

**WHAT GOES AROUND COMES  
AROUND:  
EFFECTS OF OFFSHORE  
OUTSOURCING ON THE EXPORT  
PERFORMANCE OF FIRMS**

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# T. Friedman: “What goes around...”

New  
York  
Times  
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- *“Yes, I want to be able to huff and puff about complex issues - like outsourcing of jobs to India - without any reference to reality. Unfortunately, in this life, I'm stuck in the body of a reporter/columnist. So when I came to the 24/7 Customer call center in Bangalore [...] I was prepared to denounce the whole thing. [...] Well, he (the founder of the company) answered patiently, "look around this office." All the computers are from Compaq. The basic software is from Microsoft [...] The air-conditioning is by Carrier, and even the bottled water is by Coke [...] This explains why, although the U.S. has lost some service jobs to India, total exports from U.S. companies to India have grown from \$2.5 billion in 1990 to \$4.1 billion in 2002. **What goes around comes around, and also benefits Americans.**”*

# Introduction (1)



- The context
- The objective of the paper
- Data and definition of offshore outsourcing

# Introduction (2)

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- Main findings
- Contribution of the paper:
  - ▣ Mol, Van Tulderc and Beije (2005)
  - ▣ Di Gregorio, Musteen and Thomas (2009)

# Background (1)

- Export gains from offshore outsourcing:
  - ▣ **Hypothesis 1:** Offshore outsourcing is positively related to export performance.
  - ▣ **Hypothesis 2:** *Ceteris paribus*, the positive effects of offshore outsourcing on export performance are higher in export markets where firms import intermediate goods.

# Background (2)

- Resources and capabilities of MNEs to outsource abroad:
  - **Hypothesis 3:** The relationship between offshore outsourcing and export performance is positively moderated by the size of the firm.
  - **Hypothesis 4:** *Ceteris paribus*, the positive effects of offshore outsourcing on export performance are higher when firms also import intermediate products within the MNE group.
  - **Hypothesis 5:** The relationship between offshore outsourcing and export performance is positively moderated by the export experience of the firm.

# Data and methods (1)

- Firm-level data:
  - *Echanges Internationaux Intra Groupe* (EIIG)
  - *Enquête Annuelle d'Entreprise* (EAE)
  
- Dependant variable:
  - Export sales (firm/country level)
  - (Export intensity)

# Data and methods (2)

- Independent variables:
  - Outsourcing
  - Outsourcing \* Bilateral Trade
  - Outsourcing \* Size
  - Outsourcing \* Intra-Firm Sourcing
  - Outsourcing \* Export Experience
  
- Control variables:
  - Size, Unit labor cost, Export experience
  - GDP, Geographic and cultural distance (Legal environment)
  - Fixed sector dummies

# Data and methods (3)

- Excess of zeros:  $\log(\text{Export}+1)$
- Cross-section analysis:
  - ▣ Ordinary Least Squares (OLS) model
  - ▣ Two-stage least squares (2SLS) model
- Further robustness check
- VIF test + F test

# Findings

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- Empirical support for our 5 hypotheses
- Good overall fit of our empirical model

# Conclusion

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- Contribution to the field of strategy and IB
- Potential implication for:
  - policy makers
  - practitioners