Factors that play a role in the offshoring strategy of European SMEs

Author: Rob Melgers
University of Twente
P.O. Box 217, 7500AE Enschede
The Netherlands

ABSTRACT, offshoring is a widely applied international strategy by European small and medium-sized enterprises (SME). Companies disintegrate activities of their value chain and replace them to a foreign location to build a global network whereby competitive advantages are created by sourcing important activities and knowledge in many parts of the world. This strategy increases the complexity of doing business and many managers lack extensive knowledge of this phenomenon. This research provides an overview of the factors that play a role in the offshoring strategy of European SMEs. These factors are related to the governance mode decision of captive offshoring and offshore outsourcing, the stages of implementing the strategy and preventing hidden costs, and the coordination of offshore and onshore teams and maintaining foreign relationships.

Supervisors: M.R. Stienstra
dr. M.L. Ehrenhard

Keywords
Offshoring, captive offshoring, offshore outsourcing, small and medium-sized enterprises (SME), governance mode, implementation, coordination.

8th IBA Bachelor Thesis Conference, November 10th, 2016, Enschede, The Netherlands.

1. INTRODUCTION

In January 2016, I started an internship for two months at a consultancy company in India that supports foreign companies to enter the Indian market. They support these companies in various ways from organizing all the paperwork to start a company, to finding the right strategic partners and opening a factory at the most favorable location. The clients are mostly Chinese organizations and a small number of European companies. My objective during my internship was business development in Europe and contact European companies. We dealt mostly with small and medium sized enterprises (SMEs) that wanted to replace business processes to India.

In this thesis, I want to research the factors that influence the internationalization process of companies, focused on offshoring. Offshoring refers to the transnational relocation or dispersion of business activities (Doh, Bunyaratavej, & Hahn, 2009). Firms can do these activities internally by setting up their own subsidiaries (captive offshoring), or externally by handing over business functions to external foreign providers (offshore outsourcing) (Kedia & Mukherjee, 2009). It's not possible to gain empirical data, so I will use existing literature to answer my research question. I use the systematics of doing a rigorous literature review presented by Wolfswinkel, Furtmueller, and Wilderom (2013), and use the application of such a research method done by Jones, Coviello, and Tang (2011) in the field of international entrepreneurship. I start with the background of the internationalization of companies, followed by the methodology, results, conclusion and discussion.

1.1 Background

The study of internationalization of companies is widely examined. Most people think it's a relatively new phenomenon that arose since the technological advancements in the last century. However, the first international companies already started in the seventeenth century from which the British East India Company (1600) and the Dutch East India Company (1602) were the first (Gabel & Bruner, 2003). The driver of internationalization of companies is globalization. Globalization refers to the changes in communication and transportation technologies, the increased internationalization of financial flows and trade, and the transition from national to world markets (Chase-Dunn, Kawano, & Brewer, 2000). The implementation of new technologies resulted in better and cheaper communication and transportation, and the fall of organizational costs (Levitt, 1983). These technologies also enabled internationalization of financial flows and trade, and the transition from national to international markets is driven by capitalism and liberalization of the market (Narula & Dunning, 2000). In the period after World War II, programs of privatization, deregulation and return to the market arose. Governments made agreements about decreasing trade barriers and they created social protection plans to stimulate international trade (Boyer, 2000).

Companies went through an internationalization process to become global players. Consumers all over the world develop the same needs which has led to the emergence of global markets for standardized consumer products (Levitt, 1983). The result is a global network of trade where companies buy, manufacture, and sell products across national borders (Chase-Dunn et al., 2000). The first internationalized companies were large companies with large resources, also known as multinational enterprises (MNEs). However, technological advancements, especially the use of low-cost communication and transportation, made internationalization also possible for SMEs with limited resources (Oviatt & McDougall, 1994). The decrease in these costs makes it possible for SMEs to explore opportunities internationally (Di Gregorio, Musteen, & Thomas, 2009). It has allowed an accelerated internationalization process whereby some SMEs experience large international growth fast after their founding, the companies are 'born global' (Knight & Cavusgil, 2004; Oviatt & McDougall, 1994).

So companies of all sizes are doing business across national borders, and many researchers have focused on the internationalization process. The Uppsala internationalization model from Johanson and Vahlne (1977, 1990) explains that a company increases its international involvement in stages. First, the firm is operating in one country with no export activities. The firm starts to grow and the next step is exporting to a foreign market via an independent sales agent. Soon after, more foreign markets might follow. Companies start in foreign markets that are close in terms of psychic distance, which is defined as *'factors that make it difficult to understand foreign environments'* (Johanson & Vahlne, 2009, p. 1412). The next stage is to establish sales subsidiaries at a foreign location. From these subsidiaries, the markets close to this location are served. Eventually, companies might start the production at a foreign location (Johanson & Vahlne, 1977, 1990). The increase in international involvement evolves with the development of knowledge about foreign markets and operations, and the increase of resources to these markets. Two types of knowledge can be distinguished: objective knowledge which can be taught, and experiential knowledge which can be acquired by personal experience (Johanson & Vahlne, 1977, 1990, 2009).

Firms are operating in foreign markets in three basic forms of activities including export, licensing or foreign direct investment (FDI). These internationalization modes are coherent with the stage model of Johanson and Vahlne where each mode represents an increase in international involvement. Dunning's OLI-paradigm states that each mode needs a category of advantages, namely ownership advantages, locational advantages, and internalization advantages (Dunning, 1988). The first refers to what the firm owns, like trademarks, skills, techniques, and knowledge of the target market. Locational advantages refer to what a specific location offers, like low wages, existence of raw materials, and favorable government policies. And the internalization advantages are advantages for the firm to do the production itself instead of through a partnership. The form of international activity can be chosen based on the existence of a set of advantages. When the company only has ownership advantages, licensing is preferred. If there are both ownership and internalization advantages, the company might invest in an export subsidiary at a foreign location. And when a company has all three sets of advantages, it chooses foreign direct investment (FDI) and starts operations at a foreign location by opening a factory for example. In each entry mode, the international involvement increases. (Dunning, 1988).

These models explain the internationalization process of firms and is relatively old. These traditional internationalization strategies focus on replacing business activities to foreign locations to serve a local market (Contractor, Kumar, Kundu, & Pedersen, 2010). Research and development (R&D) activities, for example, are replaced to the foreign location to adapt the products to that market (Lewin, Massini, & Peeters, 2009). A more recent approach of internationalization is that companies replace business activities to seek resources that increase their firm-specific capabilities and not just to adapt products to that local market (Contractor et al., 2010). Firms replace for example their R&D activities to India to develop products that are not only for the Indian market, but for multiple markets (Lewin et al., 2009). This internationalization strategy is referred as offshoring. Offshoring goes beyond serving the local market and is focusing on building a global network whose strategic objectives are to learn and operate on a global scale. The competitive advantage is created and developed by sourcing important activities and knowledge in many parts of the world (Contractor et al., 2010). This has resulted in the restructuring of value chain activities across multiple locations (Kedia & Mukherjee, 2009; Lewin et al., 2009). The value chain is no longer divided into large groupings like R&D, marketing, and production, but these groups are further divided into smaller sub-activities. For each sub-activity the firm asks the question where to perform it and whether to perform it within the firm or by another company (Contractor et al., 2010). When the company performs the activities internally at a foreign location, it is referred as captive offshoring. And when the company decides to let another company perform the activity, it is referred as offshore outsourcing (Lewin et al., 2009). With outsourcing, a firm decides to reject internalization of activities and thus let an external company perform these activities (Gilley & Rasheed, 2000). It allows firm to focus on what they are doing best, while contracting out non-core activities (Di Gregorio et al., 2009). The last decennia, many companies adopted this strategy and outsourced activities to both domestic and foreign partners (Hätönen & Eriksson, 2009).

Offshoring, both captive offshoring and offshore outsourcing, is a widely applied international strategy. It has three main categories of drivers including cost, resource, and entrepreneurial drivers. The first refers to the decrease of cost levels of production and transaction costs which can be achieved by perceiving low setup costs and with the use of low cost labor. Resource drivers are related to improved efficiency of current operations that can be achieved by access to qualified personnel, improved service levels and the redesign of business processes. Entrepreneurial strategy drivers refer to the creation of new resource combinations to realize new business opportunities like increase speed to market, access to new markets, and to set steps in a larger global strategy (Roza, Van den Bosch, & Volberda, 2011). The first tasks that were replaced offshore were manufacturing activities which was mainly driven by cost-advantages (Di Gregorio et al., 2009). This is followed by replacing more highly skilled activities like administrative tasks and R&D, and is mainly driven by managerial intention. That is, the strategic objectives that managers translate into certain decisions that influence the whole company (Lewin et al., 2009). These strategic objectives are access to qualified personnel, accelerating growth, increase speed to market, and become a global player. The cost advantage objective is less important at highly skilled tasks, because the access to qualified people is considered more important than the costs of these people, especially when qualified people are not widely present at the company's home country (Lewin et al., 2009). Offshoring to accelerate growth is when the company locates their activities to a new country to further expand existing business and to serve new markets. The objective to increase speed to market is important in the field of product development. It can be improved by having access to a flexible pool of qualified engineers that are able to respond fast to changes and that can be deployed around the clock (Lewin et al., 2009; Martínez-Noya & García-Canal, 2011). Offshoring can also be a part of a larger global strategy to locate activities across the globe and find new resources such as new knowledge clusters (Lewin et al., 2009).

It must be advantageous to implement an offshoring strategy, otherwise a company could better not do it. The advantages of offshoring are categorized into three types, including disintegration-related advantages, location-specific resourcing advantages, and externalization advantages. Disintegration advantages are related to the increased focus on core competences and increased responsiveness by unbundling activities from the value chain. Focusing on core competences leads to innovation and increases the quality of products and services, and responsiveness can lead to cost reduction and increased speed to market. Location-specific resourcing advantages are factors on human capital and country level that the foreign location offers. Country level advantages are for example a good infrastructure and a favorable governmental policy, and human capital advantages are low wages and the availability of qualified people. Externalization advantages are the advantages of externalizing activities to a foreign provider instead of doing it self, for example co-specialization and mutual organizational learning (Kedia & Mukherjee, 2009).

So offshoring creates multiple advantages for companies of all sizes. The improved technologies leading to lower costs of transportation and communication has contribute to the feasibility for SMEs to operate across the globe (Oviatt & McDougall, 1994). Offshoring goes beyond serving a local market and is focused on building a global network to improve the firm's capabilities (Contractor et al., 2010). The firm divides her value chain in many sub-activities and replaces and/or externalizes these activities to where it meets the company's objectives.

The offshoring strategy brings changes within the company and their people. During my internship, I experienced that managers lack knowledge about important aspects of this strategy. With this research, I want to focus on the factors that play a role in the offshoring strategy and provide guidelines that give an overview of these factors. The company where I did my internship at, an Indian company that supports foreign companies to enter the Indian market, deals a lot with offshoring companies. I also experienced that this company could use a better foundation of offshoring to advise offshoring companies. They can use the guidelines I present in my research as well. So both offshoring companies and companies that support these offshoring firms can use the guidelines I present in this research to get a better understanding of the factors that play a role in the offshoring strategy. The companies I dealt with during my internship, were mostly European SMEs, so I'll focus on the factors that have influence on this type of companies. I'll focus on the governance mode decision between captive offshoring and offshore outsourcing, on the implementation of the strategy, and the coordination of the foreign business unit. With my research I want to give an answer on the question:

What are the factors that play a role in the offshoring strategy of European Small and Medium-sized Enterprises (SMEs)?

In this research, I focused on offshoring of knowledge intensive products and services because this strategy has grown rapidly the last decennia, and India is an popular destination for this sort of activities (Lewin et al., 2009). I give an insight into what factors influences the entry mode decision, what the steps of implementing the strategy are and where firms need to pay attention on, and how companies can coordinate the business unit abroad and maintain the relationship with partners. I used existing literature in the field of offshoring and found literature that is relevant for European SMEs. My findings are based on existing literature. When managers want to have a deeper understanding of a particular factor, they could read that research article as well. I used the systematics of doing a rigorous literature review presented by Wolfswinkel et al. (2013). Additionally, I looked to the application of such a research method done by Jones et al. (2011) and implemented it in my methodology. I will discuss the exact methodology in the next chapter.

2. METHODOLOGY

In this research, I use the systematics presented by Wolfswinkel et al. (2013). Wolfswinkel et al. (2013) present different stages for conducting a rigorous literature review based on the grounded

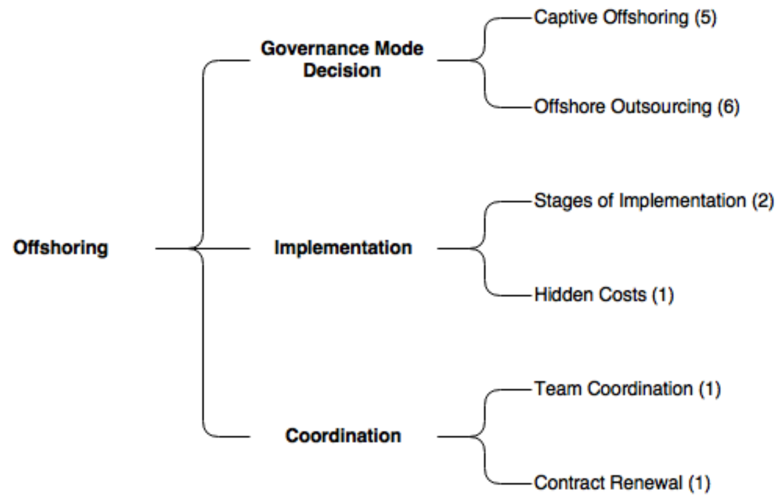

Figure 1: Thematic map of subjects of the articles in my sample.

theory. The grounded theory is a systematic methodology where the researcher doesn't bring a preconceived theory to the interpretation of collected data, but extracts a theory through the analysis of data (Thomas, 2003). Jones et al. (2011) applied a research method that shows similarities with the methodology presented by Wolfswinkel et al. (2013) in the field of international entrepreneurship. The method for my research uses systematics shown by Wolfswinkel et al. (2013) and the application shown in the research of Jones et al. (2011).

2.1 Conducting the Review

My study is focused on offshoring, so the search criteria need to fit the definition of offshoring given by Manning, Massini, and Lewin (2008) as *'the process of sourcing and coordinating tasks and business functions across national borders'* (p. 39). I focus on journal articles as they are considered to be validated knowledge, so sources such as books, book chapters and conference papers are excluded. I started the search on both the databases Scopus and Google Scholar with search terms "offshoring" and "internationalization". This terms gave more than ten thousand results, so I decided to look for a literature review in the field of offshoring to find relevant journals articles to refine the sample. The criteria for the literature review were the scope of the review and the year of publication. The review must not focus on a particular topic of offshoring, like software offshoring or the cultural differences with offshoring, but focus on offshoring in broad sense. Further, to perceive recent studies the year of publication for the literature review was 2011 and newer. The literature review that met these criteria was a review by Schmeisser (2013). To refine the sample, I choose the option to show related articles by both databases Scopus and Google Scholar. The related articles were not only the articles that were used in Schmeisser's review, but also the ones that the databases suggested as relevant which could also be newer articles that were not used the literature review. Scopus showed 107 related studies and Google Scholar 101.

I took journal quality as indicator for the quality of the study and included the journals that were ranked as core journals in the field of international business in the literature review by Schmeisser (2013). Schmeisser (2013) selected fourteen journals that are widely considered as the most important journals in the field of international business. From these fourteen journals, five are ranked as being the core journals in the field. To further refine my search, I searched for articles published in one of these five core journals including *International Business Review, Journal of International Business Studies, Journal of International Management, Journal of World Business* and *Management International Review*. The five-year impact level of these journals is between 1.7 and 6.0. These journals are leading in the field of international management, but in other management fields there're more journals with high impact levels such as *Academy of Management Journal, Academy of Management Review, Journal of Management,* and *Strategic Management Journal.* These journals could also have published relevant articles for my study and I was aware that focusing on the five core journals could filter out these studies. Therefore, I also looked at number of citations by articles that were not published in one of the five core journals. In order to get valuable studies from other journals, I included articles with more than 75 citations. To get recent research for my study, I included articles published from 2009 and newer. Now, Scopus and Google Scholar showed 49 and 42 journals respectively that were published in one of the five core journals, *or* with at least 75 citations. Both databases showed much overlap.

To further refine the sample, I started to evaluate articles specifically on their content. My research is about European firms, which is also covered at research focused on companies from developed countries. Research that's focusing on offshoring firms from developing countries is excluded. Next, my research is about SMEs, so research that's only focusing on large and mature firms where the results are not relevant for SMEs is excluded. A study where a phenomenon is tested with a case study of a large MNE, but whereby the results are relevant for SMEs as well, is included. This was the case by an article of Sidhu and Volberda (2011) about team coordination. The next step to refine the sample was filtering out the doubles as I used two databases, and selecting articles based on their title. The result was a sample of 32 studies. This step was followed by reading all the abstracts where the sample decreased to eighteen studies. And finally, these eighteen studies were evaluated by quickly reading (scanning) them, and by testing the inclusion and exclusion criteria again. This resulted in a sample of ten articles that I've used for my research. Nine articles are published in one of the core journals in the field of international business, and one study is published in the *Strategic Management Journal*, this was the study of Larsen, Manning, and Pedersen (2013) and had 110 citations. These articles can be divided into three categories including governance mode decision, implementation, and coordination (figure 1).

2.2 Analysis

Wolfswinkel et al. (2013) indicate that the first step of analyzing the selected articles is highlighting any findings and insights in the text that are relevant to the research question. These highlighted parts represent the concepts and insights in the field of offshoring. After reading and highlighting all the articles, I continued to reread these parts and identified the themes. I identified three main categories including governance mode decision, implementation of the strategy and coordination of the foreign business unit. I further developed these categories and divided them in possible sub-categories. The step to identify the categories from the highlighted parts is called open coding (Wolfswinkel et al., 2013). To get a good overview, I conduct a map of the categories and the sub-categories (figure 1). To conduct a map, I looked to the methodology of Jones et al. (2011).

I reread al the highlighted parts in the articles again, and wrote down the important concepts and findings of every article. The next step was to identify the interrelations between categories and their sub-categories which is also referred as axial coding (Wolfswinkel et al., 2013). The analysis of all the articles is the represented in the results. I described all the insights and concepts of offshoring found during the analysis and structured it based on the categories. The results are used to give an answer on my research question of what the factors are that play a role in the offshoring strategy of European SMEs. I answered my research question in the conclusion and discussed the findings. I made an overview of the findings of my research. This overview can be used by managers to get a better insight in the factors that play a role in the offshoring strategy.

3. RESULTS

3.1 Governance Mode Decision

Companies can choose different governance modes to start their international activities on a foreign market. These modes are based on ownership structure whereby full and shared ownership are referred to captive offshoring and no ownership to offshore outsourcing (Roza et al., 2011). With a captive offshoring mode the firm can start a fully owned business unit at the foreign location, or can share ownership with a foreign partner and start a joint venture (Kedia & Mukherjee, 2009). The decision to which entry mode the company should choose, is determined by multiple factors. First, the firm's resources and corporate strategy (Lewin et al., 2009). Second, the presence of interdependent disintegration advantages, location specific resourcing advantages, and externalization advantages. Disintegration is the process whereby firms unbundle activities from their value chain (Kedia & Mukherjee, 2009). It increases efficiency and flexibility through the lack of bureaucratic structures and hierarchical thinking (Di Gregorio et al., 2009). Location advantages make it more advantageous to produce offshore, and externalization advantages make is more advantageous to let other companies perform that activity (Kedia & Mukherjee, 2009). Third, the governance mode decision is influenced by the firm's technological capabilities and the protection of intellectual property (Martínez-Noya & García-Canal, 2011). And fourth, it is driven by the task features of the offshoring activity including knowledge specialization, information security, and process standardization (Luo, Wang, Jayaraman, & Zheng, 2013).

3.1.1 Captive Offshoring

A captive offshoring mode with full ownership is preferred when the company perceives many location specific resourcing advantages, and less disintegration and externalization advantages. As the firm perceives a few disintegration and externalization advantages, it is more advantageous to do these tasks internally. The presence of location specific resourcing advantages at the foreign country such as a good infrastructure, stable government, and presence of qualified people, stimulates the decision to relocate the business activities to that location (Kedia & Mukherjee, 2009). This mode requires more investment than offshore outsourcing and is therefore preferred at companies with large resources (Lewin et al., 2009).

A captive offshoring mode is also preferred at companies where control of the foreign business unit is important. Firms with a higher level of information security prefer captive offshoring with full ownership because this mode allows the firm to control the information, it offers protection for proprietary data like patents and technological knowledge, and it protects sensitive client data (Luo et al., 2013). Companies prefer to have control on strategically important activities because these activities create competitive advantages. That's why offshoring innovative activities often prefer a captive structure. Additional advantages by this type of activities is that a captive mode also supports knowledge flow and reduces the risk of knowledge loss because it is a part of one company (Lewin et al., 2009). For companies that are offshoring innovative activities, the foreign country's property rights system is important. These companies are dependent of the protection of their knowledge to reduce the risk of imitation by competitors which could be bad for their competitive advantage. As the intellectual property rights system in the company's home country is weak, the company is more likely to choose for an offshoring strategy. Companies replace these activities to the country where this intellectual property rights system is strong. (Martínez-Noya & García-Canal, 2011).

In knowledge intensive industries, companies might also benefit from the knowledge and expertise of foreign partners. So firms that are offshoring activities with a high level of knowledge specialization, might also choose a captive mode with shared ownership. The advantage of this mode, is that the company can benefit from a foreign partner while maintaining partial leadership and the ability to control the foreign business unit (Luo et al., 2013).

With offshoring, processes are detached from the company's value chain and replaced offshore. Companies that are offshoring processes whereby integration between domestic and offshore business unit is important, are more likely to choose a captive model with full ownership. This is more advantageous because of the better information sharing, improved communication, and the sharing of standards and protocols. This enables the company to plan ahead, increases customer responsiveness, ensures timely delivering, and improve control (Luo et al., 2013).

3.1.2 Offshore Outsourcing

Companies prefer offshore outsourcing when the company perceives high disintegration and externalization advantages, and when it is more advantageous to produce resources at a foreign location (Kedia & Mukherjee, 2009). Disintegrating advantages are related to the increase of focus on core competences and the increase of responsiveness through the lack of bureaucratic and hierarchical structures (Di Gregorio et al., 2009). The presence of externalization advantages means that it is more advantageous to let another company perform the activity, for example when that company is specialized in something the offshoring firm is not good at (Kedia & Mukherjee, 2009).

Offshore outsourcing is also preferred as companies that have the availability of less resources because this strategy requires less investment than captive offshoring. These companies can invest their scarce resources to strengthen their core competences and improve their competitive advantage (Di Gregorio et al., 2009; Lewin et al., 2009).

The firm's technological resources and capabilities have also effect on the governance mode decision. When the resources and capabilities increase, the likeliness to outsource business activities increases as well (Martínez-Noya & García-Canal, 2011). This is because the company can benefit from the capabilities of the foreign partner (Di Gregorio et al., 2009). The foreign partner has access to qualified people, and contributes to the increase of the speed to market (Lewin et al., 2009; Martínez-Noya & García-Canal, 2011).

Companies can also benefit from foreign partners when they have the growth strategy to expand business to foreign markets and want to adapt products to the new market. The agreement with the foreign partner may serve as a mechanism to gain access to local knowledge that is necessary to adapt the product to the local market (Martínez-Noya & García-Canal, 2011). Firms also receive information benefits from the offshore relationship, and gain more experience to further expand business to foreign locations (Di Gregorio et al., 2009). So offshore outsourcing is preferred as entering a new market is part of a larger strategy.

Offshore outsourcing is also preferred when processes are highly standardized. A high level of standardization means that processes are clearly defined, recorded and documented. The advantages of process standardization are that the quality of operations can be easily monitored, economies of scale can be accomplished and administrative and managerial expenses can be reduced (Luo et al., 2013).

3.2 Implementation

Offshoring is an organizational reconfiguration where business functions are relocated to a foreign country. The firm is faced with added complexities and uncertainties of coordinating a company that operates in different locations (Jensen, Larsen, & Pedersen, 2013). This challenges the firm to integrate these changes in the organization (Larsen et al., 2013). To implement this strategy, the organization has to run through three stages of organizational reconfiguration: disintegration, relocation and reintegration. During the first stage, the company identifies the tasks to be offshored and dispatches these activities into sub-processes. This increases complexities, and the company needs to standardize and codify the interdependencies between activities. The next stage is to relocate the activities to the foreign location (Jensen et al., 2013). A firm chooses the location that meets the offshoring strategy and offers locational advantages (Lewin et al., 2009; Roza et al., 2011). At the last stage, the firm needs to reintegrate the offshored activities in their organization so that they can coordinate these operations from their home country. The cultural and geographic distance requires a good knowledge transfer, good coordination, and a good control of the organization (Jensen et al., 2013). Previous experience in offshoring or (offshore) outsourcing contributes to easing this process (Di Gregorio et al., 2009; Martínez-Noya & García-Canal, 2011).

During the implementation of the offshoring strategy, the company may face costs that are not anticipated during the decision making process. These costs are better known as hidden costs (Larsen et al., 2013). Hidden costs arise from unanticipated organizational needs, such as costs related to knowledge transfer, training and coaching, protection of intellectual property and monitoring the offshore units. Decision makers are more likely to make cost-estimation errors as the offshoring complexity increases. Offshoring complexity is a combination of configuration complexity, which occurs as the result of new interdependencies between activities and people, and task complexity, which refers to the actual implementation of the offshoring strategy (Larsen et al., 2013). Larsen et al. (2013) found two factors that are positively related to the cost-estimation of decision making. First, as the offshoring strategy has a strong orientation towards the organization's overall system of structures and processes, the organization is better able to account for the hidden costs. Second, firms with more offshoring experience are better able to account for the hidden costs as the offshoring complexity increases.

3.3 Coordination

Replacing business functions to an offshore location increases the complexity of coordinating the company (Jensen et al., 2013). The usage of technological advancements has increased the range, capacity and speed of information exchange between teams, which has a positive effect on team coordination (Sidhu & Volberda, 2011). In their research, Sidhu and Volberda (2011) studied what factors influence the coordination on globally distributed teams. From this research, a number of practices of team and task coordination can be developed. First, involving both onshore and offshore team members in the project from the start, has a positive influence on effective collaboration and task coordination. It provides relevant information for the offshore teams and stimulates a sense of quality, team spirit, project ownership, and commitment. Second, rewards should be assigned to the whole team performance, and not individual teams. Both onshore and offshore teams have different goals, evaluating both separately endangers task coordination. Evaluating team performance as one team stimulates team collaboration. Third, direct horizontal communication is good for task coordination. The lack of horizontal communication slows down the exchange of information and may entail loss of valuable details when it travels in hierarchies before reaching the right person. Fourth, bottom up initiatives have a positive effect on team coordination. Managers who promote this, have shown promise in improving collaboration and tasks as the teams continuously learn and develop knowledge on what works and what's not. Fifth, programs to accomplish a shared identity with homogenous norms and values across the organization have a negative effect on task coordination. Differences in language, culture, and technological systems develop a local identity, which doesn't mean there's no identification with the company as a whole. Forcing teams to adapt certain norms and values causes conflicts. Finally, programs to accomplish standardization of tools, processes, and work culture across the whole organization has a negative effect on task coordination as the firm operates in an innovative environment. It's not possible because tasks differ in offshore and onshore locations, teams need flexibility in high tech projects, and the environment of high tech services continually evolves (Sidhu & Volberda, 2011).

Companies with an offshore outsourcing strategy have a contractual relationship with their strategic partners. These contracts do not last forever, so they have to be renewed or the company need to choose an alternative service provider. Manning, Lewin, and Schuerch (2011) found three drivers that influence the likeliness of deal-renewal in offshore outsourcing relationships. First, client specific investments in software, infrastructure and training have a positive effect on the likeliness of deal renewal. With the investments, the switching costs increase, the offshoring partner develops capabilities, generates trust and both parties become more interdependent of each other. Second, as the company gets more involved in the outsourced operations, and the frequency of interaction increases, the company is able to monitor and control processes which is good for relationship stability and encourages deal renewal. Third, knowledge intensive services have a negative effect on the likeliness of deal renewal. This is because of the temporary project nature of many knowledge intensive projects (Manning

		Study	Contribution and main findings
Governance Mode Decision	Captive Offshoring	Roza et al. (2011)	Captive offshoring requires more financial resources, but is not affected by firm size. SMEs have the capability to develop financial resource combinations that enables captive offshoring.
		Kedia & Mukherjee (2009)	Captive offshoring mode is preferred when firms have many locational advantages, and few disintegration and externalization advantages.
		Lewin et al. (2009)	Companies with large resources prefer a captive offshoring mode. Innovative activities require higher degree of coordination and control and therefore prefer captive offshoring.
		Martínez-Noya & García-Canal (2011)	In innovative industries, companies need to protect their intellectual property, so the country's intellectual property rights system is important in the governance mode decision.
		Luo et al. (2013)	A captive offshoring mode is preferred at knowledge intensive industries, when information security is important, and when a good process integration between the offshore and onshore location is required.
	Offshore Outsourcing	Roza et al. (2011)	Offshore outsourcing requires less financial resources. The decision is not affected by firm size as both large firms and SMEs have the resources to implement the strategy.
		Kedia & Mukherjee (2009)	Offshore outsourcing is preferred when it is more advantageous to outsource activities offshore in stead of onshore, and when the firm perceives high disintegration and externalization advantages.
		Di Gregorio (2009)	Firms with less resources prefer offshore outsourcing so that they can invest their scarce resources on strengthening their core competences while benefiting from the foreign partner.
		Lewin et al. (2009)	Companies apply offshore outsourcing to focus on their core competences, gain access to qualified personnel via the foreign partner, and to increase the speed to market.
		Martínez-Noya & García-Canal (2011)	An agreement with an offshore firm can serve as a mechanism to gain access to knowledge that is necessary to adapt products to a local market.
		Luo et al. (2013)	Offshore outsourcing is preferred as activities have a high level of standardization because the outsourcing firm can monitor the results well.
Implementation	Stages of Implementation	Jensen et al. (2013)	Companies run through three stages to implement the offshoring strategy including disintegration, relocation, and reintegration.
	Hidden Costs	Larsen et al. (2013)	Hidden costs arise from cost-estimation errors. Focus on organizational design and offshoring experience reduces hidden costs.
Coordination	Team Coordination	Sidhu & Volberda (2011)	The coordination of teams improves with team involvement from the start, equal rewards for offshore and onshore teams, direct horizontal communication, bottom-up initiatives, avoidance of forcing team members, and avoidance of standardization in innovative environments.
	Contract Renewal	Manning et al. (2011)	The likeliness of deal renewal increases with client investments and client involvement, and decreases as the knowledge intensity increases.

Table 1. Overview of the findings which represent the factors that play a role in the offshoring strategy of European SMEs.

et al., 2011). With this insight in relationship development, the outsourcing company can respond to the drivers that influence the relationship if they want to build a long term relationship.

4. CONCLUSION AND DISCUSSION

Offshoring goes beyond serving the local market and is focusing on building a global network whereby the competitive advantage is created and developed by sourcing important knowledge and activities in many parts of the world (Contractor et al., 2010). This strategy is widely adopted by European SMEs and is driven by three categories of drivers including cost, resource, and entrepreneurial drivers (Roza et al., 2011). Companies started with offshoring more simple tasks to perceive cost advantages (Di Gregorio et al., 2009), but are now offshoring more advanced activities to offshore locations. Offshoring is driven by managerial intention which refers to the strategic objectives of the firm, which are set by managers (Lewin et al., 2009).

I did research to the factors that play a role in the offshoring strategy of European SMEs. The factors that influence this strategy can be categorized in governance mode decision, implementation of the strategy, and coordination of teams (figure 1).

The company can make the decision to implement the offshoring strategy in a captive offshoring governance mode or offshore outsourcing governance mode that refers to a governance mode with and without ownership respectively (Roza et al., 2011).The governance mode decision is influenced by multiple factors including the firm’s resources and corporate strategy (Lewin et al., 2009), the presence of interdependent advantages of disintegration, location and externalization (Kedia & Mukherjee, 2009), the firm’s technological capabilities (Martínez-Noya & García-Canal, 2011), and by task features like knowledge specialization, information security, and process standardization (Luo et al., 2013).

A captive offshoring mode requires more investments than offshore outsourcing, and is therefore more likely to applied by companies with large resources (Lewin et al., 2009). Offshore outsourcing, on the other side, is preferred when a firm has limited resources (Di Gregorio et al., 2009). However, this is not affected by firm size as SMEs seem capable to overcome their lack of financial advantages as they have the capability to develop international resource combinations (Roza et al., 2011). Disintegration, location-specific and externalization advantages affect the governance mode decision as well. Firms choose to replace activities offshore when it is more advantageous to perform these activities abroad than on the domestic location. Offshore outsourcing is preferred, relative to captive offshoring, when it is more advantageous to disintegrate these activities and externalize it to a foreign partner (Kedia & Mukherjee, 2009). Especially activities with a high level of standardization can be disintegrated from the company and be outsourced to a foreign partner while the outsourcing firm can relatively easy monitor the activities (Luo et al., 2013). In knowledge intensive industries, information security and the protection of intellectual property is important to reduce the risk of imitation and knowledge loss (Lewin et al., 2009; Martínez-Noya & García-Canal, 2011). A foreign captive mode allows the firm to control and protect this data (Luo et al., 2013). But in these knowledge intensive industries, companies might also prefer to collaborate with a foreign partner to benefit from their knowledge and expertise, and their access to qualified people (Di Gregorio et al., 2009; Lewin et al., 2009). So in knowledge intensive industries, control of information seems to be important, but companies can also receive great benefits when collaborating with strategic partners which decreases the level of control. Therefore, firms might prefer all three possible governance modes: a captive mode with full ownership to have full control but with no collaboration benefits, a shared ownership structure where the firm receives benefits from the foreign partner while maintaining partial control, and an offshore outsourcing structure where the firm benefits from the foreign partner but decreases the level of control. Future research can further investigate the relation between information control and collaborating with foreign partners, and what the effect is on governance mode decision.

As the governance mode is chosen, the firm needs to implement the strategy. The company runs through the stages of disintegrating the activities from the organization, relocating them to the foreign location, and reintegrating the processes in the organization (Jensen et al., 2013). During the implementation of the strategy, the firm may face hidden costs that arise from cost-estimation errors. As the strategy is more focused on the organizational design, and when the company has more offshoring experience, the firm is better able to estimate the costs and therefore reduces the hidden costs (Larsen et al., 2013).

Relocating business functions increases the complexity of coordinating the company, their people, and their partners (Jensen et al., 2013). Effective solutions to improve coordination are involving both onshore and offshore teams from the start of a project, evaluate and assign rewards to the whole team, integrate direct horizontal communication, encourage bottom-up initiatives, prevent that teams are forced to adapt certain norms and values, and prevent standardization in an innovative environment (Sidhu & Volberda, 2011). The relationships with partners are built upon contracts. The likeliness of deal renewal increases when the company invests in the client, and when the involvement of both parties increases. The likeliness of deal renewal decreases as knowledge intensity increases (Manning et al., 2011).

The factors that influence the offshoring strategy are showed in table 1. All these findings are based on existing literature in the field of offshoring. Nine of the ten sources are tested with empirical data that support these findings. The overview can be used by managers and entrepreneurs that want to have a better insight in the factors that influence the offshoring strategy. Many entrepreneurs lack knowledge in this field, and at the same time this this strategy is widely applied by European SMEs. My research provides a better insight on the factors that play a role in offshoring. Managers that want do gain in-depth knowledge on a specific factor, can read the studies I've used. The generalizability of this research is limited to European SMEs, because in the methodology I composed research criteria that has resulted in sources that are applicable to European SMEs. The results might also be relevant for SMEs from other developed countries as much research doesn't make the distinction between European firms and firms from other developed countries like the US. The results are not relevant, and will be different for large offshoring firms or offshoring firms from other types of countries such as China. During my internship, I experienced that many companies from China are offshoring to India. China is an emerging country and Chinese firms differ from European firms. In future research, my study can be applied to offshoring firms from developing countries.

I will indicate some limitations of my research. My research is based on existing literature as I couldn't obtain empirical data. However, nine of the ten sources I've used are supported with empirical data. My methodology was based on the systematics of (Wolfswinkel et al., 2013). The authors present five stages as a method for rigorously reviewing literature including the stages define, search, select, analyze and present. I didn't apply all these stages which is a limitation for my research. I applied parts of the define, search, select and analyze stage. This research is to conclude my bachelor study and is therefore limited by a short time frame. The usage of the methodology presented by Wolfswinkel et al. (2013) based on the grounded theory, is too comprehensive for this type of research and in this time frame. Further research could use all the stages of the methodology presented by Wolfswinkel et al. (2013) to use all relevant existing literature in the field of offshoring. Additionally, I focused on articles published in one of the five core journals or on articles with at least 75 citations which resulted in a small sample for my research. I'm aware that there's much more research done in the field of offshoring. In further research, the sample could be increased by including more journals. The researcher could follow all the stages of Wolfswinkel et al. (2013) to find all existing literature in the field.

In this study, I focused on European SMEs, but the definition of SMEs differs in most articles I've found. Some researchers define SMEs as firms with less that 250 employees (e.g. Roza et al., 2011), others less than 500 employees (e.g. Di Gregorio et al., 2009), less than 2,000 (e.g. Lewin et al., 2009) or less than 10,000 employees (e.g. Larsen et al., 2013; Manning et al., 2011). In future research the researcher could better distinguish the differences in definitions of SMEs, because what the first researcher defines as a large firm, the other defines it as a SME.

5. ACKNOWLEGEMENTS

I would like to thank my first supervisor M.R. Stienstra for his guidance and support. His feedback and extensive knowledge within the field of international entrepreneurship was of great value for me. Furthermore, I want to thank my second supervisor dr. M.L. Ehrenhard for his time and supervision.

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