales activities in Marketing management, Advertising, Sales force administration, Sales force operations, Technical literature and Promotion sub activities. Could these areas be represented as in figure 3?

Of course, this is a complicating factor, when it comes to identifying potentialities and the sharing of non-core activities for outsourcing purposes. It is important to remember that each link of the VC is comprised of sub-activities that also have tenuous borders and that the outsourcing process can reach them too. In this case, the amount of potentialities under exposition to other activities is even more and again, thinking in an accelerated outsourcing process, the amount of potentialities released to environment or to a contracted company can put capabilities and the competitive advantage in danger.

When considering possible overlapping between areas, much higher amount of potentialities is shared among the activities. It is impossible in a value chain like this way the marketing management sub activity not share information even with promotion sub activity. And a value chain like this one can to raise doubts if the value needs to be a sequential or a serial chain of activities.

Another example can also be found in large telecommunications firms where the technical area has a large structure and the overlapping is also present (Figure 4). Planning area is responsible for the overall understanding of the telecommunication network with numbering plans, dimensioning routes among other issues. After receiving a request from planning area, the Design area will remain the plan in first tangible way, studying physical paths, possible spare equipments, etc. After that, engineering area will analyze the project and probably will prepare a request for proposal (RFP) if a completely new switching system is necessary or try
to expand available equipments to support the new condition prepared by planning area. Contracted a solution by Engineering area, the Test area is now responsible for test the solution integrated in the nowadays network. Routes will be tested based on routing, numbering plan and signaling objectives. After this phase, with the main tests approved, the new equipment is released to Operations area to be definitively integrated to the network.

Figure 4 – Example of interactions in a technical area

This example shows that a technical area can be split in several others and two main principles must be kept in mind. The first one is that instead the superposition of areas, the responsibility of each one is not part of the shared potentialities and, based on functional principles, each one can execute its own tasks in a multi-task teams work. Second, there is no way to avoid the share of potentialities among the areas. This potentiality sharing is made through informal and formal processes sometimes based on conversations among involved engineers and sometimes based on documents when more “radical” changes, modifications or clarifications are necessary to be done.

The meaning of the above examples is significant. The interdependence among activities is not only related to “official” activities, products, or services but also and mainly related to potentialities exchange. When it happens in an intra-firm approach it seems to be a good way to share knowledge and also to avoid leaving potentialities in only a specific area or to an individual. But what can happen when there are outsourced activities or sub activities in a value chain?

The outsourcing process of activities or services involves the identification of some activities that must remain under the organization’s control and others that can be outsourced. Based on the concepts available in the literature, the identification of the potentialities of the organization and the evaluation of the value chain can be conducted in a sequential, reverse or parallel manner, but it is important that this process involve these principles.

By identifying its potentialities, what is essential for its operations, and what is responsible for its competitive advantage, the organization can evaluate where these activities are located in the value chain, what it is necessary to protect and what can be outsourced, in order to concentrate better on the core business and on performance. Depending on the type of activity, this outsourcing will be driven by cost reduction, access to new technologies or the quest for better quality from specialized organizations. Following the pace of the globalization process, the search of these companies / partners should be conducted anywhere in the world, especially in emerging economies such as China, India, Brazil, and Russia, among others.

An interdependence network was created among many value chains from different companies and different cultures in different countries. Fine et al. (2002) said that this process [outsourcing] can represent a choice for a firm to become less or more dependent for supply and knowledge purposes. In the last stage, the organization can verify if its forecasts, the results of the outsourcing process and the overall performance of the organization were correct. In a continuous process, all involved areas, such as production, operations, marketing, product quality, customer satisfaction and even customer care, will evaluate the situation and will continue to search for improvements in the process, so that, in some cases, the outsourcing process may even be reversed.
From the point of view of the outsourcing company, the procedures presented above seem to be reasonable and the results will confirm whether the decision taken was good. Contracting companies start to evaluate the emerging countries’ companies based on signed contracts and whether schedules and quality conform to requirements and specifications. These interfaces are monitored with the aid of these criteria and probably none or few strategic analyses are conducted regarding what is really being passed on by the organization and other contracting companies to emerging countries’ companies, how the learning process is progressing, and what are the strategic aims. The point of view of the emerging companies can be different from that of the contracting companies. Their invoicing is important for their survival and they are complete organizations with a structure, a culture, skills, people, desires and strategies; of course, they aspire too much more than merely to serve contracting companies.

The next scenarios use the presented new interpretation for value chain and based on the unclear definition of some potentialities in some offshore outsourcing examples. To develop them, we are considering only the best case interactions between activities and the concentration of a potentiality in a specific activity. In other words, we are considering that only a minimum amount of potentialities are presented at boundaries activities and the main part of them are confined in an activity. Even considering this best case, some unexpected considerations can be reached.

Some suppliers may not want (or really don’t have conditions) to change, move or acquire other links (activities) in the value chain but others have their own ambitions and want to learn and evolve their services and products to become leaders in what they do or even to become competitors of precious contracting firms. In this context, the absorptive capacity (Cohen & Levinthal, 1990) can be very useful not only from the point of view of contracting firms’ competitive advantage but also from the perspective of contracted firms that wants to learn more and more.

In scenario 1 (figure 5), a single or several companies in a same industry can outsource a same activity of the value chain to a same outsourced company. After the identification of their non-core activities in their value chains and outsource to a same company in any country through the world. In Figure 6, companies from A to N have decided to outsource the determined link to an outsourced company.

Certainly the chosen company has its own potentialities to receive the in requests from those outsourcing companies. However, after receiving so many tasks and activities with different requirements and specifications it will be necessary to interact with contracting companies for a better understanding of them. In this natural and necessary process formal or informal information will be bidirectional communicated among companies. Contracted company can provide new information about new tendencies, materials and the state-of-art technologies for a better product production.

![Figure 5 – Scenario 1 - Single or multiple sources of a same activity in a same industry](image)
Otherwise the contracting company will be asked why some specifications need to be so tight or why so high levels of quality or if the design can be a little different because some constrictions in battery or keyboard compartments. When all these natural interactions happens, fragments from the others links of the value chain are being clarified and new knowledge is being acquired or captured for the contracted company.

Improving its productive process the company can understand, learn and incorporate new potentialities to its portfolio, produces products or service in world scale and quality and maybe one day develop its own brands. In addition, developing also these new competencies can propose new solutions, improvements and products to actual contracting companies and even conquering new clients. While the contacts are done based on in predefined specifications, the contracted company will do the best efforts to comply them and even surpass contract quality, specifications and services (maybe in other links of the value chain) and in this case some bonus or new prices will be negotiated. In case if the contracted company does not have interest in these new improvements, the contracted one can try to find new clients and increase its portfolio. Doing that, the contracting company has the option to keep the contract as how it was signed or incorporate the innovations or improvements developed by contracted company in their products. There will be always a risk if the contracting company did not accept the innovations because the contracted company can sell them to other companies. And, of course, new values can be aggregated to the original contract or sold to another companies.

To show that this situation is common in the market, an example is presented. The Taiwanese company TPV Technology Limited a specialized company in TV and computer monitors has in its portfolio clients as Dell, HP, Compaq and LG. Even an outsourced company for these worldwide brands, TPV has its own monitor brand AOC on of the leader in international market (TPV Technology Limited, 2009).

Providing basically the same kind of service to several companies with different requirements and specifications (quality, performance, design, size, etc.) the emerging companies learn and as a necessity have to improve their processes, production lines and also their R&D (if available) to assist their clients. These companies doing that, they are learning and producing world quality products and services, producing their own innovations, acquiring their own patents and challenging other international competitors.

A solid document with precise specifications and requirements can help to avoid the informal transfer of knowledge; however, it can be an inhibitor to innovation process coming from contracted companies. Good ideas can come from these specialized companies while they are in contact with new materials, technologies, manufacturing processes, etc. According to Quinn (2000), external sources are the dominant innovators in corporate services.

In the second scenario, one or more companies in a same industry can desire to outsource different non-core activities (figure 6) and can choose the same outsourced company. Of course, the desires of each outsourcing company are unknown from the others.

In a situation like this, the outsourced company has access to different activities from different links of a same value chain and thought its learning process can rebuild the missing links of the value chain. The work of the emerging country company is not easy considering that the outsourcing companies are outsourcing only non-core activities. How can be possible to rebuild a value chain if only non-core activities were passed to emerging company? However, there are multiple sources of activities and none of them knows exactly what the other ones are outsourcing! What a company considers non-core activity can be a core activity in another company! The emerging company receiving what which one considerer non-core
activities can be receiving important parts of core activities from one of the sources. If it happens, the outsourced company can try to build its own value chain!

![Diagram showing multiple sources of activities](image)

Figure 6 – Scenario 2 - Single or multiple sources of several activities in a same industry

An interesting example of multiple sources relayed to a single emerging company is illustrated by the Indian company TCS – Tata Consultancy Services. TCS is one of the largest services outsourcing companies in the world and provides services to many companies in many economic sectors. For instance, TCS has clients in finance, insurance, telecommunications, transports, energy and medical sciences. Its telecommunications portfolio includes clients from different links in the value chain, such as BT, Ericsson, Motorola, Swisscom, TataTeleservices and Verizon. From equipment manufacturers such as Ericsson and Motorola to full-service providers such as Verizon and BT, the volume and range of activities to which TCS has had access, thanks to its individually outsourced services and their importance for its global learning process, are enormous. Depending on the kind of service provided to each telecommunication company, even the fact that BT operates a GSM technology network and Tata Teleservices a CDMA technology network can provide important information and knowledge for TCS which, neither BT nor Tata Teleservices might have done individually.

Finally, as a third scenario, various companies in distinct economic sectors can outsource activities for a same outsourced company (Figure 7). The chosen emerging company can have its competencies related to several products and service in several different areas. A basic competence can be the base for many industries for example: motherboards for computers and cell phones, monitors to computers and TV sets and even a contact center.

Receiving activities from distinct sources with any kind of similarity among them, the emerging company will refine its own existent potentialities and processes and it will have access to the understanding of different requirements from different industries. And as in previous case, what is core or non-core potentiality from one company in one sector can be non-core or core in another one and vice-versa. Receiving “non-core potentialities” from different sectors the emerging company can build not only a single value chain but maybe several!
With its own potentialities and having access to new and different sources of knowledge, competencies and markets, nothing can hamper that in some moment the company should refine its own value chain and develop new value chains even for more value added products and services. The previous case of TCS applied to all economic sectors can provide a good example of what can happens and how the learning process can be boosted. As an example, we can mention Asustek, a Taiwanese company that developed expertise in motherboard manufacturing during the 1990s and that was hired by Sony, HP, Canon and Epson as an OEM provider. It also has its own brand: ASUS. In 1996, 92% of the company’s revenue came from motherboard sales (National Security Corporation, 1999). By the late 1990s, the company began to diversify its products portfolio.

By 2007, a noticeable change in its revenues from manufactured products had materialized. Its portfolio was now comprised of motherboards, notebooks, 3G cell phones, PDAs and even LCD TVs (Yuanta Research Center, 2007). Asustek sold 5.5 million laptops in 2006, had a partnership with Lamborghini in design, and some of its models were very competitive in terms capacity, performance, weight and design.

The Asustek case illustrates the company’s learning process over its 20-year existence. The company knew how to learn from the outsourcing enterprises. Based on its initial competency in motherboards, it came to understand new business, value chains, technologies, requirements, specifications and competencies, and developed several new value chains in different economic sectors.

These types of acquisition and development of new and complementary potentialities are a reality and show that the outsourcing process is an opportunity for outsourced companies to appear, learn and to grow. This learning process is an important element and one whose impact upon the globalization process should be studied and understood. Therefore, based on value chain fragmentation and on potentialities fluidic entities, the first research proposition can be clarified and presented this way. In addition, Hansen & Birkinshaw (2007) presented an interesting example about the German Siemens that since 1999 has a small unit (15 people) located in Silicon Valley (USA) for scouting new technologies, ideas and tendencies. This activity involves relationships with scientists, doctoral students, and venture centers, as also attending any kind of scientific event in that important region. The idea is very good and why not can be done also by firms that mainly work as outsourced companies emerging countries? It is a very rich source of information and knowledge for firms for any country.
FINAL CONSIDERATIONS

This paper handled with offshoring aspects, especially related to offshore outsourcing, considering the value chain and also the RBV theory to explain the miss of potentialities from outsourcing firms and the appearance of new firms in international market. These new firms appear as real competitors to outsourcing firms, in some cases with products and services with high quality, good price, according to international specifications and sometimes very innovative features. The term potentialities were used in the paper to represent skills, resources, capabilities, competences or any other component of the RBV theory. The intention is not to create a neologism but to fill a gap while referring to this important approach.

There is no doubt that at least in short and mid-term, the offshore outsourcing continues to provide competitive advantage to outsourcing firm. When a potentiality is not available inside the firm, the look for that in the market is also yet considered by Williamson (1979) and some important complements can be done. The strategic, quality and time-to-market perspectives are also variables to be appreciated in a changing fast world.

The value chain and potentialities (representing RBV research line) are helpful to identify what can be outsourced and what can be keep inside the firm. However, two important reflections can be done related to both research questions. First, if the value chain could be seen as a more dynamic system and the activities as more fluidic entities, overlapping each other and sharing potentialities throughout the firm, the comprehension could be more realistic and closer to what observed in organizations. Second, the interpretation and application of so many ramifications of RBV for outsourcing purposes are very difficult and it seems that if all concepts and variants should be applied, firms could go to a stagnation state and the vertical integration should be the only answer in many cases, in a very different tendency as seen nowadays.

Considering the value chain as a discrete number of continuous activities with no fixed boundaries and that the potentialities is not completely controllable at internal and external interfaces, new developments in management areas can happen to help firms in their dynamic environment and decisions.

The presented interpretation for the value chain has some advantages to understand the relation among internal activities of a firm and its external environment, and some remarks can be detached. First, each firm has its own value chain interpretation based on internal organization structure and formal and informal potentialities flows through it. Second, the framework considers the existence of potentialities (at least part of them) at the boundaries of the activities, and not confined in a specific activity, as quoted by many authors. Third, potentialities are fluidic things that don’t respect functional boundaries, and are necessary for the firm operation (in formal and informal ways) but also can be an escape point in outsourcing process. Forth, the fluidic potentialities spread internally and/or externally can be explicit or tacit.

Also, as the presented scenarios show that even being an internal firm aspect (competences, etc.) cannot be handle in a standalone way. It is necessary search in market what is being outsourced by competitors, to whom, and maybe in different industries. In other words, the procedure is much more complicated than only identifying internal firms’ core competences and outsources the non-core activities. A remarking point here is that what is a non-core activity from one firm can be a core activity in another firm and the outsourced company can receive both and build its own value chain related to these activities. And it is important to remember that all scenarios were done in a best case perspective for the activities of the value chain, with only a small quantity of KI in the boundaries. Extending the scenarios
to overlapping activities is closer to the real world and the dangerous to outsourcing companies even greater.

Another important aspect of the presented representation of value chain is that no moment we said anything about intellectual property (IP) violation. Any kind of IP violation must be punished following legal procedures, but as this interpretation of VC and lacks in RBV theory, potentialities can be shared from one or multiples firms to one or multiple outsourced firms with no disaccord of IP agreements. It is important to keep in mind that the skilled workers in emerging countries are more prepared than 20 years ago and have more conditions to understand, learn, make conjectures, build their own potentialities and develop new products and innovations based on their own tacit knowledge.

Another interesting question maybe for further studies is: where are the innovations developed or created in this disintegrated VC with integrators and specialized firms? Maybe the best answer is in both places. It depends naturally what (exactly?) is being outsourced and the strategic intentions of the outsourced firm. An outsourced firm can develop new solutions for a previous query from a firm and offer to her for a new adjustment in contract values. The contracting firm can accept or not these solutions, and in case of not acceptance, the outsourced company can offer to other firms (maybe competitors from the first one) or even introduce in its own products and services.

In a world of very strong brands, Microsoft, Google, Coca-Cola, Nokia, HSBC, Apple, Dell, HP, and many others, it is not sufficient for outsourced firms have access to core-KI but also to build their own strong brands. In this field, the examples of Korean firms can be followed carefully because maybe ten years ago, brands like LG, Samsung or Hyundai are not so known and even if known the liability from the customers perspectives were not so clear. Certainly it doesn’t happen anymore and these brands are international strong competitors in several industries.

References


