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THE STRATEGY OF OUTSOURCING

VYSOKÉ UČENÍ TECHNICKÉ V BRNĚ
FAKULTA PODNIKATELSKÁ

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THE STRATEGY OF OUTSOURCING

STRATEGIE OUTSOURCINGU

Zkrácená verze habilitační práce

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Key Words

globalisation of markets and internationalisation of business, outsourcing of information services, strategic modes of entry into international business, the role of outsourcing in international competition and its future development, offshoring

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Obsah

1 Představení autora

Emil Helienek se narodil 26. září 1955 v Čadci. Vysokoškolská studia absolvoval na Vysoké škole ekonomické ve Varně v únoru roku 1979 a na Nottinghamské Trent Universitě na Fakultě podnikatelské VUT v Brně v listopadu roku 1993.
V roce 1980 byl na základě vynikajících studijních výsledků vyslán Ministerstvem školství na interní vědeckou aspiranturu na Katedru mezinárodního cestovního ruchu na Ekonomické univerzitě ve Varně.
Na základě úspěšné obhajoby kandidátské disertační práce před Vědeckou radou na Ekonomické Universitě v Sofii v listopadu 1984 mu dne 15.1.1985 Nejvyšší Atestační Komise Bulharské Republiky udělila vědeckou hodnost kandidáta ekonomických věd.
V letech 1986-88 studoval na Univerzitě Jana Evangelisty Purkyně v Brně dvouleté postgraduální studium „Vývoj, ekonomika a řízení odvětví rozvoje člověka", které garantovala Doc. Ivonne Strecková. Studium úspěšně ukončil dne 16. listopadu 1988 obhajobou závěrečné práce na téma „Systemizace činitelů podmiňující rozvoj ORČ ve vybraném územním rozvoji".
V letech 1991 až 1993 studoval prestižní MBA studium na Nottingham Trent University v Nottinghame (Velká Británie). Po úspěšném ukončení studia obdržel dne 3.11.1993 prestižný titul Master of Bussiness Administration na Nottinghamské Trent Univerzitě.
Ihned po ukončení studií v roce 1979 ve Varně začal pracovat jako vysokoškolský učitel - odborný asistent katedry ekonomiky cestovního ruchu na Vysoké škole ekonomické v Bratislavě, Fakultě ekonomiky služieb a cestovného ruchu v Banské Bystrici. Vyučoval předmět Ekonomika odvětví národního hospodářství, Ekonomika výživy a praxe v cestovním ruchu. Vedl přednášky i cvičení a byl také pravidelným členem státních zkušebních komisí.
V roce 1990 vyhrál konkurz na funkci ředitele „Domu zahraničných stykov" Ministerstva školství Slovenské Republiky v Bratislavě, kde působil ve funkci ředitele do října 1991.
Od října roku 1991 je zaměstnán na Nottingham Trent Univerzitě. Nejdříve jako projektový manažer mezinárodních TEMPUS, KHF programů, ale i dalších akademických programů Evropské Unie zaměřených na spolupráci mezi Nottingham Trent Univerzity a univerzitami v Česku, Polsku, Bulharsku, Slovensku, Itálii, Indii, Azerbajdžánu a Řecku, po ukončení MBA na Nottinghamské Trent Universitě od roku 1993 už jako vysokoškolský učitel. V současné době je garantem mezinárodního magisterského studijního programu „Master of science /MSc/ in European Business and Finance", které se vyučuje současně na třech významných Evropských univerzitách ve třech jazycích. Je autorem a akademickým týmovým vedoucím studijních předmětů: „International Strategic management" a „Business and Enterprise in Central and Eastern Europe", které se přednášejí na NBS v posledním roce studia. Je členem Fakultní komise Nottingham Business School pro standardy akademické kvality. Působil také dva roky ve vědecké radě Univerzity Mateja Bela v Banské Bystrici.

V Nottingham Business School zodpovídá za kooperaci se zeměmi střední a východní Evropy.
Pan Emil Helienek ovládá plynule aktivně i pasivně šest cizích jazyků. Tato přednost mu umožnila přednášet na mnohých evropských i světových univerzitách. Už 14 let vyučuje na Nottingham Trent Univerzity na bakalářských i magisterských studiích včetně MBA. Pedagogické působení habilitanta je od počátku jeho kariéry zaměřeno na ekonomiku, mezinárodní strategii a řízení firem. Jeho hlavní pedagogické předměty, na které se specializuje, jsou:

- Business Economics and Global Business Environment
- Business and Enterprise in Central and Eastern Europe and Business and Governance in the European Union,
- International Strategic Management and International Marketing,
- Cross-cultural management and communication.

Od 1. 3. 2006 působí ve funkci prorektora pro mezinárodní kooperaci Univerzity Mateja Bela v Banské Bystrici. (Třetí největší univerzita na Slovensku dle počtu studentů). Je také koordinátorem britského NTU franchisovaného MBA studia na Universitě Mateja Bela na Slovensku a koordinátorem NTU studií na univerzitách v Polsku – v Poznani a Katowicích, Slovinsku – IRC Ljubljana a Česku – Brno.

Aktivní přednášková účast na univerzitách v zahraničí:

Ve Velké Británii (1992-2006):

- University of Manchester – UMIST, Bachelor degree – Business and Enterprise in Central and Eastern Europe;
- Nottingham Trent Univesity - Undergraduate and postgraduate studium: Business Economics, Macroeconomics, Global Business Environemnt, European Business Environment, Business and Enterprise in Central and Eastern Europe, International Strategic Management, International Marketing, Economics of Information Technology, Business and Governance in the European Union.

V Indii (1999 – 2003):

- FORE School of Management v New Delhi, masters degree in international business,

V Polsku (1993-2006):

- Ekonomicka Univerzita v Poznani a Univerzita Mikolaja Kopernika v Toruni – MBA and master studium, personal effectiveness and cross-cultural communication.

V Bulharsku (1994-96):

- Ekonomická univerzita ve Varně – magisterská studia personal effectiveness and cross-cultural communication,

V Azerbajdžánu (1994-1997):

- Azerbajdžánský Nejvyšší institut pro státní správu, masters degree in public administration – cross cultural management and international communication, new public administration, macroeconomics, včetně manažerských kurzů organizovaných pro Úřad Předsedy vlády a pro různé státní organizace a podniky (v Sumgaitu, v Gandži)

V České Republice (1996-2001):

- Vysoké učení technické v Brně - program MBA, personal effectiveness, cross-cultural management

Na Slovensku (1979-2006):

- Vysoká škola ekonomická v Bratislave a Univerzita Mateja Bela v Banskej Bystrici - kromě pedagogické činnosti uvedené výše také ekonomika v angličtině bakalářské studium, MBA moduly v angličtině i ve slovenském jazyku.

Výzkumné aktivity jsou orientovány do oblasti uplatnění teorie mezinárodní strategie v plánovaní a praxi organizací, které musí čelit mezinárodní konkurenci. V letech transformace středoevropských států z centrálně plánovaných ekonomik na trhové ekonomiky byli výzkumné aktivity habilitanta orientovány na transformační proces.

Seznam publikovaných prací autora zahrnuje celou škálu od učebních textů, článků ve vědeckých časopisech a sbornících ze zahraničních konferencí, až po vyžádané přednášky na mnohých evropských i světových univerzitách a monografii v angličtině publikovanou v zahraničí. Publikační činnost habilitanta je rozsáhlá a výjimečně bohatá především co se týče její „mezinárodnosti“, t. j. publikace v různých evropských jazycích v mnoha zemích a institucích.

Habilitant byl členem mezinárodních týmů, které získaly granty Evropské unie i KHF na různé vzdělávací a tréninkové projekty. Pracoval také jako řešitel v rámci programu SPEV.

Habilitant byl jedním ze spoluautorů projektu studií Master of Business Administration v Brně. V roce 1991-92 se nepřímo podílel na vzniku Fakulty podnikatelské VUT v Brně. V témže roce Nottingham Business School obdržela od Evropské Unie JEP TEMPUS grant ve výši třistatisíc liber. Hlavním cílem programu bylo vybudovat materiálně a kádrově „Business School“ na VUT v Brně. Tato úloha byla splněna i jeho přičiněním, protože byl administrátorem projektu a jeho hlavním komunikátorem a organizátorem po boku prof. Robina Warda z NBS, který celý projekt zastřešoval. Také se podílel na akreditaci NBS MBA programu pro brněnskou VUT (1995). V letech 1991-1998 se výrazně podílel na řízení mezinárodních akademických programů, které byly financovány Evropskou Unií, a v kterých bylo zapojeno VUT v Brně. Byl projektovým manažerem TEMPUS programů: JEN00717 „SME's in the context of management education“, PHARE-STRUDER programme „Training of entrepreneurship teachers“.

V rámci programu SOCRATES zodpovídá na Nottinghamské Business School za výměnu studentů a vysokoškolských učitelů a celkovou spolupráci se středoevropskými univerzitami včetně VUT v Brně a hlavně jeho zásluhou se rozběhl před čtyřmi lety proces výměny studentů na dobu jednoho semestru či roku mezi Nottingham Business School a Fakultou podnikatelskou VUT v Brně.

Za tuto rozsáhlou spolupráci s VUT v Brně, které byl iniciátorem a organizátorem, byl habilitant vyznamenán rektorem VUT diplomem a stříbrnou medailí.

2 Introduction

Many companies and particularly multinational enterprises are facing new challenges in the ever changing world of international business today, that is shaped by rapid development of new technologies and an enormous increase of international competition.

After the revolution in 1989 many central and eastern European states have started transition from centrally planned economy to free market or more precisely towards the mixed economy based on political freedom and democracy. As a consequence of this transition, their economies have opened to the wider world and inevitably they have become a part of global market. Suddenly particularly the central European states become investment targets for many transnational companies that have acquired a substantial number of central European companies and have included those companies into their own supply chain. More than fifteen years after dismantling of the centrally planned system, it is time to attract more investment that will include high added value, particularly services. We do not exclude the perspective of central European companies themselves to use an outsourcing strategy for their own international expansion. Therefore in central and possibly also eastern Europe there exists substantial potential market for outsourcing.

There is only very limited research of the outsourcing strategy in academic literature originating from Central and Eastern Europe and therefore this thesis represents an important contribution to the research of outsourcing strategy and its results could be used possibly in teaching process at universities in the region.

The concept of outsourcing itself is an enormous nebula of ideas, opinions and theories, spreading across multiple industries and market segments affecting vast numbers and levels of employee's up to senior management. It is therefore not logical or conceivable that a study can focus on the multiple clusters of industries, markets and countries to which outsourcing effects and at the same time maintain a strong validity and appropriateness of collected data and subsequent findings. Based on this, it is the habilitant's decision to focus his research on the international outsourcing, or "offshoring" in a particular industry (IT) in a specific country.

Outsourcing has its origins within the manufacturing sector. The 1980s witnessed the gradual outsourcing of international service sector functions, predominantly within the area of IT. Recent years have seen the strategy gain momentum, leading to the restructuring and reallocation of services previously deemed non-tradable, offshoring of business services is expected to be worth $24 billion by 2007 (UNCTAD; 2004). Outsourcing is a consequence of the technological age in which we live. Internet, email, and telecommunications have evolved in the last decade to construct the highly interconnected world in which we live. The technological revolution has thus provided fresh impetus for the globalization of markets. Williams (2004; 26) accurately highlights; "the traditional models are being broken down to gain competitive advantage and outsourcing and offshoring are the latest manifestations."

The importance of technology is crucial; without modern innovation this research would be irrelevant.

Falling costs and advances in technology, combined with the liberalisation of markets have enabled services to become tradable on an international scale, therefore physical proximity to the customer is no longer compulsory. Britain's offshoring of call centre processes was instigated by; Abbey, HSBC, and Prudential however recently the strategy has been utilised by; Accenture, BT, Reuters and Tesco (CWU, 2004). These firms emphasise the truly diverse industries exercising the right to outsource. The CWU (2004) calculated that 33 firms have collectively offshored approximately 52,000 jobs previously serving British customers. This statistic emphasises why outsourcing is currently in vogue within the media, society, business and politics. The UK government have dismissed the protectionist stance adopted by the US, justifying outsourcing as maintaining their commitment to free open markets and the benefits they induce (McCue; 2005). Outsourcing has evoked enormous trade union opposition, and with the prospect of more professional white collar work going offshore, the present dispute is unlikely to abate anytime soon (Sanderson and McCracken; 2004).

Britain's financial sector creates an annual turnover equivalent to 14% of the nations GDP, thus demonstrating its economic importance (Amicus, 2004). This sector has become notorious for the offshore outsourcing of call centre operations to India (DTI, 2004). Odindo et al (2004) suggest 1000 jobs were offshored early January 2004, with plans to move 30,000 shortly. Originally the relocation of contact centres were regarded as experiments, however having seen the market leaders divest of such peripheral operations, the financial sector today seems to be in a state of evolution. The industries offshore advocates include; Barclays, HSBC, Lloyds TSB, and Norwich Union. Historically the rationale for outsourcing was its ability to reduce costs which remains consistent today within the financial sector (Taylor and Bain; 2003). However where advocates exist there are also opponents; quite a few important financial institutions in Britain are concerned about the trend towards offshore outsourcing.

Bearing in mind the above we could assert that this habilitation analyses relatively a new phenomena in international business strategy – outsourcing. Modes of entry into international business are one of the most important decisions that strategy makers in companies must resolve. Needless to say that significant number of organisations both in the public and private sector lack the necessary resources to meet the increasing challenges of globalisation. Therefore they look for various costs saving strategies including using the strategy of international outsourcing. The main purpose of this strategy is to achieve cost savings that will make the organisation more internationally competitive, but Johnson & Scholes (2005) argue that there are visible also other benefits of outsourcing strategy such as increased agility to reach new markets, advantage of access to resources and achievement of productivity gains. One of the most common drawbacks is a perceived lower quality of outsourced services in comparison with the "domestic" quality standards. Nevertheless the empirical research carried out in this habilitation, does not confirm conclusively this general perception.

The author has used sophisticated research method of triangulation for obtaining dates and reliable information. For the primary research appropriate methods of interviews and questionnaires were used. To complete the examination of the existing situation in international outsourcing in information technology sector the author provided a comprehensive literature review utilising the latest results of academic research in this domain carried out by distinctive predominantly British authors (i.e. McCracken, Kuszewski, McCue, Amicus and others). Rich statistical information published by UNCTAD, DTI was used. Last but not least the author has used appropriate information gained from a number of companies in British IT and banking sector. All this information has provided a solid base for further research carried out by the author in this thesis.

3 Research objectives

The fundamental aim of this research is to examine the new phenomena of outsourcing and the impacts of outsourcing aspects of Information Technology and Information Systems on the organisation. This main aim will be achieved through focused research how outsourcing has affected the cost and quality of call centres within Britain's financial sector from the perspective of the company and customer. The context of this research surrounds both the concepts of the international outsourcing strategy, its implementation and subsequent affects on the organisation.

The conclusions of this thesis will benefit academics, companies, and customers in the ongoing debate; *'to outsource or not to outsource?'* We have also to stress again that the research undertaken is unique due to the infancy of offshore outsourcing within financial services organisations. A large body of literature has been identified relating to the outsourcing of IT, however due to the current transitional nature of the call centre industry, academics and practitioners, it seems they have been slow to react. The literature therefore is more commercial as opposed to theoretical. The author aims to fill the gap that presently exists in a more academic manner, relating to the standpoint of the advocates and their adversaries, with critical consideration of cost and quality.

The debate "*to outsource or not to outsource*" that has appeared few years ago remains rife today, drawing the author to conclude that outsourcing of call centres is an unequivocally pertinent and timely research discipline. Outsourcing contradicts the traditional barriers of doing business internationally, combined with its strategic orientation; the area of investigation valuably compliments the authors' area of specialisation.

The key research objectives in relation to this thesis are to firstly establish the concept of outsourcing, its history, how the strategy has grown, and what the business organisations currently think of the strategy. A theoretical underpinning of why organisations choose to outsource, its benefits and perceived/proven weaknesses will form a key part of the critical literature review. The author has formulated two important research questions:

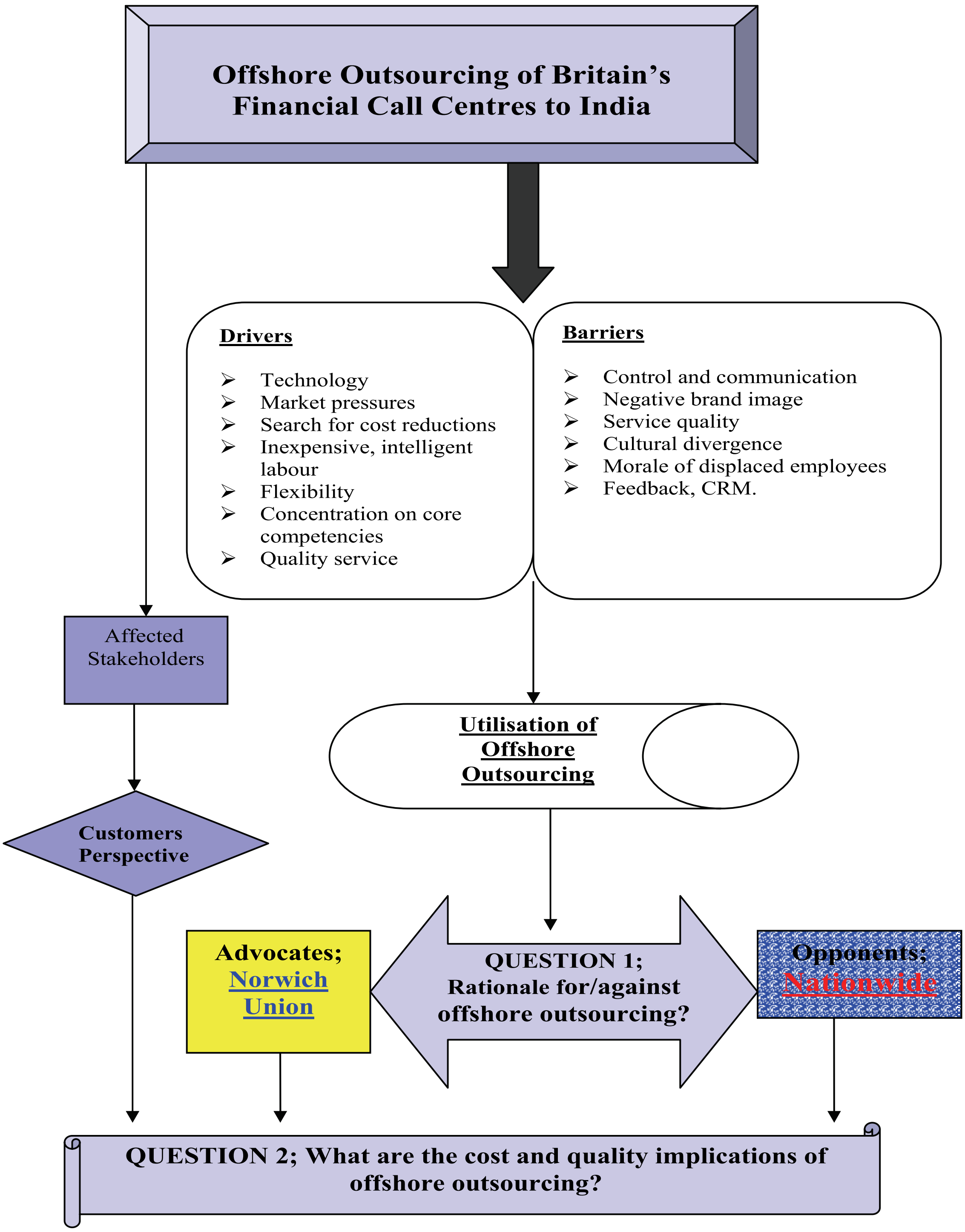
1) Using case study analysis we will try to answer why has NU offshored to India as opposed to N, who have opted to maintain call centre operations in the United Kingdom?
2) What are the cost and quality implications of this strategy from the company and *customers perspective?*

The following objectives will attempt to answer the main aim and research questions via the use of secondary research, a critical literature review, and primary research in the form of interviews, and a focus group:

1) *What are the main reasons and issues behind outsourcing? What are the advantages and disadvantages of international outsourcing aspects of IS?*
2) *To examine the relation between cost and quality of outsourcing in the company and customers perspectives.*

The conceptual framework for the whole research could be seen below.

Figure 3: Conceptual framework



4 Research methods used in this habilitation

4.1 Research philosophy

Two overriding philosophies exist relating to this thesis, one is positivist; Denscombe (2002) clarifies this under a social research standpoint, emphasising its applicability to the natural science of social trends and rationalisation of the societal space in which we live. The author considers Saunders et al's (2003) assertion; of one being an objective being, examining and deducing results from an unbiased stance, as typifying the essence of this investigation. The writer has no emotional attachment with the subject matter, however considers himself an intrigued spectator attempting to develop upon the existing deficiency of academic literature.

The second philosophy is one of interpretivism, Saunders et al (2003) highlights this as comprising more density as opposed to brief generalisations. Due to the infancy, complexity and evolutionary nature associated with outsourcing, Saunders et al (2003; 84) indicate that an interpretivist philosophy; *"accepts the circumstances of today may not apply in three months.''* The author perceives this rationale as reiterating the true essence of the dynamic phenomenon that is offshore outsourcing. Research question one commands this philosophy because as Saunders et al (2003; 84) assert; *"it is the role of the interpretivist to seek to understand the subjective reality of those that they study in order to be able to make sense of and understand their motives."* This quote clearly relates to the differing perspectives on outsourcing, insinuating that each party will have personal motives for the strategic manoeuvre they decided to pursue. The nature of the authors research questions, being non-reflective of a cause and effect relationship, leads the author to regard an interpretivist philosophy complimentary in this circumstance to the aforementioned; positivist approach. Table 4 highlights the central characteristics of both philosophies.

Table 4: The philosophies of positivist and interpretivist

Positivist	**Interpretivist**
Quantitative data	Qualitative data
Large samples	Small samples
Hypothesis testing	Generating theories
Data is highly specific and precise	Data is rich and subjective
Location is artificial	The location is natural
Reliability is high	Reliability is low
Validity is low	Validity is high
Generalises from sample to population	Generalises from one setting to another

Source: Adapted from Collis and Hussey (2003; 55).

4.2 Induction

When carrying out research two different approaches exist, one is deductive which according to David and Sutton (2004) establishes a hypothesis and demands an increased pre-emptive configuration from the outset. The second is inductive, Collis and Hussey (2003; 15) refer to this as logic *"in which theory is developed from the observation of empirical reality; thus* *general inferences are induced from particular instances, the reverse of deductive."* Saunders et al (2003; 28) suggest this approach is founded upon; *"the principle of developing theory after the data has been collected."* We consider the latter orientation to be of increased legitimacy, because to date a lack of academic literature exists within the field.

4.3 Time perspective of the investigation

This topic of research permits either a longitudinal or cross-sectional time perspective. A longitudinal design provokes a more long-term outlook, David and Sutton (2004; 135) assert that this orientation; *"involves data collection from the same sample at two or more points in time."* In comparison a cross-sectional orientation engenders; *"collecting data on more than one case at a single point in time"* (David and Sutton; 2004, 135). The latter orientation was favoured, because although research commenced over one year ago, as Saunders et al (2003; 44, 95) recognise, just as the literature review; *"can be likened to an upward spiral,"* the action of research is also spiral in nature. Our perception is that it is necessary to outline, that in the future the subject requires a definitive longitudinal design. The nature of outsourcing within the financial and also other sectors has been continuously evolving throughout the previous five years, leading to an increasing number of firms advocating the strategy.

4.4 Secondary research (literature review)

The literature review in chapter two provides the reader with an overall understanding of the origins of offshore outsourcing until the present date. Although, as previously established, this field of research is somewhat undeveloped, the literature review partially answers objective one in the form of secondary data analysis. The author asserts only partially because he believes it is critical to outline via primary research the essence of offshoring in the advocates opinion. The literature review also highlights key issues associated with research questions one and two, however, the author feels it obligatory to emphasise that the evidence provided merely establishes a foundation on which the writer will build. This is because of the lack of clarity currently present. Secondary data was comprehensively explored via the sources provided in table 5.

It is imperative to outline that secondary research can at times be problematic; therefore the author has endeavoured to cite documentation of a reliable nature.

Table 5: Sources of secondary research

Research Source	Category	Example
Books	**Outsourcing**	Domberger (1998) Kakabadse and Kakabadse (2002) Reilly and Tamkin (1996)
	General Business	Dunning and Narula (1996) Friedman (2000) Grant (2002)
	Business Research	Collis and Hussey (2003) David and Sutton (2004) Saunders et al (2003)
Business Journals	**Academic Literature**	Business Source Premier Emerald European Business ASAP Mergent Online
The Internet	**Various Forms**	www.bbc.co.uk www.dti.gov.ph www.ft.com www.google.co.uk www.siliconindia.com www.theecommercetimes.com www.unctad.org
Financial Sector Specific	**Offshore Outsourcing of Financial Call Centres**	Odindo et al (2004) Money Management (2004)
	Trade Unions	Amicus (2004) CWU (2004) Taylor and Bain (2003, 2004)

Please note the full bibliography contains a complete list of all the refereed sources utilised.

4.5 Research strategy

Research question one is answered using two detailed case studies, and an independent interviews. Research question two utilises the aforementioned methods, additionally a focus group is conducted. Case study one explores NU rationale for advocating offshore outsourcing and the cost quality implications. This stance is contrasted with the case study two; N, who have opposed the strategy. The primary research is complimented by an independent interviews. The author believes these case studies and interviews with specialists and customers are comprehensive in coverage for answering question one. Research question two uses a focus group in addition to the information provided from the interviews. The focus group was performed with experts and colleagues from the Nottingham Trent University. Utilising interviews and a focus group obviously presents the advantage of employing *'multi methods,'* thus strengthening the qualitative data. Saunders et al (2003; 99) indicate that *'multi methods'* enable triangulation, which is; *"the use of different data collection methods within one study in order to ensure that the data is telling you what you think it is,"* therefore increasing the primary research validity.

The author felt a case study would elicit the most information relevant to answering the research questions. The investigator utilised this strategy knowing it would provide deep insight; "*for which existing theory seems inadequate"*. The "*contemporary phenomenon"* that is offshore outsourcing, via a case study strategy, allowed the author to extract invaluable knowledge from an ever evolving sector, thus gaining an in-depth rationale for the firm's attitudes relating to offshoring. Therefore reiterating the interpretivist philosophy, in combination with an inductive approach.

The only other strategy the author considered relevant in order to answer question one relates to a survey approach. Although this method could be considered valid, the author perceived the strategy as being less favourable, to the depth of knowledge available from case studies.

Three differing classifications exist in relation to the purpose of research. These are termed; exploratory, descriptive and explanatory (Saunders et al; 2003). This thesis adopts the exploratory study, as advocated by Robson (2002; 59), cited in Saunders et al (2003; 96), who considers this method a valuable means of finding out; *"what is happening; to seek new insights; to ask questions; and assess phenomena in a new light."* Saunders et al (2003) highlight that a principle means of conducting exploratory research involves, discussing the subject with specialists within the field, an approach highly utilised within the investigation. Other studies were available for example explanatory. However, this method creates causal correlations between factors (Saunders et al; 2003). In hindsight the author recognises that the study could possibly have been aided via testing; the causal relationship between cost and quality. The author is unclear however, if this assumption would have led to a more superior outcome.

The case studies utilised within this investigation are qualitative in nature as opposed to quantitative. Qualitative research enabled the investigator to extract an increased depth of knowledge; *"through understanding the characteristics of language, discovering irregularities, and comprehending the meaning of text or action, upon reflection"* (Saunders et al; 2003, 379). The case studies incorporated the use of; semi-structured interviews, discussed below.

4.6. Primary research methods

4.6.1 Sampling method

Purposive sampling was identified as the most reliable technique in order to select the correct individuals for the interview, case studies and focus group. The author perceives probability sampling methods, for example; simple random sampling as severely inhibiting the opportunity to gain the relevant information of requisite. Probability sampling methods focus too broadly upon the entire population, which is of limited significance to such a case specific research question.

The author decided, prior to interviewing the participants relative to the case studies, it would be advantageous to discuss the topic with an outsourcing specialists. The secondary research essential for the literature review, enabled the author to discover, the UK has a National Outsourcing Association. The author maintained a set structure when emailing all participants, involving; an outline of the investigators background, the rationale for investigation and the request, emphasising due diligence would be paid concerning confidentiality.

The author regarded an initial interviews with the specialists as particularly complimentary to the case studies. This preliminary stage was envisaged, as providing the author with an increased awareness of the overall depth and complexity, associated with offshoring. Strategically this was essential because it provided new areas of insight neglected within the literature review, thus benefiting the case studies which are critical to answering question one and two. Although the interviews were enormously beneficial in breadth and depth, the author must indicate that the interviewees were fundamentally pro-offshoring. The interviewees' stance could decrease the validity of the conclusions because of the increased population representing the advocate's camp. However the writer must reiterate without the specialists input, a less thorough investigation would have been of consequence.

4.6.2 Semi-structured interviews

Interviews were regarded as the most applicable method for collecting the necessary data, in order to answer the research questions. Collis and Hussey (2003) associate this method with both positivist and interpretivist philosophies. The author acknowledges that the only other feasible approach was a questionnaire, however as Saunders et al (2003; 250) recognise exploratory studies rely heavily upon a qualitative interview; *"essentially, where it is necessary to understand the reasons for decisions ... or to understand the reasons for attitudes and opinions."*

Advantages associated with an interview as opposed to a questionnaire include an improved response rate, because the interviewee does not have to write anything down, thus can merely reflect. Interviews are deemed as being increasingly personal, whereby an explanation of the activity and its purpose can be presented instead of an over reliance on a covering letter. The personalised nature of interviews permit the investigator to reassure the participant of issues regarding confidentiality, thus enabling in some instances the collection of more sensitive information. The direct communication associated with interviews, means ambiguities can be expressed more readily, as opposed to the individualistic nature of questionnaires where reliance is placed upon the questions initial clarity and the respondents' perception.

4.6.3 Focus group

In order to answer question two, the case studies provide the most relevant information regarding the cost and quality implications. The author reasons that without the firms taking part in the investigation it would be exceptionally difficult to obtain such sensitive information. However, it is also important to outline that due to the organisation's conflicting stances regarding the strategy, the data acquired is relatively one-dimensional. The case studies are also deemed relevant to providing information regarding the customer's perspective, which will be complimented with the offshore experts' views.

To gain access to the customer's perspectives concerning the cost and quality implications of outsourcing, the author deemed one focus group to be most reliable, thus eliciting via an exploratory study, high calibre in-depth qualitative information. Collis and Hussey (2003; 166) associate this method with an interpretivist philosophy, describing the method as; *"gathering data relating to the feelings and opinions of a group leader, selected participants are stimulated to discuss their opinions, reactions and feelings about ... a service."* Collis and Hussey (2003; 167) cite Morgan (1998; 12) who exemplifies the investigators rationale for using the method, suggesting; *"the explicit use of the group interaction to produce data and insights that would be less accessible without the interaction found in a group."* David and Sutton (2004) indicate that this method is obtrusive in nature, however, the author believed to extract information of a cognitive nature this method would suffice, and provide depth via its probing exploratory nature. The academics emphasise that, the data required in order to answer question two is not always beneficial via a one on one interview arrangement. We favoured focus groups because they empower the interviewees, thus complimenting the predominance of one on one interviews within this investigation, this method allows the participants to bounce off one another (David and Sutton; 2004).

The author acknowledges that a questionnaire based survey; representative of the entire population would have been beneficial for gaining the customers insight regarding cost and quality. This method would have been administered utilising a simple random sampling technique, the author recognises that this would have increased the validity of the data collection. However, this method was perceived incredibly time consuming and less reliable than personal interviews and focus group. Although initially the author intended to carry out a small scale survey, thus supporting the results of the focus group, limitations regarding the samples feasibility are obvious. A focus group was considered as enabling the author to carry out a more exploratory in-depth study as emphasised above. The fact the author also received customer specific information from the interviews increased the focus groups reliability.

Prior to conducting the research the author had already established a vast knowledge of information concerning offshore outsourcing, via the methods outlined above.

David and Sutton (2004; 96) cite Morgan (1997) who suggests a group of between 6 and 10 people function most effectively when conducting focus group research. The author considered this essential in order to ensure a minimum of six interviewees, thus increasing the investigators room for manoeuvre, and following Morgan's (1997) recommendation. Six members are associated with a more; medium-sized composition, the author found this population increasingly valid and more appropriate, hence enabling the generation of an array of opinions. Thus, allowing deep qualitative information to be extracted, as suggested by Saunders et al (2003).

A purposive sampling method (discussed earlier) was favoured because of its ability to allow the investigator to identify specific respondents regarded as knowledge rich (David and Sutton; 2004). The interviewees participating in the focus group were of an alternative nature in relation to the interviews. For example, the semi-structured interviews were conducted with senior managers and specialists, in comparison the focus group consisted mostly of customers using services of companies that have outsourced some of their activities. The distribution of males and females were equal. The colleagues that took part were selected because of their understanding of the subject. It is important to emphasise that the thesis is somewhat specialist in nature, thus a focus group was preferred enabling the investigator to select participants deemed appropriate. Selection involved a two tier analysis within the authors' social network, thus predominantly involving members of the International Business academic group. The main conditions for selection were:

1) The group members had to be customers of NU or N.

2) The participants required a good knowledge of the subject area.

The selection process was prompted, in order that the research produced a high level of relevant primary research, and remained case specific. The investigator considered colleagues particularly relevant due to their convenience, and their wide breadth of understanding contemporary issues such as offshoring. Utilising colleagues maintained a level of common characteristics, for example; profession and status which David and Sutton (2004) recognise as being increasingly beneficial. The author specifically involved colleagues who had impressed upon him throughout the fourteen years at University, in other words; *"those that had an opinion,"* thus enabling participants to bounce off one another (David and Sutton; 2004). David and Sutton (2004; 95) emphasise that use of a social group may lead the interviewees to; *"be too settled,"* in comparison focus groups where strangers are present; *"encourages exploration of assumptions and beliefs."* The authors' rationale for a social orientation relates to the convenience of access and the knowledge this population possess as previously outlined.

Taping the respondents enabled the investigator to engage more readily in the interview, and also allowed the author to maintain a professional manner. The use of a dictaphone avoided falsification and misinterpretation, thus increasing the data's reliability when being utilised for analysis. Interviewees granted the author permission to record the focus group from the outset. This acceptance was deemed as increasing participation, in an attempt to reduce the likelihood that recording interviewees may inhibit their communication as suggested by Saunders et al (2003).

Semi-structured in nature, this technique allowed the investigator to explore and probe in a more flexible manner (David and Sutton; 2004). Questions were of a more open- ended nature and were planned in a complimentary manner in line with the prior individual interviews. The focus group sought to build upon customer specific knowledge gained via the case studies, thus demanded a great deal of preparation.

5 Definition and dimension of offshore outsourcing

The authors' conceptual framework acted as an invaluable tool for coding and categorising the vast amount of primary research, generated via the interviews and a focus groups.

5.1 Offshore outsourcing re-defined

The author considers the portrayal of outsourcing (call centres) put forward by the specialist, as comparable in nature to that established from the outset by Kuszewski et al (2004). Although cost is not directly highlighted by the expert, the author believes the essence of cost savings are expressed through the term *'efficient.'* The original definition highlights the ownership of the function. In comparison, the specialist emphasises call centres and the importance of the customer. The applicability of both explanations leads the author to combine the two, therefore highlighting his understanding of the term and increasing its relevance to the overall thesis; hence,

"Offshore outsourcing of call centres concerns; transferring the service from the UK, to a remote low-cost country (India), delivered in the most cost conscious, efficient manner, in an attempt to satisfy the customer and maintain competitive advantage."

(Eyre; 2005; adapted from Kurup's exlplanation; 2005, and Kuszewski et al; 2004, 13 definition)

5.1 Research question one

"Why has NU offshored to India as opposed to N, who have opted to maintain call centre operations in the UK?"

The NU's senior executives in the interview highlighted that the firm has utilised a

Table 6: Outlines the offshore migration process NU operated when relocating to India.

1 Process and cultural knowledge was provided during the training period.
2 Once the training phase is complete and the teams are ready to go live the project then goes into what is called a pre-production phase.
3 This is normally 12 weeks long and is designed to allow the new teams to become more familiar with the new processes and this allows them to gain confidence.
4 Alongside of this a number of targets are set which enable the operation to prove their competence in the new process.
5 For the first 4 weeks of this period a small number of UK subject matter experts provide support and development for the teams.
6 After this 12 week period a number of post production aims are agreed and the operation is then managed via monthly / weekly; objective setting.

Source: NU's Senior Executive (2005)

partnership, as their preferred mode of market entry. NU is a front runner in the trend towards offshore outsourcing of call centre activities. Table 6 outlines the offshore migration process NU operated when relocating to India.

N. in comparison, consider their call centre services a crucial element of their overall strategy, thus have decided to maintain the activities within Britain. The companies' senior executive in charge of call centres highlighted that at present the firm operates contact centres in; Northampton, Sheffield, Swansea and Swindon, employing approximately 900 subordinates.

The interviews also suggest that definite drivers have prompted offshore outsourcing. The NU executive reiterates Taylor and Bain's (2003) earlier suggestions within the existing literature, emphasising that technology has breached traditional worldwide boundaries. The offshore expert emphasises that falling costs associated with telecommunications and the increased reliability of this method has seen outsourcing soar. The drivers above have significantly contributed to NU's stance regarding outsourcing to India.

5.1.1 Cost considerations

Costs have been reported throughout the thesis as a key rationale in the trend towards offshore outsourcing. Reiterating the claims within the literature review, NU's senior executive highlights that a central motive of outsourcing their contact centres to India related to the 40% cost reductions associated with offshore operations. This assertion was also made by the offshore specialist. The interviewee stressed the initial cost benefits being accrued by HSBC and Prudential through outsourcing, were perceived as being derogatory to their standing within the market. This highlights Cushman and Wakefield Healey's (2004; 1) view that; *"the floodgates have been opened as corporations are now seeing the benefits gained by the front runners."* It is evident from the executives claim that NU opted to *'keep up with the Jones,'* advocated by Jones (2005; 95) in chapter two, section 2.7.2.

N's senior executives however, described the reported cost savings as a myth.

5.1.2 Service improvements

The cost benefits implied by NU's senior executive have enabled the firm to deliver reasonably priced products, combined with good levels of service. Kurup considers organisations like NU who are constantly looking to adopt the latest business strategies as; *"enlightened and progressive in nature,"* reiterating Pierson's indication that outsourcing is extrapolating profits, thus offering better services. NU are proclaiming that a major reason for going offshore related to the quality allied with Indian operatives, thus enhancing their service provision, a view shared by the outsourcing specialists. The rationale for NU's offshoring of contact centres to India, evidently depicts Williams (2004) earlier outlook, which emphasises that in the highly competitive sector of financial services, cost and quality considerations are fundamental issues. However, it is apparent that N do not associate such high-end quality with India, therefore in relation to William's (2004) view, the company perceive these fundamental issues as sustainable only via a domestic orientation (UK).

N's senior executive (2005) outlines that the *'modern mutual'* has meticulously invested a great deal of effort and resources into their UK based employees, in order to; *"understand our crown jewels – the customer."* Therefore N had invested significant sums in their operatives throughout the UK. Thus, NU through entering the Indian market with a local partner would not have incurred considerable costs associated with infrastructure. However, the firm accrued significant cost burdens related with educating the labour force (see Table 6), which are derogatory in the short term, although possibly beneficial long term. N's inherent belief in the capabilities of its employees and the service they provide can be viewed as an overriding factor for its antagonist stance. The N executive clearly perceives its subordinates as a core competency, thus reflecting Quinn and Hilmer's (1994; 2) outlook, that the organisations UK based contact centres; *"create unique value for their customers."*

5.1.3 Offshore transfer

A key motive for N opposing outsourcing concerns their inherent belief that the firms organisational culture is unique to the domestic market, thus cannot be offshored to such a culturally diverse location such as India. Cultural differences between countries and particularly between highly developed and developing economies seriously hinder rapid and efficient increase of high quality outsourcing at a global level.

Nevertheless as trade becomes more global, companies are increasingly conducting business across national and cultural boundaries and are consequently confronted with cultural differences (Frey-Ridgway 1997). In recent years the growing globalisation and regionalisation of markets and the continuous reduction of trade barriers has led to a phenomenal growth in the number of companies engaging in cross-border business activity (Segal-Horn and Faulkner 1999). This phenomenon is a characteristic of the current international business environment, as the single European market has given business greater opportunity to engage in cross-border activity (Davison and Fitzpatrick 1996) and seems to have reached every industry and every country. Few sectors have escaped this wave of consolidation that has swept the global economy (Balmer and Dinnie 1999).

Therefore we can conclude that in today's economic climate cross-border business activity has become commonplace. Therefore cross-border activity is perceived as a significant strategic alternative to internal growth of firms as it enables firm's rapid penetration of new and foreign markets and to obtain economies of scale. For companies committed to developing their presence in international markets and expanding their global reach, the formation of strategic alliances, international joint ventures, acquisitions and outsourcing of peripheral activities, have become virtually unavoidable (Meschi 1997).

Despite this growth in cross-border activity, success is by no means assured. In fact these essential modes of expansion are characterised by chronic instability and high failure rates (Meschi 1997) yet this has not deterred firms from engaging in cross-border activity. Risberg (1997) states that cross-border activity is a complex phenomenon known to have high failure rates and that statistics consistently reflect a poor performance rate. A survey conducted by Bleeke and Ernst (1991), found that 66 per cent of cross-border alliances ran into serious managerial problems within the first two years and that a further 19 per cent reported mixed results. They also found that over the first four years of the cross-border relationship, approximately 50 per cent were recorded as failures.

These high failure rates can be attributed to a variety of factors; one of the most common explanations for failure has been cultural differences and clashes (Buono and Bowditch 1989). Cultural awareness and sensitivity towards different views of the world is an important facet of cross-border business activity (Cartwright and Cooper 1997). Harper and Comeraie (1995) believe that the unquestioned presumption of success, and ignorance of the significance of cultural differences and their potency, endanger many cross-border ventures. They further state that cultural differences are frequently overlooked in the fundamental stages of preparing and planning. Elashmawi (1998) supports this view and suggests that overlooking cultural issues can be costly as these issues can make or break expensive cross-border business activities/operations. The increasing formation of cross-border relationships including outsourcing has subsequently led to a resurgence of interest in the management problems caused by cultural differences, in values, work practices and behavioural styles and their role in the success or failure of cross-border activity (Kanter and Corn 1994).

It is appropriate to highlight that NU has attempted to reduce the impact of cultural diversity through the steps taken in table 6. Also the offshore experts recognise at their interviews that some processes; *"need to be culturally specific."* The assertion made by N's executive adds impetus to Taylor and Bain's (2003) earlier emphasis that disadvantages can prevail due to cultural disparity (section 2.13.2), thus incurring a negative impact upon customer satisfaction and quality.

5.1.4 *'To be or not to be'*, to advocate or to oppose?

The analysis indicates that the rationale regarding offshore outsourcing seems to be an exceptionally company specific decision. Thus, no one generic rationale can ultimately be provided for firms advocating the strategy or opposing it. Although, it is evident that the arguments highly orientate around cost and quality from both standpoints. The offshore experts and N's senior executive highlight that there is no right or wrong answer regarding offshoring to India. As one of the offshore expert fittingly (2005) stipulates; *"getting to the top of the hill is important not the way you climb it, there are always other routes to consider."*

5.2 Research question two: costs and quality dilemma

5.2.1 The cost implications of outsourcing to India

N's senior executive emphasises that the cost advantages of the trend towards offshore outsourcing are imaginary, highlighting that the majority of research carried out thus far does not prove unanimously that cost benefits have been accrued. A major concern was that attrition rates in India's call centres are 10% higher than in the UK. This would represent a substantial cost burden for offshore operations, however, NU's senior executive claims that their partner has one of the lowest rates within the sector, due to its link with the British based firm.

Although the claims made by N attempt to disclaim the cost advantages associated with offshoring contact centres to India, their argument seems fundamentally flawed. Because the wages associated with call centres in the UK are extremely prohibitive towards a firms competitive advantage emphasising. The focus group seemed to agree that the advocates of offshore outsourcing are profiteering from the strategy. NU's executive highlights that the firm can reduce the costs of its UK based activities by 40% through utilising the services of Indian operatives. This claim as suggested earlier confirms the assertion theorists are making within the existing literature. The interviewee suggests that these cost benefits provide the firm with a strong element of cost control, thus supporting their competitive advantage within the market. The research highlights that the firm can utilise the cost savings to expand their operations, whilst; *"more competitively pricing products,"* simultaneously investing in new schemes aimed at adding value to the customer.

Although the initial transition offshore can be particularly costly, thus representing a drawback, NU indicated that the 40% cost differential substantially reduces the impact. However, this cost disadvantage would have been limited because of NU's mode of entry into the Indian market, favouring a partnership over other more costly entrance strategies. The author considers cost disadvantages to the firm in the short term as a definitive drawback. NU's executive of call centres emphasises that through migrating offshore, the organisation has; *"significantly reduced the number of errors associated with our transactions, and overall the strategy has increased the returns for our shareholders."* This stance confirms Quinn' assertion that; *"strategic outsourcing substantially reduces costs, risks, and fixed cost* *investments while greatly expanding ... opportunities for creating higher value-added and shareholder returns."*

Overall the cost benefits are evidently being accrued by NU, with N maintaining a skeptical approach. The customers agree that NU's offshore outsourcing is undoubtedly accruing benefits for the firm, however, seem relatively dubious whether they *'are,'* enjoying the benefits. Taking a general consensus of the focus groups members agreed that the strategy has been effective for the UK's financial institutions.

5.2.2 The quality implications of outsourcing to India

N associates poor quality with the Indian offshore sector. The *'spoke point model'* prohibits customers from accessing a wide range of departments over the telephone, therefore, resulting in decreased customer satisfaction. NU does not deny this claim although contributes to the topic, asserting: *"it maybe true to say that some organisations have offshored what are poor processes or ones which customers are already unhappy with. Therefore it is clear that the offshore operation will receive criticism although unfair."*

N indicates that training their employees throughout the entirety of their business operations, has added great value to their customer service provision. N today generate 15% - 20% of their sales solely via their UK based call centres. Although negative connotations have been associated with the spoke point model the firm's overall aims are being met, thus leading to an improved service offering for their customers. Some of the research suggests that offshore service levels are as good if not better than the UK. These claims prove Odindo et al's (2004) belief that firms are increasingly offshoring to obtain superior quality for their customers. Statistics that N provided, demonstrate that the offshore model is improving, and in only a relatively short time period has quickly gathered momentum.

Although the literature suggests that the security of Indian call centres is not of the same quality with regards to Britain, empirical primary research has not found that security is an issue. NU's executive highlighted that all the data is held on their UK systems, whilst the offshore expert claims the Indian government are presently establishing legislation comparable with Britain. The general consensus from the focus groups was that although the interviewees perceive offshoring as being an effective strategy for the UK's financial institutions, the focus groups members were undecided as to whether the customer has benefited. Overall N's senior executives claim that remaining within the UK has been an effective strategy for the firm, asserting that; *"it is early days for the outsourcers."*

NU suggests they are positive about their decision to relocate their call centre operations. The offshore expert pertinently sums the debate up, highlighting that there is no right or wrong strategy.

6 Conclusions

Results of this research have enriched the theory of international strategy and they have being used in the process of building of new module – International strategic management that is taught at undergraduate and also at master including MBA levels. Outsourcing is relatively new mode of entry prompted by globalisation process. Offshoring is a consequence of the technological world in which we live, without technology the process would never have came into fruition, and this thesis would be non applicable. We live in a borderless world; offshore outsourcing is a consequence of this. The subject has affected people throughout the world in every way shape and form. Business models have evolved and offshoring is a manifestation of this, the subject has been discussed in world trade events, at governmental elections, in party political broadcasts, and throughout boardrooms the world over.

In certain sense an offshore outsourcing of business processes has existed for centuries throughout a diverse range of industries. However, recently it has become a key means of remaining competitive within the marketplace. The IT and financial sector in particular has adopted the strategy unlike no other. Offshore outsourcing of financial based contact centres has been embraced by prominent players such as; Barclays, HSBC, and NU. However wherever there are advocates there is an opposition and in this circumstance the antagonists include; N, HBOS, and the Royal Bank of Scotland. This thesis objective is to consider how outsourcing to India has affected the cost and quality of call centres within Britain's financial sector, from the viewpoint of the company and customer where currently a lack of academic literature exists.

The two case studies together with the interviews and application of the theoretical framework have helped us to answer both research questions. NU originally outsourced its call centre operations to remain competitive within the sector, after advocates such as HSBC and Prudential were accruing significant benefits via offshore outsourcing call centre activities to India. The financial sector is a highly competitive domain, thus to remain competitive the firm embraced the strategy in 2003. The rationale for offshore outsourcing engenders the following:

1) Flexibility allowed the firm to build infrastructure that could operate around the clock, hence increasing its customer service benefits.
2) Accrue substantial cost reductions. Therefore being able to competitively price its products within the market.
3) Increase their customer service provision.
4) Leverage knowledge capabilities from remote Indian specialists.

The other firm N is a modern mutual entity, therefore every decision it takes affects its customer's rates immensely. N is an incredibly nationalistic firm, for example they sponsor the English football team. N decided to oppose the offshore trend for the following reasons:

1) Substantial cost savings are a myth.
2) The customer is the firms main asset, therefore does not believe they can be serviced form a culturally diverse location such as India.
3) N's subordinates are viewed as a core competency.
4) They believe their corporate culture is non transferable.

Overall the customers perceive the firms as profiteering from the offshore outsourcing of call centres, emphasised by the recent headlines of firms such as HSBC making record profits. The costs are being benefited through savings of up to 40%, thus enabling firms to increasingly invest in their service offerings and concentrate on increasing quality. Through reducing costs the firm's offshoring are able to lower prices for their customers, and hence maintain their market share and increase shareholder returns.

The customers believe the strategy has been effective for the UK based offshore outsourcers however do not perceive the benefits as being accrued directly. A significant problem with the offshore model is that it is 'spoke point' therefore Indian operatives are not perceived as having relative control over the operation.

- The success or otherwise of offshoring is yet to be proven; more research of an objective nature is needed. It should be noted that most offshore contact centre industries are still in an early stage of development, and that their relative advantages and disadvantages to the UK have not yet crystallised and are very much open to change.
- The assertions established by Jones (2005) are highly relevant to the investigation; however they have been purely based upon theory and no apparent primary research. Although Taylor and Bain (2003) briefly outline the most common form of partnership between outsourcers and their suppliers, the author believes there is a gap within the existing literature concerning power relations between outsourcers and their contractors, thus this depicts an area for future research.
- UNCTAD (2004; 167) underline that multiplier effects can lead to; *"a cumulative dynamic of its own, success in one set of activities can lead to success in another."* Therefore in the authors' opinion as India attracts more professional services its bargaining power could increase. However there are new states and regions that could pose a serious competition to India as an outsourcing target. Moreover some of those regions (i.e. Central Europe) are culturally closer to Western Europe. This will enable to reduce further costs of outsourcing.
- We believe that although the initial FSOs migrating out to India may have incurred disadvantages with the transition because of problems with India's infrastructure; for example unreliable power supplies they may well be reaping the benefits today as opposed to the late entrants. This is based upon the current dilemmas facing the Indian call centre industry which is facing mounting wages and a lack of qualified personnel.
- An increasing concern for offshore FSOs relates to ascending wage rates. Odindo et al (2004) and the DTI (2004) recognise that with salaries increasing by 10% - 15% per year, this could have monumental impacts upon the trend towards offshore outsourcing. Once the cost differential between the UK and India becomes significantly diminished, this will reduce the advocate's competitive advantage, and possibly the attraction of India. However, in the authors opinion statistics quoted earlier by McKinsey are still widely accepted as being reliable, and if the cost differential was to reduce quickly FSOs would simply find another NIC. Another major concern is attrition rates, the DTI (2004) estimate that Indian levels on average equate to 24.3%, almost 10% higher than in Britain. Rates such as these are extremely derogatory towards costs, because jobs have to be consistently advertised, new recruits trained and firms must pay more to retain staff or alternatively poach from competitors.
- We presume that even in the case of considerable approximation of the wages level between the Indian and British specialists, the outsourcing strategy of the British firms will continue to be used in other appropriate newly developed economies (i.e. China, Thailand and/or Central European post-communist countries). This threat to Indian call-centres will to a certain extent hinder a rapid increase and approximation of salaries between Indian and British specialists.
- The nature of outsourcing within the financial sector has been continuously evolving throughout the previous five years with an increasing number of firms advocating the strategy. At this time, the author believes a cross-sectional time perspective is applicable, and in the future could possibly be utilised, to form part of a longitudinal investigation.

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