

## ***SESSION E***

### ***GLOBAL LOCATION OF PRODUCTION AND SERVICES***

This session addressed the growing global dispersion of production, services, and innovation capabilities. One such development contributing to this dispersion was the growth of international outsourcing in business processes and information technology.

# RELOCATING VALUE CHAIN FOR COMPETITIVE ADVANTAGE



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## Introduction



Perhaps no other business practice has captured the attention of practitioners and academicians in recent times as offshore outsourcing.

- ❖ **Offsourcing (*in short*)** refers to the practice of migrating business processes overseas with an aim to achieving lower cost while maintaining and/or improving quality.
- ❖ **Advantages and risks** are many (Barthelemy, 2003).
- ❖ **Tremendous growth** estimated by various agencies as Forrester Inc., AT Kearney, Gartner.
- ❖ **Managerial challenges:**
  - **How to strategize for offsourcing?**
  - **What activities of the firm value chain to offsourcing?**

## Purpose of this paper



- ❖ **Scholars and practitioners have offered several directions to consider in offshoring:**
  - **Core- vs. non-core activities**
  - **Critical- vs. non-critical activities**
  - **Core vs. non-core competence**
  - **Competitiveness vs. competitive advantage... and so on.**
- ❖ **There has been little theory or consistency in the literature about what 'core' really means. (Quinn and Hilmer, 1994:44)**

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- ❖ **An integrated model of offshoring to stimulate academic thinking and aid managerial practice is needed.**
- ❖ **The purpose of this paper is to provide a framework to help understand:**
  - **How offshoring enables firms to combine the advantages of generic strategies and,**
  - **How careful analysis of value chain result in achieving these advantages.**

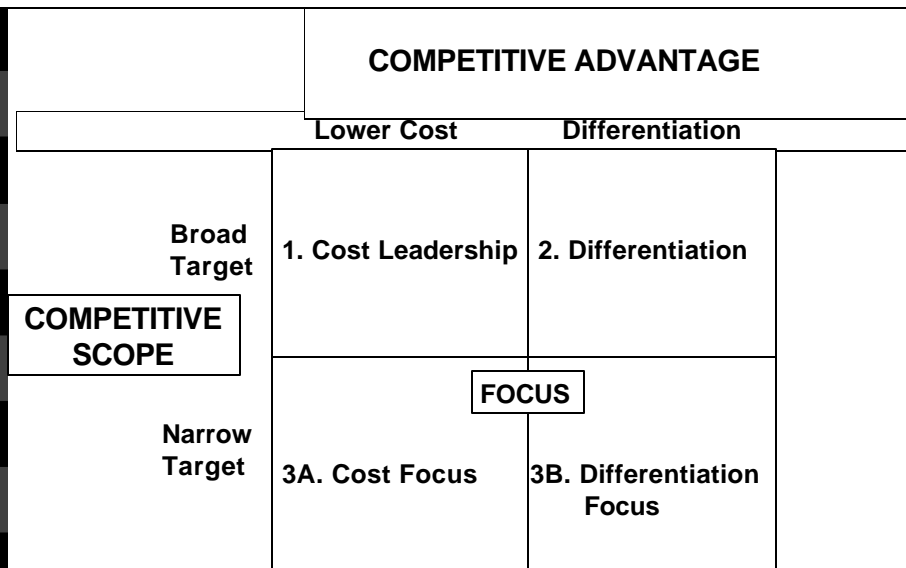
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# Generic Strategies



- ❖ Porter (1985:11) identified three generic strategies:
  - Cost Leadership
  - Differentiation
  - Focus
- ❖ According to Porter (1985: 17), these strategies cannot be followed simultaneously as “each generic strategy is a fundamentally different approach to creating and sustaining a competitive advantage...usually a firm must make a choice among them, or it will become stuck in the middle.”
- ❖ Outsourcing enable firms to combine the competitive advantages of these strategies without actually following them simultaneously and becoming stuck in the middle.
- ❖ Examples: Nike, Dell, Delta Airlines, GE, Claimpower Inc.

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**Figure 1. Three Generic Strategies**

Source: Porter (1985:12)

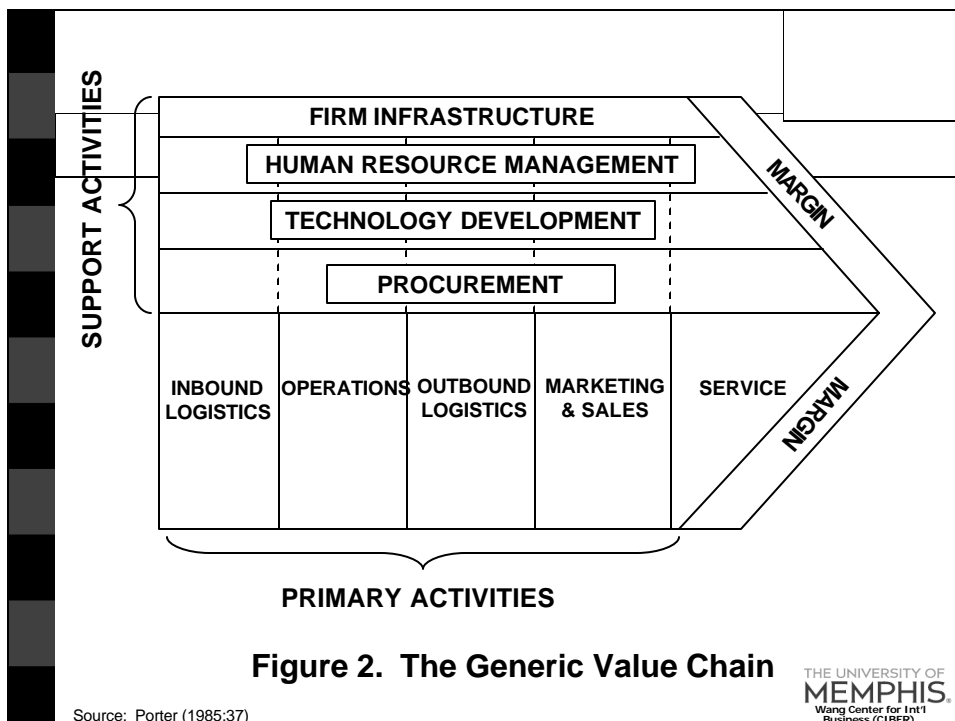
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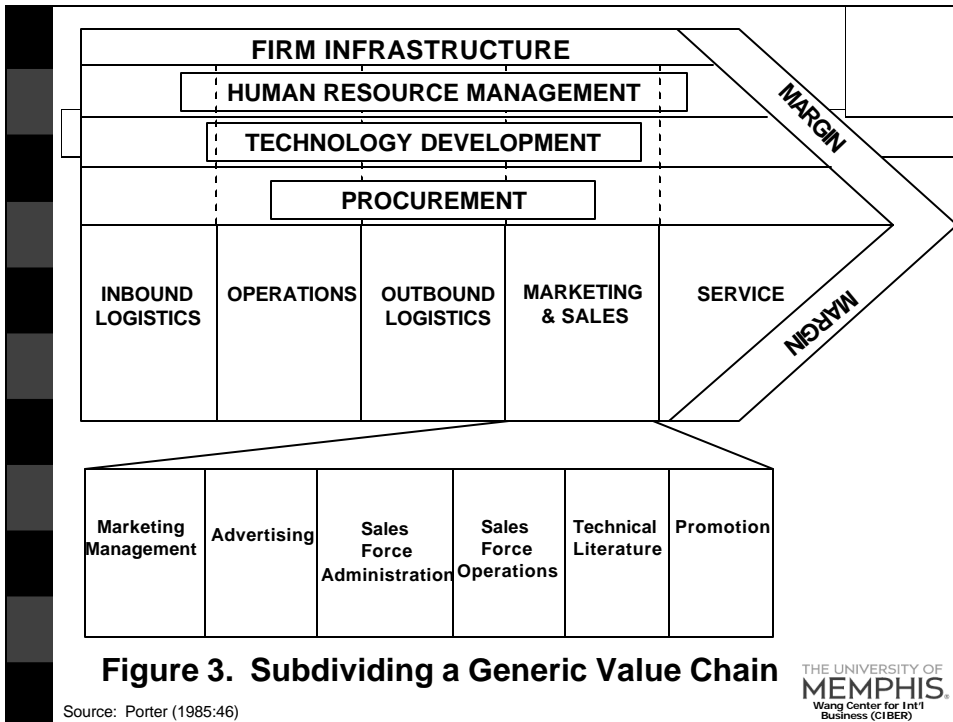
# Analyzing Firm Value Chain



- ❖ In realizing the combined advantages, it is essential that activities for outsourcing are judiciously selected.
- ❖ This requires examination of activities and (disaggregated) sub-activities in the firm value chain “to understand the behavior of costs and the existing and potential sources of differentiation” (Porter, 1985: 37).
- ❖ Figures 2 and 3.

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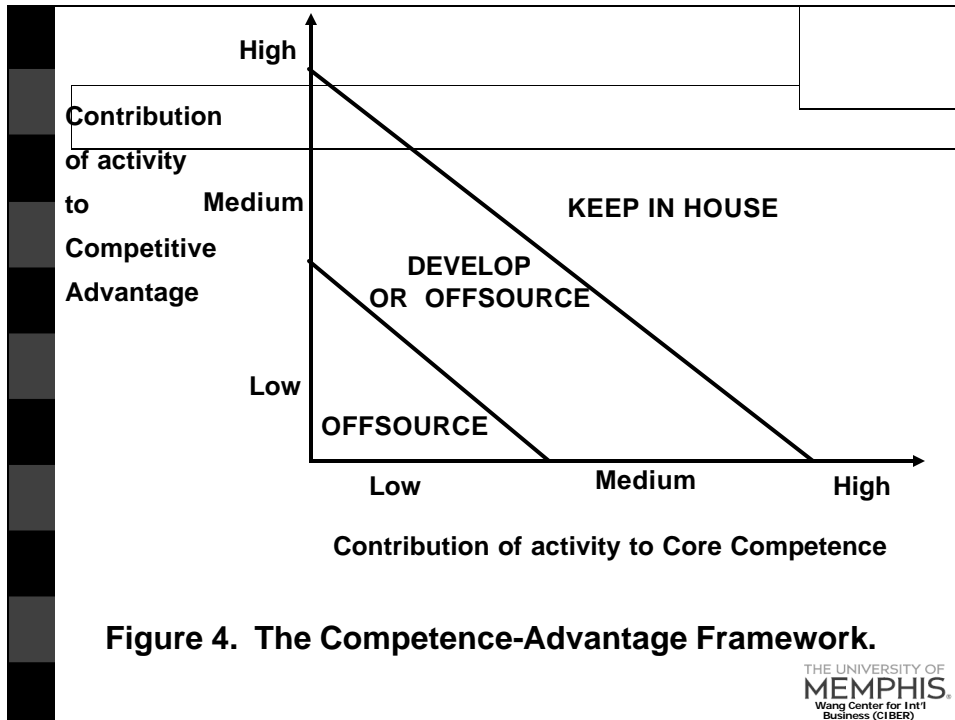




## Analyzing Firm Value Chain (contd.)



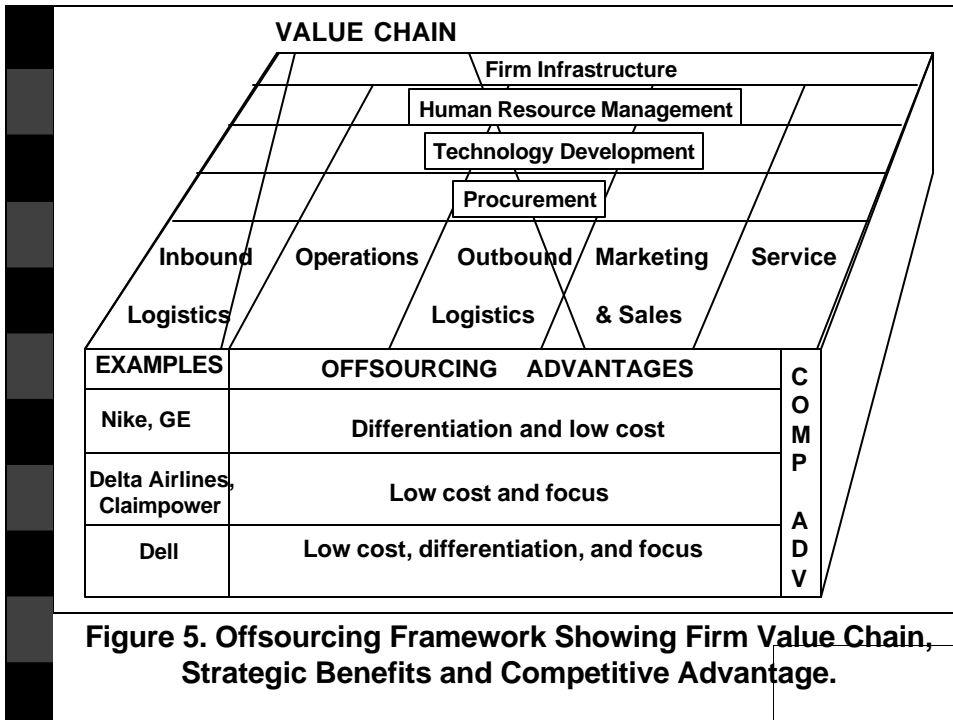
- ❖ “....Too many companies have unwittingly surrendered core competencies when they cut internal investment in what they mistakenly thought were just ‘cost centers’ in favor of outside suppliers” (Prahalad & Hamel, 1990: 84).
- ❖ The proposed Competence-Advantage framework (Figure 4) can be utilized to determine the contribution of each sub-activity towards firm core competence and competitive advantage.



## Propositions



- ❖ **Proposition 1:** Firms that have activities of their value chain positioned in the *high-high* location of the competence-advantage framework will keep in-house activities as valuable resources.
- ❖ **Proposition 2:** Firms that have activities of their value chain positioned in the *low-low* location of the competence-advantage framework will offsource these activities.
- ❖ **Proposition 3:** Firms that have activities of their value chain positioned in the *medium-medium* location of the competence-advantage framework will either develop these activities to achieve greater contribution or offsource.



## Conclusion



***Outsourcing enables combining benefits of firm generic strategies leading to competitive advantage.***



# Global Location of Operations in the High-Tech Industry: The Case of Colorado

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## Background

- Dossani, Kenney and Serapio, Comparative Study of Offshoring in India and the Philippines (Ongoing).
- Dalton and Serapio, Globalizing Industrial R&D, U.S. Department of Commerce, 2000, 1997, 1992
- Serapio, The Impact of International Outsourcing on High Tech Jobs in Colorado, study sponsored by the Colorado Institute of Technology (CIT).

## About The Study

### A. Scope

- Investment Decisions
- Expansion Decisions
- Location Decisions
- Performance Metrics
- Organization/Administration of Outsourcing Operations
- Impact on IT Employment in Colorado
- Focus is on IT, not BPO

## About The Study

### B. Methodology

- Secondary Research
- Interview Study of Colorado companies
  - Interviews of CEOs, CIOs, CTOs and heads of IT Departments

## About The Study

### B. Methodology

- About 30 Companies
  - Software
  - Computer Hardware
  - Telecommunications
  - Financial Services
  - Consumer and Industrial Goods
  - IT Services
  - Others

Profile: Majority are largest employers in Colorado  
Several Startups  
3 major outsourcing firms

## Preliminary Findings

### A. Scale and Magnitude of International Outsourcing

### B. Investment Decisions

- Cost Savings
- Access to Technology, Specialized Expertise
- Workload Considerations
- Fine Segmentation
- Localization

## Preliminary Findings

### C. Location Decisions

- Primarily made by selected partners
- Quality of work force
- Quality of infrastructure
- Cluster Effect

## Preliminary Findings

### D. Performance Indicators

- Cost Savings
- Productivity
- Quality
- Specialization

### E. Recruitment Implications

Thank You

# Business Process Redesign: Embracing the New Globalization

by

Honorio Todino

National Innovation Competencies and Interests  
*Business Process Redesign: Embracing the New Globalization*

- Old Globalization
  - Financial Capital
  - Trade of Manufactured Goods
  - Shipping
  - MNCs
  
- New Globalization
  - Intellectual Capital
  - Services
  - Internet
  - Contracting

National Innovation Competencies and Interests  
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- Observed Phenomena
  - Financial Analysis
  - Engineering and Design
  - Software Development
  - Accounting
  - Translation
  - Call Center
    - Customer Service
    - Telemarketing
    - Technical Support
  - Drawing/ Drafting
  - Data Entry
  - Coupon Sorting

National Innovation Competencies and Interests  
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- Flows
  - US to NIEs
    - Demand for services
    - Information technology
    - Management knowledge
    - Process level innovation

National Innovation Competencies and Interests  
*Business Process Redesign: Embracing the New Globalization*

- Flows
  - NIEs to US
    - Lower labor cost
    - Opportunity seeking
    - Activity level innovation



National Innovation Competencies and Interests  
*Business Process Redesign: Embracing the New Globalization*

- **Strategic Management**
  - Cost Advantage
  - Network Robustness
  - CRM
- **Internationalization**
  - Comparative Advantage
  - Entry Mode
- **Outsourcing**
  - Internalization
  - Core Competencies

National Innovation Competencies and Interests  
*Business Process Redesign: Embracing the New Globalization*

- **Information Systems**
  - Technology
    - Internet
    - Collaboration Tools – E-mail, IM, Videoconference, Lotus Notes, Shared Workspaces
    - VoIP
    - Software Development Tools
- **Project Management**
- **Services Management**
  - Customer facing
  - Back office

National Innovation Competencies and Interests  
*Business Process Redesign: Embracing the New Globalization*

- **Business Process Redesign**
  - Efficiency and Effectiveness
  - Value Chain Activities
  - Process Flow
  - Process Mapping
  - Workflow and Division of Labor
  - Information Systems – RDBMS, Networked Computing
  - Task Design
  - Sociotechnical Approach
  - Roles, Responsibilities and Reporting
  - Team Management

National Innovation Competencies and Interests  
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### Normative process

1. Business objectives
2. Problems, opportunities, issues
3. Define process boundaries
4. Map current business process by activity level
5. Look for ways to shorten flow
  - eliminate steps
  - combine steps
  - parallel instead of sequential

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6. Maintain or add process quality
7. Draw new process map
8. Analyze for information technology opportunities
9. Iterate
10. Look at each activity
11. Internationalization opportunity?
12. Outsourcing opportunity?
13. Iterate

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14. Finalize redesigned process map
15. Implement new process
  - Organizational change process
  - Internationalization process
  - Outsourcing process
  - Information systems implementation process
  - Political system management process
16. Monitor and manage new process