

CHAPTER 2

LITERATURE REVIEW

2.1 Global and Globalization

According to Cambridge Dictionary, the word global is an adjective with a definition “relating to the whole world” or “including or affecting the whole world”. The word global is often associated with globalization, which according to Cambridge Dictionary means the increase of trade around the world, mainly by large companies producing and trading goods in many different nations. According to Merriam-Webster Dictionary, globalization is marked by the development of an increasingly integrated global economy marked especially by free trade, free flow of capital, and the access to cheaper foreign labor markets. According to Joshi and Mudigonda (2008), globalization of jobs has created opportunities for organizations to relocate jobs from developed countries to cheaper locations. As a topic, globalization is a conceptual entry to the problem of world order in the most general sense (Robertson, 1990:18)

Based on the definitions and theory above, the researcher concludes that global means everything that affects the world and globalization is a development of economy to affect or include every country in the world.

2.2 Concept of Competition

According to Cambridge Dictionary, competition is a case in which someone is trying to win or be more successful than someone else. In the field economics, it is a situation in which people or businesses are trying to be more favorable than each other, like generating more sales in a market. According to Business Dictionary, competition is a rivalry in which every seller tries to get sales, profit, and market share by offering the best applicable combination of price, quality, and service. Where the market information flows unimpededly, competition helps balances demand and supply. According to Stigler (1988) in Listra (2015:26), “competition is a rivalry between individuals, groups, or nations and it surfaces whenever more than one parties strive for something that all cannot obtain.”

Based on the definitions and theory above, the researcher surmises that competition in economics is when businesses and nations compete with each other where the access of information is obtainable to become victorious over the other and gain prosperity in the business' or country's economic prospect.

2.3 Concept of Global Competition

According to Business Dictionary, global competition is “the existence of competing organizations that serve international customers.” Access to global customers has increased thorough advancement of communications, shipping channels, reduction of barriers, and centralized finance authorities. According to Dereli (2015), in order to survive in global competition, competitiveness maintenance, improvement of economic performance and growth, contributions to national economic development and innovation are all important elements for companies. The economic growth achieved by competitive advantage raises employment and production rate and leads to economic development and a rise in social welfare.

Based on the definitions and theories from the three previous subchapters, the researcher concludes that global competition is an economic condition where individuals, groups, and countries are trying to win over the other to raise the economic welfare on a global scale. In order to ‘win’ the competition, the participating parties need to maintain their competitiveness.

2.4 Competitiveness and Productivity

According to Ketels (2016), the term competitiveness has been comprehensively analyzed in the academic literature ever since it became a focus of the policy debate in the late 1900s and early 1990s (Krugman, 1994; Porter, 1990).

“Competitiveness can be defined as the degree to which a nation can, under free and fair market conditions, produce goods and services that meet the test of international markets while at the same time maintaining or expanding the real incomes of its citizens,” - John A. Young in *Global Competition – The New Reality*, American Business Executive, Director of Affymetrix, Inc., Vermillon, Inc., Fluidigm Corporation, Nanosys Inc., and Perelgen Sciences, Inc.

According to Cann, 2016, competitiveness can also be defined as “the set of institutions, policies and factors that determine the level of productivity of a country”.

A competitive economy means a productive economy and productivity leads to growth, income levels and improved well-being. This productivity is important because it has been found to be the main factor driving growth and income levels. The fragmentation of the production process across different countries has given rise to the reshaping of firms to consider outsourcing and offshoring (Staying Competitive in the Global Economy, 2007), which are viable solutions for companies to stay competitive in the global market (Bacea and Borza, 2015).

Based on the definitions and theories above, the researcher concludes that competitiveness has been discussed for quite a while, companies in different nations are striving to remain competitive in the global industry by improving their productivity rate. Several solutions which can be considered by these companies consist of outsourcing and offshoring.

2.5 Concept of Outsourcing

According to Cambridge Dictionary, outsourcing is a situation in which a company employs another organization to do a portion of its work, rather than using its own employees to do it. Bucki (2018) describes outsourcing as a business practice utilized by companies to minimize costs or improve efficiency by shifting tasks, operations, jobs or processes to an external contracted third party for a significant period of time. World Trade Organization or WTO defines outsourcing as a transfer of routines, monotonous activities to outside providers. Such a relationship is regulated by a contract between the outsourcer and the service provider. The result of outsourcing is the reduction of employees in outsourcing company (vendor) and the increase of employees in the outsourcee company (user) (World Trade Organization, 2004:266). According to Troacă and Bodislav (n.d.), the concept of outsourcing came from American terminology “outside resourcing”, which means to acquire resources from the outside. The terms was later used in the economic terminology to indicate the use of external sources to develop the business, which typically were using their internal resources. According to Kavčič (2014:22), outsourcing is a model of company control. Increasingly, companies are aware of the issues caused by nonstrategic outsourcing activities, as this deters the company from their main activities. Outsourcing helps the company to focus on the strategically important areas, this focused enables company to increase their added value.

Based on the theories mentioned above, the researcher concludes that outsourcing is a method for company or organization to reduce their expense and non-core activities to external party in order to improve its financial and operational management.

2.5.1 Benefits of Outsourcing

Allweyer, Besthorn, and Schaaf (2004:137) stated some expected benefits of outsourcing in their research, these benefits are cost savings, reduced investment, supply of fresh capital, transfer of fix cost into variable cost, and improved quality of products and services. Bucki (2018) added that other than cost savings, a company may also employ outsourcing strategy in order to focus on its business core, allowing the company to dedicate more resources to what it does well, which can improve efficiency and increase its competitiveness.

Dolgui and Proth (2010) also mentioned that if the vendor takes responsibility to improve the user's business process through innovative procedures or technology, the user would benefit by gaining access to external skills and technologies. Employing outsourcing strategy also allows the user to achieve greater financial flexibility by selling assets that were formerly used in the outsourced activity in order to improve company's cash flow.

2.5.2 Risks of Outsourcing

There are four different types of risks which can be faced by a company that outsources (Dolgui and Proth, 2013):

- Competitor dilemma
- Loss of initiative by the buyer
- Migration of products and services to vendor's company

Bucki (2018) pointed out that relationship with the third party that takes on the outsourced functions must be maintained, this includes negotiating and signing of contracts, which requires time and the involvement of a company's legal counsel, as well as the daily communication with the oversight of the outsourced work.

Another risk of this strategy is the lack of knowledge from the vendor about the user company's environment, both internally or externally (Troaca and Bodislav, n.d.). However, it is also possible for the user company to experience loss of knowledge due to the activity transfer to the vendor. Some other risks of outsourcing involve incompatibility of the companies' culture and possible risk for the vendor company to lose valuable staff (Kavčič, 2014)

In order to make outsourcing process successful, the outsourcing company should pay considerable attention to the choice of the vendor companies. It should choose a vendor which could utilize their knowledge, capacities, and technology to facilitate an improved market position for the user (Brown and Wilson, 2005:123-7).

2.6 Concept of Offshoring

According to Cambridge Dictionary, offshoring is the "practice of a company having work done in another country, often because costs are lower there". According to Kirkegaard (2004), offshoring refers to purchases by firms of intermediate goods and services from providers in another country at arm's length or the transfer of particular tasks within the firm to a foreign location (Staying Competitive in the Global Economy, 2007). According to Kavčič (2014:26), the term offshoring is defined as obtaining or purchasing half goods from sources outside the country of production and what distinguishes offshoring and outsourcing is the movement across the border when offshoring. Offshoring has two forms – one is the transfer of activities from one company in a country to a foreign country, the other form is buying half products from foreign vendors. According to Grossman and Hansberg (2006), the offshoring trend was caused by the high cost of moving instructions and goods affected production rate, however the development of transportation and communication technology made it possible to separate tasks in time and space then firms can take advantage of factor cost disparities in different countries without reducing the gains from specialization.

Based on the definitions and theories above, the researcher concludes that offshoring means moving a portions of firm's tasks to another country or buying intermediate goods from another country in order to reduce costs, yet still receive the

same or better resources quality, with the intention of improving the firm's productivity.

2.7 Concept of Offshore Outsourcing

According to Business Dictionary, offshore outsourcing is when a firm has work done by people in another country and typically done at a much cheaper cost. Aside from costs, offshore outsourcing may be used to complete tasks the company may not be equipped to handle in-house. According to Carmel and Agarwal (2002) in Alkali *et al* (2016), offshore outsourcing is basically “the outsourcing of services to a third-party vendor in another country” and a major reason for offshore outsourcing trend is the globalization of work. According to Rouse (2007), offshore outsourcing is the exporting of non-core related work from one country, mostly a developed one, to areas of the world with decent business environment and lower labor cost or tax savings. According to Omoju (2017), offshore outsourcing are driven by various objectives. Consideration of the attractiveness of a location for sourcing activities is important, as well as the arrangement through which such sourcing activities should be carried out in a particular location (Kotlarsky and Oshri, 2008).

Based on the definitions and theories above, the researcher concludes that offshore outsourcing is the process of outsourcing with vendors from another countries with cheaper costs, mostly from developing countries. This type of countries is considered the attractive offshore and offshore outsourcing potential destination.

2.8 Country Attractiveness

According to Lee (2016), country attractiveness can broadly be defined as “*the degree to which a country is preferred to others in the eyes of its relevant stakeholders on the basis of certain criteria including tangible and intangible elements.*” Conceptually country attractiveness works as the core element of a country's soft power, as it can play a vital role in enhancing the success of the strategies and policies of countries in the various fields off international competition. The higher attractiveness of a country can have a positive impact on selling goods or services created in the country of origin and hosting industries, companies, and factories, as means to attract international consumers and investors. According to

Dunning (1993) in Lee (2016), a host country can offer locational advantages to firm such as huge markets, low labor or production costs or both, and benefits of infrastructure. Additionally, a country that has a higher level of political stability, transparency, and human development is considered to be more attractive in international business. The attractiveness of a country must not only be improved but also promoted (Porter, 1990), government policies play a crucial role in enhancing it country's attractiveness by identifying and addressing its weaknesses (Joshi and Mudigonda, 2008), these resources can then be utilized to promote the country (Wells and Wint, 2000).

Based on the definitions and theories above, the researcher concludes that country attractiveness is a soft power for countries to boost their performance in international competition. Generally, an attractive country has skilled workforce with low cost, decent and affordable infrastructure, and comfortable business environment mainly by being politically stable.

2.9 Financial Attractiveness

The term financial attractiveness is strongly associated to the cost factor. According to Business Dictionary, cost is an amount that has to be paid or expensed in order to obtain something. In business, cost is usually a monetary valuation of effort, material, resources, time and utilities consume, risks incurred, and opportunity forgone in production and delivery of good or service. Peavler (2017) stated that cost is one of the most important concepts in a business firm. Managers have to be able to ascertain costs of products or services the company offers for sale. According to Alkali *et al* (2016), cost attractiveness can be categorized into several variables, such as:

1. Labor cost

- According to Majunatha (2013), "*labor costs are costs which are bearing by company in every process of human resource management such as costs of hiring people, re-hiring costs, wrongful termination lawsuits, costs for regular work and overtime work*".

- According to Alkali *et al.* (2016), labor costs can be measured by analyzing the average wages for skilled staff and managers in a country.

2. Infrastructure cost

- According to Cambridge Dictionary, infrastructure is “*the fundamental systems and services, such as transport and power supplies utilized by a country or organization to produce an effective work*”. Therefore, infrastructure cost is the costs needed to gain access to power supplies as well as system and services.
- According to Alkali *et al.* (2016), infrastructure cost can be calculated by using the unit costs for telecom networks, internet access, and power.

3. Corporate Tax

- According to The Economic Times, corporate tax is a tax imposed on the net income of a company.
- According to Mukherjee, Singh, and Zaldokas (2017), “*corporate tax systems are prominent in much of the political and economic around the world today, lower taxes will make firms more innovative and competitive yet also possible that it would distort the balance of government budgets and increase inequality*”.

2.10 Labor Skills

According to Merriam-Webster Dictionary, the definition of labor skills is related to labor with skill and training in a particular job, craft, or trade. According to Esposto (2008:100-1), “*The notion of skill is the central importance in discussions of labor market change*”. According to Toner (2011), the common concept of skills refers to productive assets of the labor through learning activities. Levels of skill are defined as some combination of education, training and experience (Machin and Van Reenan, 1998; Tether *et al.*, 2005). According to Alkali *et al.* (2016), the main variable for the factor of labor skills is skill pool, which is the size of the labor with the required skills such as:

1. Workforce Level of Education

- According to Castillo (2017), “*Additional education beyond high school leads to higher earnings, lower unemployment, and a wider*

range of career opportunities. There are also non-economic benefits intrinsic to higher education based on experiences and skills acquired during a student's academic career. A better informed individual makes better financial, personal, and professional decisions."

2. English Proficiency

- According to Wil (2015), *"English became the global language with more than 350 million people around the world speaking English as a first language and more than 430 million speaking it as a second language. Most multinational companies require a certain degree of English proficiency from the potential employees"*.

3. Technical Skill

- According to Nasir *et al* (2011), technical skill is a set of *"skill, expertise or technical competence related to the field of the workers, whether engineering or technical and technical skill is also known as 'hard skill' and often associated with the use of tools, equipment related to work properly and efficiently, as well as all technical matters"*.

2.11 Business Environment

According to Business Dictionary, business environment is the combination of internal of external factors that affect the operating situation of a company. Several factors which can be includes in the business environment are laws and government activities, and market, social and economic trends. According to Worthington and Britton (2006:5), an external business environment comprises wide range of influences – economic, demographic, social, political, technological, etc. However, political, cultural, and the economic environments are the primary factors which affect the decision-making process of an international business firm (*Tutorials Point*, n.d), this theory is supported by Kearney (2017), which included political risk, economic risk, and cultural adaptability as the dimensions of business environment. According to Alkali *et al.* (2016), business environment refers to the compatibility of

prevailing culture and ethics in business dealings added by the support of government policies.

Therefore the researcher concludes that the business environment factor will consist of variables such as:

1. Political Economic Environment

- According to The Law Dictionary, political environment is *“the actions taken by the government, which might affect the daily business activities of any business or company, these actions might be national or international, or domesticated.”*
- According to Business Dictionary, economic environment is *“the totality of economic factors, such as employment, income, inflation, interest rates, productivity, and wealth that influence the buying behavior of consumers and institutions.”*
- According to Pettinger (2017), politic and economy have a strong relationship because *“the performance of the economy is one of the key political background, many economic issues are inherently political because they lend themselves to different opinions.”*

2. Infrastructure Quality

- According to Tipmann (2013), a country’s infrastructure quality is *“the institutional framework that establishes and implements the practice of standardization, including conformity assessment services, metrology, and accreditation, when used effectively, standards play an important role in global trade, contributing to technology upgrading and absorption, and protecting consumers and the environment.”*
- According to Runde (2017), *“Investments on infrastructure should align with long-term country strategies for economic development in a way that improves the low of services. In many ways, low-quality infrastructure is worse than no infrastructure at all.”*

3. Cultural Environment

- According to Vaughn (2010), culture is *“key component in business and has an impact on the strategic dimension of business*

and the culture of each country has its own beliefs, values, and activities.”

- According to Kaplan *et al.* (2016), “*culture drives people’s behavior, innovation, and customer service and perceived as a potential competitive advantage.*”
- “*National Culture cannot be changed, but should be understood and respected,*” – Prof Geert Hofstede

2.12 Content Analysis

According to Krippendorff (1989), content analysis is “*indigenous to communication research and is potentially one of the most important research techniques in the social sciences.*” The method aims to analyze data within specific context in view of the meanings. Formally, content analysis is a research technique “*for making replicable and valid inferences from data to their context*” According to Taylor-Powell and Renner (2003), content analysis is a basic approach for “*analyzing and interpreting narrative data*”. According to Hsieh and Shannon (2005), the method can be defined as a research method for “*the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns*”. According to Downe-Wambolt (1992:314) in Bengtsson (2016), content analysis is “*a research method that provides a systematic and objective means to make valid inferences from verbal, visual, or written data in order to describe and quantify specific phenomena*”. According to Bengtsson (2016), content analysis “*can be used on all types of written texts no matter where the material comes from*”

Based on the definitions and theories above, the researcher concludes that content analysis is a flexible method that can be used to analyze any written material with a systematic process to draw inferences by categorizing and identifying themes and patterns in the collected data.

2.13 Theoretical Framework

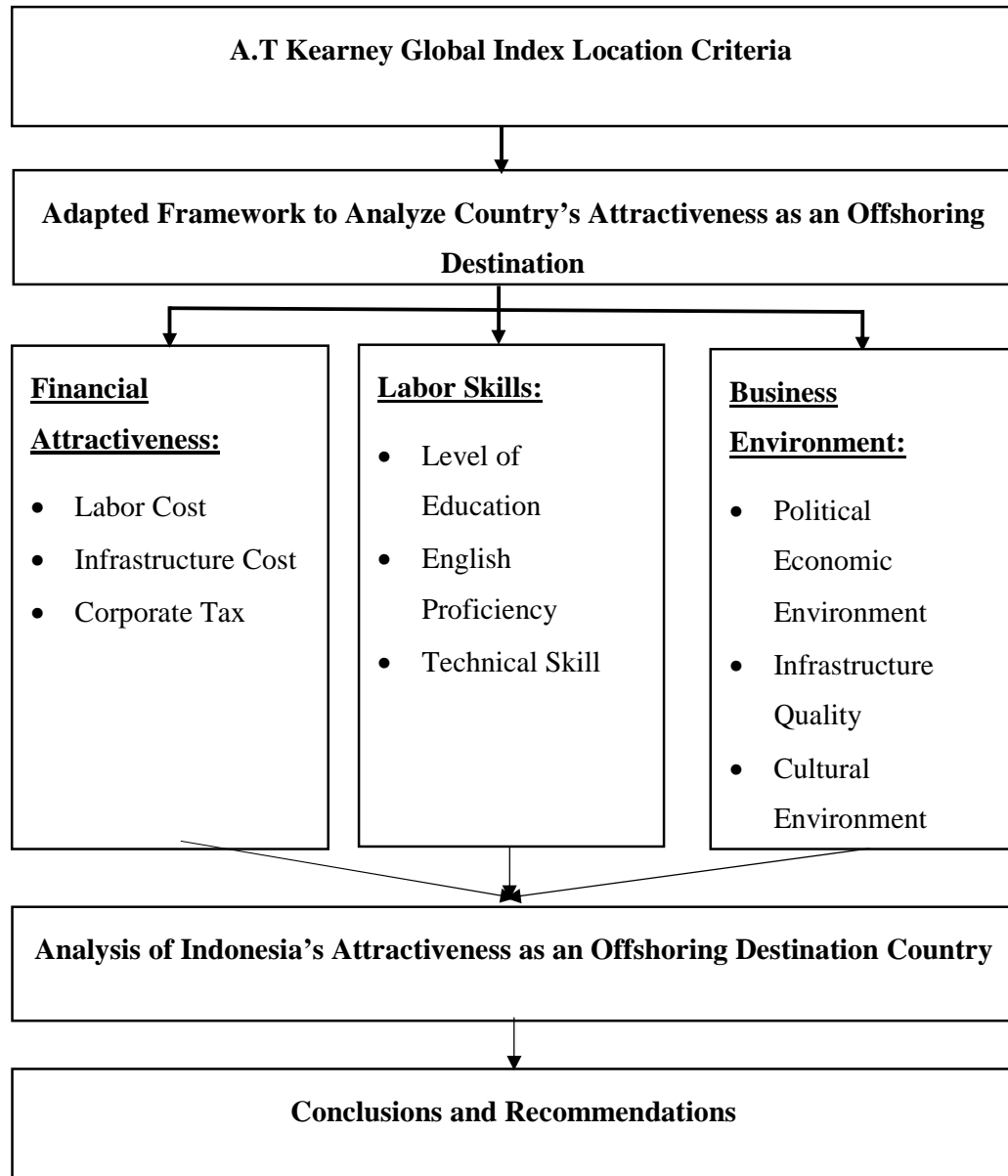


Figure 2.1 Theoretical Framework

Source: Researcher's Adaptation, 2018

