INTERNATIONAL INVESTMENT STRATEGIES BASED ON OUTSOURCING BUSINESS PROCESS

Radu Marcel JOIA[*], Cătălin Emilian HUIDUMAC-PETRESCU[**]

Abstract. *Understanding the international investment strategies adopted by the multinational, transnational or global integrated companies has become essential in analyzing the foreign direct investment (FDI) flows structural effects. Global economic agents, whether as multinational companies, transnational companies or globally integrated ones, adopt in their business processes modern strategies based on outsourcing their own value chain functions.*

The phenomenon of economic globalization brought new types of international investment strategies through which multinational and transnational companies have managed to achieve the status of globally integrated company, whether transferors or integrators of functions.

The process of outsourcing or business process outsourcing (BPO) is one of the most widespread international investment strategy through which the global companies are looking for a higher added value in their own business processes. Outsourcing the functions to an integrator or to a local supplier led to any dissolution of international and national borders, raising the added value of the assigned outsourced functions.

Through this present paper we aim to analyze the most important strategies based on the outsourcing of business processes to a service provider, called in the special literature integrator of functions, highlighting the advantages and disadvantaged of this type of international strategy.

Keywords*: foreign direct investment flows, multinational companies, transnational companies, function outsourcing, business process outsourcing.*

To understand the effects that FDI can generate, is absolutely necessary to understand the international investment strategies adopted by the multinational, transnational or global integrated companies in their global activity. In addition, it is mandatory to realize a delineation of the following concepts: multinational companies, transnational companies and global integrated companies, essential delineation before submitting the typology of international investment strategies.

[*] Bucharest University of the Economic Studies, marcelraducluj@yahoo.com
[**] Academy of Economic Studies, Bucharest, catalinhuidumac"yahoo.com

Multinational companies are business entities that have an international presence, an internationally recognized business, adopting international strategies, in order to be internationally competitive, strategies through which to integrate them globally. The specificity of these multinational companies is how to deal with the demand, by adopting strategies to adapt to specific application in each country where they have recognized presence, "resulting an involvement in n adjusted ways accordingly to the n countries in which they develop their activities (so, a multi-national presence)".

Transnational companies are very similar to multinational companies; most of the times very many economists are making the confusion between the two types of companies. The difference between a multinational company and a transnational one is the "standardization of the offer". Transnational companies adopt strategies based on the standardized offer that meets demand in many other countries, "building organized structures that fold over this group of nations (so, a trans-national presence)".

Global integrated companies are primarily multinational or transnational companies, but that reflects the integration of the company's value chain and distribution in at least two different countries. Global integrated companies can be classified into two types, namely "transferors of functions" and "integrators of functions"[1].

The transferors of functions are multinational or transnational companies that are subject of a vertically restructuring by holding a function or multiple functions (with high level of added value) inside the company and by distributing other functions (with a low level of added value) to a third company through a process of outsourcing, the third party being an integrator of functions.

The integrators of functions are companies that based on a contract are performing functions that have been integrated in their own company, outsourced from a transferor company. Currently the integrators of functions, to increase the effectiveness of global integration process, carry out an analysis of the functions from the value chain and are willing to improve the performance of the integrated processes. Both transferors of functions and integrators through this phenomenon are building a globally integrated enterprise.

[1] Mărgulescu, S., (2010) *New strategies of transnational corporations in the context of globalization and functional specialization*, Student Publishing House, Bucharest, pp. 8-10.

In this industry, so-called by specialists, BPO, outsourced company value chain function is performed by a service provider called integrator of functions. In this industry, the integrator takeover certain business processes and transfers them to its headquarters in his home country. The integrator of functions is responsible for managing the processes undertaken from the transferor of functions such as customer service, sales, customer service centres, processing and storage of documents, banking financial services and insurance, human resources, audit, accounting, logistics, information services etc.

BPO industry involves also inherent risks, but also brings many benefits to the customer, to the entity that gives functions or transferring functions. In addition to short-term cost savings and operational efficiency, it is important that the BPO to be done strategically, just as the transferor of functions to be helped to gain competitive advantages in the international business. For a process to be successful outsourced it is very important for any company transferring functions to achieve a competent analysis of segregation based on their own organization business processes into two categories, namely functions in the value chain that are essential for the organization (core competencies), vital and those functions that would be better to be performed and carried out by an integrator of functions, an outsourced service provider[2].

In most cases, the business processes and the functions most important for the organization are much better made inside the company's own location and not to be outsourced. To be able to identify the basic functions "core competencies", an organization must be clear in identifying the processes that really bring added value to the company. To identify the processes or the "strategic" functions for the organization it must analyze the processes that make the company different to the competition or the processes which provide competitive advantages[3].

In the business process there can be business strategies based either on insourcing the functions from the value chain, either on outsourcing the functions. The insourcing of the functions involves the execution of business processes by the organization itself, while the BPO or the outsourcing is based on a situation in which the transferor's functions, based on a signed contract with an integrator of functions, are forward to be implemented and executed by the integrator entity which takes over the execution responsibility. In other words, an organization, often

[2] Adler, P., S. (2003), *Making the HR outsourcing decision*, MIT Soan Management Review, 4 (1), pp. 53.

[3] Porter, M. (1996), *What is strategy?*, Harvard Business Review, pp. 61- 78.

multinational or transnational is making “insourcing” inward and “outsourcing” to other economic entities, which is ultimately a relocation of business processes across organizational boundaries.

- **Insourcing process**: the business processes are performed by the organization itself or another economic entity belonging to the organization, such as branch or another internal department;
- **Outsourcing process**: the business processes are executed by an economic entity that does not belong to the organization, an entity we might call non organization, a supplier of global integrated functions or an integrator of functions;

When an organization decides to conduct a business insourcing process, the decision is based on two strategies, namely: **“OK as is”**, a strategy in which the company is aware that business processes work perfectly and efficiently and do not require any improvements, and **“FIX and keep in-house”**, strategy in which the organization is not satisfied with the effectiveness of the business processes, but believes that “the insourcing” is the best solution and thus decides to invest in adopting practices best by identifying and correcting the defects[4]. In this case, the companies aim to reach maximum levels of efficiency in the execution of business processes.

When a company decides to outsource, through BPO, certain functions within the organization, this decision is based on two strategies, namely: **“option to reverse”**, a strategy in which the business processes are outsourced to a supplier, but the company takes into consideration the possibility to bring back the outsourced processes in the company when it is necessary or **“divest completely”**, a strategy in which the established business processes to be outsourced to a supplier are assigned for execution definitive and permanent[5]. In addition, we can say that the decision to outsource is not limited to a single provider, the company being able to make “outsourcing” to several suppliers, because this industry is very developed and there are many suppliers of business process outsourcing.

As described above, the functions from the value chain of a company can be executed and managed either by an internal entity (a department which is part of the transferring branch or a captive centre) or by an

[4] Dibern, J., Goles, T., Hirschheim, R., Jazatilaka, B. (2004), „*Information systems outsourcing: A survey and analzsis of the literature*”, ACM SIGMIS database, 35(4), p. 11.

[5] *Idem*

external entity ceding company. In the current economy where the globalization has strong effects on how the business is managed and run, the location in which the business functions are executed and managed is of utmost importance. When an organization's business processes are executed in the same country as the transferors', this process is called **"onshore sourcing"** or **"domestic sourcing"** or more simply "**onshore-ing**"[6]. On the other hand, if the business processes are executed in a country different from the country of origin of the customer or the company transferring functions, this process is called **"offshore sourcing"** or **"global sourcing"**[7]. So **offshoring** is the transfer of labour across geographical boundaries.

But not only geographical location it is important, but also the entity performing the outsourced functions, which can be managed either by a transferor entity client, such as a branch or department or an outsourced service provider, such as an integrator of functions. In this context we can have the following possibilities encountered in the current economy. For a better illustration of possible business combinations we made Figure 1.

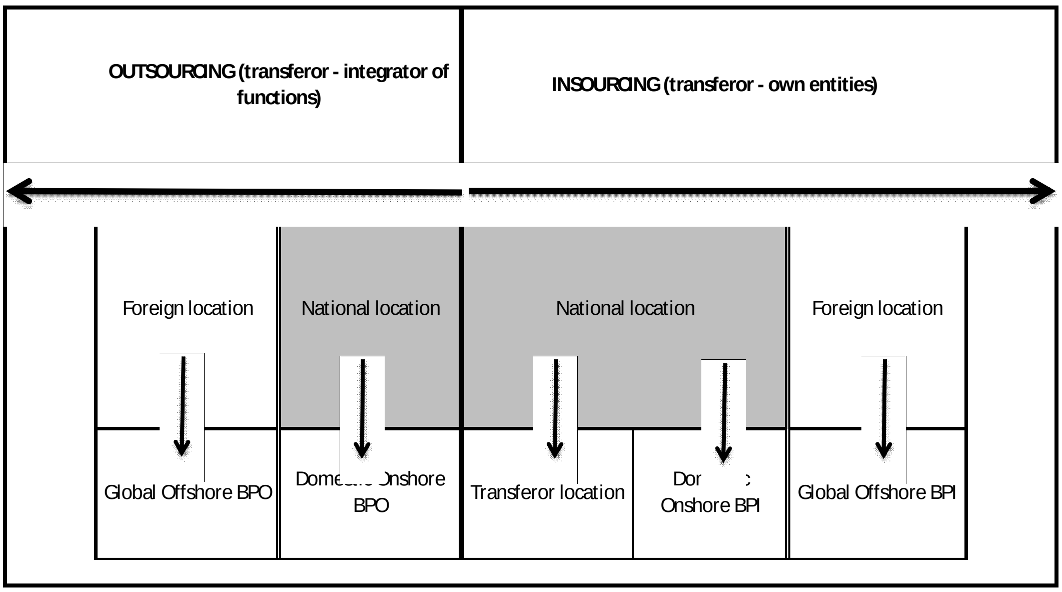

Figure 1. Business Process outsourcing and offshoring.

---

[6] Chakrabarty, S. (2006*), „Making sense of sourcing and shoring maze: The various outsourcing and offshoring alternatives"*. In H. S. Kehal and V. P. Singh, „Outsourcing and offshoring in the 21st Century: A Socio economic perspective (pp. 18-53), Hersey, Idea Group Publishing.

[7] *Idem*

- **Onshore – insourcing process**: process in which the company transferring the functions and the entity to which the functions are transferred to are belonging to the same economic organization, a branch or an internal department, located within the same country; this business process is known as business process insourcing (BPI) or home BPI;
- **Offshore – insourcing process**: the organization entity (branch, department or a captive centre) performing the integrated functions is located in a country different from the origin country of the transferors of functions. This business is known as global BPI or offshore BPI;
- **Onshore – outsourcing process**: process in which the company transferring the functions and the integrator of functions or the outsourcing service provider are located within the same country. This is called business process outsourcing (BPO);
- **Offshore – outsourcing process**: process in which the integrators of functions or the outsourcing service providers, who run and manage the integrated functions, operate within a country different from the country of origin of the transferor of functions. This business process is called global offshore BPO or global BPO.

Of all the business processes mentioned above, from the strategies adopted by multinationals companies in the outsourcing of functions, currently, we identify that the fourth combination, namely **offshore-outsourcing** process is the most common. The reasons for which the global outsourcing or global BPO is gaining many ground are:

- **The integrated functions** can be performed in a continuous way: through a global distribution functions in several areas of the globe, business process can be executed over 24 hours on 24,7 days a week. This can lead to a much faster execution time, but also enables continuous monitoring and management, elements that often prove to be crucial for business processes. A continuous execution of business processes can be a competitive strategy for any client who is part of the global market;
- **Cost reduction due to a high availability of cheap and skilled labour force**: because the prevailing trend of offshoring is certainly the cost advantage derived from cheap and very well prepared labour force, especially in emerging countries like India and China. High availability of a highly trained and cheap workforce determines competitive advantages based on cost savings;

- **Technological innovation based on modern communication:** the Internet has certainly leaded to the development of global BPO; by the simple fact that it allows the development of modern communication platforms that facilitate the execution in real time of the processes and without any interruption. Thanks to the latest technologies, the geographical distances have become less a barrier to collaboration and coordination the functions harmoniously integrated. With these technologies there have been developed the so-called "global virtual teams"[8];
- **Discipline in the execution of integrated functions and continuous improvement of the taken processes:** when a business process is outsourced to a supplier in another country, the company personnel is required to understand and to "adopt" the business process just to execute it with maximum efficiency. The service provider personnel must to understand the business in a "fresh" way, leaving no past experience to affect the new process. Only in this way will get the opportunity to bring business process improvement[9].

Business Process Outsourcing involves among other things global and increased risks both for the company transferring the functions, but also for the integrator of functions. According to Carmel's and Agarwall's study on this issue, these risks are:

- ✓ **Behavioural risks:** These risks include lack of trust, cultural differences, lack of communication and coordination problems;
- ✓ **Risks due to global laws, rules and different business environments**: Obtaining visas and work permits for global business travel has become a cumbersome process that requires a lot of time, which attracts many employees fear from regarding job security. In addition, the laws, the rules of different countries, plus the flow of information between them are often blurred. In addition, external factors such as different political or economic phenomena can affect the smoothly process execution;
- ✓ **Risks related to information and knowledge:** there is a multitude of risks related to possible violations of intellectual

[8] Carmel, E., Agarwall, R. (2002), *„The maturation of offshore sourcing of information technology work"*, MIS Quarterly Executive, pp. 65-78.

[9] Aron, R., Singh, J. (2005), *„IT enabled strategic outsourcing: knowledge intensive firms, information work and the extended organizational form"*, Wharton School Publishing.

property and privacy, especially because many managed business processes for customers contain sensitive information. And there may be difficulties in the transfer of know-how from the transferor to the integrator. Outsourcing service provider must not lose information on the industry in which the assignor client operates, on its customers, organizational culture etc.;

- ✓ **Risks related to the integrated management:** it is difficult to control the quality, and especially to establish rules and mechanisms to achieve the same level of quality as the transferor process itself.

Companies like TCS, Infosys, Wipro or other major IT companies, and large integrators of functions whose headquarters are situated in India, actually are providing business process outsourcing and have implemented the model of "global delivery model", whereby providers of outsourced integrated business processes are running in different global locations for customers located in their home countries. Currently India is a country that offers such outsourced services in an aggressive way, but it is very important to realize that many other organizations in different countries offer a competitive manner such outsourced[10]. To understand the pattern of distributive advice ("global delivery process") we realized Figure 2, Distributing consulting model.

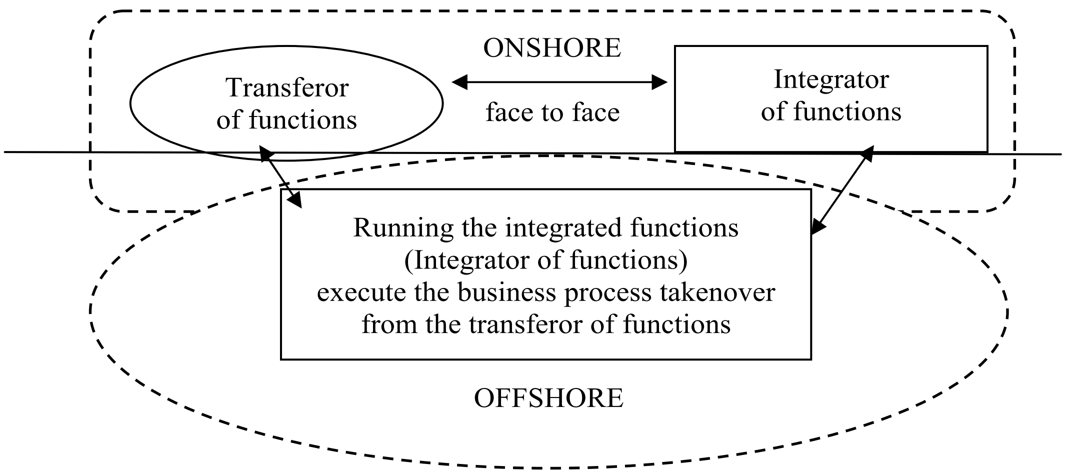

Figure 2. Distributing consulting model.

[10] Kempf, T., School, R. S., Sinha, D. (2001), *„Cross-border collaboration: A service aggregator model for offshore IT services"* (Executive Summary), Gartner Research.

The location of the integrators of functions where the business processes are carried over from the transferor of functions can be located anywhere in the world (location choice is made by the supplier based on various factors, especially depending on the availability of a skilled, well prepared). The distributed consulting model is a model of BPO which is based on the advantages of the global market in order to provide added value to the customer in terms of cost and quality.

In this study we presented the outsourcing strategy based on an organization functions, highlighting the most important aspects of global outsourcing strategies, Business Process Outsourcing, the most common strategy in the current global economic times. From conceptual delimitation of the terms multinational, transnational and global integrated company, we illustrated outsourcing strategy combinations of functions of the value chain of an organization. Thus, onshore-insourcing, offshore-insourcing, onshore-outsourcing, offshore-outsourcing are four sub-strategies of the outsourcing strategy. In present times, we can see that offshore-outsourcing is one of the strategies most developed, the competition between suppliers of global integrated functions being very high, fact that determines a high quality of the services provided to the transferors of functions. It seems that most of the companies prefer to adopt strategies to reduce costs in order to save resourced. Even if in the first period of transferring functions the transferors face high costs, in time the costs are reduced considerably. In an economy where the industry casting more ground, it is absolutely necessary to communicate the benefits and risks involved in outsourcing.

REFERENCES

[1] Adler, P., S. (2003), *„Making the HR outsourcing decision"*, MIT Soan Management Review, 4 (1).

[2] Aron, R., Singh, J. (2005), *IT enabled strategic outsourcing: knowledge intensive firms, information work and the extended organizational form*, Wharton School Publishing.

[3] Carmel, E., Agarwall, R. (2002), *The maturation of offshore sourcing of information technology work*, MIS Quarterly Executive.

[4] Chakrabarty, S. (2006), *Making sense of sourcing and shoring maze: The various outsourcing and offshoring alternatives*. In H. S. Kehal and V. P. Singh, „Outsourcing and offshoring in the 21st Century: A Socio economic perspective. Hersey, Idea Group Publishing.

[5] Dibern, J., Goles, T., Hirschheim, R., Jazatilaka, B. (2004), *Information systems outsourcing: A survey and analzsis of the literature*, ACM SIGMIS database, 35 (4).
[6] Kempf, T., School, R. S., Sinha, D. (2001), *Cross-border collaboration: A service aggregator model for offshore IT services* (Executive Summary), Gartner Research.
[7] Kobyashi-Killary, M. (2004), *Outsourcing to India: the offshore advantage*, Berlin, Germany: Springer-Verlag.
[8] Măgulescu, S. (2010), *New strategies of transnational corporations in the context of globalization and functional specialization*, Student Publishing House, Bucharest.
[9] Porter, M. (1996), *What is strategy?*, Harvard Business Review.
[10] Sparrow, E. (2003), *Successful IT Outsourcing*, Springer-Verlag, London.