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Offshoring Services:

A case study of potential efficiency gains, unexplored due to inadequate coordination

Eric Ljunggren and Ola Åstrand

Supervisor: Richard Nakamura
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Abstract

Offshoring has been referred to as the third industrial revolution and has offered companies the possibility to deliver services from overseas. To offshore certain activities tend to be rather complex, where communication and coordination are particularly essential to succeed and fulfil the initial purpose. We investigate how communication and coordination processes of an MNC look today, how it should be organized and which parts that should be emphasized in order to maximize the utility from having certain internal services offshored. With base in coordination theory, we conclude that the need for coordination and communication cannot be underestimated, not only in relation to tasks performed but also in relation to certain residue information. The problems and obstacles perceived by different stakeholders in the onshore–offshore relationship in our study seems to originate in lacking coordination of communication, which create misconceptions between parties. In order to maintain a healthy organization we request a clear offshore strategy from management, clear instructions in offshore processes and above all, a clear scheme to coordinate different kind of information between parties.

Key words:

Offshoring, Service offshoring, Coordination, Communication flow, Interdependency, Task uncertainty, Residue information, Stickiness, Sticky tasks, Knowledge transfer

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Abbreviations

GTT Group Trucks Technology

IB International Business

KPI Key Performance Indicator

MNC Multi National Corporation

POP Purchasing Outsource Projects

PSC Purchasing Support Centre

VP Vice President

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1. Introduction

In this chapter we will begin the thesis by providing an introduction to the area of research. We will present the underlying problem discussion which is the background for the topic and elaborate around the reason for the study and the purpose it aims to fulfill. Delimitations and definitions will also be presented, as well as the thesis disposition.

“The single biggest problem in communication is the illusion that it has taken place”

*- George Bernard Shaw
Co-founder London School of Economics
and Nobel Prize winner in literature*

In line with what Blinder (2006) expresses, offshoring has changed the way of working for many manufacturing firms, and lately also service providing ones. As technology has opened up the possibility to offshore services to the other side of the globe, which previously had to be performed onshore, this has opened up new possibilities for new strategic decisions and potential cost savings. Yet, such activities tend to be demanding and require extensive communication and coordination in order to be successful, hence this thesis aims at investigating the processes put in place by Multi National Corporations (MNCs) to deal with these demands and maximize the utility from their off-shored services. The empirical findings in the thesis are derived from a field study of Volvo Global Trucks Technology’s (GTT) purchasing division and the Purchasing Support Center (PSC) to where certain tasks are off-shored.

1.1. Problem discussion

Trends and drivers behind offshoring have been extensively discussed in recent academic literature (e.g. Benz, 2012; Blinder, 2006; Bryson, 2007; Couto, Mani, Lewin and Peeters, 2006; Gopalan and Madjd-Sabjadi, 2012; Lacity, Willcocks, Leslie and Rottman, 2008), as well as in business media (Booth, 2013), and other published business forums (Farrell, 2003; Justice, 2012; Mesøy, Barnik and Duab, 2009). The relevant academic literature touches upon both politics and the effect offshoring has on the home market economy and labour market (e.g. Blinder, 2006; Bryson, 2007; Grossman and Rossi-Hansberg, 2006; Weidenbaum, 2005), as well as organizational aspects (e.g. Howcraft and Richardson, 2012; Srikanth and Puranam, 2011).

In the organizational context, a lot of the research has focused on specific tasks that are performed interdependently of each other (Srikanth and Puranam, 2011; Kumar, van Fenema and von Glinow, 2009; Van de Ven, Delbeq and Koenig, 1976; March and Simon, 1958; Malone and Crownston, 1994), and the issues that arise as a consequence of these interdependencies. Further difficulties associated with offshoring, such as knowledge transfer (Minbaeva, Pedersen, Bjorkman, Fey and Park 2003; Grant, 1996; Szulanski, 1996) and communication issues (Vlaar, Van den Bosch and Volberda, 2006; Vlaar, van Fenema and Vinay, 2008; Szulanski, 1996) have also been reoccurring themes of study. As companies offshore processes, the complexity with managing and coordinating these processes follow (Larsen, Manning and Pedersen, 2012), and even though studies have shown what different modes of coordination that are suitable when managing diverse types of interdependencies and groups (Van de Ven *et al.*, 1976; Srikanth and Puranam, 2011), offshoring processes *per se* are still lacking qualitative studies which suggests improvements in coordination processes.

Many of the previously conducted studies have had a western-focused approach in common, and where problems with offshore projects arise these are more than often looked upon as rooted at the offshore site, somewhat implying a flawless onshore establishment. We argue that offshoring research needs to take possible faulty processes of the onshore site into consideration when studying the offshoring area at large, and challenge the perception of a perfectly functioning onshore organization.

Additionally, in comparison to existing literature regarding front-line work, the literature on back-office work is rather limited and tends to extensively focus on division of labour (Howcroft and Richardson, 2012), hence we see a potential of contributing to the literature within the field by conducting a more coordination-oriented study. It is also argued that there is a literary void concerning how organizations provide leadership in offshoring activities (Lacity *et al.* 2008), and we think this is interrelated with the managerial communication as well as creation of common ground and praxis between onshore and offshore managers, which is within the scope of this study. There have also been expressed demands for more research concerning coordination processes and strategies applied in order to manage interdependency more efficiently between geographically dispersed sites within an organization (e.g. Kumar *et al.*, 2009). The most prominent research regarding interdependencies was conducted half a century ago (see March

and Simon, 1958; Thompson, 1973; Van de Ven *et al.*, 1976) and did not take the globally dispersed organization into consideration. Furthermore, most new studies conducted concerning offshoring activities have lacked an offshore presence and in-depth fieldwork, and have mostly relied on survey data and telephone interviews, at best. Vlaar *et al.* (2008) conducted extensive interviews with both onshore and offshore team-members; although these interviews were conducted over the telephone which we argue limits the creditability of the study. In order to get a proper understanding of the overall situation we emphasize the importance of personal presence at both the offshore and the onshore location. Similarly, Lacity *et al.* (2008) build their conclusions upon earlier work conducted by themselves; somewhat limiting the critical assessment of earlier findings, and with a literature approach they cannot assess a clear picture of the *de facto* work that is taking place in an offshore project.

The quite one-sided debate of offshoring, identified gaps in the literature, and the methods in which the existing studies have been conducted raised our attention as we saw potential of contributing to the literature. Firstly our aim with the study is to find out how onshore processes can affect the onshore–offshore relationship, and secondly how these processes, if inadequate, can be improved. The main question to be answered by this study is therefore:

How do onshore coordination processes affect the results at an offshore site?

Studying this phenomenon consequently raise the sub question:

How can the coordination processes at an onshore site be improved, in order to maximize the efficiency in regards to an offshore project?

1.2. Research purpose

The main purpose of this study is to understand how an MNC engaged in offshoring activities can maximize the added value of its offshoring project, and our aim is to examine how coordination processes at the onshore site can affect the overall effectiveness. Using a qualitative approach we have conducted a case study of an MNC engaged in an offshoring project which makes up the empirical part of this thesis where the purpose is to firstly, through a set of interviews with both managers, purchaser and back-office personnel, explain the logic behind the current onshore–offshore relationship. Secondly, based on these interviews, the purpose is to

understand how coordination processes can either diminish or improve the effectiveness of offshoring projects.

We believe that the research conducted will contribute not only to the academia regarding offshoring and coordination, but also to a more applied managerial arena.

1.3. Delimitations

It is important to acknowledge that the study presented in this thesis is delimited to a single-case scenario (Merriam, 1998), and general assumptions derived should therefore be considered in this context.

A second delimitation of the study is that interviews have been conducted mainly with people from, and with a focus on, the purchasing division of Volvo GTT. Consequently, the study is delimited to the processes offshored by this division, which in general terms include back-office processes such as placing orders, updating pricelists, etc. The delimitation to only focus on a certain division within GTT, which conducts only certain tasks, was made in order not to contaminate the study with ideas and thoughts that were not applicable to all situations in the study. Furthermore, the study has been delimited to only interviewing purchasers in Gothenburg, Sweden, as these purchasers are perceived to have the most advanced usage and most extensive experiences of the back-office, in comparison to all the other global purchasers at Volvo GTT. Mainly, because these purchasers have had the possibility to use this specific function since it was first initiated.

1.4. Definitions

Before going further into the subject at hand it is important to note that the concepts of offshoring and outsourcing have to some extent been used interchangeably in business media and academic literature. However, in this study offshoring is considered any task being performed in-house in a low-cost country abroad. Outsourcing is, on the other hand, that which refers to any task performed outside the company, i.e. by another firm. If a task is outsourced to a firm in another country this is considered to be offshore outsourcing. Further, when writing about activities performed at onshore locations we are referring to activities that are taking place at any western location where core business is conducted, i.e. not only at the headquarters. An additional

concept that might be in need of some definition is re-shoring, which implies the activity of moving back offshoring activities to the home country, or another high-cost country.

Hidden costs are defined as unanticipated costs of implementation and managing an offshore location, this also includes the unexplored potential of cost savings (Larsen *et al.*, 2012; Stringfellow, Teagarden and Nie, 2008).

Coordination has nearly as many definitions as there are people trying to define it. However, in this thesis coordination is defined as presented by Malone and Crowston (1994): “Coordination is managing dependencies between activities”.

In this thesis we also introduce the concept of *residue information*. This particular kind of information aims at explaining additional information that flows between onshore and offshore worksites in order to facilitate and improve the overall work conducted at both sites. An example of residue information is when a process at an offshore site has been improved but does not directly affect the onsite processes. However, if this information would reach the onshore employees they could benefit from it, in the short- or long-run.

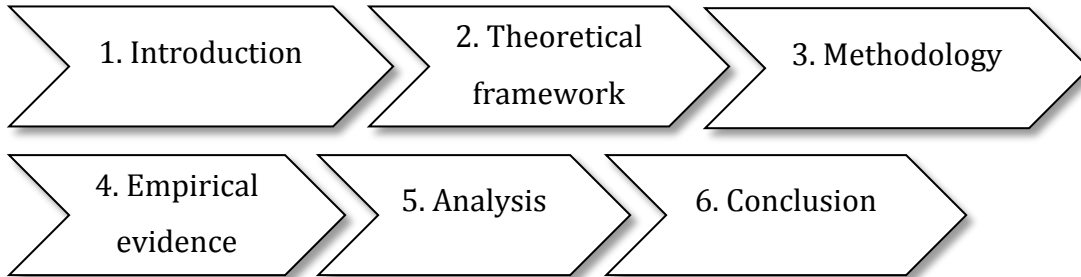
When referring to purchasers in our case study, they are always referred to as females, and when referring to support staff, they are always referred to as males.

1.5. Thesis disposition

The thesis is structured so that the first chapter introduces the thesis. Chapter number two provides the reader an understanding of the theoretical framework that will be applied throughout the thesis. The theoretical framework explains the drivers and trends regarding offshoring and further presents a clear picture of different coordination approaches, and explains how interdependencies of tasks within an organization works in order for the reader to understand challenges and difficulties regarding the subject at hand. In the third chapter we present a transparent picture of our methodological choices and show the reader what tools we have used in the development of our research. This is followed by an account of the empirical findings in chapter four, and in the fifth chapter our theoretical framework will be applied to the empirical findings, which will compose our analysis. The thesis' sixth and last chapter will contain our

main conclusions and also recommendations, for this case specifically, and offshore projects in general, as well as recommendations for future research. See figure 1 for full thesis disposition.

Figure 1 – Thesis disposition



2. Theoretical framework

In this chapter we will present the theoretical framework from which our study has taken its base and our aim is to present relevant literature within the field in order to create common ground to proceed from.

2.1. Service offshoring drivers and trends

We will begin by looking into the emergence of offshoring as a concept and the underlying reasons for its prevalence. In addition, literature on current trends and developments will be presented.

During the first industrial revolution which took off in the middle of the 18th century, the economic driver of the western economies shifted, from agriculture to industrial production. Further down the road the second industrial revolution started, roughly a century later, and changed those same economies from industry driven economies to service driven economies. Offshoring has later been referred to as the third industrial revolution (Blinder, 2006). In this way Blinder (2006) does not only point to the immense implications that offshoring can possibly bring to western economies, but also that it is not likely to lead to massive unemployment as some people argue. During the two previous industrial revolutions there were also major worries of a severe impact on employment; however the worry turned out to be overstated. In earlier times the industrial economies have not only stood their ground during comparable changes but also have benefited from such, and are therefore likely to do so again. Furthermore Blinder (2006) adds that the “threat” of offshoring should not be exaggerated, the first industrial revolution did not abolish agriculture from western economies, and the second industrial revolution did not abolish manufacturing, nor will the third industrial revolution abolish impersonal services from the western economies. Bryson (2007) adds to this notion by claiming that companies which relocate to offshore locations will still need a presence in the local market in order to deal with complex issues, or in order to be able to exploit differential and complex comparative advantages.

The trend of offshoring is far from a new phenomenon and has been applied to manufacturing ever since 1911, when Ford started manufacturing cars in England (Stringfellow *et al.*, 2008). Nevertheless, offshoring applied to services is a relatively new phenomenon, and is usually

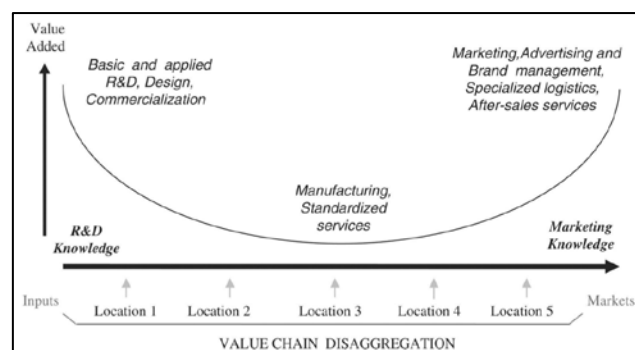
driven by lower cost, foreign market presence, the possibility to develop around-the-clock customer service, or to access skilled labour (Bryson, 2007). Additionally, firms also seek foreign presence and establish offshore locations in order to take part of certain clusters. An example of such a cluster is the fashion industry in Milan, where presence allows fashion companies to indulge in the latest fashion trends and profit from the existing talent. Similar examples are to be found in Silicon Valley in California, U.S., for high-technology companies or in Bangalore, India, for service companies (Stringfellow *et al.*, 2008).

What services are possible to offshore is usually determined by four main characteristics; services that are IT-intense, codifiable, have an IT-transmittable output or require limited face-to-face interaction (Bryson, 2007). Mudambi (2008) concluded that firms combine the comparative advantages of geographic location with their own resources and competencies in order to maximize their competitive advantage. He argues that most companies only offshore low value added activities, something that created the “smile” of the value chain, as illustrated in figure 2. However, companies have also started to offshore high-end work, which is harder to codify and that earlier was looked upon as core to the businesses. This type of work includes for instance chip design, financial and legal research, and clinical trials management (Couto *et al.*, 2006). The fact that many companies now also offshore high value added activities implies that Mudambis’ (2008) “smile” of the value chain might already be outdated. To offshore high value added activities do however create difficulties with knowledge transfer, something that is discussed further down in this thesis.

Today we also note an increasing discussion in the literature regarding re-shoring of activities. Already in 2009 a group of McKinesy consultants released a report

discussing the diversification of offshoring services (Mesøy *et al.*, 2009). The main idea behind this report was that companies should diminish the risks of geographical exposure, currency and labour issues by diversifying their activities across several regions, and amongst these include locations in western economies. In an article published by KMPG (Justice, 2012), named *The*

Figure 2 – The “smile” of the value chain



Source: Mudambi, 2008

Death of Outsourcing, back-office processes and services are argued to have been *too* successful in low-cost countries and has given rise to a growing middle class in these regions which consequently serves to raise labour costs (however, he also notes that it has created a new large potential consumer market). Companies are urged to revisit their back-office models in order to rethink the way they are constructed today. In a special report presented by *The Economist* in early 2013 (Booth, 2013) we can read that 24% of the companies that participated in the survey intend to change their manufacturing source between low-cost countries, and up to 19% have intentions of re-shoring their manufacturing, compared to only 9% in 2009-2011 (see figure 3). However, this does not apply to services to the same extent since transportation costs, which are an increasing driver to move manufacturing back to the industrialized countries, are not an issue in IT transmittable work. Although the pace of service offshoring is stagnating as a consequence of the fact that most of the work that can be moved abroad has already been moved, and there are some indicators pointing towards expansion of IT and business-service centres in e.g. the U.S. in the near future (Booth, 2013).

Figure 3 – Companies’ intentions to change manufacturing source



Source: Booth, 2013

2.2. Organizational theory

In this chapter we will present a theoretical framework for coordination, task interdependencies and task stickiness. This chapter will show that even though most research on coordination and interdependencies were conducted during the 1950’s, 60’s and 70’s, and not much has been done since, it is still applicable to a certain extent today. The fact that not much research has taken place within this field since indicates that it is still valid. At the same time, the little research that has been conducted, places it and modifies it to a globalized context. This chapter will also discuss knowledge transfer and hidden costs in relation to offshoring.

2.2.1 Offshoring processes

The initial stage of any offshoring process is the splitting up of work or a common goal into tasks and activities (or even sub-tasks and sub-activities) in order to distinguish which of those can be assigned to offshore actors, and which the organization benefits from or is required to perform onshore (Malone and Crowston 1994). The breaking down of the finalized product could be identified with what Malone and Crowston (1994) describe as goal decomposition, where the combination of the sub-goals makes up the desired goal.

According to Kumar *et al.* (2009) there are two perspectives from which offshoring can be observed; the strategic perspective and the operational perspective. The strategic perspective is what initiates an offshoring process, and at this point the firm evaluates the drivers and the risks of distributing its work globally. Strategic discussions are related to the investment in terms of resources, governance, cultural differences, and local circumstances such as infrastructure and regulations. After this initial phase, and when the firm has taken the first step to offshore certain processes, the original strategies have to be implemented and executed, and this is what is meant by the operational perspective of offshoring. Now the firm's managers will be forced to focus on the actual processes of work distribution, and define exactly what activities and tasks to keep co-located and which to offshore. As described below, literature suggests that the greater the interdependency of tasks and activities, the greater is the need for communication and coordination (Galbraith, 1976; Kumar *et al.*, 2009; Srikanth and Puranam, 2011; Van de Ven *et al.*, 1976; Vlaar *et al.*, 2008).

2.2.2 Coordination

What all organizations have in common is the need for properly functioning coordination, and coordination can be argued to be one of the main pillars of organizational theory. It is essential as it links together the different parts of the organization, and ultimately if successful, the organization's mutual goal can be reached through it (Van de Ven *et al.* 1976). However, according to Malone and Crowston (1994), coordination is mostly in focus when not functioning properly, whereas the coordination of a well-functioning organization is close to invisible. In order to create a well-functioning coordination system, different strategies and methods can be used. The study of coordination goes back to well-sited March and Simon (1958), which suggested that there are two general ways of coordinating an organization; either by

programming or by feedback. Coordination research today still takes ground in the work by March and Simon (1958), but it cannot be fully applied in the context of offshoring. Srikanth and Puranam (2011) put the different programming and feedback coordination modes in this context, and argue that a third coordination method should be added to the two existing modes; namely the creation of common ground and tacit understanding (see table 1 for a summary of coordination modes). Programming is an impersonal mode in which coordination is exercised with little personal interaction, and is run through clear instructions, pre-established plans, schedules, formalized rules, policies and standardization. On the other hand, the feedback mode is heavily built upon mutual adjustments based on new information. The feedback mode is most usually run through a personal mode or a group mode, where a personal mode suggests that individuals communicate and make adjustments either vertically or horizontally, whereas a group mode is more prone towards scheduled or unscheduled meetings as well as committee meetings. Since the feedback mode relies on constant and on-going communication, this mode has been made more difficult in today's dispersed organizations due to e.g. physical distance and time zone variations (Srikanth and Puranam, 2011).

Kumar *et al.* (2009) aim at providing distribution guidance for operational level and work design in the offshoring process, and argue that the essence in any such activity is the coordination of the work distributed across different geographical areas, e.g. between onshore and offshore actors. Therefore, the work by Srikanth and Puranam (2011) becomes particularly important as it focus on this kind of work distribution and the mechanisms between onshore and offshore business activities, and how to coordinate such processes. They argue that when finding the individually correct combination of coordination methods, many MNCs today tend to overinvest their energy in creating personal channels and emphasize the feedback mode, at the expense of tacit coordination mechanisms, which according to Kumar *et al.* (2009) are of underestimated importance. For example, if an employee who is offshoring a task would add something extra to a standardized task; this might call for additional communication and explanation between the executing offshore employee and the onshore employee. If, however, there is a prior relationship between the two parties, the executing employee might be able to interpret the actual task in a correct manner as both employees are likely to have developed similar perceptions of the task.

Table 1 – Different coordination modes

Coordination mode	Way of coordination
Programming	Clear instructions, pre-established plans, schedules, formalized rules, policies, standardization.
Feedback	Personal mode through mutual adjustment or group mode through scheduled or unscheduled meetings.
Common ground and tacit understanding	Creating common interface, language, culture, etc.

Source: Srikanth and Puranam, 2011

The importance of common ground has also been lifted by Vlaar *et al* (2008) who found that more senior employees at an offshore site were not in need of the same amount of communication in order to execute a task as newer employees, and that offshore team members who had earlier been onshore had a better understanding and view of what the onshore operation wanted. This argumentation strengthen claims made by e.g. Van de Ven *et al.* (1976) who argued that if organizations fail in establishing some degree of standardization and struggle in creating a common ground with clear guidelines, they are running a large risk of having to spend too much time on continuous coordination which will be unnecessarily expensive from a cost-saving perspective. This further shows that even though a lot of the research within coordination is more than half a century old, the findings are still quite accurate.

Coordination becomes particularly vital when dealing with interdependent offshoring processes, as the benefits gained by engaging in the process actually might be outweighed by the negative effects caused by coordination obstacles (Srikanth and Puranam, 2011). Therefore, to offer an appropriate background, we will further look into task interdependencies.

2.2.3. Task uncertainty and interdependence; stickiness

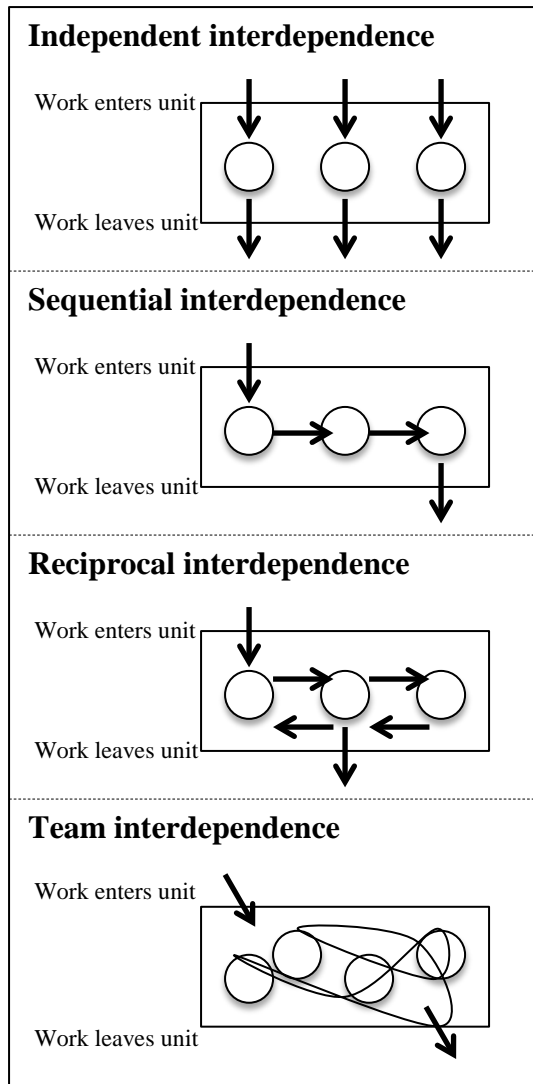
Galbraith (1973) continued the work by March and Simon (1958), and added that if a task is understood to its fullest degree before execution, much of its activities can be pre-planned. However, if this is not the case, a poorly understood task requires that additional knowledge has to be acquired during the execution processes, which will consequently create disruptions in resource allocations, schedules and priorities. Moreover, current research shows that tasks which

are transferred across global distances run additional risks of losing intellectual property due to e.g. political circumstances (Kumar *et al.*, 2009). Galbraith (1973) refers to this phenomenon as *task uncertainty* (the difference between information required to perform a task and the information at hand) and claim that the greater the task uncertainty, the greater the amount of information that has to be processed during the actual execution of a task before it can reach the anticipated level of performance. Van de Ven *et al.* (1976) build upon this work and notes that all modes of coordination; programming through an impersonal mode, and feedback through personal or group modes, are commonly used in organizations. The study further takes both *task uncertainty* and *task interdependence* into consideration. von Hippel (1994) later integrated the two concepts and referred to tasks with a high level of uncertainty and interdependency as tasks with “sticky” interdependence and those with low levels of uncertainty and interdependency as tasks with “non-sticky” interdependence. However, the concept of stickiness does not apply in cases of collocated work (Kumar *et al.*, 2009). Task uncertainty is defined by Van de Ven *et al.* (1976) through the *difficulty* and *variability* of the work, and can simply be described as the harder the task, in terms of number of work exceptions encountered while performing it, and the amount of thinking time to solve the problem, the higher the task’s uncertainty. Whilst task interdependency refers to the degree to which a unit is dependent upon another in order to perform their individual job.

2.2.4. Interdependencies

Kumar *et al.* (2009) build upon the work of Van de Ven *et al.* (1976), which took ground in Thompson (1967) and divided the different levels of interdependencies of tasks into independent, sequential, reciprocal, and team interdependence (see figure 4). Independent workflow indicates that tasks and activities are performed by individuals, and there is no workflow in between them; everybody offers their own output. Sequential workflow suggests that tasks and activities flow between individuals, but only in one way and can be compared to a conveyer belt where the output of one person’s work becomes the input of the next person’s work. In the reciprocal workflow, the tasks and activities flow in a reciprocal “back and forth” manner over a period of time, much like a product development situation where the customer and manufacturer volley different aspects to each other. Lastly, the team workflow is when workers attack, analyse and problem-solve at the same time, much like a football team during a football game.

Figure 4 – Classic taxonomy of interdependencies



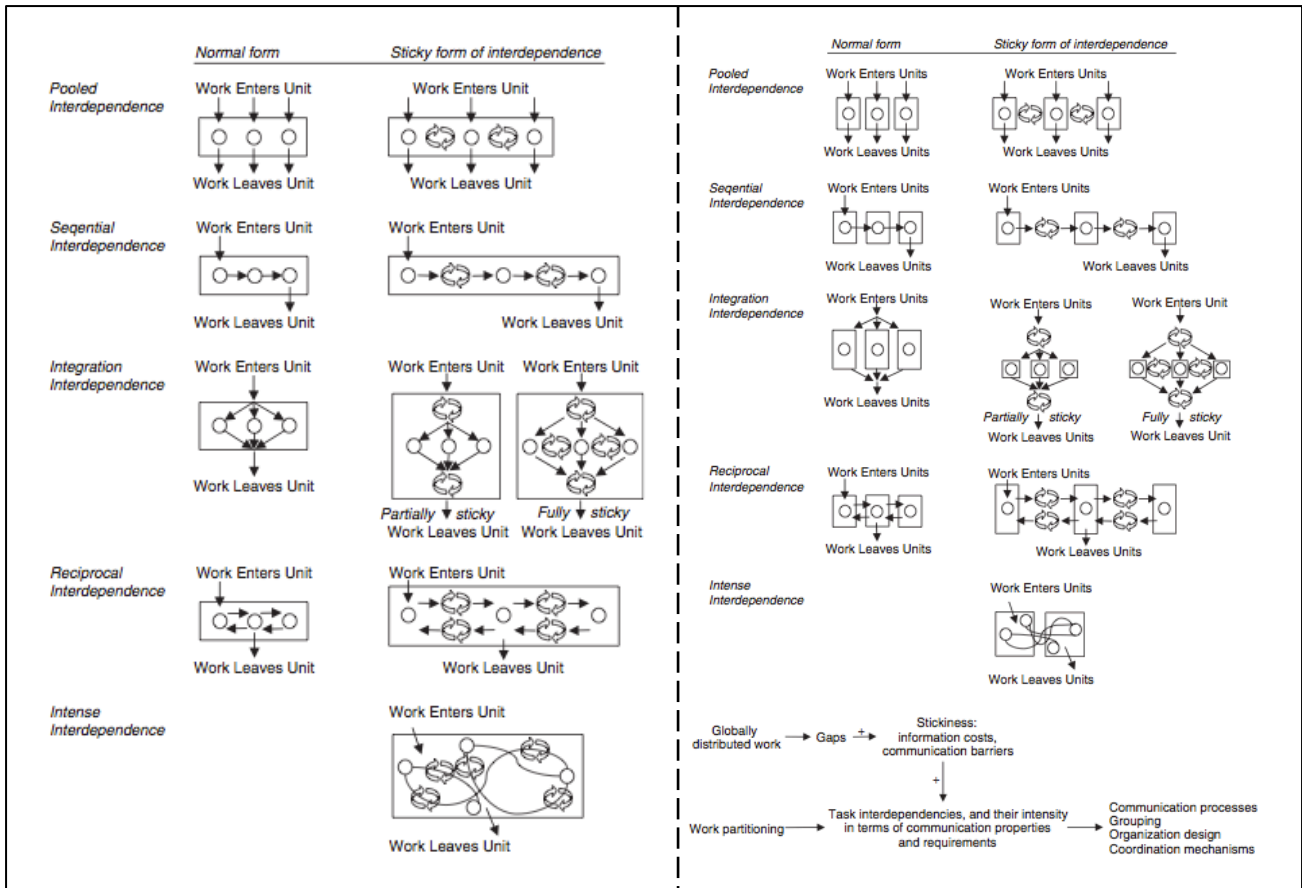
Source: Own compilation of Van de Ven *et al.*, 1976

integrated as a final step of the process. It also differs from reciprocal and team interdependence since the sub-tasks still are performed completely separately.

The classic taxonomy of interdependencies are well recognized. However, Kumar *et al.* (2009) criticize the classical approach and claim that it needs additional theoretical work to fit a modern context. They argue that there are three main reasons to revisit interdependencies; globalization and its impact on communication, the shift from manufacturing to knowledge work, and increasing product complexity. Further, they claim that the classical taxonomy does not only apply to collocated work, but that it also applies to what they call *integration interdependence*. This interdependence is characterized by a task which is subdivided into sub-tasks, and where the sub-tasks are performed separately, but where the output of these tasks does not individually add value. Furthermore the tasks require integration with each other after they are finished, and the individual actors thus need to be aware of the status and changes going on in other sub-tasks that are being performed. Further, integration interdependence differs from independent and sequential interdependence because the separate outcomes in independent interdependent tasks do not affect each other, and the different outcomes in sequential interdependence are not

Kumar *et al* (2009) also show that, since work was mainly collocated when the initial research on interdependencies was conducted, this research also omitted stickiness, and added this as a complement to the original taxonomy of interdependencies. Figure 5 offers a full account of the revised taxonomy, and in the right part of the figure we can note how they have divided the work units as to represent globally dispersed work.

Figure 5 – Revised taxonomy of interdependencies



Source: Kumar *et al.*, 2009

As can be seen in figure 5, Kumar *et al.* (2009) also replace team interdependency with *intense interdependency*, which they argue can only concern sticky information since it requires intense interaction, and actors work simultaneously, change constantly and produce information that all actors must stay continuously aware of.

2.2.5. Coordinating interdependencies

March and Simon (1958) recognize that the simplest method of coordinating interdependent tasks is by rules and programmes, where the necessary behaviours and actions are planned in advance of its execution. Van de Ven *et al.* (1976) identified which situational factors determined the use of a certain mode of coordination, e.g. rules and plans or unscheduled/scheduled meetings (see “Coordination factors” in Appendix), where the most common way of coordination was found to be by rules and plans throughout the whole spectra of different situational factors. Coordinating through rules and plans were shown to be especially preferred when dealing with larger groups, but coordination is a little bit more prone towards scheduled and unscheduled meetings as the task interdependency rise. However, research regarding interdependencies has been limited since the 1970’s and is today criticized for not taking global teams into consideration. In order to manage the remaining stickiness that arises in globally dispersed work, Kumar *et al.* (2009) suggest to either invest in reducing stickiness through standardization of work; provide cross-site, cross-organization, and cross-cultural awareness; to immerse the context of one site into the other site’s context; use bridging technologies such as telecommunication or air travel; or enable teleconferencing, video-conferencing, and desktop sharing. Table 2 summarize the different ways of managing globally disperse work.

Table 2 – Ways of managing globally dispersed work

Standardize work
Provide cross-site, cross-organization, and cross-cultural awareness
Immerse the context of one site into the other site’s context
Use bridging technologies such as telecommunication or air travel
Enable teleconferencing, video-conferencing, and desktop sharing

Source: Kumar *et al.*, 2009

Similar studies to the one by Van de Ven *et al.* (1976) has not been conducted in a technologized global environment, and Kumar *et al.* (2009) are the first to do theoretical work in this area since. However, the common mind-set seems to be that the general conclusions of Van de Ven *et al.* (2009) hold, but need adaption to fit a more modern reality (e.g. Bell and Kozlowski, 2002; Kumar *et al.*, 2009).

2.2.6. Difficulties with interdependencies

There are several difficulties associated with an interdependent organization, e.g. coordination failures, referring to obstacles that occur when one part in the organization is dependent on being able to predict actions taken by another part in order to optimally fulfil its actions, and for some reason fails to do so (Puranam, Goetting and Knudsen, 2010). Also as noticed by Puranam *et al.* (2010), optimal actions are unlikely to be taken by both parts in an organization if one part gains from not doing so. For instance, different kinds of rent-seeking behaviour might occur such as free-riding and hold-ups. Kretschmer and Puranam (2008), Malone and Crowston (1994), and Grant (1996) also participate in the discussion and point out the potential of internal conflicts due to contrary objectives within the same organization. However, it is not only a matter of potential problems associated with objectives; an organization characterized by interdependencies is also often reliant on extensive communication and in case it is not functioning it could also be seen as a coordination failure (Puranam *et al.*, 2010).

Hence, when having an organization characterized by interdependencies it is central to put in place both formal and informal incentives and increase motivation for all counterparts to take optimal actions from the perspective of the organization (Puranam *et al.*, 2010). Kretschmer and Puranam (2008) as well as Malone and Crowston (1994) further discuss the need to create incentives to motivate the necessary communication and cooperation in order to get there. In this matter, however, the previous literature tends to focus rather extensively on how to manage such interdependencies, but to quite a limited extent on the optimal structure or guidance in such an organization.

Kumar *et al.* (2009) state that the larger the interdependency is the larger the risk of the organization actually losing control of the entire process, as globally interdependent tasks require communication and coordination to a larger extent. Consequently, this conveys greater threats of breakdowns in the processes, and subsequently the threat of losing control is more prominent.

2.3. Knowledge transfer

Srikanth and Puranam (2011) and Vlaar *et al.* (2008) bring up an important topic, writing about tacit understanding. They might not be referring explicitly to knowledge transfer, but the subject is closely related. Grant (1996) claims that common knowledge and common ground such as a

common language, symbolic communication, the same computer systems, shared meaning and mutual recognition of individual knowledge facilitates knowledge transfer to a great extent. Many researches have touched upon the subject of absorptive capacity (e.g. Baldwin, Magjuka and Briant, 1991; Gupta and Govindarajan, 2000; Minbaeva *et al.*, 2003) and it is commonly looked upon as one of the most important factors of knowledge transfer. Minbaeva *et al.* (2003) conclude that any transmission of knowledge is useless if the recipient does not know how to use the knowledge. This is closely related to an offshore project in the sense that if the offshore employees does not know or understand the tasks sent to them, or if they cannot absorb the task in a correct manner, the process will fall apart. Also, the absorptive capacity of employees is correlated with the motivation of the employees (Gupta and Govindarajan, 2000; Minbaeva *et al.*, 2008; Szulanski, 1996), and the ability to utilize any absorbed knowledge will be low if motivation is low (Baldwin *et al.*, 1991).

Difficulties regarding motivation, and consequently absorptive capacity are however not the only factors that influence the difficulties of knowledge transfer. In addition, the characteristics of the knowledge transferred, of the source of the transfer, the recipient of the transfer and of the context in which the transfer takes place will also influence how well the knowledge is transferred (Szulanski, 1996). As mentioned above we do not aim to equalize knowledge transfer with the processes that go on in relation to service offshoring, but we do believe that many of the characteristics are related. Szulanski (1996) notes a variety of different difficulties with knowledge transfer, including the lack of motivation of both the source and the recipient, as well as the lack of absorptive capacity, which is argued to be a function of the pre-existing stock of knowledge.

2.4. Hidden costs when offshoring

In the backwater of offshoring processes, hidden costs not initially accounted for might occur, affecting whether or not the offshoring project is beneficial from an economic perspective and heavily affect the rationale of the decision. Larsen *et al.* (2012) argue that some implementation costs are often ignored when taking the strategic decision whether or not to offshore certain parts of the organization. One major such potential hidden cost suggested is the under-estimation of the amount of coordination needed in order to get the new organization up and running, and efficient

enough to satisfactorily replace the old one. Additionally, somewhat related to the problem, is that knowledge transfer tends to be trickier than most MNCs account for. MNCs able to minimize such negative impacts lean towards having an organizational design characterized by clear structures and processes as well as prior experience from such activities, and hence these MNCs are able to more efficiently deal with the complexities of offshoring. MNCs that fail in estimating these costs might even regret their decision and end up having to re-shore the earlier offshored activities (Larsen *et al.*, 2012).

Except for hidden costs, there are also examples of MNCs that have discovered hidden positive externalities such as economic revenues or other benefits associated with the offshoring of certain services (Larsen *et al.*, 2012), and the famous reference “went for price, stayed for quality” (Dossani and Kenney, 2003) is a well-cited example where an MNC offshores for cost-saving reasons but experiences other positive aspects that end up being more important for the MNC than the *de facto* cost saving.

3. Methodology

The methodology chapter focuses on the research methods of the thesis, and further includes a detailed description of the work process and progress throughout the time during which the research took place.

3.1. Research approach

Within the research area of International Business (IB) the interaction between people is central. Our perception of reality is subsequent to change at any given time, and therefore our research is also conducted within this reality. It is important for us as researchers to acknowledge the biased perception of reality which exists within ourselves as researchers and critics, and therefore adjust our research as to allow for these perceptions without forfeiting the core of our research. Hence, we believe that IB should be conducted with a constructionist approach (Bryman and Bell, 2011), which acknowledges that reality is contingent upon how we communicate it. Our ontological positioning could be argued to be close to constructionism rather than objectivism, seeing as we argue that social phenomena are highly dependent of social actors (Bryman and Bell, 2011). Moreover, to bring hypothesis to the field and compare it with empirical findings do according to our research philosophy create the highest possible validity as we do not give too much prestige to the hypothesis set out on forehand, and we underline flexibility. By allowing for this flexibility we consequently take an epistemological position close to critical realism (Bryman and Bell, 2011), as we, unlike positivists, do not believe that the scientific conceptualization directly reflects the actual reality. Rather than that, one way of understanding reality is obtained by combining it with theory.

As this thesis aims at uncovering in what way onshore coordination processes affect the results in an offshore project, we argue that the best possible way to understand the research phenomenon is through qualitative research since this approach allows for a richly descriptive interpretation (Merriam, 1998). Further, in order to acquire a comprehensive understanding of these processes we argue that it is optimal to capture information directly from the end user through a series of in-depth interviews. Additionally, the nature of our case study calls for a qualitative approach since limited amounts of official documents regarding the coordination exists, and in order to

truly understand the actual application of coordination we argue that in-depth interviews are the preferred approach. If instead using a quantitative approach (e.g. collecting survey data), we would have had to break down the research into smaller parts and analyse these as the variables of our research. Therefore, in order to understand the phenomenon and how all parts of our research problem work together as a whole, in contrast to just parts of it, the qualitative approach was chosen. This approach was also chosen since we wanted to be able to respond to the context of our research and adapt our techniques to the circumstances (Merriam, 1998).

Furthermore, we argue that a qualitative approach, with presence at the offshore site, as well as at the onshore site, conducting face-to-face interviews, is to be preferred over a more quantitative approach, not only because the feelings of the respondent are captured in a superior way, but also because of the greater understanding of all aspects that is possible to gain by having actual presence.

The case study approach has been chosen because our focus is on understanding a current phenomenon in a real-life context (Yin, 1994). Moreover, since the existing literature within the specific field is limited, it is preferable to use a case study approach in order to better understand the area of study, and apply a new perspective (Eisenhardt, 1989; Ghauri, 2004).

3.2. Design and case selection

Because the research was conducted in a cross-border, cross-cultural setting, this could have caused discrepancies in the understanding of our questions if the research would have been conducted through e.g. questionnaires or over the phone (Marschan-Piekkari and Welch, 2004). Consequently, our in-depth interview approach was superior as it allowed us to confirm mutual understanding of questions asked, and we were also allowed to keep asking questions until we received sufficient answers to our questions (Ghauri, 2004).

We wish to draw general conclusions from this thesis and for that reason a multiple case design might have been preferable, but as the thesis also aims to *specifically* explain how onshore processes can affect results in an offshore project, a single case study design was chosen (Ghauri, 2004).

Further, as we want to thoroughly discover and understand the chosen research phenomenon it was important to pick a case study which sufficiently included all aspects we wanted to investigate to maximize our potential learning (Merriam, 1998). Hence, we used purposive sampling and choose our case based upon our conviction that it closely reflects the average MNC's situation in regard to this phenomenon, and therefore we have used what is known as typical sampling which should give the thesis external validity (Merriam, 1998). The case which we have studied has been Volvo GTT's purchasing division and the offshore project therein, known as PSC, which includes an array of administrative tasks to be performed in Bangalore, India. We believe our case to reflect the average MNC because the company is extensively globally dispersed, have organizational experience from different industries (e.g. the bus, construction equipment, and nautical industry), and are active within all steps of the value chain, from presales to aftermarket.

Yin (2003) argues that the main limitation when conducting interviews is the biased behaviour of the participating actors, interviewer and interviewees, as this can negatively influence the data outcome. However, we argue that this case study has been naturally triangulated through interviews with persons at different hierarchical layers of the organization and at different country sites. Hence we reduce the likelihood of misinterpretation and increase our understanding and explanation, and consequently raise the validity of our thesis (Ghauri, 2004; Yin, 2003).

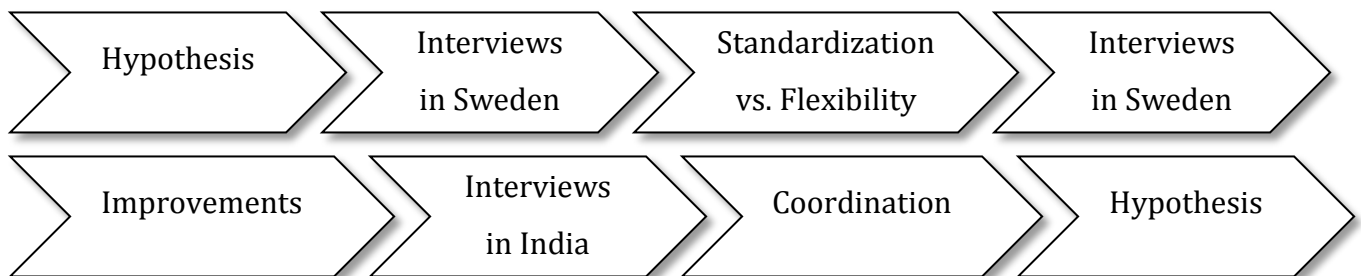
3.3. Research process

Our research started by noting an imperfect onshore establishment at the Volvo GTT site in Gothenburg, based upon an early pilot interview with a previous purchaser. Our hypothesis was that all purchasers at Volvo GTT use PSC differently, which we believed would lead to discrepancies in the *de facto* cost savings versus planned cost savings. Moreover, we assumed that if all purchasers send different tasks to PSC, the full potential of economies of scale would not be utilized and costs would not diminish in the way Volvo had planned. Rather early in the process we realized that this hypothesis held; purchasers did in fact use the PSC differently, and our research continued beyond this hypothesis. Now we had found what we believed to be an imperfect onshore establishment. We wanted to understand whether this flexible approach was a preferred way to use a back-office, or if a more standardized format was preferable. We searched

for an answer in existing literature and continued to perform interviews at the Volvo GTT site in Gothenburg. During these interviews we picked up numerous suggestions from purchasers and their managers on ways of how to improve the back-office, i.e. the offshore site. This led us to a false notion of having all the answers regarding how to create an optimal onshore–offshore relationship. Had it not been for our visit to the offshore site, this thesis would have a completely different outcome.

On arrival in Bangalore we quickly realized that many of the changes that we believed to be necessary in optimizing the relationship between the onshore and offshores sites had already taken place, some of them years ago. However, the communication of these changes and implementation of improvements, were seemingly quite inadequate, as the onsite personnel knew very little about them. At this point we started to investigate the root of this coordination flaw, and deepened our knowledge within the coordination literature. Owing to our ability to respond to the context of our research, we started focusing our interview questions towards this area and dug deeper into internal Volvo GTT documents regarding coordination. The research process is illustrated in figure 6, where we started with a hypothesis of an imperfect onshore establishment, and after interviews and de-tours returned to a similar hypothesis, still questioning the onshore establishment, however this time focusing on coordination rather than whether or not all purchasers utilize PSC similarly.

Figure 6 – Research process



3.4. Data collection

Our initial lack of knowledge and constrained access to the organization has limited the study in such a way that we have only been able to do our interviews based on network sampling (Merriam, 1998), i.e. we were not initially able to choose our interviewees in a strategic order. Rather than that we conducted interviews in the order that they appeared, owing to the fact that we could utilize internal networks once we had established a contact at Volvo, and were directed to the appropriate people.

Nevertheless, we believe that the limitations of the study do not extensively affect the analysis or conclusion derived from it. Even though the context in which the study has taken place, a single firm case, should indeed be taken into consideration, the study provides important general insights and wisdoms of offshoring projects conducted by an MNC, including both benefits and drawbacks.

3.4.1. Primary data

Primary data, including interviews, observations and certain documents, is central when applying a qualitative approach to research (Merriam 1998), and has been fundamental in this report. In-depth personal interviews have represented our largest source of primary data, and the interviews were conducted in a semi-structured manner, following an interview guide with certain areas of interest that we wanted to discuss. The areas of focus in our interview guide can be seen in table 3. During the interviews we did however put emphasis on certain of those areas contingent upon the position and personal experience of the particular respondent.

Table 3 – Interview guide, areas of focus

Current situation and work load at the PSC	Skills and motivation of PSC personnel
Initial objectives with PSC	Recruitment at PSC
Potential Improvements at PSC	Follow-up and evaluation of PSC activities
Risks and problems with PSC	Purchaser's usage of the PSC
Guidelines for the usage of PSC	Quality of the work performed at PSC

Using an interview guide leaves room for adaptation of the questions during the interviews, but it also offers a somewhat clear structure of the content of the interviews in advance (Patton, 2002). This type of interview allowed for a more pragmatic approach when interviewing personnel at

different hierarchical levels, and even though we did not replicate exactly the same questions to the respondents we found it possible to attack our respondents from different perspectives. However, this type of interview does cause a problem to the matter of comparability. In order to circumvent this issue we made sure that every interview touched upon the same main issues, and that we were able to extract the most important information in regard to our topic. On those occasions where we felt that it was necessary, we also complemented our interviews with a follow-up discussion, either through e-mail or an additional interview. A draft of the thesis was also provided to the respondents before completion, in order for them to review our findings and correct any misconceptions or errors. This resulted in a few minor changes mainly associated with confidentiality, but nothing of significant importance for the thesis. In table 4 a summary of where the interviews were conducted is shown, how many interviews we did at the different sites and how they were conducted. In order for us to understand the complete nature of the offshore operations at Volvo GTT's purchasing division, interviews were conducted both at the onshore site in Gothenburg, Sweden, and at the offshore site in Bangalore, India. Furthermore, interviews were conducted throughout all the hierarchical layers at the different sites, from end-users to top management.

Table 4 – Illustration of data collection

Location	Number of interviews	Interview mode
Gothenburg, Sweden	9	Personal – In-depth
Bangalore, India	11	Personal – In-depth

See “Detailed list of interviews” in Appendix for a complete review

All interviews were recorded and the essences from all interviews were transcribed, additionally the interviews that we judged to be key ones were transcribed in full. Also, all interviews were held in the language were both counterparts (i.e. respondents and ourselves) were most confident, accordingly Swedish with Swedes and otherwise English.

In addition to these interviews we were also allowed access to certain managerial meetings and everyday work life at PSC in Bangalore, India. During the four weeks we spent in Bangalore, we had our own desk at the PSC office which allowed us to take in the atmosphere and make continuous observations, as well as unofficial discussions regarding the offshore project with people on all levels, which we argue increased our understanding significantly.

3.4.2. Secondary data

Secondary data (e.g. surveys, questionnaires, tests etc.) are often associated with quantitative research (Merriam 1998), yet we decided to include it to some extent as a data source in our work as it allowed us to triangulate certain claims made by our respondents. In this way the secondary data did not only separately add valuable information, but clearly also contributed to the overall reliability of the thesis. During the time we spent at the PSC site in Bangalore, we were granted access to various internal organizational documentations that served as secondary data in our research. The data included for instance power point presentations, excel sheets containing PSC usage statistics, email correspondence, as well as information regarding different costs of personnel and other overhead costs.

4. Empirical findings

This chapter will include the empirical findings derived from interviews conducted at the Volvo GTT sites in Gothenburg and Bangalore, as well as from documents and observations collected at these sites. In order to facilitate the understanding of the organizational aspects we will also offer an overview of the organizations that has been the subject of our case study; Volvo GTT Purchasing and the PSC.

4.1. Volvo GTT purchasing

Volvo GTT is, seen to turn-over, the largest segment within the Volvo Group and has purchasing offices spread world-wide. The most prominent offices are situated in U.S., Sweden, France, Brazil, Japan and China, where the two European offices are the largest in terms of head-count. The Volvo Group recently got a new CEO and as a consequence the organization went through a restructuring. Among other things, the restructuring led to that Volvo GTT's purchasing division now is divided into global teams, basically meaning that a purchaser located in Greensborough, U.S., could have her closest manager located in Gothenburg, Sweden.

Moreover, after the recent changes the process thinking is said to have been given a more central part in the organization, with the intention of creating a more efficient organization.

“Before our organization was much more straggly and I am convinced that the new way of emphasizing more on processes is the right track for Volvo and that we will become more efficient in the future”

- Swedish director, Sweden
(Authors' translation from Swedish)

Previously a purchaser was responsible for the whole global purchasing process of her portfolio. However, after the restructuring the process was divided into three parts, and today purchasers are distinguished between based upon which part of the process they are responsible for. To further explain the roles is outside the scope for this thesis, hence we will only be referring to these different areas of responsibility as Part 1, Part 2, and Part 3 (see “PSC organization chart” in Appendix). Although the role has been divided in three, what all purchasers have in common, regardless of which part of the purchasing process they are working within, or where they have

their home office, is the PSC located in Bangalore, India. All purchasers have the possibility to turn to PSC in order to be assisted with certain repetitive administrative tasks.

4.2. Purchasing Support Centre (PSC)

The strategic reason and business case behind the establishment of the PSC is fairly simple; it makes more sense to let someone with a lower salary perform a task rather than someone with a higher salary, given that the quality of the outcome is similar and that there are no significant drawbacks to distributing tasks between different people at different locations.

“...they are paid too much money in Europe to sit and put numbers into a system; we want them to be business people doing business”

- Swedish director 1, India
(Authors' translation from Swedish)

4.2.1. The evolution of PSC

PSC was established in 2006 and back then it was known as POP (Purchasing Outsourcing Projects), and some of our respondents still refer to PSC as POP. In the beginning, the management of the purchasing organisation wanted to see what different tasks could be offshored and handled from Bangalore, and the main driver to relocate any tasks at all was expected cost savings derived from increased efficiency and lower labour costs.

As the managers were aware of the concept of organisational resistance to change, they wanted to stretch the limits of what could be done in Bangalore straight away. The first project to prove competence involved handing out a large part of the operational workload of a purchasing portfolio from a purchaser in Europe to a person situated in Bangalore.

“...this was about a component which is quite complex and we thought that if we could run that operation out of Bangalore, then we could do pretty much anything”

“...then nobody could say that “this or this is too complex to give to Bangalore”, we set an example straight away”

- Swedish director 2, India
(Authors' translation from Swedish)

The pilot project proved successful and after showing the organization that relocating work to Bangalore was possible, the PSC organization started to grow. Right after the establishment of

PSC the offshore site accepted any kind of work in order to grow and prove competence, this was in retrospect considered to be a good thing, as it accordingly did allow for growth.

“...they never said no, that has always been the motto, and they solve everything”

- Swedish VP, Sweden
(Authors' translation from Swedish)

However, the offshore project was never thoroughly evaluated and was kept alive after the initial project basically on the basis that it actually worked.

*“You can evaluate in many different ways, but we didn't do any greater academic evaluation.
Either it works, or it doesn't work”*

- Swedish director 2, India
(Authors' translation from Swedish)

Even though no extensive evaluation has ever been conducted, as stated by a Swedish director working in Sweden, it always has to come down to a business case in the end, and in order to justify the use and potential future expansion of PSC activities it must be proven that Volvo is saving money from this setup. To have someone supporting the purchasers with certain repetitive tasks was not something completely new. Previously, there were assistants providing similar support to the purchasers as PSC does now. The major difference is that PSC handles a greater scope of tasks, and instead of having an assistant sitting in the same building, these tasks are now handled by someone sitting 10 000 kilometres away.

The principal purpose for PSC has not changed since the introduction and the aim is ultimately to support repetitive administrative tasks. Currently, the ratio of PSC staff to purchasers is about 1:12; however, the PSC only supported about 50% of all purchasers as of February 2013 (see “Utility rate at PSC” in Appendix). PSC also supports certain non-core buying activities, for instance including support for purchasers who e.g. buy office material and cleaning services (i.e. not components for trucks). Moreover, PSC is managed by two different managers out of which one has the main responsibility and has been with PSC since 2008. Recently PSC has, just like the Volvo group, gone through an organizational restructure and the support staffs are now aligned so as to be specialized in supporting the different kinds of Part 1–3 purchasers previously mentioned. In practise this means that a certain person at the PSC will mainly support for example ‘Part 1 purchasers’, and thus specialize in the tasks performed for them. However, the

support staff at PSC (which support ‘Part 1 purchasers’) also have a secondary support specialization for either Part 2 or Part 3 purchasers, in order to create flexibility and for the management to be able to move support staff between the functions according to fluctuations in demand from purchasers belonging to the different parts.

Even though the principal purpose of PSC is to support the purchasers, currently also managers are able to use PSC for some returning repetitive tasks. An example of such an occasion is global online meetings, for instance concerning supplier decisions, where people at PSC are handling the meetings, including tasks that have to be done prior and subsequent to the meetings.

“Historically I had to do this [prepare and hold the meetings] myself, but to be honest it works better as it is today ... It is easier for the counterparts in a meeting if all meetings look the same, which is not the case if different managers prepare them differently every time”

- Swedish director 1, India
(Authors’ translation from Swedish)

At PSC, administrative tasks are performed both in an *ad hoc* manner, and on a continuous basis. Certain purchasers might contact PSC with one-time tasks, whereas others (usually the ones with an extensive work-load) use PSC in their daily work and receive continuous personal support on certain tasks. The purchasers that use PSC as a returning part of their work build up a more personal relationship with PSC, and this often leads to these purchaser starting to share more complex tasks with PSC, especially if there is a good personal match and a high level of satisfaction on earlier performed tasks.

Purchasers contact the PSC mainly using three different communication channels. Either by (1) using an earlier established personal contact at PSC, for instance someone who has helped the purchaser in the past or someone who they have been recommended to use by a colleague, (2) by letting their manager know that they need help with certain tasks or that the workload is too high, and asking them to initiate contact with the PSC, or (3) by contacting the PSC manager straight away on their own (see table 5 for summary). When a purchaser use channel 1 in order to establish contact, they are usually referred to the PSC manager, who will then allocate the purchaser the resources she needs depending on what is available at the time. This tells us that

channel 2 and 3 are the “correct” channels through which contact with the PSC should be initiated.

“Sometimes they [purchasers] come with requests, but I usually direct them to my manager”

- Indian support staff, PSC

Table 5 – Different channels of contact

1. Using an earlier established contact
2. Asking their closest manager to initiate contact with the PSC
3. Contacting the PSC manager straight away.

Whenever a request to access support is sent to PSC, the requesting party is also asked to specify how many hours of support they need and on what tasks they need support. The PSC manager will then, based on the actual need for support, assign either a personal contact and a start-up meeting will follow, or assign a one-time support for smaller support requests.

4.2.2. Employee turn-over and start-up

In the early days of PSC, the staff worked exclusively as consultants for Volvo, hired through an external recruiting agency and had contracts that normally stretched over a maximum of two years. In practice this meant that every two years, in any given position, there was a new person hired, and an old employee leaving. However, there was also a tendency that some people left even earlier than that for various reasons.

“She didn’t stay that long, and then there was a new guy. But he wasn’t that good either, but he didn’t stay that long”

*- Swedish purchaser 2, Sweden
(Authors’ translation from Swedish)*

One of the main under-lying reasons for only having consultants at this stage was the perceived need to maintain a flexible team, and that the relatively short time frame of the contracts would allow PSC to rather quickly adjust to changes in the demand for services. Although generally accepted, this has to some extent caused annoyance amongst purchasers, who do not wish to put time and effort into training new support staff due to employee turn-over.

The annoyance has been particularly high as purchasers often experience that they have to educate their contact at PSC, and invest a lot of time in the relationship and build trust, before they are comfortable in handing over tasks, as they are performed in the purchasers' name and the purchaser therefore is ultimately responsible.

“The downside is that we have to put a lot of time into training the support”

- Swedish purchaser 1, Sweden
(Authors' translation from Swedish)

However, the purchasers do not seem to mind too much that they have to teach someone how to perform a certain task, but rather the worry is regarding how long they will benefit from investing that time. In accordance with one purchaser's experience it takes about six months before she starts to gain from making the effort.

“The new guy will take at least six months to be productive”

- Swedish purchaser 1, Sweden
(Authors' translation from Swedish)

Despite, some purchasers indicate that there are tendencies of exaggerations from the own organization on how much work it actually takes to teach new PSC workers their tasks.

“When my support quit, I was pissed off and I thought: “damn, I'll have to go through this again”. But the support trained his replacement himself, and later the next one did the same thing, so it actually turned out really well”

- Swedish purchaser 2, Sweden
(Authors' translation from Swedish)

Moreover, a drawback and problem noted by managers is that the purchasers who most extensively tend to use PSC are those with a heavy workload. If a purchaser fails in predicting an increased workload, there will be little time to set up and invest time in creating a relationship between the purchaser and PSC before it is too late. In this scenario, there will most likely not be enough time to build up a well-functioning cooperation, and as a consequence there is a large risk that the PSC worker will make more mistakes as he has not been given a proper introduction and no relationship is yet put in place. Consequently, the purchaser will most likely be dissatisfied with the quality of the work and will perhaps have to do extensive modifications to it, which

sometimes exceeds the time she would have had to spend if she performed the task herself from the start, and this will further add to her workload, and the level of dissatisfaction is likely to rise.

“It took 3-4 months to work up a good relation, and after a year it worked really well”

*- Swedish purchaser 5, Sweden
(Authors’ translation from Swedish)*

In August 2010 an evaluation was conducted regarding which type of employment was preferable at PSC. A SWOT analysis (see “SWOT analysis” in Appendix) concluded that consultants were the better option since this allowed for flexibility, fast and easy recruitment and high performance. The current head at the Volvo site in Bangalore questions this setup and asks why flexibility is needed at a function that is permanent.

“If it can hurt the company in the long-run, then we have to take action to secure that risk, because I believed it to be a risk”

*- Swedish Director 2, India
about why there was a need
to stop only having consultants
and start securing a base competence.
(Authors’ translation from Swedish)*

Today the majority of the support staff at PSC consists of highly educated mechanical engineers, most of them who applied to become part of the PSC team because of Volvos’ brand name and the possibilities to evolve professionally. There has been discussions whether it would be a good idea to hire less skilled personnel with lower strive to make a carrier, in order to be able to decrease the turn-over at PSC and increase the motivation and acceptance of repetitive tasks that can be perceived as un-challenging and boring for a well-educated worker. However, one returning argument to keep hiring well-educated personnel is that PSC to some extent works as a gateway for the support workers who perform well to earn a position at Volvo.

Nowdays, there is a small group of permanent fulltime employees at PSC, hired directly by Volvo. These employees are the most competent ones, who most likely would have left PSC if they had not been offered permanent positions. This shows that the PSC have rethought its model about how to hire, and today a mixture between consultants and permanent personnel is preferred. With permanent personnel at the PSC it is assumable that the purchasers should feel

more comfortable in handing out tasks to the PSC, as they should be able to rely more on the quality and also know that their support will not leave shortly. Hence they can more easily see the value in putting in an effort towards the relationship.

Another important aspect of permanent employments is motivation, and some PSC workers view full time employments as a step in the direction of potentially becoming purchasers themselves, which further enlarge the motivation to perform on top and learn new tasks.

“It [motivation] changes when you get a full-time position and I have been working harder since. To be honest I’m not sure whether I would have stayed otherwise, but now I’m paid better and get to do better work like some analysis and work more than usual, so yes my motivation increased”

- Indian support staff, PSC

“I don’t have the same worry as some of my colleagues ... You don’t know if you’ll be axed next month [if working as a consultant]. I also know that if I do this even better, I might even get a buyer position”

- Indian support staff, PSC

4.2.3. Attitudes and relations

Despite the fact that PSC has been around for some years now and have become a rather stable part of many purchasers’ work, there seem to be rather mixed feelings amongst the purchasers whether or not working with PSC is beneficial from the purchaser’s perspective.

“...it [the attitude] is rather mixed today, initially it was quite negative, but now I think it’s 50/50. But I think that most people who have tried it [working with PSC] are more positive. That is how I see it, the lesser you have tried it, the more negative comments there are”

- Swedish director, Sweden
(Authors’ translation from Swedish)

Although most purchasers who have worked with PSC tend to be positive, there does not seem to be a conviction about the importance of PSC underpinning the whole organization and some scepticism was noticed by purchasers, even by those who are used to work with PSC.

“...I am worried for PSC, if we will continue using them, and I am worried for Volvo because I don't think that this is a good set-up, cost-wise”

*- Swedish purchaser 3, Sweden
(Authors' translation from Swedish)*

However, this contradicts the management, who is convinced about the opposite. This is somewhat indicating that the information about pros and cons with PSC is not widely communicated in the purchasing organization.

“There's no doubt we'll continue with it [PSC], I think we're right about the set-up we've today”

*- Swedish VP, Sweden
(Authors' translation from Swedish)*

Even if management is satisfied with the set-up and the present organization, the cooperation is likely to miss out on some of its potential if the purchasers using it are not convinced of its efficiency. The attitude is dependent on what the PSC team is communicating and what tasks they take on, and it seems to be important and something of an unfilled gap to communicate the core competences of PSC.

“I think they [PSC] should have more claims: this is what we do and these are our core competencies, if you have any of these tasks we can help you, otherwise we cannot”

“It has been said that they can handle everything, but can they really? It is a question about quality as well”

*- Swedish purchaser 2, Sweden
(Authors' translation from Swedish)*

If not communicated properly, there is a risk that PSC not only receive tasks they are not qualified for, but there is also a risk that tasks are given to them without proper information and guide-lines to understand and correctly perform the task. In addition, management does not want the purchasers to only hand out the tasks that they find to be boring.

“We don't want the purchasers sitting in Europe to view them [PSC] as a waste bin”

*- Swedish manager, India
(Authors' translation from Swedish)*

To have a good relationship between the purchaser and the PSC support is essential, obviously to create trust to hand over different tasks, but also to facilitate the necessary communication between the two.

“The quality you get [from PSC] is based on the quality I give to them... Normally I start a new relation by asking, what do you know how to do?”

- Swedish purchaser 2, Sweden
(Authors’ translation from Swedish)

Trust seems to be a particularly important part of the relation, also since most purchasers with complaints point to failures in trust building as a major reason for dysfunctional relationships.

“You create a relationship to these people and we have worked a lot on that, it was particularly important to say: “come to me if you make a mistake, I won’t tell your boss.” It worked really well, you had to teach them but then they did a great job“

- Swedish purchaser 3, Sweden
(Authors’ translation from Swedish)

Yet, it is not only about the purchaser putting trust in the abilities of the PSC, it is also important that the PSC feel secure reporting any mistakes that have been done to the purchaser, rather than hoping that no one will notice.

“To me it was important to make the POP come to me if anything was wrong. You could say that that is the problem with POP, sometimes you don’t want them to take own initiatives because then things can go awfully wrong”

- Swedish purchaser 4, Sweden
(Authors’ translation from Swedish)

PSC workers turning to the purchasers rather than their team-leaders and managers might do their team a disservice, as problems that the management are not aware of might reoccur rather than being terminated. At least one of the Indian managers seems to think that all problems are escalated, which somewhat contradicts what has been said by the purchasers.

“Yes, some people [at PSC] even escalate very small things as we want to do a good job.”

- *Indian manager 2, India*
Answering the question: “Are all problems escalated?”

Some purchasers express that they almost take on a mentorship-like role for their PSC contact, and take personal interest in developing his skills and abilities. There are many obvious positive aspects of this, especially learning wise. However, it could be questioned whether taking that role is within the scope of the role as a purchaser. Additionally, some purchasers tend to be very attached to the specific PSC contacts they are used to work with, and sometimes they say that they would refuse to work with other contacts as they have made an effort to educate the one they are presently working with.

“I trust my PSC contact, but I wouldn’t let anyone else do these things for me.”

- *Swedish purchaser 3, Sweden*
(Authors’ translation from Swedish)

4.3. Follow-up and evaluation

To follow up and evaluate the work and cooperation between PSC and purchasers could be argued to be central when having an organization as such. This chapter will look into the current procedures and how this is being coordinated.

“There is a risk that everything you don’t follow up regularly might be used for something completely different in only three years.”

- *Swedish director 2, Sweden*
(Authors’ translation from Swedish)

An area where there seems to exist major discrepancies between reality and the perceived situation is regarding the follow-up and evaluation of the tasks performed by PSC. Purchasers seem to know little of how this is being done and perhaps the management do not find it important to inform and explain this to the purchasers. This is a typical example of when there is a need for residue information (see page 5 for definition) to flow between the different parties, as trust most likely would increase substantially if evaluations were communicated more efficiently.

The site director and the PSC team-manager have a forum together, where I participate, and we discuss how to take the PCS team forward and what they should do. From there I take this information to my colleagues, my management team, plus that I inform the managers below me, and they on their hand inform the purchasers. But there is no more structure than that”

*- Swedish manager, India
(Authors’ translation from Swedish)*

The communication flow described above is not officially coordinated this way, but it is merely how this specific manager handles the information on occasion. This seem to not be sufficient enough as there is information that for instance purchasers would benefit from getting, but which never reaches down through the organization. One such example is *Key Performance Indicators (KPI)*.

4.3.1. Key Performance Indicators (KPI)

“The KPIs in India are based on how many emails they answer in a day”

*-Swedish purchaser 4, Sweden
(Authors’ translation from Swedish)*

During our initial interviews in Sweden we understood that the KPI’s at PSC were inadequate. Some of our respondents were very annoyed with the follow-up of the work executed at PSC, since they meant that the KPI’s which were currently in place inhibited high-quality work from being executed at the PSC as the KPI’s only focused on quantitative measures. Other purchasers had no clue about what the KPI’s were. As the current relationship between onshore and offshore personnel is rather personal, some purchasers hold weekly follow-up meetings with their PSC support, resulting in some kind of *ad hoc* forum, allowing for feedback and evaluation of the work conducted by their specific PSC support, yet best practise derived from such meetings are seldom shared. When interviewing managers at the PSC, we were informed of the actual and rather extensive KPI’s at the PSC, contrary to what was believed by the purchasers.

“There are four different criteria that the PSC personnel are measured on”

- Indian manager 1, PSC

The personnel at the PSC have four different KPIs (see table 6); out of which none is based upon a quantitative measure. The first KPI on which the PSC personnel are measured is **Business**

results, which measure what kind of deliveries they have. This includes an overview of whether they meet their on-time targets, or if they have any issues with the quality of their work. The business results are measured from different statistical reports conducted internally at the PSC and the feedback received from different purchasers. Secondly, there is a criterion called **PSC specific competencies**. This criterion measures competencies that are not required in another group or in another team, and involve effective communication, pro-active communication and capacity to stretch. As the PSC is a remote support they value communication to a great extent.

“If a person cannot communicate well over the phone, we are doomed”

- Indian manager 1, PSC

The third criterion is **Leadership competencies**, where focus lies on what kind of presentation skills a person has. The personnel at the PSC are given opportunities to present during certain knowledge sharing sessions where the sole objective is for people to get a chance to present. In their everyday job they do not get a chance to present, so personnel are encouraged to prepare topics on their own and present them in front of the entire PSC team. In addition, leadership competencies are also measured on the capacity to drive activities, handling customer issues and interpersonal skills. Lastly, the PSC personnel are measured on their **Problem-solving skills**. This assesses how the personnel solve issues or roadblocks that interfere with their work. For instance, do they run straight to their manager, or do they try to solve the problem at hand on their own with help from other people in the team or e.g. IT-support? The PSC manager meets up with the PSC personnel individually once every six months in order to go through the KPI's and give feedback.

“So in these sessions I share feedback, and people do show a lot of improvement, and they do acknowledge that “Yes, this is something I need improvement on””

- Indian manager 1, PSC

Table 6 – Summary of the different KPI's at the PSC

KPI	Focus
Business results	On time targets, quality
PSC specific competencies	Communication and remote support specific
Leadership competencies	Presentation- and interpersonal skills
Problem solving skills	Problem solving

At the end of the year, as an extra incentive for improvements, the PSC team members receive an increment on their salaries based on their evaluation of these criteria.

In addition to the KPI's, which evaluate every PSC worker individually, there also exists a Customer Satisfaction Survey that the PSC is said to send out to all purchasers on a yearly basis, however, the latest survey was sent out in 2011. The Customer Satisfaction Survey allows the purchasers to rate the PSC on a scale from 1 to 5 in the categories "Quality", "Delivery", "Responsiveness", and "Overall". They are also given the opportunity to add additional comments, concerns and suggestions. In 2011, the average grade received by PSC regarding their overall work was 3.8, unfortunately the survey only had about a 50% response rate.

"Very reactive and friendly support. Very professional."

"Many small mistakes done on placing orders."

- Extracts from the Customer Satisfaction Survey, 2011

4.3.2. Improvements

Occasionally, in earlier times more than in present times, there is an escalation of certain activities which have gone wrong; e.g. certain activities were PSC have made a mistake that has cost the supported purchaser time and money from her budget. Whenever there is an escalation, raised either from the purchaser straight away or through her manager, the PSC deals with it and minimize the risk that it will happen again.

"We have knowledge sharing sessions so your mistakes are not repeated"

- Indian support staff, PSC

This is done through a process where a template is filled out asking for a root cause analysis and what actions will be taken in order to make sure that the same mistake is not repeated. The template is then uploaded onto the internal network, and an email is also sent to whoever raised the issue in order to let them know how it was solved, and they are then free to share this information in their own groups.

"...we put the document online, but I know that nobody reads it because everybody's busy, so I also mention it in an email"

- Indian manager 1, PSC

It is clear that the same processes regarding knowledge-sharing do not exist on the purchasers' side.

During an interview with a purchaser in Sweden, an example came up of something that could go wrong when working with PSC. A couple of years earlier she had heard about a PSC contact that had placed an order in the wrong currency, which had an immense impact on the supported purchasers work, and took quite some time and energy to modify subsequently. Because of this she viewed currency mistakes as a potential risk when sending certain tasks to PSC. However, during an interview with one of the support staff in Bangalore another side of the same story came to light. The following quote is an example of something that went wrong, and how it was fixed.

“I had made a mistake and placed orders in the wrong currency ... there were some thousand part numbers and we had to manually ask for new requisitions and convert the currency, and it was a lot of work. I didn't want anybody else from my team to make the same mistake again so I contacted the system expert and I asked her how we could do this the easiest way... and we standardized the process of how to convert currency if you placed an order in the wrong currency by mistake. When I had to do it, it took ten hours, now it takes like ten minutes. And I communicated it to the team; if you make a mistake like this there is now a process to handle it”

- Indian support staff, PSC

This process was created almost two years ago. Still, there are purchasers in Europe who believe that if PSC would place an order in the wrong currency, this would create a lot of problems, a perception that is incorrect. Hence, there is an obvious need to better communicate residue information, so that old mistakes do not affect today's trust.

4.3.3. Cost evaluations

On another note, cost evaluations have never been conducted at the PSC. Basically, Volvo has never evaluated whether or not this project actually saves money. One VP claims that it is impossible to measure this kind of projects in terms of savings since the organization is in a constant state of evolvement and there are no comparable points where Volvo can measure before and after the introduction of PSC. What is certain is that purchasers do not perform certain activities any more, but what is unclear is what they do with the time instead.

“If you move 25% of your portfolio abroad, and maybe 5% goes to transfer costs, then you have a 20% efficiency gain. These 20% have to be actively filled up with other tasks, otherwise there is no efficiency gain and you end up spending 25% more time on the same tasks as you did earlier, I believe this to be a success factor.”

“...there is a risk that you increase the costs by 20% to do the same job”

*- Swedish VP, Sweden
(Authors’ translation from Swedish)*

If not adding extra tasks, offshoring certain of the purchasers’ tasks could imply that fewer purchasers could handle larger portfolios and that Volvo to some extent can re-place purchasers with less expensive PSC workers.

“It is also connected with our head-count goals; we recruit in India rather than replacing people in for instance Sweden who quit”

*- Swedish VP, Sweden
(Authors’ translation from Swedish)*

4.4. Strategic decisions

This chapter will look into organizational strategic decisions and guidelines as well as procedures. There are rather strong indications that the strategic plan for the PSC team has been somewhat absent, however, there seem to be recent steps taken in order to change this.

4.4.1. Strategic ownership

Since the start, PSC has been driven and pushed by the people who have been involved with the organization, however there has never been a clear strategy for PSC and there is still no manager assigned with strategic decision-making rights to PSC today. Moreover, the organization does not show on the organizational chart over Volvo GTT purchasing.

“Right now it there is no long-term strategy for PSC”

*- Swedish director 2, India
(Authors’ translation from Swedish)*

This becomes a problem concerning communication and coordination when the ultimate responsibility for processes is somewhat unclear, and currently the organization seems to depend more on individuals and personal interest rather than organizational stability.

4.4.2. Guidelines

“It [PSC] is like a buffet or a smorgasbord, these are the tasks you can get assistance with, but you don’t have to”

*- Swedish VP, Sweden
(Authors’ translation from Swedish)*

How much the purchasers use the PSC is completely up to them, and there are no tasks that are mandatory to send to the PSC for completion. Further, the pressure from the management encouraging purchasers to use PSC tends to be limited as long as the purchaser can handle the workload herself.

“From our perspective, there is no clear picture of how we should work with PSC”

*- Swedish purchaser 1, Sweden
(Authors’ translation from Swedish)*

However, despite the flexibility there exists a list of what different kind of tasks the PSC have the competencies to perform.

“Sometimes we have to say no to a task, because we are bound to only take certain tasks, for example if the buyers ask us to go to suppliers, but we are bound not to go because of our constraints. Then we say no.”

- Indian manager 2, PSC

In North America all purchasers, on the contrary, have the directive to send certain tasks, which are performed in a specific database, to Bangalore. This is a consequence of a reorganization that took place approximately three years ago. Before that the North American purchasers had two full-time assistants that took care of all activities in this specific database. However, when the assistants were cut during the reorganization, due to lower headcount goals, all these activities fell to PSC. In Bangalore this is looked upon as quite a smooth transition since the purchasers did not do this work on their own prior to sending it to PSC anyway. Furthermore, since most North American purchasers always have had this kind of support, many do not know how to work in this database. However, in Europe most purchasers know how this database works, and perform these tasks on their own and only send those particular tasks to PSC when they are overloaded. It seems to work in North America but some managers in the European organization seem hesitant to force certain tasks to be offshored to Bangalore though.

“Even if I have worked as a purchaser myself some years ago, the role is constantly changing and I am convinced that the purchasers themselves know better than I do which tasks they can or should offshore”

- Swedish manager, India
(Authors’ translation from Swedish)

Approximately 6-7 years after the PSC project was started the first steps towards formalization have now been taken. Steering committee meetings are held on a fortnight basis and include representatives, mainly directors but also some managers, from the different parts of the GTT purchasing organization. The sole purpose of these meetings is to discuss issues regarding PSC, but also to share information regarding present activities. These issues can include anything from an upcoming boost in demand of support to more strategic issues, such as how to run the PSC operation in practice.

“I believe the steering committee meetings to be the first step towards some kind of formalization of the PSC”

- Swedish director 2, India
(Authors’ translation from Swedish)

With the first steering committee meeting taking place in January 2013 it is quite obvious, however very surprising, that the PSC has lacked a clear strategy in its early years. It has not been clear to purchasers how to use it, managers have been uncertain about how it should be facilitated and consequently what to communicate to their purchasers, thus PSC support staff have offered a quite flexible support, supporting after best ability and without any clear guidelines. At present, no purchasers participate in the steering committee meetings.

“It could absolutely be an idea to invite purchasers to these meetings, for them to share their thoughts”

- Swedish manager, India
(Authors’ translation from Swedish)

The absence of guidelines on how to work with PSC can be experienced as lack of coordination and create confusion, especially for new purchasers, something that might diminish the efficiency and consequently contradict the sole purpose of the function. When a purchaser takes over a new portfolio, her usage of PSC seems to be more dependent on how the predecessor used to work, rather than instructions from managers.

“I was given a list from my predecessor that she had done herself, and I continued working with it, but there were no rules or frameworks, but rather I worked out with my POP what was reasonable for him to do”

- Swedish purchaser 5, Sweden
(Authors’ translation from Swedish)

During our interviews we have found that the purchasers in Sweden seem to interpret PSC to be a support that can handle any request, based on the purchasers own preferences. This picture might have been somewhat communicated to them from management in the earlier days of PSC. However, we perceive management in Sweden to have a slightly more strict picture today of how the purchasers should work with PSC. All managers we have interviewed were aware of the list of tasks that PSC is supporting, something that all purchasers did not know of.

“We have put in a lot of time at top management level to decide together that: these are the activities they should do ... and now it’s even clearer what they shall do”

- Swedish Vice President, Sweden
(Authors’ translation from Swedish)

However, once again it is questionable how well this is communicated through the organization, especially as purchasers do not seem to be aware of its existence to any greater extent.

“You mentioned a task list in your email, but I didn’t know of it so I started to look around and no one else did either, finally I asked my PSC support who sent it to me”

- Swedish purchaser 1, Sweden
(Authors’ translation from Swedish)

4.4.3. Standardization versus pragmatic approach

“It [complete standardization] has been discussed, however I don’t think it’s doable because the portfolios are so different”

- Swedish VP, Sweden
(Authors’ translation from Swedish)

Whether tasks should be standardized as much as possible, or whether there should be a more pragmatic approach where it is up to the purchasers to what extent they want to use PSC is currently a hot topic discussed by concerned managers at Volvo. From the perspective of the

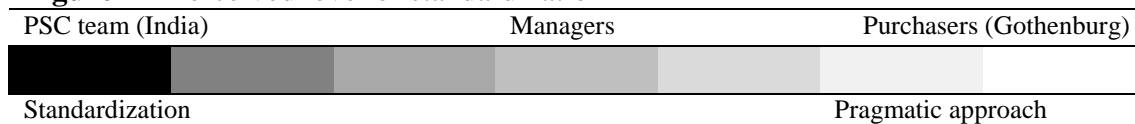
purchasers, being able to decide on their own seems to be a central point in order to maintain satisfaction. Thus, this question seems to divide the involved employees into two camps where a lot of strong opinions and wills exist.

“...I wouldn't want to work in an environment where I couldn't decide by myself which tasks I want to give to someone else, and which ones I'm not comfortable in giving away”

*- Swedish purchaser 5, Sweden
(Authors' translation from Swedish)*

There is also a noticed discrepancy in how people in different positions in the organization perceive the current level of standardization, somewhat indicating again that the sole purpose of the PSC is not efficiently communicated throughout the organization. Our perception of the situation is seen in figure 7, where the purchasers think that they have a lot of power in deciding how they should use PSC, whereas the PSC team see the process as rather standardized where they only perform tasks which they have or can create processes for, and managers tend to be somewhere in between these two interpretations.

Figure 7 – Perceived level of standardization



Source: Authors' own

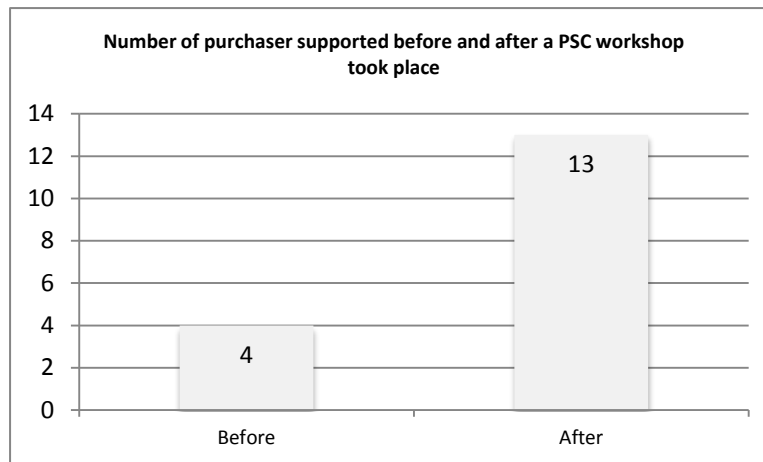
A Swedish director in India noticed however, when being informed of this issue, that differences in perception is not necessarily a problem. If the purchasers believe that they can use PSC as a pragmatic support and the PSC believe that they are handling standardized tasks, then it is a *win-win* situation. However, there is an associated risk that the work expectations and the delivered result might differ as a result of different perceptions, which might be a potential organizational obstacle.

4.4.4. Workshops

A workshop is an efficient way to share knowledge and experiences which seems to be rather absent in the organization today. In the beginning of January 2013, PSC had a workshop together

with certain managers and directors. During the workshop, the PSC manager held a presentation showing the participants what the PSC's capabilities are, but also told them what kind of work PSC historically had received from their specific purchasers. In combination with this workshop PSC also sent the list of activities they can support to the participants, and asked for additional comments and ideas. Nothing was added to the list, and no comments were given, but the workshop proved to be a clear success anyway. Before the workshop took place the PSC team supported four purchasers within this group, and after the workshop nine additional purchasers requested support from the PSC team through their managers (see figure 8). Two of the managers, who made requests for three purchasers each, did not have any purchaser in their teams receiving support prior to the workshop.

Figure 8 – Results from a PSC workshop



Source: Authors' own

5. Analysis

In this chapter we will analyse our empirical findings using the earlier established theoretical framework.

5.1. Standardization and the stickiness of tasks

As can be derived from the empirical findings of this thesis, the scope of tasks sent to PSC from purchasers worldwide includes both sticky and non-sticky tasks (von Hippel, 1994) (see page 13 for definition). As the tasks executed in Bangalore are constantly integrated in the daily work of the supported purchasers we characterize them as interdependent tasks which is well in line with both Van de Ven *et al.*'s (1976) classic taxonomy of interdependencies and Kumar *et al.*'s (2009) revised taxonomy of interdependencies (see figure 4 and 5). More specifically we identify these tasks with *integration interdependence*, as the tasks performed by PSC most often have little value unless the result is used and integrated together with the purchasers work. From our empirical findings we conclude that the level of stickiness of tasks sent to Bangalore seems to rise in correlation with a more evolved relationship between a specific purchaser and a specific PSC support. These tasks can, as the relationship progresses, be understood without transferring additional information (Srikanth and Puranam, 2011), owing to the prior relationship between the two. However, it is clear that what is considered to be high value-added activities, such as e.g. R&D (Couto *et al.*, 2006; Mudambi, 2008), are not within the scope of tasks offshored to Bangalore.

Since there exist a higher risk of coordination breakdowns in a relationship where there are high levels of interdependencies (Kumar *et al.*, 2009), and increased interdependency tends to require more extensive coordination and communication (Galbraith, 1976), management should weigh these drawback against whatever benefits are believed to be acquired when using a pragmatic approach, e.g. when purchasers can chose themselves what tasks to offshore. If management allows purchasers to choose freely what tasks too offshore, the risk that purchasers will act opportunistic will rise (Puranam *et al.*, 2010), and optimal actions from the perspective of the organization might not be taken to the same extent as otherwise. Furthermore, if too strong relationships are created between purchasers and support this creates a risk of problems being

solved “off the record”, and thusly potential positive spill-over effects such as learning from others mistakes might also be lost.

When comparing the European purchasing organization with the North American one we note that there is a forced level of standardization in the latter, and certain tasks are offshored regardless of the purchasers’ attitude. This way of coordinating tasks can be argued to better follow the directions set out by Van de Ven *et al* (1976), and benefit the organization from a cost saving perspective as excessive communication can be avoided and possibilities to maintain economies of scale at PSC arise. From this perspective, we argue that this would most likely be an efficient way of coordinating also in Europe, despite the resistance expressed by certain European purchasers. Still, the European approach might serve the organization benefits that the North American do not; for example, the improved relations derived from more personal contacts can open up possibilities of transferring new knowledge and hence increase the level of value added of tasks offshored, given that it is desirable to do so. Moreover, it is likely that PSC workers benefit more from working with European purchasers for this reason as it provides more possibilities to enlarge their scope of competence.

From an efficiency point of view, it is rather obvious that standardization can create economies of scale in a way that a more flexible approach cannot. Additionally, from an operational perspective, it is also likely that the more personal the support is, the larger is the demand for continues coordination and communication (Srikanth and Puranam, 2011), something that further creates a situation where the exchange of residue information becomes vital. However, being able to decide on their own seems to be a central point to maintain satisfaction amongst certain purchasers. If a situation can be maintained were purchasers believe their support to be flexible and personal, but is actually highly standardized, this would indeed be the optimal situation, however, we do not believe this to be sustainable.

5.2. Coordination processes

The personal relationships between the purchasers and PSC seem to be steered by scheduled and unscheduled meetings (Srikanth and Puranam, 2011), which to some extent work on the basic level when there are only 2-3 people involved. However, this is insufficient if Volvo wants residue information to pass through the whole organization, and Volvo would probably benefit

from using rules and plans to a greater extent in order to make sure that this is the case. Rules and plans are obviously being used to a greater extent in the North American purchasing organization when it comes to what tasks to offshore. Yet there does not exist any clear guidelines at any site in the Volvo organization about how to communicate residue information though, such as information about improved processes at PSC, back to the onshore site.

In our case study we note how Volvo has created common ground and tacit understanding (Srikanth and Puranam, 2011) in order to manage coordination. The purchasers and the PSC team use the same computer systems, they speak the same corporate language, and they are also part of the same company with the same value base and culture, in contrast to what would have been the case if the operation would have been outsourced, or outsource offshored. Indeed national culture differences exist, but nevertheless a common ground is present and there is extensive experience of cross-cultural cooperation in the organization, which should serve as a benefit and significantly facilitate the communication. On the other hand, it is uncertain which perspective has been taken in regard to the programming or feedback mode (March and Simon, 1958). Currently, there exists somewhat of a mixture between the two modes, and the organization seem uncertain of which mode to pursue. The feedback-mode is more reliant upon on-going communication, which is argued to become more difficult in a globally scattered organization (Srikanth and Puranam, 2011); thus a programming mode should be preferable from a cost perspective. Even though the cost of communication technology is very low, man-hours put into communication are expensive. Today Volvo applies several different ways of managing tasks sent to PSC (Kumar *et al.*, 2009), including providing cross-site, cross-organization, and cross-cultural awareness and using bridging technologies such as telecommunication. It is clear from the empirical findings that PSC is fulfilling its original purpose today, which is to perform administrative tasks at a lower cost than what would have been the case if they were performed by purchasers in e.g. Europe. Nevertheless, standardization is not used to the extent it could be in order to reduce the stickiness of the offshored tasks (Kumar *et al.*, 2009).

As long as tasks with both sticky and non-sticky characteristics are being offshored, this creates an organizational obstacle since they require different actions from a managerial perspective. Hence, we see it as unfavourable to allow purchasers to transfer both types of tasks, and since sticky tasks require larger coordination efforts and more managerial commitment we advocate to

stop allowing this type of transfer. As the following chapter will discuss, this is however interconnected with certain drawbacks.

5.3. The scope of PSC

PSC is today functioning somewhat outside its scope when occasionally performing more value-added tasks, something we believe to be a delicate matter for two specific reasons. On one hand, when not functioning within a strictly specific scope where all tasks are understood to their fullest degree before execution (Gailbraith, 1973) the communication must intensify and due to global distances this creates additional risks of loss of information (Kumar *et al.*, 2009). This also creates uncertainties within the purchasing organization, and raises the questions as to whether PSC is specialized in any specific activities or not. When allowed to broaden the scope of the tasks performed at PSC every added task diminishes the core competence of the function. On the other hand, however, if PSC is not allowed to perform tasks outside its original scope there exists a risk that the support personnel will become under-stimulated, without any possibilities to develop and make personal progress. At a pure support function this might not be problematic, but considering the nature of the employees (see page 33) this would most likely constitute a problem. Moreover, as Volvo view PSC as a great recruitment base for its global organization, and several PSC employees have taken the step to become purchasers, this serves as another argument for allowing more challenging tasks to be offshored in order to prepare them to take further steps within the organization.

Furthermore, in order for PSC to function in as optimal a way as possible, there must be both formal and informal incentives put in place (Puranam *et al.*, 2010) to increase motivation. Otherwise there is a risk that under-motivated support staff will under-achieve, or even start looking for other jobs. Consequently this could potentially increase employee turnover, which we know from the empirical findings is undesirable, both from the perspective of managers and purchasers. Further, the incentives and motivations should make sure that rent-seeking behaviour (Puranam *et al.*, 2010) is minimized, from any counterpart, and contribute in maintaining a high level of quality. One example of such a motivational incentive is that Volvo recently started to offer fulltime employments to some of the more competent PSC workers. This is said to positively contribute to motivation as it opens up further opportunities of making a career at

Volvo. In addition, this as well as the possible increment to the PSC workers salaries based on their KPI evaluation, strengthens the findings of Puranam *et al.* (2010) regarding the weight of formal incentives. Hence, the importance of formal and informal incentives in the organization should not be underestimated, and to know that you can make a career by performing well at PSC should function as incentive to perform at the top of your competencies. Further, this should also increase the motivation to maintain proper communication (Kretschmer and Puranam, 2008; Malone and Crowston, 1994) with the purchasers since PSC workers with good purchaser relationships tend to be given more complicated tasks, through which they can prove their competence in the team and might consequently be rewarded with a fulltime employment.

The example of increased utility rate at PSC after a successful workshop (see figure 8) further emphasizes potential when communicating the scope and purpose of PSC, but also shows that this knowledge is lacking in the organization today. We believe that workshops could be used widespread in the organization as it evidently increases understanding. As earlier anticipated, coordination is vital in order to link together different parts of the organization and ultimately strive for a common goal (Van de Ven *et al.* 1976), and this example should serve as proof but also as motivation to more often consolidate people with diverse organizational background to share experiences and create a common understanding of PSC. Since currently only 50% of the purchasers use PSC, there exists a large potential of including more purchasers if the benefit of the function is better communicated.

5.4. Residue information

Our perception after our interviews in Gothenburg, Sweden, where that there seemed to be very little follow-up and evaluation done regarding the work performed by PSC. This consequently meant that the PSC was struggling to improve, both as a team and as a function within Volvo. However, as can be derived from the empirical findings, the follow-up and evaluation work at the PSC is far from non-existent (see page 37). It can be argued that KPI's such as presentation skills do not improve the quality of work conducted *per se*, but might improve the overall work environment which has spill-over effects onto the work executed. It is clear that there is a spirit and a culture aiming to improve at PSC and this is reflected in a clear and structured way of how to work with follow-up and evaluation. In addition it is also reflected in the way that the PSC

staffs act and think regarding their own work. However, the majority of this information has obviously never reached the purchasers.

When analysing the evidence from our empirical research it is clear that the KPIs are not the only thing that has not been properly communicated. Rather, there exist multiple examples of improvements that have taken place at PSC but that have not been communicated towards the European organization. One of the most prominent examples is the purchaser who was afraid that the PSC would place orders in the wrong currency (see page 41), a problem that actually became non-existent about two years ago. This draws us to suspect that there are even more incorrect preconceptions about some of the processes at PSC amongst the purchasers, and that these preconceptions inhibit the purchasers' willingness to use the support. This is not only a clear indication that coordination is not properly functioning (Malone and Crowston, 1994), at least not to its fullest extent, but also a risk that might create future problems or diminish the potential cost savings of the offshore project. In order for Volvo to not only manage the tasks that are being sent to the offshore site, but also the residue information going back, clear rules and plans should be established. As heard from one of the directors present at the steering committee meetings, there is no coordination for how to share important residue information from these meetings downwards in the organization, which can be seen as a coordination failure (Puranam *et al.*, 2010). The participants of the meetings are trusted to share the information based on their own judgment to the extent they find relevant, however, there is no guidance available on how to do this, and perhaps even more importantly, who to inform. It can be assumed that since Volvo is a globally dispersed organization and work is not collocated, these types of communication guidelines are indeed more important since a forced action like picking up the phone to call somebody becomes less natural than sharing something at the coffee machine. Moreover we argue that it would be a good idea to invite certain purchasers to the steering committee meetings, since at the end of the day they are the end-users of PSC.

We have analysed residue information from a knowledge transfer perspective as we believe it to fit knowledge transfer theory better than theory regarding coordination of tasks. We have established that common ground does exist in the organization, and even though this facilitates knowledge transfer (Grant, 1996) there seem to be certain barriers to the transfer of residue information, one being, as mentioned, global distances. It is difficult to establish whether the

transfer is close to non-existent due to a low absorptive capacity (Minbaeva *et al.*, 2003) or not. However, low absorptive capacity is most likely not the case since it is rooted in the pre-existent knowledge stock (Szulanski, 1996) and purchasers and managers have university degrees in either business or engineering which should vouch for not only a pre-existing knowledge stock, but also the ability to take in and process new knowledge. We believe that the difficulties with the transfer of residue information is a consequence of lack of motivation from the recipient of the transfer (Szulanski, 1996), the recipient in this case being a purchaser or a manager. Purchasers or managers who are informed of certain improvements that have taken place at the PSC have no motivation, and no incentives, to further share this kind of information.

5.5. Strategic decision-making rights

Clearly, when the initial decision was taken to start offshoring certain activities, and also continuously afterwards, there was a splitting up of the purchasers' work (Malone and Crowston 1994) in order to figure out what parts that were possible to offshore and which ones had to be done onshore. However, despite being rather aware of which tasks the organization would gain efficiency from offshoring (non-sticky administrative tasks), the organization still allows for certain tasks to be performed onshore at a higher cost, which is contradictive to the sole purpose of the offshore project. Hence, we argue that it should be compulsory for purchasers to use PSC for certain tasks much like in North America, as there exist other tasks that require additional focus. Moreover, when analysing this specific case from a strategic and operational perspective (Kumar *et al.*, 2009), it is noticeable that from the strategic perspective the organization's management is convinced that offshoring is beneficial and desirable, however when it comes to the operational perspective, there seems to be a hesitancy in how it should be carried out. The clear structure argued to be desirable when avoiding hidden costs in an offshoring process (Larsen *et al.*, 2012) could be argued to be non-existent, and there are indications of underestimations of the level of required coordination.

No one has ever had a clear responsibility of the strategic decision making of PSC, and consequently it can be argued that this has slowed down the development of PSC. Hence, if Volvo is serious about to keep on investing in this function, which doubtlessly seems to be the case according to one very influential Swedish director, there has to be put in place a clear

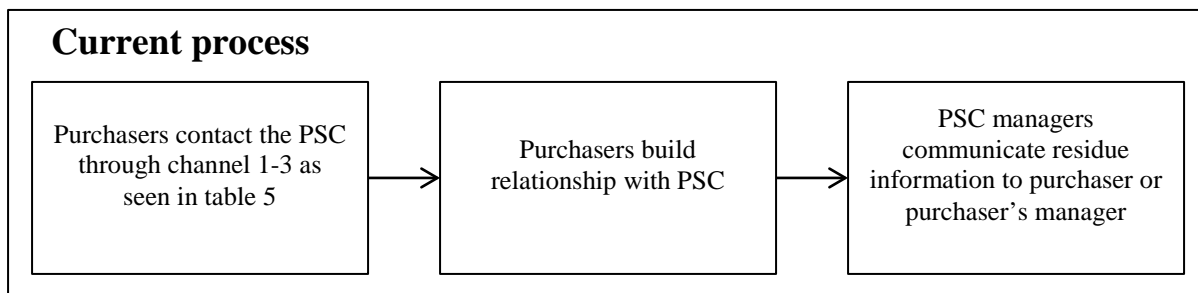
ownership. Otherwise, PSC might run the risk of staying in the borderland between departments and might fall victim to internal power struggles, as some bosses at Volvo tend to highly value the head count they are in charge of. This was noted by a director in India, who emphasized the need to decide where in the organization to put PSC in order to diminish the risk of internal conflicts, but also to set PSC as a constant function of the purchasing organization and consequently communicate that this is a function that will stay. In regards to internal power struggles this further shows that contrary objectives might damage the organization, in line with Kretschmer and Puranam (2008) and Malone and Crowston (1994). The steering committee meetings are today held by the most senior Swedish director in India, who also to a large extent controls the content and agenda of the meetings. Since this director does not have any official strategic decision-making rights regarding PSC though, we still foresee an uncertain future.

The PSC is today, as a consequence of the newly appointed steering committee, going through changes. Whether these changes will involve the development of a clear strategy for PSC together with clear guidelines on how PSC should be utilized, followed by this being clearly communicated out into, and downwards in the organization, remains to be seen. We argue that the unexplored cost savings potential (Larsen *et al.*, 2012) that would most definitely follow any such decision would benefit all stakeholders.

5.6. Current process model

Model 1 shows the current coordination process of tasks and residue information and communication between the PSC and purchasers, as interpreted from the empirical findings.

Model 1 – Current coordination process



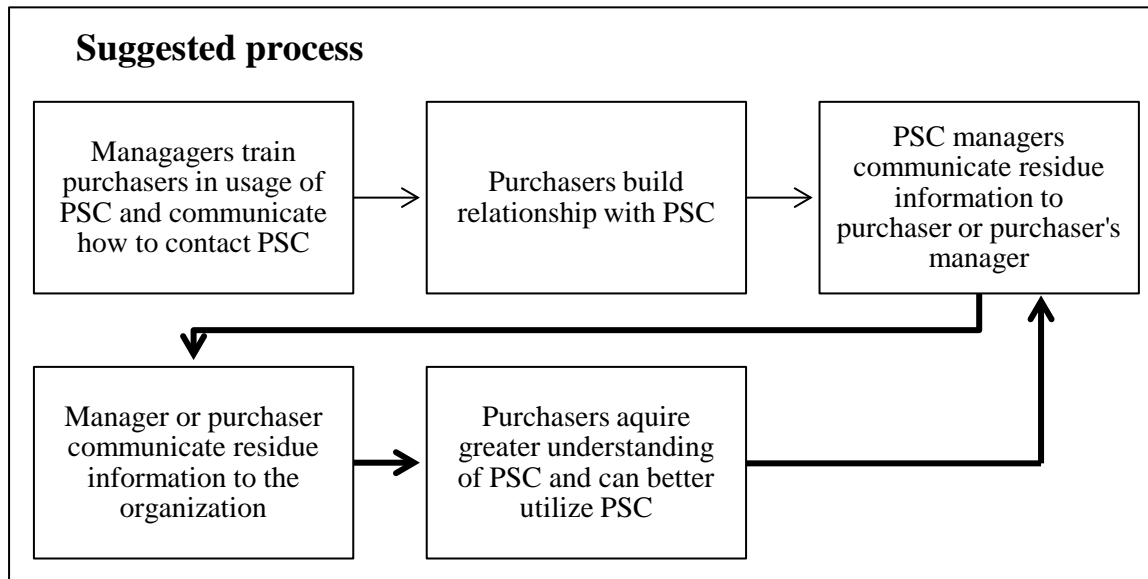
Source: Authors' own

The relationship between the purchasers and the PSC is today quite one-sided in the sense that the purchasers overall do not receive much information about the processes that takes place at the PSC, but only the specific purchaser who escalate certain problems. The purchasers contact PSC and starts to send tasks to PSC, and are able to leave feedback on this work but are to a large extent unaware of how PSC process this feedback, and what kind of actions that are taken. We believe that it is key for this specific offshore project, and any offshore projects that wish to utilize resources to its fullest extent, to have clear coordination of all communication, be it regarding tasks or regarding residue information, either through scheduled/unscheduled meetings or through rules and plans.

6. Conclusion

In the previous chapter we introduced model 1 (see page 55) where our interpretation of today's processes at Volvo were laid out. Our analysis concluded certain aspects of today's processes to be inadequate and hence we introduce model 2 which includes our suggested process for introduction, feedback and on-going improvement at PSC.

Model 2 – Improved coordination process



Source: Authors' own

Even though PSC is operating with quite high customer satisfaction, we are sure that PSC would benefit immensely by introducing clear rules and plans, especially as it is functioning in an environment with a high level of interdependencies. Despite an anticipated flexibility and freedom of choice for the purchasers, ultimately satisfaction is highly correlated with expectations, and we argue that the introduction of a clearer framework, much like the programming mode described by Srikanth and Puranam (2011), would create a more pronounced picture of what to expect, and hence possibly increase the level of satisfaction even further. Sticky tasks are more expensive to offshore (Kumar *et al.*, 2009), but are today offshored to a certain extent, however mostly in between purchasers and support staff with a strong relationship. This indicates that in order to keep the support as cost efficient as possible the support should be de-personalized.

With clear rules and plans, and clear coordination processes, benefits would not only involve larger cost savings for Volvo, but also an increase of the overall quality, utility rate and satisfaction of the PSC customers, especially in the long-run. With clear coordination guidelines regarding the residue information, incentives to share this information would be obsolete, as it would be integrated as part of the job. Hence, the organization would not be dependent on personal initiatives in order for this information to be shared.

Our personal belief is that rules and plans would be the most beneficial approach, foremost as it makes managing interdependencies easier in combination with higher cost effectiveness (Van de Ven *et al.*, 1976). Further, it is important to create a joint start-off point in order for the organization to set the correct prerequisites for creating common ground and tacit understanding (Srikanth and Puranam 2011). In relation to this, and in line with what Larsen *et al.* (2012) suggest, we conclude that before taking any decision regarding whether to standardize or use a more flexible pragmatic approach, it is vital to set up clear guidelines for communication and coordination in order to maximize the utility and efficiency of any offshore project.

Furthermore, if the purchasers do not receive training in how to utilize PSC (what can be done at PSC, how to give directions, cross-cultural training, etc.) they cannot make the most out of this resource, and if the residue information from PSC does not reach the purchasers, the purchasers cannot improve their work, conducted from the onshore site. This is clearly indicated in the empirical findings where it is established that purchasers with a relationship and an understanding of PSC does not only utilize the function in a more *correct* way, but have more positive attitudes towards PSC.

6.1. Concluding remarks

In this thesis we have discarded what has previously been assumed in earlier offshore research, namely a perfect onshore set-up. We have concluded that the onshore coordination processes can diminish the results at an offshore site if these processes are inadequate. We argue that coordination processes can be improved through the setting up of clear guidelines, which should not only include guidelines regarding the tasks that are being offshored, but also the residue information related to the offshore processes. To emphasize coordination and communication might not be earth-shattering conclusions, however, it is vital to underline not to underestimate

the impact of coordination on the organization. We advocate that more focus should be put towards residue information, which has been somewhat overlooked in research so far. Vlaar *et al.* (2008) concludes that when employees increase their understanding of their situation in general this increases the likelihood that members of both offshore and onshore sites achieve congruent and actionable understandings. Our conclusion adds to this by specifically pin-pointing that residue information is key when aiming at maximizing the cost savings in an offshore project as it enhance the end-users understanding of their own work and allows them to utilize their resources as efficient as possible.

It is easy to emphasize coordination in theory, but it is demonstrably harder to follow through in practice. We believe that issues concerning coordination, and specifically residue information are far from limited to our specific case study, but are existent in many offshore projects today (see e.g. Howcraft and Richardson, 2012; Larsen *et al.*, 2012; Malone and Crownston, 1994), and the results of this study should be seen as a first step taken towards broadening the research scope of offshore coordination.

6.2. Future research

We suggest further research within the area of offshore coordination to include and explore the effects that residue information can have on cost savings of offshore projects. Quantitative empirical evidence is needed to strengthen the assumption that the transfer of residue information can affect an offshore project positively. Moreover, we encourage future research, both quantitative and qualitative, to use a multiple case design in order to understand the phenomena in a broader context and enable comparisons.

7. References

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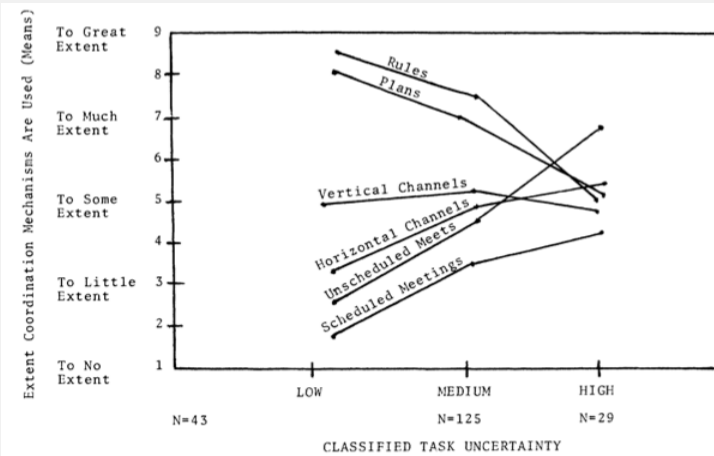
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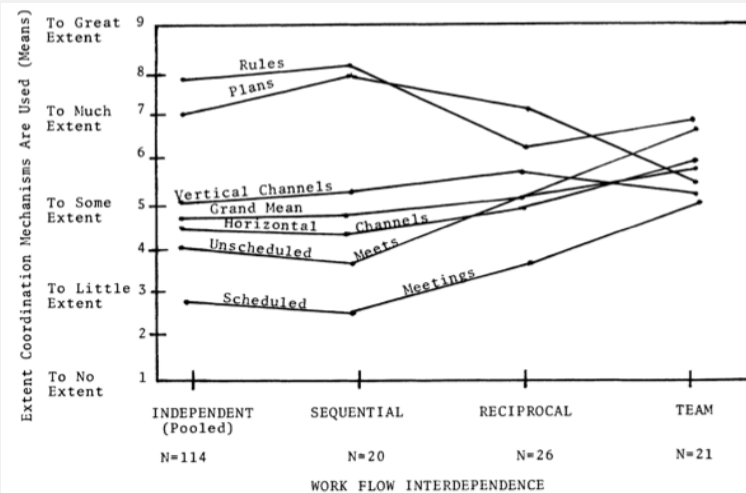
8. Appendix

Coordination factors

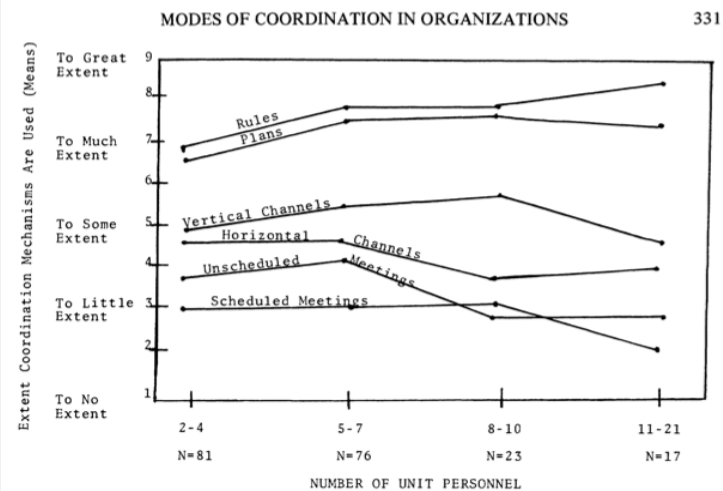
“Profile of Coordination Mechanisms on Classified Levels of Unit Task Uncertainty”



“Profile of Coordination Mechanisms on Types of Work Flow Interdependence”



“Profile of Coordination Mechanisms on Unit Size”



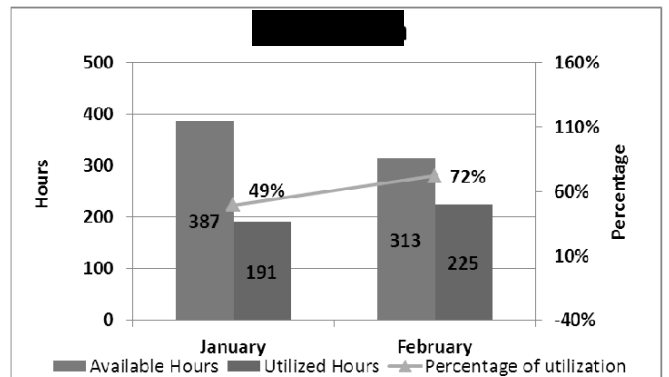
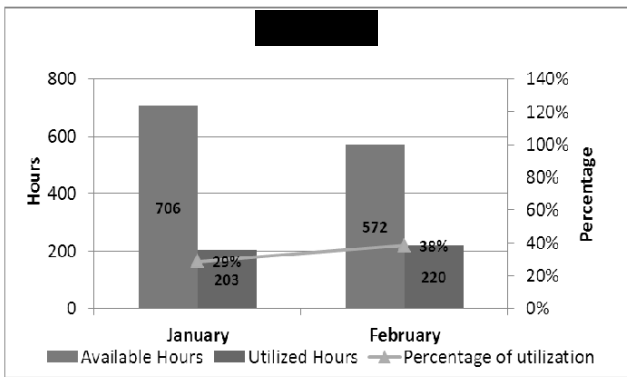
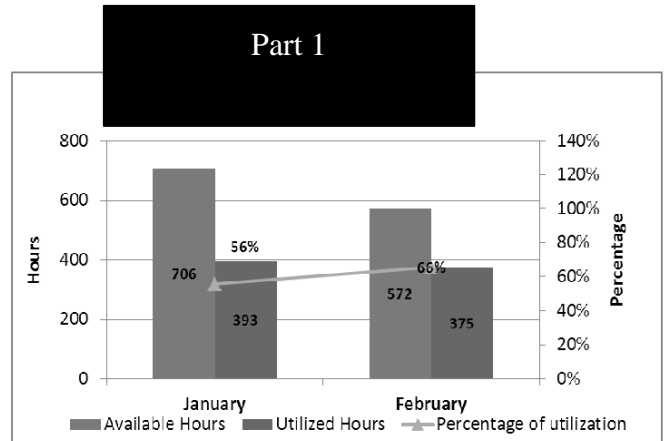
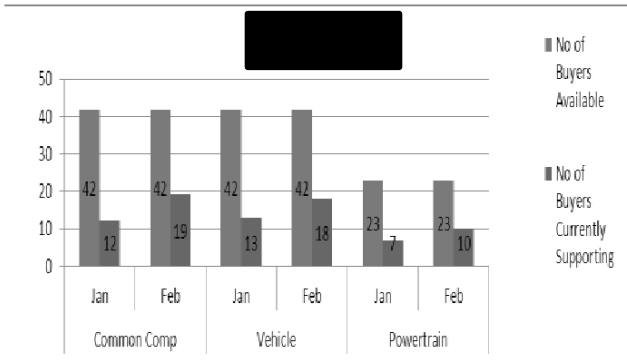
Source: Van de Ven *et al*, 1976.

Detailed list of interviews

Location	Position	Nationality	Interview mode
Gothenburg	Vice President	Swedish	Personal – In-depth
Gothenburg	Director	Swedish	Personal – In-depth
Gothenburg	Director	French	Personal - Pilot
Gothenburg	Purchaser	Swedish	Personal – In-depth
Gothenburg	Purchaser	Swedish	Personal – In-depth
Gothenburg	Purchaser	Pakistani	Personal – In-depth
Gothenburg	Purchaser	Swedish	Personal – In-depth
Gothenburg	Purchaser	Chinese	Personal – In-depth
Gothenburg	Purchaser	Swedish	Personal – In-depth
Bangalore	Director	Swedish	Personal – In-depth
Bangalore	Director	Swedish	Personal – In-depth
Bangalore	Manager	Indian	Personal – In-depth
Bangalore	Manager	Swedish	Personal – In-depth
Bangalore	Manager	Indian	Personal – In-depth
Bangalore	Manager	Indian	Personal – In-depth
Bangalore	Manager	Indian	Personal – In-depth
Bangalore	PSC worker	Indian	Personal – In-depth
Bangalore	PSC worker	Indian	Personal – In-depth
Bangalore	PSC worker	Indian	Personal – In-depth
Bangalore	PSC worker	Indian	Personal – In-depth

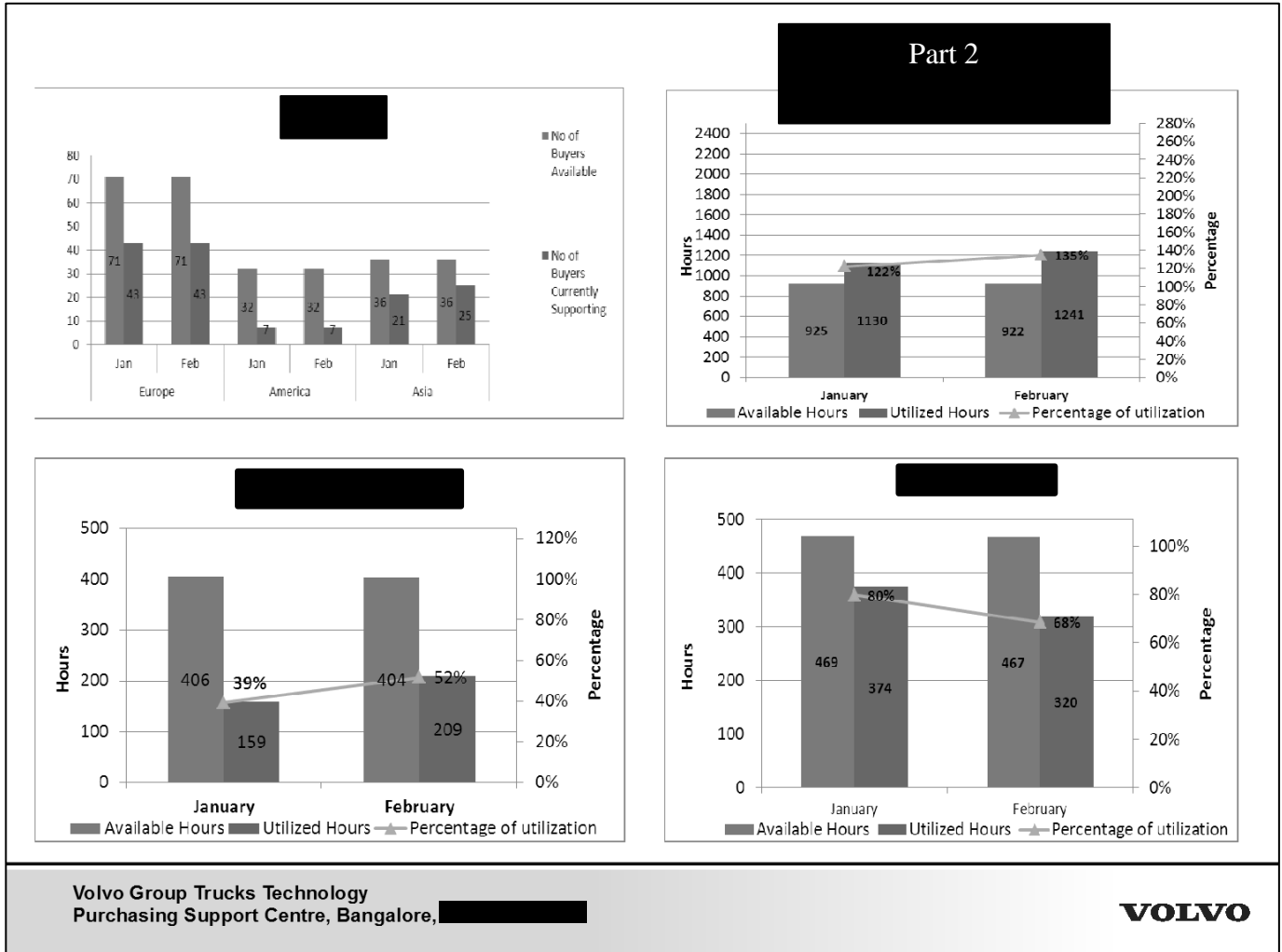
Utility rate at PSC

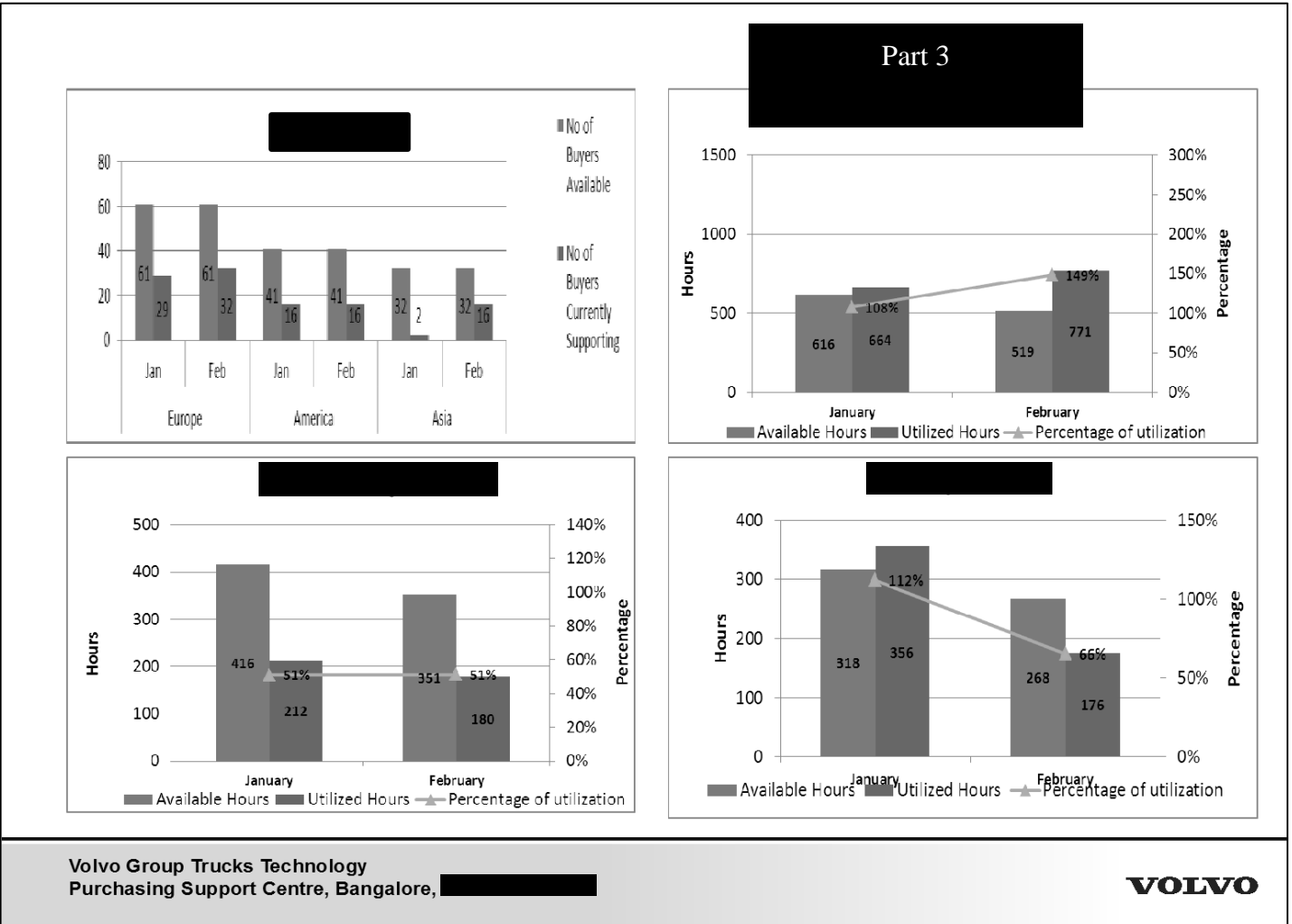
Shown separately for part 1, part 2 and part 3 purchasers



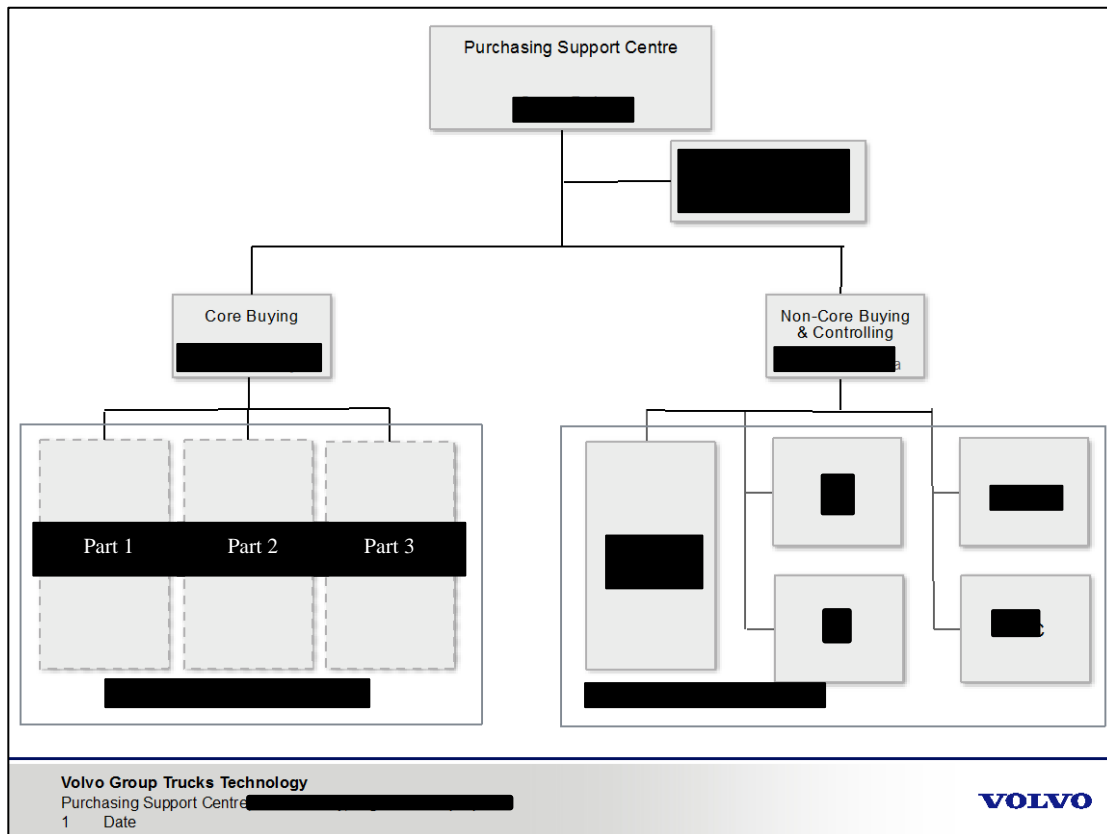
Volvo Group Trucks Technology
Purchasing Support Centre, Bangalore, [REDACTED]








PSC organization chart



SWOT analysis

SWOT – Consultant POP Positions

Strengths and corresponding Opportunities



STRENGTHS:

- Flexibility
- Performance Management
- Recruitment is easy & fast
- Resources don't stay beyond 2-3 years
- Performance Focus

OPPORTUNITIES:

- Easy to expand / disband the team in case of policy changes
- Contracts can be naturally terminated at the end of one year for low performers
- Faster response to new resource requests / work transition
- Growth options are limited in support role, short tenure of resources avoids need for a growth plan which will be difficult to chart anyway
- People put in best efforts to prove their worth to get a permanent job / role. Overall, good team performance is achieved.


Volvo 3P
3P Purchasing Support, Bangalore [REDACTED]
August 2010

3

VOLVO

SWOT – Consultant POP Positions

Weaknesses and corresponding Threats



WEAKNESSES

- Job insecurity
- Dissatisfaction on many aspects due to consultant role
- Employee Turnover

THREATS:

- Lack of focus on current role/job as consultants lack peace of mind in terms of job security. Always on a lookout for a permanent position (Inside/Outside Volvo)
- Low motivation levels. Inconsistent performance levels due to feeling of instability
- Even in Very less numbers, it leads to customer dissatisfaction & reduced confidence/ interest in the team

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3P Purchasing Support, Bangalore [REDACTED]
August 2010

4


VOLVO

SWOT – Permanent POP Positions

Strengths and corresponding Opportunities

STRENGTHS:

- Sense of BELONGING to VOLVO
- "Permanent job" motivates people as that's considered as the only good professional option in India
- Sense of job security




OPPORTUNITIES:

- Improved sense of ownership & responsibility leading to involvement in team and increased confidence and satisfaction levels.
- Short Term Stability in the team even with limited growth opportunities. "Permanent" Tag has its value in Indian society and unless really dissatisfied - people stick on to their jobs
- Increased focus on work as the efforts to 'become permanent' or 'find a secure job' reduce

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3P Purchasing Support, Bangalore [REDACTED]
August 2010

5




SWOT – Permanents POP Positions

Weaknesses and corresponding Threats

WEAKNESSES

- Reduced Flexibility
- Scope of support/work is not known/fixed for POP.
- Repetitive administrative activities.
- Its a support role & has its limitations
- Increases Selection Criteria Level




THREATS:

- In case of policy change, scaling down the workforce is difficult
- PBP/Long term goals cannot be set thus performance measurement becomes difficult and less fact based and uniform.
- Required level of workload is achieved by ramp up with more buyers who need support on same low end activities. Thus, Value addition to profile may not happen over time resulting in dissatisfaction & stagnation of resources
- Growth options limited. Available level can be achieved in max 2 years. No scope beyond that
- Long lead time for recruitments.

Volvo 3P
3P Purchasing Support, Bangalore [REDACTED]
August 2010

6



Conclusion and Recommendation

For the backoffice, administrative and repetitive nature of POP support activities and profiles and limited growth options and scope, 'Consultant' role is best as it gives the project:

- Flexibility
- Ease and speed of recruitment and response to customers' need of support
- Short term high performance standards and efficiency instead of long term career planning of support roles
- Possibility of Risk Mitigation within the team in place of global strategies and policies

Volvo 3P
3P Purchasing Support, Bangalore, [REDACTED]
August 2010

11

VOLVO