



Offshoring of higher education services in strategic nets: A dynamic capabilities perspective



Bella Butler^{a,*}, Werner Soontiens^{b,**}

^a Curtin University, Curtin Business School, GPO Box U1987, Perth, Western Australia 6845, Australia

^b Curtin University, Faculty Humanities, GPO Box U1987, Perth, Western Australia 6845, Australia

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ABSTRACT

We examine the process of the intentional transformation of a loose organic network into a strategic net within the context of offshoring higher education services over time. The study shows that this educational net is hub-driven by a large Australian university that acts as the network facilitator. Our results confirm the importance of the dynamic capabilities of both the net and its participants as drivers of the transformation from the network into the strategic net and the realization of a competitive advantage from offshoring. Our distinct contribution is that we bridge previous studies of the management of strategic nets and the dynamic capabilities view in a longitudinal study within a multi-country context characterized by ongoing regulatory changes.

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1. Introduction

In its most basic form, offshoring can be described as shifting part of a business activity or function from one country to another. The notion of producing part of a product in two or more different locations is essentially based on an extension of Ricardo's theory of comparative advantage. Offshoring, in its earliest form, aimed to relocate relatively inefficient production activities to another country in order to seek efficiencies, mostly based around labour costs (Farrell, 2005). While offshoring strategies are subject to firm-specific considerations, most include some form of access to markets and knowledge (Orberg-Jensen & Pedersen, 2012).

The popularity of offshoring services is growing (Bunyaratavej, Hahn, & Doh, 2007; Thelen, Honeycutt, & Murphy, 2010) and this is largely due to the perceived benefits of cost reduction and global reach made available by the large, well-educated labour pools in other countries (Fielding, 2006; Garner & Schwartz, 2004; Kedia & Mukherjee, 2009). Scholars point to various factors that influence the implementation of offshoring services, including impersonal and personal services (Blinder, 2006); standardized and customized

services (Karmarkar, 2004) ranging from simple to complex processes; and the “interrelated advantages” (Kedia & Mukherjee, 2009, p. 250) of disintegration and location-specific resourcing and externalization. More recently, Orberg-Jensen and Pedersen (2012) contemplate that offshoring requires a more disaggregated perspective based on the distinction between less and more advanced tasks and activities. The more advanced tasks and their supportive capabilities, which imply higher business value and function, are more often the drivers of international competitiveness. Internationally driven organizations are required to develop a set of dynamic capabilities to ensure market entry and sustain its operations over time (Teece, 2007; Weerawardena, Mort, Liesch, & Knight, 2007).

This paper aims to map the process of the establishment of an intentional strategic net, from what was initially a loose network, within the context of the offshoring of higher education services over time. The paper also aims to identify the less and more advanced capabilities that facilitate transformation from the network to a strategic net. The subject of this paper is an intentional strategic business net created by an Australian university that is recognized as a pioneer in delivering higher education in the Southeast Asian region. The university is currently positioned as Australia's third largest in terms of international student population. Since higher education as a services sector is governed by national and international rules and regulations, it is not primarily guided by the traditional commercial drivers and dynamics of offshoring for other industries.

* Corresponding author. Tel.: +61 8 404093701.

** Corresponding author. Tel.: +61 8 9266 3091.

E-mail addresses: bella.butler@cbs.curtin.edu.au (B. Butler), W.Soontiens@curtin.edu.au (W. Soontiens).

This paper contributes to the understanding of the underlying fundamentals of offshoring in a relatively unique service industry setting, namely the higher education sector. Our additional contribution to the understanding of the offshoring phenomenon is that it is investigated at a network level within multiple socio-economic contexts each characterized by ongoing regulatory changes. The paper brings together studies of the management of strategic nets (Möller & Svahn, 2003) and the dynamic capabilities view (Teece, 2007; Teece, Pisano, & Shuen, 1997) in a longitudinal study of the transformation of the educational network over time. Our paper is responding to the call for “more longitudinal and qualitative works (...) in order to address “unanswered questions on how networks emerge over time” (Aaboen, Dubois, & Lind, 2013: 1033). Our distinctive contribution is in identifying capabilities as building blocks in the process of establishing an intentional strategic net to create benefits for the organization and for the members of its strategic business net. On a different level, the paper contributes to the theories of network formation (Partanen & Möller, 2012), specifically, the intentional hub-driven transformation from networks to strategic nets.

The paper is structured as follows: it begins with the contextualization of the study to the relevant literature on networks, intentionally created nets and subsequent dynamic capabilities in the internationalization process as depicted in the conceptual framework, followed by the introduction of the methodology and background of the case study. A summary of the case-specific strategic net, including operational realities, but focusing on dynamic capabilities developed over time leads to the conclusion with a discussion of the academic and managerial implications of the study.

2. Networks and nets: a conceptual framework

For the purpose of this paper, we adopt a differentiation between the terms network and net. The former is deemed to refer to a number of participants in a loose engagement with little or no integrated and coordinated interaction or commitment. The latter reflects a dedicated and committed involvement between a small number of members, which incorporates integrated management. This differentiation reflects the use of the term ‘interfirm network’ to describe a wide range of relationships (Dyer & Singh, 1998; Ford et al., 2002; Möller & Svahn, 2003), while the term ‘strategic or business nets’ refers to “intentionally formed networks that contain a finite set of parties of at least three” (Möller, Rajala, & Svahn, 2005, p. 1275).

While studies investigating aspects of intentionally created and managed strategic networks (nets) include advantages, reasons of failure, governance, roles, positions, management capabilities and competencies, Partanen and Möller (2012, p. 481) note that “the key management question of how to construct strategic networks (nets) has received relatively limited attention”. Furthermore, existing models and theories of building interfirm relationships tend not to incorporate the design of strategic interaction among multiple partners (Ozcan & Eisenhardt, 2009), rather, they focus on a dyadic level of inter-firm collaboration (Gulati, 1999; Ireland, Hitt, & Vaidyanath, 2002) and consider relatively stable business contexts (Dyer & Nobeoka, 2000). Although an increasing number of studies of network governance have been published, Möller and Svahn (2003) argue that we are far from having an articulated theory of net management and Möller et al. (2005) deplore the fact that little or no attention has been paid to the notion of intentionally developed nets and the management thereof.

While networks have a proven ability to offer firms collective benefits well beyond those of single operations, they require the development of specific organizational capabilities. Recognizing networks and business relationships in the chosen context, we

must accept the idea that business networks are not “fixed and taken-for-granted structures of predetermined categories,” (Medlin & Saren, 2012), but, rather, “they are concepts that are continuously re-created over and through time” (Halinen, Medlin, & Törnroos, 2012). Given the organic nature of networks, Ritter, Wilkinson, and Johnston (2004) argue that the success or otherwise of network-based activities is determined by a firm’s network management abilities, and Child and Hsieh (2014) argue that the reconfiguration of networking activities allows firms to alter their internationalization patterns. Möller and Svahn (2003, p. 212), however, postulate that “different types of strategic nets require different managerial skills or capabilities” in the context of clarifying the differences between loose, organic and often informal arrangements and intentional and strategically developed nets.

In investigating the management of business networks, Ritter et al. (2004) acknowledge the strategic management challenges in what are effectively self-organizing systems. While firms are traditionally unable to control or influence the resources of network members, the establishment of an intentional net with a strategic drive supported by experience may create opportunities for influencing the structure and functioning of network activities. In an effort to optimize engagement in a networked business environment, “the main challenge for managers is to develop a networking ability that enables them to connect their resources to those of other actors” (Ritter et al., 2004, p. 181). This, in turn, requires clarity on the role of networking capabilities, on how they contribute to network development and on how they operate in different contexts. Partanen and Möller (2012) postulate the notion of a networking-building model being central to the emergence of strategically developed business networks by identifying the components of the process. Although our study does not focus on network building, we do consider the step-wise process over time as a cornerstone in the transition from networks to nets.

Management is often challenged by the decision as to which strategic nets to establish and operate and through what types of roles and strategies (Mattson, 1985, 1987). Möller and Svahn (2003) argue that the creation and management of strategic nets require specific organizational network capabilities. In addition, different network attributes may affect both the speed and the performance of the internationalization of a firm (Musteen, Francis, & Datta, 2010). Theorizing on the management of business nets, Möller and Svahn (2003) propose an abstract conceptual model based on value creation and dynamic capabilities resulting in three distinctive formats: the current, business renewal and emergent nets. Fundamentally, value propositions reflect the increasing levels of uncertainty or inexperience of operations. Indeed, a stable environment is characterized by run of the mill management requirements or expectations of incremental improvements, often localized adaptations and increasing efficiencies and demands on management. On the other hand, intentional engagement is characterized by radical change and management challenges in uncharted waters. Our conceptual model builds on the notion of these three distinctive nets and their value creation. The role of the different forms of the nets in the model is to reflect the different capabilities needed for the successful management of a loose association (network) in a stable well-defined environment compared with an intentionally formed net in a changing and complex emerging environment. These capabilities are further tested by the reality of external factors that further complicate firm interaction, particularly in an international environment (Ritter et al., 2004).

Indeed, case research on business networks is deemed to be contextualized by process, defined by Van de Ven (1992, p. 170) as “a sequence of events and activities that describes how things

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