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The Extra Cost of Business Process Outsourcing
-a study at Volvo Cars Corporation

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Abstract

Service offshoring of IT-enabled services has been labeled as the new wave of globalization. However, research has shown that every second offshored project never reaches the expected cost savings, simply because companies fail to include extra costs that are additional to the contract costs. Furthermore, several studies have acknowledged that distance- culture- and language differences affect the financial success of offshored processes as well as the magnitude of extra costs. Thus, the purpose of this study is to scrutinize and label extra costs that Volvo Cars encounter, as well as to further investigate how offshore-specific factors affect extra costs when they offshore outsource business processes. Moreover, the study is conducted in an explanatory nature with exploratory elements, and by means of a qualitative approach. In order to analyze the empirical findings, theories related to extra costs and to offshore-specific challenges have been investigated and reviewed. Hence, it could be concluded from the study that Volvo Cars has encountered nine different extra costs, as well as that all the extra costs were influenced by different offshore-specific factors in various ways.

Keywords

Outsourcing, Offshoring, Extra Costs, Business Process Outsourcing, BPO, Offshore Specific Factors, Culture, Language, Geographical Distance, East Asia, Volvo Cars, VCC, Coordination Costs, Control Costs, Specification Costs, Knowledge transfer Costs, MNC, Volvo, Learning, Services,

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Gothenburg, 19th May 2010

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List of Abbreviations

BPO	Business Process Outsourcing
HRD	Human Resource Department
ICT	Information Communication Technologies
IT	Information Technologies
ITES	IT-Enabled Services
ITO	Information Technology Outsourcing
KBV	Knowledge-Based View of the firm
MNC	Multinational Corporation

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1. Introduction

In this chapter, the topic will be introduced by first presenting the background of the thesis followed by the problem discussion, which leads to the research question. What is more, the research purpose and the delimitations will be presented, followed by the thesis outline at the end of the chapter.

1.1 Background

The phenomenon of globalization has opened up a vast spectrum of possibilities for multinational corporations (MNC) as national boundaries have become more blurry than ever and new geographical landscapes of business have emerged, thus diminishing the barriers of distance (Cairncross, 2001; Ho, 2007; Bahrami, 2009). Furthermore, the development of the so-called Information Communication Technologies (ICT) has contributed tremendously to the rapid globalization of service-related activities during the last decades (Dhameja & Medury, 2004; Bahrami, 2009; Pieterse, 2009). This swift expansion of service offshoring has been labeled by researchers as the “*next wave of globalization*” or a “*second global shift*” (Bryson et al. 2006; Dossani & Kenney, 2007). The first global shift involved the transfer of manufacturing employment to low cost locations (Dicken, 1998), whereas the second shift involves the transfer of service employment (Dossani & Kenney, 2007; Bryson et al. 2006).

The range of services offshored from developed to developing countries is remarkable, and the services that are being offshored include an impressive range of IT-enabled services such as: payroll, customer-facing, telemedicine, research services and so forth (Dossani, 2005; Palvia, 2004; Abramovsky et al. 2004). Additionally, the service offshore outsourcing was driven by companies strive to remain competitive in a dynamic world market (Gereffi et al. 2009; Ulli, 2000; Jahns et al. 2006; Kakabadse & Kakabadse, 2002). Hence, with the emergence of service offshoring, there are a wide range of interlinked concepts; one being the concept of Business process outsourcing (BPO) (Jahns et al. 2006; Gewald & Hinz, 2004).

BPO involves the delegation of non-core, standardized IT-enabled business processes to a third party (Mehta et. al., 2006; Rouse & Corbitt, 2006; Kakabadse & Kakabadse, 2002; Mani et al. 2010). The main objective of BPO can range from achieving a reduction in operating costs to obtaining business transformation (Mani et al. 2010).

However, several reports have shown that about every second outsourced project fails in the aspect of cost saving (Dibbern et al. 2008; Aron & Singh, 2005; Meyer, 2006; Mäkiö et al. 2007). Sometimes, the costs might even increase rather than decrease (Hatch, 2004; McCue, 2008; Dibbern et al. 2008). The main reason behind this is that many companies never reach their expected cost savings, simply because they fail to include costs that are additional to the contract (Misra, 2004; Kharif, 2003; Gewald, et al. 2006; Dibbern et al. 2008; Huntley, 2005; Rottman, 2006). Further, extra costs are especially important when it comes to offshore outsourcing services, this since they require more management involvement than traditional manufacturing (Misra, 2004; Dibbern et al. 2008).

Furthermore, one of the key issues regarding the offshoring of services is that the vendor and the client are from different countries and sometimes different continents (Dibbern et al. 2008). Hence, this raises issues of distance-, culture- and language differences, which impact on the success of offshored projects. Consequently, several studies have identified that these offshore-specific factors affect the financial success of offshored projects, (Carmel & Agarwal, 2001; Khan et al. 2003; Kliem, 2004; Davis et al. 2006), as well as the magnitude of extra costs (Dibbern et al. 2008).

Accordingly, as BPO has become an important step in achieving a competitive advantage, countless companies strive to reap the benefits of globalization. However, it is easy to forget that with every offshored activity there are extra costs involved. Hence, it makes it interesting to investigate what types of extra costs a company acquires in different stages of the offshoring processes. Furthermore, as cost-reduction is such an integrate part of the success of any offshore outsourcing endeavor it is intriguing to reflect upon how offshore-specific factors can affect extra costs with reference to BPO. Moreover, this study is based on Volvo Cars Corporation (Volvo Cars), which is one of many MNCs' that implement an offshore outsourcing strategy in order to achieve cost-savings. (Landt, 2003; Annerstedt, 2004) Furthermore, as their offshoring has become even more frequent since 2008, due to the financial crisis, Volvo Cars stands out as an interesting case to investigate (Myrèn, 2009a; Myrèn, 2009b; Nyhetskanalen, 2008). Hence, we formulate our research question in the following way;

“What extra costs has Volvo Cars encountered while BPO to East Asia, and how were these extra costs affected by offshore-specific factors?”

1.2 Research Purpose

This study aims to investigate how offshore-specific factors affect the offshore outsourcing endeavor from a cost-perspective. Moreover, as researchers have described wide range of offshore specific challenges, it is important to explain the relationship between these challenges and the costs of opting for offshore outsourcing in order to obtain a more holistic view of the offshore outsourcing phenomenon.

This study is aimed to contribute both to academia as well as to serve as a road map for practitioners. Accordingly, we do not only enhance the empirical investigation previously done on the relation between extra costs and offshore specific challenges, but also extend the previous research with a new empirical context – namely: BPO to East Asia from a Swedish car manufactures’ perspective.

In addition, the study extends previous research done by Dibbern et al. (2008), where the aim is to extend the categorization of extra costs into sub-levels. Thus, the inquiry provides additional empirical data, which further enhances the validity of previous works in academia whilst contributing to a more fine-grained understanding of the cost-benefit aspects of offshore outsourcing. Finally, the explanatory nature of the study provides managers with deeper knowledge about what extra cost they can expect to encounter as well as how the extra costs are affected by offshore specific factors.

1.3 Delimitations

It is important to acknowledge that this study experienced boundaries in the form of limitations that influenced the scope of the study. Thus, the main delimitation of this study is that it is a single-site case study, conducted at Volvo Cars Corporation, which is located in Gothenburg, Sweden. Since the research is conducted at non-manufacturing departments; the study is also delimited to offshore outsourcing of it-enabled services.

Moreover, the second main delimitation of this study is that we chose to investigate the last two stages of the offshore outsourcing process: the operating and transition stage. The delimitation was set since we believe that obtaining necessary data about the first stages, dating as far back as to 2002, would not be feasible at the present moment. However, acknowledge that the two excluded stages are of significance for any offshore outsourcing

endeavor as they are directly related to the level of extra costs that is obtained in the later stages.

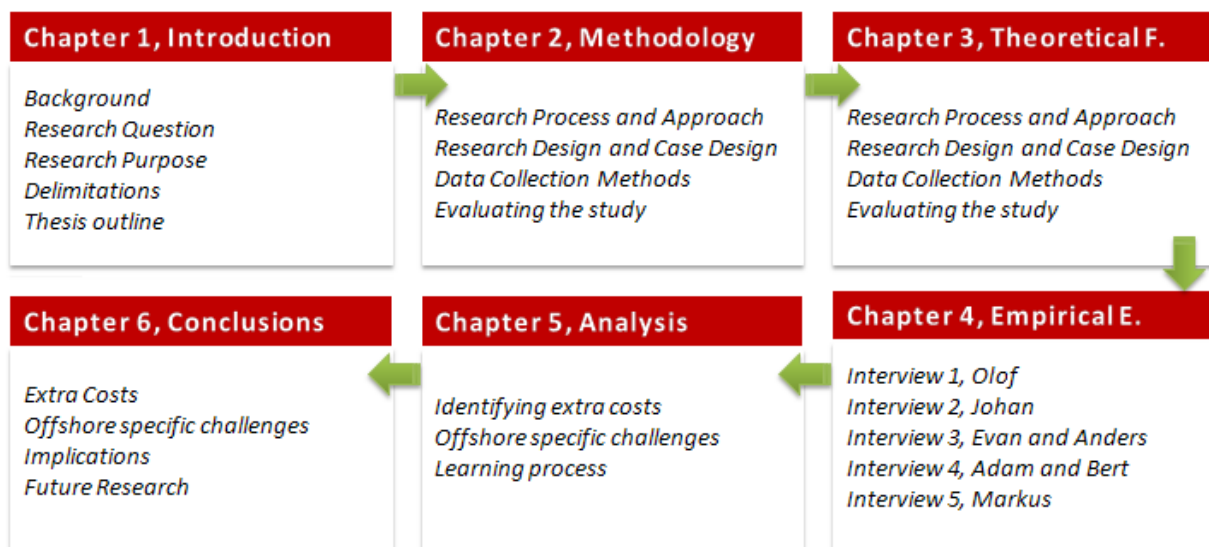
As third delimitation of this study is the focus on BPO, more precisely on business processes that have been offshore outsourced to East Asia. Thereby, the study excludes the second type of service offshoring referred to as captive offshoring.

Finally, the last main delimitation is the exclusion of institutional factors as an offshore specific factor. This factor was excluded, mainly because they deal with the choice of country, which is conducted in the earlier stages of the offshore outsourcing process.

1.4 Thesis Outline

As can be seen in figure 1, the first chapter starts off with an introduction that introduces the study to the reader. Additionally, Chapter 2 provides the reader with an insight of the methods used in this study as well as assesses the validity and reliability of the study. Furthermore, Chapter 3 presents relevant theories and literature that are used in the analysis chapter. In Chapter 4, the collected empirical evidence is presented. Chapter 5 provides the reader with the interpretations and analysis of the empirical findings. Finally, Chapter 6 presents the main findings, implications of the study and the propositions for future research.

Figure 1: Thesis outline



Source: Authors' own, 2010

2. Methodology

The methodology chapter presents the methodological approach used during the research process. Thus, the authors elaborate on the chosen approach and method. Finally, the chapter ends with an assessment of the quality of the study through the criteria trustworthiness and authenticity.

2.1 Research Approach

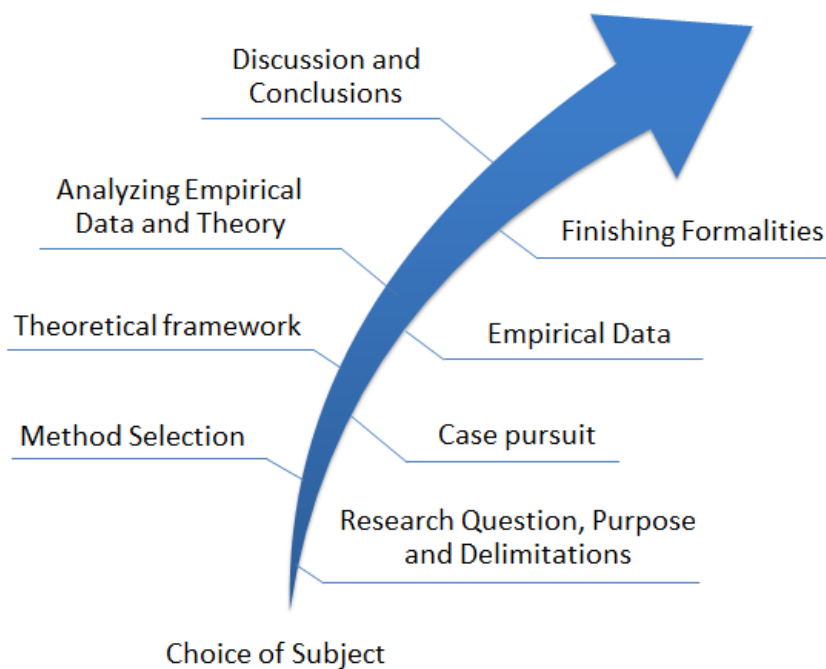
The nature of this study is explanatory with descriptive elements as we want to describe the extra costs that Volvo Cars encountered as well as to explain the relationship between the costs and challenges of offshore outsourcing. Furthermore, we chose a qualitative research approach in order to gain a solid understanding about the research phenomenon (Strauss & Corbin, 1990). Further, the use of qualitative approach is as well necessary since this study deals with information that is deeply embedded in the organization and its business function. Moreover, much of the information is as well embedded within each manager's mind at Volvo Cars. Hence, we use a qualitative research method for the purpose of collecting and capturing the tacit components of the inquiry. Furthermore, the qualitative approach also allowed the study to integrate elements of exploratory nature as the extra costs of Volvo Cars were explored in order to obtain a customized view as well as assist for possible theory expansion.

2.2 Research Process

As can be seen in figure 2, our research process was initiated once the phenomenon of extra cost became clear after reviewing relevant literature on the topic of extra costs within the offshore outsourcing context. Hence, we found that scarce investigations had been made in order to explain the relationship between offshore specific challenges and extra costs that companies encounter when offshore outsourcing IT-enabled services. Furthermore, we defined the research question based on the purpose and the delimitations of the study. The next step in the research process was to select a method, how to conduct the study. Hence, after selecting the methodology, we continued on with the so called "case pursuit" where we looked for a relevant company with accordance to the study's previously set up criteria's.

Furthermore, at the same time as we selected a case-company, a general theoretical model was constructed comprising relevant offshore specific factors. Hence, the purpose of the theoretical framework was to identify and describe the different costs encountered at Volvo Cars, as well as to explain how offshore specific factors affected the extra costs. Furthermore, after the empirical findings were gathered, it was later on both analyzed and discussed with connection to the theoretical framework. Furthermore, the discussion was anchored both to the purpose of the study and the research question. During the process of writing we found other issues and perspectives, which were not fully in line with the essay question, but since we found them interesting they were brought up in the analysis. Finally, after analyzing the data with the theories and literature of the subject, we started putting down the final discussion, conclusions and future recommendations. However, the last part of the study was the formatting of the research paper along with the finishing formalities. A road map of our thesis process can be seen in the figure below.

Figure 2: Research Process



Source: Authors' own, 2010

2.3 Research Design and Case Selection

In order to achieve satisfactory results from the inquiry as well as answering the pre-set research question of the study there is always need to apply an appropriate strategy for the

research at hand (Yin, 2003). According to Yin (2003), whenever research wants to answer a “Why” or “How” question or both, a case study design is satisfactory. Hence, as we developed a question consisting of a “how” question we followed the recommendation by made by Yin (2003). Furthermore, the research question also includes a “what” question. According to Yin (2003), a case study including a “what” question is feasible as the case study is partially exploratory in nature. Additionally, as the topic of the inquiry contains elements of tacitness we argue that the case-study design supports the use of interviews as a beneficial tool for data-gathering (Yin, 2003). Moreover according to Yin (2003) single-case study approach can be used in order to observe and analyze in depth. Hence, it is the method that allows greater in depth research, than any other method. Thus, in order to choose an appropriate case for the inquiry we set up several criteria’s in beforehand that would be the basis for evaluation. Hence, the criteria’s were as following;

The first criteria that served as a starting point for choosing a case company was to identify a MNC that offshores business processes, as we believed that BPO is conducted at MNC’s in a larger extent i.e. in several different departments. Hence, we believed that it would enrich the empirical findings if the case had multiple units of analysis in line with Yin’s (2003) embedded single case study.

Secondly, following the first criteria the second step was to identify a MNC that had its headquarters located in the Gothenburg region. Hence, geographical proximity influenced the decision to a great extent. More precisely, due to scarce resources we believed that choosing a case company in close proximity would be the most convenient solution. Thus, choosing a company in Gothenburg region provides our study with, higher accessibility, lower costs and better opportunities.

The third criterion was based on the location of the vendor. Accordingly, we aimed to find a case company that conducted BPO as far away as possible, preferably to low-cost countries in East Asia to ensure culture-, language- and geographical distance.

Finally, Volvo Cars was elected as case company after evaluating several options. The choice was further influenced by the fact that we had previous knowledge about the company as well as connections within the organization which assisted in the gathering of primary- and secondary data.

2.4 Theory Selection

The theoretical foundation is developed according to two distinct sources. Firstly, the cost categorization framework is derived from previous work done by Dibbern et al. (2008) where the framework was used in an IT-outsourcing (ITO) context. However, we believe that the framework can be transferred to other IT-enabled categories namely BPO, as the essence of both ITO and BPO revolves around outsourcing IT-enabled services to other locations (Doh et al., 2009; Martin & Beimborn, 2007). Hence, previous research conducted in the BPO sphere has been based on vast ITO research, due to the synergies between the two (Wüllenweber, 2007). Therefore, we see BPO as a mere extension of ITO in line with the discussion made by Augustin et al. (2010).

Furthermore, the topic of cross-culture communication was described according to already identified cross-culture dimensions. Through a systematic literature review, with the aid from previous literature reviews (e.g. Tsui et al. 2007), twenty-four relevant dimensions were identified. Furthermore, the dimensions could be structured and divided into one-dimension- or multi dimension theories (Morden, 1999) depending on how many variables one might chose to investigate. Due to constraints we were forced to narrow down the scope of the dimensions. Thus, we argued that the best solution would be to focus on the two most prominent frameworks regarding cross-culture i.e. Hofstede as well as Hampden-Turner & Trompenaars culture models based on multiple variables.

Moreover, we argued that the study would be strengthened by the narrow choice of dimensions, as we unite the similarities of two prominent scholars as well as adding other researchers' dimensions of relevance. In conclusion, we obtained a better scope which enabled us to go more in-dept. Furthermore, we also acknowledge the critical views that have been directed towards cross-culture theories. The most prominent critique is that cross-culture theories are too static and too structured (Myers & Tan, 2002). Furthermore, Braun & Warner (2002) argue that Hofstede sees the individual in a passive way, as well as that he generalizes individuals as subjects for mental "programming".

Finally, the purpose is not to make a cross-culture study between Sweden and East-Asia. However, based on the discussion by Wei & Rowley (2009) we argue that research based on Hofstede's and Hampden-Turner & Trompenaars dimensions provide an understanding of the importance of cultural barriers in an offshoring context.

2.5 Data Collection Methods

According to researchers in the social science field there is never one single source of information that is entirely trustworthy with an absolute understanding of a research phenomenon (Patton, 2002; Denzin, 2006). Accordingly, Patton (2002) states that by using triangulation techniques one can ensure that distortions and bias issues can be minimized. Hence, triangulation of information is an important aspect when collecting empirical data, especially in a case study approach (Yin, 2003). Thus, in order to strengthen some aspects of the primary data we used secondary data such as official articles and company related documents as well as unofficial project specific documents as a supplement.

2.5.1 Secondary Data

According to Patton (2002) secondary data is a one out of four fundamental types of data sources for “*contribute to construction of a finding or an answer*” (p. 445) in a qualitative analysis. In order to understand more about Volvo Cars secondary data was primary used to get a general idea over how the organization is structured and to get a sense of the extent of the company’s offshore strategy. This was mainly done by reading on the internal website of Volvo Cars as well as other web based sources. Furthermore, in the primary data collection stage, supplementary secondary data was obtained through documents handed over by the inquiry participants. Moreover, the secondary data involved documents about detailed descriptions of the project plans, including roles, interfaces, process description, cost analysis and monitoring techniques. The secondary data later gave support for the analysis of the primary data as valuable insights into the projects. This enabled for cross-checking data of relevant claims made by the interviewees on different aspects of the offshoring process.

2.5.2 Primary Data

The primary data was collected through in-depth, semi-structured interviews at Volvo Cars headquarters in Gothenburg. The primary data is the pivotal source of data and it is presented in the empirical findings section. Moreover, it serves as the main data source for the analysis.

2.5.2.1 Collecting the Primary Data

Through prior connections with the Human Resource Department (HRD) at Volvo Cars, we got in touch with all the departments that offshored business processes. However, in order to make sure that we received the right connections within Volvo Cars we set up several selection criteria's. The criteria's were based on the amount of project-specific knowledge that the interviewee should have about every aspect of the offshored project. Preferably, we were aiming for managers that overlooked the entire process and had daily communication and control, both with the offshore destination and the home-based staff. We also sent the interview guide to the HRD in order to ensure that the right people were contacted and could answer our questions.

Once we gathered all the contacts, we approached the potential interviewees through mail and telephone. Additionally to the information over the phone and mail we also sent each of them an interview guide in advance, so that they would be as prepared as possible. After being granted each and every interview we headed out on several occasions to the Volvo Cars headquarters` located in Torslanda, Gothenburg where the interviews were conducted. Bonding rituals were preformed before and after the interviews, in line with the recommendations made by Daniels & Cannice (2004). Before the start of every interview we sat down with the interviewee(s), in an informal manner which involved having a cup of coffee and a brief discussion in order to gain trust of the interviewees. Before leaving the site we took necessary steps to establish future contact, with the aim of seeking recommendations for potential interviewees.

The actual interviews took about sixty minutes each and they were all recorded after the respondents consent. Furthermore, the interviews were semi-structured, mainly in order to cover some specific topics that are necessary for the study itself. Furthermore, we believe that the semi-structured interview guide allowed the interviewee a chance to freely talk and express his/hers opinion. However, there were some guidelines to follow which provided a basis for the conversation as well as to reach a deeper discussion. Another reason was that the format itself was flexible, which opened up the possibility of adjusting the data collection to the situation. Moreover, as stated by Bryman & Bell (2003), by utilizing a semi-structured interview technique, we maintained the same interview "style" over the course of conducting multiple interviews. In contrast, an unstructured interview technique would not

give us the same coherence between two or more interviews. Furthermore, a coherent structure would also be hard to achieve when conducting interviews at different points in time with interviewers. Thus, the semi structured approach helped us to obtain cross-unit comparability. Moreover, background questions were asked to obtain a holistic view of the mandate of each person as well as to gain a detailed view of each business process. The interview guide was structured according to the theoretical framework and the English version can be found in Appendix 1. Finally, as some of the participating managers requested to be anonymous. Consequently, we chose to keep all the interviewees identities anonymous, hence all the names mentioned in the empirical findings are fictitious.

2.5.3 Qualitative Data Analysis

The primary data that was gathered needed to be categorized, in order to prepare for analytical interpretation. Furthermore, the analysis was based on two distinct sections of the theoretical framework. Mainly, the extra costs categorization as well as offshore-specific factors.

In the analysis we carefully considered connecting the sub-units of analysis to the overall case i.e. in line with recommendations made by Yin (2003). Moreover, we identified the different costs of the sub-units and connected them back to the organization in order to analyze Volvo Cars in a broader perspective. Furthermore, the offshore-specific factors were extracted from the sub-units and connected back to Volvo Cars. In an exploratory manner specific extra costs were identified as the dependent factors, thus they were analyzed first. Further, the second step was to use the identified extra costs and in an explanation building fashion discuss how offshore specific factors affected the extra costs. However, no propositions were derived from the theoretical framework in beforehand who can be considered as a convenience drawback of the analysis, as propositions could further enhance the structure of the analysis.

2.6 Evaluating the Study

When it comes to qualitative research, the quality of the study it should be assessed with an alternative to the reliability and validity criteria's that quantitative researchers use. Hence, Guba & Lincoln (1994) proposed two main criteria's, trustworthiness and authenticity, for

assessing a qualitative study. (Bryman & Bell, 2003) Thus, in the following two subchapters below we will evaluate our study upon those two criteria's.

2.6.1 Trustworthiness of the Study

The trustworthiness of a study is one of the quality criteria regarding qualitative research. Moreover, the trustworthiness of a study can be accessed through credibility, dependability, transferability and conformability of the empirical data. (Bryman & Bell, 2003) Hence, we will assess our study based on these four sub-criteria's.

2.6.1.1 Credibility

The criterion credibility of the empirical evidence ensures that the study is conducted in a manner of good practice as well as that the researchers have correctly interpreted the information behind the empirical evidence (Bryman & Bell, 2003). Thus, credibility deals with the believability of a study, more precisely whether or not the findings of a study are believable. (Pitney & Parker, 2009)

Since the interviews were conducted in Swedish, which is the mother tongue of both the interviewers and interviewees, we believe that it increased the credibility of the empirical findings. If that was not the case, the interviewees might have found it tougher to express themselves which might have led to misunderstandings, or that the interviewers might have found it harder to properly interpret the information. However, we have taken into account the fact that English is our second language and due to that fact we have let third parties to confirm whether or not our translations of the empirical evidence were correct. Furthermore, during the collection of empirical data we have made sure that we collected it in the best possible surroundings. Thus, we wanted the interviewees to be in their natural work environment, when we conducted the interviews. Moreover, we have as well tried to be as explicit as possible with our pre-information. This means that we told all our interviewees what our study was about on telephone as well as attached the interview guide in the emails we sent to them. Hence, we believe that it furthered the credibility criterion, since the interviews were conducted in a thoughtful manner. Thus, we also expect the answers to have been given in a more sincere manner.

In order to ensure a higher credibility of the research we used triangulation techniques by using a variety of methods in line with Patton (2002). Further, during the data collection-

and analyzing process both interviewers were present in order to ensure that the data was assimilated and analyzed in a correct manner.

The transcribed data was later reviewed by the inquired participants to make sure that no misinterpretations were to be found. Moreover, secondary data was used as a way to triangulate data from to further ensure that the primary data obtained from the interviews was trustworthy. We acknowledge the lack of theory triangulation creates bias issues and thus affecting the credibility of the study in a negative way.

Finally, the credibility of the findings can be questioned as no rival explanations other than offshore-specific factors were used in the analyzing phase. However, we used previous research as support for the stated casual relationship between offshore-specific factors and extra costs. Thus, it increases the credibility of our explanations to some extent.

2.6.1.2 Transferability

The level of transferability measures possibility for generalizations of a study i.e. if the empirical findings can be transferred across different contexts or to other milieus. Hence, when it comes to qualitative research where the samples are usually small, the transferability criterion is a common weakness. (Bryman & Bell, 2003) However, we have tried to use various means in order to keep the transferability rather high for a qualitative study.

Due to the fact that our empirical findings were conducted at one company, located in Gothenburg, Sweden, it might mean that our findings can be hard to generalize to at least a limited extent. Thus, our findings can be difficult to use in other contexts such as in other companies, cultures or countries. Hence, we do not believe that the study can be generalized throughout the world, but we believe that with the patterns we obtained in our study might apply to similar firms in similar contexts. However, we believe that even though the study's transferability is limited the study cannot be prevented from still being an interesting observation. Furthermore, addressing the transferability we also included the interview guide as an appendix. Further, all the data used during the analysis and the discussion is as well available upon request. Hence, we believe that it can assist other researchers and give them the aptitude to use and transfer our findings to their cases, which furthers the transferability of the study.

2.6.1.3 Dependability

The criterion dependability argues that researches should strive to include audits throughout all phases of the research process. (ibid) Hence, the dependability criterion deals with the quality of the processes of the data collection and data analysis. However, it is important to note that our interviews were recorded by the means of a digital high definition camera. Hence, the idea was preserve data and to ensure quality when transcribing the interviews. Moreover, the interviews were transcribed in digital format on our laptops. Thus, saving them in a digital format made them easily available to access and easy to overview which gave us an advantage when we reached the analyzing part of our study. Furthermore, throughout the research process and in all its phases, we have kept a diary. The diary includes brainstorming from the initial idea when we chose the research topic to the formulation of a research question. Moreover, it includes all the notes and empirical data analysis and decisions we made throughout the process. Thus, we believe that this helped us defining the logics of our study.

2.6.1.4 Conformability

The criterion conformability deals with the objectivity of a study. However, since complete objectivity is impossible, the idea is to show that the researcher has acted in a good faith. (ibid) Thus, in order to ensure a high conformability we tried to be as objective and neutral as possible during the interviews. At the same day as one interview was conducted, we studied the interview a several times and then discussed it together in order to reach a higher objectivity. When we finally agreed upon one general perception of the interview we started transcribing the empirical data together, in order to avoid one researcher's subjectivity of the interview.

Moreover, we tried not to steer the interviews in any direction. For example, when the interviewee could not find the right words and expected us to fill in, we did not. Since we did not want to suggest any words or to fill in any gaps, the objectivity of the study was not damaged or jeopardized. Hence, even in that perspective we enhanced the objectivity of the study by maintaining it pure and untouched by our minds. Finally, through numerous meetings with our supervisor Bent Petersen, who always suggested different views of the issue at hand, we managed to keep our minds open, especially when picking relevant theories and choosing the subject of research.

2.6.2 Authenticity of the Study

The criterion authenticity of the study is complementary to the criterion of trustworthiness. However, the authenticity of the study deals with broader issues than the trustworthiness criteria. Further, the authenticity of this study can be evaluated through the following five criteria's; fairness, ontological authenticity, educative authenticity, catalytic authenticity and tactical authenticity. (ibid)

The fairness criterion of a study deals with the issue whether or not the empirical evidence fairly represents the different viewpoints that are held by different members of a social setting. (ibid) One could argue that our research does not represent the viewpoints held by other members such as first line worker or other employees, but just the managers interviewed. However, in our case, the managers dealing with the outsourcing were the only ones directly involved in the process. Hence, they were the only ones to hold the information that our study requires. However, statements made about vendor behavior are to an extent based on the subjective view of the managers.

Further, the ontological authenticity assesses whether or not the research contributes to those who have been studied. (ibid) In our case we believe that our research can help the managers at the company or at least add to their existing stock of knowledge regarding the extra costs and how they are affected by offshore specific factors.

Moreover, the educative authenticity deals with whether or not the research have contributed to other members within the same social setting to gain deeper understanding of the perspective. (ibid) We argue that our study furthers the understanding due to the fact that we provide the perspective of different departments, thus their different viewpoints on the issue.

Furthermore, the catalytic authenticity and the tactical authenticity are assessed together. The criterion catalytic authenticity deals with whether or not the study has been an impetus for the members to strive for change. While the other criterion, tactical authenticity deals with whether or not the research has empowered the members to engage in action. (ibid) At present time, the study is hitherto to be published, thus it has not served as an impetus for change. Moreover, the study might move the members to engage in change however this has not been observed yet.

3. Theoretical Framework

This chapter presents the theoretical framework of the study. Hence, both the theories and literature that will be used in the analysis part is reviewed. Moreover, the chapter starts off with general literature on the subject to present the framework that will serve as basis for the analysis. Moreover, the main theoretical focus is the categorization of extra costs as well as cross-culture theory which is extended with the geographical distance factor.

3.1 Service Offshoring

Service offshoring is a phenomenon that has been labeled as “*the next big thing*” (Carmel & Tjia, 2005, p. 205) as well as the “*next wave of globalization*” or a “*second global shift*” (Dossani & Kenney, 2007; Bryson et al. 2006). Further, Doh et al. (2009) define service offshoring to be “*the transnational relocation or dispersion of services activities*” (p. 2). Furthermore, the estimated worth of IT-enabled services in the global market was worth \$90 billion in 2008 (UNCTAD, 2009), an increase from a mere \$1 billion in 2002 (Doh et al. 2009).

Moreover, according to Carmel & Tjia (2005), there is a common denominator regarding every offshored service namely; they are largely dependent on IT. Hence, for this reason the name “*IT-enabled services*” or the abbreviation ITES, is used as a generic term for a vast range of offshored services. (Carmel & Tjia, 2005). Furthermore, one of the categories of IT-enabled services is BPO which is commonly identified as long-term subcontracting to a third party of a client firm’s non-core business process. Hence, the non-core activities regarding BPO are not IT-processes (Kshetri, 2007; Gewald & Dibbern 2009), however they might still be facilitated by IT. Examples of BPO include activities or processes within human resources, finance, accounting and other design departments. (Bhalla et al. 2007; Kshetri, 2007; Dossani, 2005)

Service offshoring can include two types of entry modes. Firstly, companies can chose to either relocate the offshoring activity to another geographical area, however still maintaining the activity within the borders of the organization, this is called captive offshoring. Secondly, the company can opt to outsource the service to a third party vendor; this is called offshore outsourcing. (Doh et al. 2009; Manning et al. 2008) As the emphasis of this study is on offshore outsourcing we will further elaborate on the concept bellow.

3.1.1 Offshore Outsourcing

In order to describe offshore outsourcing, one needs to distinguish between the term outsourcing *and* offshoring. Outsourcing deals with transferring business activities to another firm regardless if activities are outsourced domestically or overseas (Bahrami, 2009). Nevertheless, when dealing specifically with offshoring it always implies that the firm transfers the activity to a distant location abroad. Usually, the client and the provider are even located on different continents. (US Government Accountability Office, 2004; Schaaf, 2004)

The driving factor for offshore outsourcing is mainly to obtain a competitive advantage. Consequently, outsourcing can be described as a phenomenon of the result of the market forces that drive companies to stay competitive (Bahrami, 2009). Moreover, offshore outsourcing brings along direct benefits where the most noteworthy are; lower labor costs and the access to qualified and skilled labor (Lewis et al. 2004). Accordingly, companies have the possibilities of realizing cost savings between 20 to 50 percent through offshore outsourcing. (Rottman & Lacity, 2004; Khan et al. 2002; Schaaf, 2004; Dibbernet al. 2008; Misra, 2004; Kirkegaard, 2004) Finally, by offshoring non-core services, companies are able to focus on their core activities while the transferred non-core activity is in the hands of a specialized third-party vendor (Robinson & Kalakota, 2004).

3.2 Impact of Offshore-Specific Factors

Offshore outsourcing inevitably faces more unique challenges compared to domestic outsourcing. The reason for this being that offshore outsourcing by definition means that the firm advances beyond the boundaries of the firm as well as across national borders. Stringfellow et al. (2008) coined the term *interaction distance* as the barrier created by offshore outsourcing specific factors, i.e. language-, geographical- and culture distance, and their effect on the interaction between client and vendor across borders. Moreover, Dibbern et al. (2008) defines offshore specific factors as factors that directly influence the quality of interaction relationship between client and vendor. In this chapter we will explain these three offshore-specific factors more closely.

3.2.1 Culture Distance

According to Hofstede (1997) a well-known researcher of the topic of national culture, one can view culture as mental programming defined as; *“the collective programming of the mind which distinguishes the members one group or category of people from another”* (p. 180). Furthermore, Robert & Wasti (2002) defines culture difference as the difference between two parties in terms of their norms, values, beliefs and assumptions about their surroundings.

It is noteworthy to mention that organization or team culture is also an aspect of culture and is present in any type of business context. However, such culture can easily be re-programmed, on the other hand national culture or ethnic culture is much harder to reprogram. Thus, the culture focus is on national level which is directly related to the offshore destination. Consequently, national or ethnic culture is of interest, as it deeply influences the behavior and decision making of a human mind. (Carmel & Tjia, 2005)

Furthermore, the problem of culture distance becomes especially evident in offshore outsourcing operations as two parties from two different nationalities have to cooperate and communicate. Thus, the challenge of culture distance has received great attention from international business scholars (Gibson, 1999; Chui et al. 2002; Ralston et al. 2008). Researchers within the international business sphere have emphasized the importance of having culture synergies (Hahn & Bunyaratavej, 2009). Nonetheless, issues such as miscommunications, lack of trust and exacerbate teamwork tend to arise when expectations between managers and employees are not synchronized due to culture differences (Walsham, 2002; Krishna et al. 2004; Stringfellow et al. 2008). Accordingly, a vast culture difference between client and vendor has also been considered to hamper the success of an offshore outsourcing venture (Lane & Beamish, 1990; Gupta & Raval, 1999; Smith & McKeen, 2004; Carmel & Tjia, 2005; Oza & Hall, 2005; Rao et al. 2006; Iacovou & Nakatsu, 2008) as well as degenerate the knowledge transfer process and coordination of activities (Simonin, 1999; Davenport & Prusak, 2000).

Finally, to understand why and how culture difference effects the interaction between two parties; cross-culture scholars have identified and described different culture dimensions. These culture dimensions will be further elaborated upon bellow.

3.2.1.1 Power Distance

According to Hofstede (1997), the concept of power distance refers to the level of which people in a certain culture accept and expect an unequal distribution of power between individuals and within organizations. For example, the culture in India displays a high level of Power distance (Sahay & Walsham, 1997). The reason for this, according to Lawler et al. (1995), is due to the high hierarchical society shaped by the traditions caste system as well as India's colonial past. Consequently, a high power distance can contribute to miscommunication and misunderstandings as expectations on hierarchy could differ between a low and a high Power distance culture (Stringfellow et al. 2008).

Furthermore, several case-studies have been conducted in the offshoring context. India has been a prime target for researchers however the cases of Indian vendors give a glimpse of the problematic behind difference in Power distance. Accordingly, due to the nature of high Power distance in India as well as submissive nature of the people working there they have a tendency of saying "yes" (Nicholson & Sahay, 2001; Heeks et al. 2001). Consequently a case study made by Winkler et al. regarding German clients and Indian vendors showed that the constant "yes" saying led to a several misunderstandings between Indian and German staff members (Winkler et al. 2008).

Moreover, Hampden-Turner & Trompenaars (1994) also mention how cultures perceive hierarchy distribution i.e. the notion of Equality versus Hierarchy. According to Hampden-Turner & Trompenaars (1994), equality is about all people having equal status and rights while Hierarchy is the opposite. The power distribution is allocated uneven where some are superior to others. Consequently, a few are in charge and the hierarchy is shaped as a pyramid. In cultures which are characterized by a high Hierarchy level may be referred to as centralized and controlling while the opposite is displayed in Equality cultures. (Morden, 1999) Consequently, the term Power distance will be used as a generic term for them both.

3.2.1.2 Individualism vs. Collectivism

The second dimension of interest is the one of Individualism-collectivism which is of relevance when explaining differences between cultures (Hofstede., 1997). Further, Hampden-Turner & Trompenaars (1994) also mention Individualism-collectivism to be one of the dimensions of their multi-dimension framework; however they label it as Individualism

vs. Communitarianism. Thus, the term *Individualism vs. Collectivism will be used as a generic term for them both.*

Hence in collectivist cultures, e.g. Asian cultures, the behavior of an individual is characterized by the impetus for action is to pursue the interest of the collective e.g. an ethnic group or nationality (Mills & Clark, 1982; Hui & Triandis, 1986; Triandis, 1993). Moreover, collectivists are highly normative and demonstrate a high level of conformity that shapes their behavior. (Triandis, 1995). Therefore, individuals from a collective culture pay more attention to the needs of others and even sacrifice their own interests for the group (Triandis, 2000).

In contrast, cultures with a high level of Individualism focus on the individual “self”. Such cultures are common in e.g. Western and Northern Europe. People in an Individualistic culture act in self interest and aim is to maximize the benefit for oneself within a relationship. Thus, contrary to collectivistic perspective from an individualistic culture will put his/her interest before the groups. Furthermore, individualists move away from the herd and act on self belief rather than acting according to certain accepted standards i.e. they have a tendency of being rebellious. (ibid)

Furthermore, cultures that display a high degree of individualism are characterized by individuals that are prone to openly resolve conflicts while individuals from a collectivistic culture tend to avoid even the most obvious conflict (Ohbuchi et al. 1999). Furthermore, Morris et al. (1998) conducted a cross-comparable study between Chinese and Americans and highlighted that the Chinese people were more inclined to avoid conflicts compared to their counterpart.

Finally, another cross-national study pointed out the problems of coordination due to differences in Individualism and Collectivism. More precise, the study made by Chen & Li (2005) compared Hong Kong and Australian individuals. The researchers noted that the Hong Kong individuals, when in Australia, were more inclined to cooperate with people from their own culture rather with Australians. Thus providing findings that collectivists tend to trust and cooperate much more with their own group rather than people outside the collective.

3.2.1.3 Universalism– Particularism

The third concept of interest is the dimension of Universalism vs. Particularism. This notion is derived from Hampden- Turner & Trompenaars (1994) cultural framework. Firstly, cultures that display a high level of Universalism are characterized by a society which is strictly rule-based (ibid). Secondly, cultures that exhibit Particularism tend to be more open for exceptions, changes and innovation (Morden, 1999).

Thus one can categorize individuals from a Particularist culture as *doers* who actively try to shape the surrounding world. Consequently, cultures that are characterized by a Universalist nature are more inactive and viewed as *beers*, as they passively react to the world around them (Lytle et al. 1995). Further, a study made by Vogel (2005) supports this notion, as he points out that the Asian vendors in the inquiry exhibited the lack of initiative, the lack sharing own ideas as well as rigidly sticking to client specification without any thought of how it could be improved.

Moreover, Triandis (1982) states that if there is a wide gap between two cultures, i.e. if one is active while the other is passive, there is a need for managers from the active side to spend more effort on establishing directive methods of management. The managers in an active culture are likely to allow individuals to contribute more in the working process. Consequently, conflicts could arise from the difference in expectations where managers from active cultures might react negatively to the level of activity presented by a passive vendor (Winkler et al. 2008).

The role of communication style is also reflected within the culture dimension of Universalism and Particularism. More precise, Straker (2008) states that Universalism and Particularism are similar to the one-dimensional categorization made by Hall (1976) that divides cultures into *high-* and *low* context cultures. Accordingly, a high context culture displays the same features as the notion of Universalism and a low context culture is consequently similar to the notion of Particularism.

The difference in communication style is reflected in the continuum of high or low context. Ferraro (2002) formulates high-context cultures as “*relying heavily on restricted codes and contextual cues, demonstrate inexact, implicit, and indirect communication patterns*” (p. 58). Moreover, a high context culture is characterized by people that have a comprehended view

of what is known. The primary means of communication is not through verbal communication; instead the emphasis is on the context of the situation as well as nonverbal communication. Furthermore, a low context cultures on the other hand uses verbal communication as the primary tool for communication and the style of communication is characterized by specification of details. Furthermore, the meaning of the message is explicitly communicated in order to acknowledge the matter at hand. (Storti & Bennhold-Samaan, 1997)

Additionally, another feature of differences in communication style is that some individuals tend to communicate in a "direct" or "explicit" way i.e. they say what they think and they mean it. (Storti & Bennhold-Samaan, 1997; Pornpitakpan., 2000; Ferraro., 2002) Cultures that communicate direct/explicit emphasize on honesty and speaking the truth. In contrast, cultures of indirect nature tend to be more careful how they express themselves i.e. they imply and suggest what they mean as well as try to avoid to hurt someone's feelings (Storti & Bennhold-Samaan, 1997). Consequently, according to Stringfellow et al. (2008) there could be an increase in effort if; e.g. a high context culture interacts with a low context culture would have different preferences regarding verbal and nonverbal communication. Hence, the way one interact and the style of communication becomes an issue if the two cultures are not aligned with each other.

Finally, as the foundation of a Universalist culture lies in a strong rule based society and depends on strict rules and regulations it is to a higher extent uncertainty avoidant compared to a culture with a Particularism orientation. Accordingly, situations of ambiguity are minimized as much as possible "*...by strict laws and rules, safety and security measures, and on the philosophical and religious level by a belief in absolute Truth*" (Hofstede, 2009).

3.2.1.4 Time Orientation

The fourth dimension of interest concerns difference in perception of time between cultures. Research shows that cultures do differ in their perception of time (Hampden-Turner & Trompenaars, 1994; Hall, 1983; House et al. 2004). More specifically, cultures with a monochronic nature tend to regard time as a limited resource and the allocation of it should be done wisely with little interruption of scheduled activities. On the opposite side, cultures that are polychronic in nature are more liberal regarding changes in schedule as

well as allocation of time. Hence, the organization of people is a dynamic process and usually deadlines are stretched. (Lewis., 1992; Zhang & Zhou., 2008)

There is a study conducted by Rose et al. (2003) that exemplifies how the difference in time-orientation can manifest itself. The author found that inquiry participants from monochromic countries were significantly more concerned with download delays than those from polychromic countries. Furthermore, time-horizons can vary between cultures where Anglo- Saxon countries adapt a short-term perspective that emphasizes that activities should be organized in such a way that short term results can be achieved. In contrast, countries such as e.g. South Korea and Japan coordinate their activities so that results over time can be achieved. (Hampden- Turner & Trompenaars, 1994)

Further, we connect to Hofstede (1997) who also mentions the perception of time-horizon i.e. the Long-term orientation vs. Short-term orientation of cultures. According to Yeung & Tung (1996) as well as Hofstede (2009), East Asians display a high degree of Long-term orientation; this is especially true for countries that have a Confucius heritage. Consequently, cultures with Short-term orientation are focused on short-term winnings (Yeung & Tung, 1996).

Long-term orientated cultures are keen on building up a long lasting relationship. Consequently, the importance of establishing a long term relationship even reflects the communication behavior between two parties. (Merkin., 2004) More precise, individuals from Long-term orientated cultures would withhold information, if the information at hand would jeopardize the group harmony or threaten someone's face. (Phuong-Mai et al. 2005)

Furthermore, the fear of losing face can contribute in a worsen cooperation between two parties as a Long-term orientated individual would reluctantly share ideas because of the fear to embarrassment and shame (Ting- Toomey., 1988; Cocroft & Ting-Toomey., 1994). Finally, the reluctance to engage in discussion is evident even when ICT-tools are used and face-to-face interaction is not required (Phuong-Mai et al. 2005).

3.2.2 Language Distance

The most obvious challenge with language distance is if the client and the vendor speak different languages. (Rao, 2004) The major obstacle of not understanding one and other due to the fact that both parties do not share the same mother tongue is usually solved by using

English as the primary business language. However, this doesn't always solve the problem as misunderstanding still can arise (Ferraro., 2002), as interpersonal communication consists of more than just speaking the same language. Stringfellow et al. (2008) states that voice characteristics affect the way a message is conveyed and the meaning of the message.

Speech comprehensibility is a voice characteristic that affects how a message is conveyed and perceived. As different mother tongues can create hurdles for individuals to pronounce certain letters in foreign languages it can cause words to sound different or plain unrecognizable for the individual that is receiving the message (Harrison, 2002). Another factor to consider is accent as it can cause words to sound different and as the recipient processes foreign-accented speech the message that is being conveyed might take a longer time to decode. (Munro & Derwing, 1995; Schmid & Yeni-Kormshian, 1999).

Furthermore, a recipient could be negatively affected by an accent different from his own. According to Stringfellow et al. (2008) there are two main reasons for this. Firstly, a recipient can find a “non-standard” accent as frustrating. Further, difference in accents between parties can create interaction difficulties as a common understanding and synergies, i.e. finding a common identity, between people are less likely to occur. Therefore accent is an important aspect to consider as it can be a barrier for effective communication and hamper an efficient interaction between client and vendor in an offshore outsourcing project. Finally, as language distance increases, it generally hampers the effectiveness of knowledge transfer (Grant, 1996; Simonin, 1999; Davenport & Prusak, 2000) between client and vendor. Hence it increases the likelihood of false specification due to misunderstandings (Apte 1990).

3.2.3 Geographic Distance

For the concept of offshore outsourcing to be true there needs to be an element of geographic distance involved. Scholars have noted that proximity is preferred over distance since humans tend to thrive when face-to-face interaction is possible and to a certain extent crave proximity (Carmel & Tija, 2005). The topic of geographical distance has even divided scholars into two camps where one camp claims that offshoring close to home, i.e. near-shore, ergo all else being far superior from its counterpart i.e. far-shore. The main reason for this statement is that geographic proximity and time-zone advantages yields benefits such as; more efficient communication and interaction between client and vendor, as distance

shrinks. In other words, distance has a decisive role in the success of an offshoring project (Abbott & Jones, 2002; Abbott & Carmel, 2006, 2007; Ghemawat, 2001).

However, the second camp of scholars claim that geographic distance is mitigated with the advancement of ICT i.e. tools such as video conferencing and e-mail and groupware tools support virtual collaborative work and interaction and minimizes the need for physical interaction (Kenney et al. 2009; Metters & Verma, 2008; Caincross, 2005; Blinder, 2006; Clemons et al. 1993). Nonetheless, considering that communication sometimes require an element of physical presence, i.e. face-to-face interaction, the actual physical distance that separates two parties inevitably creates barriers. Accordingly, a barrier such as travel distance is both a time consuming and costly task. Travel distance especially arises as a problem when unexpected or urgent situations occur where the need for travel is necessary in order to solve the issue. (Carmel & Tija, 2005).

Furthermore, as certain knowledge is embedded within an individual's consciousness there is a degree of tacitness to it. The degree of tacitness is related to the nature of the knowledge at hand. As mentioned in the section of knowledge-transfer costs both implicit and explicit knowledge exists, however implicit knowledge demands a greater effort as it is best transferred through face-to-face interaction and socialization processes. (Nonaka, 1991, 1994; Nonaka & Konno 1998; Lagerström & Andersson, 2003)

Consequently, as geographic distance increases it might be harder to interact and transmit the high-end information with inefficient knowledge sharing as a result. (Stringfellow et al. 2008; Dibbern et al. 2008, Carmel & Tija, 2005; Carmel, 2006; Gokhale, 2007) Moreover, geographic distance creates another obstacle for interaction as time-zone differences impose barriers on the frequency of the interaction flow, i.e. the coordination and communication, between two parties (Carmel & Tija, 2005; Carmel, 2006; Gokhale, 2007). Consequentially, situations can arise where there is a lack of synergy between the client and the vendor regarding scheduling a convenient time on when to interact. (O'Leary & Cummings, 2007) Furthermore, employee dissatisfaction can occur if one party is forced to adjust to inconvenient times (Zedeck et al. 1983). Furthermore, synchronous communication may be needed to allow for immediate feedback and to enable interaction in real-time in order to solve conflicts or problems (Stringfellow et al. 2008). Nevertheless, it is noteworthy to mention that for projects where there is a need for a constant workflow without

interruption time-zone difference can bring forth advantages as it can enable two or more project teams to work up to 24 hours around the clock. This is usually the case regarding time consuming activities such as R&D (Gupta et al. 2007).

3.3 Extra Costs

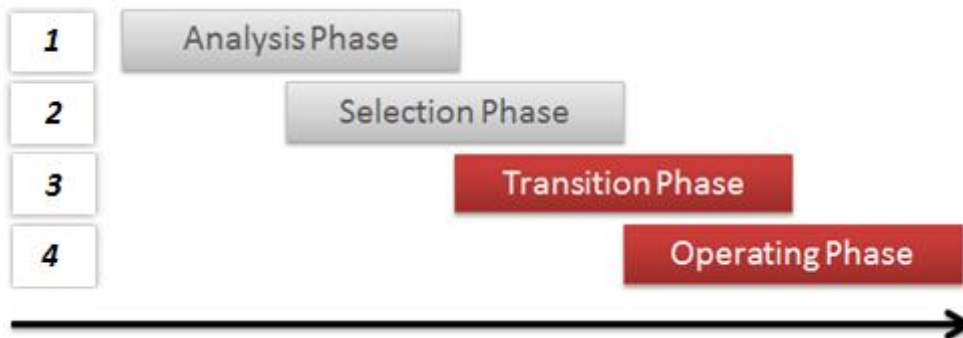
Extra costs or additional costs are defined as all the costs beyond all the payments that go to the vendor both in terms of effort, time and resources spent by the client organization. The payments to the vendor include both compensating for costs and paying the profit margin (Dibbern et al. 2008). Furthermore, in literature and previous research extra costs have also been referred to as *new* costs that occur after offshoring (Lancellotti et al. 2003) or as *hidden costs*. (Barthélemy, 2001; Overby, 2003) Moreover, when it comes to extra costs, the vendor is compensated through either a contract with a fixed priced or a contract on time and material spent. (Banerjee & Dyflo, 2000; Gopal et al. 2003)

However, costs beyond the contract payments always arise when offshoring projects, thus the extra costs are also needed to take into account, since there is a chance that they might offset the cost savings that offshoring provides. (Dibbern et al. 2008) Still, every second offshore outsourced project never reaches the expected cost savings, simply because the companies underestimate or fail to include the extra costs that arise when offshore outsourcing. (Misra, 2004; Dibbern et al. 2008; Carmel & Tjia, 2005; Kharif, 2003; Gewald et al. 2006; Huntley, 2005; Meyer, 2006; Mäkiö et al. 2007) Thus, sometimes the costs might even increase rather than decrease. (McCue, 2008; Dibbern et al. 2008)

Furthermore, extra costs can be found in several different phases, as can be seen in figure 3, when it comes to BPO (Click & Duening, 2005; Dibbern et al. 2008). We have identified the first phase according to several frameworks, as the Analysis phase. This phase mostly deals with the analysis of the offshore outsourcing opportunity within the corporation. Moreover, the second phase we have identified is the Selection phase, which mostly deals with the vendor selection processes. The principle of that phase is to identify a suitable vendor for the offshored project as well as to negotiate a contract with the vendor. (Click & Duening, 2005; Corbett, 2004; Greaver II, 1999; Cullen & Willcocks, 2003; Mclvor, 2005; Momme, 2001)

However, since this study only focuses on the last two phases, identified as the transition phase and the operating phase, the categories of extra costs will only be provided on those two phases. The transition phase deals with the actual transfer of the process to the offshore outsourcing vendor (Click & Duening, 2005; Corbett, 2004; Greaver II, 1999; Cullen & Willcocks, 2003; Mclvor, 2005; Momme, 2001). While, the last phase, called the operating phase deals with the period when the process has been outsourced and is being completely implemented. (Click & Duening, 2005; Corbett, 2004; Greaver II, 1999; Cullen & Willcocks, 2003; Mclvor, 2005; Momme, 2001) Furthermore, in both of the phases, four types of extra costs can be identified: knowledge transfer costs, specification costs, control costs and coordination costs (Dibbern et al. 2008).

Figure 3: Outsourcing process framework



Source: Authors' own, 2010

3.3.1 Knowledge Transfer Costs

When it comes to knowledge transfer, researchers tend to describe it as a process in which one part is affected by another. (Argote & Ingram, 2000) While other researchers go even further and defining a transfer as “when a contributor shares knowledge that is later used by an adopter.” (Darr & Kurtzberg, 2000, p.29) Moreover, there is a unified knowledge transfer concept of both of the previous concepts which is defined as “communication of knowledge from a source so that it is learned and applied by a recipient” (Ko et al. 2005 p.62). In the offshore context it is the process of:

“Successfully transferring specific types of knowledge and experience into the minds of all those collaborating on the work across many kilometers” (Carmel & Tjia, 2005, p. 130).

Accordingly, the knowledge-based view of the firm (KBV) states that two firms cannot possess the same amount of knowledge, i.e. knowledge asymmetries between organizations

exists. Hence, in an offshore outsourcing context there is an amount of so called client-specific knowledge that needs to be absorbed by the client. (Dibbern et al. 2008; Zack & Singh, 2010)

The KBV is based on the works of Polanyi (1967) who explains knowledge as a two sided coin. Firstly, implicit knowledge (Stringfellow et al. 2008), sometimes referred to as tacit (Grant, 1996; Carmel & Tija, 2005), cannot be codified and is transferred between people in a slow costly way and is influenced by a great deal of uncertainty. Grant (1996) identifies this knowledge as being knowledge on how to perform certain activity or procedure. Secondly, knowledge that is characterized by a lesser degree of embeddedness is called explicit knowledge. Explicit knowledge is much easier to transfer between individuals or organizations as it is codifiable and it can be described as the knowledge about an activity or procedure. (Grant, 1996) Thus, in this research, knowledge transfer is defined as the communication of knowledge from the client to the vendor, while the knowledge transfer costs are costs that occur when transferring explicit as well as implicit knowledge.

3.3.2 Specification Costs

Specification costs are interlinked with knowledge intensive tasks. (Dibbern et al. 2008) Moreover, as knowledge transfer takes place between a transmitter, the client, and recipient, the vendor, absorptive capacity of the recipient becomes immensely important (Lee, 2001; Cohen & Levinthal, 1990; Click & Duening, 2005). The level of absorptive capacity possessed by the recipient greatly affects the knowledge transfer process. The absorptive capacity of a vendor is the possibility to assimilate and process new knowledge and add it to the stock of existing knowledge. (Cohen & Levinthal, 1990)

However, on the other side of the coin when the knowledge is idiosyncratic i.e. the knowledge cannot be aggregated at a single location then the client specific knowledge can also affect the effort of the knowledge transfer (Jensen & Meckling, 1992). Thus, client-specific knowledge creates extra effort due to the fact that the offshore outsourcing activity needs to be specified to a greater extent. (Dibbern et al. 2008; Gopal et al. 2003)

3.3.3 Control Costs

The need for more control of the vendor, is a cost that arise mainly during the operating phase (Dibbern et al. 2008), as the client might lose some of the control over the offshored

activity once it is outside the firms boundaries (Choudhury & Sabherwal, 2003; Kotlarsky et al. 2008). Furthermore, control costs are as well linked with behaving in a consistent manner in order to meet organizational goals. (Choudhury & Sabherwal, 2006) Moreover, control costs arise when the client is making sure that the vendor performs, through either quality checks or observations of the vendor's performance. Controlling the vendor also prevents the vendor from being opportunistic i.e. acting in self-interest and for instance under-investing in necessary assets from the client point of view. (Dibbern et al. 2008)

3.3.4 Coordination Costs

Furthermore, other extra costs that can arise when managing an outsourced project during the transition as well as the operating phase can be classified as coordination costs (Dibbern et al. 2008). However, even though the coordination costs and control costs are similar and interlinked they do differ. (White & Lui, 2005) The coordination costs are extra costs such as costs that deal with integrating the outsourced activities by linking together the client and vendor and collectively realizing the outsourced project. (Van de Ven, 1976; Cronin et al. 2004; White & Lui, 2005)

Thus, coordination costs arise for instance when interlinking the client and the vendor through communication, teambuilding (Espinosa & Carmel, 2004; Hardy & Crace, 1997; Dibbern et al. 2008) and the use of middlemen (Mahnke et al. 2008). Furthermore, coordination costs arise as well when the client tries to create different communication networks with the vendor or other social integrating activities that indicate that the cooperation level is high. (Rottman & Lacity, 2006; Kaiser & Hawk, 2004; Leonardi & Bailey, 2008; Oshri et al. 2007) Hence, the reason why coordination costs arise is due to the difficulty of managing the vendor (Carmel & Tjia, 2005; Oshri et al. 2007; Zviran et al. 2001).

3.4 Theoretical models

In order to analyze the empirical findings, two theoretical models have been derived from the theoretical framework above. The first model is created to serve as a framework that explores the extra cost at Volvo Cars (Table 1). While the second model is created to serve as a framework that can explain how offshore-specific factors affect the extra costs at Volvo Cars (Table 2).

Table 1: Model for Extra Costs

Extra Costs			
Knowledge Transfer Costs	Specification Costs	Control Costs	Coordination Costs

Source: Authors' own, 2010

Table 2: Model for the impact of offshore-specific factors

		Offshore-Specific Factors						
		Culture				Language	Geography	
		Power Distance	Individualism vs. collectivism	Universalism vs. Particularism	Time orientation		Travel Distance	Time-Zone
Extra Costs	Knowledge Transfer Costs							
	Specification Costs							
	Control Costs							
	Coordination Costs							

Source: Authors' own, 2010

4. Empirical Evidence

In this chapter secondary data is presented to describe the case company, where the primary data was collected. Furthermore, the primary data is presented in chronological order. The findings of this chapter will outline what types of extra costs Volvo Cars encountered as well as how they were affected by offshore specific factors.

Volvo Cars Corporation (Volvo Cars) is a Swedish automobile manufacturer. The company was founded in Gothenburg in 1927. (Volvo Cars Corporation, 2010) Furthermore, the corporation was sold off from the Swedish company Volvo AB in 1999 to Ford Motor Company. (Annerstedt et al. 2004) Thus, it is currently owned by Ford Motor Company which at the moment has agreed to sell the corporation off to Geely Automobile. The deal is to be completed by the third quarter of 2010. (Volvo Cars Corporation, 2010; Market Watch, 2010) Moreover, when Volvo AB sold Volvo Cars to Ford Motor Company in 1999, Volvo Cars lost their IT-enabled service provider. Thus, they had to find other vendors or to renew the contracts with Volvo IT, however now as a separate company performing offshore outsourcing to third parties. (Annerstedt et al. 2004) In this study, we are looking into Volvo Cars business process offshoring to East Asia.

Moreover, the empirical evidence in this chapter contains summarized interviews conducted at all five departments that have outsourced business processes at Volvo Cars. We have interview in total seven managers, at different departments. At some departments more than one interview was conducted, due to the fact that the responsible manager had changed the job, thus we interview both the old manager and the present one. While at another department we interviewed two co-responsible managers. Furthermore, due to the fact that some managers wanted to stay anonymous, we have chosen to remove the names of the departments as well as changed the names of the managers that have participated in the interviews. Hence, the names in the report are fictitious. Moreover, all business processes that have been offshore, where offshored to East Asia. All the interviews were conducted during the spring of 2010, at Volvo Cars, Gothenburg, Sweden.

Furthermore, each interview is based on one or more managers that were responsible for the offshoring during the transition and operating phase of the process. Finally, the interviews are presented in chronological order. Thus, what follow is subchapters with

relevant summarized information presented in the form of an empirical evidence study, as can be seen in figure 4.

Figure 4: Overview of Empirical Evidence



Source: Authors' own, 2010

4.1 Interview 1, Olof

4.1.1 Background

Olof is the manager at one of the department that began offshore outsourcing parts of their business processes to a third party vendor in East Asia. The initiative of engaging in offshore outsourcing activities came in 2008 just after the automotive crisis increased and the demand for the division to downsize three persons rose.

The manager at the department is responsible for making sure that the East Asian team is conducting the services with the efficiency goals set up by Volvo Cars. Moreover, Olof also deals with the everyday communication as well as the weekly control of the vendor team. Furthermore, the manager is both linked with the employees working in Sweden as well as the team leader in the East Asian vendor. Hence, the manager has a comprehensive view over the different aspects of the process, thus all reporting goes through him.

4.1.2 Transition stage

In order to conduct a proper knowledge transfer the manager in charge had to assign one knowledgeable employee, in their case called a pilot, which would work full-time to educate the East Asian team in how the IT-system and business process works.

"The "pilot" employee we sent there helped the East Asians with the working processes and coordinated and supervised the work in the beginning".

The assigned person worked closely for three months with the offshore outsourcing party including a two week trip to the East Asian location *“We had to allocate resources in order to give the East Asian team proper education of the business process”*.

Furthermore, the education and loss of resource in allocating one staff member for the knowledge transfer was something that Volvo Cars planned for and realized that it would be a necessary sacrifice. Additionally, on one occasion the team leader from East Asia traveled to Gothenburg and stayed at the department for one month for educational- and networking purposes. Moreover, the IT-systems that are used at Volvo Cars were easily transferred and installed at the offshore destination. The parties communicated through a common language namely English. However, the manager stated that Volvo Cars did not have any complications with the language issue. The linguistic and written communication preceded without any complications or misunderstandings as both parties spoke and comprehended English well.

4.1.3 Operating stage

However, in order to control that the East Asian team is as efficient as is required by Volvo Cars. The manager controlled the weekly key-data in order to make sure that the East Asian team is being as efficient as possible. An excel file was presented during the interview that showed an overview over the East Asian team as each individual as well as the team as a whole is being scrutinized on their efficiency.

“We set internal goals within the organization to be as efficient as possible and that is what we want to control”.

Moreover, Volvo Cars have standardized the working processes as much as possible in order to facilitate and avoid mistakes *“we have an Excel list that is the same thing every week, then let them know what they have to do, any transfer of information is standardized as much as possible with specific layouts and formats”*. Specifying every detail of the process more in-depth was something that according to the manager, the East Asian culture required.

“We have to spend resources in the form of time when communicating with the East Asians, as they want us to be very detail in every aspect of the process.”

The everyday communication between the two parties had to include a higher degree of specifications, as every situation required that. Compared to what they had to have when the process was done in-house.

“The East Asians wanted us to be very detailed about everything we want them to do, this was not necessary when we dealt with our people as we are more easy going”.

Cultural differences are present all the time, however the manager states that he is aware of them.

It takes time but one has to learn about the differences in order to understand them, our organization is used to deal with different suppliers from different countries and culture.”

Hence, the manager believes that it has been a learning process to offshore.

A problem that spurs from the culture differences comes from the fact that the East Asians are humble and do not want to take own initiatives and come with propositions for improvements.

“They do not come up with own suggestions I have invested a lot of effort to convince them to take more initiatives however they are learning over time.”

However, the manager was satisfied with the work and the quality that the East Asians are providing, but he states *“As our organization is very efficient orientated we constantly want to improve, to make work easier and more efficient. However innovating the working processes is not the focus of the East Asians, they are lagging behind in that aspect.”*

Furthermore, the distance between Sweden and East Asia creates a time-zone difference up to 7 hours depending on if it is summer- or winter time. Thus, there can only be communication during some parts of the day. The communication channels are through e-mail or telephone, since video-conferences are rare. Hence, apart from sending the pilot in the early stages there has not been a need for travel to East Asia.

4.2 Interview 2, Johan

4.2.1 Background

Johan is the manager responsible for the BPO at one department at Volvo Cars. In that department they started their BPO of administrative processes in 2009 to their vendor in East Asia. At the present moment eight people work for Volvo Cars at the vendor.

4.2.2 Transition stage

Johan believes it is important to learn the process from the beginning, that is why he thought it would be best to teach the East Asians the system at place, at Volvo Cars. Even though he is not the best one at the system, he called in the experts at Volvo Cars to teach them. Much of the knowledge transferred was company specific knowledge that only Volvo Cars usually deals with, since the system is developed only for Volvo Cars. Last year two East Asians came to Gothenburg to learn the process at place. During their stay in Sweden, they learned how to handle the system and deal with the processes. Everything they learned at Volvo Cars, they were supposed to share when they came back to East Asia.

"I believe that the learning process went pretty well".

Furthermore, he believes that face-to-face meetings are something that is important when it comes to strategic issues, but not when it comes to administrative processes, even though he did not have the chance to go to East Asia.

"I only require face-to-face meetings when I need to have strategic discussions and since the processes offshored are strictly administrative I do not need to travel there in order to communicate with them."

Furthermore, Johan also encountered other problems in the transition phase, such as he explained it; *"Due to the fact that the East Asians felt that we had too little information in the desk procedures, we experienced many misunderstandings. Thus, we have been forced to adjust to East Asia and add more detailed job-related instructions in our daily communication."*

4.2.3 Operating stage

According to Johan much communication was needed in the implementation phase, thus they had to work much on the communication and increase it during the implementation phase.

"In the implementation phase, much communication is needed, that is where we actually make use of net meetings."

Moreover, Johan mentions that the East Asians catch up well and are fast learners. However, they had some problems with the English dialect, thus they spent more time on telephone

and mail communication in order to fix the miscommunications and misunderstandings. Further, misunderstandings have led Volvo Cars to spend more time and effort on communication; hence Johan calls it extra costs.

“Sometimes our communication needed to be repeated. We often have to ask if they really understood it. Thus we have sometimes been forced to double check with them.”

Moreover, Johan mentions that the culture difference has been a problem. Even though it is better today, he mentions that it has been something he learned overtime to handle. One example is that the East-Asians have a tendency to be lacking in initiatives as well as in innovating the working procedures. Johan continues by saying; *“Since East Asians are the new experts in the system, they should propose improvements both in terms of processes but as well the system”*.

Furthermore, he mentions that the cooperation has been very tough for a long time, but that it is getting a little bit better. *“They trust us now, and we trust them”*. Thus, they are now more open to give suggestions on improvements, since they now understand that it does not mean criticizing. However, the manager mentions that it has been a learning process, in how to deal with and understand the people working at the vendors place. *“One learns both how to deal with the vendor and the process of outsourcing itself”*.

Furthermore, the distance as he mentions it has not been a great issue for Volvo Cars, mainly since the vendors personnel has been available during the day.

“The distance has rather been something positive for us, since they work even before we come to our job and they are available almost to the end of our working time.”

Moreover, the quality of the administrative tasks has been improved. Johan believes that it might have to do with the low complexity of the tasks outsourced. In Sweden those tasks are considered boring, while he believes that the East Asians find them interesting and sometimes challenging. However, Johan emphasizes that he is keen on making sure that the East-Asians do not feel less worthy or as he puts it; *“I do not want them to feel that they are doing the dirty work for us”*

The East Asians and their quality is controlled with the monthly statistics, were they each month send over an excel sheet of statistics to the Swedish department. However, the

communication of quality improvement as well as the creation of monthly statistics has been hard to communicate.

“Sometimes they make the statistics manually, which takes time. Time they could have spent on doing other things. I only want them to send me the automatic statistics, but that has been hard to communicate.”

4.3 Interview 3, Eva and Anders

4.3.1 Background

Eva is the present manager responsible for the offshore outsourcing at one department at Volvo Cars. In that department they started their offshore outsourcing in 2002 to East Asia, but at that time Anders was the manager. At this moment 98 people work for the outsourced project in East Asia. However, in Sweden there are still a few people fulltime employed working as support for the East Asians. Anders has been the manager in the first years of the project before he handed it over to Eva

“It has not been easy to outsource” (Eva, 2010)

In what follows is a summary of both the interviews, with a focus on the department of study.

4.3.2 Transition stage

Many people were needed in East Asia, at least in the beginning in order to keep up with the learning and the knowledge transfer. As one of the managers formulated it:

“If you want the same quality as in Sweden, you will need the double amount of workforce in East Asia”. (Anders, 2010)

Since, the knowledge transfer phase is very important when it comes to that specific department; a couple of people from East Asia came to Gothenburg to learn the process at place. Anders thought that it would be much easier to have the knowledge transfer done at Volvo Cars. During their stay in Sweden, the East Asians learned how to handle the system as well as extended their contact network. The knowledge they acquired here, was to be shared with their fellow colleagues in East Asia. That is why everything thought in Sweden had to be documented in detail for educational purpose and then approved by Volvo Cars. When they later went back to East Asia their job was to teach the other East Asians.

“This is where the extra costs arise. Many misunderstandings appeared, some of them because the East Asians were afraid for asking for more material, or that they could not say No or that something could not be done.” (Anders, 2010)

That led to problems such as that Volvo Cars thought that everything was working fine, but when they realized that everything was not as it should have been, much time had already passed. That made it even harder to fix the problems, since much time already had passed since they occurred. However, the last couple of years much resources and effort have been spent on trying to fix these issues with communication. However, as Anders mentioned it *“you have to be very careful what you say and how you say it”* to the East Asians.

Both Eva and Anders believe that a trip to the vendor is something necessary to do. Moreover, Eva believes that she would need to go to East Asia at least once a year, for a week or two to establish a good relationship. Otherwise she believes that there is too much time spending relationship building by spending excessive time on virtual communication that is not as efficient and beneficial as a face-to-face meeting would yield.

4.3.3 Operating stage

Firstly, Anders coordination processes is based on everyday contact with the vendor was as well through the means of telephone and mail. Eva has daily mail and phone contact with the manager in East Asia, as well as with the group coordinators, if they face some problem.

Moreover, according to Eva, the East Asians are very keen on having approval on everything they do. Thus it takes much time from the managers in Sweden to understand their issues and to approve them, even though it is sometimes is not needed.

Other extra costs that Volvo Cars faced were that the turnover was rather high. Many people did not want to work for more than two years. This led to worse quality due to the fact that the new people had to be educated constantly. Furthermore, Volvo Cars face the problems with knowledge transfer in East Asia, the East Asians did not really want to help each other and share their knowledge. They felt that their competitiveness was damaged if they would give out “their” connections at Volvo Cars, thus they tried to keep them secret. Those issues were enlightened when they started changing jobs, much specific knowledge was lost. This is something that has been taking much time from us and it has been very hard to deal with.

The East Asians love encouragement, which is another cultural difference that Volvo Cars faced and learned to deal with.

“They want feedback but, they are more eager to receive emails were it explicitly says that they have done a good job.” (Eva, 2010)

This requires several emails on daily basis. Moreover, the East Asians are also evaluated each month were they are given grades for how good they perform. The grades are given to groups and not individuals, except if someone had done a very good job and really deserves to be mentioned alone.

According to Eva, Volvo Cars did in the beginning face some problems with the language. *“The East Asians speak with a specific accent, which can be hard to understand”*. However, this has changed over time. The managers in Sweden have learned to understand the accent very well, thus they do not have to ask the East Asians to repeat. But, some East Asians are still hard to understand, because of their accent.

The time distance become actually a positive experience for Volvo Cars, since the East Asians go to work four hours earlier, thus they are available to Volvo Cars almost to the end of the Swedish working time. However, the geographical distance have caused some problems, such as that they cannot sit down together.

“We find it very tough, since there is no chance to just sit together and discuss some issues or just explain some things in person. Net meetings or telephone calls are not the same thing and cannot be compared.” (Eva, 2010)

Another issue Volvo Cars faced was that their suppliers always preferred to call them, instead of the East Asians. Since, the suppliers point out that they have problems dealing with the East Asians, and understanding what they are saying.

“They rather call us that work here in Sweden.” (Eva, 2010)

However, Volvo Cars is still trying to fix that problem, which forces them to be the middleman. The problem is not only a language problem but as well a cultural problem, were the East Asians are speaking with an accent and sometimes are *“stubborn”* which makes the suppliers *“frustrated”*.

According to Eva, *“The quality was like night and day”*. Volvo Cars got many complaints from the suppliers that they did not get paid and throughout the organization there were many complaints. However, Volvo Cars have now put up measurement with samples containing both their own organization and the suppliers in order to measure and ensure high quality and efficiency of the vendor.

“This type of control is needed in order to know what is happening and to get to know about problems at an early stage.”

Furthermore, when the decision to outsource was made, the East Asians promised that they would work twenty percent more efficient. However, the East Asians failed to deliver and the quality went down, until they hired more people.

Moreover, the extra costs have risen throughout Volvo Cars. It has become more time-consuming to reach people, since some are in East Asia. Other costs are that all the processes outsourced need to be scanned, since all of them have to be saved in the country where the company operates. Thus, the documents need to be sent here by DHL (postal service), hence extra costs occurred.

“You learn the hard way” according to Eva. It has been a learning process and the East Asians are working much better and more innovative now than before. They even solve problems that occur, even before we find out that they do. However, one should never underestimate how much effort it takes to transfer knowledge and to teach people to take initiative.

“Now we know what we can expect and ask the East Asians to do. We have stepped on some landmines, but it was a learning process and we have learned a lot these years.”

4.4 Interview 4, Adam and Bert

4.4.1 Background

Adam and Bert are managers at one department at Volvo Cars that has outsourced business processes. That department is responsible for 1 000 suppliers and about 60 000 articles. They were commanded by the senior management to downsize their staff with four people and to find an appropriate offshore location to replace the downsized people. The decision to offshore was taken in 2008 and they have been involved ever since the business activity was offshored in early 2009.

4.4.2 Transition stage

After choosing East Asia as the offshore destination Volvo began educating the staff which was a task that had to be implemented by Adam; *“I've been there twice last year for tuition, to teach them about Volvo procedures and systems and a follow-up trip in order to do some networking and answer any questions they had after my last visit”*. Since the manager was there, two people from the East Asian party was also visiting Volvo Cars department in Gothenburg. The managers really emphasized the importance for them to be able to meet the East Asian counterpart face-to-face.

“It is the single most important thing in order to build a successful relationship.”(Bert, 2010)

The managers continued by stressing on the importance of spending resources on team building and networking.

“One makes it very easy for himself by using email and telephone conferences as a means for communication, but it is the physical meetings that are the most important.”(Adam, 2010)

However, the biggest problem that Volvo Cars encountered during the tutoring stage was logins for the East Asian team members which were hard to implement on time. Administrative problems arose in the form of access problems into Volvos systems which delayed the process of learning.

“There was much trouble at first, because our division had not done such a thing before (offshore outsourcing) and we needed them to access our internal system in order to start training them and the distance prevented us from performing the education onsite at the time.” (Adam, 2010)

The East Asians where thought how to operate with the Volvo systems as they had no previous experience, the whole learning process was through face-to-face communication however it was extended later on with web-based training as well.

Volvo Cars had to be detailed in their specification of what the East Asians actually had to do and the East Asian culture encouraged the level of detail richness that was needed in the communication process.

“The most important thing was culture, culture, culture and identification of interfaces you need to inform them about the interfaces, that this will happen and that these are their responsibilities and that those are ours.” (Bert, 2010)

When the activity was done in Gothenburg there was not much specification needed for the business process and related activities on how to deal with everyday occurrences.

“If the East Asians had a problem it would took a lot longer to solve them as these day to day problems are resolved informally within the organization usually, but this was not possible as we moved the business activity seven time zones away.” (Adam, 2010)

With the East Asians, Volvo were required to use many control questions in order to make sure that the East Asian side understood and control for misunderstandings. This was mainly done by devoting special occasions for dialogue sessions regarding the processes and going through each interface with the East Asian team.

“One can say that I invested a lot of time, you go a long way and see that the counterpart understands, we had to ask controlling questions as we wanted to be sure they knew what they were doing” (Adam, 2010)

4.4.3 Operating stage

In the current situation the manager’s role was to support the service provider if there was any problem arising during the everyday operations of the business process. They had weekly meetings with the East Asian manager responsible for the offshore activity. The communication channels used were mainly mail or telephone; however ad-hoc initiatives of communication did occur from a day to day basis.

“I am their contact person if there is any questions or problems I am there to support and it will always be so, that we have a relationship with each other” (Adam, 2010)

When dealing with the East Asians the managers had experienced a lot of humility and that they do not bring forth problems uncomplained.

“In the East Asian culture one is very humble and you do not bring up problems to the surface contrary to us Europeans as we are pretty straight forward here in Europe.” (Adam, 2010)

During summer time it is a 6 hours difference between Sweden and East Asia and the meetings between the two parties always occurred on Volvos grounds, usually in the morning's Swedish time.

"Time zones do put limits on the real-time interaction possibilities; usually they will have the answer to their questions when they come to work the next day. If it is an emergency then we have a period between 7-12 P.M Swedish time that they/we can stretch to if necessary if any of us need to get in touch as soon as possible otherwise it could be problematic" (Bert, 2010)

Furthermore, the daily cooperation and interaction between Volvo and East Asians was not going as smoothly as expected as the Volvo employees are sometimes reluctant to contact the East Asians if there are any issues that need to be dealt with as a result the managers were excessively overwhelmed with issues that could be dealt by the employees themselves.

"I've suffered from the fact that is very convenient for people to put their issues on me on instead of directly dealing with the East Asian provider, these are internal problems, not problems really rather a matter of convenience." (Adam, 2010)

In order to keep the level of misunderstandings low Volvo Cars required the East Asians to only hire people who speak good English. Hence, the language difficulties were to be reduced to virtually zero. As Bert puts it; *"We have learned from the problems our organization has had before with East Asians, now we make demands (!) We even sat on the interview to ensure that we understand them, as this is important"* This made the process of coordination much easier in the manager's opinion.

In order to control what quality the East Asians are delivering and to what extent they are working efficient as promised is done by the means of Excel charts, and monthly statistical outcomes through capacity reports.

"We receive information from the East Asian side through weekly and monthly follow-ups on how well they have been utilizing their resource this is a good way to monitor our offshore activity." (Adam, 2010)

Furthermore, as the East Asians are a bit hesitant in their interaction frequency the manager said that they had to be excessive in his monitoring as they wanted to make sure that the process was running as smoothly as possible. Overall they were satisfied of the delivery and

the efficiency of the provider as Adam puts it *“no Swedish person would be able to be as devoted to such administrative tasks as they”*.

4.5 Interview 5, Markus

4.5.1 Background

Markus is the manager responsible for the offshore outsourcing at one department at Volvo Cars. In that department they started their offshore outsourcing in 2008 and offshored different administrative processes to East Asia, in order to cut costs due to the financial crises and their affect on the car industry.

4.5.2 Transition Stage

In the transition stage they experienced more communication costs, due to the fact that Markus believed that it would lower the risks for doing wrong and in that way cut some costs. However, much support was needed during this phase, even for the very easy outsourced tasks, education was needed as well as much support. This department outsourced one person, which was replaced with another one in an East Asian vendor. The woman from East Asia came to Sweden for the education that lasted a couple of weeks. During her education period in Sweden she learned how to work in the system and how to deal with it. However, the information she got here was not specified enough and could have been much more detailed. Markus, himself never got the chance to visit the vendor. However, he meant that he still wants to visit the vendor in a near future in order to establish a closer relationship. However, it has been a learning process, and you learn all the time according to Markus. Or as he puts it; *“I would apply much more control and monitoring, so that we know that when we hand it over, nothing can go wrong”*.

4.5.3 Operating Stage

Moreover, Markus mentioned that they had some cultural issues with the East Asian vendor; *“They do not want to explicate problems, show them to the world. We trusted them, but our measurements showed us that something was wrong.”* Further, the vendor did not want engage in any discussions and most of the time *“swept the problem under the rug”*. This led them to spend more time on solving problems; problems they did not think existed. Hence, much effort and time was spent on controlling the quality of the East Asians with sample tests. However, the quality also suffered due to the fact that Volvo Cars was not clear

enough with the definitions and desk procedures. This resulted in that more time was spent on correcting the errors.

“In Sweden we are more innovative. In East Asia they seem to be more careful when it comes to changes. Thus, one has to understand the Asian culture, in order to know how to handle it”

The East Asians have very good English. However, misunderstandings still occurred, due to the fact that they have a very different and sometimes hard understood dialect. This led Volvo Cars to spend more time on communication, than initially planned, in order to assure that they understood the tasks correctly. Thus, Markus clarified that *“language was a huge problem”*.

Moreover, Markus gave one example on how they encounter extra costs due to misunderstandings; *“A typical misunderstanding is when we changed one file and missed to add the box for commodities. This would have been noticed directly by a person working here and the person would have reacted. But in East Asia they did not ask us, because they solely trusted the file and information they got from here.”* This meant that East Asia later on, when they noticed the error, had to spend much time on fixing it.

Further, when it came to the time difference, the experience was somewhat positive, due to the fact that East Asian vendor started their work some hours before they do at Volvo Cars. That is something that can only be positive according to Markus; *“they stay at work almost until we go home and work during our vacations”*.

Cultural misunderstandings occurred as well according to Markus; *“They have a hard time saying no, or telling us that they do not understand something.”* That led to additional time and effort spent on dealing with different issues both for Volvo Cars and the vendor.

“I would say that we spend about 25 minutes a day for supporting East Asia.”

Other problems that Volvo Cars faced were more due to the technical characters that was affected by the geographical distance to the vendor’s location. Since all of the employees at the department work on the same files located at the same network, it takes extra time to open the file in East Asia which is located far away from the server which is located in Sweden: *“One might say that they spend five times more time on opening the files in East Asia than we would spend opening them in Sweden.”*

5. Analysis

In this Chapter the reader is presented with a detailed analysis based on the empirical findings with support of the theoretical framework. Furthermore, this chapter answers the research question of what extra costs Volvo Cars encountered as well as how offshore specific challenges influenced the identified and labeled extra costs.

5.1 Identifying Extra Costs

In this part of the chapter, we will present and analyze the observed extra costs that Volvo Cars encountered, with the purpose of answering the first sub-question of the research question: *what extra costs did Volvo Cars encounter when they offshored their business process*. Moreover, our objective is not only identifying but also categorizing and labeling the extra costs that Volvo Cars encounter. This will be done with accordance to the theoretical framework of extra costs together with the use of exemplified quotes from the empirical data. Hence, we start off with the first division of extra costs, the knowledge transfer costs;

5.1.1 Knowledge Transfer Costs

As discussed by e.g. Zack & Singh, 2010 there were knowledge asymmetries between the parties which consequently required Volvo Cars to transfer knowledge to the vendors.

The empirical evidence has shown that all the departments of Volvo Cars have encountered similar knowledge transfer costs. Furthermore, the most significant knowledge transfer costs that have been observed in all the departments of the context are the time, effort and resources spent on education. Thus, we label the extra costs “educational costs”. The educational costs can be divided into web-based and face-to-face costs. The face-to-face knowledge transfers were observed in all the departments.

“We had to allocate resources in order to give the East Asian team proper education of the business process”. (Johan, 2010)

However, in three out of five departments the face-to-face education was conducted only in Sweden. While two out of five departments initially started off with face-to-face education at the vendor’s place and then conducted face-to-face education in Sweden.

Moreover, the web-based education was done through the means of ICT, and that was conducted at Adam’s and Bert’s department, where they used the web-based education as a

complement to the face-to-face education. Thus, the web-based learning that occurred at that department was also an extra cost, due to the additional time and effort spent during the transition phase of the outsourced project.

Furthermore, educational costs also occurred because of the loss of tacit knowledge, which happened at Eva's and Anders department. At their department, the loss of tacit knowledge occurred because of a high turnover. Further, when the personnel left the vendor organization they did not share their knowledge with others. Consequently, Volvo Cars had to invest more resources in educating existing staff and newly arrived employees together with the vendor. This finding supports the findings of Dibbern et al. (2008) that consequently found that the knowledge transfer had to be repeated due to personnel turnover thus increasing the client-extra costs.

Further, according to Click & Duening (2005) there are only knowledge transfer costs during the Transition stage. However, the high turnover created additional education throughout the operation stage. Henceforth, we enhance the discussion made by Dibbern et al. (2008) that the client- extra costs regarding knowledge transfer occur in a dynamic way and are not confined to a particular phase.

5.1.2 Specification Costs

When it comes to the cost of specification, we can clearly notice that each and every department had to cope with specification costs. In line with Dibbern et al. (2008) and Gopal et al. (2003) we see that the need for specification was due to the client-specific knowledge about the business processes at Volvo Cars. Moreover, as the specification of the business processes contained a vast amount of detail richness we label them as Detail costs. These Detail costs could further be divided into two subcategories, namely: oral- and written-detail costs. Furthermore, when it comes to the written detail costs we found that all the departments at Volvo Cars had to spend more time, effort and resources on specifications and detailed information when dealing with the vendors. According to the empirical evidence, this was predominantly conducted with the intention of avoiding misunderstandings. Further, this was acknowledged in three out of five departments where more time and effort ought to be spent on the compilation of specifications in the form of written documents.

Moreover, when it comes to the oral detail costs, the study shows that they were contracted in three out of five departments at Volvo Cars, mainly due to misunderstandings. Hence, Volvo Cars had the compulsion, in some departments, to spend every day time on more comprehensive specifications during the oral communication with the vendor.

“Due to the fact that the East Asians felt that we had too little information in the desk procedures, we experienced many misunderstandings. Thus, we have been forced to adjust to the East Asia and add more detailed job-related instructions in our daily communication.” (Johan, 2010)

Finally, the study shows that the specification costs are extra costs that can also occur during the operating stage as well as the transition phase. Subsequently, some departments had to invest more time in order to reach a higher degree of specification in their everyday communications. Hence, we our findings support the discussion by Dibbern et al. (2008); that costs are hard to confine within a certain phase.

5.1.3 Control Costs

The Control costs for Volvo Cars have been identified and separated into three different sub-categories namely: quality-check costs, efficiency costs and Reassurance costs.

Both the quality-check costs and the efficiency costs have been observed in the departments of study, and they deal with the time, effort and resources spent checking vendors' activities. However, the quality check cost deals with checking the quality of the service delivered, while the efficiency cost deals with the efficiency of the vendor's personnel. Moreover, in four out of five departments we have observed quality-check costs, while efficiency costs were only observed in two departments. However, it is interesting to remark that only Johan's department encountered both efficiency costs and quality-check costs.

Furthermore, we observed that both the quality-check costs and efficiency costs share a set of subcategories of costs. The two subcategories observed are labeled as *sample costs* and *statistics costs*. Moreover, the sample costs were observed in Markus' and Eva's department as well as in Anders department. In the case of Eva's and Anders department the use of sample tests was due to the fact that they got many complaints, both from their suppliers and within their own organization. Hence, they had to use sample tests in order to measure not only the suppliers but also their own organization, this in order to know how they

responded to the vendor's activities. The sample did not only measure the quality but as well as the efficiency. Thus, time, effort and resources were spent on proving the department with present-time information on the quality and efficiency.

Furthermore, the statistic costs are dealing with the time spent on checking the quality and efficiency, though the means of an excel document that the vendor provides Volvo Cars with. These costs were encountered by three out of five departments, thus the three managers at the departments had spent their time checking the excel documents in order to ensure high quality and efficiency. Moreover, this was also confirmed by Johan during the interview where he showed us an excel document that the vendor provided him with. The excel document gave us a comprehensive view of the statistics that the vendor provides the client with. Thus, we find the document a tool which the client uses to control the vendor.

Finally, the last costs identified under the control costs category were the Reassurance costs that occurred due to the issue of lack of trust. The underlying problem was that the managers at Volvo Cars noticed that even though the vendors said that they understood what was communicated to them, it later on became evident that they did not. This led to an increase of control costs, sub categorized as reassurance costs. The reassurance costs included follow-up questions and feedback to ensure that the vendor understood what was communicated: *"Sometimes our communication needed to be repeated. We had to ask if they really understood it. Thus we have been forced to double check with them sometimes."* (Johan, 2010)

5.1.4 Coordination Costs

In line with the initial statements by e.g. Carmel & Tjia (2005), Oshri et al. (2007) and Zviran et al. (2001) there were some inevitable coordination costs for Volvo Cars. In this study we have observed four types of coordination costs, direction costs, inter-linkage costs, relationship costs and administration costs.

The direction costs deal with the issue of lack of innovation and initiatives that four out of five departments encountered and consequently tried to solve the problem by means of coordination. Hence, they had to spend more time, effort and resources dealing with coordination issues in order to increase the level of innovation and initiatives. As Markus mentioned it; *"In Sweden we are more innovative. In East Asia they seem to be more careful*

when it comes to changes. Thus, one has to understand the Asian culture, in order to know how to handle it". Further, the culture and communication being a part of it has as well been a challenge for all the five departments. Thus, it has fostered the increase of the direction costs. Moreover, issues with misunderstandings and the vendor's inability to say "no" increased the need of directions in Eva's and Anders Department.

"This is where the extra costs arise. Many misunderstandings appeared, some of them because the East Asians are afraid for asking for more material, they cannot say NO and cannot say that something cannot be done." (Anders, 2010)

Furthermore, we have identified inter-linkage costs that occurred at Eva's and Anders' department. Hence, this cost only occurred at one department. At their department the problem was that the Swedish suppliers had problems communicating with the vendors support. From the extra cost perspective, it was essentially a coordination problem that made the suppliers call the Swedish support instead of the vendors. Thus, the department encountered inter-linkage costs, which forced them to be the middleman, which is a time consuming task.

Several relationships costs have also been identified in our study. The relationship costs have to do with the time effort and resources spent on building relationships, either counted face-to-face, by telephone or through the means of internet. Thus, all the departments of study experienced relationship costs in one way or another. Furthermore, the relationship costs also deal with the feedback and encouragement of the vendor personnel in order to build relationships. These costs have been observed in two out of five departments. Thus, these extra costs deal with the time, effort and resources spent on communicating that type of information.

"They want feedback but, they are more eager to receive emails were it explicitly says that they have done a good job." (Eva, 2010)

Administration costs mainly occurred in three different departments due to different issues and contexts, sometimes those costs were specific to the department and the business processes. However, the first administration costs that we identified deals with the intranet access problems that Adam's and Bert's department confronted. The intranet administration costs ended up being a noteworthy coordination cost at their department, with regard to

the time, effort and resources spent dealing with them. Moreover, a second administration cost, in addition to dealing with the intranet issues, appeared at Markus' department. However, the cost is permanent in nature and deals with the time it takes to open a document or file from the vendors place, the further away geographically the longer the time to open a document.

“One might say that they spend five times more time on opening the files in East Asia than we would have spent opening them in Sweden.” (Markus, 2010)

Even though it is a small administration cost, many small contributions can amount to something big. Hence, we regard it as a cost within the coordination cost category due to the fact that it takes more time to distribute files, thus to coordinate the work.

Finally, a third administration cost has also been observed in the study. The cost deals with the coordination of documents that are being written at Eva's and Anders vendor's location. Since, the printed documents need to be saved and stored in Sweden, the country where Volvo Cars operates, the documents need to be sent and store in Sweden, and thus it complicates the coordination of work. We identify the cost as an administration cost of coordinating the outsourced process, since there is a cost of sending the documents and receiving them in Sweden we find it a coordination issue that takes time, effort and resources.

5.1.5 Summary of Extra Costs

Table 3, gives an overview of all the extra costs that have been identified and labeled in this study. Within the brackets the occurrence of extra costs is shown, according to departments.

Table 3: Summary of Extra Costs

Extra Costs			
Knowledge Transfer Costs	Specification Costs	Control Costs	Coordination Costs
Educational Costs (5/5) Web-based Face-to-face	Detail Costs (5/5) Oral-Detail Costs Written-Detail Costs	Quality-Check Costs (4/5) Sample Costs Statistics Costs Efficiency Costs (2/5) Sample Costs Statistics Costs Reassurance Costs (3/5)	Direction Costs (4/5) Inter-Linkage Costs (1/5) Relationship Costs (5/5) Administration Costs (3/5)

Source: Authors' own, 2010

5.2 The impact of Offshore-Specific Factors

In this section the identified extra costs within each cost categorization will be analyzed against the offshore-specific framework. More precise, *how* culture dimensions, language distance and geographical distance have influenced the extra costs at Volvo Cars.

5.2.1 Knowledge Transfer Costs

5.2.1.1 Education Costs

First of all, Volvo Cars faced knowledge transfer costs in the form of educating staff when the turnover caused loss of tacit knowledge. The turnover occurred due to external events, however the managers at Volvo Cars explained that the employees that left one vendor were reluctant to share tacit knowledge with other staff members. The impetus behind this behavior, according to the managers, was employees' fear of losing the competitive advantage by sharing tacit knowledge. Thus, behavior of the vendor's previous staff members can be characterized as acting in self-interest which is in line with individualism as stated by Triandis (2000). Consequently, collectivism can be ruled out as it is manifested through the sacrifice of oneself in order to serve the group even though it is not always the most beneficial choice (Triandis, 2000).

It is worth mentioning that studies made by e.g. Mills & Clark (1982), Hui & Triandis, (1986) Triandis (1993) show that Asians tend to have a high level of collectivism in general. Therefore, if the Asian employees showed the patterns of collectivistic behavior they would be willing to share knowledge with their fellow colleagues even though they were leaving the organization.

Furthermore, costs were further aggravated by the geographical distance when educating both the vendors as Volvo Cars had to spend extra costs on traveling to the location of the vendors. Furthermore, the allocation of extra resources to cope with the educational processes would not be as excessive if the vendors had been located in close proximity. ICT proved to be a mitigating factor of travel distance since Web-based education did occur without problems associated with distance. However, in order to fully transfer tacit knowledge Volvo Cars had to invest in face-to-face interaction, which is in line with e.g. Nonaka (1991), Nonaka & Konno (1998), Lagerström & Andersson (2003). Hence, Volvo Cars needed to allocate people that could travel to the vendor destination. Consequently, the

Education costs were further aggravated due to geographical distance as the transfer of tacit knowledge demanded face-to-face education. Finally, the empirical findings did not support the notion that language distance could hamper the knowledge transfer process contradictory to what is mentioned by e.g. Grant (1996), Simonin (1999) and Davenport & Prusak (2000).

5.2.2 Specification Costs

5.2.2.1 Detail Costs

Volvo Cars experienced a high level of specification demand from the Asian vendors. Further, as one manager pointed out: *“The East Asians want us to be very detailed about everything we want them to do”* (Olof, 2010). In addition, the vendors were highly influenced by an orthodox way of thinking and consequently it affected the working processes according to respondents. If a culture is highly collectivistic it consequently demonstrates a high level of conformity in line with the investigations conducted by Triandis (1995). The demand from the vendors can be because of the employees’ collective nature. In the study made by Dibbern et al. (2008) the authors mention that the inquiry participants complained about the high level of specifications when dealing with Indian vendors. This indicates that it might be a widespread behavior amongst East Asian vendors.

The reasoning above is contradictive to the earlier statement in the knowledge transfer costs section; that the vendors would behave individualistically. This brings about an interesting nuisance of culture as it seems as different dimensions are displayed in groups but differ depending upon the situation.

Moreover, as the vendors demanded a high level of specifications it indicated that the Asians exhibit high uncertainty avoidance. In line with the discussion by Hofstede (1997), cultures that are influenced by Universalism are highly uncertainty avoidant and base their society on strict rules. Moreover, studies by e.g. Kayan et al. (2006) support the notion that Asians have a tendency for Universalism.

5.2.3 Control Costs

5.2.3.1 Quality-Check Costs

In some instances, the vendors did not want to face the fact that there were problems occurring during the working process. More precise, when the vendors were confronted by

the Volvo managers they avoided conflicts and tried to avoid the problem. Based on the discussion by Ohbuchi et al. (1999) we believe that collectivistic behavior can explain the reason for conflict avoidance as individuals from collectivistic cultures use tactics to avoid disagreements.

5.2.3.2 Reassurance costs

Reassurance costs were aggravated because of the East-Asian vendors' inability to say "no". More specific, the Volvo managers implied that the vendors said "yes" when asked if they could cope with certain activities which later turned out to be false. This phenomenon of "yes" saying is in line with studies made by Dibbern et al. (2004), Nicholson & Sahay (2001), Carmel & Tjia (2005), Heeks et al. (2001) and Winkler et al. (2008) that highlight the problem of Asian vendors frequently use the word "yes" which conclusively leads to miscommunications and excessive effort from the client side.

Accordingly, the previous studies create strong evidence that the reason why the vendors said "yes" was due to cultural factors. However, as Asian cultures display a high level of Long-term orientation they are inclined to believe a task can be solved in the distant future. Additionally, a high Power distance that is present amongst East-Asians create a submissive nature where there is a tendency of saying yes (Nicholson & Sahay, 2001; Heeks et al., 2001; Hofstede, 2009). Consequently, a high level of Long-term orientation bundled with a high Power distance aggravated the fact that an excessive amount of reassurance that was needed in order to clarify misunderstandings.

5.2.3.3 Efficiency costs

The managers at Volvo Cars expressed opinions about how procedures should be efficient. The managers use the word efficient as a synonym to saving time. As one of the managers, Johan puts it "*We set internal goals within the organization to be as efficient as possible...*" furthermore he continues by saying "*As our organization is very efficient orientated we constantly want to improve, to make work easier and more efficient*".

The time-orientation of the Volvo managers were monochromic in nature which however no evidence was provided arguments that the East Asians where slacking in time schedules or did have a more polychromic nature which could create larger efficiency costs. Moreover,

there is no evidence that language distance or geographical distance aggravated the efficiency costs more than necessary.

5.2.4 Coordination Costs

Firstly, the affect on communication costs will be explained according to the three types of communication costs identified in the previous section regarding the extra costs of Volvo Cars. Secondly, elaboration regarding Administration costs will be provided and the Coordination costs category will be finalized by provision of several general remarks.

5.2.4.1 Direction Costs

Directing the vendors in order to encourage them to be more active in improving the working process emphasizes the Swedish managers' desire that the vendors should be "doers". However, the East Asian vendors displayed characteristics that reflect a more passive nature. Thus, in line with the discussion by Lytle et al. (1995) the vendors can be characterized as "beers". Further, the findings support the study conducted by Vogel (2005) that Asian vendors' rigidly stick to client specification and thus do not actively think "outside the box".

As Asians are more Long-term orientated as mentioned by Yeung & Tung (1996) and Hofstede (2009) the reason for passivity could be rooted in the fear of losing "face". This would imply that the vendors are influenced by Universalism as we have already observed in the section about detail costs. Additionally, Universalism is also manifested through the reluctance to share ideas because of the fear of embarrassment. Hence, the vendors are likely to feel shame as it is a common notion amongst Asian countries according to Ting-Toomey (1988) and Cocroft & Ting-Toomey (1994). Finally, the reluctance for innovation further strengthens the belief that the Asian employees displayed a culture reflected by Universalism as lack of innovation is contrary to the nature of Particularism as implied by Morden (1999).

5.2.4.2 Relationship Costs

Firstly, a noteworthy factor is that Volvo Cars self-inflicted relationship costs as one manager seemingly insisted that the third party vendor shouldn't feel inferior to him as he was their supervisor and they were doing the "dirty job". Moreover, even though this was a noble act from the manager's side perhaps it was unnecessary as East Asian cultures have a high level

of Power distance and generally accept and expect that power is distributed unequally. Johan confirms that the East Asians are comfortable in doing standardized, routine and perhaps less important working procedures from a Swedish perspective, however, it was an honor for them. Thus, if we come back to culture and more precisely the Power distance and Equality vs. Hierarchy dimension we can see that the vendors accepted an unequal power distribution from what is implied by the managers at Volvo Cars. Moreover, the findings are in line with the findings presented by Winkler et al. (2008) that also acknowledge the fact that vendors from an Asian country accept to be acquiescent.

Finally, the relationship costs indirectly became enhanced over-time due to the fact that less socialization was conducted in “real life” and consequently more virtual interaction was needed in order to compensate for the loss real life opportunities to meet and build relationships and trust.

5.2.4.3 Inter-linkage Costs

The empirical findings showed that Volvo Cars encountered problems indirectly due to the issues of language distance. According to the managers at Volvo Cars, some suppliers complained that they could not communicate directly with the vendor. This was traced back to interaction problems due to language distance. Issues with distinct accents have been mentioned in previous research to be a problem (e.g. Stringfellow et al. 2008).

Further, the managers at Volvo Cars pointed out that the main barrier for interaction was due to misunderstandings between the East Asian employees and the Swedish suppliers as they did not share a common mother tongue. More precise, it was the distinct English accent that the East Asian vendors possessed that played an aggravating role for misunderstanding. The “non-standard” accent was frustrating to understand for the suppliers. As mentioned in literature, accent is a source of disturbance (Stringfellow et al. 2008; Munro & Derwing, 1995; Schmid & Yeni-Kormshian, 1999) and the suppliers’ problems supports the findings that language did aggravate the inter-linkage costs for Volvo Cars.

5.2.4.4 Administration Costs

First of all, original documents have to be located at the headquarters of Volvo Cars due to Swedish regulation. Further, as the business processes have been outsourced across the world there is a need for transportation of original documents. Thus, in order for the

documents to be saved at the Volvo Cars headquarter they needed to be shipped with DHL transport service. However, the travel distance for the post is directly influenced by the geographical distance implying that the further away the vendor location is, the more aggravated are the administration costs regarding transportation.

Moreover, the “virtual” travel distance also played a factor in aggravating the coordination costs for Volvo Cars. Since the intranet server is located in Sweden there were delays between Sweden and East Asia was due to slower server processing capability. More specifically, the coordination effort was slowed down due to the excess amount of time it took for the server to send the information from Sweden to the East Asian vendors thus affecting the speed when opening document files and coordinating virtual activities.

5.2.4.5 Coordination Costs in General

In literature, time-zone differences are mentioned to be a barrier for a smooth interaction flow since situations can arise where there is a lack of synergies regarding when to coordinate and communicate activities (O’Leary & Cummings, 2007). As a vast geographic distance was present, Volvo Cars was bound to time-zone differences. According to the managers there were no signs of dissatisfaction from the vendors’ side, which is a probability when having to adjust to inconvenient times on when to interact (Zedeck et al. 1983).

It is noteworthy to mention that the time window in which the parties can communicate is confined within certain time-frames:

“Time zones do put limits on the real-time interaction possibilities; usually they will have the answer to their questions when they come to work the next day. If it is an emergency then we have a period between 7-12 P.M Swedish time that they/we can stretch to if necessary if any of us need to get in touch as soon as possible otherwise it could be problematic”(Adam, 2010).

Accordingly, the time-zone difference could lead to excessive costs of strategic nature regarding loss of opportunity to e.g. deal with urgent problems if one party has to communicate or coordinate an activity on an ad-hoc basis.

Moreover, as the emergency call has not been an issue, yet, we see that the time-zone differences have been turned into a benefit for the Volvo Cars.

“The distance has rather been something positive for us, since they work even before we come to our job and they are available almost to the end of our working time.” (Johan, 2010)

This is in line with the Gupta et al. (2007) who mentioned that time-difference is an asset rather than a liability for a company that chooses an offshore strategy.

Finally, the managers at Volvo Cars pointed out that there were problems between the vendors and the managers due to language differences. We see that some misunderstandings were caused by language distance which eventually led to extra effort regarding the coordination costs in general. These findings are supported by researchers such as Rao (2004), Ferraro (2002) and Stringfellow et al. (2008) who mention language distance as a source for misunderstandings.

5.2.4.6 Summary of the impact of Offshore-Specific Factors

Table 4 summarizes the most important findings of the “5.2 The impact of Offshore-Specific Factors” section. Thus, the table presents a holistic view of how different offshore-specific factors affected the different types of extra costs at Volvo Cars. The impact is marked with the letter X, while the type of impact is presented in the brackets. The symbol (-) suggest that the Extra costs are aggravated by the offshore-specific factors, while the (+) indicates a mitigating impact.

Table 4: Summary of Offshore-Specific Factors

		Offshore-Specific Factors						
		Culture				Language	Geography	
		Power Distance	Individualism vs. collectivism	Universalism vs. Particularism	Time orientation		Travel Distance	Time-Zone
Extra Costs	Knowledge Transfer Costs		(-)X				(-)X	
	Specification Costs		(-)X	(-)X				
	Control Costs	(-)X	(-)X		(-)X			
	Coordination Costs	(-)X		(-)X	(-)X	(-)X	(-)X	(+)X

Source: Authors’ own, 2010

6. Conclusions

In this chapter conclusions are drawn upon the research question of this inquiry based on the empirical findings analyzed in the previous chapter. Furthermore, this chapter presents suggestions for future research on the topic of extra costs and implications for practitioners as well as for academia.

The first interim target of this study was to explore *what* extra cost Volvo Cars encountered. Thus, the case of Volvo Cars was analyzed within the context of offshoring business processes to East-Asia. Accordingly, the study identifies and labels nine different extra costs that occurred within the case study of Volvo Cars.

All the nine extra costs fit under the four different extra cost categories that have been presented in a theoretical framework namely; Knowledge transfer costs, Specification costs, Control costs and finally Coordination costs. Hence, in first extra cost category we identified only Educational costs. Subsequently, in the second extra cost category, namely the Specification costs, we have identified Detail costs which as well were observed in all the departments of Volvo Cars. The Detail costs were manifested either orally or in writing. Furthermore, within the Control costs category we have identified and labeled three sub-costs: Quality-check costs, Efficiency costs and Reassurance costs. Finally, the last category of extra costs is called the Coordination costs, where we identified and labeled four different costs: Relationship Costs, Direction costs, Administration costs and Inter-linkage costs.

The second interim target of this study was to explain *how* the identified extra costs at Volvo Cars were affected by offshore-specific factors. Accordingly, the offshore-specific factors of relevance were Language distance, Culture distance and Geographical distance. Moreover, the Coordination costs category was affected the most by offshore-specific factors. Consequently, the factor of culture stands out as the most aggravating factor in all the extra cost categories. This could be due to the fact that culture is the least “visible” factor as values, beliefs and norms of individuals in a culture is deeply embedded within the human conscious. Nonetheless, if a client and vendor create culture synergies both can prosper mutually and offshore-specific factors can be turned into something positive.

Nonetheless, all the offshore specific factors affected the extra costs categories to some extent, either aggravating them or mitigating them. Accordingly, time-zone differences were

seen to be a mitigating factor for coordination client-vendor activity at Volvo Cars while language distance only affected the Coordination cost category. The reason for language only affecting Coordination costs could be due to the fact that Coordination of the offshore outsource process requires a high level of communication between client and vendor and consequently the likelihood for misunderstandings is high.

6.1 Contribution to Academia

The empirical findings support the evidence presented by Dibbern et al. (2008), who as well concluded that offshore-specific factors do aggravate extra costs. Thus, we believe that this case study contributes to increase the validity of previous qualitative works conducted on the topic. Furthermore, the study presents a new empirical context, namely BPO to East-Asia from a Swedish perspective. This can be of benefit for researchers, as there is further proof that extra costs do exist and that offshore-specific factors do affect the extra costs. Thus, the empirical findings supplement the German perspective presented by Dibbern et al. (2008) and disregard it as an isolated occurrence. Moreover, the theoretical contribution of the study is based on the application of Dibbern et al. (2008) cost-categorization framework into the context of BPO to East-Asia. Thus, we supplement future BPO research with a multi-levelled categorization framework within the BPO sphere. Further, we believe that researchers can obtain a deeper understanding on the phenomenon as an extensive cross-culture framework was used with more applicable cultural dimensions compared to previous research.

6.2 Managerial Implications

As we believe that cost reduction still remains a major driver for offshore outsourcing it is important for managers to not only focus on the cost-saving aspect of offshoring, as it also brings about extra costs. Moreover, managers have to recognize that offshore-specific challenges should be seen as more than just challenges as they do affect the actual profitability of an offshoring venture. Lessons can be learned from the case study conducted at Volvo Cars to prevent extra costs from being aggravated and thus realizing that if managers develop an understanding of how to deal with culture-, language- as well as geographical distance, extra costs can be mitigated. Hence, we conclude that the study should be viewed as a road map that can contribute to the success of BPO to far distant places.

6.3 Future Research

We encourage further empirical investigations in order to enhance the validity of previous works by extending the theoretical- empirical findings further. Moreover, we encourage that researchers should increase the scope of investigation by including the first phases of BPO as the first phases are important for the level of extra costs inquired in later stages. Furthermore, as learning by doing mitigates the affect off offshore-specific factors it is interesting to investigate how to motivate managers to share knowledge within organization in order to mitigate extra costs.

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Interviews:

Volvo Cars Corporation

Olof (2010) Manager at Department 1 [personal interview] Gothenburg, Sweden (Personal communication, 7 April 2010)

Johan (2010) Manager at Department 2 [personal interview] Gothenburg, Sweden (Personal communication, 8 April 2010)

Eva (2010) Manager at Department 3 [personal interview] Gothenburg, Sweden (Personal communication, 9 April 2010)

Anders (2010) Manager at Department 3 [personal interview] Gothenburg, Sweden (Personal communication, 9 April 2010)

Adam (2010) Manager at Department 4 [personal interview] Gothenburg, Sweden (Personal communication, 12 April 2010)

Bert (2010) Manager at Department 4 [personal interview] Gothenburg, Sweden (Personal communication, 12 April 2010)

Markus (2010) Manager at Department 5 [personal interview] Gothenburg, Sweden (Personal communication, 13 April 2010)

Appendix 1: Interview Guide

Background

- When did you become involved in this project?
- Can you give a brief description of how you are involved in the project?

Knowledge transfer process

- Describe how the knowledge transition process looked like?
- What types of challenges did you encounter during the knowledge transition process?
 - How was the knowledge transition processes affected by national culture?
 - How was the knowledge transition process affected by language distance?
 - How was the knowledge transition process affected by geographical distance?

Specification requirements

- What types of specification requirements were required?
- What types of challenges did you encounter when specifying the working processes?
 - How was the specification processes affected of national culture?
 - How was the specification processes affected by language distance?
 - How was the specification processes affected geographical distance?

Control requirements

- What types of control requirements were necessary when controlling the vendor?
- What types of challenges did you encounter when controlling the vendor?
 - How was the control requirements affected by national culture?
 - How was the control requirements affected by language distance?
 - How was the control requirements affected by geographical distance?

The Coordination processes

- Describe how the coordination process looked like between you and the vendor?
- What types of challenges did you encounter during the coordination process?
 - How was the coordination process affected by national culture?
 - How was the coordination process by language distance?
 - How was the coordination process affected by geographical distance?

Ending

- Do you have any additional insights or questions?