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A Systematic Review of Literature on Offshoring of Value Chain Activities

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ABSTRACT

Locational aspects of a firm's value chain configuration are recently gaining increasing attention by academics, practitioners, and policymakers. In this vein, the international business (IB) literature has produced a substantial body of knowledge on the offshoring phenomenon, offering a sizeable and constantly growing amount of evidence related to the offshoring organization and its organizational and managerial specifics. In this study, I map and assess the existing literature on offshoring of value chain activities. In the course of a systematic literature review, I analyze a total of 63 studies from leading IB research publishing journals and synthesize them into an integrating framework that links offshoring with its antecedents and consequences. In doing so, this systematic literature review offers a two-fold contribution: On the one hand, it helps to identify gaps that IB scholars need to address in order to further develop the existing body of knowledge on offshoring. On the other hand, it provides practitioners with a comprehensive knowledge repertoire that increases the quality of their offshoring-related decision-making.

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1. Introduction

Recently, offshoring—also referred to as international or global sourcing—has been put into the limelight of international business (IB) research (e.g. [Lewin and Peeters, 2006](#)) and is subject of much debate in practitioner (e.g. [Aron and Singh, 2005](#)) and policymaker (e.g. [UNCTAD, 2004](#)) communities. This development is particularly spurred by fierce globalization dynamics and enduring advancements in information and communication technology (ICT) ([Kenney et al., 2009](#)). The offshoring topic yet not only holds promising opportunities but also significant challenges for the involved actors in the IB ecosystem ([Levy, 2005](#)). In essence, offshoring refers to the cross-border (re)location of the firm's value chain activities (in the following referred to as “value activities”) that were once performed somewhere collocated (e.g. in the firm's country of origin) to distant locations to serve global rather than local demand (e.g. [Doh et al., 2008](#); [Lewin et al., 2009](#); [Manning and Massini, 2008](#)). By this means, offshoring can be understood as a specific manifestation of firm internationalization that is primarily concerned with the internationalization of the firm's input-market side rather than with the internationalization of sales on the output-market side of the value chain. The resulting (re)configuration of the firm's value chain in form of a disaggregated and globally dispersed, specialized network of differentiated but interconnected value activities represents in its extreme form a counterpoint to multi-domestic or global configurations of the firm ([Bartlett and Ghoshal, 1989](#)) where value activities are replicated country by country ([Asmussen et al., 2007](#); [Beugelsdijk et al., 2009](#)). This complex organizational design ultimately represents the defining characteristic of the offshoring organization—a firm, that pursues offshoring strategies aiming at identifying and implementing the optimal degree of value chain disaggregation and global dispersion of value activities to increase global firm value through leveraging arbitrage, flexibility, specialization, and global learning advantages on a global scale ([Contractor et al., 2010](#)).

The aim of this paper is to systematically take stock of the existing IB literature on the offshoring phenomenon and the offshoring organization as its main actor. Mapping and evaluating this fast developing literature stream is essential for scholars

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and practitioners alike. Knowledge creation in the field of IB in general (Morrison and Inkpen, 1991; Ricks et al., 1990) and on the offshoring phenomenon in particular (Bunyaratavej et al., 2011; Lewin and Peeters, 2006) has accelerated over the recent years, producing a substantial body of evidence much of which has the potential to inform not only peer scholars but also practitioners and policymakers. However, there is a general cognition among scholars that research-based knowledge is under-utilized, especially by non-academic addressees (Denyer and Neely, 2005). Literature reviews represent a widely-accepted tool in management research to overcome that deficiency in the utilization of knowledge (Tranfield et al., 2003). In that vein, this review of IB literature on offshoring and the offshoring organization seeks a two-fold contribution: On the one hand, it attempts to identify gaps in the existing evidence base that have to be addressed in future academic studies to further develop the body of knowledge on the offshoring phenomenon. On the other hand, by collecting, synthesizing, and reporting existing knowledge on the offshoring organization, it aims at refining and consolidating the existing evidence base to support and improve decision making processes of managers and policymakers.

In the remainder of this article, the offshoring phenomenon and the offshoring organization represent the focal units of analysis and reference points for the systematic review process. Understanding offshoring in terms of a cross-border (re)location of value activities points to the fact that it basically encompasses two general situations: on the one hand does the cross-border location of a value activity to a distant site exclude any partial or full substitution effects, whereas a cross-border re-location on the other hand ultimately refers to the replacing of a value activity performing unit that was already existing elsewhere (Rilla and Squicciarini, 2011). In addition to that does the “offshoring”-term experience in the following a clear terminological differentiation from the “outsourcing”-notion. Even though these two terms are often used interchangeably and are somewhat related, they represent distinct business practices. Whereas offshoring in the following exclusively refers to the adding of distance between value activities through their (re)location across national borders, outsourcing in contrast points to questions related to the establishment of new boundaries of the firm during the re-integration of the disaggregated and offshored activity. It points on whether to rely on internal (captive), external (outsource) or cooperative (e.g. alliance, joint venture) governance modes as the optimal degrees of ownership and control (Pyndt and Pedersen, 2006).

My study is structured as follows: In the following section I briefly outline the applied systematic review methodology. After this a detailed report and synthesis of the review results following an “Antecedents–Phenomenon–Consequences”-logic forms the main part of the study. The study closes with a summary of the review results and an outlook on avenues for future research, complemented by the development of an integrating framework for the literature on offshoring of value activities.

2. Methodology

I applied the systematic review methodology introduced by Tranfield et al. (2003) to map and assess the body of knowledge on the offshoring phenomenon that has been developed by international business and management scholars between January 1998 and September 2012. According to Tranfield et al. (2003) systematic management reviews represent “rigorous scientific investigations of the literature” (Denyer and Neely, 2005: 133) and include three main stages: (1) a detailed a-priori planning of the review with a precise definition of the aim and research question to be approached in the course of the review, (2) a rigorous execution of the review itself comprising the identification of relevant literature using explicit, reproducible criteria for inclusion and exclusion supported by an appraisal of the quality of the reviewed studies and the strength of their findings, and (3) the reporting and dissemination of the review results. The motivation and objectives of the review (stage 1) have already been defined in the introductory section. The remainder of this methodology section will hence focus on the techniques applied to identify and select the relevant literature (stage 2). The third stage builds on these previously selected research articles and particularly includes the synthesis of the individual studies using an explicit analytic review scheme as guiding framework, followed by a balanced, impartial and comprehensive presentation of the results. This final process step of the systematic review will be exercised in the results section.

2.1. Identification and selection of relevant publication outlets

In this study I focused on publications in internationally renowned journals, other publication outlets such as books, book chapters, monographs, and conference papers or unpublished work were excluded from the analysis. I took journal quality as an indicator for study quality (see e.g. Judge et al., 2007; Narayanan et al., 2011) and focused on high-quality peer-reviewed academic outlets. Consequently, practitioner journals were excluded from further consideration. To respect the fact that a significant amount of IB research is published in journals with no explicit IB emphasis (Inkpen, 2001; Pisani, 2009) I included mainstream as well as functional management journals which are known for publishing relevant IB contributions. I finally selected a set of fourteen top-ranked journals that are widely considered as being the most important outlets for scholars to publish high-impact IB- research. The final set of journals comprised the *International Business Review*, *Journal of International Business Studies*, *Journal of International Management*, *Journal of World Business*, and *Management International Review* as core journals in the field of IB (see Chan et al., 2006; DuBois and Reeb, 2000; Harzing, 2008). These journals were complemented by the *Academy of Management Journal*, *Academy of Management Review*, *Administrative Science Quarterly*, *Journal of Management*, *Management Science*, *Organization Science*, and *Organization Studies* as leading general management journals (see Gomez-Mejia and Balkin, 1992; Pisani, 2009; Trieschmann et al., 2000), completed by the *Journal of Management Studies* as European-based outlet (see Lockett et al., 2006) and the *Strategic Management Journal* as a functional management journal known for publishing significant amounts of IB-research (see Tahai and Meyer, 1999; Treviño et al., 2010).

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