

Transforming capabilities in offshoring processes

– Longitudinal development of organisational resources and routines in four Danish offshoring enterprises

Abstract

Purpose - This paper's focus is on how organisational capabilities, enhancing the dynamic capability perspective, evolve during a more than five-year offshoring process in four Danish SMEs. The strategic decision to offshore some manufacturing activities meant that capabilities were ruptured and had to be rebuilt.

Design/methodology/approach - The empirical investigation took the form of qualitative case studies with a longitudinal orientation focusing in on a few events in the four cases (strategic change in the sourcing configuration) as a process research design (Pettigrew, 1990; Van de Ven, 2007). Interviews were transcribed and coded in NVivo.

Findings - The four cases followed distinct trajectories, but they all changed their routines regarding how to handle knowledge, including both technology and human resources. A need for specific human resources acting as boundary spanners arose, transforming both intra- and inter-organisational practices in all four cases. More complex activities were moved offshore to enhance the dynamic capabilities of the companies regarding both product development as well as specific processes, thereby transforming/reconfiguring the organisational capabilities of the companies. However, in the two small-sized cases, more complex/less routinised activities were backsource, demonstrating a significant problem over time with the development of sufficient organisational resources to maintain seizing and sensing capabilities within these companies in comparison with the two other medium-sized cases.

Research limitations – The fact that most of the data were generated from an inside-out perspective, taking the point of departure in the core firms, can be viewed as a limitation. Our data on the wider network are also limited. Finally, our interviews are conducted relatively infrequently when considering the length of the process.

Practical implications - The four longitudinal cases show that the longer-term offshoring journey does not involve a single path or a single best practice. The cases show captive as well as outsourcing arrangements and even enterprise transformations. The cases demonstrate a common focus on finding and nurturing core suppliers and core business processes, which can be characterised as continual learning and development of organising capabilities.

Originality/value – The study contributes to the growing body of research into dynamic (organisational) capabilities in an offshoring and SME context.

Keywords – Offshoring, organizational capabilities, organisational practices, routines, SMEs

Paper type – Empirical based research paper

Introduction

This paper's aim is to study how SMEs' capabilities evolve during a long-term offshoring process. Thereby turning the focus from the "whether" and "what" questions which have also received the main attention in Business process outsourcing (BPO) (Lacity et al., 2011) toward the less researched "how" question (Mugurusi and de Boer, 2013) and treating the offshoring process as an organisational capability of consequence, similar to (for example) manufacturing capabilities (Pratap, 2014) or IT capabilities (Lacity et al. 2011). The "How" question turns its focus towards "how the offshoring firms actually proceed to integrate and connect the offshored activities at the new location with the original activities at home" (Mugurusi and de Boer, 2013: 215). The empirical material encompasses four Danish SMEs. The reconfiguration of resources and routines contribute to the changing capabilities in the SMEs during the offshoring process. This offshoring process is a natural change/path in (western) SMEs' business models, where offshoring is often seen as a necessary change of their value creation in the value chain (Porter, 1980) to stay competitive. (Strategic) sourcing decisions might lead to greater emphasis on sourcing capabilities with a positive impact on performance (Su and Gargeya, 2012) where companies over time also tend to increase the amount of sourced processes (Lacity et al. 2011; Lacity and Willcocks, 2014). This development is also supported by Plugge and Janssen (2009) showing how the ability of service providers affect their sourcing capabilities, where the adaptability can be developed through the service providers' organizational capabilities, more specifically by managing relationships and procedures to handle change.

Dynamic capabilities (Teece et al., 1997; Eisenhardt and Martin, 2000; Teece 2007) are connected to the change of operational capabilities and thus the modification of organisational assets. These dynamics are of significant interest and the findings explain how to achieve competitive advantage, but at an abstract level, neglecting the detailed processes and activities

explicating the dynamic capabilities (Regner, 2008) which have been e.g. addressed in the identified practices that distinguish Best-in-class BPO performance (Lacity and Willcocks, 2014).

By tuning in on the organisational aspect of dynamic capabilities, we intend to make the understanding of the development of dynamic capabilities more explicit. As strategic challenges continue to be highly dynamic, SMEs are forced into recurrent changes. Unlike in classical co-located organisations, this leads to a stronger emphasis on relations between elements of the organisation. Cheung et al. (2010) indicate that the strategic nature of relationship learning is important in cross-border business-to-business relationships, where global, environmental and inter-organisational conditions influence the learning capabilities of the involved actors. Further, to succeed with a sourcing decision a supplier screening framework is suggested by Feeny et al. (2005) consisting of 12 supplier capabilities. The authors suggest in IT sourcing to focus upon leadership, and not the governance part, as well as the individual leading of supplier account teams indicating the importance of relational capabilities.

Pagano's review (2009) of relational capabilities, drawing on Heimeriks (2004) and Heimeriks and Duysters (2007), sets out to link internal organisational mechanisms with external relations. The aim is to disentangle specific components of relational capabilities at the micro level, moving beyond the setting up of organisational units (Pagano, 2009: 906). Pushing Pagano's (2009) definition further, organisational capability can be defined as: *the capability to develop and run routines and practices in a firm that can manage and develop its external performance*. The point of departure for the paper is the understanding of the dynamic capabilities that lead to the organisational capability framework, which introduces the analytical elements of organisational functions, tools, management/leadership and boundary spanners. This is then in turn analysed through our four cases, where some of the

cases have moved back and forth in terms of the traditional quantitative definitions of SMEs (the EU: less than 250 employees/the US: less than 500 employees). However, the case companies exhibit some common characteristics according to Storey (2005): they are generally owned and managed by the same individual or group of individuals; they lack market power, having only a small share of markets or – more unusually – a bigger share of a tiny or localised market; they are legally independent in the sense of not being owned by a larger group of firms, which makes us choose to keep the four case companies underneath the umbrella of the SME categorisation throughout the study period and splitting them at the end into two subcategories of small-sized and medium-sized companies, respectively.

Dynamic Capabilities

In the resource-based view, firms are conceptualised as a bundle of resources heterogeneously distributed across firms, and the access and differences among resources have some kind of persistency over time (Wernerfelt, 1984). This view has been further extended by arguing that resources are combined and used differently and thereby termed dynamic capabilities (Teece et al., 1997), where sustainable competitive advantages are achievable if firms have valuable, rare, inimitable and non-substitutable resources and, by these, implement value-creating strategies (Eisenhardt and Martin, 2000). This means that the resources are seldom isolated and static; rather, they are dynamic. Eisenhardt and Martin (2000) argue that dynamic capabilities are seen as antecedent organisational and strategic routines by which managers alter, acquire, integrate and recombine their resource base to create the value-creating strategies. Teece (2007) introduces the three dynamic capabilities of sensing, seizing and reconfiguration to create new paths and asset bases to maintain/increase firm performance/competitive advantage.

Capabilities can be classified as operational or dynamic (Helfat, 2003). Operational capabilities are “high-level routines (or collection of routines) that, together with its implementing input flow, confers upon an organization’s management a set of decision options for producing significant outputs of a particular type” (Winter, 2000: 983), whereas dynamic capabilities build, integrate or reconfigure operational capabilities. Both terms include routines (Zollo and Winter, 2002). Routines refer to some kind of “repetitive pattern of activity”, where operational routines concern performing activities by using routines to coordinate and execute the variety of tasks required to perform, for instance, manufacturing. Dynamic capabilities contain two types of routines: routines necessary to perform a task and routines necessary to coordinate tasks (Helfat and Peteraf, 2003). Routines are the interplay between memory and action; patterns of behaviour become routinised, and memory reduces the need for a problem-solving search through the stored results of prior successful actions (Miller et al., 2012).

Looking at routines, a central concept is the experience of actors (Becker, 2004; Feldman and Pentland, 2003). Here, we refer to Turner and Fern’s notion of performance experience of actors as “the frequency of their historical performance of the routine, reflecting actors’ familiarity with their tasks, their context, and other participants performing the routine” (2012:1410). Routines are almost never carried out by actors alone; they are entangled in sociomaterial ensembles of actants, including artefacts (Latour, 2005; Leonardi, 2011; Orlikowski, 2007). These artefacts include various tools, templates, IT technologies and procedures. Furthermore, “routines involve multiple actors and operate at collective levels (i.e., group, organization), performances of the routine are also shaped by factors at the level of the individual actors themselves” (Turner and Fern, 2012:1410); accordingly, understandings emerge within and among actors in a routine. These actors are often referred to as boundary spanners, and they often participate in activities across organizational

boundaries as well as interactions between sub-units (Tushman and Scanlan, 1981). Lensing in on offshore outsourcing, boundary spanning is crucial for moderating the relationship and building trust between client and service supplier (Abbott et al., 2013).

Organisational capabilities in offshoring

Resources, routines and capabilities will evolve and change over time (Pentland et al., 2012), and the analysis of the paper focuses on the transformation of organisational capabilities over time in the strategic sourcing process. As offshoring enterprises develop their organisations and their supplier base, their configuration becomes increasingly dispersed and delocalised (Hätönen and Eriksson, 2009).

Hätönen and Eriksson (2009) have identified four phases in the offshoring process; transfer, resource-seeking, transformation and developmental. This is in keeping with life cycle thinking and indicates a known and predictable pattern of action to be taken. The first phase is *transaction*, which is characterised as a “big bang”, where the make-or-buy dilemma seriously tilts towards 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, and the main theory is RBV. The third phase is *transformational*. The main theory is RBV in combination with organisation theory. In this phase, all parts of an organisation can, in principle, be turned over to outside vendors. And as offshoring and outsourcing become integrated, legitimate tools in the management repertoire, the timing of offshoring becomes the matter of concern. The fourth phase is *development*. Here, the organisation becomes increasingly boundless, and managing business development and continuous improvement of internal activities may even become part of offshoring/outsourcing arrangements. Management takes the form of portfolio management,

as many internal activities are project-oriented. However, longer-term perspectives of external sourcing are employed, even a 'life cycle' perspective. This implies that the main theory applicable is RBV, according to Hätönen and Eriksson (2009).

Hätönen and Ericsson's (2009) timescale, 1980-2007, broadly matches that of Hutzschenreuter et al. (2011), but while Hätönen and Ericsson (2009) understand the phases to be characterised by relations between the involved companies, Hutzschenreuter et al. (2011) view the changes as three waves of offshored functions: first, support functions within R&D, then technology-based support functions and, finally, interaction-based functions. Although the 'life cycle' perspective mainly focuses on outsourcing activities in the Hätönen and Ericsson model, we allow ourselves to use it more broadly in analysing our cases, which demonstrate a cacophony of outshore, inshore, backshore, nearshore, farshore, onshore and offshore as well as out-, in- or backsource choices during the period of study, making an RBV perspective very relevant.

We choose to combine the identified phases by Hätönen and Ericsson with Pagano's (2009) concepts due to their relational focus with organisational capabilities in offshoring. The introduction of Pagano's (2009) relational capabilities helps in adding/identifying the shift of compositions of the organisational capabilities over time in and between the four phases. At a micro level, the organisational capabilities are seen as organisational functions, tools, management/leadership and boundary spanners. Please see figure 1 below regarding our analytical framework.

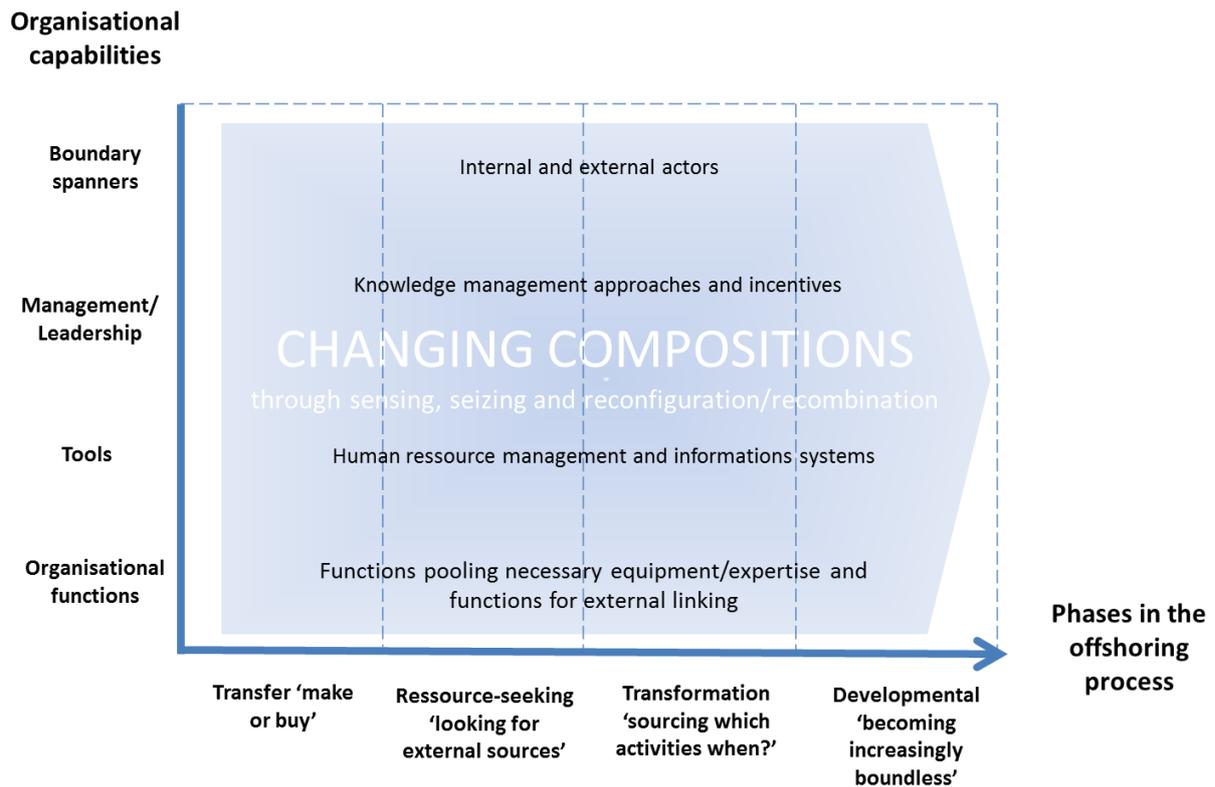


Figure 1: Analytical framework

Organisational functions (extending on Pagano's (2009) "function") are functions both pooling necessary equipment and expertise and functions for external linking, such as an alliance department in charge of alliance-related tasks. Pagano (2009: 907) finds that the following extra-organisational functions might appear when offshoring: the Executive Steering Committee, international purchasing groups, global sourcing project teams, product teams for sourcing components and materials, lead buying systems and corporate contract coordinators. According to Feeny et al., 2005 the supplier especially needs to have highly developed project management and change management capabilities. McIvor et al. (2011) further highlight a need for strong governance to drive standardisation and performance improvement as well as a need for building relationships with both senior- and lower-level staff impacted by the structural changes. Furthermore, Feeny et al. (2005) highlight

governance in terms of a service review committee or board to evaluate performance over time.

Tools involve human resource management and information systems to support knowledge management flows. First, Pagano (2009: 908) considers HR routines to be particularly important – for example recruiting, training and retention of purchasing personnel and engineers (Jensen, 2009; Lewin et al., 2009). Second, information and communication technologies, such as intranet solutions, are important. Hutzschenreuter et al. (2011: 256) find that *“the required IT and communication support varies among different support functions. Before conducting any offshoring activity managers need to verify if the available technological support at the targeted offshore location is sufficient. In case of existing gaps managers either need to invest in infrastructure first or otherwise the targeted offshoring location is not suitable”*. Srikanth and Puranam (2011) discuss different coordination mechanisms to mitigate the adverse performance consequences of interdependence between onsite and offshore locations, in which connection they distinguish between modularisation, ongoing communication and Tacit Coordination Mechanisms (TCM; shared work-related training and/or cultural sensitivity training, investment in technology tools, leverage of shared work experience, increased use of shared vocabulary). Their findings show a tendency for overinvestment in ongoing communication channels at the expense of TCMs.

Management and leadership procedures (extending on Pagano’s (2009) “management and control procedures”) include coordination mechanisms between multinational corporations’ (MNCs) internal units, for example incentives to promote learning processes. Leadership is of particular importance as the organisational configuration is under continual development (Bryman, 1999). Pagano claims that the management and control procedures discussed in the literature lack knowledge management. Moreover, as the SMEs are under continuous pressure to change – among other things – their offshore constellation, leadership (for example in

terms of giving direction) is included as an important capability as well as routine in accordance with Lampel and Bhalla (2011: 357), who emphasise the need to “*understand the routines attached to the individual and the coordinated web of activities through a connected set of processes*”. This more direct leadership approach is elaborated by Feeny et al. (2005) highlighting the need to know how to identify, communicate and deliver the balance of activities required.

Boundary spanners (extending on Pagano’s (2009) “external actors”): Involving external actors, such as consultants, provides knowledge resources related to the management of supplier partnerships. The literature on boundary spanners and boundary-spanning activities mainly focus on the individual level (Abbott et al., 2013). However, many other kinds of actors than consultants could link internal and external elements, thus crossing the core firm’s organisational boundaries. Crossing the core firm’s organisational boundaries can be addressed as transactive memory, which enhances the problem-solving efficiency (Miller et al., 2012). Such actors could include middlemen (Balkow, 2012), expats and other human intermediaries. More resources, as for example cross-cultural skills, moderating relationship and building trust (Abbott et al., 2013), are critical for the effectiveness of boundary spanners in the boundary spanning activities. Pagano (2009: 909) finds very few studies on their role, but mentions intermediaries supporting the company in its supplier searches as well as insurance and customs management. Other types are trading companies, import promotion offices and external consultants.

Method

The analysis is based on empirical material gathered over a period of five years between 2007 and 2011. This paper's analysis of dynamic capabilities in the strategic configurations of offshoring relies on the topical and theoretical similarity and openness of the empirical work, where organisational capabilities can be included as an overall theoretical term for discussing the more detailed findings of the study regarding knowledge integration and knowledge governance. The analytical design is a further iteration of the abductive approach of the original study, as this paper continues to use the systematic combining perspective (Dubois and Gadde, 2002).

The interviews and the data gathering were influenced by a broad and open-minded understanding of strategic sourcing through offshoring. This material is used here to analyse organisational capabilities, and additional data collection was done to enable this; it, however, was only needed for a few missing subjects in the first material gathered. The empirical investigation took the form of qualitative case studies with a longitudinal orientation (Pettigrew, 1990). The choice of a longitudinal case study is suitable for gaining in-depth and contextual insights (Stake, 2005) like organizational capabilities, similar to existing empirical findings and theoretical contributions in the BPO/ITO literature (Su and Gargeua, 2012; Lacity and Willcocks, 2014; Lacity et al. 2010; Lacity et al. 2011).

Four SMEs were selected on the basis – at the outset – of being globally operating SMEs in the textile and furniture industry with considerable experience in offshore sourcing. The field methods were onsite 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 used from the companies included annual reports, press releases, customer presentation material and stakeholder and media

material. Table 2 below depicts the number of interviews conducted in each company and the year in which they took place.

	Case A (textile)	Case B (textile)	Case C (textile)	Case D (furniture)
2007/2008	1	1	1	1
2008/2009	1	3	2	2
2009/2010	2	2	1	2
2010/2011	1	2	2	2
Offshore 2011		5 (Ukraine)	3 (Vietnam)	
Total	6	13	9	7

Table 2. Interviews conducted.

The method was based on focusing in on a few events in the four cases (strategic change in the sourcing configuration) as a process research design (Pettigrew, 1990; Van de Ven, 2007). Interviews were transcribed and coded in NVivo (software from QSR International, Australia). The transcriptions, the codes from the transcripts, the revised summaries of the interviews and the secondary material were all used as the basis for the case descriptions presented here. Some details were changed due to anonymity concerns. The analytical strategy was based on Barley and Tolbert (1997). To identify and analyse possible scripts, four processes were adopted: (1) grouping the data by category or unit of observation, (2) identifying behavioural patterns (scripts) within categories, (3) identifying similarities across scripts and (4) comparing scripts over time. This study shows how factors and issues change over time by employing a real-time process approach based on narrative descriptions (Van de Ven, 2007). The cases are seen as single entities due to their small size, which implies that they have fairly simple organisational structures, indicating a single case category. As the process research design, we use a comparative method based on few cases and few events (strategic change), and we mainly use summary case studies as the typology of process research design (Van de Ven, 2007). Nvivo was used to build an axial tree-node structure based on both sequential and thematic codes. By building the coding structure in an ongoing

process, a number of focused codes, used to conduct the initial comparative study of the four case companies, became more directed, selective and conceptual (Charmaz 2006). We kept adding codes during the analysis of the four case companies until reaching a saturation stage. Then some of the thematic and sequential codes were combined and merged to rebuild the axial coding structure. The analytical work performed during the writing of the article can be characterised as less structured and more in accordance with Walsham's (2006,) description of doing interpretive research and learning from the data itself in accordance with his belief that *"the researcher's best tool for analysis is his or her own mind, supplemented by the minds of others when work and ideas are exposed to them"*.. Although each case represents important and potentially unique learning about strategic offshore sourcing (Stake, 2000), it is assumed that the variations between the cases studied will provide insights that will pave the way for examining the complexity of the strategic offshore sourcing process. We therefore allow ourselves to compare the cases.

Company A

The company, which outsourced its knitting activities to Eastern Europe, was one of the first knitting companies in the textile cluster in Central Jutland of Denmark to outsource its manufacturing activities. In 2008, the company had approximately ten employees in Denmark and between 50 and 100 employees in the Baltic countries. The company kept all but its manufacturing operations in Denmark and used its production managers as knowledge integrators for the offshored and recently outsourced production in the Baltic region. This is still the case, as the company believes that it has not transferred and translated adequate manufacturing knowledge from Denmark to the Baltics. Due to this failure, the company has back- and inshored its complex knitting production as well as part of the original production equipment that was moved to the Baltics during offshoring. The company, however,

continues the simpler offshored production of socks in another Baltic country and sources more simple knitting products from the outsourced Baltic supplier.

Company B

The company was one of the first in the Central Jutland textile cluster to offshore its sewing activities to Eastern Europe. After outsourcing to various Eastern European countries for some time, the company established its own production capabilities in Ukraine. In 2008, it had about 300 employees in Ukraine and 30 employees in Denmark. Initially, the company kept all other operations in Denmark and used its production managers as boundary spanners for the offshored production. The company established its own production activities in Ukraine because its former suppliers raised costs and because there was a lack of local Ukrainian suppliers with resource complementarities at the time the company decided to move its sewing activities. It tried to move one of its more complex activities, design, to the Ukrainian site as well, but after a short period of time (less than two years), it chose to backshore the activity to its headquarters in Denmark. The main reason was a lack of understanding of the company's BtB customers' demands at the Ukrainian site, creating frustration among both the sales people at the headquarters as well as their BtB contacts.

Company C

The company outsourced its sewing activities in the late 1980s to Eastern Europe as an early mover in the Central Jutland textile cluster. It kept all other activities in Denmark and shifted the outsourcing activities among suppliers in Eastern Europe as well as India, China and Vietnam. Recently, Company C began to move its Eastern European activities to its own newly established production facilities in Vietnam, while retaining outsourced sewing activities in China, India and Vietnam. In mid-2009, it employed around 1,100 workers in Europe and Vietnam and had about 2,500 workers in the Far East engaged in outsourcing.

The establishment of production facilities in Vietnam reflected a wish to reduce costs as well as the time to market of the manufactured goods. For these reasons, the physical location of the raw material stock was moved from Denmark to Vietnam as well. In the captive arrangement in Vietnam, the more complex products are manufactured as well as new products to the market, whereas the standardised products are mainly outsourced to local manufacturers in Vietnam.

Company D

Company D has recently changed its strategy from furniture production to retailing. It has also reduced its ownership of the production units (offshore outsourcing). At the beginning of 2009, the company had around 560 employees in Denmark and abroad. Furniture production involves two parts: upholstery and flat-pack furniture. A few years ago, the company decided to outsource the production of upholstery furniture because the skills required are less demanding and more labour-intensive compared to the flat-pack area. The flat-pack furniture department was not outsourced due to flexibility and quality demands in the production process, a lack of competent suppliers in Eastern Europe and Asia and the historical path within the company. However, it still maintains a very close relationship to its main supplier of upholstery products, as it is run by the former management team of the now offshore outsourced upholstery activities previously run in Denmark.

Analysis

As an opening remark, it can be concluded that, at the end of the study period, the case companies considered themselves to be successful. Although company performance and offshoring and/or organisational capabilities do not necessarily imply financial results of the core group, it can be noted that, during the study period, the four case companies, with their

changing configurations, have managed to navigate through the stormy waters of the financial crisis; indeed, at the end of the study period, Case C and D have again picked up speed with regard to growth in sales and financial results. In comparison, Case A and B have reached a milestone regarding their new downstream brands, passing the break-even point, whereas their captive upstream offshore activities are slightly decreasing in Case B and the former offshored complex activities have been backshored in a significantly reduced version in Case A. However, Case A and B both interpret this development as a successful one based on them similarly remarking that they are still here; many of their former Danish colleagues do not exist anymore. “We are still here. That is probably it” [success or not with sourcing abroad], Sourcing manager, Case A. “The choice to do something [offshore manufacturing] was based upon the fact that we were forced to do something. Either close shop and say, nice journey, or we would have to develop ourselves [the company]”, Key employee covering cross-functional and cross-national roles, Case B. The challenge of managing successful relational capabilities as an requirement to succeed is mentioned by the sourcing manager in Case D: “The best [configuration] out there [China] is in at least three cases, where we come in and can see that we can double his [the supplier’s] turnover within a year. In our setup this is the best [approach], we can then use the time to create a relation in the Chinese way with them. This is what has created our success.” The boundary spanners help create a successful dynamic capability due to the chosen sourcing configuration according to the CEO in Case C: “We are privileged as we produce [outsourced as well as captive] in a lot of different factories in several countries. If we get an idea in India about how things might be done more rationally, then we have som controllers [boundary spanners] who move around between the factories. When they visit the next factory in China they tell them, look you can do it like this or in this way which is quicker. In this way do we optimize the production of our factories [outsourced

as well as captive]... And [with this approach] do we optimize the factories compared to our competitors.”

Organisational routines and tools

Organisational routines were part of the continuous work with handling knowledge between the entities in all four cases. The routines were in some of the cases made explicit through the use of both standardisation and IT tools, by which processes were teased out of the current domestic organisational configuration. This is most apparent in Case B, which continuously worked on creating its own domestic IT system.

“These were the things we had to help them with – building some tools so they could control things and building some competences so they had someone who could control these things.”

Key employee covering cross-functional and cross-national roles, Case B.

“We have become better at holding shorter meetings and at efficiency in general. It is preferable for everyone that when we communicate, it is a precise form of communication...I still find myself thinking that we are a manufacturing company and that we produce. It is a communications company, and it is difficult culturally, as we have changed from being a producer to becoming a management and communications unit.” CEO, Case B.

In Case C, the company used off-the-shelf IT products like ERP systems (SAP) adapted partly to the specifications of the company. But the company was still challenged regarding the integration of its organisational routines and communication:

“We have some [Danish] logistics employees who are regularly over there for the same reason [communication challenges]. That is also why I continue to travel [to Vietnam]: to make sure that they understand [employees in Vietnam] what this is all about and our culture

– how to behave. If someone steals [they are fired]. All these things that seem basic management arguments at home, but might not be the case over there.” CEO, Case C.

Case A never succeeded in integrating knowledge through standardisation and IT tools and chose to backsource its complex production activities after having moved its own production managers continuously back and forth between the domestic setting and the offshored production site. Case B chose to backsource its design activities due to significant coordination and translation challenges between its BtB customers, the company’s Danish sales team and designer positioned at the Ukrainian site.

“We did let her try, but it [the designs] missed the mark completely, and it was really expensive to produce... In the end, it was decided to fire her, because she wanted the same pay level as Danish employees, and [she] wanted to work independently. This led to us hiring one more [designer], meaning that we have Maria, and the new [designer] is in the private label [department].” Key employee covering cross-functional and cross-national roles, Case B.

Boundary spanners and Management/Leadership

The management in all four cases were continuously involved in both the creation and implementation of new organisational routines as well as often in the direction of day-to-day operational matters, including the continuous work with building the content of the roles of the boundary spanners in the development of the organisational capabilities.

Intermediaries of various kinds were used extensively in all four cases when the enterprises reached the transformation phase, but with significantly different outcomes. Case D used collaboration partners from Eastern Europe as flying controllers in Asia, while case A’s production managers flew back and forth to Eastern Europe. The company was challenged by its collaboration with an Indonesian-owned company with an Indian management team based

in Eastern Europe, which finally resulted in the decision to backsource the more complex manufacturing activities run by production managers previously acting as boundary spanners.

“We are privileged because we produce at many different factories in many different countries. If one gets an idea in India about how things can be done more efficiently, we have some controllers that move around between the factories, and when they come to the next factory in China, they can say: have a look here, do it like this, and it will be done faster. In this way, we optimise the production of the factories. There is an efficiency gain, which we share. There is money in transferring knowledge that we might have picked up at another factory, and in this way, we manage knowledge.” CEO, Case C.

“It is problematic [the cooperation with their partners]. It is perhaps the biggest problem – the cultural difference. A mix of Indians and Eastern Europeans, it is...It could hardly be worse.” CEO, Case A.

Case B and Case C placed an external consultant at the offshore unit to develop knowledge and competences at the local offshored premises. The local general manager was a Dane in Case C, and the CEO in Case B had working experience from Scandinavia and the Baltics.

“Right now we have a Danish director and a Hungarian production manager, and he has two assistant production managers, one of which is a Dane. She was the one who should have been production manager, but she did not think she could manage the job. [She has since left the factory and been replaced by another Dane, the Hungarian production manager is still employed]. We have a Korean employee who previously worked for one of our suppliers as a factory manager, and she is also assistant production manager. On the logistics side, we have a logistics manager from Yemen, who was trained in the west, but has lived in Vietnam since 1984 and speaks Vietnamese.” CEO, Case C.

There seems to be a continuous need to have key employees, often expats, at close physical proximity, even though you do not have a captive production site as in Case D:

“So I think that we, along the way, will get a foundation in China that makes us less dependent on constantly needing Danes posted. But it is still necessary for me. The Danes cannot succeed in China [by themselves]. The Danes are good at cutting down the price, the last bit. But our Chinese colleagues are good at relationships, at handling a crisis with a supplier, for instance; we cannot. Dealing with employees in China, we cannot do that either.”

“...in China, we have our own people at the factories. Our office is approximately within a radius of 1.5 hours from the factories; we visit the factories every day and follow up on how things are going, talking about new products.” Sourcing Director, Case D.

“It is not always that it is made 100% correct, but the dynamics are there, and you must ensure when it is created that they [stay this way]. We do that by having lots of QCs [quality controllers]. We have our own people who are moving around in our uniforms. They are there [at the supplier], they are paid by us, and they are there to ensure that everything we ship is ok.” CEO, Case D.

The role of the expats is often, apart from managing day-to-day business activities, to translate the tacit knowledge about routines, organisational culture and values between the entities dispersed in time and space. They are regarded as being very valuable to the case companies, reflected in the fact that, although all case companies initially offshored their manufacturing activities to reduce costs, the SMEs accept that they receive significantly better salary packages compared to the local employees. Especially Case B is now trying to reduce the importance of expats as well as travel expenses by training local Ukrainians into becoming the new boundary spanners through the role of “merchandisers”, bridging the sales

activities in Denmark and the manufacturing activities in the Ukraine. This development gained speed after the failure of offshoring the design activities to the Ukraine.

“Our travel budget, if you go back six years when it was our old manager who travelled four times a year, and only when he had to go abroad and give lectures [meaning hardly any travel budget at all]; [compared with] today, our travel budget is DKK one million.” CEO, Case B.

“We have merchandisers who sit and communicate with purchasing, construction [and] production; the sales staff can talk with the constructors and vice versa, but it is always through one of these merchandisers... Sales can also speak with purchasing if they have developed new fabric types. However, it is constantly through the merchandisers. They are actually involved in everything. [...] I would not say 50%, but 25% [local Ukrainian staffs’ reduced efficiency compared to their Danish counterparts]. But wages are 1/10 of Danish wages. A merchandiser down there is paid something similar to DKK 2,500 [per month].”

Key employee covering cross-functional and cross-national roles, Case B.

Reconfiguration and recombination of organisational capabilities

In sum, the four cases show development of differentiated organising capabilities. Moreover, several of the SMEs possess relational sourcing competencies and transactional contract competencies as well as competencies in running a full-blown classical on-site manufacturing company with integrated supply and distribution. In this sense, the cases can be considered a progression of organising capabilities. However, it is more relevant to think of the organising capabilities as involving flexibility, adaptability and international/global outlook – the ability to establish and run profitable global organisational configurations in ever new forms and shapes. Now that product development and innovation activities have been mobilised across the present configurations, it is difficult to predict what the companies’ next move will be and

how their organising capabilities will match it. An overview of the different organisational capabilities of the four cases is shown in table 3 below.

	Case A	Case B	Case C	Case D
Organisational functions	<p>Divesting production in Denmark.</p> <p>Moving production to the Baltics, first captive then outsourced and, finally, partly backshored.</p> <p>Establishing own brand and downstream focus.</p> <p>Simple and small organisation.</p>	<p>Divesting production in Denmark.</p> <p>Establishing captive sewing activities in the Ukraine after outsourcing.</p> <p>Moving more functions over time to the Ukraine, most recent procurement.</p> <p>Own children's brand.</p> <p>Divisionalised structure.</p>	<p>Establishing own offshore captive sewing production and warehousing in Vietnam.</p> <p>Increasing activities in Vietnam, from simple to complex manufacturing.</p> <p>Distribution focus through shop-in-shop concepts.</p> <p>Functionalised organisation.</p>	<p>Divesting production in Denmark.</p> <p>Offshoring followed by outsourcing of the less complex upholstery production to first the Baltics, then China.</p> <p>Establishment of control centres in China.</p> <p>Distribution focus emerging; more and more retail outlets.</p> <p>Matrix organisation and projects.</p>
Tools	<p>Reduced use of advanced IT tools.</p> <p>Decreasing physical movement of management back and forth between Denmark and the Baltics.</p>	<p>ERP and Skype, email and video conferencing.</p> <p>Increasing physical movement of personnel back and forth between Denmark and the Ukraine.</p>	<p>Development of own IT tool.</p> <p>Increasing physical movement of personnel back and forth between Denmark and Vietnam.</p>	<p>ERP and Skype, email and video conferencing.</p> <p>Increasing physical movement of personnel back and forth between Denmark, the Baltics and China.</p>
Management/leadership	<p>Family-controlled and -led organisation.</p> <p>Family members are division managers.</p> <p>Production managers play a key role.</p>	<p>Management-owned company (nine founders).</p> <p>Founders are partly division managers.</p> <p>Standardisation of processes.</p>	<p>Family-controlled and -led organisation.</p> <p>Top-down management.</p> <p>Standardisation of processes.</p>	<p>Family-ownership and top-management of core enterprise.</p> <p>Function managers are also project leaders.</p> <p>Standardisation of processes.</p> <p>Control centres, link between headquarters and key suppliers.</p>
Boundary spanners	<p>Alternating movement of production managers between Denmark and the Baltics until backshoring of the complex knitting activities.</p>	<p>Positioning of expats in captive entity in Ukraine to act as knowledge translators.</p> <p>Increasing competences among local Ukrainian employees being trained to perform as "merchandisers".</p>	<p>Use of "flying quality controllers", first in Europe, then in the Far East.</p> <p>Positioning of expats in captive entity in Vietnam to act as knowledge translators.</p>	<p>Strategic positioning of expats in control centres to act as knowledge translators and continuously help the local suppliers build their manufacturing capabilities and quality understanding.</p>

Table 3: Organising capabilities in the four cases

Discussion

The four cases demonstrate the importance of organisational capabilities (Heimerik's four dimensions (2004)) in combination with knowledge-handling practices. So, in this sense, the framework has proven useful. However, a tendency exists for the four-dimensional framework of capabilities to take over in an overly factor-oriented manner, implying a risk of losing the relations in between, because they are in danger of drowning in the instrumentalisation. This is reflected in the way that, for instance, standardisation through ISO certifications, placed into the management/leadership category by Pagano (2009), in the cases cross into the suggested tools category, functioning partly as an evaluation tool regarding the offshored activities as well as a formalisation tool of organisational routines. Moreover, it is evident in the case companies' various ways of using expats, combining the elements of boundary spanners, management/leadership and organisational functions to mainly bridge the domestic and offshore activities. A final example can be found in the way Case D uses its established control centre as a key organisational capability to comprise all four identified elements by being initially an organisational function as well as a managerial/leadership element through the use of expats in leading positions in the control centre; expats who also function as boundary spanners between the Danish core enterprise and the Chinese suppliers to include the organisational tools element by the use of quality manuals to control the output at the supplier sites through its QC (quality control) personnel.

Longitudinal developments

The longitudinal change over time in the routines and practices can be difficult to capture, and the change within the episodes is not happening from day to day. For example, the production is not offshored from one day to the next. This is done over time with small changes and adjustments to the tools in use, to the individual and collective templates, IT technologies,

procedures etc. in a socio-material ensemble of actants all entangled in the daily activities. The start and the end of an episode are difficult to identify and make no sense, but it is possible to separate the routines related to the four phases identified by Hätönen and Eriksson (2009).

In the table below, the longitudinal developments of the different SMEs are shown in connection with the four episodes.

	Transfer	Resource-seeking	Transformation	(Developmental)
Case A	Offshoring production. Production managers as boundary spanners.	Outsourcing production. Continuous one-way movement of production managers.	Backshoring complex knitting activities.	Establishing own product segment brand
Case B	Offshore outsourced production.	Captive offshore production. Manager with mixed background. Own IT system.	Offshore captive part of design. Offshoring procurement. Failure in Egypt.	Backshoring design. Establishing own product segment brand. Division strategy. Long-term placement of consultant.
Case C	Offshore network (from domestic to European), no production unit.	Supply from a range of changing offshore production units (from Eastern Europe to mainly India and China). Quality and flexibility issues.	Offshore captive and network production. CSR at captive production unit. Increasing movement back and forth of employees between Denmark and the Vietnamese captive unit.	More complex production integrated in the captive organisation. From 70/30 to 30/70 split between outsourced and captive activities. Long-term placement of consultant.
Case D	Domestic and offshore production.	Partly outsourced production and innovation.	From production to distribution. Moving people back and forth. Expats. Control centre.	Distribution and integrated supply chain. Moving people back and forth. Expats. Second control centre, outsourcing of logistics centre.

Table 4: Four cases – phase developments

The cases commenced their offshoring development with a focus on reducing manufacturing costs, with organisations that were relatively divided, yet vertically integrated; Case A, C and D being partly upstream vertically integrated and Case B having no vertical upstream integration. Moreover, the structural organisational capabilities varied between the cases in terms of production, product development, sales, management and administration. Some of the SMEs (Case C and D) employed advanced standard tools such as Enterprise Resource Planning (ERP), which provided the companies with a host of administrative IT support tools; Case A did not really employ an advanced ERP system, whereas Case B decided to develop its own ERP system, Case C bought a standard ERP system that was partly modified to the companies' wishes, whereas Case D continually included further mainly standard packages to its ERP system. The ERP systems were partly able to handle multi-location accounting, purchasing, production control and administration, although depending on the various capabilities and resources available at the supplier side as well and the companies' internal resource allocation for maintenance and continual development/appropriation of the system. Management consisted of different profiles as for the capability of handling distribution, sourcing and production, and they developed in various ways and in importance in the different cases during the period of study.

In the resource-seeking phase, the cases' organising capabilities began to develop in different directions; for instance, in Case D from relying on internal production units and capabilities to relying on external offshored units of production dependent on relational/contractual relations, and in Case B and C, moving in the opposite direction, from relying on external offshored units of production to relying on offshored internal production units. Offshoring production created quality challenges in all cases, and the SMEs were forced to start developing alternative quality configurations like Case D's organisational control functions in China and Case B's continuous development of an IT system combined with a heavy use of

boundary spanners and standardised industrial certifications. Communication technologies, such as Skype, email and videoconferencing, became increasingly important in all cases, although especially Case B experienced problems due to broadband complications in Ukraine, which forced the company to use mainly emails as a basic communication technology.

In the transformation/developmental phases, the cases transformed themselves into various constellations; Case A, B and D transformed from a production-based capability into including a distribution-based organising capability, whereas Case C added a production-based organising capability to its already existing distribution and design capability. On the sourcing side, the levels of staff interaction continued in some cases, and in others, like Case B and D, staff increasingly moved back and forth between Denmark and the offshored activities, as the interaction became increasingly complex and began involving other activities than production activities, such as logistics, innovation and procurement. Case A made the opposite move and reduced the interaction of staff through the backshoring of the complex knitting activities, which also partly happened in Case B with the backshoring of the design activities. Expats were in all cases used to act as knowledge translators and continuously help local captive units or local suppliers build their manufacturing capabilities and quality understanding. Case B and C even placed Danish consultants at their captive offshore units to increase the knowledge-handling capability.

None of the cases show signs of further dissolution of the organisational structure, as foreseen by Hätönen and Eriksson in their identified development phase. The technology tools prevail; the family ownership and/or management ownership of the core enterprise prevails (a generational handover is under preparation in Case A and D and has taken place in Case C and partly in Case B) and there are no signs yet of dissolution in the development phase in the cases, although in Case B, the firing of one of the nine owners could be perceived as a slight

dissolution. However, the dismissal was mainly due to the offshoring of the procurement activities in which the owner was engaged, which does not really indicate any dissolution.

In sum, we have compared the companies by their available organisational resources (including size) to traject between the suggested four phases by Hätonen and Ericsson. Over time, the two medium-sized cases succeeded in moving into a real transformation phase by keeping their activities offshored and using boundary spanners more permanently, exemplified by the long-term placement of consultants, moving people back and forth and recruiting additional expats. The two small-sized cases, however, have struggled to stay within the transformation phase due to a lack of sufficient available organisational resources to match the various initiated projects by the two companies during the study period. In comparison with the two medium-sized companies, they have especially been challenged in their wishes to allocate further resources to the continuous building of downstream initiatives. As there are no indications of a developmental transition taking place in any of the companies, we do not see this phase as an active phase; however, it might evolve into a possible future trajectory in SMEs as well.

Implications

The four cases have demonstrated the importance of organisational capabilities in combination with knowledge handling. However, a tendency was found for the four-dimensional framework of capabilities to take over in an overly factor-oriented manner, even a risk of losing the relations in between them over time, as they may drown in the instrumentalisation. In the cases studied, the four elements are interlinked over time as well; for instance, during the study period, the IT tool influenced and was influenced by the distribution of organisational functions between the domestic and offshore captive entity as well as needed the interference of boundary spanners in its continuous implementation of various modules. This development is shown in figure 1 through the changing compositions of the four capabilities in the offshoring phases, where especially the importance of Boundary spanners, Management/Leadership and Tools become significant to maintain the sensing and seizing capabilities challenged by the reconfiguration of the organisational functions, which again were driven by the strategic sourcing decisions made in the case companies.

The cases followed mainly show the offshoring of manufacturing activities and, in individual cases, also procurement and logistics, but none of the cases really apply a project organisation. They prefer more classic ways of organising, although one of the cases tends towards a matrix organisation. Empirically, the four longitudinal cases show that the longer-term offshoring journey does not involve a single path or a single best practice, expanding and exemplifying Lacity and Willcocks (2014) warning that following best practice is not a guarantee for good performance. The cases show captive as well as outsourcing arrangements and even enterprise transformations. The cases demonstrate a common focus on finding and nurturing core suppliers and core business processes, which can be characterised as continual learning and development of organising capabilities. Furthermore, the knowledge handling varies between the cases over time, where the four elements of organising capability are

combined in various ways during the three identified longitudinal phases. What is interesting as well is the back-sourcing decisions made in two of the cases to re-establish the seizing and sensing capabilities ruptured by the reconfiguration of the organisational functions. This indicates that the two smallest companies were not able to develop/maintain these capabilities in the new configurations even though both cases had part/full captive governance configurations. This development emphasizes the need in SMEs to consider strategically which processes and activities can and should be offshored and thereby the need to question the present sourcing path trajectory. This consideration is also addressed by Su and Gargeya (2012) who found that strategic oriented sourcing plays a vital role, putting more emphasis on developing sourcing capabilities.

As an outcome of the analysis we propose that when moving from the transfer phase towards the following three phases of resource-seeking; transformation and possibly developmental there seems to be a growing demand towards the three organisational functions Boundary Spanners, IT Tools and Management/Leadership caused by the rupture of the Organisational functions. This demand increases from phase to phase due to an increasing complexity in the sourcing configuration putting pressure on the three organisational capabilities, where an alternative to developing these capabilities might be a reduction in complexity through the back-sourcing of previous offshored activities. This development was also suggested by Lacity, Willcocks and Rottman (2008) as a trend of outsourcing experience helping companies becoming smarter at insourcing. The increasing complexity in the sourcing configuration also indicates that the classic argument that the advances in ICT technology only to a certain level is able to accommodate the challenges of ever more complex sourcing arrangements, also addressed by Lacity and Wilcocks (2014). We suggest that these propositions should be investigated in more detail regarding both industries and size of companies in future studies.

Conclusion

This aim of this paper was to study how the long-term evolvement of organisational capabilities proceeds in a long-term offshoring process in four Danish SMEs. The strategic decision to offshore disrupted capabilities, which initially concerned manufacturing capabilities, forced the SMEs to both rebuild and establish new organisational capabilities during the study period. These organisational capabilities are conceptualised as routines surrounding organisational functions, tools, management/leadership and boundary spanners. The four cases followed distinctive trajectories changing their routines/practices for handling knowledge, including both technology and human resources. Specifically the use of key boundary spanners in both intra- and inter-organisational practices emerges as a key capability in all four cases. The two medium-sized companies developed beyond manufacturing and offshored product development, thereby creating a growing need for new as well as transformed routines regarding knowledge-handling practices, whereas the two small-sized companies experienced a need to backsource their more complex activities (manufacturing in case A and design in case B), demonstrating a lack of sufficient resources, due to their size, to succeed in a real move into a transformation phase.

The question of whether or not a critical size exists in terms of being engaged as a company in international upstream manufacturing activities remains open, especially when taking the distribution and availability of resources/capabilities as well as the negotiating power into consideration, as these factors are often mentioned as distinguishing differences between SMEs and MNEs. The differences in the case companies further underline the challenge of creating standard models of longitudinal developments of offshore sourcing; maybe even more so when focusing on SMEs. The ownership structure and leadership of SMEs often create more freedom to select diverging offshore motives over time and thereby establish the foundation for more varied and evolving longitudinal offshore journeys. As the CEO of Case

D stated: “As long as our headquarters are positioned here [in Denmark], the core competence will stay here. Not from a cost perspective, but from a strategic perspective, it [core competences] has to be where the heart [of the company] is beating”.

Limitations and future research

The fact that most of the data were generated from an inside-out perspective, taking the point of departure in the core firms, can be viewed as a limitation. Our data on the wider network are also limited. Finally, our interviews are conducted relatively infrequently when considering the length of the process, and experiences might get ex post rationalised, implying that we recognise that an ethnographic approach would have provided richer data on dynamic capabilities and strategising. Finally, we have chosen to focus the paper on the upstream activities of the case companies; a downstream focus would have shown another set of dynamic capabilities and strategising evolving over time.

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