EDITORIAL

Letter from the Editor

Arie Y Lewin
Editor-in-chief

Journal of International Business Studies
(2005) 36, 489–491.
doi:10.1057/palgrave.jibs.8400163

An emerging challenge for IB research

For the past few years IB scholars have been consumed with reflecting and exchanging on what might be or should be the next big research opportunities in IB. To be perfectly candid, I found the exchanges perplexing and not very satisfying. What follows are some thoughts that have been crystallizing for me as I have been puzzling over the initial findings from the multiyear study on the offshoring of white-collar administrative and technical work undertaken by the Duke CIBER and Archstone Consulting. Every 6 months, the project surveys large and small companies to measure the drivers, risks, strategies and actual performance experiences associated with offshoring white-collar work. The survey is being extended to companies in the industrialized west and to selected countries in Asia.

As I puzzled over trends and firm-specific data, I began to see a far more complex phenomenon with potentially wide-ranging implications for IB research. The advances in information technologies, the Internet and web-based communications that are seamlessly enabling the offshoring of white-collar work (as well as outsourcing in general) is not the real story here. Instead, it appears that what began as an almost serendipitous response to the crushing pressure for meeting Y2K deadlines for recoding legacy computer codes is morphing into four co-evolving forces: the commoditization of organizational processes; the emergence of intermediary and hybrid organizational forms; movement of third-party service providers up the value chain; and the emergence of the presumption phenomena.

Commoditization of organizational processes

The early findings from the offshoring study indicate that 'taking out costs' and 'competitive pressures' are the most important initial drivers for initiating offshoring strategies. In all, 75% of the responding companies report meeting or exceeding expectations of cost savings and 63% achieved over 30% cost savings. Although service levels were ranked as a key risk more often than any other factor, 75% report achieving or exceeding targeted service levels within 1 year. These very positive performance results legitimize and accelerate the drive by companies to reduce costs through offshoring strategies and exploit a new source of free cash flow for investment in new growth opportunities. The early successes also explain the sharp increase in reported future plans for additional offshoring implementations. It also foreshadows a commoditization process that will follow as more and more companies dis-intermediate hitherto unique and often tacit organizational capabilities to third-party providers.

Emergence of intermediary organizations and hybrid organizational forms

The findings indicate that finance and accounting implementations initially use captive organizations, while call centers and IT applications are implemented through third-party providers. Over time some applications remain captive, but the data suggests that captives are turned over to third party-providers and *vice versa*. In many instances, internal and external clients are unaware that the service they receive is provided by a third party. UPS provides an example where capabilities are organically integrated into the organization hierarchical structure unbeknown to various stakeholders. These organizational experiments are giving rise to new hybrid organizational forms in which it is becoming difficult to discern the boundaries of the core organization from the embedded third-party intermediary organizations. Moreover, companies are learning to mix services of multiple providers into some form of 'meshed up' organization.

Morphing of third-party service providers

There are some indications that third-party service providers and other outsourcer OEMs are beginning to move up the value chain. An increasing number are no longer content with their position as low-cost providers of human capital. They aspire to climb up the value chain by designing products and service offerings and competing in the same presumption (see below) space as well as in the space for more traditional branded products and services. There is evidence that some service providers, for example, TATA and WIPRO, are moving to compete directly with third-party service providers in the US who often are the intermediary organization between the client organization and themselves. This process is driven by both nationalist aspirations and by economic factors.

Emergence of prosumption phenomenon

The Duke CIBER and Archstone Consulting Offshoring Research Initiative are also undertaking a series of case studies. One case in particular attracted my attention. This admittedly singular case describes how one business unit discovered (serendipitously) that it could dramatically increase sales of an off the shelf product by enabling customers to engage in joint on-line design process. Once this interactive design process is concluded, the company delivers the product (components for a customized closet) in a few days. Another business unit of the same company is now in the process of

implementing similar capabilities to serve its corporate clients for one of its commodity industrial products used as a component in a variety of end products. These may be isolated early examples, but when combined with other marketing cases, it gives meaning to the prosumption concept described by Kevin Kelly (1987) in the book – *New Rules for the New Economy* and to the idea of one to one marketing. When combined with the growing trend of individuals downloading and creating personalized music libraries (the main dynamic explaining decline in CD music sales), it may represent the early signs of a radical shift in marketing power from companies to individual corporate clients and consumers.

Opportunities for IB research

The implications of these four trends for IB research can only be imagined at this time. The emergence of intermediary companies, such as UPS, enables new smaller entrants anywhere in the world to enter international business without having to master the complex range of country-specific institutional knowledge. This is indeed brought out by the 'Born Global Company' phenomenon (see Knight-Cavusgil article in *JIBS* 35, 2004, 124–141). Smaller firms are now able to offset the limitations of being resource-poor compared to their multinational counterparts by tapping domestic and foreign business partners and by relying on the Internet and IT. Intermediary companies like UPS can provide such capabilities at a cost (virtually no capital investment) and service quality equal to and perhaps superior to that of multinational corporations. This opportunity is likely to expand greatly as trends of prosumption, individualization and cooperative collaboration accelerate. These trends create a renewed opportunity for research on the mediating role of trust in these new forms of inter-firm relationships and new governance structures.

As offshoring morphs into commoditization of many organizational capabilities, a new dimension of competitive advantage may need to be understood. Do companies that conduct their business in English have an advantage over non-English speaking companies? The supply of English-speaking administrative and technical human capital is much greater in India, China and rest of Asia than in developing countries in Eastern Europe or Latin America. Some countries such as France might be especially vulnerable if there is a competitive advantage for English-speaking countries.

Moreover, companies in countries with strong society/worker compacts may experience greater challenges in adopting and executing offshoring strategies.

New entrants who are 'born on the web' (so to speak) might have advantages of flexibility and opportunism relative to large MNCs with their legacy hierarchical structures. For large MNCs, offshoring involves unlearning deeply embedded and replicated structures and organizational processes. It involves experimenting with and learning entirely new organizational capabilities as they morph into more porous web-based network structures. As these dynamics unfold, the role of location may diminish as companies learn to source, locate and manage human capital globally. It will require new organizational capabilities for configuring, reconfiguring and managing remote locations as well as mixing and remixing various intermediary service providers.

The above observations are intended to stimulate further exchanges and are not intended to be predictors of the shape of things to come. These new co-evolving dynamics can be expected to unfold over many years, especially if long wave

economic theory is on target. This is because the offshoring of knowledge-based organizational routines and capabilities is complex, the sheer number of potential organizational capabilities that could be offshoring candidates is large and because offshoring is still in a trial and error learning by doing phase of evolution. One major global financial firm required 2 years to map and implement the first phase (no process redesign just lift and drop) of transferring its global procurement function to a third-party service provider.

In my mind, the IB research community has a central role to play in this research arena. Collectively, IB researchers have a far deeper nuanced understanding of the IB context within which these dynamics take place than our colleagues in more specialized functional areas or in adjacent disciplinary fields. It is an advantage that I am confident we can exploit. I look forward to engaging these issues in future JIBS Conferences on Emerging Research Frontiers in IB, AIB annual meetings and on the pages of JIBS. Paraphrasing Mark Twain, it is my personal conviction that the rumors of the death of IB as a vibrant field of inquiry are greatly exaggerated.