2009

The Evolution of Outsourcing

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Introduction

Over the recent decades it has become apparent that globalization is an inevitable event that will continue to change the business atmosphere. "Globalization is the advance of human cooperation across national boundaries," (Boudreaux 2007). In reality globalization and outsourcing are two in the same. Outsourcing can be defined as an act of moving some of a firm's internal activities and decision responsibilities to outside providers (Schniederjans 2005). Through trade, foreign direct investment (the measure of foreign owned productive assets in a country), capital flows, migration, and the spread of technology, individual economies will eventually mesh into a one global international economy (Bhagwati 2004). The world as we know it is becoming an interdependent market system that is more flexible than ever before. In order to sustain economic growth within a nation, the people investing must feel a sense of security and confidence. There has to be the guarantee that the assets invested in a developing country are not going to be stripped by the governing officials or other political and societal forces. The more trust present between two parties, the more wealth that can be accumulated. Once a country develops a sound legal policy and infrastructure, outsourcing can take place. In essence, the very idea of paying an employee less money to do the same job is the underlying theme associated to outsourcing. How can this be possible?

Over the past half century, several countries have emerged as leaders in the world of outsourcing. Better known as BRIC; Brazil, Russia, India and China have all been able to develop their nation through the process of outsourcing. Mexico can also be placed in this category since their economic growth has skyrocketed after the North American Free Trade Agreement was put in place. The reason why these countries look so appetizing for foreign direct investment is because their currency has not inflated to the level of developed nations. Since the United States and Europe have been developed nations for quite some time inflation over the years has created higher labor costs that are incomparable to developing countries. Besides cheap labor, companies may specialize in a certain type of production to develop their competitive advantage. Depending on where the company is located, there are various ways for local and foreign companies to develop their niche in the market. The facts present outsourcing to be worth the consideration, but the process is not as clear cut as it seems.

Only 54% of companies are satisfied with their outsourcing, which is down from more than 80% a decade ago (Craumer 2002). This fact is even more troubling considering the advancements in telecommunications. The environment to do business has become increasingly smaller due to the innovations in technology and will continue to do so for years to come. The truth behind it all lies in the question; why should a company outsource? The process of outsourcing has indeed become easier, but the reason for outsourcing is still the major question that will decide the fate of such a venture. Once this question is answered then the next difficult question must be answered; where should a company outsource? Even though technology has made it easier to communicate and keep track of a company's logistics, these same developments have made the playing field much more competitive. Therefore, I investigate the different criteria taken into consideration when making an outsourcing decision and examine which countries can best accommodate outsourcing/offshoring projects. First, I look at a brief history of the industry and analyze the current growth. Next, I evaluate a company's reason for outsourcing, differentiating between core and non-core activities. Finally, I assess the competency of outsourcing locations by comparing in-class statistical data.

This study fills a gap in the literature that evaluates the current status of developing countries as a player in globalization presently taking place. Countries, other than BRIC, have been neglected from statistical analysis that supports the ability to harbor outsourcing/offshoring projects. This research focuses on creating a comprehensible evaluation of 15 developing countries all over the world, including BRIC. Depending on the activity a company is outsourcing/offshoring, this study will help in the understanding of the strengths and weaknesses of 15 potential countries.

Overview/History of Outsourcing

Outsourcing is not just an option; it is now a pivotal part of any successful company. An independent research and advisory firm, XMG, found that the global outsourcing market for information technology, business process outsourcing and call center, for both onshore and offshore, finished at $297 billion in 2007 with a growth rate of 19.3%. The 2010 estimate for the same market is $450 billion ("Outsourcing growth to reach 62%"). The globalization that has propelled outsourcing to the level businesses see today is not all that new. Before World War I trade, capital flows, and immigration flourished for decades. Over the forty year span that accompanied the two World Wars,

interdependency between countries diminished. Once the players in World War II made amends, growth and prosperity began to creep back in the business realm. It was a slow process and took until the 1980's to see the same amount of capital flows that existed in the era before World War I (Weinstein 2005). Gross world product, which is the market value of all final goods and services produced in the world during a year, is a key factor in understanding the growth of trade between countries. "The percent of gross world products traded internationally is about two-and-a-half times larger today than it was in 1960. This growth since 1960 in the percent of gross world product traded internationally means that the proportion of their final output that producers export to consumers abroad, rather than sell to consumers at home, has grown by 150 percent in fewer than 50 years, (Boudreaux 2007).

In fact, not just businesses and countries but people have also become much more globalized than in the past. Television and radio, ever since their insemination, have opened up the ideas of the world and shared them with people in different countries. Just in the past fifteen years the number of minutes of international telephone calls made by people around the world has gone from less than 40 billion in 1991 to about 135 billion in 2004, (Boudreaux 2007). These numbers do not take into account internet communication that has recently been made readily available in the palm of our hands.

Besides technology forwarding the world's globalization, deregulation over the past fifty years has played an equally important role. Specifically tariffs have decreased from an average rate of forty percent back in the 1940's down to an average of five percent today (Boudreaux 2007). This early burden did not favor world trade, imposing higher costs when consumers where looking overseas for a product. After the second war, the U.S. promoted the General Agreement on Tariffs and Trade (GATT) in 1947 to minimize tariffs and regulations so that it would promote free trade with capitalist countries. In 1995 GATT turned into the World Trade Organization. China was the first country to open up its borders by eliminating their trade barriers. Other countries like India, Mexico and Thailand soon followed the same trend. Some countries opened up their borders because of plummeting transportation costs but others, like China and India, had implemented explicit policy to propel their actions. The evolution has caused these once poor countries, which predominantly exported raw materials in the mid to late 1900s, to begin to export manufactured products (Weinstein 2005). Between the 1980s and the 1990s, China cut down their import tariffs by nearly forty percent and as a result saw the ratio of export to GDP clime thirty percent higher by 2000 (Weinstein

2005). "China now produces one-third of the world's suitcases and handbags, a quarter of the world's toys, and one-eighth of the world's clothing," (Weinstein 2005).

Also adding to the liberalization of trade was the collapse of most communist regimes in the late 1980s and early 1990s. Once the communistic views were subsided, the markets freed and entrepreneurs began to take advantage of a capitalistic market. Their products could also be sold to a variety of new markets that were then opening up. As more and more people join together and communicate freely, ideas and actions progress more quickly with the end result being an innovative society. As more countries become innovative they are more appealing for foreign direct investment and these results are seen everywhere. Due to the increase of interdependent businesses, even the so called American made car can only attribute 37 percent of the production value to "America." All the rest is part of international trade; however the current President intends to change these surprises (Weinstein 2005).

Over the past half decade the government has taken a role to slow down the increasing trend of outsourcing. President Barack Obama has made it clear that he intends to bring jobs back to the U.S. from overseas. A new American job tax credit will provide temporary tax credits to companies that add jobs here in the United States. "During 2009 and 2010, existing businesses will receive a $3,000 refundable tax credit for each additional full-time employee hired," ("Economy | Change.gov: The Obama-Biden Transition Team."). They intend to raise the small business investment expensing limit to $250,000 through the end of 2009 along with zero capital gains rate for investment in small businesses. Obama and Biden "believe that companies should not get billions of dollars in tax deductions for moving their operations overseas. They will fight to ensure that public contracts are awarded to companies that are committed to American workers." To support manufacturing plants, the party will double funding for the manufacturing extension partnership so its training centers can continue to bolster the competitiveness of U.S. manufacturers ("Economy | Change.gov: The Obama-Biden Transition Team."). What President Obama would love to see is more outsourcing arrangements coming back to the U.S.

The idea of outsourcing must be simplified to completely understand what the President is hoping to accomplish. If there is a company that decides to outsource/offshore then the company needs to choose from several different options. If a U.S. based company stays within the U.S. and subcontracts to another firm, it is still considered to be outsourcing. This has been around for years and can be as simple as using external lawyers, accountants, and

consultant provider firms. International outsourcing, also known as global outsourcing, occurs when a U.S. based firm subcontracts another firm, located outside the borders of the United States, to perform a service. If a company decides to instead create its own manufacturing plant in a foreign country, it would be 'offshoring' its business, not to be confused with outsourcing (Schniederjans 2007).

Reasons for Outsourcing

"What distinguishes an outsourcing arrangement from any other business arrangement is the transfer of ownership of an organization's business activities (process or functions)-or the responsibility for the business outcomes flowing from these activities-to a service provider (Chamberland 2003). As mentioned previously, the service provider can either be located in the U.S. or in another country. In some instances it may be cheaper to assign a project to a local company rather than pay the transportation costs of a manufacturer overseas. When a company is in their early stages of the lifecycle, they are inclined to insource their business operations. As a company begins to grow and mature, they may find limitations with their capacity, generally labor/service, materials or other economic resources, and may become unable to house production any further. As a result, the company decides to subcontract services (Schniederjans 2007).

The decision to outsource or offshore mirrors the same decision of whether to 'make or buy'. It is critical for a company to evaluate what they do well and what they should allow other, more efficient companies, to produce for them. Their focus should be on the components that are critical to the product and can be made proficiently. Also known as the strategic planning process, a company begins by examining or establishing the organization's basic mission statement that lay out the present and future goals for the company (Schniederjans 2007). Once the goals are in place, management needs to perform an internal analysis to evaluate how much or little each business activity contributes to the company's overall goals. During this evaluation a company should be able to discover their competitive advantage, exactly what activities they do better than their competitors. These strengths are also considered core competencies, which can be any type of human, systems, or technology resource (Schniederjans 2007). Focusing on these core competencies is what many consider as the pivotal aspect of a successful longstanding company. For this reason, it has become a common educated practice not to outsource core competencies. There is

always a threat of a competitor obtaining valuable information that can reduce a company's competitive advantage. Also, a company's core competencies are the most valuable part of the business. Without these, a company would slowly lose their entire market share. It is much more viable to outsource non-core activities (Schniederjans 2007).

Non-core activities, which are usually a sizeable portion of a business, are more reasonable aspects to outsource. If there is a company that can perform a task better then a client organization, than that company should utilize them to free up time so that it can focus more on their strategic development. In a study performed by Goldsmith, information technology (IT) was the most commonly outsourced functional area and the least commonly outsourced is human resources (HR). Goldsmith also constructed a recent survey where executives were asked what they felt were the most important reasons for outsourcing. "The top reasons include cost savings (77 percent), to gain outside expertise (70 percent), to improve services (61 percent), to focus on core competencies (59 percent) and to gain access to technology (56 percent)" (Goldsmith 2003).

Since developing countries have an abundance of cheap labor, the clear reason why so many companies outsource is cost savings. "the possibility of reducing labor costs, which traditionally represent 60 to 100 percent of total cost of products or services, by as much as 75 percent has drawn much attention to outsourcing," (Schniederjans 2007). Capacity is also an issue in dealing with cost incentives. If a company is not running at full capacity then it will generally take on more business so long as revenues exceed the incremental cost. If the company is running at full capacity then a decision must be made. At times, companies may not have the capital to invest into plant property and equipment in order to fulfill the capacity requirements needed for a project. In these times the company needs to look at outsourcing the product. Concerns to look out for would be if the product is a seasonal product. If so then it may not make sense to invest in property, plant and equipment just to fulfill a demand that is unsustainable. If outsourcing is decided upon, then the company needs to evaluate the internal costs of making the product vs. the external costs of outsourcing.

Gaining outside expertise is another reason used for outsourcing when the skills and expertise needed by the client can not be obtained by insourcing. These outsourcers can also provide original ideas for improvements in core and non-core activities (Schniederjans 2007). Examples of outsourcing to gain expertise can range from a mechanic shop sending a vehicle to a transmission specialist, or on a more professional level, bringing in a Certified Public

Accountant to do a cost analysis of variable manufacturing overhead. In both cases the cost of an outside professional would be offset by the wasted labor hours spent trying to solve the problem with less skilled employers already working within the company.

The third advantage/reason mostly sought by top executives is improved service. Going back to seasonal demand, outsourcing allows for operations flexibility by allowing the client firm to more easily adjust to increases in production when demand is high and to quickly decrease production once the demand subsides. Production efficiency will reduce the overall cost of goods sold and if reflected in the price it will inevitably increase customer value and satisfaction (Schniederjans 2007). Utilizing outside producers can also be used to rapidly introduce new products, new technologies and new distribution channels. The psychological impact of outsourcing may incline current employers to work harder in order to retain their own jobs. The adverse affects on the employers is the impact on morale, loyalty and trust when they witness their previous co-worker lose their job to outsourcing (Schniederjans 2007). This is a very difficult affect to measure and it is advantageous for the company to seriously evaluate the consequences.

Although coming in fourth as far as importance, focusing on core competencies is widely accepted as the most important reason justifying outsourcing. This advantage allows the client to focus on the outputs and outcomes, centering their attention on the customer client relationship. It will also allow for the client firm to spend more time evaluating their core competencies in order to strengthen their strategic plan. From a balance sheet perspective, it will free up assets to reallocate to core competencies and as a result improving strengthening them even further (Schniederjans 2007). The reason for the lack of importance in the eyes of executives is the difficulty to identify a company's core competencies. Many companies feel that every business activity has the potential to be outsourced.

Lastly, companies can gain outside technology by outsourcing. They will be able to pick and choose any state-of-the-art provider to accommodate their technological needs instead of investing in a rapidly changing field (Schniederjans 2007). Although many of these reasons may seem enticing, none of them are guaranteed. Negative aspects with outsourcing are just as likely to occur if a proper evaluation is not executed. In "The Contracting Organization: A Strategic Guide to Outsourcing" by Domberger, he reports that outsourcing generally results in a 10 to 30 percent cost reduction for client firms. Success rates for outsourcing have been associated with cost savings as high as 35 percent in order to make the project successful, so with an average of 20 percent cost reductions from outsourcing

found by Domberger. it appears that the success rate is difficult to accomplish (Schniederjans 2007). Some unfavorable disadvantages include increased costs, loss of control, negative impact on customers and difficulties in managing relationships (Schniederjans 2007).

Negative Aspects when Outsourcing

Increased costs can occur on many different levels. A long distance between the client firm and the outsource provider can add substantially higher delivery costs, especially with the volatile prices of energy that the world has faced in recent years. One way to alleviate this danger would be to establish contracts with service providers, but this could also backfire resulting in costly penalties for changing outsourcing agreements (Schniederjans 2007). Also the expense of negotiating and managing the outsourcing agreements may outweigh the profits seen from the business transaction.

Loss of control may also impair the bottom line. If critical components are outsourced, a loss of control in business activities may increase uncontrollable delays resulting in a negative impact on customers (Schniederjans 2007). The more critical the components the more dependent the client firm becomes on the outsourcer, which can inadvertently be impair the company.

The most difficult disadvantage to overcome is the difficulty in managing relationships. Companies have demonstrated trouble quantifying the advantages of outsourcing. With a long distance relationship, it also becomes very difficult to create design changes since clients may find themselves unable to communicate with the outsource provider and vice versa (Schniederjans 2007).

Especially prevalent in developing countries where regulatory infrastructure is rather weak, sharing knowledge with an outsource provider may result in information being leaked to a competitor. In China, government supported warehouses are set up in order to sell knock-off ‘black market’ goods to locals and tourists. Due to an unstable rule of law, many manufacturing plants abuse the right of their client’s patents and profit off selling similar products on their own terms. The Chinese government has been known to gain access to any blueprints entering the country and tend to do as they please once they have obtained the knowledge needed to create the product. The image of the client firm suffers from these practices since the quality of the ‘knock-off’ products is not at the level of quality the product would

normally sell at. This may deter customers from making future purchases. A more recent dispute is going on in Venezuela with, what is now Fortune 500's largest company, Exxon Mobil. Hugo Chavez decided to nationalize all of Exxon Mobil's oil refineries located within the country. This has led to a several month court dispute that could lead to Venezuela cutting off the U.S. from its oil supplies. This would mean that the fourth largest U.S. supplier would no longer be accommodating the country's need for oil. Numbers of up to $12 billion are being associated with the potential loss Exxon Mobil could endure if the refineries are not rightfully returned to their possession, all the more reason to be aware of the short-term pitfalls that are linked with outsourcing.

In order to establish an equally beneficial working relationship with an outsourcer or construct a part of an existing business in a foreign country, the firm needs to first assess the risks of entering that can lead to the negative aspects associated with outsourcing. Many developing countries have not had the time to structurally establish themselves. Presently, several developing countries around the globe are facing tyranny. In particular, Mexico has seen its status turn into the drug capital of the world. The current regime has not been able to calm the ever-growing corruption occurring within its borders. In a recent Wall Street Journal article titled, "The Perilous State of Mexico," they are quoted as saying, "With drug-fueled violence and corruption escalating sharply, many fear drug cartels have grown too powerful for Mexico to control." This is undoubtedly a major issue for the U.S. whom in 2008 alone performed over $350 billion dollars in trade with the country (U.S. Census Bureau). Since NAFTA, companies have been inclined to utilize Mexico as a reliable business partner and offshore manufacturing plants to the country; however U.S. firms are now becoming reluctant to negotiate any deals with their neighbor.

Unlike Mexico, China has become the leading source for production/manufacturing outsourcing in the past decades because of their dependability to produce. The process usually occurs by a U.S. firm purchasing raw materials from the appropriate sources then shipping them to the manufacturing plant and having Chinese laborers assemble the product. If there is any engineering needed for the assignment it is usually performed before the part is sent to be processed. The benefit of this procedure is that the tedious, unskilled labor of assembling items can be preformed by the low wage workers that occupy most of the country. With a fixed currency rate China has kept their wages much lower than their competitors, allowing product costs to be minimal for the foreign company. Once the item is processed, it is then shipped out to its appropriate location to be branded by the parent company and sold to the

consumer at a premium. However, low wages are not the only reason China has been able to prosper with double digit growth numbers in the past decade. They have established themselves in several different areas in order to sustain a reliable business atmosphere.

Evaluation of Outsourcing Locations

A. Four Criteria

A country's areas that need sound development for a reliable business atmosphere can be broken down into technological, economical, cultural and political infrastructure. I intend to assess the outsourcing potential of developing countries according to these four infrastructural categories.

The technological infrastructure in developing countries is the root of growth and innovation. Developing countries need to realize that technological advancements come from the education facilities within the nation. In order to sustain long-term prosperity, these countries will need to continually invest in R&D associated with their universities. Economists believe that the key to advancing a society's status is correlated with the economic and productive performance of a country. In order to increase this performance a country needs to concentrate on information and communications technology. The level a country's technological infrastructure will help answer the question, "Does the provider country have a level of technology sophistication necessary to support the outsourcing agreement," (Schniederjans 2007). Technological change, associated with the growth of the internet, has reshaped trade by making previously non-tradable services now tradable. Computer programs can not be written in developing countries and then shipped to the United States instantly with minimal costs. Also, foreign medical centers are receiving outsourced radiological services from developed countries.

The economical infrastructure in developing countries is an area that needs to be established to provide the capital needed in order for businesses to operate. Also in a society with strong economic growth, improvements can be consistently added to transportation facilities along with advancements in public utilities.

The cultural infrastructure in developing countries is a good measure of how countries intend on operating in the future. The societal ways and beliefs of the people that inhabit the country have a great deal of influence on what

the future economic prosperity would be used to develop and is a good measure of how easy it will be to operate in a the specific country.

Lastly, the political infrastructure of a country is what protects investors from loosing their assets, as in the case with Exxon Mobil. Without political stability, there will always be a lack of confidence between the two parties.

In order to evaluate each of these sections I will have several factors associated with each infrastructural category.

B. Weighting the Factors

For every factor, each country will be compared to the best in class to come up with a percentage basis. This will be done by taking the best performing country within each factor and dividing it by itself. In example, if a country's GDP growth percentage is the highest out of the fifteen countries being evaluated, then to come up with the final percentage basis, that country will be divided by its own GDP growth percentage. The second highest GDP growth percentage will be divided by the highest GDP growth percentage and so on. As a result, the best performing country in each factor will be given a 100% rating for that factor and the rest of the countries percentages will represent how similar the country is to the best in class. This is done in order to create a best in class percentage basis for every factor that is associated with the given country.

The percentage basis is then multiplied by an importance rating that will be given to each factor within the four infrastructural categories. These importance ratings will be based on how relevant and important the factor is to the overall quality of the infrastructural category. The importance ratings will be based on 1 through 5 with 5 being the most important/heavily weight and 1 being the least important. The percentage that was calculated for each factor (associated to each country) is then multiplied by the importance rating. In example, if the factor is given a 5 and a country has a 100% rating because it was the best in class then it will receive 5 points for that factor. This calculation will provide a set of numbers for each factor that can be totaled for each category. The highest total for each individual category will then be divided by its own total to receive a 100% rating. The same calculation will be performed as above by dividing each country's category point total by the highest point total to see how close they are to the best scoring country. This leaves every country with a percentage for each of the four categories. Each of the four

percentages will then be multiplied by 25 since there were 4 infrastructure categories that are considered to be equally weighted. This will give each country a number of points from each category. This also scales each country on a 100 point scale to make the results more transparent. I will then be able to rank each country, from 1-15, for each specific category. The total of all four infrastructure category points will then be the basis for the overall ranking. The 15 countries will also be ranked 1-15 for their overall ranking.

C. Factors for Infrastructural Categories

Starting with technological infrastructure, the first factor will be the rating given to each country by Nokia Siemens Networks, who recently performed a study which measured how "governments, businesses and consumers in 50 countries make use of connectivity technology to enhance economic and social prosperity. Connectivity is defined as the bundle of infrastructure, complementary skills, software and informed usage that makes communications networks the key driver of productivity and economic growth" ("Global Infrastructure Ratings and the Knowledge Economy"). The rankings given in the study were determined by the measurement of each country against two criteria (infrastructure, and usage plus skills) in the realms of business, government and consumer. This factor is given a 5 for importance considering the professional integrity that is accredited to a marketing research firm whom is performing a study. The study guidelines fall right into the category of technological infrastructure.

The second and third factors for technological infrastructure complement the Nokia Siemens Networks study by rating each country on a basis of cell phone and internet users. The total number of cell phone and internet users will be divided by the population in each country. These two percentages will then be weighted according to the best in class, as done above. Cell phones will be given a 1 for importance and Internet users will be given a 2 for importance due to shift from cell phone communication to internet exchange of information. Lastly, each country will be given a best in class percentage basis for the amount of exports that are considered high-technology. If there is evidence that a country can currently sustain technological production then this will provide for future technological outsourcing and this is awarded a 3 on the importance scale.

Economically, the countries will be rated on a wide spectrum of indicators. % of population with access to improved water sources is a realization of how well the current facilities within a nation are developing. This is given a

1 for importance considering the magnitude of countries that have water supplies readily available for their citizens. Transportation is given a 3 for importance since it is essential to how effectively products move in and out of the country. This will be compiled by the accessibility of airports, roadways and railways. The number of airports, roadways and railways will be divided by each country's sq kilometer base and then rated on a best in class percentage. The next factor is GDP growth which is given a 4 for importance. China has been a prime example of how GDP growth portrays just how well an economy is doing. After that, possibly the most important consideration taken when evaluating a countries potential to be an outsourcer is the labor cost. Cheap labor has always been an ideal characteristic for companies looking to outsource their production and that is why it is a 5 for importance. Lastly, on an economic standpoint given an importance of 2, the countries will be compared by their Gross National Income per Capita. This measurement describes the average income of country's citizen. It will provide how accommodating the citizens that inhabit a country are to the demands of a business.

Other than quantitative data, qualitative data can also be used to evaluate countries. The cultural infrastructure of a nation will be broken down into three factors. First is dealing with the countries native languages. There is nothing more disastrous to a relationship than the lack of communication and understanding and that is why this is given a 2 for importance. A major cost could possibly be associated with drastic differences in language. For the United States, it is much easier dealing with a Spanish speaking country or a country that speaks a romance language because of the amount of people living within the United States that speak the those languages. See Appendix 1 for statistical data on languages. The second sub category was the ease of doing business. This data was compiled by the World Bank Group for 181 different countries and was given a 5 due to the professional integrity of the statistical study. Finally for this category each country was weighted on their literacy rate. If people are not educated the amount of money spent on training and other skilled aspects is going to be higher and that is why it is given a 3 for importance.

For the fourth category of political infrastructure, I will use The World Bank Group's chart analysis for 212 countries and territories for six different governance indicators. Chosen as the factors to better represent each country will be political stability, regulatory quality, control of corruption and rule of law. Political stability is the main reason why Exxon Mobil is in such debate with Venezuela and will be given a 5 for importance since it seems to be the biggest risk these days. Regulatory quality will give a good measurement of how well a country can instill policies to

promote private sector development and will be given a 4 for importance because of how important it is for a country to develop their private sector. Control of corruption is given a 2 for importance due to the complications involving business affairs resulting from the turmoil in Mexico. Rule of law is given a 3 for importance to exemplify how well a country can avoid patent infringement along with other fraudulent activities. The last subcategory, aside from the World Bank Group data weighted for Political Infrastructure, will be corporate tax ratings and is given a 4 for importance since many companies will offshore activities for a the sole purpose of avoiding taxes in their home country.

Summary of Factors and Sources:

Technological Infrastructure Importance **Source_** Nokia Siemens Networks Rating_5_14__ Cell Phone User Rating_1_20__ Internet User Rating_2_20__

High-Tech Exports (as a % of manufactured goods) Rating_3_10__**Economic Infrastructure**__ __Improved water source (% of population with access) Rating_1_7__Transportation (Air

ports, Roadways, Railways) Rating_3_20__GDP Growth_4_20__Labor Cost Rating_5_11,12__GNI Per Capita Rating_2_7__**Cultural Infrastructure**__ __Language Rating_2_20__Ease of Doing Business Rating_

	5_17__Education Level (Literacy) Rating_3_20__**Political Infrastructure**__		
Political Stability	5_9__Regulatory Quality_4_9__Control of Corruption_2_9__Rule of Law_3_9__Corporate Tax_4	19	

Results

[redacted]

1. Malaysia	1. Vietnam	1. China	1. Chile	1. Malaysia
2. Chile	2. India	2. Thailand	2. Malaysia	2. Chile
3. Turkey	3. Ukraine	3. Argentina	3. South Africa	3. China
4. Philippines	4. China	4. Chile	4. Turkey	4. Vietnam
5. Russia	5. Philippines	5. Malaysia	5. Vietnam	5. Argentina
6. Mexico	6. Argentina	6. Colombia	6. Brazil	6. South Africa
7. Brazil	7. South Africa	7. Vietnam	7. Ukraine	7. Mexico
8. Argentina	8. Russia	8. Mexico	8. Mexico	8. Thailand
9. South Africa	9. Mexico	9. Brazil	9. China	9. Brazil
10. Thailand	10. Turkey	10. Philippines	10. Thailand	10. Turkey
11. China	11. Malaysia	11. South Africa	11. Argentina	11. Ukraine
12. Colombia	12. Brazil	12. Russia	12. India	12. Philippines
13. Ukraine	13. Chile	13. Ukraine	13. Russia	13. Russia
14. Vietnam	14. Thailand	14. Turkey	14. Colombia	14. Colombia
15. India	15. Colombia	15. India	15. Philippine	15. India

For the technological rankings, Malaysia topped the standings by having a 100% percentage rating in the Nokia Siemens Networks Rating and Internet User Rating. Malaysia, along Turkey and Chile, were all above the 93% rating for the Nokia Siemens Networks study. Another notable mention is the Philippines, who had the highest percent of manufactured goods being high-tech exports. This seems to be an area that has already established themselves as a provider of technological manufacturing. However their lack of internet communication disallows them to be in the top

three for the technology category. Vietnam and Malaysia were also the only two countries that have more internet users per capita than cell phone users, which is a very surprising statistic due to the cost of owning an internet compatible device. Russia topped the charts on the cell phone user rating and placed in the top five (Appendix 1).

Economical infrastructure surprisingly shows India and Ukraine in the top rankings even though the two countries placed in the bottom five of the overall rankings. All of the countries were equal to or better than 85% rating with the improved water source factor. India had a 74% rating or greater in transportation and GDP growth. Ukraine placed first in transportation rating. To no ones surprise, China has the highest GDP growth and faired well in all of the other categories. Vietnam has the cheapest labor out of any of the countries and considering the importance of that factor, they have ranked first in the category. All of the other countries had a tough time competing with the labor costs associated with Vietnam. Other than Vietnam having 100% in the factor, not one country had higher than 55% for the factor, showing the clear advantage Vietnam has on other developing countries. Mexico had the highest GNI per Capita rating (Appendix 1).

In Cultural ratings, although having a language barrier to overcome, China topped the list mainly due to their ease of doing business. They have broken away from their communistic views on a business side of things and allowed an adaptation of a capitalist market. Thailand and Argentina were in the top three of the category, even though Thailand did not do well in any other category. Most of the countries did very well as far as literacy ratings, with Russia and the Ukraine as the top two in that factor. This is a promising statistic for these two developing countries due to the importance of education in economic growth (Appendix 1).

For the political infrastructure category, Chile, Malaysia and South Africa were in the top three. Chile was by the far the most politically sound country out of all of the countries in the study. They were 28 percent higher then the second place standing, which went to Malaysia. The reason for such a high political infrastructure in Chile was their ability to place first in every factor within the category, being the only country to do so in the study. Even though Mexico placed 8th in this category, of late they have seen a dramatic decline in their political stability which will affect their overall performance going into the future (Appendix 1).

The top three spots on the overall ranking were taken by Malaysia, Chile and China. Malaysia was in the top five in 3 out of the 4 categories which allowed them to score a 73.7 out of 100 points. Malaysia is the classic example

of how technology can heave economic development. Placing in the top five in three out of the four technological factors with a high literacy rate and the political stability to support it all has put Malaysia in a position to grow upwards at paces that rival China. Malaysia's only real downfall was their transportation and ease of doing business ratings. Chile, not far behind, scored 72 out of 100, with 25 of those points coming from their political stability. They did, however, have minimal high-technology exports and also struggled with labor cost issues (Appendix 1).

Out of the BRIC countries, the only one that faired well in the study was China. They were evaluated on numbers that surfaced from Hong Kong, China. Although some may consider Hong Kong separate from China, it is a much better representation of the benefits to doing business in the country. China has already begun to address the issue of a lack in technology. The communist regime just recently implemented a new Five Year Plan that is calling for more foreign direct investment in technology based companies and less in manufacturing plants. The profit margins for the Chinese government from processing plants are extremely low. The main reason the country has seen such huge success is due to the massive quantity of processing going on. Brazil suffered greatly due to increased labor costs and poor transportation infrastructure. Russia was considered the most technologically advanced country out of the BRIC countries but investing companies will face a rather large language barrier while working their. They are also suffering from an unstable political frame. India, which was the most surprising country, came in last. Politically, the country is facing many challenges. Their growth, in the past, has primarily come from outsourced IT jobs but the lack of framework has caused some contraction with the country.

Conclusions, Managerial Implications & Limitations

This study shows Malaysia and Chile being two of the top economic prospects in the upcoming future. Malaysia's highly technological country and Chile's political stability make an inviting atmosphere for outsourcing and offshoring projects. However these findings need to be interpreted with care. Brazil, Russia, India and China will continue to grow very rapidly in the near future as well. Brazil and Russia have both sustained growth through the exploration of natural resources. India and China have used their sheer mass to propel themselves through the past decade.

Advice to be given to managers making outsourcing decisions would be to have them evaluate what their company does well and what the company can improve on. If the company has expended all of their resources elsewhere and has no way of improving their weaknesses then the company should evaluate what their core and non-core activities are. If their weaknesses fall into the same category as their non-core activities, then the manager may start considering countries that can harbor that specific activity. If this is a technological aspect then they should choose a country in the top 5 of the Technological Infrastructure Category. If the outsourced activity is strictly a processing aspect then they should be choosing from Vietnam, China, or the Philippines because of their minimal labor costs. So long as the country has political stability, the generally higher fears of complete loss of assets are subdued.

Some of the limitations during this study were being unable to find data statistics from the same source for every country. Since these are all developing countries, much of the data suffers in accuracy. Also many of the years in which the data was collected were not the same, although all of the data fell between 3 year ranges.

TABLE 1

[redacted]

TABLE 2

[redacted]

Appendix 1:

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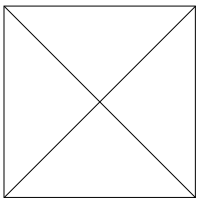

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