Introduction

Special issue on outsourcing

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Falguni Sen received the PhD from Northwestern University, Evanston, IL. He is presently Professor of Management at Fordham University's Graduate School of Business in New York, where he specializes in the strategic management of technology and innovations. He teaches courses on strategic management, industry analysis, innovation and change management and technology management.

Prof. Sen has an interest in the international management of technology and has consulted with firms in the US, India, Switzerland and Ireland. He has expertise in semiconductor, computer and pharmaceutical industries.

Prof. Sen has been researching and lecturing on issues related to business process outsourcing, transformation in the pharmaceutical industry and the role of ethics in organizations. He is currently working in the area of value added outsourcing with an emphasis on the outsourcing of drug discovery and clinical trials. He recently co-chaired a conference in New York on the issue of registries and results data base for clinical trials and organized a stakeholder workshop in India on the building and managing of ethical capacity in clinical trials.

The last decade has seen phenomenal growth in outsourcing of goods and services. A new theory may be needed to redefine a firm's boundaries and explain the costs, benefits and risks involved in complex transactions. To a large extent, developments in information technology has allowed firms to leverage low wage labor economies without the attendant risks normally associated with such ventures, and extended the boundaries of the firm. As IT systems have become more sophisticated and can deliver more complexity in a secure manner, more opportunities to leverage low cost and high quality options are being evaluated. Changes in global competition are also fuelling this growth of outsourcing. Firms are more inclined to separate activities into core and non-core, and readily outsource non-core commodity like activities.

Developments within the providers of outsourcing have also helped fuel this growth. Providers are enthusiastic about the creation of long-term sustainable partnerships and are paying attention to improving quality and cost performance and relationship building. In the

last few years a number of providers have shown their ability to act responsibly and thus created the confidence necessary for further growth. Offshoring, which involves outsourcing to countries far away, is only one way that outsourcing is taking place. It is nevertheless the most cost effective and has been in the public eye due to its political ramifications. A lot of outsourcing happens with firms within the shores and leverages specialization in products and processes at a market mediated price.

Confidence and learning was built through experience with outsourcing, and developments in IT increased the sense of secure handling of confidential information. With this we began to see the growth of business process outsourcing (BPO). Entire processes such as IT, HR, logistics and even R&D were being outsourced in order to gain efficiencies and to be able to focus on core activities. Soon the business process outsourcing providers found that the industry was becoming highly competitive and they were operating under small margins. In order to improve margins, providers started moving up the knowledge intensity scale in all their outsourcing operations thereby trying to get higher margins on their activities. The client firms have responded to this positively and we now see the growth in what has become popularly referred to as knowledge process outsourcing (KPO).

In one decade, outsourcing has grown rapidly and has transformed itself. Yet, we are very far from understanding the phenomenon or its long-term impact at the firm and national levels. Loss of jobs in the client firm's country of origin is leading to political fallouts while job creation is being hailed in country's like India that have seen rapid growth in GDP partly as a consequence of its participation in the outsourcing industry. But how sustainable is this "positive" impact on the economy of emerging countries such as China and India. In their paper "IT driven offshoring: the exaggerated development opportunity", Chandrasekhar and Ghosh explore

this issue. In particular they look at how sustainable is growth that is dependent on service sector outsourcing.

Although cost effectiveness is always a prime mover for all outsourcing, Bardhan in his paper on "Managing globalization of R&D: organizing for offshoring innovation", argues that accessing local knowledge assets is just as important to firms competing globally through innovations. However, making the innovation process efficient is complex in the best of times and is further complicated by offshoring. According to him, R&D offshoring brings about a "change in emphasis from a static cost minimization to a more dynamic value maximization approach". Highlighting the complexities of R&D management he proposes a new C-form (cellular form) firm that can best leverage offshoring innovations.

In his paper "Implications of uncertainty on firm outsourcing decisions", King looks into the literature on transactions costs and industrial organization to understand the role that uncertainty plays in outsourcing decisions. Identifying structures and processes, which can best manage the uncertainty inherent in such outsourcing, has been their forte. King uses the F/A 22 development with Lockheed Martin as a case study to develop a number of propositions.

While outsourcing has been studied as a macro phenomenon, it affects people within the firm that outsources and in the countries where it occurs. Raghuram in her paper "Individual effectiveness in outsourcing" looks at the situation from the point of view of working in a provider's organization. Based on personal interviews she finds that most workers find it challenging to identify with client organizations, an essential feature especially in value added and knowledge intensive outsourcing. She further finds that this weak identification leads to poor performance that can however, be mitigated by training, selection and other HR practices.

Building appropriate HR practices is the central argument in John's paper on "Leadership and strategic change in outsourcing core competencies: lessons from the pharmaceutical industry". Presenting a practitioner point of view he looks into the outsourcing of clinical trials in a pharmaceutical company and the issues it generated and problems it created. He concludes that all outsourcing of core competencies should be treated like strategic change in an organization and the intent communicated effectively to the employees. He looks at the role of the strategic outsourcing manager as an effective leader who can get a "buy-in" from the employees. He emphasizes that this "buy-in" is necessary in outsourcing knowledge intensive processes where the integration of the outcome of such outsourcing is still maintained within the firm.

Sen and Shiel, in their paper "From business process outsourcing (BPO) to knowledge process outsourcing (KPO): some issues" come to a very similar conclusion. There is a movement towards more value added and strategic outsourcing by engaging in a number of knowledge intensive activities. However, these are very difficult to manage and need different tools, structures, processes and metrics to succeed. Based on five case studies they conclude that building trust and nurturing the relationship are probably two of the most important issues confronting the KPO industry. They also emphasize that for KPO to succeed the structure and processes in the client firm's organization is as important as what the providers do in their firm.

The six papers in this special issue bring together global, national, firm level and individual issues dealing with outsourcing. Each paper tries to add to the existing theories in their field. While conceptual frameworks are important, there is increasing need for more rigorous academic research in this area. The papers in this issue highlight the need for a multi-disciplinary approach to address this phenomenon and an increase in empirical research. The latter has been more difficult, due to confidentiality and fear of publicity, in what has at times been a hostile political atmosphere. Hopefully that will change and there will be more studies to isolate factors of success.