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OFFSHORING STRATEGIES OF MULTINATIONAL COMPANIES IN ASIAN REGION

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ABSTRACT

The forces of economic liberalization and globalization have led to the growth and development of MNC's. It has resulted offshoring for managing human resources globally. There is considerable divergence over the causes and consequences of offshoring. Offshoring has implications for strategic management .Globalization, deregulation ,liberalization, privatization of economy; increasing competition; cost savings; focus on core processes etc. are some of the factors responsible for offshoring globally. The scale of offshoring is gradually increasing with impact on employment in the western world as well as Asian countries. Captive offshoring is the preferred activity of MNC's while offshoring activities are becoming increasingly service oriented. China and India have emerged as favoured offshoring destinations. Against this backdrop, present paper purports to review the offshoring strategies of MNC's in Asian Region.

The forces of economic globalization and liberalization have resulted in reshaping of economic landscape. Attracted by burgeoning markets, cost advantages and access to local talent pools and capabilities, MNC's are increasingly moving processes and services from high cost countries to low cost countries. Political deregulation and technological developments have enabled MNC's to capture the opportunities offered by globalization. Product and financial markets have been liberalized which has given rise to regional trade agreements viz. European Union, NAFTA, ASEAN, SAFTA etc. In addition ,World Trade Organization envisages to eliminate the remaining obstacles and to secure mutually open, transparent and non-discriminating markets for goods, services, capital and technology. Technological development has also resulted implementing communication and transportation costs which has stimulated product export and offshoring. Thus, MNC's strategies and their courses of action are pivotal objects to study in order to better understand the forces of globalization. Recent efforts to conceptualize the international business field, especially global strategic management, have stressed globalization, the changing strategy of MNC's and their impact on world economy (Buckley and Ghauri,

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2004) .The factors that determine the success or failure of firms within this competitive environment (Peng, 2004) are the growing importance of civil society and NGO's to the theory and practice of international business (Teegen et al., 2004). These research directions capture the context (culture, geography, and institutions), firm level goals (performance) and societal impact (globalization and its challenges) that are critical to analysis of offshoring and its impacts (Doh, 2005). Ramanmurthi 2004) recently identified offshore outsourcing of services as an emerging research theme in international business; however, a little attention has been paid to this important phenomenon.

Offshoring has implications for strategic management. It poses challenges to collective understandings related to the development and deployment of firm level capabilities. Offshoring potentially constitutes a firm level capability and a resource to be developed and deployed as under international theory. It may also serve to undermine or reduce the value of firm level advantages (Doh, 2005). Offshoring, both as internal process and business strategy, could be an outcome of successful management of resources and may itself represent a direct application of firm level capabilities as envisioned by the Resource Based view (Penrose, 1959) and Nelson and Wiwer (1982). However, offshoring may reflect the commoditization of a production function and erode benefits derived from management of resources and capabilities. Despite these limitations, offshoring will remain an important tool for managing and deploying international human resources. A survey by UNCTAD showed that the offshoring trend is quickly catching on in Europe, with four out of 10 European firms already relocating service operations offshore (UNCTAD, 2004). Although, subcontracting provides important flexibility in human resources practice of MNC's operating globally, it also requires skilled international managers to coordinate and oversee the complex relationships that arise from it (Doh, 2005).

Economists and various studies conducted across the globe envisage India and China to rule the World in the 21st century. There is shift of focus from US and the rich countries of Europe to the two Asian giants – India and China. India has emerged as global economic power. It is expected that by the year 2025, India will be one of the 5 world's consumer countries. The consumable income is expected to increase by 12 times. It has been estimated that the world's 500 largest companies controlled at least 70 per cent of world trade, 80 per cent of foreign investment, and 30 per cent of global GDP (*www.economywatch.com*).

Main offshoring strategies are shown in Chart-1. These are categorized on the basis of own provision and outsourcing.

Chart: 1
Offshoring Strategies

Outsource	*Outshore Outsourcing*	*Offshore Outsourcing*
Own Provision	International domestic service provision	Captive offshoring
	National	International

The economic reforms that began in the early 1990's brought many large multinational companies to India. In 2003-04 alone, outsourcing in India grew over 25 per cent, and India continued its domination over other competing countries such as China, Ireland, Israel and the Philippines. Makinsy Global Institute estimated that volume of offshore outsourcing is likely to increase by 30 to 40 per cent a year from the next 5 years. About 3.3 million while collar jobs will move overseas by 2015. The preferred offshoring strategy of German MNC's are confined to captive offshoring (61.4 percent) following by multi sourcing (36.8 per cent) and preferred suppliers (21.6 per cent).

During 1980's, American, European and Japanese companies setup production facilities in low wage countries to produce mainly low value goods, which were then exported back home. In the 1990's, the number of companies involved in offshoring rose as well as the complexity of many finished goods. New offshoring markets emerge mainly due to political changes. Presently, offshoring is not any more purely associated with physical goods, service offshoring becomes increasingly important. The skills needed to provide certain sources are high. The offshoring drivers include (i) globalization, deregulation, liberalization, privatization; (ii) increasing competition; (iii) cost savings; (iv) focus on core processes; (v) flexibility; (vi) minimizing risks through multiple delivery locations. The worldwide spending on outsourcing in 2001 amounted $5.1 trillion, which was expected to reach $5.1 trillion by the end of 2003. Global volume of offshoring in 2003 amounted to be $10-50 billion. It is expected that growth rate of the offshoring market will be 30-40 per cent annually in the coming 5 years. Moreover, worldwide offshoring volume estimated to be an industry was reported in the tune of $ 100 billion in annually revenues by 2008. Offshoring and outsourcing affect the overall performance of a nation's economy significantly. About 0.40 million business processing jobs were lost in the US in 2003 because of offshoring. Forrester Research predicted that by 2015, roughly 3.3 million jobs will have followed, including 8 per cent of IT jobs. On the financial service sector alone, about 2 million jobs are expected to be transferred to low cost countries according to a recent survey by Deloitte. Popular offshoring regions are Asian countries. In Asia, India and China are most preferred offshoring regions of MNC's. There are numerous reasons why certain regions seem t be better suited for offshoring than others. Some of them are (i) GDP growth rate; (ii) local wage rate; (iii) local literacy rate; (iv) economic stability; (v) state assistance; (vi) employment and environmental protection laws.

According to business intelligence major International Data Corporation, the IT enabled services market globally will account for revenues of $1.2 trillion by 2006. With growth projected at 11 per cent annually, the Information Technology Enabled Services/Business Process outsourcing segment will provide one of the most significant business opportunities for the Indian Software and service industry. The Indian software exports during 1991-2002 has grown many fold (Table 1).

Table 1
Development of Software Exports In India

Year	*Software Exports($ billion)*
1991-92	164
1992-93	225
1993-94	330
1994-95	485
1995-96	734
1996-97	1063
1997-98	1750
1998-99	2600
1999-2000	3900
2000-2001	6400
2001-2002	10000

Source: Deloitte & Touche (2003).

India appears to be in a position to cater to the demands of the market. Its biggest strength is its vast supplies of over 2 million graduates and 300,000 postgraduates that pass out of its colleges each year. Its vast resources of English speaking college educated workforce and low cost labour gives it on edge in the offshoring world. It is not only the cost factor that continues to make India an attractive outsourcing destination. The quality of manpower combined with an extremely sophisticated vender vase and improvements in local infrastructure have put it ahead of other offshore destinations. However, Indian companies that provide offshore services need goods and services such as computers and telecommunications equipment and legal, financial and marketing expertise to do business.

In China too offshoring is most popular. Availability for high potentials for production, qualified employees, higher productivity of workers, work morale, is some of the factors which promote offshorng to China. The comparative Chart-2 shows India is ahead of offshoring in comparison to China.

Chart 2
India-China Offshoring

	India	*China*
1.	Third most attractive FDI destination worldwide	No. 1 most attractive FDI destination in the World
2.	Activities offshored to India: IT, business processing, R & D	Activities offshored to China: Manufacturing & assembly
3.	Investors' favour India for:	Investors' favour China for:
	• Highly educated work forced	• Market size
	• Management talent	• Access to export markets
	• Transparency and rule of law	• Government incentives
	• Regulatory environment	• Favourable cost structure

China has been one of the two largest foreign direct investment recipient countries in the world in recent years. This is largely because of two factors: investment incentives offered by the Chinese government and the country's abundant availability of cheap labour. During the 1980's, the main route of FDI's entering the Chinese economy was through joint ventures with Chinese state owned enterprises. In the 21st century, cross border acquisition remains the main investment mechanism for foreign investment entering the China market with an increasing level of freedom (Cooke, 2006). The driving forces for the acquisition of Chinese state owned enterprises by foreign investors come from both the political and economic needs from the Chinese side as well as FDI's strategic intent, while cross border acquisition activities have been increasing and spreading into more and more industries, there are a number of pitfalls in the process that may prevent the anticipated benefits from being realized for both sides involved and for China at a macro level (Cooke, 2006).

Offshoring activities are expected to continue growing with captive offshoring as preferred strategy. Offshoring will remain an important tool for managing and deploying human resources at global level. Offshoring has become a reality that is unlikely to recede, and quite likely to accelerate. Diana Farrell has proposed an insurance scheme developed by Kletzer and Litan that would provide adjustment assistance to workers displaced by offshoring (Farrell, 2005, Kletzer and Litan, 2001). But the concerns about global sourcing and the transfer of jobs abroad go beyond the economic challenges facing those displaced by specific lay offs. Offshoriing of activities are becoming increasingly service dominated since the growth of services sector is comparatively high n Asian countries. China and India as favoured offshoring destinations have emerged while all human capital ahs become itinerant. Thus, strategies for managing the offshoring of MNC's are to be multipronged and multi dimensional with pro-active approaches.

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