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**MASTER THESIS**

**OFFSHORING AND OUTSOURCING ACTIVITY OF MNES: Firm Resources,  
Supply Chains and Employment Implications**

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## Abstract

Offshoring and outsourcing have emerged as critical strategies for multinational enterprises (MNEs) operating in an increasingly interconnected global economy. This dissertation explores the theoretical and empirical dimensions of offshoring and outsourcing activities, focusing on their impact on firm resources, sustained comparative advantage, global value chain specialization, trade impediments, and occupational wages. By analyzing four key academic papers and a detailed case study, this research aims to shed light on the motivations, challenges, and outcomes associated with these practices.

The study employs a systematic literature review methodology combined with an in-depth case study analysis of EDS and IBM to examine the interplay between global supply chain dynamics and the economic implications of offshoring and outsourcing. Key findings highlight the role of firm-specific resources in achieving sustained competitiveness, the effect of low-wage offshoring on domestic labor markets, and the implications of regulatory frameworks such as transfer pricing on global operations.

Through a comparative analysis of the selected papers, the research identifies critical insights for MNEs, including the need to balance cost efficiency with ethical considerations and long-term strategic goals. The findings provide practical recommendations for policymakers and business leaders to navigate the complexities of global supply chains. Finally, the study outlines limitations and proposes avenues for future research, emphasizing the need to address emerging trends in technology and sustainability within the offshoring and outsourcing landscape.



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## Chapter 1: Introduction

### 1.1. Offshoring and outsourcing in the global economy.

Offshoring and outsourcing are two widely recognized practices that have played a significant role in shaping the global economy over the past few decades. Offshoring refers to the relocation of certain business activities or production processes to other countries, often driven by the need to reduce costs or access specialized expertise. Outsourcing, on the other hand, involves contracting out specific tasks or services to external providers, regardless of their geographic location.

These practices are fundamental components of globalization, facilitating the integration of markets, industries, and supply chains. Businesses use offshoring to take advantage of cost efficiencies, tap into new talent pools, and expand their international presence. Similarly, outsourcing enables companies to streamline operations, focus on their core competencies, and leverage the expertise of specialized service providers.

While offshoring and outsourcing offer clear economic benefits, they also bring challenges that require careful consideration. These include concerns about job displacement, economic dependency, and the ethical implications of labor practices in certain regions. Moreover, firms engaging in these strategies must address risks such as supply chain disruptions, regulatory complexities, and cultural differences. By understanding these dynamics, stakeholders can better navigate the opportunities and challenges presented by these interconnected phenomena.

### 1.2. Relevance of the topic to multinational enterprises (MNEs).

The practices of offshoring and outsourcing have become essential strategies for multinational enterprises (MNEs) in today's globalized economy. As companies expand their operations across borders, they increasingly seek ways to optimize their resources, reduce costs, and gain access to new markets and specialized expertise. For MNEs, offshoring and outsourcing are not just cost-saving measures but integral parts of their business models that help maintain competitiveness in a rapidly changing global landscape.

Offshoring allows MNEs to take advantage of lower labor costs and favorable regulatory environments in foreign countries, leading to significant cost reductions in manufacturing, services, and research and development. By moving production processes or administrative tasks to countries with lower operating expenses, multinational corporations can enhance their profit margins while maintaining high standards of quality.

Outsourcing, similarly, is widely adopted by MNEs to focus on their core business functions while delegating non-core tasks to external specialists. This practice enables companies to benefit from the expertise and innovation of third-party service providers.



in areas such as IT support, customer service, and human resources. By outsourcing specific functions, MNEs can streamline their operations, improve efficiency, and remain agile in responding to market demands.

Moreover, offshoring and outsourcing provide multinational enterprises with the opportunity to diversify their supply chains and build resilience against economic disruptions. With a geographically dispersed network of suppliers and service providers, MNEs can mitigate risks associated with over-reliance on a single market or region. These strategies also allow them to tap into new pools of talent and innovation, expanding their capabilities and fostering global collaboration.

However, the relevance of these practices goes beyond mere economic considerations. The ability to navigate the complexities of offshoring and outsourcing is a critical skill for MNEs, as it involves managing cultural differences, ensuring compliance with local laws, and addressing ethical concerns related to labor conditions. As public scrutiny of these practices increases, MNEs must balance cost savings with social responsibility, ensuring that their operations are sustainable and aligned with global standards for fair labor practices.

In conclusion, offshoring and outsourcing are crucial strategies for multinational enterprises, offering opportunities for cost reduction, operational efficiency, and global expansion. Their relevance is particularly pronounced as MNEs seek to strengthen their competitive position in an interconnected global marketplace. However, these practices also require careful management of associated risks and ethical considerations, ensuring that they contribute to the long-term success and sustainability of the enterprise.

### 1.3. Research questions and objectives.

The aim of this dissertation is to analyze the offshoring and outsourcing practices of multinational enterprises (MNEs), investigating how these activities impact firm resources, sustained comparative advantage, trade impediments, and supply chains. Through a comprehensive review of the literature, a case study about IBM and empirical analysis, this research seeks to provide a more nuanced understanding of global value chain specialization, wage effects (both domestic and foreign), and the broader economic consequences of these strategies on MNEs.



#	Research Questions
1	How do offshoring and outsourcing influence the competitive advantage of multinational enterprises within global value chains?
2	What are the effects of offshoring and outsourcing on domestic and foreign wages?
3	How do trade impediments impact the offshoring and outsourcing activities of multinational enterprises?
4	What role do firm resources (financial, human, and technological) play in the decision to offshore or outsource operations?
5	What are the key challenges and risks faced by MNEs in offshoring and outsourcing activities, particularly in relation to supply chain management and regulatory complexities?

Table 1. Research Questions

The primary objectives of this dissertation are to analyze the theoretical foundations of offshoring and outsourcing, particularly in relation to their impact on global value chains. This research aims to explore the connection between offshoring, outsourcing activities, and the sustained comparative advantage of multinational enterprises (MNEs), with a focus on how these strategies contribute to their competitive positioning. Additionally, the study seeks to assess the economic effects of offshoring and outsourcing on both domestic and foreign wages, providing a comprehensive understanding of labor market implications. Another key objective is to examine the influence of trade barriers and regulatory frameworks on the decision-making processes of MNEs, particularly as they navigate offshoring and outsourcing decisions. Furthermore, this dissertation will investigate the role of firm resources—such as financial, human, and technological capital—in shaping the strategies of MNEs, shedding light on how these resources impact their ability to offshore and outsource effectively. Finally, the research aims to identify and evaluate the key challenges and risks associated with offshoring and outsourcing activities, especially in the context of supply chain disruptions and regulatory complexities, offering a holistic view of the obstacles MNEs face in the global market.



## Chapter 2: Literature Review

### 2.1. Theoretical foundations of Offshoring and Outsourcing.

Offshoring and outsourcing have emerged as pivotal strategies for multinational enterprises (MNEs) in their pursuit of sustained competitive advantage and integration into global value chains (GVCs). The theoretical underpinnings of these practices are deeply rooted in several key economic and management theories, including comparative advantage, transaction cost economics, the resource-based view (RBV), and global production networks (GPNs).

The principle of comparative advantage, originally introduced by David Ricardo, provides a foundational rationale for offshoring. By relocating activities to countries or regions with relative cost advantages, particularly in labor or production, MNEs can achieve greater efficiency and cost savings. These cost advantages are further amplified by globalization, trade liberalization, and advancements in information and communication technologies (ICT), which have significantly reduced transaction and coordination costs across borders. Building on this, transaction cost economics (TCE), as developed by Oliver Williamson, explains how firms decide to internalize or outsource specific activities based on the costs of managing transactions externally versus internally. Outsourcing is often selected when external suppliers demonstrate specialized capabilities and economies of scale that are difficult or costly to replicate in-house.

The resource-based view (RBV) provides another critical lens through which offshoring and outsourcing are examined. The Resource-Based View (RBV), emphasizes that a firm's competitive advantage is derived from its unique resources and capabilities rather than solely from external market conditions. According to the RBV framework, firms engage in outsourcing not only to reduce costs but also to access specialized capabilities that they may lack internally. Outsourcing decisions should therefore be evaluated in terms of their potential to enhance a firm's strategic resource portfolio, enabling long-term competitive differentiation. Future research should further investigate how firms leverage outsourcing to develop dynamic capabilities, which allow them to adapt to changing market conditions and technological advancements. Additionally, empirical studies could explore the interplay between RBV and transaction cost economics (TCE) in outsourcing strategies, analyzing how firms balance resource-based advantages with contractual risks and governance complexities (Barney, 1991).

According to the RBV, firms seek to enhance their strategic capabilities by focusing on core competencies while outsourcing non-core activities to external providers. This enables MNEs to allocate resources more effectively and improve operational efficiency. However, the success of this approach depends on the firm's ability to manage relationships with suppliers and ensure alignment with long-term strategic goals. Furthermore, the dynamic capabilities perspective emphasizes the importance of flexibility and adaptability in leveraging external resources, particularly in the context of rapidly changing global markets.



Offshoring and outsourcing are also central to the concept of global value chains, where production processes are increasingly fragmented and geographically dispersed. The GVC framework highlights how firms distribute their activities across multiple locations, each specializing in specific stages of production. This distribution is often influenced by a combination of factors, including labor market conditions, infrastructure quality, regulatory environments, and trade agreements. While offshoring is primarily associated with relocating activities to lower-cost regions, outsourcing focuses on delegating tasks to external firms that can deliver higher levels of expertise, quality, or innovation.

Despite the theoretical benefits, both offshoring and outsourcing present significant challenges. Trade barriers, geopolitical uncertainties, and cultural differences can complicate the management of global supply chains. Moreover, these strategies often have far-reaching implications for domestic and foreign labor markets, contributing to debates about wage disparities, job displacement, and the deskilling of certain occupations. Recent trends toward digitalization and automation add another layer of complexity, as firms must navigate the shifting boundaries between tasks that can be outsourced, automated, or retained in-house.

## 2.2. Global value chains, sustained comparative advantage, trade impediments, Supply Chains, Occupational (Domestic and Foreign) Wages

The globalization of production and the increasing integration of economies have given rise to complex global value chains (GVCs), which play a critical role in shaping the strategies of multinational enterprises (MNEs). GVCs represent the disaggregation of production processes across multiple geographies, where different stages of production—from research and development to assembly and distribution—are located in regions that offer the most competitive advantage. This phenomenon has fundamentally reshaped how MNEs approach sustained comparative advantage, trade policies, and their impact on domestic and foreign labor markets.

### 2.2.1. Global Value Chains and Sustained Comparative Advantage

The concept of GVCs builds on the idea of comparative advantage but extends it to a fragmented production environment. MNEs participating in GVCs can leverage specialization across countries, assigning specific tasks to regions that excel in particular activities. For example, high-value activities such as research and development or branding are often retained in advanced economies, while labor-intensive manufacturing is outsourced to emerging markets. This strategic allocation allows firms to maximize productivity and minimize costs, thereby creating sustained comparative advantages.

However, sustaining this advantage requires a continuous evaluation of location-specific factors, such as labor costs, infrastructure, tax incentives, and the regulatory environment. Firms must also adapt to shifts in global trade dynamics, such as the rise of regional trade blocs and changing consumer demands. Dynamic capabilities, which



emphasize flexibility and adaptability, are critical for firms to maintain their position within GVCs and respond effectively to disruptions or emerging opportunities.

The concept of Global Value Chains (GVCs) has become central in the discourse on international trade, economic development, and the competitiveness of multinational enterprises (MNEs). GVCs refer to the international network of production, distribution, and consumption, where the production process is fragmented and dispersed across various locations globally. This fragmentation allows firms to optimize production costs, access specialized capabilities, and leverage comparative advantages across different regions. However, the question arises of how firms sustain a competitive advantage over time in an increasingly integrated and competitive global market. The ability of firms to maintain a sustained comparative advantage within GVCs is influenced by multiple factors including technological innovation, human capital development, trade policies, and strategic business decisions.

To understand the concept of sustained comparative advantage within GVCs, it is essential to first explore the foundational theories that underpin these ideas. Traditional economic theory, particularly David Ricardo's theory of comparative advantage, explains that countries or firms gain an advantage by specializing in the production of goods where they have a lower opportunity cost relative to others. However, this classical theory largely focuses on static conditions and overlooks the complexities of a globalized production network.

Modern extensions of the theory, particularly within the framework of GVCs, suggest that comparative advantage is no longer merely a function of cost differentials or resource endowments but is increasingly shaped by firms' ability to innovate, adapt, and exploit technological advancements. As GVCs become more sophisticated, firms are able to leverage their strengths not just in production but across various stages of the value chain, from research and development (R&D) to marketing and distribution, creating a dynamic and evolving comparative advantage.

Gereffi (2018) offers a framework that further refines the theory of comparative advantage by recognizing the increasing importance of global production networks, rather than just bilateral trade relationships between countries. He emphasizes that firms within GVCs are no longer confined to one national or regional base; instead, their competitive advantage is dependent on how well they can coordinate and control operations across a network of suppliers, manufacturers, and customers spread around the world. This reconfiguration of global production has significant implications for the strategies that firms must adopt to sustain their competitive positions in international markets.

A key factor influencing the sustainability of comparative advantage within GVCs is technological innovation. As firms increasingly digitize their operations, they can enhance operational efficiency, reduce transaction costs, and improve the flexibility and resilience of their supply chains. Digital technologies, such as artificial intelligence (AI), the Internet of Things (IoT), blockchain, and big data analytics, allow firms to automate processes, improve decision-making, and enhance transparency across complex value chains.



For instance, the integration of AI and IoT into supply chain management has enabled firms to track goods in real time, predict demand fluctuations, and optimize inventory levels. Blockchain, on the other hand, offers unprecedented transparency and security, particularly for transactions that involve multiple stakeholders across different jurisdictions. These technological advancements enhance the firm's ability to respond swiftly to disruptions and changing market conditions, ultimately strengthening its position in the GVC and ensuring a sustained competitive edge.

Baldwin (2020) in "The Digitalization of Global Value Chains: Implications for Trade and Development" highlights that digitalization is not just a tool for improving efficiency but also a driver of flexibility and resilience. In the context of GVCs, digital tools provide firms with the agility to respond dynamically to changes in global demand, supply disruptions, or shifts in trade policy. Moreover, digital platforms facilitate better coordination among geographically dispersed partners, helping firms lower transaction costs and reduce the time required for production and delivery.

In addition to technological capabilities, firms must also cultivate strategic capabilities that enable them to respond to changes in the global market. As MNEs are increasingly exposed to fluctuating demand, geopolitical risks, and regulatory challenges, the firms that are able to adapt and innovate remain competitive in the long term. This adaptability is critical in sustaining a comparative advantage as firms must continuously reconfigure their strategies to respond to new challenges.

One important element of strategic capabilities is the ability to innovate and differentiate products. Firms that can continuously innovate not only in terms of product design but also in their production processes, business models, and customer relationships, are more likely to maintain their competitive advantage. Innovation-driven firms are better positioned to upgrade their roles within the GVC, moving from low-value added stages of production to higher-value activities such as R&D, marketing, and branding. For instance, companies like Apple and Samsung have successfully positioned themselves in high-value stages of the GVC by focusing on product design and innovation, while outsourcing their manufacturing operations to lower-cost regions.

Additionally, firms that excel in managing risks within the GVC are better positioned to sustain their competitive edge. The ability to mitigate risks, such as those associated with supply chain disruptions, natural disasters, or geopolitical conflicts, is becoming increasingly important in maintaining competitiveness. Gereffi (2021) examines how firms are responding to these challenges by diversifying their suppliers, regionalizing their production networks, or adopting vertical integration strategies. By diversifying sources of supply and production, firms can reduce their exposure to any single point of failure and thus protect their long-term competitive advantage.

Another crucial factor that impacts the sustained comparative advantage of firms in GVCs is labor market dynamics. Historically, offshoring and outsourcing were associated with cost-cutting strategies, particularly by relocating production to regions with lower labor costs. However, as Baldwin and Evenett (2020) argue, long-term competitiveness increasingly depends on firms' ability to invest in human capital and foster knowledge transfer. Companies that focus on developing their workforces



skills, particularly in digital technologies and innovation, are better positioned to create value-added activities that contribute to a sustained competitive advantage.

In this context, human capital development becomes a key determinant of success within GVCs. Firms that invest in employee training, research and development, and digital skills are able to foster a more innovative and productive workforce. This not only enhances the firm's ability to develop new products and services but also ensures that the firm's position within the GVC is more resilient to changes in labor cost differentials. As Yeaple (2018) notes, firms that prioritize human capital development, particularly in emerging technologies, can move up the value chain and engage in higher-value activities that are less susceptible to offshoring or automation.

Furthermore, the ability of firms to engage in knowledge transfer is vital for sustaining their competitive advantage. As GVCs involve multiple firms across various stages of production, the transfer of knowledge and skills between different parts of the chain is essential for improving efficiency and innovation. Firms that foster strong relationships with their suppliers, invest in R&D, and create a culture of collaboration across their value chains are more likely to benefit from knowledge spillovers and enhance their competitive position.

Trade policies and regulatory frameworks play a significant role in shaping the dynamics of GVCs and the comparative advantage of firms. As firms navigate the complexities of international trade, they must contend with trade agreements, tariffs, non-tariff barriers, and other regulatory obstacles that can impact their ability to compete effectively in global markets. Antràs (2020) points out that the design of trade policies can either facilitate or hinder the smooth functioning of GVCs, depending on whether they promote openness and market access or impose restrictions that disrupt supply chains.

In addition, geopolitical risks, such as political instability, economic sanctions, and protectionist policies, can create significant challenges for firms operating within GVCs. The recent shift towards protectionism in many countries, as seen with the rise of trade wars and nationalistic policies, has led firms to reconsider their supply chain strategies. Gereffi (2021) explores how firms are responding to these challenges by reconfiguring their supply chains, either by regionalizing production or increasing the flexibility of their operations. Firms that successfully adapt to these regulatory and geopolitical changes are more likely to maintain their competitive advantage despite external shocks.

Finally, as global disruptions such as economic crises, pandemics, and geopolitical conflicts continue to shape the global economy, the resilience of firms within GVCs has become increasingly important for sustaining competitive advantage. Firms that integrate risk mitigation strategies, including diversification, nearshoring, and digital supply chain integration, are better positioned to weather external shocks and maintain their competitive edge.

Baldwin (2020) and Gereffi (2021) highlight that resilience in GVCs is closely tied to sustainability. Firms that integrate sustainability principles into their operations—not just in terms of environmental impact but also in terms of economic and social



sustainability—are better able to navigate uncertain and volatile global markets. Firms that invest in sustainable practices, such as eco-friendly manufacturing processes, ethical sourcing, and employee welfare, are not only positioning themselves to meet evolving regulatory requirements but are also building long-term resilience against disruptions that may affect their operations.

In conclusion, the sustained comparative advantage of firms within GVCs is shaped by a multitude of factors, including technological advancements, strategic capabilities, human capital development, trade policies, and the ability to manage risks and disruptions. Firms that can innovate, leverage digital technologies, develop their workforce, adapt to changing regulatory environments, and build resilience into their operations are more likely to maintain their competitive edge in the global economy. As the landscape of global trade continues to evolve, firms must continuously refine their strategies to ensure they remain at the forefront of their industries, ensuring long-term sustainability and profitability within the GVC framework.

### 2.2.2. Trade Impediments and Their Impact on Supply Chains

Despite the efficiencies associated with GVCs, trade impediments pose significant challenges to their seamless operation. Tariffs, non-tariff barriers, and geopolitical conflicts can disrupt the flow of goods and services, increasing costs and reducing efficiency. For example, the imposition of tariffs on imported goods can force firms to reevaluate their sourcing strategies, potentially leading to reshoring or nearshoring of production activities. Additionally, regulatory compliance in multiple jurisdictions, including labor standards and environmental regulations, can increase the complexity of managing GVCs.

The COVID-19 pandemic and subsequent global supply chain disruptions highlighted the vulnerabilities of highly fragmented production networks. Many MNEs have since adopted strategies to diversify suppliers, build regional supply chains, or invest in digital technologies to enhance supply chain resilience. These changes underscore the importance of balancing cost optimization with risk management in global supply chain strategies.

Global trade is essential for the functioning of modern supply chains, enabling companies to source materials and products from different parts of the world to optimize production and reduce costs. However, trade impediments—whether tariffs, non-tariff barriers (NTBs), customs delays, or trade wars—pose significant challenges to these global networks. The academic literature has extensively examined these barriers, highlighting their complex nature and profound impact on the efficiency and competitiveness of global supply chains. This section reviews the literature on the various trade impediments affecting supply chains, categorizing them into key themes and discussing their effects on the movement of goods and services across borders, as well as on the strategic decisions made by multinational enterprises (MNEs).

Tariffs are one of the most direct and historically prominent trade impediments that have been studied in the literature. According to Bown (2019), tariffs can significantly increase the cost of imported goods and services, which directly affects supply chains.



operations. The literature suggests that tariffs lead to higher production costs for firms that rely on imported raw materials, intermediate goods, or finished products, which in turn raises the price of goods for consumers (Krugman & Obstfeld, 2018). These price increases can result in reduced demand, lower profit margins for firms, and a reconfiguration of supply chains as companies search for more cost-effective suppliers.

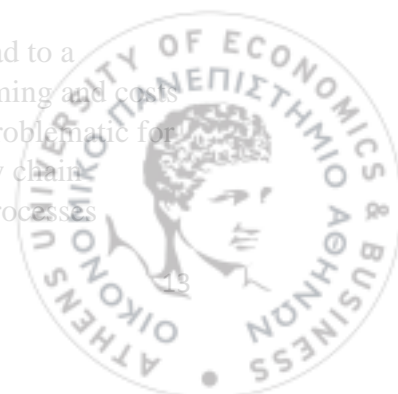
The recent US-China trade war, as analyzed by Bown and Irwin (2020), provides a contemporary case of the disruptive impact of tariffs. In response to tariffs imposed by both the US and China, many firms shifted production from China to other countries, such as Southeast Asia, in an attempt to mitigate the cost impact. This restructuring of supply chains, however, came at a price, with companies incurring additional costs related to supplier transitions, new regulatory environments, and logistical challenges.

Non-tariff barriers (NTBs) have been increasingly recognized in the literature as more insidious forms of trade impediments compared to traditional tariffs. NTBs encompass a range of regulatory measures, including import quotas, licensing requirements, sanitary and phytosanitary (SPS) regulations, and anti-dumping policies. These barriers are more difficult to quantify than tariffs but can have an equally or even more significant impact on supply chain efficiency (Baldwin, 2016). As noted by Evenett and Fritz (2015), NTBs are often the result of domestic policies that aim to protect local industries from foreign competition or address public health and safety concerns. However, these measures can unintentionally increase costs for international businesses and create inefficiencies in supply chains.

The literature has pointed out that the proliferation of NTBs has made it more difficult for firms to navigate international trade, as companies are often forced to comply with a patchwork of standards and regulations across different markets. For example, as observed by Hoekman and Nicita (2011), product certification standards, environmental regulations, and trade remedy measures (such as antidumping duties) can increase the time and costs involved in getting products to market. This is particularly problematic for firms operating in industries that require rapid product development and delivery, such as the technology or automotive sectors. In some cases, firms may choose to limit their market access to avoid the costs of compliance, leading to a reduction in overall global trade volumes (Lamy, 2018).

The efficiency of customs procedures is a critical factor in determining the success of global supply chains. The literature identifies customs delays and inefficient administrative procedures as major trade impediments that increase lead times and operational costs. According to the World Bank (2020), cumbersome customs procedures are a significant barrier to trade, especially in developing countries where infrastructure and systems may be outdated or underdeveloped. Such delays can increase inventory holding costs, disrupt production schedules, and affect the timely delivery of goods to customers.

Research by Wang and Wei (2020) shows that customs inefficiencies lead to a reduction in trade flows, as firms face increased uncertainty about the timing and costs of their shipments. Furthermore, administrative delays are particularly problematic for industries that rely on just-in-time (JIT) inventory systems, where supply chain disruptions can have a cascading effect on production and distribution processes.



(Mentzer et al., 2001). For example, in the automotive industry, where production lines are often highly synchronized, delays in customs procedures can lead to stoppages on the production floor and significant financial losses (Zhao et al., 2020).

Trade wars, characterized by the imposition of tariffs and other protective trade measures, have become a central focus of recent research on trade impediments. The literature has increasingly pointed to the growing trend of protectionism, especially following the US-China trade dispute and the rise of nationalist policies in many parts of the world. Bown (2019) emphasizes that trade wars disrupt global supply chains by making trade more expensive, reducing the predictability of international business relationships, and generating uncertainty regarding future policy changes.

The academic literature suggests that trade wars often lead to a "beggar-thy-neighbor" scenario, where countries attempt to protect their domestic industries by imposing trade barriers on foreign goods, which in turn leads to retaliatory measures (Ceglowski, 2018). This creates a cycle of escalating trade restrictions, ultimately harming global trade flows. According to Johnson (2019), the imposition of tariffs and retaliatory measures between the US and China had a profound effect on the structure of global supply chains, with firms shifting their operations and trade patterns in an attempt to mitigate tariff-related costs.

Firms engaged in global supply chains may respond to the uncertainty created by trade wars by seeking alternative suppliers in regions that are not subject to tariffs or protectionist measures (Baldwin, 2020). This process of supply chain reconfiguration, as discussed by Gereffi (2018), involves reassessing the costs of production, the reliability of suppliers, and the stability of trade relationships. In some cases, firms may move production closer to their key markets in a process known as "nearshoring," which can mitigate the impact of trade barriers and reduce the overall risk exposure of their supply chains.

Geopolitical risks—such as political instability, civil unrest, economic sanctions, and diplomatic tensions—represent a significant source of trade impediments. Geopolitical risks can disrupt supply chains by creating unpredictable conditions for international business, affecting the flow of goods, and forcing firms to adapt to rapidly changing political and economic environments. According to Chin and Weng (2015), the increasing interdependence of global markets means that disruptions in one region can have far-reaching consequences for firms in other parts of the world.

The literature on geopolitical risks has highlighted the need for firms to manage risks through diversification, as reliance on suppliers or production sites in politically unstable regions can expose firms to significant financial and operational risks (Doh et al., 2015). The imposition of sanctions, for example, has led to the disruption of supply chains in countries like Iran and Russia, where firms have been unable to access critical components or materials due to trade restrictions (Jorfi et al., 2019). Geopolitical risks can also lead to disruptions in transportation routes, such as the closure of trade routes in the Middle East or the South China Sea, which can further exacerbate the challenges faced by global supply chains.



The literature on trade impediments highlights the significant challenges faced by firms engaged in global supply chains. Tariffs, non-tariff barriers, customs delays, trade wars, and geopolitical risks are all critical factors that affect the efficiency, cost structure, and competitiveness of global supply chains. While the impact of these trade impediments varies depending on the type of industry and the geographical scope of operations, the common theme across the literature is that trade barriers disrupt the smooth flow of goods and services, leading firms to adopt various strategies to mitigate these risks.

Multinational enterprises (MNEs) must navigate an increasingly complex trade environment, where barriers are becoming more sophisticated and less predictable. As the global trade landscape continues to evolve, it is essential for firms to adopt flexible supply chain strategies, including diversification, nearshoring, and investment in technologies that enhance supply chain resilience. Furthermore, the literature emphasizes the importance of international cooperation and the reduction of trade barriers in facilitating the efficient functioning of global supply chains, which ultimately benefits both firms and consumers.

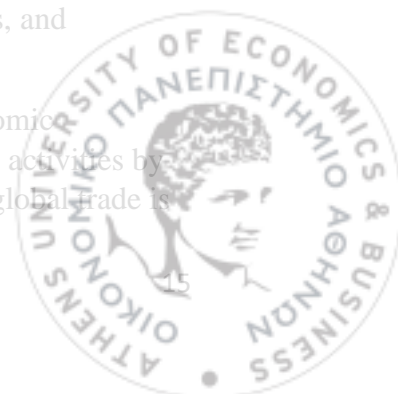
### 2.2.3. Occupational Wages: Domestic and Foreign Implications

The impact of GVC participation and outsourcing on occupational wages has been a subject of extensive academic and policy debates. On the one hand, offshoring and outsourcing can create cost savings for firms, potentially leading to higher productivity and economic growth. On the other hand, these practices often lead to wage polarization, particularly in developed economies. Low-skilled workers in high-cost regions may face job displacement or wage stagnation, while high-skilled workers experience wage premiums due to the demand for specialized expertise.

In developing economies, GVC integration can stimulate job creation and wage growth, particularly in export-oriented industries. However, the benefits are not uniformly distributed and often depend on the nature of activities outsourced to these regions. For instance, while labor-intensive manufacturing may generate employment opportunities, it may not necessarily lead to significant wage growth or skills development. Furthermore, concerns about poor working conditions, limited labor rights, and environmental degradation in certain regions highlight the ethical challenges associated with global outsourcing.

The interplay between GVCs, sustained comparative advantage, trade impediments, supply chain dynamics, and occupational wages underscores the complexity of operating in a globalized economy. MNEs must navigate these interconnected factors while balancing cost efficiency, ethical considerations, and the need for adaptability. As global trade continues to evolve, understanding the economic and social implications of these trends remains crucial for policymakers, businesses, and stakeholders involved in shaping the future of global value chains.

The dynamics of occupational wages are a critical aspect of global economic integration, particularly within the context of offshoring and outsourcing activities by multinational enterprises (MNEs). The relationship between wages and global trade is



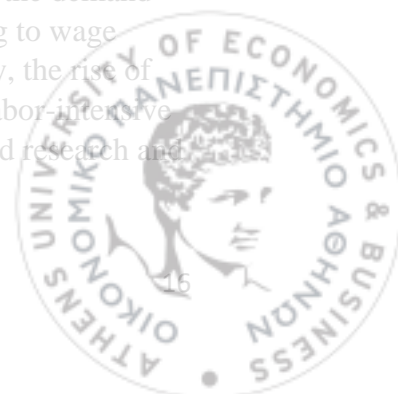
complex, with various factors influencing wage levels in both domestic and foreign labor markets. This section provides a literature review on occupational wages, examining how domestic and foreign wage disparities are shaped by globalization, labor mobility, and the shifting patterns of trade and investment across borders. By synthesizing key studies in this area, the review explores the implications of these wage dynamics for both workers and firms, with a focus on how global value chains (GVCs) and trade policies influence wage structures in different sectors and regions.

Economists have developed various theoretical frameworks to understand how wages are determined in domestic and foreign labor markets, especially in the context of globalization. The classical theory of wage determination, as presented by Stolper and Samuelson (1941), suggests that trade liberalization leads to wage changes in sectors that are exposed to international competition. According to this theory, in developed economies, wages tend to increase in sectors that export goods or services, while wages in import-competing sectors may decrease due to increased competition from lower-wage countries. Conversely, workers in developing countries that specialize in labor-intensive goods often experience wage increases as they participate in global supply chains.

In contrast, the Heckscher-Ohlin (HO) model (1949) provides a framework for understanding how factor endowments (such as capital and labor) influence wages. According to this model, countries abundant in capital will see rising wages in capital-intensive industries, while labor-abundant countries will witness higher wages in labor-intensive sectors. The literature suggests that globalization, which has led to increased trade and foreign direct investment (FDI), has altered these traditional wage dynamics, with firms increasingly shifting production to countries with lower labor costs. This shift has resulted in wage compression in high-wage countries and wage increases in low-wage countries, although the extent of these changes is highly context-dependent (Feenstra & Hanson, 1996).

A significant body of literature has focused on the impact of offshoring and outsourcing on domestic wages, particularly in high-wage countries. Studies suggest that offshoring can lead to wage suppression, especially in sectors such as manufacturing and services where low-wage labor from developing countries is increasingly replacing domestic workers (Autor et al., 2013). In particular, the offshoring of routine, labor-intensive tasks, such as call center operations or assembly line work, has been associated with job losses and downward pressure on wages in certain sectors (Harrison et al., 2011).

However, the effect of offshoring on wages is not uniform across all occupations or industries. Some studies indicate that offshoring may lead to wage growth in high-skilled jobs within advanced economies. For instance, Boudarbat et al. (2011) argue that the relocation of low-skill tasks to lower-cost countries can increase the demand for high-skilled workers in the domestic labor market, potentially leading to wage increases for highly educated workers in developed economies. Similarly, the rise of technology-driven industries has shifted the focus of outsourcing from labor-intensive tasks to higher-value activities such as software development, design, and research and



development, which has contributed to higher wages for skilled workers in the tech industry (Blinder, 2006).

The literature also highlights that wage effects depend on the nature of the tasks being offshored. According to Borjas (2001), jobs that require routine or manual labor are more likely to be offshored to countries with lower wages, thereby reducing domestic wages in those sectors. In contrast, the offshoring of complex, non-routine tasks is less likely to have the same negative wage effects, as these tasks often require high levels of expertise that are not easily replicated in low-wage countries.

The phenomenon of wage convergence and divergence across countries in global supply chains has been a key area of focus in the literature on occupational wages. On one hand, the literature suggests that globalization may lead to wage convergence, as developing countries experience wage increases due to greater participation in global trade and investment. This process is often linked to the expansion of multinational corporations (MNCs) into emerging markets, which can help raise the wages of workers in low-wage countries by creating better job opportunities and improving labor standards (Meschi & Vivarelli, 2009). For example, firms that relocate production to countries such as China or India may pay workers higher wages than domestic firms in these regions due to the introduction of international wage norms and the demand for skilled labor.

On the other hand, there are concerns that wage divergence may occur within countries as globalization creates greater income inequality. In high-income countries, wage gaps may widen as workers in low-skill occupations face downward pressure on wages, while highly skilled workers in industries such as technology, finance, and engineering see wage increases (OECD, 2011). The literature has consistently found that the benefits of globalization are not evenly distributed within countries, and wage inequality is often exacerbated by the increasing international mobility of capital and labor (Kaplinsky et al., 2011).

The role of labor market institutions, such as trade unions and minimum wage laws, has also been a key factor in determining wage outcomes in both high- and low-wage countries. In countries with strong labor protections, wage divergence tends to be less pronounced, as labor unions help negotiate higher wages for domestic workers in industries affected by offshoring and global competition (Girma et al., 2005). In contrast, in countries with weak labor market institutions, globalization may exacerbate wage disparities as workers have less bargaining power to demand higher wages.

Trade liberalization, which reduces tariffs and non-tariff barriers to trade, has been shown to have both positive and negative effects on occupational wages, depending on the structure of the economy and the sectors involved. According to Melitz (2003), trade liberalization leads to a reallocation of resources across sectors, with labor moving from less efficient sectors to more efficient ones. This reallocation can result in higher wages in sectors that become more competitive as a result of trade liberalization, while sectors that face increased competition from foreign producers may see wage declines.



The literature on the impact of trade liberalization on wages has found mixed results. For example, Goldberg and Pavcnik (2007) show that trade liberalization in developing countries can lead to wage increases in industries that are exposed to international competition, as firms improve productivity and wages in these sectors to attract skilled workers. In contrast, in high-wage countries, trade liberalization may lead to wage stagnation or decline in sectors that are exposed to foreign competition, particularly in industries such as textiles, apparel, and basic manufacturing (Dube, 2012).

A growing body of research suggests that the impact of trade liberalization on occupational wages is also influenced by the type of labor force involved. For instance, workers with higher educational qualifications and skills tend to benefit from trade liberalization, as these workers are more likely to work in export-oriented industries or in industries that require advanced technological expertise (Pavcnik, 2002). Conversely, lower-skilled workers may face wage reductions due to competition from low-wage countries and the offshoring of low-skill jobs.

The increasing role of technology and automation in global production has become an important factor in shaping occupational wages. As firms incorporate new technologies into their production processes, the demand for high-skilled workers has risen, leading to wage increases for those with expertise in areas such as robotics, artificial intelligence, and data analysis (Brynjolfsson & McAfee, 2014). However, the automation of routine tasks has also led to job displacement in certain sectors, particularly for low-skilled workers (Acemoglu & Restrepo, 2019). This shift in labor demand can contribute to wage polarization, where wages increase for high-skilled workers, while low-skilled workers experience stagnant or declining wages due to job displacement and the offshoring of manufacturing jobs.

The literature on occupational wages highlights the complex interactions between globalization, trade policies, labor markets, and technological advancements. The effects of offshoring, trade liberalization, and global supply chain dynamics on wages are multifaceted, with some sectors and countries benefiting from higher wages, while others experience wage suppression or stagnation. The growing importance of high-skilled labor and the impact of technology and automation on global supply chains have further complicated these wage dynamics. Ultimately, understanding the implications of these factors on occupational wages requires an interdisciplinary approach, incorporating insights from economics, labor studies, and international business research.



### 2.3. Identification of research gaps.

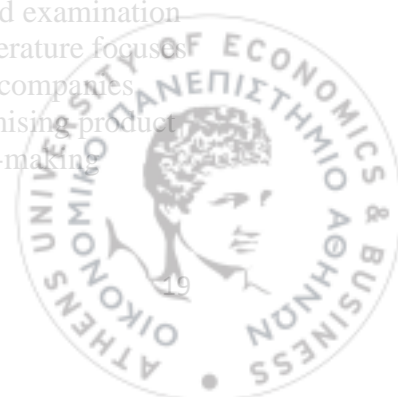
Research Gap	Section	Description
Lack of comprehensive analysis on how firms balance cost, quality, and technology in offshoring decisions.	2.2.1	Discussion on how firms leverage specialization and technological advancements but lacks focus on cost-quality trade-offs.
Limited research on the combined effects of trade impediments (tariffs, NTBs, and geopolitical risks) on global supply chains.	2.2.2	Covers trade impediments but does not comprehensively analyze their joint effects on supply chains.
Insufficient focus on how SMEs navigate trade wars and long-term trade disruptions.	2.2.2	Mentions trade disruptions but lacks an in-depth analysis on SMEs' strategies.
Gaps in understanding the impact of offshoring on wage inequality, including gender disparities within countries.	2.2.3	Addresses wage inequality but does not sufficiently discuss gender disparities.
Need for deeper investigation into the long-term wage effects of offshoring and outsourcing on service industries.	2.2.3	Discusses labor market effects but lacks a sectoral focus on service industries.
Ethical considerations regarding labor conditions in low-wage regions affected by outsourcing remain underexplored.	2.2.3	Highlights ethical concerns but does not explore broader corporate responsibility aspects.

Table 2. Research Gaps

This table outlines key research gaps in three critical areas of study that are relevant to the context of this thesis. The gaps presented reflect unexplored or underexplored aspects of these interconnected fields and provide direction for future research that could enrich the understanding of global trade dynamics, the implications of offshoring, and the wage effects in various labor markets.

Despite the extensive literature on offshoring, outsourcing, global value chains (GVCs), trade impediments, and occupational wages, several critical research gaps remain. These gaps highlight the need for further investigation into specific dimensions of these topics that have not been thoroughly addressed in existing studies.

One significant research gap pertains to the lack of a comprehensive analysis of how firms balance cost, quality, and technology in their offshoring decisions. While Section 2.2.1 discusses how firms leverage specialization and technological advancements to maintain a sustained competitive advantage, it does not provide a detailed examination of the trade-offs between cost savings and quality assurance. Existing literature focuses on the economic rationale behind offshoring but lacks insights into how companies manage the inherent risks of lower production costs potentially compromising product quality or operational efficiency. Future research could explore decision-making frameworks that firms employ to navigate these trade-offs effectively.



Another gap in the literature relates to the limited research on the combined effects of trade impediments, such as tariffs, non-tariff barriers (NTBs), and geopolitical risks, on global supply chains. Section 2.2.2 addresses these trade barriers individually but does not provide an integrated analysis of their cumulative impact. Given the increasing complexity of global trade, understanding how firms simultaneously respond to multiple trade impediments is crucial. For instance, while firms may relocate production to avoid tariffs, they might still encounter regulatory hurdles in new markets. Investigating how multinational enterprises (MNEs) mitigate the interplay between different trade barriers would provide valuable insights for policymakers and business leaders.

Furthermore, there is a lack of research on how small and medium-sized enterprises (SMEs) navigate trade wars and long-term trade disruptions. While Section 2.2.2 discusses trade disputes and their broader economic consequences, the focus remains on large MNEs. SMEs often lack the financial resilience and strategic flexibility of larger corporations, making them more vulnerable to supply chain disruptions. Understanding the specific strategies SMEs employ to adapt—whether through supplier diversification, nearshoring, or digitalization—would fill an important gap in the literature.

In addition, there is a need for further investigation into the impact of offshoring on wage inequality, particularly regarding gender disparities within countries. Section 2.2.3 discusses wage polarization as a result of offshoring but does not explicitly analyze whether men and women are affected differently by these trends. Given that labor market structures and wage-setting mechanisms often vary by gender, research that explores how offshoring influences gender-based wage inequality would contribute to a more nuanced understanding of the social implications of global labor dynamics.

Another research gap concerns the long-term effects of offshoring and outsourcing on service industries. While Section 2.2.3 discusses wage effects in the context of labor markets, much of the analysis focuses on manufacturing. However, the growing trend of outsourcing service-based roles, such as IT support, customer service, and business process outsourcing, raises questions about the long-term career prospects and wage trajectories of service sector workers. Research in this area could examine how offshoring in services compares to that in manufacturing and whether it leads to different patterns of wage compression or job displacement.

Finally, ethical considerations related to labor conditions in low-wage regions affected by outsourcing remain underexplored. Section 2.2.3 briefly mentions concerns regarding working conditions, but there is limited discussion on corporate social responsibility (CSR) initiatives and regulatory measures that could improve labor standards in outsourced production facilities. Given increasing consumer awareness and regulatory scrutiny, further research could assess how firms address ethical labor concerns and whether compliance with fair labor practices contributes to long-term business sustainability.

Addressing these research gaps would not only enhance theoretical frameworks but also provide practical insights for businesses and policymakers navigating the complexities of global trade, labor markets, and supply chain management.



studies should aim to bridge these gaps by integrating empirical evidence and case studies that reflect the evolving landscape of offshoring and outsourcing practices.

## 2.4. Research Methodology.

The research methodology employed in this study was designed to provide a systematic and comprehensive analysis of the core themes related to offshoring and outsourcing by multinational enterprises (MNEs). The methodology integrates an extensive review of existing literature, a detailed analysis of a real-world case study, and a comparative synthesis of findings from both approaches. This multi-layered approach ensures that the research is grounded in established theories while offering practical insights into contemporary business practices.

The first phase of the research methodology involved an in-depth review of existing academic literature on the primary pillars of the study: Global Value Chains (GVCs), Sustained Comparative Advantage, Trade Impediments, Supply Chains, and Occupational (Domestic and Foreign) Wages. For each pillar, the literature review aimed to synthesize existing theoretical perspectives and empirical findings, highlight gaps or inconsistencies in the current body of knowledge and identify interconnections between the five pillars to understand how they collectively shape MNE strategies and outcomes.

Building on the literature review, the second phase of the methodology involved a detailed case study analysis. The selected case study focused on a multinational enterprise operating within the outsourcing and offshoring space. The case study approach was chosen for its ability to provide real-world insights into the operational strategies and challenges faced by MNEs.

The final phase of the methodology involved a comparative analysis of the findings from the literature review and the case study. This step aimed to bridge the gap between theory and practical applications by examining areas of convergence and divergence. By integrating a rigorous literature review, a focused case study analysis, and a comparative synthesis of findings, this research methodology provides a holistic framework for exploring the complexities of offshoring and outsourcing. The structured approach ensures that the study not only advances academic understanding but also offers valuable insights for real-world application in the context of global value chains, trade dynamics, and labor market outcomes.



## Chapter 3: Case Study

### 3.1 Introduction

The outsourcing landscape has undergone significant transformation over the past few decades, with multinational corporations leveraging external expertise to streamline operations, reduce costs, and improve efficiency. As globalization accelerates and technological advancements redefine the way companies structure their operations, outsourcing has evolved from a mere cost-cutting strategy to a fundamental aspect of corporate strategy. The shift from in-house operations to externally managed services has resulted in a complex network of interdependent organizations, each seeking to optimize its competitive advantage through outsourcing partnerships.

Among the most studied outsourcing models is the "outsourcing plus staff transfer" approach implemented by IBM and EDS. This model not only encompasses traditional outsourcing practices but also involves the transfer of employees from the client company to the service provider, making it a distinctive and strategic approach within the global business landscape. The core premise of this model is to leverage existing human capital by integrating employees from the client firm into the outsourcing provider's workforce, ensuring that critical knowledge and expertise are retained within the service delivery process.

The significance of this model lies in its ability to facilitate seamless operational continuity while simultaneously ensuring workforce stability during transitions. IBM and EDS (Electronic Data Systems) have played pivotal roles in shaping modern outsourcing paradigms, pioneering large-scale IT outsourcing agreements that set industry standards. Their model presents a hybrid solution that combines the benefits of outsourcing with the preservation of institutional knowledge through staff transfers. By examining their methodologies, the rationale behind their strategies, the benefits and challenges associated with this model, and its broader implications for labor markets and corporate structures, this case study sheds light on how such an approach has become a blueprint for modern outsourcing contracts.

The "outsourcing plus staff transfer" model is particularly relevant in industries where knowledge retention and operational continuity are critical. For example, in the IT sector, where technical expertise and familiarity with specific systems are essential, the transfer of employees ensures that the outsourcing provider can deliver high-quality services without the steep learning curve typically associated with traditional outsourcing. This model has been successfully implemented in various sectors, including finance, healthcare, and telecommunications, where the complexity of operations and the need for specialized knowledge make staff transfers a strategic necessity.

The rise of this model can be attributed to several factors, including the increasing complexity of business operations, the need for cost efficiency, and the growing importance of knowledge management in maintaining competitive advantage. As companies seek to focus on their core competencies, they often outsource non-core functions to specialized providers. However, traditional outsourcing models, which rely on external hires with limited familiarity with the client's operations, can lead to



disruptions and knowledge loss. The "outsourcing plus staff transfer" model addresses these challenges by ensuring that the employees who are most familiar with the client's systems and processes are retained within the service delivery framework.

IBM and EDS have been at the forefront of this approach, leveraging their extensive experience in IT services to develop innovative outsourcing solutions. For example, IBM's contract with Deutsche Bank involved the transfer of approximately 700 IT staff, enabling IBM to seamlessly integrate the bank's IT operations and leverage the transferred employees' deep knowledge of Deutsche Bank's systems. Similarly, EDS's contract with the UK Inland Revenue involved the transfer of 2,300 IT staff, which allowed EDS to quickly assimilate the client's IT operations and deliver tailored solutions.

This chapter will explore the "outsourcing plus staff transfer" model in depth, analyzing how IBM and EDS implemented this strategy, the outcomes of their contracts, and the broader implications for firms seeking to balance cost efficiency with operational stability. Moreover, a comparative analysis with other outsourcing models will illustrate the uniqueness of this approach and its potential limitations. Finally, this chapter will conclude with a discussion on key findings, summarizing the impact of this model and its relevance to contemporary business practices.

To understand the "outsourcing plus staff transfer" model, it is essential to situate it within the broader theoretical context of organizational capabilities and knowledge management. According to the resource-based view (RBV) of the firm, organizations derive competitive advantage from their unique resources and capabilities, including human capital. By transferring employees, the outsourcing provider gains access to valuable tacit knowledge—knowledge that is difficult to codify and transfer through formal mechanisms. This tacit knowledge is often critical for maintaining operational continuity and ensuring the successful delivery of outsourced services.

Additionally, the Transaction Cost Theory (TCT) provides insights into why firms choose to outsource certain functions. This theory suggests that firms choose between internal production and outsourcing based on the relative costs of transactions in the market (Coase, 1937). According to TCT, outsourcing occurs when external providers can perform activities at a lower transaction cost compared to in-house operations, considering factors such as contract enforcement, opportunism, and asset specificity. However, outsourcing also introduces risks related to incomplete contracts, information asymmetry, and dependency on external suppliers, which can increase governance costs and require firms to develop robust contractual safeguards. Future research should explore how firms optimize outsourcing governance structures to balance transaction costs and operational flexibility, particularly in dynamic and technology-driven industries.

Outsourcing can reduce transaction costs by leveraging the expertise and economies of scale of specialized providers. However, traditional outsourcing models often incur hidden costs, such as the loss of institutional knowledge and the need for extensive training of external hires. The "outsourcing plus staff transfer" model mitigates these costs by retaining the employees who possess the necessary knowledge and expertise, thereby reducing the risks associated with outsourcing.



Finally, the phased learning model adopted by IBM and EDS aligns with the principles of organizational learning and dynamic capabilities. This model describes how firms gradually develop competencies and mitigate risks when shifting from internal operations to outsourced models. This approach aligns with the Present Mode of Operation (PMO) and Future Mode of Operation (FMO) framework, where organizations first establish a baseline understanding of existing processes (PMO) before progressively transitioning to an optimized, outsourced structure (FMO). The phased approach enables firms to reduce transition risks, enhance knowledge transfer, and improve supplier relationship management, ensuring a smoother adaptation to new outsourcing dynamics.

By maintaining operational continuity during the transition phase (Present Mode of Operation - PMO) and gradually implementing improvements (Future Mode of Operation - FMO), these firms ensure that the outsourcing process is both efficient and effective. This approach allows for the gradual integration of new technologies and processes, minimizing disruptions and maximizing the benefits of outsourcing.

The primary objective of this case study is to analyze the "outsourcing plus staff transfer" model as implemented by IBM and EDS, with a focus on its strategic advantages, challenges, and implications for both firms and their clients. Specifically, the study aims to:

- Examine the key components of the model, including staff transfer, knowledge retention, and phased learning.
- Evaluate the benefits and challenges associated with the model, particularly in terms of cost efficiency, workforce stability, and operational flexibility.
- Explore the broader implications of the model for labor markets, corporate structures, and the outsourcing industry as a whole.
- Provide a comparative analysis of the model with other outsourcing approaches, highlighting its unique features and potential limitations.

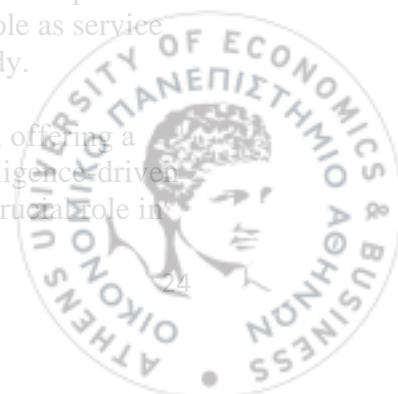
By addressing these objectives, this case study aims to provide a comprehensive understanding of the "outsourcing plus staff transfer" model and its relevance to contemporary business practices. The findings of this study will be valuable for firms considering outsourcing as a strategic option, as well as for researchers and practitioners interested in the evolving dynamics of global business process optimization.

## 3.2 Case Study Analysis

### 3.2.1 Analysis of the Outsourcing Plus Staff Transfer Model

Before analyzing the outsourcing strategies of IBM and EDS, it is essential to provide a brief overview of these companies. This will help contextualize their role as service providers in the outsourcing industry and their relevance to this case study.

IBM is one of the world's leading technology and consulting companies, offering a wide range of IT services, cloud computing solutions, and artificial intelligence-driven applications. As a global provider of IT outsourcing, IBM has played a crucial role in



shaping the modern outsourcing landscape, particularly in enterprise computing, software development, and business process management. IBM's outsourcing services allow companies to streamline their IT operations by leveraging IBM's global infrastructure, data analytics capabilities, and technical expertise. The company has pioneered large-scale outsourcing contracts, including staff transfers, to ensure business continuity while optimizing costs and operational efficiency.

EDS was a major IT services company specializing in information technology outsourcing, infrastructure management, and business process outsourcing. Founded in 1962 and later acquired by Hewlett-Packard (HP) in 2008, EDS built a strong reputation in delivering IT solutions to governments, financial institutions, and multinational enterprises. The company's outsourcing services included large-scale IT system management, customer service solutions, and technical support. EDS was one of the first to implement outsourcing models that integrated staff transfers, ensuring that knowledge retention and expertise remained within outsourced operations. Through its engagements with major public and private sector clients, EDS helped establish best practices for IT service outsourcing on a global scale.

The "outsourcing plus staff transfer" model has emerged as a pivotal strategy for large IT services firms, such as EDS and IBM, enabling them to rapidly expand their service offerings and acquire client-specific knowledge. This model is not merely a logistical necessity but a strategic mechanism for knowledge transfer. By transferring staff from client organizations to the outsourcing firm, these companies can develop distinctive capabilities that combine client-specific knowledge with corporate-wide processes, thereby enhancing their competitive advantage in the market. This approach has been particularly effective in the IT services sector, where the ability to deliver tailored solutions and maintain long-term client relationships is critical for success.

A key feature of this model is the phased learning approach, which consists of two distinct phases: the Present Mode of Operation (PMO), which refers to the initial phase in an outsourcing agreement where the service provider mirrors the client's existing operations to ensure continuity and facilitate knowledge transfer, and the Future Mode of Operation (FMO), which represents the optimization phase of an outsourcing agreement where the service provider implements improvements, streamlines processes, and integrates advanced technologies to enhance service efficiency. In the PMO phase, the outsourcing firm replicates the client's existing IT operations while conducting a thorough analysis of the client's systems, processes, and specific needs. This phase is critical for ensuring a smooth transition and minimizing disruptions to the client's operations. During this period, the outsourcing firm relies heavily on the transferred staff, who bring with them invaluable tacit knowledge about the client's business processes, IT infrastructure, and organizational culture. This knowledge is essential for the outsourcing firm to deliver services that meet the client's expectations and requirements. For example, in the case of IBM's contract with Deutsche Bank, the transfer of 700 IT staff allowed IBM to quickly understand the bank's complex IT systems and deliver services that aligned with its operational needs.

The second phase, the FMO, represents a shift from replication to optimization. In this phase, the outsourcing firm leverages its corporate processes, technological expertise, and industry-specific knowledge to enhance service delivery, reduce costs, and increase productivity. For example, IBM's Worldwide Project Management Method

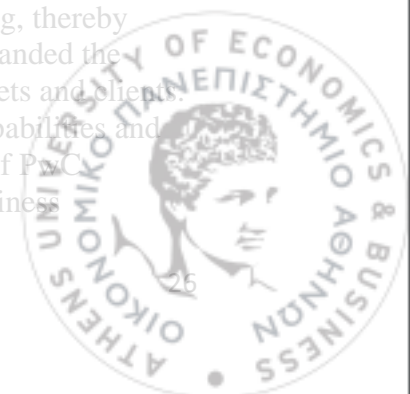


(WWPMM), which is a standardized framework developed by IBM to ensure consistency and efficiency in managing IT outsourcing projects, provides structured guidelines for project execution, risk management, and resource allocation across various contracts and geographies. By applying these corporate-wide processes, firms like IBM and EDS can achieve economies of scale and scope, thereby improving their profitability and market position. The FMO phase also involves the codification of tacit knowledge acquired during the PMO phase, which allows the outsourcing firm to reuse this knowledge in future projects and contracts. This codification process is crucial for ensuring that the knowledge gained from one client can be applied to other clients, even in different industries or sectors. For instance, IBM's experience in managing IT systems for financial institutions has allowed it to apply similar processes and solutions to clients in the telecommunications and healthcare sectors.

The development of corporate-wide processes is another critical aspect of this model. These processes embed organizational routines that facilitate the replication of successful practices and ensure consistency in service delivery. For instance, IBM's WWPMM includes detailed descriptions of project management domains, work products, and work patterns, which provide a comprehensive framework for managing IT outsourcing projects. These processes not only enhance the firm's operational efficiency but also contribute to its ability to learn and innovate. By codifying these routines, firms can ensure that knowledge is retained and transferred effectively, even as staff move between projects or leave the organization. This is particularly important in the context of large-scale outsourcing contracts, where the ability to replicate successful practices across different projects and locations is a key driver of competitive advantage.

However, the staff transfer model is not without its challenges. While the transfer of staff from client organizations provides the outsourcing firm with valuable client-specific knowledge, it also introduces complexities related to the integration of these staff into the firm's corporate culture and processes. Tensions can arise, particularly in public sector contracts, where differences in working practices may hinder the effective integration of transferred staff. For example, in the case of EDS's contract with the UK Inland Revenue, the firm faced difficulties in integrating public sector professionals into its corporate culture, which led to inefficiencies and delays in service delivery. These challenges underscore the importance of developing robust processes for managing staff transfers and ensuring that the knowledge acquired from clients is effectively integrated into the firm's broader operations. This includes providing training and support to transferred staff, as well as fostering a collaborative work environment that encourages knowledge sharing and innovation.

Strategic acquisitions have played a crucial role in the growth of IT services firms. For example, IBM's acquisition of PwC Consulting in 2002 brought around 30,000 consultants into the firm, significantly enhancing its capabilities in the higher-value segments of enterprise computing. Similarly, EDS's acquisition of AT Kearney allowed the firm to combine its IT expertise with management consulting, thereby strengthening its position in the market. These acquisitions not only expanded the firms' service offerings but also provided them with access to new markets and clients. Acquisitions are a key strategy for IT services firms to enhance their capabilities and achieve economies of scale and scope. For instance, IBM's acquisition of PwC Consulting allowed it to offer a broader range of services, including business



consulting and IT strategy, which helped it secure large outsourcing contracts with clients in various industries.

### 3.2.2 Key Findings

The analysis of the "outsourcing plus staff transfer" model highlights several critical insights that differentiate theoretical models from practical implications in outsourcing strategies. While existing literature extensively discusses the benefits of staff transfer, phased learning models, and corporate-wide processes, this study emphasizes the tangible outcomes and challenges associated with these concepts. The key findings table bridges the gap between theoretical frameworks and empirical realities by explicitly distinguishing between models and their actual implications.

One of the most significant findings is the role of staff transfer as a mechanism for knowledge retention and operational continuity. The seamless transition of employees from client organizations to outsourcing providers mitigates knowledge loss, ensuring that specialized expertise remains within the operational framework. However, this transition is not without challenges, as transferred employees may resist cultural and structural changes, leading to integration difficulties. The ability of outsourcing firms to manage these transitions effectively determines the long-term success of the staff transfer strategy.

The phased learning model is another key aspect of outsourcing strategies, structured around the Present Mode of Operation (PMO) and Future Mode of Operation (FMO). This model ensures that outsourcing firms initially replicate the client's operations before implementing improvements. The key finding associated with this model highlights the necessity of substantial initial investments to facilitate a smooth transition from PMO to FMO. While this approach minimizes disruptions, firms must allocate considerable resources to training and process optimization, which may extend the transition timeline.

Corporate-wide processes contribute significantly to standardization and efficiency across outsourcing engagements. Firms such as IBM and EDS have leveraged structured methodologies, such as the Worldwide Project Management Method (WWPMM), to maintain consistency in service delivery. However, the key finding associated with corporate-wide processes reveals that while standardization enhances efficiency, it may also limit customization and flexibility, potentially leading to misalignment with client-specific needs. Balancing standardization with adaptability remains a crucial challenge for outsourcing firms.

The challenges of staff transfer extend beyond integration complexities to include sector-specific difficulties. Public sector outsourcing contracts, in particular, often encounter bureaucratic rigidities that hinder the smooth assimilation of transferred employees. Unlike private sector engagements, where corporate cultures may align more easily, public sector staff frequently struggle with transitioning to the outsourcing firm's operational framework. This finding underscores the importance of tailored integration strategies for public sector outsourcing projects.



Finally, strategic acquisitions have emerged as a key driver of market expansion and capability enhancement for outsourcing firms. Acquisitions such as IBM's purchase of PwC Consulting have allowed firms to diversify their service offerings and penetrate new market segments. However, the key finding associated with acquisitions indicates that while such strategies facilitate rapid growth, they also introduce challenges related to corporate integration and cultural misalignment. Firms must develop robust post-acquisition integration frameworks to ensure that acquired entities align with their long-term strategic goals.

In conclusion, the key findings table provides a nuanced perspective on the outsourcing plus staff transfer model, distinguishing between theoretical constructs and their real-world applications. The findings emphasize the importance of strategic foresight in managing knowledge transfer, balancing standardization with customization, and addressing industry-specific integration challenges. As outsourcing continues to evolve, firms must refine their approaches to mitigate risks and capitalize on opportunities presented by emerging global business trends.

Model/Concept	Description	Key Findings
Staff Transfer as Knowledge Acquisition	Transferring staff from client organizations allows outsourcing firms to acquire client-specific knowledge, reducing recruitment costs and accelerating the onboarding process.	Staff transfers enable seamless knowledge retention but may create resistance among employees transitioning to a new corporate structure.
Phased Learning Model	The PMO phase ensures a smooth transition by replicating the client's operations, while the FMO phase focuses on optimizing service delivery and increasing productivity.	The phased learning model ensures operational stability but requires significant upfront investment to successfully transition from PMO to FMO.
Corporate-Wide Processes	Standardized processes, such as IBM's WWPMM, enable firms to replicate successful practices across projects and geographies, ensuring consistency and efficiency.	Corporate-wide processes improve efficiency and service standardization but can limit flexibility and customization for individual clients.
Challenges of Staff Transfer	Integrating transferred staff into the firm's corporate culture can be challenging, particularly in public sector contracts, where differences in work practices may hinder effective integration.	Public sector contracts pose greater challenges in staff integration due to rigid bureaucratic structures and cultural differences.



Strategic Acquisitions	Acquisitions, such as IBM's purchase of PwC Consulting, enable firms to expand their service offerings, access new markets, and enhance their capabilities in higher-value segments.	Strategic acquisitions drive growth and market expansion but can result in integration difficulties and cultural misalignment.
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Table 3. Key Findings

### 3.2.3 Implications for IBM's Manufacturing Outsourcing

The insights derived from the "outsourcing plus staff transfer" model have significant implications for understanding IBM's outsourcing activities in the manufacturing sector. While the model has been primarily applied in the IT services industry, its core principles—such as knowledge acquisition through staff transfer, phased learning, and the development of corporate-wide processes—can be adapted to the manufacturing sector. This adaptation is particularly relevant for IBM, which has a long history of providing outsourcing solutions across various industries, including manufacturing.

One of the most critical aspects of the model is the phased learning approach, which consists of the Present Mode of Operation (PMO) and the Future Mode of Operation (FMO). In the context of manufacturing outsourcing, the PMO phase would involve replicating the client's existing manufacturing processes while conducting a thorough analysis of their production systems, supply chains, and operational needs. This phase is essential for ensuring a smooth transition and minimizing disruptions to the client's production activities. During this period, IBM would rely heavily on transferred staff, who bring with them invaluable tacit knowledge about the client's manufacturing processes, equipment, and organizational culture. This knowledge is crucial for delivering tailored manufacturing solutions that meet the client's specific requirements.

The FMO phase would represent a shift from replication to optimization. In this phase, IBM would leverage its corporate processes, technological expertise, and industry-specific knowledge to enhance manufacturing efficiency, reduce costs, and increase productivity. For example, IBM could apply its expertise in automation and data analytics to optimize production processes, improve supply chain management, and reduce downtime. The FMO phase would also involve the codification of tacit knowledge acquired during the PMO phase, allowing IBM to reuse this knowledge in future manufacturing projects. This codification process is crucial for ensuring that the knowledge gained from one client can be applied to other clients, even in different industries or sectors.

The development of corporate-wide processes is another critical aspect of the model that can be adapted to manufacturing outsourcing. These processes, such as IBM's Worldwide Project Management Method (WWPMM), embed organizational routines that facilitate the replication of successful practices across different projects.



and geographies. In the manufacturing sector, standardized processes could be applied to areas such as production planning, quality control, and supply chain management. By standardizing these processes, IBM can ensure consistency and efficiency in the delivery of manufacturing services, even as it scales its operations globally.

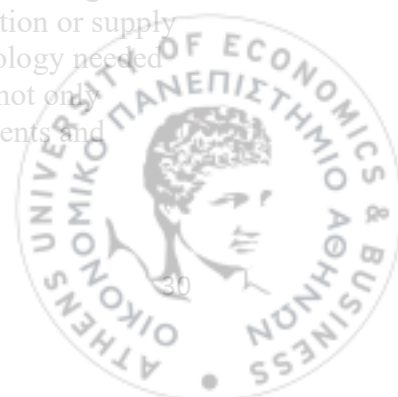
For example, IBM could develop a standardized framework for managing lean manufacturing projects, which would include detailed descriptions of key processes, such as value stream mapping, just-in-time production, and continuous improvement. These processes would not only enhance operational efficiency but also contribute to IBM's ability to learn and innovate in the manufacturing sector. By codifying these routines, IBM can ensure that knowledge is retained and transferred effectively, even as staff move between projects or leave the organization. This is particularly important in the context of large-scale manufacturing outsourcing contracts, where the ability to replicate successful practices is a key driver of competitive advantage.

While the staff transfer model provides significant benefits, it also introduces challenges that are particularly relevant in the context of manufacturing outsourcing. One of the most significant challenges is the integration of transferred staff into IBM's corporate culture and processes. Manufacturing environments often have deeply ingrained work practices and organizational cultures, which may differ significantly from those of an IT services firm like IBM. For example, transferred staff from a manufacturing client may be accustomed to a more hierarchical and process-driven work environment, which could clash with IBM's more collaborative and innovation-focused culture.

To address these challenges, IBM would need to develop robust processes for managing staff transfers, including providing training and support to transferred employees and fostering a collaborative work environment that encourages knowledge sharing and innovation. For instance, IBM could implement cross-functional teams that include both transferred staff and existing IBM employees, allowing for the exchange of ideas and best practices. Additionally, IBM could establish mentorship programs to help transferred staff adapt to the firm's corporate culture and processes.

For example, IBM could leverage its expertise in data analytics and AI to optimize production processes, predict equipment failures, and improve supply chain efficiency. By combining these technologies with the knowledge acquired through staff transfers, IBM can develop distinctive capabilities that enable it to deliver tailored manufacturing solutions to its clients. This approach would allow IBM to achieve economies of scale and scope, thereby enhancing its competitive advantage in the manufacturing outsourcing market.

Finally, strategic acquisitions could play a crucial role in IBM's expansion into the manufacturing outsourcing market. Acquisitions allow firms to expand their service offerings, access new markets, and enhance their capabilities in higher-value segments. For example, IBM could acquire a firm specializing in industrial automation or supply chain management, which would provide it with the expertise and technology needed to deliver integrated manufacturing solutions. These acquisitions would not only expand IBM's service offerings but also provide it with access to new clients and markets.



In conclusion, the "outsourcing plus staff transfer" model offers valuable insights for understanding IBM's outsourcing activities in the manufacturing sector. By adapting the model's core principles—such as phased learning, corporate-wide processes, and staff transfer—IBM can enhance its ability to deliver tailored manufacturing solutions, optimize production efficiency, and achieve economies of scale and scope. However, the challenges associated with staff transfer and technological integration must be carefully managed to ensure the success of these initiatives. With the right strategies in place, IBM can leverage its expertise and technological capabilities to become a leading player in the manufacturing outsourcing market.



## Chapter 4: Discussion

### 4.1 Comparison between Literature Review and the Case Study

The findings from the literature review and the case study of IBM's outsourcing strategy provide a comprehensive understanding of how multinational enterprises (MNEs) navigate offshoring and outsourcing to sustain a competitive advantage. The theoretical foundations, as outlined in the literature review, emphasize the importance of transaction cost economics, the resource-based view (RBV), and global value chain (GVC) frameworks in shaping outsourcing decisions. In contrast, the case study offers a practical perspective by illustrating how IBM operationalized these theoretical constructs through its "outsourcing plus staff transfer" model.

One of the key alignments between the literature review and the case study is the emphasis on knowledge transfer and retention. The literature underscores that MNEs leverage outsourcing not just for cost efficiency but also for strategic learning and innovation. IBM's approach supports this claim, as its model integrates transferred employees to ensure the continuity of tacit knowledge, a practice that aligns with the RBV's assertion that firms derive competitive advantage from their unique resources. This highlights the importance of knowledge management in outsourcing strategies, an area often underexplored in traditional cost-driven outsourcing models. Additionally, knowledge retention allows firms to mitigate the risks associated with employee turnover and external market volatility. The ability to retain organizational memory through structured staff transfer mechanisms ensures that firms remain adaptable and resilient in the face of evolving technological and market conditions. However, knowledge retention alone does not guarantee outsourcing success. The next critical factor is how firms implement phased learning to ensure smooth operational transitions and continuous improvement.

Another point of convergence is the role of phased learning and corporate-wide processes in outsourcing engagements. The literature highlights that firms initially replicate existing processes (PMO) before optimizing them (FMO), ensuring minimal disruption during the transition. IBM's model closely follows this approach, demonstrating how structured transition phases help integrate best practices while maintaining operational stability. For instance, in IBM's outsourcing contract with Deutsche Bank, the transition from PMO to FMO involved a structured transfer of 700 IT employees. During the PMO phase, IBM maintained Deutsche Bank's existing IT operations while analyzing areas for efficiency improvement. In the FMO phase, IBM gradually introduced automation and standardized processes, leading to a more streamlined service delivery model. This transition highlights how MNEs can optimize outsourcing engagements while ensuring minimal operational risk. The practical implications of phased learning are evident in IBM's ability to codify acquired knowledge and apply it across different industries, further reinforcing the literature's emphasis on dynamic capabilities. The use of standardized methodologies ensures that outsourcing engagements remain scalable and repeatable, allowing IBM to replicate successful strategies across its global operations. Furthermore, phased learning enables firms to refine their outsourcing strategies by continuously evaluating performance



metrics and identifying opportunities for process improvements, enhancing long-term sustainability in outsourcing relationships.

Beyond cost savings, phased learning facilitates a deeper understanding of local market conditions, regulatory requirements, and operational constraints. By gradually transitioning from replication to optimization, firms can fine-tune their outsourcing strategies to ensure alignment with industry best practices while mitigating the risks of operational inefficiencies and service disruptions. This method allows firms to build long-term, value-driven outsourcing partnerships that go beyond transactional engagements and focus on collaborative growth and innovation.

However, certain gaps exist between theoretical models and real-world applications. While the literature extensively discusses the cost-saving motivations behind outsourcing, the case study reveals that integration challenges, cultural adaptation, and organizational alignment play equally critical roles in determining outsourcing success. IBM's experience highlights that transferred employees may resist assimilation into the outsourcing provider's corporate culture, particularly in sectors with distinct operational norms, such as the public sector. The complexities of aligning human capital across different organizational structures emphasize that outsourcing is not solely an economic decision but also a managerial and cultural challenge. This finding aligns with the literature's argument that outsourcing requires more than economic considerations—it necessitates robust human resource management and strategic change management approaches.

The role of employee engagement and communication strategies in mitigating resistance to change becomes evident in IBM's approach, which underscores the importance of integrating human capital development into outsourcing models. Organizations that fail to prioritize workforce integration may experience operational disruptions, decreased employee morale, and inefficiencies in service delivery. Therefore, effective change management frameworks that emphasize continuous training, career development, and transparent communication are critical for ensuring successful staff integration in outsourcing engagements.

Moreover, the literature discusses how trade impediments, such as tariffs and regulatory restrictions, affect MNEs' global outsourcing decisions. While IBM's case study does not explicitly focus on trade barriers, it provides indirect evidence of their impact through its strategic acquisitions. By acquiring firms like PwC Consulting, IBM mitigates regulatory risks by strengthening its local market presence rather than relying solely on cross-border outsourcing. This supports the literature's claim that MNEs often pursue regionalization strategies to offset geopolitical risks and supply chain disruptions. Trade regulations and political instability can impose substantial operational constraints, making acquisitions a viable strategy for mitigating these challenges while sustaining long-term growth. Beyond acquisitions, MNEs are also exploring hybrid outsourcing models that combine offshoring with nearshoring to navigate regulatory complexities. IBM, for example, has increasingly invested in regionalized service centers in Europe and North America to mitigate the impact of data protection laws such as GDPR. By maintaining localized service hubs while continuing offshore operations, IBM reduces compliance risks while still benefiting from cost efficiencies. Furthermore, the rise of digital outsourcing through AI-driven automation allows firms to minimize reliance on labor cost differentials, decreasing



their vulnerability to tariff fluctuations and restrictive trade policies. This shift underscores the evolving nature of global outsourcing strategies, where regulatory adaptation is becoming as crucial as cost efficiency. Additionally, the evolving nature of global trade agreements requires firms to maintain flexibility in their outsourcing models, ensuring that they can pivot to alternative strategies when faced with new regulatory constraints.

Strategic acquisitions not only shield firms from trade uncertainties but also provide access to specialized expertise and advanced technological capabilities. By integrating acquired firms into their existing operational frameworks, MNEs can expand their service portfolios and develop customized outsourcing solutions that cater to diverse client needs. As global markets continue to evolve, the ability to adapt outsourcing strategies in response to economic and geopolitical changes will remain a key determinant of long-term business success.

## 4.2 Interpretation of Findings in Relation to Research Questions

The findings of this study contribute to answering the research questions regarding the broader implications of offshoring and outsourcing within global business environments. The relationship between outsourcing strategies and sustained competitive advantage is particularly relevant in the context of modern supply chain complexities, technological evolution, and workforce restructuring. The intersection of theoretical insights and practical case study findings provides a deeper understanding of the multifaceted dynamics that govern outsourcing decisions in MNEs.

The influence of offshoring and outsourcing on MNE competitiveness is reinforced by both theoretical and empirical findings. Literature on comparative advantage and global value chains suggests that outsourcing enables firms to specialize in high-value activities while delegating routine tasks to external partners. The IBM case study supports this notion, illustrating that outsourcing is not merely a cost-cutting mechanism but a strategic tool for long-term capability building. By incorporating transferred employees into its operational model, IBM ensures that its outsourcing engagements drive innovation and maintain high service quality. Furthermore, the ability to leverage technological advancements in outsourcing operations allows firms to continuously enhance their service offerings, ensuring that they remain competitive in a rapidly evolving global marketplace.

Another key aspect explored in this study is the impact of offshoring and outsourcing on domestic and foreign wages. The literature review extensively discusses wage polarization, wherein offshoring benefits high-skilled workers in developed economies but exerts downward pressure on low-skilled wages. IBM's outsourcing approach highlights how firms can mitigate some of these negative effects by implementing structured staff transfers rather than relying purely on external labor markets. This model fosters employment continuity while allowing for knowledge retention and productivity enhancement, contributing to the stabilization of wage disparities within outsourced functions. The long-term socioeconomic implications of wage shifts in global labor markets underscore the necessity for firms to balance cost efficiency with equitable workforce management practices.



Trade impediments remain a critical factor in shaping outsourcing strategies, as regulatory barriers, tariffs, and geopolitical risks impose significant constraints on cross-border operations. The literature argues that MNEs must be highly adaptable to regulatory shifts, and IBM's response to these challenges through strategic acquisitions highlights how firms can navigate such complexities. Instead of relying solely on international outsourcing agreements, IBM has expanded its global presence through targeted acquisitions, allowing for localized service delivery while minimizing exposure to trade-related disruptions. The ability to create hybrid outsourcing models that combine global expertise with local market adaptation emerges as a key strategy for mitigating trade-related risks.

IBM's approach to outsourcing has evolved in response to growing geopolitical uncertainties and tightening trade regulations. In addition to strategic acquisitions, IBM has employed a regionalized outsourcing model that combines offshore operations with nearshore and onshore service hubs. For instance, its expansion in Eastern Europe and Canada reflects an effort to maintain operational flexibility while mitigating exposure to tariff fluctuations and political instability. By localizing portions of its service delivery, IBM reduces risks associated with abrupt regulatory shifts while preserving its cost advantages through a diversified outsourcing portfolio. This aligns with the literature's assertion that MNEs must develop adaptive outsourcing frameworks to sustain long-term stability amid changing global trade policies.

The role of firm resources in outsourcing decisions is another important dimension explored in this study. Financial, human, and technological assets shape outsourcing strategies by determining the extent to which firms can retain strategic control over outsourced operations. The resource-based view (RBV) suggests that firms should focus on core competencies while outsourcing non-essential activities, a theory that aligns with IBM's outsourcing model. The company's structured methodologies, such as WWPM, reinforce the importance of process standardization in enhancing operational efficiency. IBM's ability to leverage its technological capabilities ensures that outsourced engagements maintain high service quality while enabling continuous innovation. The ongoing evolution of digital transformation in outsourcing further underscores the importance of integrating emerging technologies, such as artificial intelligence and blockchain, into outsourcing frameworks.

IBM's outsourcing strategy reflects this transformation, particularly through its investment in AI-driven automation for service delivery. The company's Watson AI platform has been integrated into customer support outsourcing contracts, automating routine inquiries while allowing human agents to focus on high-value interactions. This hybrid AI-human outsourcing model exemplifies how digital transformation is reshaping outsourcing strategies, moving beyond cost savings toward efficiency, scalability, and innovation. Moreover, IBM's use of blockchain in supply chain management outsourcing further illustrates how technological assets contribute to maintaining transparency and security in global value chains. The literature supports this shift, emphasizing that outsourcing decisions increasingly revolve around digital capabilities rather than traditional labor cost arbitrage.

Finally, the challenges associated with outsourcing extend beyond cost considerations to include operational integration, supply chain stability, and workforce management. The IBM case study illustrates that while outsourcing presents significant opportunities



for efficiency gains, it also requires firms to address integration challenges proactively. Cultural adaptation, employee training, and strategic alignment between firms and outsourcing partners are key determinants of outsourcing success. The literature emphasizes that firms must invest in long-term relationship management and employee development programs to fully capitalize on outsourcing benefits while minimizing disruptions.

The discussion chapter bridges theoretical perspectives with real-world applications by examining IBM's outsourcing model through the lens of established literature. The alignment between theoretical insights and empirical evidence reinforces that outsourcing is not solely driven by cost considerations but is a dynamic process requiring strategic foresight, workforce management, and regulatory adaptation. The findings highlight that firms engaging in outsourcing must navigate a complex landscape of operational challenges, geopolitical uncertainties, and workforce transitions to sustain competitive advantage. The continued evolution of outsourcing in the digital economy suggests that firms must integrate automation, artificial intelligence, and data analytics into their outsourcing strategies to remain agile and competitive.

The continued evolution of outsourcing in the digital economy suggests that firms must integrate automation, artificial intelligence, and data analytics into their outsourcing strategies to remain agile and competitive. Future research should further investigate the role of digital transformation in outsourcing and assess how firms can develop more adaptive, resilient, and technology-driven outsourcing models to navigate the complexities of the global economy.

Key Aspect	Literature Review	Case Study (IBM)
Knowledge Transfer and Retention	Outsourcing enables firms to leverage external expertise while ensuring competitive advantage through cost savings and efficiency.	IBM integrates transferred employees to maintain tacit knowledge continuity, aligning with resource-based strategies.
Phased Learning and Optimization	Firms replicate existing processes before optimizing them to ensure stability during transition.	IBM follows the Present Mode of Operation (PMO) before transitioning to the Future Mode of Operation (FMO), ensuring structured optimization.
Trade Impediments and Risk Mitigation	Trade barriers, tariffs, and regulatory risks influence outsourcing decisions, often requiring firms to adopt flexible strategies.	IBM mitigates regulatory risks through strategic acquisitions like PwC Consulting, reducing reliance on international outsourcing.
Firm Resources and Strategic Focus	Firms should focus on core competencies while outsourcing non-essential functions to optimize resource utilization.	IBM applies structured methodologies such as WWPMM to standardize outsourcing operations and ensure efficiency.
Challenges in Outsourcing	Cultural adaptation, regulatory compliance, and operational integration are major challenges in outsourcing engagements.	IBM faces challenges in aligning transferred employees with corporate culture, particularly in public sector contracts.

Table 4. Comparison between Literature Review and the Case Study



## Chapter 5: Conclusion

### 5.1 Summary of Key Findings

This study has provided a comprehensive analysis of offshoring and outsourcing strategies within multinational enterprises (MNEs), focusing on IBM's case study. The research examined the theoretical foundations of outsourcing, including transaction cost economics, the resource-based view (RBV), and global value chain (GVC) frameworks. The comparison between the literature review and the IBM case study highlighted the role of knowledge transfer, phased learning, corporate-wide processes, and strategic acquisitions in shaping outsourcing success.

One of the primary findings is that outsourcing is not merely a cost-saving mechanism but a strategic approach that enhances knowledge retention and innovation. The IBM case study demonstrated that staff transfer allows firms to maintain operational continuity while leveraging external expertise. Furthermore, phased learning through structured transition models, such as the Present Mode of Operation (PMO) and Future Mode of Operation (FMO), ensures seamless integration and optimization of outsourcing processes.

Additionally, the study found that regulatory constraints, geopolitical risks, and trade impediments significantly impact outsourcing decisions. IBM's approach to mitigating these challenges through strategic acquisitions, such as the purchase of PwC Consulting, underscores the importance of adaptability in global outsourcing strategies. Furthermore, the study highlighted that outsourcing has complex implications for labor markets, affecting domestic and foreign wage structures in both positive and negative ways. While outsourcing creates opportunities for employment growth and business expansion, it also contributes to wage polarization and potential job displacement in certain sectors, further underscoring the need for proactive workforce management strategies.

While the literature emphasizes the economic advantages of outsourcing, the case study revealed the practical challenges related to workforce integration, cultural adaptation, and organizational alignment. Effective change management strategies are necessary to mitigate employee resistance and ensure long-term success in outsourcing engagements. Ensuring smooth transitions and knowledge retention within outsourcing arrangements requires structured processes and a well-defined governance model that fosters communication and collaboration between stakeholders. As outsourcing continues to evolve, organizations must remain flexible in their approach, adapting to changing market dynamics while ensuring that outsourced operations align with long-term corporate objectives.



## 5.2 Practical Recommendations for MNEs

To achieve successful outsourcing outcomes, MNEs should prioritize knowledge retention and transfer by implementing structured staff transfer mechanisms that safeguard tacit knowledge. Establishing comprehensive training and mentorship programs can facilitate smoother transitions for transferred employees, enhancing their integration and reducing the risk of operational disruptions. Furthermore, businesses must ensure that outsourcing arrangements do not lead to a loss of institutional knowledge by promoting collaboration between in-house and outsourced teams. The integration of knowledge management systems, mentorship programs, and continuous learning initiatives can support the long-term sustainability of outsourced operations.

Outsourcing strategies should also incorporate a phased learning approach to ensure operational stability before optimizing processes. A structured transition from knowledge replication to process improvement enables firms to maintain service quality while refining their outsourcing frameworks. Standardized corporate-wide methodologies, such as IBM's WWPM, can play a crucial role in achieving efficiency and scalability in outsourcing engagements. A well-defined process governance structure ensures that best practices are consistently applied across all outsourced operations, contributing to improved efficiency and cost-effectiveness over time.

Addressing trade and regulatory risks is another critical aspect of outsourcing strategies. MNEs must incorporate geopolitical risk assessments into their decision-making processes to anticipate and mitigate external uncertainties. Developing strategic regional outsourcing hubs or pursuing acquisitions, as exemplified by IBM, can serve as effective approaches to overcoming trade barriers and regulatory constraints. Additionally, regulatory adaptability should be considered an essential component of outsourcing frameworks, ensuring that firms can adjust their strategies in response to evolving legal and economic conditions. Compliance with local labor laws, taxation policies, and trade regulations must be prioritized to prevent disruptions and legal complications that could hinder outsourcing success.

Workforce adaptation is a key determinant of outsourcing success. Cultural differences, resistance to change, and integration challenges can pose significant risks to outsourcing initiatives. To address these issues, firms should implement change management programs that include cultural awareness training, clear communication strategies, and leadership-driven engagement initiatives. A proactive approach to managing employee transitions can foster a sense of stability and engagement within outsourced teams, ultimately enhancing productivity and job satisfaction. Hybrid outsourcing models that combine automation with human expertise can further enhance workforce productivity while ensuring the effective deployment of outsourced resources.

Moreover, embracing emerging technologies can provide a competitive edge in outsourcing engagements. Investments in artificial intelligence (AI), blockchain, and robotic process automation (RPA) can improve operational efficiency, streamline service delivery, and enhance data-driven decision-making. By leveraging these technologies, MNEs can optimize their outsourcing performance and ensure sustainable resource allocation in an increasingly competitive business environment.



The integration of AI-driven process automation can reduce costs, minimize errors, and enhance service delivery, making outsourced operations more agile and adaptive to market changes.

### 5.3 Limitations of the Study

Although this research has contributed valuable insights into outsourcing strategies, several limitations must be acknowledged. The study primarily focuses on IBM's outsourcing model, which, while providing a detailed case study, may not be fully representative of all MNEs across different industries. The outsourcing strategies employed by firms in the manufacturing, healthcare, and financial services sectors may differ significantly from those observed in IBM's IT-centric outsourcing model. Future research should explore how industry-specific factors influence outsourcing decisions, taking into account varying levels of technological complexity, supply chain dependencies, and regulatory constraints.

Additionally, the study relies on secondary data sources, meaning that first-hand empirical research, such as interviews or direct surveys with outsourcing decision-makers, was not conducted. Incorporating primary data collection methods in future research could provide deeper insights into the real-time challenges and decision-making processes involved in outsourcing agreements. First-hand qualitative data from managers, employees, and clients involved in outsourcing engagements could provide a more nuanced understanding of the operational, strategic, and human resource implications of outsourcing practices.

Furthermore, the dynamic nature of outsourcing must be considered. The landscape of global outsourcing is continuously evolving due to rapid technological advancements and shifting economic conditions. Automation, artificial intelligence, and the growing influence of sustainability concerns are reshaping outsourcing frameworks in ways that may not have been fully captured within the scope of this study. The role of digital transformation in shaping future outsourcing trends requires further exploration, particularly regarding how firms can leverage next-generation technologies to create agile, high-performing outsourcing ecosystems.

### 5.4 Suggestions for Future Research

Building upon the findings of this study, future research should explore comparative case studies across multiple industries to identify sector-specific outsourcing trends and challenges. Analyzing outsourcing models in industries such as manufacturing, healthcare, and telecommunications would provide a more holistic understanding of how different sectors approach outsourcing strategies.

The impact of automation on outsourcing is another area that warrants further investigation. Emerging technologies such as AI, RPA, and machine learning are transforming traditional outsourcing models, influencing labor market dynamics and operational structures. Future research should examine how firms are integrating these technologies into their outsourcing frameworks and assess the long-term implications for global employment patterns.



Additionally, empirical research focusing on workforce adaptation in outsourcing transitions could offer valuable insights into the human dimension of outsourcing strategies. Conducting qualitative and quantitative studies on employee experiences, organizational change management, and cultural integration in outsourcing environments would enhance the understanding of workforce-related challenges and best practices.

Regulatory and policy considerations remain critical factors influencing outsourcing decisions. Given the increasing complexity of global trade agreements, geopolitical risks, and evolving legal frameworks, future research should explore how regulatory policies shape outsourcing strategies and how firms can develop adaptive approaches to compliance and risk mitigation.

One crucial area for future research is the role of geopolitical instability in outsourcing and offshoring strategies. The recent shifts in global supply chains due to trade restrictions, tariffs, and political uncertainties have forced MNEs to reconsider their outsourcing destinations and partners. Investigating how firms restructure their supply chains in response to geopolitical volatility, and what risk mitigation strategies they implement, can provide valuable insights into the resilience of global outsourcing models.

Furthermore, with the growing emphasis on corporate sustainability and ESG (Environmental, Social, and Governance) principles, future research should examine how outsourcing decisions align with sustainable business practices. Understanding how firms balance cost efficiency with ethical labor practices, carbon footprint reduction, and social responsibility in outsourced operations could provide a framework for more sustainable outsourcing strategies. Analyzing case studies of firms that successfully integrate ESG considerations into their outsourcing partnerships would contribute to the development of responsible global business practices.

This study has demonstrated that outsourcing is a complex and multidimensional strategy that extends beyond cost reduction to encompass knowledge retention, process optimization, and strategic adaptation. The findings emphasize that successful outsourcing engagements require careful planning, structured workforce integration, and flexible adaptation to geopolitical and regulatory challenges.

As outsourcing continues to evolve, MNEs must adopt innovative approaches that integrate technological advancements, human capital development, and strategic foresight. By implementing best practices in knowledge transfer, phased learning, and workforce adaptation, firms can ensure a sustainable competitive advantage in an increasingly complex global economy. Future research should further explore the interplay between technological advancements, regulatory shifts, and corporate sustainability, offering actionable insights to help firms navigate the evolving outsourcing landscape while maintaining long-term business resilience and success.



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