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Offshoring: Economic geography and the multinational firm

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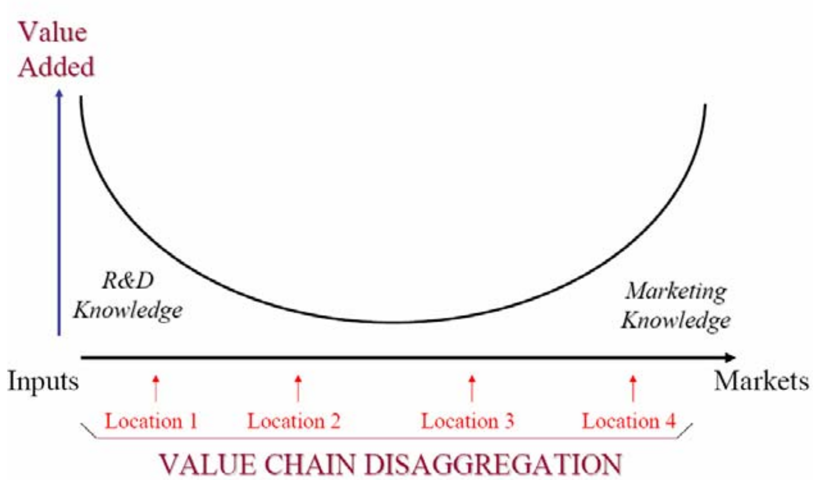
Loosely defined as the relocation of business processes from one country to another, offshoring is currently one of the most hotly debated aspects of globalization. As part of the global disaggregation of the value chain, it provides a critical template against which to view the intertwined issues of geography and the multinational firm. This disaggregation is the outcome of firms combining the *comparative advantages* of geographic locations with their own resources and competencies to maximize their *competitive advantage*. (McCann and Mudambi, 2005). The interplay of comparative advantage and competitive advantage determines both the boundaries of the firm (outsourcing decisions) as well as the optimal location of value chain components (offshoring decisions). The importance of this analysis transcends the strategy of international business, for it is a key aspect of unraveling one of the most critical questions in modern social science – why are some nations rich while others are poor?

FIGURE 1: MNEs, knowledge and location



One of the most important insights to emerge from Pyndt and Pedersen's (2006) new book is the crucial link between knowledge and value creation in the Danish context. This 'smile of value creation' echoes findings in the US, where 'taking out costs' is the main reason to offshore (Lewin and Furlong, 2005). Thus, poor countries that host low knowledge, low value-added offshore operations need to think of these as stepping stones to operations with higher knowledge intensity and wealth generation (see Figure 1). Ensign's perceptive review draws out the essence of each case study and relates it to international business theory.

References

Lewin, A.Y. and Furlong, S. 2005. Second bi-annual offshore survey results. Duke University CIBER / Archstone Consulting, December.

McCann, P. and Mudambi, R. 2005. Analytical differences in the economics of geography: The case of the multinational firm, *Environment and Planning A*, **37**(10): 1857-1876.

Pyndt, J. and Pedersen, T. 2006. *Managing global offshoring strategies: A case approach*. Copenhagen: Copenhagen Business School Press, 208 pages. ISBN 87-630-0169-1.

2 Globalization economic geography and the strategy of multinational firms This from ECONOMICS BSS2105 at University of Nairobi.Â The concepts of globalization, MNEs, and economic geography can provide such a big question. In a global economy, the forces of globalization conflict with national interests. The strategic decisions of MNEs have changed as globalization has accelerated. MNEs have to make decisions that guarantee sustainable growth amidst dynamic changes in stakeholders' needs.Â More so, experience with globalization can inform future decisions on matters economic geography and successful investment in a new market. You've reached the end of your free preview. Want to read all 7 pages? The offshoring of IT development is a significant global economic phenomenon. It influences the lives and fortunes of individuals, organizations, and nations/regions. However, because offshoring so broadly affects different stakeholders, a multi-level theory is required so that influences ...Â Editor-in-Chief Frank Ferrante interviews Ron Hira, a public policy professor at the Rochester Institute of Technology and the IEEE-USA vice president for career activities, about the pros and cons of offshoring. The article includes more. Editor-in-Chief Frank Ferrante interviews Ron Hira, a public policy professor at the Rochester Institute of Technology and the IEEE-USA vice president for career activities, about the pros and cons of offshoring. The Global Firm and Intra-firm (or Intra-network) Trade. The offshoring discussion focuses on the eventuality that a domestic firm sends some portion of its value-adding activities, whether manu-facturing, business processes, or software writing, to another country while continuing to sell its output into the domestic market. This leaves the domestic customer in the position of transferring money to foreign producers rather than to locals, thus draining liquidity out of the do-mestic economyâ€"or so the story goes.Â multinational assumes centralized production facilities, but not neces- an obvious outcome is that core strategies and resources are likely to. sarily home-country production.