IS OFFSHORING AN INTERNATIONAL PROCESS ONLY FROM DEVELOPED COUNTRIES TO EMERGING ECONOMIES?

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The offshoring business is booming and what was used by few US pioneers are now spreading through the world (Economist Intelligent Unit, 2006). It is a very new issue at least regarding the origin of the expression and related to services and, even a common sense definition with a complete detailed explanation clarifying the cases is not available.

Mol (2007), for instance, presents a variety of conceptual lens has been applied to outsourcing (and also can be applied to offshoring process): transaction cost economics, resource-based view, core competences, micro-economics, industrial organization, among others. From this list of perspectives, in this article we propose to analyze the applicability of transaction cost economics - TCE (Coase, 1937; Williamson, 1975, 1979) through its characteristic make-or-buy expression, considering the offshoring pace and emerging economy firms. The make-or-buy decision must be flexible enough to explain offshoring characteristics and developed and emerging economy firms scenarios. As secondary objectives, and to show the trail to the main purpose, two research questions were identified and discussed during the paper: Is offshoring process an international movement only from developed countries to emerging economies? Is the main reason of offshoring the looking for low-cost work / activities?

To achieve the proposed objectives, the structure of this paper begins with a reasonable or acceptable definition of offshoring. Some reasons (or "the reason") for the process are also another important starting point. The majority of articles referee the idea that low-cost is the main reason for offshoring, and if it is correct, transaction cost economics seems to be a good basis for our analysis purpose and integrative intention. Also some literature connections between offshoring and TCE are presented and, naturally TCE is presented in highlights for understanding these connections. Ending this section, some different arguments based on newer researches are presented by some authors presenting another perspective as the main reason.

After this theoretical approach, a scenario analysis and some discussions are presented based on all possible interactions among firm from developed (DC) and emerging economies (EE) and examples of international corporations are presented to clarify and improve the understanding of our research questions and to build new contributions to international business theory.

When analyzing all possible developed and emerging countries' interactions, we argue that only looking for skills, capabilities, competences, etc., can be considered the main reason for offshoring to unify developed and emerging countries perspectives. Developed country firms have the additional benefit of low cost but considering the execution of same activities, so the same work (using similar skills, capabilities or competences) done with low cost. After all, final remarks are presented and some futures studies are proposed taking advantages of the pace of offshoring process.

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INTRODUCTION

Offshoring business is booming and what was used by a few US pioneers is now spreading through the world (Economist Intelligent Unit, 2006). This is a very new issue at least regarding the origin of the expression and its relation to services and, a complete and detailed explanation in common terms is not yet available.

Mol (2007), for instance, presents a variety of conceptual lenses that have been applied to outsourcing (which can also be applied to offshoring process): transaction cost economics, resource-based view, core competences, microeconomics, industrial organization, among others. From this list of perspectives, in this article we propose to analyze the applicability of transaction cost economics - TCE (Coase, 1937; Williamson, 1975, 1979) through its characteristic make-or-buy expression, considering the offshoring rate and including firms from emerging economies (FEE). The make-or-buy decision must be flexible enough to explain its application to firms from developed and emerging economies frameworks. This purpose seems to be significant to clarify some offshoring aspects, especially when involving firms from emerging economies (FEE). Most literature available presents reasons, analyses arguments and develops conclusions only from firms from developed countries perspectives. Therefore, do firms from different countries offshore activities for a common reason or should different reasons be considered in both situations?

In order to reach the proposed objective, the structure of this article begins with some considerations about offshoring as well as presenting reasonable or acceptable definition of offshoring. Another important starting point is the reasons for the process. The majority of articles refer to the idea that low cost is the main reason for offshoring, and if this concept is correct, transaction cost economics seems to be a good basis for our analysis purpose and integrative intention. In addition, some literature connections between offshoring and TCE are presented and naturally, TCE is highlighted in order to better understand these connections. At the end of this section, some different arguments based on recent research are presented by authors who presenting a different perspective as the main reason.

Following this theoretical approach, a framework analysis and discussions are presented based on all possible interactions among firms from developed countries (FDC) and emerging economies (FEE), as well as examples of international corporations clarifying and improving understanding of the issues proposed in this research, bringing new contributions to international business theory. At last, final remarks are presented and proposals for further studies are presented, taking advantage of the rate in offshoring process.

THEORETICAL FRAMEWORK

Offshoring is a reality and has had an expressive rate since its appearance. The term offshoring has been coined in 2001 (Bernstein, 2001) and has also appeared as an academic subject (at least from Ebsco® classification). In the first work using the expression offshoring (Amoribieta et al., 2001). Lewin, Massini and Peeters (2008) state that offshoring refers to the process of sourcing and coordinating tasks and business functions across national borders. This definition is enough for this paper because it considers both situations, sourcing (through subsidiaries), and outsourcing (contracting third party firms) processes in other countries different from the country of origin.

Also, many authors identify economic aspects as the main reason of outsourcing and offshoring. Robinson & Kalakota (2004) argue that cost pressure in developed countries drives firms to look for lower cost workers, infrastructure, telecommunications and IT. Lewin & Peeters (2006) state that cost reduction, growth strategy and competitive pressure are the main reasons for offshoring. Based on their research, these reasons stand for 97%, 73% and 71%, respectively. Even in recent papers, the importance of cost reduction is detached. Naghavi & Ottaviano (2009) says that offshoring to cheap labor countries is seen as directly benefiting consumers since firms pass on their savings in the form of lower prices. Beverakis, Dick & Cecez-Kecmanovic (2009) agreed that outsourcing encompasses cost savings and strategic benefits and also included the importance of focusing more attention on its core competencies, rendering the organization more efficient and effective in its operations.

Cost reduction based basically on low-wage workers (and countries) seems to be the best way (according to those authors) to acquire competitive advantage in a fast manner. In the early 1990s, pricing pressure for basic IT services and call center maintenance pushed the industry into low wage countries. India became a symbol of this migration in addition to its fluency in the English language. Pushed by its customers and in a quest to improved margins, IT service providers started to establish offshore presence though a variety of strategies, including organic build-outs, partnerships, joint ventures and acquisitions (Langerling & Roman, 2005). Robinson and Kalakota (2004) pose the following question: Why has offshoring become more prevalent? Why now? They also propose an answer to this question: the reduction of transaction costs associated to finding vendors, monitoring their work, and sending work overseas is helping to reshape the modern company. Despite some concerns arising in developed countries, especially in U.S. and UK, around emerging offshore outsourcing, most of them focusing on jobs losses, the advantage of using offshore locations is basically of cost savings – in the range of 25%-50% - mostly due to cheaper labor costs (Kolding, 2003).

Many authors directly correlated offshoring and low-cost with Coase (1937) and Williamson's (1975, 1979) proposals about firms and transaction costs. Tate et al. (2009) stated that TCE has been traditionally concerned with outsourcing or the make-or-buy decision. In addition, Mudambi (2008) said that optimal decisions regarding the governance of the firm's value chain emerge from the application of transaction cost analysis. The focus is particularly on costs and efficiency rather than revenue. Applying transaction cost theory, higher asset specificity favors the hierarchy (make) decision. Therefore, TCE seems to support many aspects of offshoring/outsourcing, along with its important expression "make-or-buy".

Coase (1937, p: 24) wrote that: "… the costs of organizing certain transactions within the firm may be greater than the costs of carrying out the exchange transactions in the open market". Williamson (1975) presented the important expression "make (hierarchy) or buy (market) decision", a common expression used to justify that a firm can keep activities inside its boundaries or contract a third-party company to provide this same activity. In Williamson (1999, p.1088), the author refers to this process as vertical integration "or, in more mundane terms, with the make-or-buy decision", and more recently in Williamson (2008, p.5), the author refers to this expression (make-or-buy) as the "canonical transaction for transaction cost economics".

Geyskens, Steenkamp & Kumar (2006: p.519) state that "transaction cost theory has become the predominant theoretical framework for explaining organizational boundary decisions", and that "it has been and continues to be refined and reformulated, corrected and expanded, in response to new theoretical and empirical developments", and conclude that

"found strong support for the theory…". And finally, Williamson (2005, p.33) said, "Empirical tests of TCE have grown exponentially since [1970s]"

But is it a consensus? It does not seem so. Ghoshal & Moran (1996) highlight that "TCE has become an increasingly important anchor for the analysis of a wide range of strategic and organizational issues of considerable importance to managers" (p.15). However, they complement that "it is not without merit as a positive theory, but, even for descriptive and analytical purposes, its usefulness is much more limited than we believe is necessary" (p.40). Nolan et al. (2007, p.2) for instance, state, "the traditional transaction cost theory, with its focus on the firm versus market dichotomy, has underestimated the complexity of economic relationships in the modern global economy". Or at least, is the search for activities in low-cost countries really the main reason for offshoring? Some authors found new and complementary approaches to offshoring beyond the low-cost workers, and it seems they have found even more interesting ones.

Other authors, such as Tayles & Drury (2001), state that besides cost and profitability considerations, sourcing decisions also involve consideration of strategy issues, detailed financial evaluation, and efficiency and risk dimensions relating to supplier quality, lead times and delivery reliability. This more strategic approach can also be found in Platts, Probert & Canez (2002) where they argue that historically, such decisions were often made primarily on grounds of cost. However, in recent years, there has been an increasing recognition of the strategic implications of these decisions and the need to take into consideration a wide range of factors other than cost.

Eppinger & Chitkara (2006) demonstrate the importance of lowering cost for a firm but emphasize a "plus" that goes beyond the lowest cost: There is a huge pool of engineering talent in low-cost regions such as China, the Czech Republic, India and Vietnam — and in medium-cost nations including South Korea, Hungary, Poland and Taiwan. The same thought is found in Varadarajan (2008) where he states that cost in itself cannot be the only reason: situations in which cost may not be the main consideration in a firm's outsourcing decisions also deserve careful consideration when focusing on the same underlying phenomenon.

Kotabe & Mudambi (2009) conclude that firms recognize that only low cost is not enough to create sustainable competitive advantage over their competitors. Kakabadse & Kakabadse (2005) report that the main reasons for outsourcing are: economic, quality, innovation, and also the fact that companies can buy technology from a supplier that would be otherwise too expensive to replicate internally. For Ebrahimi (2009) there is much more than only economic reasons: "the main purpose was to take advantage of lower costs to employ skilled workers". And Tsang (2000) said, from the transaction cost perspective that the primary objective of a firm is to save on transaction costs by choosing appropriate governance structures for handling its transactions. However, he alerts that the main weakness is oversimplification by using cost minimization and neglecting resource-based aspects.

Supporting these comments, in today's global environment, firms need a multitude of competences to achieve sustainable competitive advantage (Heimeriks, Klijn & Reuer, 2009). Accordingly, offshoring has emerged as an effective strategic practice whereby firms relocate their business functions (previously performed in-house) to overseas locations (Kedia & Mukherjee, 2009). McCarthy & Anagnostou (2004) argued that during the last 15-year period, the economic value, strategic importance and complexity of the outsourced function (when considering manufacturing organizations) has increased; and again Kedia & Mukherjee (2009) said that it is not new and also, that it takes place all over the leading global industries. Companies such as AT&T, Boeing, Citibank, General Electric, Morgan Stanley, Philips, Reebok, Sony, Swissair, Wal-Mart, etc. are all using offshoring as a strategic tool. Lewin &

Peeters (2006) found more than only low-cost reasons: "beyond taking out costs, companies can be expected to evolve towards offshoring strategies that create value and enable innovation and growth."

Also Bunyaratavej, Hahn & Doh (2007) provide very relevant information: Overall, our findings suggest that differences in wages might not be the only factor that firms use to consider where to offshore their services. Firms increasingly tend to invest in countries that have a_larger educated workforce that is more comparable to the U.S. Lewin, Massini & Peeters (2008) report a notable evolution in the strategic drivers with the emergence of company growth, access to qualified personnel and service improvement as increasingly important objectives leading firms to initiate offshoring projects.

Also, in their survey, Economist Intelligent Unit (2004) comments that companies that globalize primarily to save money in low-cost regions may be disappointed. Also in their two different period surveys, Economist Intelligent Unit (2004, 2007) identified that when asking about the success of the development of a global innovation network, the most important factors chosen (in order) were talent shortages in domestic market, need for greater insight into customer requirements in overseas markets, need to increase speed to market, need to improve R&D's return on investments, increasing complexity of innovation and, in the last position, need to cut R&D costs. And Varadarajan (2008) presents an important point of view: "In certain industries, outsourcing may often by the only viable business model, either for all firms or for a subgroup of firms". And more, the author says that while cost has been the principal focus of a considerable body of literature on whether an activity should be performed in-house or outsourced, quality (all factors other than cost) can be a major consideration in certain outsourcing decisions.

Some studies have appeared connecting TCE with resource-based view arguments seen above but with different perspectives from the ones we are presenting here (IDC perspectives). For example, Mayer & Salomon (2006) presented the hazards involving TCE options and RBV; Wolter & Veloso (2008) correlated TCE and competences from the innovation point of view, and Vasiliauskiene & Snieska (2009) introduced the impacts of TCE over outsourcing contracts.

Summarizing the information presented above, there are different opinions regarding the main reason for offshoring. Low-cost is very important and is supported by TCE. However, many of the authors presented here are recently highlighting factors other than lowing costs. Resources, skills, knowledge, expertise, talent pool, access to technologies, competences, educated workforce, innovative firms, and quality, among others, are presented as also being important reasons for offshoring. From now on, we will denominate this broad reason as competences, which are available or could be developed in-house for any kind of purpose (raw materials, products or services) for a firm or by contracting a third-party firm. In the following sections we shall try to clarify if the main reason is still lowering costs, looking for competences or both, based in four different frameworks involving developed and emerging countries.

FRAMEWORK ANALYSIS AND DISCUSSIONS

In the previous section, the relationship among offshoring, TCE and other reasons were presented, as well as a definition based on firm and country boundaries, and the main reasons for outsourcing/offshoring and the foundation for these reasons. The first reason is based on the low-cost perspective supported by TCE. A second reason is put forward where new findings from some authors present evidences that the search for new or already available competences or a set of these features can be underlying the search of low-cost improvements.

In the sense of competences, Williamson (1999) tried to join (or interpret) capabilities / competence perspective with TCE, but even understanding that strategy as a multidisciplinary issue (p.1087) he also found that some concepts of resource-based view (RBV) are "obscure and often tautological definitions of key terms" (p.1093). We agree that some concepts, not only in RBV but in many areas, can have nebulous boundaries. However, for this paper, low-cost and competences do not present this overlap and can be handled with no loss of information and can be the reasons for make-or-buy process, confirming or not the applicability of TCE.

If the definition presented above is correct and the low-cost reason is also correct, the application and reasons for offshoring can be applied to the internationalization process among any countries (and their firms) that the binomial (offshoring/low-cost) will be true. In order to understand the application of the concepts explained above to the whole world, we structured the world in developed (DC) and emerging economies with their respective firms, following the boundary-location definition of offshoring.

This structure is presented in Figure 1 with its respective interfaces. In this figure, we present all possible frameworks/interfaces from the point of view of offshoring process. It can take place (1) from developed to emerging countries, (2) among developed countries, (3) from emerging economies to developed countries and (4) among emerging economies.

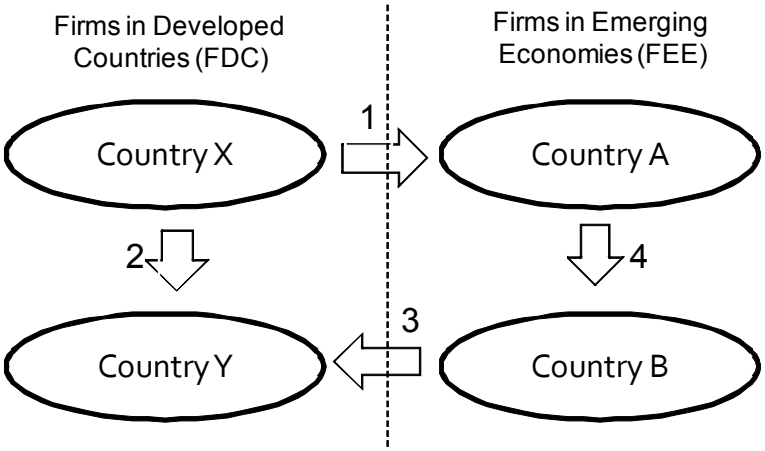

Figure 1 – Possible interactions among firms from DC and EE firms

Using the offshoring denominations presented previously, in the first case, a firm from a developed country (FDC) is offshoring activities to an EE firm (FEE); in the second one, there is offshoring of activities among companies from developed countries; in the third case, an FEE is offshoring activities to an FDC and, finally, case number four shows a FEE offshoring to another FEE.

From FDC to in FEE (Framework 1). This is the most studied and known interface until the moment. The number of cases is expressive and it can represent the reason for the appearance of the offshoring in the press since 2000. Batt et all. (2005) presented data stating that while the average annual vage in the US for a call center operator is around 33,000 dollars, and in India, the same call center operator can be contracted for 2,500 dollars. NeoIT (2005) presented that an IT programmer (2~3-year experience) in the US has a typical annual salary of approximately 65,000 dollars, while in India the salary of such a professional is of approximately 7,500 dollars, and in Brazil this same professional is hired for 12,500 dollars.

Based on this information, it seems that offshoring can have its main reason based on lowering the cost of resources, since these examples are impressive.

UNCTAD (2005) and Gassman & Von Zedtwitz (1999) provided many examples. However, Krishnadas (2008) presents impressive information, estimating in 594 the number of research and development (R&D) centers implemented by multinational corporations in India. Those centers employ 146 thousand people and most of them are dedicated to telecommunications and networks, semiconductors, and consumer electronics products. Hence specific examples are given below in order to further understand the phenomena.

Intel has more than 20 thousand R&D employees in more than 30 countries, including China, India and Russia (UNCTAD, 2005). Microsoft R&D centers are located around the world and some of them are established in China, India, and South Korea (Microsoft, 2007). Microsoft Corporation (2009) says that most of its software production is made internally but there are also third-party firms, and they also have research facilities in Canada, China, Denmark, England, India, Ireland, and Israel.

These examples and previous research show that not only activities requiring less skills are being offshored and are not the single base of offshore in-source (OI) but also offshore outsource (OO). In addition, in some cases, why are so many people working in R&D areas if they are working with commodity products? Are these important companies offshoring sensitive areas such as R&D only due to low-cost locations? A good explanation could make use of the Porter's diamond framework (Porter, 1991) but in some of the cases presented (and complemented with other ones), not all the determinants of competitive advantageous countries are applicable. In many cases, local markets are not so widely developed to supporte the local firms competences and neither there is internal competition, but further studies still need to be developed for better understanding this issue.

From FDC to FDC (Framework 2). In the previous item, many of the corporations mentioned also have information regarding their presence as activities implemented in other developed countries. In this item, the intention is to provide additional information about offshoring in interface 2.

In studies by Economist Intelligent Unit (2004), China and India are very important destinations for R&D, but three major Western countries emerge as the main developed-country lynchpins of global R&D spending in the survey—the US is favored by 29% of respondents, the UK by 24% and Germany by 19%. Each of these countries has an established record as an R&D powerhouse: the US, for example, accounts for 44% of all R&D spending in the OECD (Europe represents 28% of the total OECD, compared to Japan which houses 17%). These countries offer a history of R&D success, established infrastructure, strong academic links and robust IP laws.

However, this interface is not based on low-cost origin and destination relations. The differences in wages, costs, and other involved costs seem to be marginal even if not similar. In line with preference for competences and not exactly for low-cost workers, regarding the question: "Which of the following aspects of local R&D environment are most important in your choice of R&D destination?"; the number of respondents that answered important (4) and critically important (5) to the questions: Cost of R&D labor; Availability of R&D scientists with appropriate skills and, Local R&D expertise in your industry; were 58, 61 and 65, respectively. Interpreting these answers, lower cost is not as important as one can assume and the presence of expertise in specific areas is more important for implementation of R&D activities. The last question is associated to the previous one and presents important evidence

not regarding low cost, but the search for SKC is more relevant, also considering that there are no significant differences in labor wages.

This interface (2) has a great difference when compared to the first one (1). Moving from US or developing an activity in Japan or UK seems to take place not because of the low cost in these transactions. This issue will be further discussed after the analysis of all four frameworks.

From FEE to FDC (Framework 3). These cases are not very easy to find in literature or, at least, are not so well studied in academic environment. If, as shown in framework 1, triad firms go to EE in search for low-cost premises, what can an EE firm do in a DC? Indeed, it is not because of low-cost activities. Also, the reason is not only related to exploring the local market. If it were, exporting their goods could be enough in this globalized world. In some cases, EE firms are implementing manufacturing lines and even R&D centers in developed countries.

Chittoor & Ray (2007) observed that "the emergence of firms from developing countries as important players in global markets has been one of the distinctive phenomena of globalization in the twenty first century. (…) some of these firms are transforming themselves into 'emerging multinationals' by successfully competing with traditional MNCs from developed economies". Some specific cases can be found below:

The Chinese firm **Haier** is one of the most internationalized EE companies. According to Child & Rodrigues (2006), Haier began in 1984 as a collectively-owned enterprise - the Qingdao Refrigerator Factory. Its range of manufactured goods today includes several white goods, air conditioners, microwave ovens, and color TVs. It has 19 production factories outside China and two 'production parks' in the USA and Pakistan.

Also, according to Xu et al (2007), the company's globalization strategy involves all innovation processes. This encompasses 15 R&D centers, six design branches, and ten S&T information centers located throughout Europe, North America, and the Asia-Pacific region. Eppinger & Chitkara (2006) also highlighted that Haier has an R&D center in New York State as well as a manufacturing plant in North Carolina, both paying wages on an order of magnitude greater than in China.

The Brazilian **Embraer** has become one of the largest aircraft manufacturers in the world by focusing on specific market segments with high growth potential in commercial, defense, and executive aviation. They have sucessfully developed and adapted successful aircraft platforms, as well as judiciously introducing new technology whenever it creates value by lowering acquisition price, reducing direct operating costs, or delivering higher reliability, comfort, and safety (Embraer, 2009). Based on Matsuo (2007), Embraer offshore outsources many parts of its airplanes to several countries around the world. For instance, Hamilton and Sundstrand (USA) is responsible for air management, Parker (USA) for the Electrical Systems, Hydraulics, Flight controls and fuel system; C&D (USA) for interiors; Liebheurr (Switzerland) for the landing gear; and Honeywell (USA) for avionics; Latecoere (France) for center fuselage, Kawasaki and Sonaca (Belgium) for wing, stub, control surface and pylon. And this example is not a case of an EE firm that does not have competency to develop all parts, but a strategy followed by the major airplanes manufacturers (Boeing and Airbus). Some of the companies mentioned above are also providers for Boeing and Airbus.

From FEE to FEE (Framework 4). There are also many examples of firms from EE going to other EE in their internationalization process. Some examples are presented below. The Indian company TCS (Tata Consultancy Services Ltd) has more than 143,000 employees

from 67 different nationalities, as well as having offices in 43 countries, 17 of which are solution centers (TCS, 2009).

According to Dolan (2006), the company has opened offices in Budapest, Hungary and Hangzhou, China. Last year, it acquired a 1,300-employee outsourcerer in Chile, and it plans to add 1,500 to the 485 people at its Brazilian branch. The company is not only an example for this interface but also for interface 3 because, for instance, it has, respectively four (4) and three (3) offices in North America and in Europe.

The Chinese company Huawei is based and sells its products in more than 100 countries. It also has established 14 R&D centers around the world, such as in the Silicon Valley and Dallas in the United States, Stockholm in Sweden, Moscow in Russia and Bangalore in India, to ensure global R&D with outstanding people (Huawei (2009).

TPV Technology Limited ("TPV") is a leading display solution provider, specializing in the design and production of a wide spectrum of desktop monitors and LCD TVs (TPV, 2009). The company can be seen as an ODM provider, but it also has its own brands, such as AOC and Envision. According to Yuanta Research Center (2007), TPV owns six assembly factories, of which one is located in Brazil and another in Poland, while the rest are located in different regions within China.

This diversity of locations to implement activities presented in this section can be related to the two main causes for offshoring mentioned (low cost and search for competences) but also, for instance, political and marketing reasons. In the first case, the demand of a country (or the firms from the host country) to have a certain kind of installation in the country, and in the second case, a way to better understand the local market (consumers) and rapidly adapt the products to it.

The main arguments used for defining offshoring process were the simplest ones, based on corporation and country boundaries. If everything made inside a company is called in-house and outsourcing is known as an activity is performed by a contracted company not related to the contracting company, the denomination of outsourcing seems correct. If an activity is to be developed abroad, two possibilities are associated with it. It can be either done by a company with some kind of participation (shares, investment, knowledge, JV, human resources, material resources, etc.) in the contracting company (offshore insource - OI) or a third-party organization is contracted (offshore outsource - OO). In the first case, the denomination offshore insource, subsidiary, affiliated company, etc, may be used without any kind of limitation or overestimation. If these explanations are correct, it is possible to continue, and the proposed definition for offshoring based on corporation and country boundaries seem to be enough for this paper. We say enough because some clarifications are necessary in some cases, but this is subject for future studies.

The presented frameworks described in Figure 1 interfaces show that offshoring happens in all interfaces, among firms from developed and developing countries and vice-versa. Firm boundaries and location seem to be a good way to study offshoring. However, there is a problem regarding the main driver / reason: does it happen due to low costs, competences, or both?

When a firm from a DC goes towards an EE, there is a significant difference among wages and it can be acquired by corporations in developed countries. Therefore, it makes sense to consider cost as an important driver for offshoring. But how to explain the other three frameworks? From FDC to FDC, or FEE to FEE, a more thorough analysis can be made to identify each case but, on average, the perspective of lowering costs cannot explain the flow of company activities to one country or another. Therefore, it seems that there is something else needed in order to reach a satisfying explanation.

Regarding the EE firms outsorcing to DC, in this case it is clear that the perspective of lowering costs does not completely satisfy the reasons. Of course, all firms in all countries would like to buy or develop something as cheap as possible. However, it is not always possible, and instead of the search for low costs, the idea of competences is a better representative to explain this phenomenon.

To facilitate both the analysis and the understanding, two survey questions were presented as control points - (1) Is the offshoring process an international movement only from developed countries towards developing countries? (2) Is the main reason for offshoring the search for low-cost work/activities?

For the first question, the survey shows that not only DC firms but also EE firms disagreed with this single direction of the process. The majority of cases (or at least the reported ones) is from DC towards EE. From triad countries to Indian, Chinese, Brazilian, South Korean, Vietnamese, Chilean, and many other countries related to different kinds of industries - from call center and back-offices to lawyers, engineering, new development products, and research and development services, from screws, nuts, packages, plastics, to embedded software and integrated circuits, - almost everything can be found in EE.

However, the reverse direction can also provide good and surprising opportunities. The presence of Brazilian, Chinese and Indian companies, for examples, in triad countries through their own subsidiaries, joint ventures or contracting companies to complement their value chain can also be reported. From manufacturing installations, customers support to software development, and even offshore outsourcing to specialized aviation companies, globalization is available to every company in the world.

Between these two extremes, many cases can also be found among firms from triad countries to triad countries, and also from EE to EE. These mid-points can also represent a global integration and the capillarity of the offshoring process. Therefore, to summarize this survey question, offshoring is a bidirectional process, from DC to EE, and vice-versa.

The second survey question found two main reasons depending on the kind of analysis. Depending on the direction for the activity, one or another can better explain the process. Also, low-cost activities seemed to be the preferred option in the first years of offshoring. More recently, the search for skills, knowledge, capabilities and/or competencies seems to have found its space in literature. The ideal environment is the one where competences can be found for a lower cost. This low-cost approach is supported by important transaction cost economics (TCE) which provide significant contribution to make-or-buy decision.

At this point, there is an important crossroad ahead! If question 2 is correct, low-cost is the main reason for offshoring. Nonetheless, a strange fact can be inferred from question n. 1. There seems to be no doubt that in IDC firms moving towards DC, the cost is not the most important aspect, but the search for competences is, and offshoring is not any longer a global process. Moreover, in two other kinds of frameworks, between triad countries and between EE, cost seems to be marginal in those operations, and it is not clear in the make-or-buy decision.

If question 2 is incorrect, and low cost is not the main reason for offshoring, but the search for competences is, three of the four frameworks (2, 3 and 4) can cleared be explained. But DC firms outsourcing to EE framework (1) cannot be completely against the pursuit of competences. Therefore, we must analyze this framework in more details.

What comes first, the intention to purchase something for the lowest possible price, or based on the lowest price in a market, what kind of thing can be bought? An organization knows what it can and wants to outsource, based on some attributes such as quality, delivery

time, etc, and of course, if an activity could be outsourced for a lower cost, or with more attributes that could be found internally, it is much better for the organization.

Following this perspective, low cost is a consequence of a process for looking for providers that can perform an activity in a similar way (quality, etc.) as your company already does. And since the process for looking for providers may involve Request for Information (RFI) or Request for Proposals (RFP), the organization is checking the competences and general conditions to provide the required activity. Figure 2 identifies a decision process starting with the RFI / RFP process and finishing in an outsourcing/offshoring process.

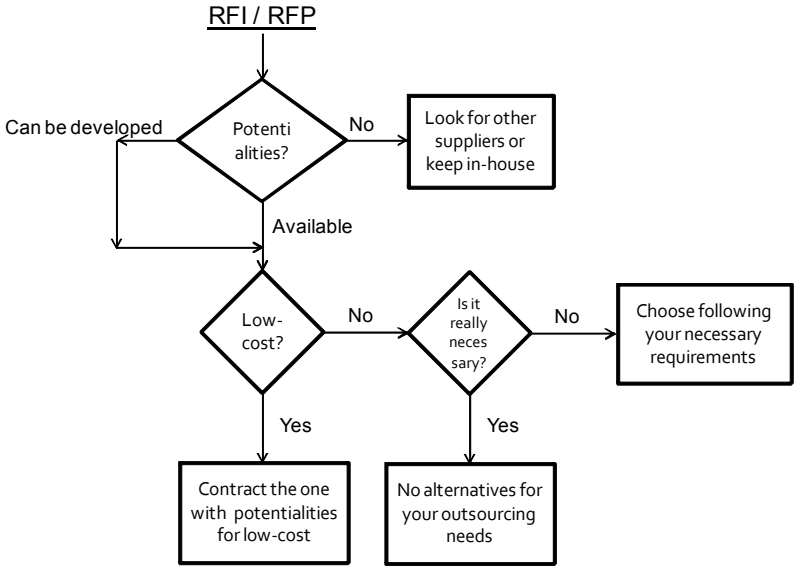

Figure 2 – A simplified decision process for outsourcing/offshoring processes.

Low-cost can be a requirement for a process that involves solutions for competences. Low-cost requirements come after a selection process. No organizations will hand out an activity to a contracted company that has not or cannot develop the required competences to represent a link of its value chain, even if it is for a near-zero cost.

So, if competences are available and the activity can be carried out with a lower cost, much better; but low-cost is not the origin of a make-or-buy decision. The presence of competences or the potential to develop them is. It is important to mention that the search for competences may be implicit, it may be a mental organization process, it may be so natural the company does not even notice it is doing that. It is like the decision of what clothes to wear to go to work, but it is present and it comes before the analyzed activity.

The findings presented here are close to what Argyres (1996: p.147-148) said:

> Firms outsource when suppliers possess superior capabilities, except when higher costs are accepted in the short run while capabilities are being developed in-house. In the case of mold making, outsourcing was chosen because of suppliers' superior capabilities and despite significant transaction costs.

This comment is very interesting for this paper and can help to clarify some aspects. The use of the word potentiality to represent the myriad of possible goods and services which possible contracting firms have interest in purchasing is made because we can talk about a small product or a service indistinctly and also, they do not even need to be available in a first moment. The availability of English language in many countries does not necessarily mean that the capability of call center operators is available. They need to be developed, probably

after a first selection process (here called RFI / RFP) with further conversations, clarifications, and negotiations related to the specific nature of the product or service.

Also, the capabilities are not necessarily going to be developed in-house in a specific moment for a vertical integration process. The involved costs and maybe the loss of time-to-market in internalizing this activity may be a limitation, while all necessary products and services are available anywhere in the world. The fast pace of development of products and services claim that nowadays one can internalize products, but can also design future products "during the flight" and it may be not as easy to compete (in efficiency and effectiveness) with existing specialized firms.

Finally, we agree that, "despite significant transaction cost"; both for existing and future products, the involved costs are important but if they could be transferred to the final price, what exactly would be the meaning of that if a firm has an innovative product (first mover) in the market? Following this complementary analysis, there seems to be nothing wrong in considering that the search for competences is a pivotal and primary reason for an outsourcing/offshoring process, instead of lower costs. If it is correct, all four frameworks presented can be explained and question 2 can be rejected.

FINAL CONSIDERATIONS

The denomination of offshoring may be a temporary tendency in management and internationalization literature, or maybe not. Regardless of can happen with offshoring process literature, whether it is involved in an internationalization or strategy theory or if it will become a new "theory", its importance as a catalyst in internationalization of companies cannot be overlooked. The number of reported cases in such a short period time and the informal research network structured to understand its causes and effects show the opportunity of integration among very different areas, from journalists to engineers. Its importance can also be verified as the capability to join informal and academic worlds. Multidisciplinary approaches from popular opinions and formal academic reports or papers enriched the issue and presented different perspectives.

Examples for all possible interactions between firms from developed countries and emerging economies (and vice-versa) were presented, showing that offshoring is a global process. If all of them are correct, the main reason for offshoring is not the search for lowering the cost of products, but the pursuit of competences. The main argument to reject the low-cost search is the one presented in interface 3, where firms from emerging economy countries go to developed countries not only to explore the local markets but also to have access to competences through manufacturing lines or even for research and development (R&D) purposes.

For the main objective, initially there was an intention to use the transaction cost economics (make-or-buy) to explain all presented frameworks and to generate a unified theory from the perspectives of developed and emerging economy countries but it does not happen in this way. It seems that TCE can only explain clearly the first framework, in which firms from developed countries outsource to firms in emerging countries. In this case, the intention of vertical integration of activities in other countries (offshore in source) or contract third-party companies (offshore outsource) to provide the same activities based on low cost is the correct answer. We think that low cost is a very easy and observable metric based on numbers while competences are not to easy to identify and measure. It is very easy for a CEO, for instance, to quantify the cost reduction of an offshoring process looking only at the firm results, but it is not so easy to say that better results were provided using the same competences gathered abroad.

However, it seems that there are other considerations to be made which are not only based on economics. Strategic, quality and time-to-market perspectives need to be associated with the concept of make-or-buy, and when this association is made, the cost is not the main aspect to be considered. In addition, it does not apply only to the remaining three frameworks, but it can also be used in some cases in the first framework. For instance, surely when Apple had the insight for the Ipod® platform, it did not think about developing all the necessary parts and components inside the company but went to the market looking for companies that could provide them with these parts and components to have the final product before any other company in the world. In this case, time-to-market was more important than costs, among others, because the cost (internal or external) could be transferred to the final price of the product!

Also, when the company went to market looking for availability or companies that could develop the necessary activity, in reality it was looking for what we are here associating with competences. This is the main reason for offshoring and it precedes the low-cost decision and, as presented in this paper, this approach and not the TCE one, can unify the drivers in any offshoring processes. Thus, for the time being, the search for competences can be considered a general reason for offshoring as an integrative perspective based on DC and EE firms. In firms outsourcing from DC to EE, DC firms can have cost as an additional reason, but this additional characteristic cannot be used throughout all frameworks.

This study can be helpful for similar studies where internationalization proposals (different "lenses") can take advantage of the available information. In addition to the Mol (2007) list, what is the behavior of other propositions such as open innovations, Uppsala internationalization process model or Eclectic theory of international production, among others, through the lenses of offshoring and EE?

Also, the make-or-buy decision could be complemented for strategic and emerging economy perspectives. Can this expression be used only as an internal procurement decision or can it be handled as a possible survival, opportunistic, time-to-market and/or strategic issue? The example of the Brazilian company Embraer can be considered for these four options (survival, opportunistic, time-to-market and/or strategic), but maybe there was no internal thought about building those activities in-house. The approach of Apple regarding its successful Ipod can be seen in the same way. Did Apple ever think of developing all necessary activities in-house instead of looking for what was already available in the world? In a more strategic thought, time-to-market and availability of competences somewhere in the world must also be taken into consideration.

Finally, the authors think that there is a necessity for more integrative theories contemplating the perspectives of emerging economy countries. This is because only the countries in BRICs represent approximately 43% of global population (an astonishing potential market for everything!) with firms eager to internationalize themselves and a strong and continuous economic growth. And, for instance, if associating offshoring studies with EE perspectives, an informal definition of offshoring (at least, for the time being) can be "a way to gather international experience and have access to new skills, knowledge, and capabilities for improving internal activities".

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