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# **Not Yet Modern? Longitudinal Organizing Capabilities of Offshoring Enterprises**

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## **Abstract**

While offshoring is well covered in literature, its organizational aspect and long-term development are not known. This chapter seeks to remedy this. Reviewing longitudinal offshoring studies discloses diverging findings. A range of activities has been offshored. The framework for organizing capabilities includes functions, tools, management/leadership and boundary spanners. A four-phase linear model of long-term offshoring is proposed, encompassing transfer, resource searches, transformation and development. Four case studies of offshoring organization were made: one longitudinal process is described. Their development paths differ, they do not go beyond transformation; two revert to backshoring; three do captive arrangements. Two employ project organization. They do not follow a modern pattern of linear progression.

**Keywords:** offshoring, longitudinal, organizing, capabilities

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## **1. Introduction**

Offshoring and outsourcing are becoming central strategies in the management repertoire [1]. Pushed further by contemporary crises in Western economies, Western enterprises are forced to think in new and innovative ways and to use all their resources to develop new organizational forms. In this development, offshoring and outsourcing become more important for a range of business research strands.

It is argued that offshoring involves long-term relations [2] and goes beyond contracting. Hätönen and Eriksson [2] even claim that the transactional view is obsolete. At least harvesting benefits from offshoring should be viewed in a long-time perspective. Long-term offshoring involves establishing organizations and reorganizing them at appropriate times. Thus, offshore organizing is a combination of structured, more stable organization and processes of (re)organizing.

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Against this background, the aim of this chapter is threefold:

- to develop a concept for organizing capabilities in emerging long-term offshoring setups.
- to assess existing literature, including empirical findings of long-term offshoring and their organization.
- to describe and analyze organizing capabilities in four cases of mature offshoring outsourcing setups, focusing on more recent developments.

Offshoring organization is therefore viewed as a process. Pettigrew [3] makes the case for processual longitudinal studies, claiming and demonstrating that they better account for organizational journeys of advance, success, retreat, barriers and missed opportunities. They avoid the ex-post rationalization of snapshot studies, where enterprise players (perhaps unwittingly) arrange their narratives according to success and failure, heroes and scapegoats [3].

Our case enterprises have limited resources; they are family-owned, with a family member as CEO. They cannot be understood simply as SMEs, but in two cases, central elements are legally SMEs (less than 250 employees) combined with contracts, strategic partnering and other arrangements. The other two cases are among the 500–1000 largest companies in Denmark. The companies have long been engaged in offshoring, enabling study of longer term organizing capabilities. Our focus, however, is on a more recent period (2007–2012).

The theoretical frame is multidisciplinary, combining enterprise internal and external theories [1, 4, 5] but with a basis in the resource-based and knowledge-based views of the firm (RBV and KBV [6, 7]). Capability is here viewed as the ability to perform actions. Teece et al. [8] try to understand how enterprises develop and sustain competitive advantage and suggest that this ability can be thought of as dynamic capabilities. This idea has been criticized [9], but we argue that in the context of conceptualizing organizational capabilities in long-term emergent (often rapidly changing) offshoring companies, it makes sense to think of these capabilities as dynamic (see also [10]). Organizational capabilities consist of two main components: relational capabilities [5] and knowledge-handling capabilities. Knowledge is important here, but the ability to execute is equally important. Therefore, ability to integrate knowledge and govern knowledge processes and interactions are of particular importance.

This chapter contributes by assessing the existing literature's longitudinal studies of offshoring presenting a concept of organizing capabilities that merges relational and knowledge-handling capabilities. It presents one case description among four cases of offshoring manufacturing companies analyzed in a long-term perspective, including organizing capabilities. The literature review is also a contribution in itself, as other recent reviews [5, 11] do not cover long-term development (Hätönen and Ericsson [2] is an important exception).

The chapter is structured as follows: first, a section describing the literature review method, the cases and the empirical method employed; then, the literature review and the conceptualization of organizing capabilities is developed. The empirical section describes one longitudinal case, followed by an analytical discussion and comparison of the four cases. The chapter ends with a conclusion.

## 2. Method

As advocated by Bunyaratavej et al. [11], the overall approach is multidisciplinary, but with a basis in the resource-based and knowledge-based views of the firm (RBV and KBV [6, 7]). We use an interpretivist and abductive epistemology [12]. Both theoretically and empirically, the chapter builds on one author's PhD project, which adopted a longitudinal approach to offshoring.

An initial literature review was carried out in 2007, which inspired the initial orientation of the research, providing concepts for transfer of knowledge, management and organization. A second literature review was carried out in summer 2012, following Hart [13] and Webster and Watson [14]. The second search's aim was to assess the knowledge accumulated in leading journals on offshoring companies' longer term development and their internal and external organization.

The delimitation of the search—following Hart [13]—was aided by relying on several previous literature reviews of the area [2, 5, 11, 15, 16]. These reviews suggest that international business, strategic management, operation management (supply chain management), (industrial) marketing and purchasing would be important research strands to pursue. It was decided to combine breadth with depth by using three search engines, and also investigate selected journals believed to be strong on offshoring. The three search engines were primarily Science Direct, and secondarily ABI/Informs and Business Source Complete (EBSCO). The time scope selected was 2007 on, since our focus is on the most mature offshoring setups. Articles and journals oriented toward IT technology were disregarded (but not business studies of IT sector firms).

Several consecutive searches, control searches and supplementary searches focused on management and organization journals, were made, giving a seven-article sample with longitudinal studies of offshoring. This focused sample includes four articles from *Journal of World Business* [4, 7, 17, 18], one article from *Journal of International Management* [1], two from *European Management Journal* [19, 20], none from *Journal of Operations Management* and many other journals. The manual review of hits from the two latter search engines added a range of relevant journals (e.g. *International Journal of Operations and Production Management*, *Academy of Marketing Science*, *Strategic Outsourcing*, an international journal) without longitudinal offshoring studies.

The manual in-depth analysis of the sample involved searches for understanding of offshoring, functions offshored, longitudinal, longer term, theories, research aims and results [13].

Supplementary search in 16 leading organization and management journals (using Web of Knowledge, Thomson plus broader reputation) gave no longitudinal studies but some useful contributions to our argument [10, 11, 21–23].

The *longitudinal empirical investigation* was part of the PhD and comprised four qualitative case studies following the companies over a longer time span [3]. The selection criteria for the PhD's four case companies—at the outset—were globally operating SMEs in the textile and furniture industry with considerable experience in offshore sourcing. The PhD study's field methods were on-site observations, semi-structured and unstructured interviews, and review of secondary materials. Respondents from each company were involved in commenting

on case summaries, including revisions. Secondary materials from each company included annual reports, press releases, customer presentation material and stakeholder and media material. The method was based on focusing on a few events in the four cases as a process research design [3]. After the first visit, the companies were revisited the following 3 years. The first interviews of key informants were based on a semi-structured questionnaire; the follow-up interviews the next 3 years were unstructured. Sixteen interviews were conducted. Interviews were partly transcribed (first 3 years of study) and coded in NVivo (QSR International software).

The PhD project focused on the knowledge element of offshoring, initially relying on an open understanding of knowledge, relating it to a broad range of enterprise activities including production facilities, product development and material flows. This chapter’s analysis of longitudinal offshoring organizing relies on the topical and theoretical similarity and openness of the doctoral work. The analytical design can be seen as a further iteration of the PhD study’s abductive approach, where the initial interviews and data gathering were influenced by a broad understanding of knowledge and offshoring, which involved more and more elements after the companies’ first steps toward offshoring manufacturing activities. This material is used here to analyze offshoring organizing and knowledge handling. Additional data were collected to enable this, but only a few subjects missing in the first material gathered were needed. Some details were changed due to anonymity concerns. The time range of the case study is indicated in **Table 1**:

Each case contributes important and potentially unique learning about offshoring [24], but the assumption is that variations between the four case studies will provide insight that will allow us to examine the complexity of the offshoring process and the emergent organizing capabilities. Therefore, we compare the cases, although we do not claim generalizability. Not having more than four cases as basis for analysis can be viewed as a limitation, another could be not having made an ethnographic research design to provide a more in-depth understanding of organization, organizing, knowledge handling and management.

Case	Retrospective scope phases	Study period	Organization scope	Number of interviews
FURNICO	Transaction and resource seeking	2007–2012	HQ	7
DRESSCO	Transaction and resource seeking	2007–2012	HQ and captive offshore unit	9 (3 in captive unit)
TEXCO	2001–2007 Captive production unit	2007–2012	HQ and captive offshore unit	13 (5 in captive unit)
KNITCO	2001–2007 Transaction and resource seeking Outsourcing	2007–2012	HQ	6

**Table 1.** Longitudinal case studies.

3. Literature review

The longitudinal studies review establishes the gap we can try to fill with our contribution, and also delivers elements to the subsequent theoretical frame for understanding offshore organizing capabilities. We commence by defining the central elements, and then proceed by reviewing contributions on longitudinal development of offshoring and offshore organization. Note that some contributions are used in Section 3.2 [5, 25], as they provide important input to the concepts but not to the review.

We define offshoring as a strategy of transferring activities across national borders, which may occur through using external resources (outsourcing) or through relocating internal production activities (direct foreign investment, captive arrangement) [2, 11]. It follows that outsourcing and offshoring overlap and are related, as shown in **Table 2**.

Offshoring and captive setup refers to the situation where the firm owns and runs offshored units in another country [11], whereas offshore outsourcing refers to the situation with simultaneous transfer of ownership and location of an activity ([2]: 147). As we see later, this definitional model is challenged by a practice that involves a range of hybrids, in-betweens, intermediaries, etc.

3.1. Longitudinal studies of offshoring

Longitudinal studies of offshoring are scarce. To place our review in a context, we use former and more broadly focused reviews on outsourcing [2], offshoring [5, 11] and global purchasing [16]. These reviews point to the following relevant research strands: international business (IB), strategic management, operation management (supply chain management) and (industrial) marketing and purchasing.

Hätönen and Eriksson [2], Bunyaratavej et al. [11] and others point to present theories used (with the longitudinal studies in parenthesis): transaction cost economics (TCE) [7, 18] and the resource-based view (RBV) of the firm [4, 7, 18]. One longitudinal study draws on the framework of Christensen et al. [26] regarding the tensions between integration and disintegration [19].

Several papers do not directly use organization theory ([7], use grounded theory). The organization theories actually used are configuration theory ([17]—strategy and organization) and organizational learning [1]. These theories date some 10–30 years back. Contributions from contemporary organization theory (such as institutional sociology) are lacking. Several contributions suggest combinations of theories to cover internal and external aspects of the phenomena [4, 11]. Jensen [4] uses RBV, activity-based and international business network theories to obtain this combination of internal and external aspects. Hätönen and Eriksson [2] analyze

	Insourcing	Outsourcing
Onshore	1.Internal domestic provision	3. Domestic outsourcing
Offshore	2.Captive/foreign subsidiary offshoring	4. Offshore outsourcing

**Table 2.** The four main strategic options of offshoring/outsourcing (Adapted from [11]).



the practical and theoretical development of outsourcing in a systematic manner that would cover offshoring as well. Although this framework is tentative and ex-post, it can be used as a systematic attempt to conceptualize longer term offshoring developments. The framework consists of four phases:

- Transactional
- Resource seeking
- Transformational
- Developmental

The first phase is transaction. Hätönen and Ericsson [2] characterize it as a “big bang”, where the make or buy dilemma seriously tilts toward buy. Activities are turned over to outside vendors in the belief that market mechanisms of distant markets result in lower transactions costs. TCE is the main theory. The second phase is resource seeking. Here, companies rely on external sources to provide production components and services. The main theory becomes RBV ([2]: 152).

The third phase is transformational. The main theory is RBV, in combination with organization theory. In this phase, all parts of an organization can in principle be turned over to outside vendors ([2]: 152). And as offshoring and outsourcing become integrated legitimate tools in the management repertoire, the concerns turn to the timing of offshoring.

The fourth phase is developmental. Here, the organization becomes increasingly boundary-less and managing business development and continuous improvement of internal activities can even become part of offshoring/outsourcing arrangements ([2]: 152). Management takes the form of portfolio management, as many internal activities are project-oriented. Yet, longer term perspectives of external sourcing are employed, even a “lifecycle” perspective. This implies that the main theory applicable is RBV according to Hätönen and Eriksson [2].

Hätönen and Ericsson’s [2] time scale, 1980–2007, broadly matches that of Hutzschenreuter et al. [20], but while Hätönen and Ericsson [2] understand the phases to be characterized by relations between the involved companies, Hutzschenreuter et al. [20] view the changes as waves of offshored functions; first, support functions within R&D, then, technology-based support functions, and finally, interaction-based functions. This analysis is based on a comprehensive dataset, but some longitudinal studies contradict the pattern—Lampel and Bhalla [17] find a call center to be the first offshoring (relation-based) emerging into R&D offshoring; and Jensen [1, 4] finds continued and increasingly more strategically important R&D offshoring. Hätönen and Eriksson [2] refer to portfolio management as part of the fourth phase. This reference points back to Kraljic’s matrix of supplier segmentation [27] and to project organizing with management of multiple parallel projects [28].

The studies reviewed show that, by 2012, almost any part of a classical hierarchical organization can be subjected to offshoring and provide a range of examples. Most longitudinal studies occur in the service sectors (Finance, IT and engineering; [20]). They cover R&D, IT development, HR support functions and more [1, 4, 17]. Fewer studies focus on manufacturing. Bengtsson and Berggren [19], in their longitudinal study of telecom giant Ericsson, show a radical shift from

production disintegration to partial reintegration. This occurs as production is mobilized into the company's innovation activities—for example, standardizing components.

The longitudinal studies do not equivocally comply with Hätönen and Eriksson's [2] framework. Firms offering low-cost products continually use offshoring with a strong cost focus [17]. Even when the companies achieve high-value core activities, they may be forced to continue outsourcing and offshoring to stay in their market segment and keep their overall costs low. Lampel and Bhalla [17] offer this type of case in telecommunications. Over a 6-year study period, the company offshored more and more and struggles with increasing coordination (employees traveling back and forth) to handle this. Activities offshored include customer services, development of an internet order portal, billing system and triple-play system (offering customers TV, broadband and telephone). Offshored core value-creating activities have to be tightly coupled to the main firm. Lampel and Bhalla [17] use configuration theory, combining strategic positioning and organizational design elements; however, their analytical result remains close to the rich longitudinal case, which is thus implicitly viewed as unique.

Also within Human Resources processes, longer term development might differ from Hätönen and Eriksson [2]. Pereira and Anderson [18] focus on business process offshoring within HR. Theories are the resource-based view (RBV) of the firm and transaction cost economics (TCE). They make a qualitative case study with a 2-year time scope. The longitudinal analysis "...indicates an increase in the transactional and extrinsic basis for HR practices" ([18]: 230). And the "promise" of long-term partnering between HRO organizations and their clients "...may be viewed as little more than an empty shell" ([18]: 230). Activities offshored are transactional HR and recruitment processes. There is little direct dealing with organizational issues.

Vivek et al. [7] carry out six longitudinal studies with a short 1-year time scope. They show shifts in focus from an all-dominant transactional view to differentiating between cases where relations between partners are developed. Increased focus on knowledge is part of this development. There is little conceptualization of organization nor any empirical results on organization.

Jensen [1, 4] raises the question of what impact offshoring professional services will have on the core company's resources, referring to the risk of "hollowing out" the core company. He combines RBV, activity-based and international business network to cover internal and external elements of offshoring outsourcing. In two of his three cases, the longitudinal scope is 3 and 5 years [4], while the third covers 1 year [1]. All three longitudinal cases show a high level of interconnectedness between the Danish firms and their Indian offshoring partners. They use project organization as the first organizational instrument, in the collaboration with the Indian software providers. Jensen [4] finds surfacing of new opportunities rather than hollowing out. One firm realizes a quick expansion of the first offshored project, and soon several hundred Indian consultants are involved, 30% of them at the Danish site. After the transfer of a first project, another firm even experiences a rather quick development through project expansion (resource seeking) to a transformation of strategy [1], due to the Indian partner's European customer portfolio, which provides a strategic expansion option for the Danish firm to the European market. Both the two longer term cases establish IT development centers at their Indian partners' facilities and station expatriate managers at these centers. These expatriate managers facilitate coordination and communication between the Danish and Indian parts of the cooperation.



### 3.1.1. *Summing up*

The literature study conducted reveals varying responses to the long-term pattern. Bengtsson and Berggren [19], Hätonen and Eriksson [2] and Vivek et al. [7] find a shift from transactional relations to relation-based approach and complementarity. Lampel and Bhalla [17] and Periera and Anderson [18] find continued focus on transactions and low cost. On this basis, it is not possible to follow Hätonen and Ericsson [2] and Vivek et al. [7] in their claim that transaction cost economics is becoming obsolete to the benefit of the resource-based view and other complementary resource-oriented theories.

The longitudinal studies conducted show that by 2012 any part of a classical hierarchical organization can be subjected to offshoring and provide a range of examples: software development [1, 4], call center services [17], recruitment [7] and production [19]. Several studies point to different types of project organization as the first organizational building block of the offshoring process [1, 4, 5]. The longitudinal studies reviewed here remain highly descriptive and exploratory, which can be understood as expressing appreciation that the empirical basis is rich in cases of practical offshoring.

The main contributors are strands of international business, strategic management, purchasing and supply chain management. Organizational theory and management studies lag behind, both internally by lacking studies of offshoring based on organization or management theory, and in the others strands' conceptualization of organization (and partly management) when conducting offshoring studies using organization theory. This stands in sharp contrast to the present importance and centrality of the trend toward offshoring, and thus the need to include organization theory.

## 3.2. Conceptualizing organizing capabilities

The above conclusion of the literature study identifies a gap of longitudinal studies of organization and organizing in offshoring companies and their sourcing setup. Therefore, this section and the following two develop our concept for organizing capabilities in such a setting, first by extending the concept of alliance capability [5], and then adding organizing and knowledge-handling capabilities [29, 30].

As offshoring enterprises develop their organizations and supplier base, their setup becomes increasingly disperse and delocalized [2]. Moreover, the strategic challenges continue to be highly dynamic, forcing the companies into recurrent changes. This leads to a stronger emphasis on relations between elements of the organization, in contrast to classical co-located organizations. Pagano's review [5] of relational capabilities, drawing on Heimeriks [31], Heimeriks and Duysters [23], sets out to link internal organizational mechanisms with external relations. The aim is to disentangle specific components of relational capabilities at the micro-level, moving beyond the setting up of organizational units ([5]: 906). Pushing Pagano's [5] definition further, we define organizing capability as *the capability to develop and run mechanisms in a firm that can manage and develop its external performance*.

We suggest the mechanisms should be understood as four main elements (drawing on [5, 23, 31]: 906):

1. Organizational functions
2. Tools
3. Management and leadership
4. Boundary spanners

*Organizational functions* (extending Pagano's [5] "function") are both functions pooling necessary equipment and expertise and functions for external linking, such as an Alliance Department in charge of alliance-related tasks. Pagano [5] finds the following organizational functions such as Executive Steering Committee, international purchasing groups, global sourcing project teams, product teams for sourcing components and materials, lead buying systems and corporate contract coordinators.

*Tools* involve Human Resource management and information systems to support knowledge management flows. Pagano [5] finds first HR routines to be particularly important—for example, recruiting, training and retention of purchasing personnel, engineers [1, 32]. Second, information and communication technologies, such as intranet solutions, are important.

*Management and leadership* procedures (extending Pagano's [5] "Management and control procedures") include coordination mechanisms between multi national corporations' (MNCs) internal units, for example, incentives to promote learning processes. Leadership is of particular importance as the organization setup is under continual development [33]. Pagano claims that the management and control procedures discussed in the literature lack knowledge management. We suggest that this area can be covered by many contributions on knowledge integration and knowledge governance (see below). In our conceptualization of organizing capabilities, knowledge management is therefore included. Moreover, as the companies are under continual pressure to change, we include leadership, for example, in terms of giving direction, as an important capability.

*Boundary spanners* (extending Pagano's [5] "external actors"): Involving external actors, such as consultants, provides knowledge resources related to management of partnerships with suppliers. However, many other kinds of actors than consultants could link internal and external elements, crossing the core firm's organizational boundaries. They could include middlemen [34], expats and other human intermediaries. Pagano [5] finds very few studies of their role, but mentions intermediaries supporting the company in doing supplier search as well as insurance and customs management. Other types are trading companies, import promotion offices and external consultants.

### 3.2.1. Organization and organizing

Offshore organizing has a temporal character, but also involves stabilized structured elements. It is therefore a combination of stabilized organization and processes of (re)organizing, and spatially, a combination of inter- and intra-organizational elements, overcoming and exploiting differences [21, 22].

Some contributions cover the static elements of organizing. Hartmann et al. [25] present a snapshot of large multinationals, whose structure is divided into three types: multidomestic,

global and transnational. The multidomestic has a low need to process information across countries (pooled interdependence). Global multinationals are the “hub and spoke” type with extensive information processing. Transnational multinationals are integrated networks of equals, with business activities dispersed across countries. Global multinationals are the most centralized, although transnationals also exhibit quite centralization. IT systems are one of three central control mechanisms.

The industrial marketing and purchasing approach (IMP) has long discussed linkages between internal and external organizations [35]. Arnold [36] identifies three ideal types of combining purchasing organizations and internationalization: centralized purchasing, coordination model and outsourcing model (the highly internationalized firm). Arnold predicts that the SME development path would be from centralized purchasing to highly international outsourcing. Gadde et al. [35] discuss the combination of internal organizing, relationship organizing and supplier-base organizing. Relationship organizing can be understood by first looking at one-to-one relations between buyer and supplier, and then extending the understanding to the supplier base as such. The buyer-supplier dyads involve—almost by definition—closer interactions than market-based, buyer-supplier interactions. This interaction can be viewed as consisting of three dimensions: hierarchical level connections, broad interaction across various internal functions and frequent interpersonal contacts [35]. Inter-organizational arrangements can be characterized in terms of the degree of control, coordination and stratification [35]. The appropriate inter-organizational contact pattern is dependent on the maturity of the relationship, power distribution, economic importance of the other actor, product complexity and transaction complexity. The inter-organizational arrangements are also highly dependent on the internal organizing of buyer and suppliers—for example, when scarce internal coordination needs to be complemented with more interactive external coordination. Bocconcelli and Håkansson [37] present a case study of a company successfully restructuring and reducing its supplier base, and focusing on selected suppliers through massive mobilization of their resources and capabilities. This was supported by the establishment of cross-corporate teams, as well as internal reorganizing. Counter to this example, the IMP strand tends to exercise too much focus on the purchasing function. In our view, offshoring firms need to mobilize a range of organizational elements in their efforts at offshoring, not only the purchasing department.

### 3.2.2. Knowledge handling

Organizations’ knowledge handling becomes increasingly important as products’ and technologies’ stabilization processes seem to be increasingly shorter. Ability to integrate (new) knowledge should therefore be included in organizing capabilities. An early definition of knowledge integration is presented by Grant [6]:

*“Integration of specialist knowledge to perform a discrete productive task is the essence of organizational capability, defined as a firm’s capability to perform repeatedly a productive task which relates either directly or indirectly to a firm’s capacity for creating value through affecting the transformation of inputs to outputs.”*

The issue of handling knowledge in and across organizations involves an attempt to conceptualize the learning organization and continue into knowledge creation and management [38].

A number of different intra-organizational designs have been proposed to improve the creation of knowledge-intensive services and products, and there has been increasing appreciation of knowledge's informal nature and tacitness [39], also when attempting to transfer, translate or transform knowledge [40]. Knowledge management literature continues to differ on the issue of knowledge management [38], spanning from absolute belief in the capabilities of information systems (IT) to claiming that management should leave knowledge interaction alone in order to avoid distortion of knowledge interaction microprocesses. However, the claim that knowledge management needs to encompass several types of activities, hard and soft, is quite widespread [38, 41]. While explicit information can be handled with IT (hard), tacit knowledge is better handled through informal direct interaction (soft). Koch's [41] combination of hard and soft encompasses strategic management, organization, information systems, office design and human resource activities.

This disagreement is repeated in the more recent knowledge governance literature [30]. This view of knowledge governance coordination mechanisms encompasses a broad set of means, divided into hard and soft dimensions, where the hard dimensions are contracts, directives, incentives and rewards and the soft dimensions encompass communication, trust, management styles and organizational culture. Knowledge governance thus addresses challenges on how to combine formal (mainly "hard") and informal (mainly "soft") coordination mechanisms to achieve a knowledge governance system that fits specific demands to maintain and develop the competences of the individual organizations. This approach can be characterized as echoing the more managerial version of knowledge management mentioned above, where contradiction and tension between management and knowledge are somewhat underestimated.

Even if global organizations and/or inter-organizational considerations are discussed to some extent in the knowledge management and knowledge governance literature, the primary focus is on co-location and singular types of organizations [30, 38]. Here, the newer knowledge integration strand differs [29] and departs from Grant's [6] definition of knowledge integration; and includes knowledge creation as a significant process in knowledge integration. The focus is on a process of cooperation of purposeful knowledge combinations (for new products, systems and solutions) in and across organizational boundaries.

**To summarize**, our theoretical frame consists of the elements offshoring; long-term organizing and organizing capabilities, including knowledge handling.

It is assumed that organizing capabilities follow the development of the offshoring arrangements. Hätönen and Eriksson's [2] four phases are therefore used to organize the case description and the subsequent analysis. Our focus is mainly on Hätönen and Eriksson's [2] fourth phase—the boundaryless organization.

We understand offshore organizing as a combination of stabilized organization and processes of (re)organizing. As suggested, we conceptualize organizing capabilities in a longer term development perspective as consisting of four elements (emphasizing initial relational capabilities): organizational functions, tools, leadership and management and involvement of boundary spanners. Knowledge is integrated in these four elements.



## 4. Case: FURNICO

FURNICO designs, sources, produces, distributes and sells quality furniture in the value-for-money segment. It has a complex supply chain setup with a global sourcing network, its own production, and a distribution system ending at more than 300 franchise-based stores in more than 50 countries. The number of employees at the Danish headquarters and the owned domestic factories is just over 500, while more than 2000 are involved in outsourced manufacturing and delivering activities. The company produces and sources upholstery and flat-pack furniture. Over the years, the ratio between internally controlled resources and externally managed resources has changed radically. Adopting the longitudinal scheme proposed by Hätönen and Eriksson [2], the evolution is described in three phases: first the transactional, then the resource seeking and third, the transformational and developmental phase.

### 4.1. Transactional phase

When FURNICO acquired two furniture manufacturers in the late 1980s, its transformation into an industrial enterprise was fulfilled. Then, FURNICO grew into an international corporation with production facilities at four locations in Denmark and one in the Baltic region. At this time, the products were launched on the global market; eight sales offices supported this internationalization process. The products were mainly sold to consumers through traditional retail shops. The logistics infrastructure was controlled from a central organizational unit, and FURNICO's downstream supply network had low vertical integration. FURNICO controlled the marketing function, eight sales office facilities/resources, and distribution of finished goods from a central warehouse. Retail facilities were owned by others but controlled through a contracting system. According to FURNICO, the consumers related to the retail brand and not to where the furniture was designed and produced, and the retail chains grew continuously during the period. As a result, the logistics infrastructure underwent radical strategic transformation, which started with the opening of a captive brand store.

At the turn of the millennium, FURNICO developed a new strategy for all downstream activities. This strategy's focal point was a franchising concept, and especially the marketing resources were tailored to improve branding of the company. Until now, FURNICO's marketing activities were allocated to two brands, but changing to the new franchising concept implied that all resources should focus on one brand name. Four years later, this strategic objective was achieved. By then, more than 150 franchise-based stores in 24 countries were established; FURNICO owned 12.

Another central part of the strategy was sourcing, also mirrored in the sourcing director's membership in top management. Some components—such as fittings and screws—were sourced from a European supplier. But the new strategy meant focusing on sourcing from the Far East. The simpler parts of the upholstery production were offshored to the Baltic and the Far East.

### 4.2. Resource seeking phase

It took some time for the organization to create the necessary organizational capabilities to handle the sourcing. The organizational capabilities and the potential for further cost savings



became a driver for changing the sourcing strategy; gradually, the scope for the sourcing network increased. In the beginning, the purchasers bought components; later, finished furniture. The quality of the products produced, especially at the Chinese facilities, was problematic. Although FURNICO exerted substantial effort to improve quality, it was not unusual to receive containers filled with useless furniture. Consequently, FURNICO established a sourcing office in China. According to the sourcing director, the achieved knowledge and organizational capabilities, as well as the established logistic infrastructure between the Danish facility and suppliers' facilities in China, were crucial for setting up the sourcing office in China.

*"We realized that it was necessary to create an organization and a base of suppliers before starting up; you have to build up a skeleton before constructing the sourcing office." (Sourcing Director, FURNICO)*

Concurrently with increasing sourcing activities, the company decided to divest a large part of the manufacturing facilities, selling one factory in the Baltic region and one in Denmark. The remaining upholstery production facility in Denmark was bought by a former management group and moved to the Baltic region to reduce labor costs. The flat-pack furniture production was not outsourced, due to high flexibility and quality demands in the production process and lack of identified competent and suitable suppliers in Eastern Europe/the Far East (especially since at that point the size should match the size of FURNICO as a large SME), as well as the company's historical path.

These changes, as well as changes in the manufacturing facilities, made it possible for FURNICO to transfer its managerial and organizational resources to the distribution and retail activities of the company, which gradually increased in importance.

#### **4.3. Transformational and developmental phase**

FURNICO changed its strategy from producing furniture to focusing on retailing. This was realized by FURNICO reducing its ownership of the production facilities. According to the CEO, the captive production setups in Denmark rank alongside the suppliers in the Baltic region as well as in China, when deciding upon the sourcing network for developing a new product. At the beginning of this phase, the sourcing director describes the organization like this:

*"In a few years, a dedicated distribution center, a development center, will synchronize between DK and the Far East; [it is a] success criteria to do it in the same manner following common rules."*

*"[We operate as a] matrix organization on quality, logistics, documentation and development, purchasing. Project managers are typically the bosses, a way to do things that are synchronized all the way round." (Sourcing Director, FURNICO)*

One of the company's main suppliers of upholstery furniture is located in China. FURNICO representatives initially found that the Chinese suppliers lacked understanding of the company's quality demands and possessed inadequate knowledge and organizational capabilities. However, tensions were also due to cultural differences. Therefore, the company decided to establish a control unit in China, hiring local employees to work as quality controllers in the suppliers' factories. This setup was extended at the end of the study period by establishing a second Chinese control unit far from the first in order to achieve physical proximity to other key suppliers as well as the recently outsourced warehouse activities (2011).

The product development capabilities among FURNICO's employees involve utilizing and combining the available technological resources, as well as the logistics infrastructure, to create value for the customers. As the CEO points out, all decisions start and end with the retail shops. The company cooperates closely with the upholstery supplier in the Baltic region on product development, as this facility is still managed by the former management group from Denmark. Past interactions between the two physically separated facilities have paved the way for creating knowledge and organizational capabilities. However,

*"...product development of upholstery furniture is rather dynamic. Actually, there are four players: our own product management, a group of designers, some of whom are sitting in Europe, a production, and finally the market." (Sourcing Director, FURNICO)*

Regarding the logistics infrastructure, a crucial issue is to ensure a short time-to-market and delivery lead-time; therefore, the geographic locations of production and warehouse facilities are a determinant when designing new products. As the Sourcing Director states:

*"We do not design our products; rather, we design our supply chain to handle the products we are going to sell in the shops." (Sourcing Director, FURNICO)*

The products developed for the European shops thus take into consideration the European and Chinese logistics infrastructure, while products for shops in China, Japan, USA and South America are developed to utilize mainly the Chinese logistics infrastructure.

The company uses their product managers, an external design company and key suppliers to develop new products. This entails physical relocation of designers and product managers, since they join the local manufacturing staff in the different production facilities (mainly in the Baltic region for upholstery products; from time to time, in China) to discuss new designs and how to produce them with the available production equipment. Physical movement of humans is preferred, due to the difficulties entailed in other interaction across organizational boundaries.

The company is continuously increasing its sourcing activities abroad, especially sourcing of products/components via its sourcing offices in China. In addition, the company has outsourced its warehouse to different geographical locations in an attempt to optimize the logistics infrastructure and thereby reduce time-to-market and delivery lead-time to the franchise-based shops. To enable this, the company transfers Danish employees to its own facilities (e.g. in China) for longer periods of time to train and work with local employees. Domestic employees in its captive quality control centers are sent to Denmark for short-term training and an attempt to translate the company's organizational culture into a Chinese context. The local expats, and to a certain extent the company's product managers, function as brokers in relation to the complex interactions between the Chinese suppliers and the Danish facility. This broker role is less important for the Baltic suppliers, due to their higher level of organizational knowledge and capabilities.

## 5. Discussion

FURNICO commenced its offshoring development, mostly in production, as a relatively vertically integrated organization. Its structural organizational capabilities were strong in

production, product development, sales, management and administration, and were developing in retailing. It employed standard tools such as enterprise resource planning (ERP), which provided the company with a host of administrative IT support tools. The ERP system was able to handle multi-location accounting, purchasing, production control and administration. Management consisted of different profiles for distribution, sourcing and production, although the CEO was oriented toward the distribution side.

In the transfer phase, FURNICO's organizing capabilities began to change from relying on internal production units and capabilities in relational/contractual relations to external offshored units of production. Offshoring production created quality problems, and FURNICO was forced to develop a quality control organizational function in the Far East. Manufacturing was divested and new relations were established with a Baltic unit owned by former employees. Communication technologies like Skype, e-mail and videoconferencing became important. ERP and sourcing management prevailed.

In the third phase, FURNICO transformed itself from a production based to include a distribution-based organizing capability. Growth from 8 to more than 300 outlets was realized. The enterprise's product development and sourcing processes are often carried out as projects in a matrix-like organization, where function managers also act as project leaders. On the sourcing side, personnel increasingly moved back and forth between Denmark, the Baltic region and China as the interaction became increasingly complex and also began to involve innovation activities. Expats were also placed in the control centers to act as knowledge translators and continuously help local suppliers build their manufacturing capabilities and quality understanding.

Although FURNICO is our most advanced case, it shows little sign of further dissolution of the organizational structure. The technology tools prevail; the family ownership and management of the core enterprise prevail (generation shift is under preparation) and there are no signs yet of dissolution in the developmental phase (**Table 3**).

### 5.1. Case comparison

In the following (**Table 4**), we juxtapose the four cases. Each case represents important and potentially unique insights on longer term offshoring. We discuss the elements of organizing capabilities in the four cases as an approach to using the variations between them to gain insight to understand offshoring's complexity. As an opening remark, it can be concluded that at the end of the study period, the companies are successful. Although company performance and offshoring and/or organizational capabilities are not one-to-one with financial results of the core group, it can be noted that during the study period, the four case companies with their setups have managed to navigate through the financial crises, and at the end of the study period, they are again picking up speed with regard to growth in sales and financial results.

*Function:* The long-term journeys of offshoring are nevertheless quite different for the four cases. FURNICO has transformed itself into a retail chain with an integrated supply setup. The three others have ventured into captive production setups, but in different ways. DRESSCO developed from a network-like enterprise to running an extensive captive offshore production, whereas TEXCO does captive production but has also backshored design after attempting to

FURNICO	Transfer	Resource seeking	Transformation	Developmental
Organizational functions	Vertical integration, distribution, first production elements offshored: the less complex upholstery production to the Baltic and China.	Establishment of first control center in China Divesting production in Denmark	Distribution focus emerging; more and more retail outlets Second control center in China Matrix organization and projects	No signs of further dissolution of structure
Tools	ERP	ERP and Skype, e-mail and video conferencing	ERP and Skype, e-mail and video conferencing Increasing physical movement of personnel back and forth between Denmark, the Baltic and China	IT technology prevails
Management/ leadership	CEO with distribution profile	Standardization Control via control centers A physical link between headquarters and key suppliers	Function managers are also project leaders	Management and ownership of core enterprise remains stable
Boundary spanners			Strategic positioning of expats in control centers to act as knowledge translators and continuously help the local suppliers build their manufacturing capabilities and quality understanding	

Table 3. Changes in organizing capabilities in FURNICO.

offshore it. KNITCO backshored a complex part of the production activities to integrate product development, testing and the complex production activities in Denmark, thus obtaining greater control of flexibility and quality. The enterprises follow the transfer, resource seeking and transformation pattern suggested by Hätönen and Ericsson [2], but TEXCO and KNITCO depart from this pattern again by reverting to backshoring some activities. KNITCO’s move can be seen as a buyer-seller failure to translate less transferable and robust organizational routines to the offshored unit. Moreover, neither FURNICO nor DRESSCO appear to enter a phase of developmental organization as expected by Hätönen and Eriksson [2]. The structural development of organizing capability therefore draws a “back and forth” pattern across the four enterprises.

FURNICO does exhibit elements of portfolio management, a project and matrix organization with function managers also acting as project managers. Also DRESSCO uses project organizing in combination with relatively strong function orientation. TEXCO and KNITCO have small organically organized headquarters as their approach.

*Tools:* In the transformation phase, DRESSCO established a captive offshore production unit. To create retention, the company implemented corporate social responsibility (CSR) directed toward



the production employees, also offering higher wages than local competitors. The three other cases do not exhibit CSR or other “exports” of the Scandinavian labor market model. All four cases employ IT: especially ERP and communication tools seem to act as backbone for interaction and as an enabler for standardization, which is recurrent in the cases, encompassing production routine descriptions, product data management such as bill of materials, design drawings, etc. The case companies’ moves do indicate, however, that modern communication and information handling tools applied to governing knowledge are still not sufficient to run a globalized value chain. Therefore, FURNICO, DRESSCO and TEXCO all move employees back and forth in the transformation and development phases, mainly to enable translation of less transferable and complex knowledge—initially in the product development process, and later within manufacturing, warehousing and logistics. FURNICO also includes a strategic positioning of expats in the control centers to act as knowledge translators who continuously help the local suppliers build their manufacturing capabilities and quality understanding. Identical moves of expats to their captive offshore manufacturing units are also seen in DRESSCO and TEXCO.

*Management/leadership:* The CEOs recurring in these enterprises can be seen as family members and globalists. They participate directly in offshore activities. Most of the case examples exhibit several managers—including production and sourcing managers—collaborating on realizing the offshoring setup, a type of multiple or dispersed leadership [33]. Where FURNICO exhibits a relatively flat organization, DRESSCO is managed in a top down manner.

Moreover, FURNICO, TEXCO and KNITCO all moved production units abroad with the local implication of redundancies. The three enterprises operate in local areas where such moves are rather visible. It required leadership, both internal and external, to carry out these moves.

Standardization is widely used to control processes in the four case companies. Knowledge governance structures were established as a necessary managerial tool in order to work with the continuous standardization of mainly processes in TEXCO and mainly products in DRESSCO. Both companies meant they needed their own captive entity in close physical proximity to their main supplier base in order to govern knowledge. DRESSCO uses very detailed documentation of their different products. In addition to several IT systems, it also involves standardization of quality (ISO 9001) at both ends. The CSR certification (SA 8000) was obtained late in the transformation phase. Similarly TEXCO is ISO 9001 and 14001 (environmental) certified.

*Boundary spanners:* Intermediaries of various kinds are used extensively in all four cases when the enterprises reach the transformation phase. FURNICO uses collaboration partners from Eastern Europe as flying controllers in Asia, while KNITCO’s production managers fly back and forth to Eastern Europe. The company also collaborates with a company with an Indian management team in Eastern Europe. TEXCO and DRESSCO place an external consultant at the offshore unit to develop knowledge and competences at the local offshored premises. The local general manager is a Dane in the DRESSCO case and has a hybrid of Scandinavian and Baltic work experience in the TEXCO case.

To summarize, the four cases show development of differentiated organizing capabilities. Contemporarily, several case companies possess both relational sourcing competencies and



	Transfer	Resource seeking	Transformation	Developmental
FURNICO	Production	Production innovation	From production to distribution ERP Moving people back and forth Expats	Distribution and integrated supply chain ERP Moving people back and forth Expats
DRESSCO	Network, no production unit	Supply from a range of offshore production units Quality issues	Captive network CSR at captive production unit Increasing movement back and forth of employees between DK and Far East captive unit	(Captive) more complex production integrated in the organization
TEXCO	Production	Captive production Expatriate managers	Own IT system Offshore captive part of design Manager with mixed background Long-term placement of consultant	Backshoring design
KNITCO	Production Production managers Boundary spanners	Production ERP Production managers Boundary spanners	ERP One-way movement of production managers	Backshoring complex knitting activities

Table 4. Four cases – overview.

transactional contract competencies as well as competencies to run a full-blown classical on-site manufacturing company with integrated supply and distribution. In this sense, the cases can be considered a progression of organizing capabilities. However, it is more relevant to think of the organizing capabilities as involving: flexibility, adaptability and global outlook, the ability to establish and run profitable global organizational setups in ever new forms and shapes. Now that product development and innovation activities have been mobilized across the setups, it is difficult to predict what the companies’ next move would be and how their organizing capabilities will match it.

The four cases demonstrate the importance of relational capabilities (Heimerik’s four dimensions, [31]) in combination with knowledge handling. So, in this sense the framework has proved useful. However a tendency exists for the four-dimensional framework of capabilities to take over in a too factor-oriented manner, actually risking losing the relations because they risk drowning in instrumentalization.

Moreover, we find the Hätönen and Eriksson [2] framework too optimistic on behalf of offshoring development. Its implicit progression along the four phases does not hold in the four cases; they develop differently, which is hardly in contradiction with the rather open framework of Hätönen and Eriksson but nevertheless tells us to be careful with generalizations. This criticism also applies to Hutzschenreuter et al.’s [20] claim of progression in outsourced functions, something our cases do not support either.

## 6. Conclusion

In studying long-term offshoring, this article's aim was threefold: to develop a concept for organizing capabilities; to assess existing literature, inclusive empirical longitudinal findings and to describe and analyze organizing capabilities in four cases, focusing on recent developments.

The literature study revealed varying responses to the long-term pattern of offshoring. Hätonen and Eriksson [2] and Vivek et al. [7] found a shift from transactional relations to relations based on complementarity. Lampel and Bhalla [17] and Periera and Anderson [18] found continued focus on transactions and lower cost. This implies continued relevance of transaction cost economics, the resource-based view and other complementary resource-oriented theories (i.e. resource combining in the IMP approach, [35]). Combining views of organizations through both internal and external theorizing perspectives is a future research agenda.

In practice, the longitudinal studies show that many activities can be subjected to offshoring. Several studies point to different types of project organization as an organizational setup for the offshoring process [1, 4, 17, 19]. Production functions are often offshored [19], but also software development [1, 4], call center services [17], recruitment procedures [7] and R&D [20].

The longitudinal studies reviewed here are faithful to their rich case material. This implies, however that they remain descriptive and exploratory. There is clearly a lack of longitudinal theory for conceptualizing offshoring journeys. The contributors' main strands are international business, strategic management, purchasing and supply chain management. Organizational theory lags behind, exhibited by the number of studies of offshoring using organization theory in the other strands' conceptualization of organization. This stands in sharp contrast to the present importance and centrality of the trend.

Empirically, our four longitudinal cases show that the longer term offshoring journey does not involve a single best practice. The cases show captive as well as outsourcing arrangements and even enterprise transformations. There is a common focus in the cases of finding and nurturing core suppliers and core business processes, which can be characterized as continual learning and developing of organizing capabilities.

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