Introduction

Intangible processes shape the global economy. Value and utility are derived from constant flow of data between entities located in various spots in the world. Most users of the digital content would not be able to indicate its country of origin or explain the mechanics behind the provided service. Similar phenomenon occurs in the business relations, which are shaped by processes of the international supply of services. Data, information and knowledge flow seamlessly between entities engaged in global value chains (GVCs). Its crucial elements are multinational enterprises (MNEs) and the persistent transformations of their operations.

One of the major elements of the international sourcing of goods and services is offshoring. According to my best knowledge, no other activities concerning MNEs have recently been so dynamic and brought such profound changes to their structures, as reorganising the execution of the headquarters' services via various forms of offshoring arrangements. Many crucial business activities are provided by specialised vendors located in business services hubs. It is frequently visualised as employees from a distant and low-cost location providing IT or accounting services for a rich-country corporation. However, is it the real essence of white-collar services offshoring? Does it change over time? What is its impact on businesses and economies?

The importance of offshoring can be measured using various metrics, such as the value of the services offshored, number of jobs in offshore services, or the types of processes offshored. Because of the dynamics of offshoring, imperfections of statistical tools, and intangible nature of offshore activities, there are only estimations available regarding the size of offshoring. According to various sources, the value of the market of offshored advanced business services (ABS) is worth more than 1 trillion dollars annually and employs millions of people. Importantly, the trend has been growing steadily for the past two decades. However, the real importance of service offshoring may be much higher due to efficiency and knowledge gains, but also risks incurred by the operations. I attempt to shed more light on the topic of offshoring of white-collar services, which are not frequently highlighted in the discussion of international organisation of firms and markets. My aim is to present a comprehensive picture of the recent global and local landscapes shaping these activities.

Business decisions have economic implications. Economic conditions influence business decisions. Therefore I argue that it is not only necessary to focus on economic or business issues without presenting the interactions between those two. Especially when it comes to the issue of offshoring, which is very multidimensional and dynamic, thus calls for the analysis of the links between particular elements of the offshoring arrangements, rather than those elements themselves. A one-sided approach to offshoring is the main difficulty in understanding its essence. For example,

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the impact of offshoring on a host economy has been measured using changes in the job market, which is a part of economics. But the changes in the job market are closely linked to management practices and employees satisfaction with the jobs, which is the business part. An interdisciplinary approach brings many challenges and requires holistic thinking about the issue. But it will allow to use the findings in building business strategies, but also public policy regarding offshoring of ABS.

I investigate whether offshoring of white-collar services is a win-win situation for economies of different levels of development. Such an assumption is supported by the evidence that workers in offshored jobs in home countries can be employed in higher value activities, thus receive higher wages, while firms report higher efficiency. From a host country perspective, it means inflow of jobs and knowledge, as well as the inclusion in GVC. Or maybe it is a zero-sum solution, which means that jobs are transferred from high-cost economies to low-cost ones. As a result there is a loss of jobs in a source economy and the same number of new jobs is created in a host economy. There is also the third possibility – a negative-sum game. The main argument for such a situation is that the number of jobs created in a host economy is lower, than the number of jobs lost in a source economy. It is due to the fact that offshoring results in centralisation of many activities, thus jobs in many local units are axed and only a fraction of the original number is created in a host economy. Moreover, there is the question of whether the jobs created are a blessing for the host economy or maybe a burden. I will apply the multidimensional analysis to presented scenarios, both from the perspective of host and home economies.

The idea of offshoring of ABS has been predominantly analysed from the perspective of home countries. The other side of offshoring – host economies – has been to some extent neglected or at least stereotyped. There is vast literature regarding offshoring of business services to Asia, particularly to India. Indeed, the economy became a symbol of offshoring and outsourcing of business services globally. The economy is considered to use the foreign direct investment (FDI) into service sector to alter its sectoral structure. There has been a leap from agriculture into services requiring highly skilled workers.

However, the offshoring of services in not only about Asia. There are emerging locations in many parts of the world. I focus on ABS in Central and Eastern Europe (CEE) because of the enormous growth of FDI in professional services in recent years. From the perspective of the CEE countries, such a situation is new, as they focused on industrialisation during their dependence on the Soviet Union, and even after the fall of the Iron Wall, manufacturing was an important element of attracting FDI. It seems quite natural that after the large wave of investment in manufacturing, it was time for greater engagement in services. Anyway, the dynamic growth of offshoring of business services in CEE raises the question regarding its limits. The number of large firms that are still capable and interested in offshoring operations should decrease as many of them are already engaged in such operations. Moreover, the number of prime locations in CEE for offshoring is also limited, and many of them have already experienced a saturation with offshoring processes and it is very difficult to locate more businesses there. Therefore it is crucial to understand the determinants and implications for host countries. The impact has to be confronted with the recent developments in knowledge-intensive services.

The fact that I discuss in this book the intangible activities, does not mean that the geographical location of services is of minor importance. I argue the opposite. In the global sourcing of services, the geography should be treated as an essential factor. In reality, the global sourcing means coordination of operations not only on the economy level, but more importantly on the local level of regions and cities. It requires global decisions and trends to be directly linked to precise locations, where the operations are executed. Not surprisingly, the Indian business services industry is illustrated by Bangalore, but the dependence on prime locations is also a fact in other countries: Ireland – Dublin, Czech Republic – Prague, Hungary – Budapest. Again, it does not mean that economy-wide elements could be neglected in order to focus on the detailed picture. It rather means that there are economy-wide factors attracting foreign enterprises into particular locations.

Besides the geographic dimension of offshoring, I focus on the business evolution of the phenomenon. The key issue is the robotisation and automation of services. It can be associated with the codification of knowledge and advancement in machine learning (ML). When I started my adventure with offshoring of ABS several years ago, the big issue was how to deliver the quality in transactional operations. Back then only few companies were experimenting with the automation of the processes. However, just a few years later the automation is the bread and butter of the industry, in spite of the fact that there are many failures in implementing the automation or many decision-makers do not fully understand the fundaments of automation and its potential value creation. There is also necessity to incorporate in the discussion on offshoring of services new issues such as data protection, artificial intelligence, and synergies between computers and humans.

The first chapter provides explanation of the basic definitions regarding offshoring and outsourcing of business processes. The notions are commonly used in the academic literature, professional publications and media. However, they are sometimes misunderstood or at least not precisely used. I aim at clarifying the notions with respect to business services. The chapter also deals with the history of white-collar jobs offshoring. This is one of the first attempts to put the development of the offshoring of support services in the historical framework. This chapter also presents the situation in home countries with respect to offshoring. This is the most commonly analysed approach to offshoring, both in manufacturing and in services. In general, the evidence underlines a negative impact of offshoring, but there is also vast evidence for positive impact of offshoring on employment, wages or productivity.

In the second chapter I aim at presenting offshoring of white-collar services from the statistical perspective. Again, the issue is that offshore business services are difficult to grasp from the conceptual and methodologic point of view, thus difficult to measure and analyse them with the academic discipline.

The third chapter attempts to put the interdisciplinary and multidimensional issue of offshoring of white-collar services into the theoretical framework. Both business and economic theories will be considered to fit the developments in international provision of knowledge-intensive services. Moreover, the approach to ABS cannot be based on perfect competition and granularity of companies and destinations. In the industry we have limited number of large companies, frequently using their strong market position and limited number of preferred destinations. Therefore understanding particular decisions of firms regarding their ABS units is crucial in building a comprehensive picture of the phenomenon.

Chapter four presents the business approach to arrangements on international provision of ABS. This is an important part, where the macro perspective has been linked to organisational arrangements towards optimal execution of knowledge-intensive services. An important dilemma discussed here is the choice between captive offshoring and offshore outsourcing, meaning the decision between provision of services from within a firm or from an external vendor.

The fifth chapter introduces recent trends in offshoring of ABS. The industry is very dynamic and coming years may bring substantial redefinition of professional services and methods of their delivery. The most important element is the rise of automation solutions and application of artificial intelligence. This is not about science fiction, but rather discussion of the processes that are already taking place. The scale of the automation is rising significantly every year and the coming decade will change the industry profoundly. It will have a grave influence on business operations, but also on the economic environment.

Chapter six presents the global perspective on offshoring of business services. The discussion regarding the main trends is illustrated by cases of the three most important offshoring destinations: India, the Philippines and Poland. The third economy is the common element linking the global perspective on offshoring with the regional specifics of the CEE economies. The three distinctive cases exemplify the determinants and outcomes of hosting the vast amount of processes. I have selected three largest markets in the world to indicate their strengths and weakness and present what lessons can be learned by other economies.

Chapter seven presents the state of offshoring from host countries perspective. The analysis of potential results induced by locating offshoring activities in those economies, will also be used in the further part devoted to the policy recommendations. The macroeconomic perspective will be supplemented by microeconomic and business approaches. Thanks to presenting the three perspectives, I aim at bringing together somehow competitive views.

The recent decade was a period of unprecedented growth of employment and scope of activities of foreign-owned ABS firms in the CEE economies. I argue that this was a one-off period in their history, which changed their main specialisations in FDI. The period has been depicted as a success story for the economies. It led the transformation of the economies from being manufacturing oriented towards more knowledge-intensive services. I analysed four CEE economies: Czechia, Hungary, Poland, and Slovakia. They are also referred to as the Visegrád Group (V4) economies. Besides these economies, there have been also newcomers to the industry: Lithuania, Bulgaria, Romania, Serbia, Croatia. Each of the latter economies have certain advantages, however they can be described as latecomers and their emergence rather supplements activities in the V4 economies, not replaces them.

Chapter eight provides results of the policy study. The question that was raised when working on the project was about the role of the current policies and their design towards the future of the ABS industry. I aim at assessing approaches of CEE governments towards FDI in professional services using the existing evidence, but more importantly I attempt to provide recommendations regarding FDI policies.

The book is a result of a four-year research project regarding operations of foreign-owned firms in business services. I treat this publication as an opportunity to put my detailed findings regarding the operations of foreign-owned firms in ABS industry in the V4 economies into a broader global context. The inference in the research project was carried out using two groups of research methods: qualitative and quantitative. The former approach was used to determine the cognitive framework, to analyse the institutional environment, and to identify a set of potential determinants of FDI inflows into the business services sector and their implications. The qualitative analysis was particularly useful in determining changes in economic policies of governments and their strategic plans for the coming years. At this stage, I also analysed legal acts related to the operations of foreign investors in the business services sector. The aims of the research were to identify determinants, effects and longevity of the investment projects in ABS.

This book goes beyond traditional understanding of FDI, international trade or business services. All of the elements have been blended together in order to present the full picture of global sourcing of knowledge-intensive business services. It is also a result of many meetings with representatives of authorities responsible for attracting foreign investors in ABS to particular economies, members of associations of offshoring companies, managers of foreign-owned companies operating in ABS. Conclusions of the book are also a result of numerous discussions with scholars during academic conferences and research seminars. In the course of working on the project I have spent many hours talking to leaders of offshoring units.

The main layers of the book are business and economics. However, the issue of offshoring is very interdisciplinary. Therefore, to deliver the complete picture, explanations rooted in history, political science, sociology, anthropology or geography will be included. It is because the book is about people, companies and places. Many issues presented in this book are illustrated using information on business events. Thanks to such an approach, the reader will have a full view on the issue of offshoring in the globalised economy. Pure economic or business approach might lead to biased conclusions. I also see the accompanying approach as increasing complexity of analysing the phenomenon. However, the global economy is complex and it was a challenge to simplify some issues.

The book may be useful both for practitioners and theorists of international economics and international business. It may be used at lecture halls to supplement the discussion on global value chains, multinational firms, foreign direct investment. Students should gain from delivering both the context and multiple approaches to offshoring. I also aim at business practitioners, who are to decide about the international provision of services within their organisations. I identified various challenges in offshoring and possible scenarios of future development. This book should also provide new insights for the policymakers in the international scale, but especially in host economies.