VENTURING OFFSHORE: THE INTERNATIONALIZATION OF ENTREPRENEURIAL FIRMS' BACK OFFICE ACTIVITIES (SUMMARY)

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SUMMARY

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Principal Topic

Across industries and geographies, outsourcing is a mega-trend (Hitt, Ireland, & Hoskisson, 2000). While firms have offshored work for decades, practitioner and academic literatures focus on manufacturing and IT in publicly-held MNEs, perhaps due to greater visibility and ease of data collection. One of the most under-researched entrepreneurship phenomena is the outsourcing and increasingly the offshoring of back-office activities. Recent studies shed light on the phenomenon: 83% of leading entrepreneurial firms outsource at least one activity and over 55% outsource payroll (E&Y, 2003). Australian SME data indicates 97% purchase accounting services outside the firm (Carey, Simnett, & Tanewski, 2005). Clearly, SMEs are customers in the estimated global $115B business process outsourcing market for finance and accounting services. While new venture internationalization research traditionally focused on globalization of customer markets, the sourcing of other venture activities constitutes internationalization (Birkinshaw et al, 2003).

Entrepreneurial firms are resource-constrained, facing liabilities of smallness and newness which can be overcome through networks with partners. New firms often operate in niches, developing highly modularized and commoditized products/services and outsourcing non-core primary and supporting activities (Dossani & Kenney, 2006). Third-party vendors enable firms to respond to environmental uncertainty without adding costs (D’Aveni & Ravenscraft, 1994) and can lead to superior performance (Rothaermel, Hitt, & Jobe, 2006).

This study further develops and tests recent conceptual models of outsourcing and offshoring (Holcomb & Hitt, 2007; McIvor, 2008; Lampel & Bhalla, 2008) by integrating the complementary but converging transaction costs economics (TCE) and resource-based (RBV) theories regarding opportunism and collaboration. TCE examines firm boundaries, including outsourcing (Williamson, 1975) and is relevant for entrepreneurial firms facing high transaction costs abroad (Zacharakis, 1998). Key research questions include: What are the drivers of outsourcing and offshoring? How do entrepreneurial firms reorient value chains to optimize global dispersions of talent and knowledge? How are risks mitigated? What are the performance implications?

Method

As accountants play key roles in outsourcing decisions (Smith, Morris, & Ezzamel, 2005), hypotheses are tested using data from an internet-situated survey of accountants.

Results and Implications

Beyond contributions to theory and practice, insights may be useful for policymakers who are interested in the size and scope of offshoring to best inform decisions about attracting and retaining key activities.

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