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Outsourcing to China: Opportunities, Threats, and Strategic Fit

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Abstract: China is a prominent outsourcing destination in Asia. International labour outsourcing, specially in the IT sector, has grown rapidly in recent years. This article defines outsourcing through an extensive review of the literature and discusses the opportunities and challenges for outsourcing to China. Seeking strategic 'fit' among the disparate elements that influence the firm's outsourcing decision is recommended. The authors explore the IT and business landscapes in China and propose strategies for outsourcing success there.

Keywords: labour outsourcing, China, information technology, international business, international strategy

JEL Classification: F200

Introduction

Corporate participation in outsourcing is evolving and expanding, with notable and increasing participation of US firms in offshore outsourcing (Guerra 2002). Most enterprises outsource at least one business function, potentially affecting the course of thousands of businesses (Logan, 2000). Over 88% of firms in the UK have outsourced IT or other business functions, with 82% having outsourced a core IT or business function between 1998 and 2003 (Cap Gemini Ernst & Young 2003). An increasing tendency is that multinational companies have begun aligning with smaller firms in order to heighten specialization (Dana et al 2000). Increasingly, firms have

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come to understand that, when undertaken in an enlightened fashion, outsourcing offers substantial potential for growth, optimizing the use of home-country staff, and increasing employment opportunities, and other advantages including the opportunities to

> …turn around dying businesses, speed up their pace of innovation, or fund development projects that otherwise would have been unaffordable. More aggressive outsourcers are aiming to create radical business models that can give them an edge and change the game in their industries. Old-line multinationals see offshoring as a catalyst for a broader plan to overhaul outdated office operations and prepare for new competitive battles. And while some want to downsize, others are keen to liberate expensive analysts, engineers, and salesmen from routine tasks so they can spend more time innovating and dealing with customers (Engardio 2006a: 55).

While the benefits of outsourcing have been widely publicized, less well understood are the several factors which influence its nature and effectiveness. Through this paper, we provide an overview of the nature of the outsourcing process and some indications of the various approaches used by outsourcers, the complex array of benefits and pitfalls entailed, and the implications for outsourcing to China, with particular attention to I.T. outsourcing; our end intent is to provide an integrated, strategic perspective useful for practising executives and scholars alike.

On the Nature of Outsourcing

Before exploring these factors, definitions are in order, especially since outsourcing often is misunderstood. Outsourcing is the strategic use of outside resources or suppliers to perform activities traditionally handled by internal staff and resources (Griffith 2001), also considered as the process used by an enterprise in which business-related work functions are subcontracted to a supplier external to and unrelated to the outsourcing organization (Drezner 2002). In contrast, international outsourcing (also called ‘offshoring’) is the subcontracting of business functions to organizations in foreign locations, typically undertaken to improve the efficiencies or effectiveness of those functions. Examples include half of all telephone calls to UK National Rail Inquiries being handled by operators in India (Nash 2004), IBM moving up to 4,700 programming jobs offshore in order to save on costs, and London-based bank HSBC’s intended moving of 4,000 customer service jobs to Asia (CNN.com 2003; BBC News 2003).

A further refinement concerns the differences associated with global outsourcing, which is a management strategy in which one organization delegates one or more of its major, non-core functions to other firms which specialize in efficiently providing service in specific business functions; these transactions are encouraged by the enhanced capabilities of contemporary organizations to manage endeavors which support another firm's business (Elmuti and Kathawala 2000). Executives worldwide are beginning to view the process through the lens of 'transformational outsourcing', recognizing that outsourcing is not simply about cheap labour abroad, but pertains to the potential for huge gains in efficiency, productivity, quality, and revenues available through the full leveraging of offshore talent (Engardio 2006a). Wachovia, the US-based bank, for instance, was one company which carefully studied its outsourcing options. Its executives quickly realized that international outsourcing for cost savings yielded but a quick and short-lived 'fix', while the substance of the benefits available lay in the opportunities to transform the ways in which they did business, a much more intensive, multi-year process. Wachovia has proceeded cautiously, outsourcing some human resources jobs to a local firm and other programming and analytical work offshore, after having decided to retain as internal functions other outsourcing candidate functions like call centres since they were newly identified as strategic assets (Foust 2006). The experience of Wachovia and others underscores that the outsourcing process is complex, and entails planning, strategic definition, opportunity investigation, supplier selection, contract formulation, implementation, relationship management, and assessment (Chase 1998; Green 1999).

In reviewing herein the experiences of Western firms with outsourcing as a basis for extracting insights useful to other executives and scholars, we cannot identify with certainty which specific definition of or set of objectives for outsourcing was employed by those firms; many imply their intentions to have been that of gaining short-term cost relief, while others seem to view their outsourcing as a long-term commitment to fundamental business re-invention, with others having apparent objectives anywhere between these two end-points. In addition, the specific information related to the strategic positioning of the outsourced function typically is unavailable, so we are left to share our insights from a rather broader perspective than may be preferred. Thus, when we refer to outsourcing or offshoring, we are using the broadest appropriate and inclusive term, which for us means the formalized off-loading and subcontracting of one or more of a firm's non-core business functions to one or more organizations, which are typically unrelated to the outsourcer, which specialize in providing more efficiently and effectively specific business functions and which are sited in foreign locations, for the purpose of gaining cost, financial, staffing, management, or strategic benefits by the outsourcing firm.

While such benefits as cost-reduction often are ascribed to outsourcing, inherent challenges exist even to gain such a benefit. Despite the number of organizations that consider themselves to be successful at global outsourcing, the need continues to further identify, comprehend, and manage the risk factors that underlie both the outsourcing process and the realities of doing business in international locations (Elmuti and Kathawala 2000). The potential complexities and risks from offshoring is illustrated in the US case

> …involving medical transcription, a commonly outsourced process for the medical industry, which the University of California, San Francisco (UCSF) Medical Centre had been outsourcing for the past 20 years. Unknown to them, part of the work was outsourced by the service provider in Florida, which subsequently subcontracted the work to Texas, and without knowledge of anyone, was further subcontracted the work to someone in Pakistan (Bagby 2003). This Offshore arrangement went without a hitch for 18 months, until the Texas operation refused to pay the Pakistani company, who then threatened to post the patient medical histories on the Internet if they were not given the back pay, thereby infringing privacy and confidentiality laws (Ho, Atkins, and Eardley 2004: 2).

Risks may exist in any outsourcing activities. As the modalities for the creative arbitrage of labour (that is, the major wage gap that exists between developing and industrialized nations – Engardio 2006a) have expanded within a global environment, an additional priority is added: understanding the business and technological intricacies associated with specific locations. There is benefit to be gained for the outsourcer's business practice for putting the factors influencing outsourcing into perspective.

The need to understand the nature of country-based difficulties for foreign firms is particularly true with reference to outsourcing to China; this is because of the importance to the individual firm, the increasing centrality of China in global outsourcing, and China's being one of the most attractive and popular outsourcing destinations in the world (A.T. Kearney 2004; Cohen 2006). China's appeal has increased markedly in the recent past with its WTO-membership-fueled liberalization of laws and government policies, especially those regarding private ownership, intellectual property, and foreign partnerships; heavy investment in academic technical education; and low labour costs (Furniss 2003).

Our intent through this paper is to contribute to improving insights into outsourcing to China. We begin by considering the nature of global outsourcing. Next, we explore the special but complex situation of China with particular emphasis on international labour outsourcing for IT, a valuable business opportunity. In the section below are detailed considerations of the various challenges and opportunities for outsourcing to China, then we offer a consideration of strategic approaches for enhancing outsourcing success.

Outsourcing and the Evolving International Landscape

Outsourcing as a corporate strategy has attracted wide interest and is in the process of exceptional growth (Bolumole 2001; McCarthy and Anagnostou 2004.). While some consider outsourcing as a move to simplify or save on costs for business functions, others view outsourcing as part of the evolution of business. Author and former MIT/Sloan School Professor Michael Treacy's view is that outsourcing is an adaptation phase in the process leading toward creating more efficient business models, adjustments to inherent organizational weaknesses, and in uncovering better opportunities (Gibson 2004). This view has helped reshape organizational management and strategic inter-organizational interactions (Pollalis 2003) and has spearheaded the trend towards what has been termed 'worldsourcing' (Ellis 2004).

The Rationales for International Outsourcing

Advocates have pointed out several economic benefits of outsourcing. The positive end-effects include the firm's economic improvement in developing locations (Ellis, 2004); building foreign-based skills and infrastructure (Harrison 2004); consumer and taxpayer benefits derived from service enhancement and affordability (Griswold 2004); trade benefits (Kleinert 2003; Glassman 2004); increased wage rate and trade union benefits (Shaksen 2004); impact on the employment level in developed economies (Economist 2004); as a gateway to privatization (Prager 1997); and for its demonstrated profitability in certain manufacturing sectors (Harrison 2004).

Negative economic implications have also been noted. These include job drain (Dolan and Meredith 2004), reduction in employment and aggregate welfare (Shaksen 2004), effect on the pattern of employment (Economist 2004), detrimental effects on owners of capital (Shaksen 2004), contribution to insecurity (Ellis 2004), and reduction of skills and infrastructure in the home country (Harrison 2004).

Particularly in view of the outsourcing phenomenon's potential negative effects, closer investigation seems advisable. One useful approach recognizes the increasing interest in using foreign-based labour through outsourcing business functions, attributable to several factors which should be considered more closely. These factors may be considered as offensive or defensive strategic responses to business development and the competitive landscape.

Offensive approaches refer to the organization's use of international outsourcing as a strategic move to build its corporate strength or capture new market opportunities. Influencing factors include market internationalization (Elmuti et al 1998; Rao 2004); growing availability and demand for competent yet affordable talent (Greenemeier 2002); gaining cost and time advantages (Jeffay, Bohannon and Laspisa 1997); reliability of communication technology and enhanced project management abilities (King 1999; Rao 2004); availability of software tools, platforms, and systems (Webster et al 2000); confluence of the telecommunication and computing sectors that strengthened web and software applications (Currie 2003); standardization of business tasks (Drezner 2004); acceleration of IT innovation (Mitchell 2004); globalization and trade liberalization in emerging locations (Rao 2004); improving operational efficiencies and capturing globalization advantages (Karklins 2003); productivity improvement (Kulmala et al 2002); better staff management and strategic focus (Leung 2003); mutuality of trade benefits to participating parties (Glassman 2004); and enhancing competitive advantage and core competencies (Griswold 2004).

An area of offensive opportunity has been expanding recently. Beyond shifting labour offshore for cost savings, another emerging function to be outsourced is that of research and development. The world-class scientists of China and India have attracted the attention of large multinational firms from the US and Western Europe recently, with many moving some of their R&D there. The prime reasons were neither lower labour costs nor tax incentives, although these were considered, but rather were driven by the talent available through allying with leading local universities, their professors, and promising graduates. Dow Chemical, for instance, is building a research centre in Shanghai, with 600 technical workers to be employed there (Lohr 2006). The pharmaceutical giant Eli Lilly too has begun to move its R&D offshore, including clinical trials, with twenty percent of its chemistry work outsourced to a dedicated facility in China. Lilly has chosen to offshore these functions for its savings in cost and in time in the development process, while noting no drop-off in quality and a three-fourths decrease in its costs from those in the US or Western Europe (Arndt 2006).

Defensive approaches are the use of strategies to respond to business threats, competition, and market forces. Influencing factors include a focus on key core functions (Smith 1991); skills shortages, visa caps, rising labour costs (King 1999); downsizing, restructuring, and industry decline (Greer, Youngblood and Gray 1999); adjusting to the deflation of technological spending (Dolan and Meredith 2004); cost-cutting pressures (Rao 2004); responding to competition and market forces (Kulmala et al 2002); and international competition and survival (Harrison 2004). Identifying these more complex competitive rationales for international outsourcing assists in placing the decision to outsource in a more substantive perspective; the proposition is not without its negative side, however, as is detailed in the following section.

Outsourcing as Controversy and an Emerging Reality

The end results of outsourcing have been argued and contested. The outsourcing strategy itself has been hotly-debated, with no consensus reached on the actual end-results or net effect of outsourcing (Kotabe and Murray 2004). Nevertheless, companies use the outsourcing strategy as a way of dealing with the contemporary business landscape; this scenario is likely to continue for the foreseeable future. Outsourcing firms have increased in frequency and number as a competitive response of companies to a global environment (Andersen and Chao 2003). A Gartner research study found that 80% of all US companies will consider outsourcing as a strategic option in the near term (Leung 2003), while at least 23% of IT jobs in the US will gravitate overseas by 2007 (Fisher 2004). Approximately 3.3 million technology services jobs, amounting to US$136 billion, will move overseas from the US, according to a Forrester Research forecast (Grimm 2004).

The outsourcing-business phenomenon has not been universally popular, and has led to calls for protectionism. A Harris Poll in 2004 found that 69% of American consumers would support a plan to tax companies that substitute domestic jobs with offshore labour (Grimm 2004); anti-outsourcing legislation has been proposed in the U.S. by 31 states, and the US Senate has banned outsourcing federal contracts (Dolan and Meredith 2004).

Shifting jobs offshore (that is, out of the outsourcing firm's country, a process also called 'offshoring') has been widespread in the manufacturing sector. Offshoring has broadened recently to include the service sector, due to international competition and the breaking down of technological and geographical barriers (Economist 2004). As a result of globalization, the international flow of capital and technology has increased. The creative arbitrage of labour has become a by-product of these flows. The business interactions of importers and manufacturers from North America have increased greatly with brokers, agents, and companies in developing nations (Coates 2003).

The question before executives, to outsource or not, then contains issues of much more complexity and strategic value than a simple cost-saving move entails. Such questions and issues will vary by the firm's industry and its strategies, so insights to be gained from any deeper investigation must be viewed as general guides. That said, considering the concerns and experiences of Information Technology firms allows developing some interesting insights, and further permits establishing some general directions for developing more explicit applications to the situations facing other industries.

The Shifts in IT and Outsourcing

While the range of businesses becoming active in outsourcing their functions is broad, financial institutions and services providers increasingly are considering outsourcing as a means by which to build competitive strength, lower their costs, enhance profitability, and contribute to global economics (Gnuschke et al 2004). IT has been an obvious target for outsourcing, especially since global annual spending on IT is between US$400 and $500 billion, with about US$200 billion of that sum having the potential for being outsourced. Current IT outsourcing has been estimated variously at about US$20 billion a year (Rosenbush 2006), or one-third of all global IT spending by firms (Cap Gemini Ernst & Young 2003); the McKinsey Global Institute estimates that only 10% of the potential offshore market has been realized, with US$18.4 billion in global IT and US$11.4 billion in business-process services. Whatever the actual value, for perspective, IT spending may amount to 10-15% of a large firm's revenues (Engardio 2006b), so the savings and productivity increases may prove tempting.

Tasks such as IT support, accounting, and data entry are easier to outsource overseas than are the more complex functions of marketing and research (Drezner 2004). Service sector occupations are rather easily outsourced because they have minimal face-to-face customer interaction, large information bases, and significant cross-border wage differences; they also are web-enabled and are relatively easier to set up (Harrison 2004). As more companies explore outsourcing in international venues, a heightened awareness of specific international markets is critical. Emerging locations provide huge opportunities and numerous risks (Coates 2003). Exchange rate instability, for one, has posed challenges to internationally dispersed operations (Kotabe and Murray 2004).

Given these indications of the complexities of international outsourcing, no firm should outsource without adequate information (Wallace 1998), which includes understanding the modalities of business in emerging locations (Ramamurti 2004). A major destination for outsourcing is China, which is likely to play increasingly key roles as IT labour outsourcing increases. Understanding the pros and cons of both environments helps the business and academic communities identify and plan for viable management strategies.

China and IT Outsourcing

While any of the several business functions of any firm may be outsourced, outsourcing information technology (IT) or information services (IS) has become quite common. IT/IS outsourcing consists of turning over all or part of an organization's IT/IS functions to external or unrelated service providers (Chen et al 2002). There are a number of different approaches to IT/IS outsourcing. Four modes of IT outsourcing have been identified: back office (facilitating payroll, accounting, finance, tax preparation, auditing, document processing, transcriptions, and data storage), front office (expanding marketing and customer service through call centres, e-mail and websites), operations departments (using procurement, inventory, and supply chain management), and special projects (introducing software transitions) (Burr 2002). The scope of the function to be outsourced also varies considerably. The range and implicit complexity of the outsourced function's scope may be seen in these varieties of scope: (1) ad-hoc – as a supplementary skill to the organization's staff, (2) selective – utilizing projects in designated areas to supplement existing organizational resources, and (3) full-scale – as a strategic approach through the engagement in a comprehensive alliance (Luftman 1996).

China is the world's second most attractive outsourcing location, with India being first (A.T. Kearney 2004). This finding was based on such viability factors as financial structure, people skills and availability, and business environment. As one of the world's prime outsourcing destinations (DiCarlo 2003), China also is a prime contender for the top spot in international labour outsourcing. Contributing to its attractiveness to outsourcers are the technical specializations among China IT workers in hardware services, localization, and application development (Leung 2003).

China's culture offers some insights into its relative attractiveness as an outsourcing location. The applications of Hofstede's (1991) research are illustrative, as well as helpful, for suggesting the broad outlines of some of the aspects of China's complex culture and its values which are salient for outsourcers. While broad generalizations can be dangerous, they may also offer useful insights and factors for awareness and further consideration.

China has been noted to be characterized by rather high power distance, implying a broad preference for formalized and hierarchy-oriented organization, centralized power, and a relatively high amount of formality in relationships and communications (Ross 1999). It is also characterized as being highly collectivist in nature, yielding an emphasis on harmony, group-centeredness and a deep concern for appropriate behaviours and values as determined by others, which have implications for personal relationships, social obligations, and guanxi. Uncertainty avoidance is mid-range for China, with rules tending to be formal, implicit, and traditional;

communication is high context, with multiple and subtle dimensions, or with low levels of explicit content. The Chinese value a long-term orientation, yielding priority for continuing and stable harmonious relations within highly structured organizations; concern for the future, doggedness in pursuing goals, thrift, and subordination of individual goals for a higher goal, and high social content in organizations. These interpretations are useful primarily for their broad outlines, of course, especially given the complexity and flux of China's changing environments.

Other important attributes of China are shown in Table 1. Among the socio-economic elements of particular interest to outsourcers are those of a relatively young population, high literacy rates, increasing level of economic development, low inflation, low unemployment rates, and high economic growth. Of note also are the factors of area, population, GDP, and China's culture, religion, ethnic groupings, and languages.

Table 1: Summary of Important Attributes of China

Dimension	China's Situation
Descriptive	
Location/Capital	Eastern Asia / Beijing
Currency/ Exchange rate	Yuan/RMB / 8.27 to 1 US$
Socio-economic	
Median Age / Age Structure	31.8 / 70% in the 15-64 age range
Literacy	90.9%
Inflation rate	1.2%
Unemployment	10%
GDP real growth rate	9.1%
Scale	
Area	9,596,960 sq. km.
Population	1,299 million
GDP / GDP per capita	6.449 trillion / US$5,000
Culture	
Ethnic groups	Majority Han Chinese, 10 others
Religion	Mostly non-religious, Taoist, Buddhist, Muslim, Christian
Languages	Standard Chinese, Mandarin, at least 8 other dialects

Political/Legal	
Government type	Communist
Legal System	Custom and statute, criminal law, civil code
IT issues	Constrained with trade policies that hamper growth, over-regulation, and intellectual property issues.
Labour	
Labor force / participation	778.1 million / 60%
Labor force – by occupation	Agriculture – 50%, industry – 22%, services – 28%
Technical labor pool	50,000 technical graduates annually, with high percentage unable to speak English
Labor Costs	Annual salary from \$3,000 - \$8,000, little BPO skills
Telecommunications/Technology Infrastructure	
Telephones	263 million / 4.9 people/telephone
Mobile telephones	269 million / 4.8 people/mobile
Internet hosts / users	160,421 / 79.5 million / Every 16th individual
Infrastructure	Despite intensive efforts to develop telecommunication facilities, infrastructure in the countryside can be weak.
Expertise	Low-end software development, transaction processing, and maintenance.
Major US customers	HSBC, Microsoft

Sources: CIA World Factbook (2004); DiCarlo (2003)

Opportunities and Challenges for IT Outsourcing

Table 2 summarizes the strengths, weaknesses, opportunities, and threats of IT outsourcing in China (A.T. Kearney 2004). We will look more closely at these opportunities for outsourcers, then discuss the challenges.

Opportunities

China can offer substantial economic benefits to an outsourcer. Businesses, industries, and economies are in a position to gain mutual advantages from well-implemented outsourcing endeavours (Knowles 2002; Krishna et al 2004). One caveat, however, is that outsourcing helps economies only when the savings to consumers exceed the wages lost (Evans 2004). On the other hand, developing countries must manage their economic development strategically in order to tap into the benefits of outsourcing (Worell 2001).

Table 2: SWOT Analysis of China as an Outsourcing Candidate

DIMENSION	CHINA
Strengths	• Low cost, large labour pool
Weaknesses	• General lack of IT/BPO experience of workforce, • weak infrastructure, • challenges in English language competencies
Opportunities	• Presence of large tech companies, such as IBM/Lenovo, Dell, Huawei, • potential changes due to WTO entry, • existence of Western R & D centers, • enhanced government efforts (training, technical certifications, establishment of 5 special economic zones and 15 industrial parks), • many IT professionals have been returning to China, • location may be strategic for supply to Japanese and Korean markets
Threats	• Political and economic risks, • intellectual property rights concerns, • concerns about continued corruption, • bureaucracy and red tape, • censorship

Sources: A.T. Kearney (2004). Making offshore decisions. A.T. Kearney's 2004 Offshore Location Attractiveness Index (accessed September 2004), [available at: http://www.atkearney.com/shared_res/pdf/Making_Offshore_S.pdf];
Transparency International (2005). Corruption perceptions index 2005 (accessed February 13, 2006), available at: http://www.transparency.org/surveys/index.html#cpi].

The financial merits ascribed to outsourcing can be attractive to companies. Call centre operators can save as much as 5-8% when outsourcing to a location like Canada, approximately 10% in Mexico, and up to 20-40% in emerging locations (Read 2002). According to a McKinsey Global Institute study, outsourcing has the potential to reduce the cost of IT and related services by 60% (Griswold 2004).

In addition, outsourcing to a location like China allows companies to gain strategic value in a broad range of areas:

- capitalizing on lower wages and costs along with turnover rates (Rabinovich et al 1999; Tusa et al 2004; Munro 2004; Read 2002);
- obtaining skilled labour and expertise (Bansal 2002; Cohn 2003);
- addressing shortages in personnel (Clark 1998);

- improving customer service (Rabinovich et al 1999);
- expanding markets (Lacity et al 1997);
- helping manage complexity of select initiatives (Chase 1998; Weiss 2002);
- gaining competitive advantage (Elmuti et al 1998; Griswold 2004);
- gaining efficiencies in the utilization of IT tools to heighten responsiveness (Chan and Chung 2002);
- obtaining cheaper real estate rates (Bansal 2002);
- facilitating joint venture formations (Chen et al 2002);
- avoiding complex issues such as site selection, legal and regulatory matters (Read 2002);
- attaining operational flexibility (Wild et al 1999; Blaxill and Hout 1991; Steenhuis and de Boer 2003);
- expanding market niches (Tusa et al 2004);
- tapping into cost variability (Tusa et al 2004);
- adapting to globalization (Karklins 2003);
- operating with a limited budget (Cohn 2003);
- establishing value added partnerships that provide experience and capital (Karklins 2003);
- improving profitability, increasing the rate of innovation, while gaining favourable tax structure and incentives (Glass and Saggi 2001);
- enhancing control and operational discipline (Economist 2003);
- providing value to shareholders (Griswold 2004); and
- building efficiencies in economies of scale, scope, and application (Currie 2003).

The reasons for outsourcing can be as different as the number of firms expressing interest. Firms have outsourced to foreign locations in response to consumer demands, stakeholder profit expectations, and challenges related to pricing and the competitive landscape (Pedersen 2004). The motivations and approaches to international outsourcing also are important and of significant difference among organizations. US outsourcers, for instance, tend to pursue a value-added component for outsourcing, while European outsourcers emphasize gains in economies of scale (Kakabadse and Kakabadse 2002).

Several factors facilitate the process of international outsourcing. One such factor is the availability of technologies and market integration as accelerators of outsourcing to foreign markets (Munro 2004), while another is that a lower cost for technological adaptation and lower resource requirements are key drivers to the process (Glass and Saggi 2001). US and European companies view outsourcing as an integral component to business expansion, and products or services that are unprofitable in industrial locations would gravitate to lower-cost locations (Kakabadse and Kakabadse 2002; Ellis 2004).

Suppliers in China are in a position to provide operational value to outsourcing companies. In a study of IT outsourcers, the majority were pleased with their suppliers specifically in the areas of operations management, pricing stability and flexibility, and leveraging asset procurement (Goldman 1998). Bardhan and Kroll (2003) identified the ‘pull’ factors in overseas outsourcing destinations as the wide use of English, compatibility in accounting and institutional frameworks, overnight turnaround time, and availability of technological graduates. If these competencies are available in a selected supplier in China, advantages may be derived by the outsourcer.

However, the country and company infrastructure are other important considerations in the outsourcing arrangement (Jennex and Adelakun 2003). The majority of outsourced jobs are those that are digitalized, and which capitalize on telecommunication efficiencies from international venues (The Economist 2003).

Of similar importance is the evolution of cultural and business environments in China. Asian organizations have been observed to be changing, developing greater openness to competition and international markets, heightened literacy, and a more proactive agenda directed towards greater industrialization (Sen 1997).

China is a bright prospect for international outsourcing in Asia. China’s strengths are in its market size, infrastructure, and manufacturing competence (Infoshop 2004). Particular strengths are in telecommunication (US$36 billion in 2002), electronics (US$9 billion), and assembled computers (US$4 billion) exports. Advanced technology and their applications are becoming another advantage to be gained in China. The emerging technological centres in China are Beijing, Guangzhou, and Shanghai (DiCarlo 2003). Science and technology parks have become increasingly common, and partnerships with foreign firms are increasing. Science and technology parks help foster market-oriented development of technologies, by providing a location to which academic, business and governmental organizations are brought. With the recognition of China’s increasing scientific expertise and talent, including the more than 220,000 engineering graduates per year, foreign firms have undertaken outsourcing their more advanced projects and technology development (including R&D and basic science) projects to China.

There are several types of Science and Technology Parks for developing centres of excellence in scientific applications. On the national level, assisted by significant government incentives, 53 technology parks focus on basic and applied research; Zhongguancun Science and Technical Park (Beijing), CSSIP (Suzhou), and Pudong (Shanghai) are examples. At the municipal level, technology parks are production - focussed and intended to create jobs and higher income prospects; an example is the Nanjing New and High Technology Development Zone. Forty-eight Universities and

640 research institutes have participated in municipal parks. A final form is that of University Science and Technology Parks, which focus on new scientific enterprises and the reform and development of higher education; an example is USST in Shanghai.

Threats

Companies are bound to face significant challenges when outsourcing to emerging locations such as China. With the globalization of markets, business managers confront heightened complexity, requiring more realistic expectations and knowledge on dealing with operational issues in foreign environments (Chen et al 2002; Rao 2004). Numerous outsourcing attempts have ended in failure (Logan 2000), and many other outsourcers have not attained the benefits typically credited to outsourcing (Elmuti and Kathawala 2000). Separate from the negative effects, location selection also can impact outsourcing success. In the case of India, for instance, government support and educational improvements have been seen as contributors to the country's maturity as an offshore destination (Greenemeier 2002). Proficiency in English, too, may be useful in offshore outsourcing by US firms (Guerra 2002). In China, lack of general English proficiency is still a cultural barrier, although efforts to educate the public are underway.

The difficulties in international outsourcing cover a vast variety and broad range of issues. These issues have been observed to include the following: cross-border communication and cultural barriers (Schwartz 2004; Economist 2003; Krishna et al 2004); language issues (Bryan 2003; Rao 2004), selecting an effective vision and suitable strategy (Chan and Pollard 2003); financial challenges through erroneous resource allocation and expectations (McClelland 2003; Londe 2004); appropriate leadership and management (Chan and Pollard 2003; Krishna et al 2004); poor relationship and conflicts (Logan 2000; David and Allgood 2002: McClelland 2003); need for constant monitoring (Guterl 1996); loss of control (Byham and Riddle 1999); infrastructure challenges (Chan and Pollard 2003; Rao 2004); disparity of productivity across organizations (Grossman and Helpman 2004); lack of patience (Horwitt 1999); disparity of systems and procedures (Krishna et al 2004; Bryan 2003); imitation from competitors and intellectual property theft (Chung et al 2004; Verton 2004); morale issues in the corporate headquarters (Kessler et al 1999); political and legal conflicts (Horwitt 1999; Bryan 2003); failure to see a broader perspective (Love et al 2003); lack of standards and strategy (Hartman et al 2003; Yongmin and Ishikawa 2004); hidden costs and potential cost increases due to transportation, custom duties and tariffs, taxation and handling expenses (Ramarapu et al 1997; van Beesten 2002; Hannon 2003; Londe 2004); strikes and work stoppages (Ramarapu et al 1997); inflexibility of cost (Lowson 2002); concern about terrorism and security issues (Gallagher 2002; Rao 2004); country disparities in approaches to value-added tax or VAT (Knowles 2002); ineffective contract that does not enforce discipline (McClaren 1999); over-promising supplier (Kern et al 2002); rigid contracts that prevent innovation (McClaren 1999); lack of understanding of objectives, performance analysis, monitoring (Green 1999); inability to respond to increasing complexities requiring expertise and diplomacy, (Horwitt 1999); misalignment of attitudes and strategy (Garner 1998); and challenges in market and supplier proximity (Bryan 2003).

Corporate outsourcers should be aware of these issues and implement specific measures by which to address those they are most likely to encounter. For instance, outsourcers must understand the importance of providing attention to supplier selection, change management, service quality, management control, data security and sustainability (Grieves 2002). In addition, issues in cross-border management efficiencies and business planning should be considered, since they too have high potential for difficult processes and detrimental outcomes. Also among the complex concerns that will need to be examined are those of cultural factors and political, financial, technological, managerial, and legal complexities (Bierce 1999). Planning ahead for these challenges is critical, due to their impact on (1) time constraints on project implementation, (2) performance risks, (3) quality and cost factors, (4) trust and commitment issues, (5) variability in the structure and scope of agreements, (6) diversity of performance measures and standards, (7) currency fluctuations, and (8) international laws that legal aspects that are country specific (Barton 2003). Of additional importance is planning for venture contingencies and disaster recovery (Guerra 2002).

China has inherent deficiencies which should be evaluated by the outsourcer. Potential challenges in the IT environment in China include: (1) piracy and the legal system, (2) English language competencies, (3) shortfalls in technical innovation, (4) process quality, (5) lack of compatibility with Western culture (Leung 2003). In China, outsourcing challenges also lie on the threat of cross-cultural conflicts and miscommunication, instability of the political and economic landscape, legal barriers, disparity in contract expectations, and poor partner selection.

Strategic Fit and Alignment of Outsourcing Initiatives

The numerous issues to be considered in outsourcing ensure that the decision to outsource or not to China becomes complex. The discipline imposed by a systematic identification and assessment, through the concept of strategic fit (Miller and Friesen 1983), of the factors relevant to the outsourcing decision or process may prove helpful. For 'fit' to exist, the various components of any system must be internally consistent both with each other, and with those components' external purpose. When this occurs, the opportunity for high performance is concluded to be optimal. The concept has been extensively investigated in Western organizations and in more limited studies in emerging economies such as China's (e.g., Ross 1999; Lucas, Tan, and Hult 2001), with positive results.

To better consider their elements' mutual fit, strategic outsourcing initiatives may be evaluated through viewing the factors most pertinent to outsourcing success through the lenses of three related conditions or levels of analysis: (1) the Individual level, (2) the Intra-Organizational level, and (3) the Inter-Organizational level. In the following sections, we investigate briefly each level for its implications for performance and for fit with the firm's outsourcing conditions, identifying those level-specific programs for strategic action which seem to offer the potential for important performance increments for the outsourcing firm. The framework offered, while suggestive, should be adapted as appropriate for any specific outsourcing initiative.

Individual Level

Outsourcing changes the variety and intensity for skill sets at all levels in the organization, both for the outsourcer and for the firm receiving the outsourcing; national, cultural, and language differences contribute to intimidating challenges. For instance, outsourcers may need to become aware of the relative states of technological competencies required, broaden their knowledge of foreign environments and cultures, and acquire language skills in order to heighten the chances of business success. Those elements which operate through the skills, talents, and capacities of individual members of the organization, which are important for improving or hindering outsourcing performance through initiating, implementing, and monitoring outsourced activities, must be identified and appropriate actions taken for enhancing the potential for individual performance.

Cultural or institutional elements can introduce additional discordant effects, pointed out by Confucianism's having maintained influence over individuals and their beliefs and behaviours in the Chinese culture (Lu 2003), even as Chinese organizations adapt to the world economy by re-shaping their pre-existing cultural and institutional heritage into new, uniquely Chinese responses (Redding 2005). These value systems are deeply ingrained in business and economic activities and continue to shape people's behaviours, ways of thinking, and linguistic activities, so Western outsourcers must consider their partners' behaviours and values as they are so shaped.

Personal relationships (guanxi) long have been known to play an important role in the conduct of business in the Chinese society (Luo 1997). Guanxi is philosophically aligned with Confucian values pertaining to the maintenance of relationships, helping those in need, and fully reciprocating favours; it works to maintain network harmony, sets the rules of cooperation, secures knowledge and resources, and lowers the transaction costs of doing business (Davies, Leung, Luk and Wong 2003). Western outsourcers should attend to developing their own guanxi, as well as learn to recognize the implications of the guanxi of their Chinese partner.

The extent and nature of the differences between various cultural representatives can be difficult to identify or to accommodate. It is important that organizational decision-makers understand cultural influences on organizational members and the goals for which people work. If there are work goals specific to one culture, they must be identified and factored into work strategies; working with foreign personnel offers opportunities for conflicts from differing work goals, an outcome to be anticipated and pre-empted.

Intra-Organizational Level

The intra-organizational level is concerned with adjusting and fine-tuning the activities pursued by an organization as a coping mechanism in a global environment. These include needed capabilities and resources, structural adjustments, technological innovations, and enhancements to appropriate processes, with their accommodations becoming embedded in the ongoing processes and structures of the firm. The outsourcing firm then needs to investigate the capabilities and resources of the firm which is an outsourcing candidate, as well as the relevance of its own capabilities and resources.

A critical constraint is that of the managerial resource, currently scarce in China due to the Cultural Revolution, decades of subsistence-level living, and the historic managerial roles of compliance and implementation rather than initiative (Redding 2005). While entrepreneurial talent in small and medium-sized organizations has quickly emerged, a cadre of professional managers remains underdeveloped, although management practices in China have been improving as a result of its market transition (Zhu and Dowling 1994). Still remaining, however, are the residuals from a centrally-planned economy. Traditional Chinese management attributes are ongoing challenges to Western expectations, in such areas as: (1) Top-down decision-making: Workers follow orders and are not creative, because the old centrally-planned economy rewarded age and service time, not performance. (2) Vertical communication: Effective communication between levels is rare; feedback from lower levels takes a long time because many layers separate workers from top management. (3) Focus on production: The priority had been on meeting the production targets of the planning authority, so managers learned to focus on production; as a result, today they are limited in such management skills as advertising, HRM, inventory control, accounting, and financing (Bai and Enderwick 2005).

More explicitly, traditionally-experienced Chinese managers (that is, those with experience gained under a centrally-planned economy) are very likely to be risk aversive, have little appreciation of setting incentives to link pay and performance, have little or no financial management skills, are unfamiliar with marketing activities, are unaware of the need for investing to create competitive advantage, are unfamiliar with the need for leadership and governance skills, and are narrowly specialized rather than cross-functional or integrative in their skill-sets (Bai and Enderwick 2005). As a result, the outsourcer may experience difficulty with their expectations for appropriately entrepreneurial, risk- and marketing-oriented perspectives among the partner's members and executives.

There is a risk, too, that firms operating in China may adopt overly aggressive or ambitious business approaches that do not match their partner's competencies. An example of this was found in the differences between a French and a Chinese organization in their policy decision-making, planning activities, delegation and organization of management activity, leadership and authority roles, and coordination and control of staff, which led to serious and mutual misunderstandings (Tian and Cone 2003). Any one of these factors can pose serious challenges and difficulties, let alone this potentially lethal combination. There is thus a need to identify, plan for, and pursue developing mutually appropriate organizational processes and capabilities.

Inter-Organizational Level

The Inter-Organizational level refers to the conditions that lead to companies' adjusting and fine-tuning their business strategies in response to forces that are external to their boundaries; these include heightened trade integration, technological exposure, and international competition, and can pertain to relationships with relevant government agencies and other stakeholders, and also to outsourcing-driven business strategies.

The intra-U.S. or E.U. model recognizes few significant regional barriers to commerce, but typically cannot be applied to China. The distinct regions in China each have their own cultural and economic characteristics, as well as a separate legal system, which may not be consistent from one region to another, and which operates for local protectionism. Thus, for the firm with pan-Chinese aspirations, each region must be dealt with and organized for separately. For the outsourcing firm wishing to deal in China, then, working also with local, regional and national governments is vital. Most companies have a government-relations officer responsible for monitoring and managing relations with government agencies and individuals.

While organizations in China are scattered across a wide range of development (Geng 1998), some have evolved new organizational capabilities. Contract manufacturing firms in the electronics industry, for instance, have re-invented their requisite value-chain capabilities. As a result, transaction costs have been reduced, external economies of scale expanded, and risks reduced (Sturgeon 2002). Thus, the outsourcing firm must investigate the current and potential capabilities of a candidate partner; good matches may be found with proper effort and insight.

Alignment among Levels

Companies outsourcing to China risk pursuing conflicting or mal-aligned strategies. Inter-Organizational or Intra-Organizational initiatives may prove incompatible to the requirements of the Individual level, resulting in organizational conflicts or failure. A U.S. company, for example, may have decided to outsource its back-office IT function to a company in China, but had their own (unstated) assumptions of what constitutes commonly-available work methods, quality assurance, or technology, relying instead on the contract's outcomes and performance terms. However, the Chinese organization's employees may be unprepared or untrained for the technology or methods required by the U.S. outsourcer; or they may have insufficient English language competence, resulting to organizational conflicts and even project failures. Following through on contract terms to confirm actual capabilities and resources can be helpful.

Meeting outsourcing objectives may be best optimized when the requirements of each of the three levels are identified, the levels aligned (investigated for inconsistencies or conflicts, and those found being rectified) with each other, and all levels also be found to be consistent with the relevant program objectives. In other words, the executives of an outsourcing firm may undertake any of numerous actions in any given decision area, but must be aware of their implications for each of the other decision areas, creatively seeking to modify or refine those important for the level so that their impacts on any of the other level(s) are benign or, better, beneficial and multiplicative in their interactions and end results.

Understanding these and other business inhibitors in the outsourcing location can help avert future challenges. We emphasize that the specific factors to be considered will vary by company, outsourcing agreement, capabilities needed, and others; the extensive review of the factors which affect outsourcing, in the earlier sections of this paper, provides a resource for the outsourcer's review for optimizing potential and mutual success. In the following section, we conclude by relating the attributes and challenges reasonably to be anticipated when outsourcing IT labour to China.

Conclusions and Implications

In summary, international outsourcing poses significant opportunities and challenges for organizations in China. Among the obvious potential advantages of international outsourcing are (1) having moderate/low labour cost, (2) generally lower overall costs, (3) moderate/low day-to-day control, and (4) moderate/high level of risk (CINCOM Online 2004). The risks in the country typically are less apparent and are thus more dangerous, but may be minimized by thoroughly understanding the organization's objectives, gaining a thorough knowledge of the market environment and the service providers, as well as undertaking appropriate strategic planning. As companies examine the prospects of international outsourcing, careful planning and the use of strategic approaches are necessary.

Several factors shaping IT international outsourcing are within the control of the outsourcing company. These factors include strategy, platforms, data sharing, and the cultural frameworks in the IT outsourcing outcome (Chen et al 2002), as well as overall management, economics, and technological quality (Yang and Huang 2000). Success factors are attributed to people, infrastructure (both business and technical), and interfaces (Jennex and Adelakun 2003).

Outsourcing companies, however, have to be constantly conscious of economic and business factors affecting the international location. Among the difficulties in emerging locations are these factors: (1) protectionism or closure of certain industries, (2) currency devaluation, (3) lack of information, (4) an ill-equipped workforce, (5) inadequate infrastructure, and (6) challenges in governance (Hooke 2000). Due diligence must be exercised by the outsourcer, and patent and regulatory issues examined; taxes and laws, language and culture, and 'hidden costs' in the form of duties and tariffs must be conscientiously researched (Nyberg 2003). International entrepreneurs need to constantly monitor and prepare for unanticipated changes in the business environment.

The expansion of outsourcing in foreign locations is expected to further grow in the coming years (Rao 2004). The competitive landscape in outsourcing destinations will intensify in the future (Kearney 2004). Outsourcing companies should be prepared to develop their businesses in conjunction with the host government. For instance, in developing countries, there is a continuing need to work on such issues as quality assurance, infrastructure, accessibility, country reputation, market niche development, competition research, structures and laws, enhancement of awareness, and establishing an advisory council in order to further grow the outsourcing industry in the country (Worell 2001). Outsourcers are in a position to provide much-needed support to the host government. In doing so, the chances for venture sustainability would likely be heightened. China is keenly interested in developing a vibrant high-tech sector and to penetrate the high-added value goods and services market of the world.

Outsourcing in China provides strategic value to internationalizing firms, and offers unique advantages. In developing businesses in emerging locations, companies should be cognizant of the primary objectives, varying location merits, and optimum combination of strategies. After an extensive literature review, the authors concluded that, when considering outsourcing to China, the decision depends heavily on the specific needs of the outsourcing company. Table 3 summarizes some of the authors' observations regarding common outsourcing criteria and how they may relate to China's outsourcing competencies.

Table 3: Some corporate requirements for selecting China as an optimal location

Parameters/Requirements	Justification
Company requirements are anchored more on low-end software development and maintenance	These have been cited as China's strong points in the IT sector
Company needs a large internal market and high access to nearby markets like Korea and Japan	China has a far larger internal market than any other country.
Company is forward looking and perceives growth over the long-term	Prognosis for long-term growth in China has been good
Company views currency exchange rate stability as critical to the business	China's currency has been very stable.
Company desires a less competitive landscape and first-mover advantages	The IT landscape in China is relatively young and still growing.
Company requires a location with political and economic stability	China's political system is strong and appears stable, while its economy is vibrant.

There are other factors to consider as well. For instance, knowing a supplier well and planning an efficient organizational integration can help prevent operational problems. Thus, since the weaknesses of service providers typically lie on their timing and cost deficiencies, narrow perceptions, and personnel incompatibilities due to cultural barriers (Goldman 1998), difficulties may be avoided through prior investigation and action. Major emphasis should be placed on the supply chain, strategic direction, role of the service provider, relationship objectives, and scope of collaboration (Bolumole 2001). In the case of China, pursuing strategies that capitalize on an optimal mix of location advantages heightens the chances for success, although we recognized earlier that the distinct geographical regions in China have their own separate legal and institutional systems, which must be dealt with separately.

Managerial Implications

We recommend a number of approaches that are viable in emerging locations such as China, and point out that the specific factors to be considered within these approaches will depend strongly on the particular company's outsourcing objectives, nature of the candidate being considered, the industry and business function, as well as the organizational and strategic alignment between the company, its environment, and its internal organization. Our broad-brush guidelines are starting points for the outsourcing firm to evaluate its potential for success, particularly with attention given to those elements deemed appropriate for that company's specific situation. In so doing, we first establish broadly-based principles pertinent to the actions prescribed, and then make suggestions for the manner in which each of those sets of principles pertain to outsourcing in China.

Formulate a solid vision and clear strategy. Understanding the business development agenda and goals are important considerations. In telecommunication companies, among others, it becomes highly relevant to identify where the core competencies are anchored (Tusa et al 2004). Goal assessment, organizational culture understanding, and assessments of the impact of international outsourcing on the future agenda and product lifecycle are similarly important (Pedersen 2004). In a study of 3,500 manufacturers in the UK, widespread use of a structured analysis of needs and capabilities among outsourcers was found (Baines and Kay 2002). The ability of two business organizations to blend operations across borders is critical to the success of the outsourcing process. Sustainability is anchored on the depth and scope of business integration and its compatibility to the organizational strategy of the participating organizations. Benefits associated with strategic outsourcing include the following: value creation (Karklins 2003); cost benefits (Choi and Davidson 2004); competitive merits (Chen and Ishikawa 2004); enhanced business performance (Pollalis 2003); holistic perspective (Love et al 2003); and broadened perspectives, networks, and linkages (Chan and Chung 2002). Companies considering outsourcing to China should have a clear understanding of their key objectives and their implications for the venture's overall plan. Creating a vision in China is creating a global vision for most companies. China's vastness coupled with business opportunity and growth makes China central to most companies' strategic calculus. For most companies it is not whether they should operate, sell or outsource in China, but rather when and how fast. Domestic strategies that align with the

Chinese international business environments, local suppliers, local partners, global partners and global demand are paramount for success.

Weigh the pros and cons of potential locations. Different international locations offer unique advantages to companies. Executives need to strategically select location merits based on pre-identified needs. Outsourcing key tasks that provide optimum benefits offers an opportunity for significant benefits (Dryden 1998). Taking a closer look at infrastructure and ease of system integration is helpful (Schwaninger and Warsop 1999). In the case of China, tapping into the primary technological competencies of the location can lead to optimal results. While China is not as advanced as India in English-language competence and software development, the countries advanced infrastructure coupled with its desire to promote high-tech and higher-added value services to the economic infrastructure is a positive signal for outsourcers. China is already the world's manufacturer and outsourcing supplier, and for the Chinese to add the high-tech sector the impressive portfolio of leading industries is a natural development of their economic prospectus. However, China's business environment is neither easy to understand nor simple to navigate. Legal and institutional changes complicate matters further. China is a capitalistic dictatorship that while providing stability in general can act rather selfishly at times serving specific demands of its political and industrial elites. Internet operators such as Google, Microsoft, and Yahoo were 'forced' to cooperate with the Chinese regime in pursuing political goals, sometimes at the expense of the freedom and the livelihood of selected individuals and organizations. Such actions on behalf of multinational internet firms have serious social, political and economic implications.

Increase understanding on target locations. When doing business in international locations, companies are exposed to an ever-changing mix of factors. Sensitivity to the evolving dynamics of the selected environment is necessary. A country's existing infrastructure is important in the process of technology transfer (Steenhuis and de Boer 2003; Elmuti and Kathawala 2000). Political and foreign exchange risk assessments also must be made (Coates 2003), and accurate information prior to making the outsourcing decision is critical (Michala, 2001). In addition, business adjustments may be necessary in order to deal with challenges such as cultural differences, lack of globalization skills among workers, legal disparities (Leung 2003), inconsistent infrastructure levels (DiCarlo 2003), and business and economic constraints (Kearney 2004). Our 'strategic fit' framework described in the above section suggests that success in China hinges on the assessment and reaction to the internal-external linkages. In China, individuals in the high tech sector still lack important skills, such as English language, innovation capacity, and independent critical-thinking skills. This is in part attributable to the educational system, institutional framework, and cultural antecedents. Secondly, partner companies may not have the same business ethics and values, for example, in enforcing intellectual property protection, obeying their contractual obligations, sharing partner sensitive information, and following the letter and the spirit of the law. The Chinese spiritual and religious map is markedly different from the West. Confucianism, guanxi, and competitive behaviours can create misunderstandings, at best, and lead to a breakup of the relationship or expropriation of core technologies, at worst.

Give importance to partner selection. Selecting the right supplier or partner in China is an important consideration for potential outsourcers. Outsourcing may be considered as a convergence of two companies in the process of building a common culture (Garner 1998). For the outsourcer, it is important to evaluate applications suitability, project management capability, timing of execution, and agreed-upon deliverables between participants (Clark 1998). Since outsourcing is partly anchored on technology, it is also important to consider the maturity of a supplier's business processes and approaches (Weiss 2002). A partner that has an industry focus and an established record should be selected (Kakabadse and Kakabadse 2002), and importance given to the size of the respective operations (Jain and Song 2002). Effective relationships take time to build, and require effective communication procedures in place, as well as heightened staff efficiencies (Davey and Allgood 2002). The nature and process of the competency migration that takes place between the outsourcer and supplier should be taken into account (Caputo and Zirpoli 2002). In the case of outsourcing in the hospitality industry, five factors have been found to play a role in the outsourcing relationship: (1) core competencies, (2) brand compatibility, (3) organizational culture, (4) operational tension, and (5) evaluation and assessment of systems (Hemington and King 2000). Outsourcing relationships should be transparent (Murphy 2004), while and a fair and equitable partnership must be developed in order that the outsourcing relationship will be sustainable (Elmuti et al 1998). When selecting potential suppliers in China, personal and organizational compatibilities and differences need to be understood and evaluated. Partner selection in China often relies on an assessment of (1) capabilities of the supplier, (2) quality control and processes, (3) past/present work with competitors, (4) past record of achievement, (5) leadership capabilities and willingness to cooperate, and, of course, (6) cost.

Prepare for organizational discrepancies. Organizations across borders differ in objectives, perspectives, and infrastructure. Planning for risk variables contributes to successful implementation (Crowley 1999), suggesting the critical role of management skills in outsourcing arrangements (Boyson et al 1999). Since Chinese organizations vary extensively in the quality, speed, and reliability among suppliers (Murphy 2004), anticipating and planning for these differences ahead of time can help prevent problems. Project management assessments are helpful to clearly evaluate the risks and benefits of the outsourced tasks (Currie 2003). Establishing a shared philosophy and common commitment in developing a sustainable cross-border relationship is useful (Vavrek 2002), as is cultural training for managers outsourcing in international locations (Sullivan and Tu 1995). In addition, outsourcing companies need to be prepared to respond to infrastructure disparities and challenges in the availability of electrical power in certain locations (DiCarlo 2003; McGarry 2004). In China, perhaps more so than other locations, managerial and technical know-how of partner companies is often lacking and needs to be reinforced by training and development. The 'window' into the partner companies capabilities is often narrow consisting of one or two individuals with the right skills. This limits cooperation since projects can only expand as fast as capacity of the selected individuals. Companies, thus, need to be prepared to educate and prepare their suppliers and to increase their competitiveness in the marketplace. There is a risk, of course, that teaching companies will transfer know-how to their supplier that will undermine their bargaining power and create new competitors.

Engage in strategic contracting, but focus on the relationship. Planning for synergistic contracts that provide mutual value is critical. Trust and commitment are critical in the outsourcing process (Moore 1998). Over-promising, however, by suppliers must be guarded against and the contract dynamics be evaluated thoroughly (Kern et al 2002). Higher levels of integration typically require more elaborate contract formation (McClaren 1999), calling for exploring broader supplier options and examining the supplier's record closer before signing a contract (Horwitt 1999). Looking at the contract from both sides assists an emphasis of relationship in contract development and may help foster trust between the parties involved (Logan 2000). Outsourcing companies contemplating investments in China should prepare to clearly outline specific contract expectations and requirements in order to prevent potential misunderstandings. In China, however, the 'contract' itself is sometimes not worth the paper it is written on. Contracts are often viewed as memorandum of understanding or 'flexible' work arrangements that can change with the environment. Relationships are often more important to forge than contracts per se. A strong relationship (or so called guanxi network) can help overcome contractual deficiencies, operational difficulties, or adverse changes in the environment.

Review all cost angles ahead of time. Many outsourcing firms are motivated by the cost advantages brought about by outsourcing. However, there could be unseen factors that can adversely impact cost advantages. Logistic factors, product content and origin, as well as security issues should be reviewed (Trunick 2004). Cost benefits should be quantified and contingencies considered (Lowson 2002). Although cost structures are low in China, careful assessment of all operational costs leads to the avoidance of 'hidden costs' such as taxes, tariffs, training, infrastructure development, or regulatory barriers. Companies in China need to invest in maintaining harmony with suppliers, supporting their activities, engaging government (local or national), and making a contribution to the local environment.

Consider partnership formations. Outsourcing firms can build on the strengths provided by government and academic institutions in China. Government and academic support to outsourcing activities in the country can be helpful (Greenemeier 2002). Benefits may be derived from gaining the cooperation of governments in international locations (Luo 2002), and acquiring professional help and guidance similarly can be critically important (Grieves 2002). Benefits also may accrue from introducing innovative and transformational models in global sourcing (Chung et al 2004). Creative partnerships and linkages may be formed in China to further research objectives, enhance technology and training, and ensure a steady supply of technology workers. Technology parks are useful entry points, but large variations exist among them and various industry clusters exist in different locations. Provincial and national technology parks have more clout in the national political agenda, and provide both the infrastructure and support that may be required.

Conduct assessments on an ongoing basis. With growing global competition, strategic assessments can help firms grow and improve. In the telecommunications industry, for instance, performance analysis, benchmarking, and forecasting have been found to be valuable in the outsourcing decision (Gree 1999). Creating a joint effort with partners in pursuit of developmental initiatives can lead to positive outcomes (Gooley 1994). As organizations in China compete with outsourcers in India, Russia, the Philippines, and other emerging locations, the continuous updating of skills and the quest for improvement can become anchors for long-term success. While China is the host market of choice for many companies today, changes in the political economy, or the emergence of other countries can influence the choice of future partnerships. That China will remain a 'hot' spot for investment in many years to come is undeniable. But, other locations may become more attractive over time for specific investments as costs are gradually increasing in China (particularly in Shanghai, Beijing, and Guangzhou) and because other locations are also developing competencies in selected industries and their labour forces.

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