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Moving from Offshore Outsourcing to Captive Offshoring

An implementation process analysis

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ABSTRACT

As a result of trade liberalization, technology development and worldwide competition, it has become common for service firms to source goods and services from low cost locations. The subject of offshoring and outsourcing is therefore widely discussed and the literature within this area is extensive. The trends of taking previously outsourced work back in house, so called captive offshoring, is relatively new and still an area where more research is needed. This study aims to observe and investigate the implementation process of moving from offshore outsourcing to captive offshoring by observing the transformation at two different locations within the same knowledge and technology driven service firm. Based on the case studies, two crucial phases and mechanisms in the implementation process have been identified, titled *transformation readiness* and *transformation processes*. The first phase was characterized by standardizing processes, planning and identifying the availability of resources and the installation support functions. The second phase involved knowledge transfer, recruitment, training, IT procurement and system access. The analysis results in a comparison of the two cases where decisions and activities lead to the creation of an adapted implementation model.

Keywords: captive offshore, offshore outsourcing, knowledge framework, BPO, KPO, Bangalore, Manila, transformation readiness, transformation process

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ABBREVIATIONS

BPO Business Process Outsourcing

FDI Foreign Direct Investment

HR Human Resource

IP Intellectual Property

IT Information Technology

KPI Key Performance Indicators

KPO Knowledge Process Outsourcing

MNC Multinational Corporation

SE Stakeholder Excellence

SOP Standard Operating Procedure

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1. INTRODUCTION

This chapter starts with an introduction where the field of research will be presented. Further, the background and the principal discussion follow together with the initial purpose for the thesis, resulting in the research question of the thesis. Lastly, delimitations and research outline are discussed.

1.1 Background

Outsourcing has for long been a phenomenon (Lewin and Peeters, 2006; Sanders et al., 2007) that companies have taken advantage of as it gives firms an opportunity to focus on core activities. Concentrating on core activities sharpen the business focus, accelerate projects and reduce time to market (Hätönen, 2009). There are however various perspectives on the sustainability of core competencies, particularly when firms begin to increase their reliance on third party vendors (Kotabe and Mudambi, 2009; Mol, 2007). Handing over business activities to third party vendors abroad, so-called outsourcing providers, is defined as offshore outsourcing, while captive offshoring instead is when the MNC (Multinational Company) set up own internal centres in foreign locations and maintain full ownership and control (Kedia, and Mukherjee, 2009). Western MNCs entering low cost locations often do not have sufficient market knowledge, why signing a third party contract is a common first entry mode to offshoring activities (Pan and Tse, 2000). To choose a provider with high knowledge of the outsourcing service (Graf and Mudambi, 2005; Hätonen, 2009) may be the first step to unbundle activities from the firm. Aron and Singh (2005) state that organizations must analyse each process and sub-process to isolate those activities that do not create significant value. Nevertheless, the quality of talents in outsourcing contracts often compromise with the profit objective the third party vendor holds (Kedia and Mukherjee, 2009).

The advanced technology (Lee et al., 2012) has made it feasible to manage business and resources across borders, opening up the possibility for firms to take advantage of offshoring. The rise of outsourcing providers in emerging countries has been vast (Jensen and Petersen, 2013a) and MNCs have been motivated by lower labour costs and skilled talents (Karmakar, 2004; Hätonen, 2009; Kotabe and Mudambi, 2009). India and the Philippines are ranked as the two top locations for offshore outsourcing within IT and BPO services (Tholons, 2013). Manila, Philippines, is an attractive

location due to high English skills, low labour costs and a flexible workforce (Hätönen, 2009; Lockwood, 2011). Bangalore, India, is considered an IT hotspot and ranked as the largest outsourcing destination in the world followed by Manila in regards to services (Tholons, 2013). The choices of these locations give MNCs access to resources that are unavailable onshore. Further, firms reach skilled labour offshore in order to improve service quality and gain access to new technology and skills (Hätönen, 2009, Heikkilä and Cordon, 2002; Kakabadse and Kakabadse 2002). Several companies that are using third party vendors abroad to outsource business functions often find out that it is more advantageous for the company to perform these tasks in house in the same low-cost locations, namely to captive offshore (Hätönen, 2009). However, moving processes from a third party vendor offshore is not an easy task. It requires experience from learning and good project management (Jensen, 2012) as well as relevant knowledge and documentations (Mezak, 2006).

This leads to the question of how to move activities from offshore outsourcing, where everything from market conditions, recruiting and regulatory issues are taken care of, to implement a captive offshore within the borders of the organization. Due to remote decision-making, coordination becomes a topic to prioritize when dealing with captive offshoring as it involves hidden costs, longer time to conclude, less face time and bounded rationality (Larsen et al., 2012). On the other hand, it includes a lower business discontinuity, higher quality reassurance and systematic processes (Vivek et al., 2008).

1.2 Problem Discussion

The integration of markets and the advancements in technology (Lee et al., 2012) has extended MNCs presence in emerging markets (Kedia et al., 2006), modifying the global sourcing strategies. MNCs try to maintain their competitive advantage and ownership by having captive offshore hubs serving the MNC (Manning et al., 2013). The issue however is how to complete the ramp up of the captive offshore hub in regard to the knowledge transfer (Al-Ahmad and Al-Oqaili, 2013), and the recruitment (Lewin et al., 2008; Manning et al., 2008) to create value and serve the MNC on sustainable terms. The knowledge transfer is a crucial part of the implementation process as it sets the standard of how the work performed will be analysed, and it should further have clear phases of discovering the work, transferring the knowledge and controlling the knowledge that has been transferred (Al-Ahmad

and Al-Oqaili, 2013). It is apparent that the knowledge transfer in the two case studies serves for the purpose of the uniqueness of each hub, as there are clear differences between them. Also, the phases during the knowledge transfer are critical and issues may escalate (Srikanth and Puranam, 2011) if tight collaboration with the onshore business organizations and the expert trainers are not reached.

The current literature within captive offshoring covers an abundance of factors, but no literature has been identified that covers the whole implementation process. There are authors discussing the implementation framework of captive offshoring (Al-Ahmad and Al-Oqaili, 2013; Srikanth and Puranam, 2011), the readiness of how to be prepared prior to offshoring (Mezak, 2006), and how to analyse the processes and sub processes to identify what activities to disintegrate from the MNC and relocate to the offshoring hub (Aron and Singh, 2005). In addition, Srikanth and Puranam (2011) discuss the importance of coordination and simplifying the interdependence by implementing standardized processes.

This master thesis is scrutinizing a multinational technology and knowledge driven MNC in their journey of establishing captive offshore hubs. The aim of the thesis is to examine the implementation process of moving from offshore outsourcing to captive offshoring. The way the outsourcing contracts are managed, sharing documents, transferring employees to the hub and having an open dialogue can affect the time span, urgency and complexity of the implementation process. The method of the thesis is to examine two different implementation processes in two different offshore hubs, both belonging to the same MNC. The MNC, which is hereafter referred to as PharmaT, a fictive name, has established one offshoring hub in Bangalore, India, and one in Manila, Philippines, globally serving onshore business organizations in production and the processing of data. The hub in Bangalore mainly performs KPO (Knowledge Process Outsourcing) services, which are advanced analytical tasks and IT (Information Technology) services, while the hub in Manila performs voice work and BPO (Business Process Outsourcing) services, which are less advanced tasks such as back-office work. The choice of location is therefore also taken into account in regards to skills, culture and level of education.

Although it is common for MNCs to implement captive offshore hubs (Aksin and Masini, 2009), it is more complicated than first anticipated as it involves a large

organizational change forcing disintegrating and reintegrating tasks in remote locations (Jensen et al., 2013). It is assumed that the preparations, standardized frameworks, qualified employees (Manning et al., 2008) and coordination of processes (Larsen et al., 2013) are among key factors to consider. Therefore, the focus has been on understanding the implementation process in the two cases in regards to transformation readiness, knowledge transfer and challenges mitigated by the firm.

1.3 Purpose and Research Question

As a result of the above problem discussion, this study will identify the steps taken by PharmaT when moving from offshore outsourcing to captive offshoring. The aim of the research is to identify activities and challenges mitigated when implementing both hubs and evaluate the knowledge transfer. Hence, the research question is:

- *How is a knowledge and technology driven service firm implementing the decision of moving from offshore outsourcing to captive offshoring?*

In order to answer the question, the thesis will identify key phases by examining the move from onshore and offshore outsourcing to captive offshoring in Bangalore and Manila. It will cover the path of decisions, the level of communication and why the processes were formed in different ways in the two locations. Further, the phases during an implementation process will be of high focus, such as knowledge transfer, well-defined processes, coordination and the value creation. The objective of the thesis is to reach an overview of the phases in the implementation process.

1.4 Delimitations

The research of this thesis is limited to two case studies. Therefore, the results and assumptions derived from the empirical findings cannot be generalized for other cases. This study is further industry specific as it focuses on the knowledge and technology driven service offshoring setting of PharmaT, where the geographical scope of study was India and Philippines. The thesis has not focused on the decision made to offshore, the end result, nor the evolution of the third party contracts. Instead, it has focused on the implementation process per se, the preparations, planning, and the transformation process before reaching the steady state. The steady state is defined as when the transfer is completed and the production is stable (Srikanth and Puranam, 2011). The reason for this limitation was to maintain the scope of important factors in the implementation process and to contribute to the existing academic research.

1.5 Definitions

Due to the terminologies used when discussing outsourcing and offshoring in media and academic research, it is important to point out the choice of communication in the thesis. When offshore outsourcing is discussed it refers to the tasks performed abroad outside the borders of the organization, whereas captive offshoring refers to tasks performed abroad within the borders of the organization. When referring to onshore, it refers to the onshore business organization of PharmaT, the team working with the captive offshore hub, and the third party vendors are the offshore outsourcing providers. Lastly, the word transition is used when modifying processes whereas the word transformation implies the whole organizational change.

1.6 Thesis Outline

Theoretical Framework

This chapter discusses the academic literature that builds the basis of the thesis. The theoretical framework introduces offshoring, outsourcing and trends as well as its effect on the MNC, and moves on to discussing the preparations for offshoring. The chapter ends with the transformation, which includes knowledge transfer and the organizational change.

Empirical Findings

The empirical findings are the result of the observations and interviews held at both locations. It starts with a background of PharmaT and its third party vendors, followed by case study one, Bangalore, and thereafter case study two, Manila. Different phases of the process have been identified, and challenges specific for both locations will be discussed in each of the cases.

Analysis

In this chapter the empirical findings are analysed with the theoretical framework to create an understanding of the implementation process in order to answer the research question. Case study one and case study two will be analysed separately followed by a comparative analysis of both case studies.

Conclusion

Lastly, the conclusion of the thesis will provide an answer for the research question and will also give suggestions for future research in the field of captive offshoring and implementation processes.

2. THEORETICAL FRAMEWORK

In this chapter, the literature developed for the field of captive offshoring and the implementation processes involved are outlined. The chapter start by discussing the trends and concepts of outsourcing and offshoring, followed by the organizational change involved and how the MNC should proceed and prepare during the implementation of captive offshoring. Due to the complexity of subject, some theoretical literature is present for its informative content and will not be applied in later chapters.

2.1 Offshoring, Outsourcing and Global Trends

2.1.1 Internationalization and its Effects on the MNC

‘Companies can no longer survive simply by adopting a polycentric, country-by-country approach to international business’ (Kotabe and Mudambi, 2009, p.1). External factors as technology are improving every day, making it feasible to manage business and resources across borders (Lewin, 2005; Volberda, 2006). The global business environment has become highly competitive and uncertain, triggering more advanced and wider geographic capabilities, which in turn has pushed both small, medium sized firms and MNCs to source goods and services from low cost locations (Kotabe and Mudambi, 2009). Hence, the firms can focus on their core competences and letting a partner focus on the activities involved with the non-core competences, making it less complex to allocate resources to locations beneficial for the competitive advantage of the MNC. According to Hätönen (2009), the need for MNCs to concentrate on core competences can enable flexibility through internal transformation resulting in reduced time to market, gain access to a flexible labour force, and sharpen the business focus. This leads to the question of why internationalization of MNCs occurs.

There are different motives for MNCs internationalization, such as resource-seeking, market-seeking or efficiency-seeking (Pyndt and Pedersen, 2006; Dunning, 2000; Johansson and Vahlne, 2009). Whereas resource seeking and market seeking is common in first time internationalization (Dunning, 2000), efficiency seeking relates to low-cost locations associated with offshore strategies within the MNC (Jens and Pedersen, 2011; Pyndt and Pedersen, 2006). Hätönen (2009) discusses cost savings, such as lowering operational costs, controlling costs, and freeing resources for more

profitable business units. Advancing capabilities is likewise a trigger, such as obtaining access to resources that are unavailable onshore, to skilled labour offshore; improving the service quality, compensating for the lack of a particular expertise, and gaining access to new technology and skills (Hätonen, 2009, Heikkilä and Cordon, 2002; Kakabadse and Kakabadse 2002).

2.1.2 The Concepts of Outsourcing and Offshoring

The concepts of discussion are offshore outsourcing and captive offshoring. Offshore outsourcing is described as handing over business activities externally to third party vendors abroad, while captive offshoring is when the MNC set up own internal centres or subsidiaries in foreign countries and maintain full ownership and control (Kedia and Mukherjee, 2009). Offshore outsourcing eliminates the issues associated with recruitment, relocating personnel, acquiring the necessary equipment, keeping up with the government legislation, and following the taxation regulations (Hätonen, 2009). Lewin et al., (2008, p.6) argue that ‘the opportunity to access equally qualified (or more qualified) workers at lower cost influence companies’ decisions to offshore innovation tasks, but compared to less advanced functions (administrative and other back office activities), labour arbitrage objectives are less important’. Instead, they identify that access to qualified personnel, accelerating growth, increasing speed to market and becoming global players are more important determinants for taking the decision to offshore tasks, rather than cost motives. Offshore outsourcing and captive offshoring are further illustrated in figure 1 on the next page.

There are various perspectives on the sustainable advantage of outsourcing, particularly when firms begin to increase their reliance on third party vendors (Kotabe and Mudambi, 2009; Mol, 2007). Several companies are using third party vendors abroad to outsource business functions but often find it more advantageous, both in regards to costs and efficiency aspects (Aksin and Masini, 2009) for the MNC to perform the tasks in house in the same low-cost locations, namely to captive offshore. Additional advantages of the captive mode include a lower business discontinuity, a higher quality reassurance, and a more systematic process migration and improvement (Vivek et al., 2008). On the other hand, rising managerial and administrative costs as well as organizational commitments can pose challenges (Yadong et al., 2013), which leads to the important decision of what services to transfer abroad.

2.1.3 What to Outsource

Researchers generally agree that core competences, or activities that are close to core, are essential to the firm and ought not to be outsourced (Quinn, 1999). They should rather be kept within the borders of the organization for safeguarding intellectual property (IP) rights, enhancing value and maintaining control. The process of offshore outsourcing of advanced services enables firms to engage in collaborations with partner firms that complement their own resources and capabilities, which support the creation and building of their own resources. On the contrary, the process of offshore outsourcing creates a risk that the MNC will waste skills related to strategic knowledge resources (Jensen, 2012). Consequently, the weakening of the control will gradually cutback firm resources (ibid). Global sourcing consists of foreign services, so called third party vendors abroad acquiring knowledge and moving up the value chain more rapidly than expected. This is coined as “catch-up processes” (Kotabe and Mudambi, 2009) where business services are continuously developing and moving towards more complex transactions. As illustrated in figure 1 below, the move from standardized and automated services to customized services that go beyond the standardizations will arrive at higher value services (Sako, 2006; Karmakar, 2004).

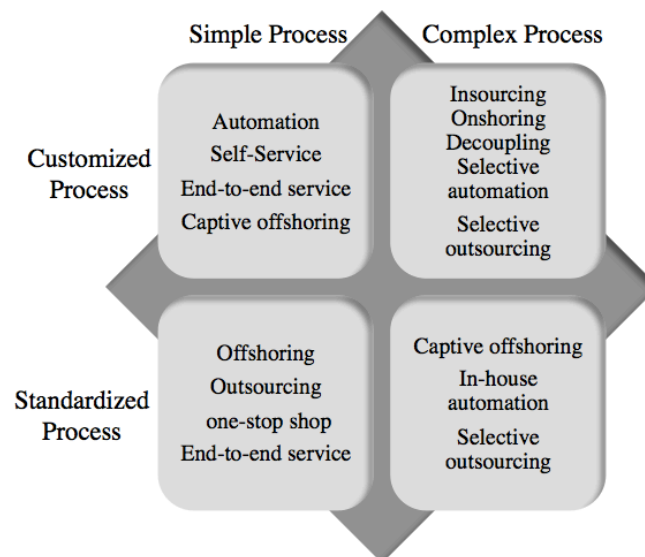


Figure 1: Choosing Sourcing Strategy. (Karmakar, 2004, p. 3)

2.1.4 How to Outsource

There are different ways to source goods and services abroad from low cost locations. The firm can collaborate with external partners or internalize the work abroad, either

through equity based or non-equity based entry modes. Non-equity based entry modes abroad are contractual agreements as licensing, joint ventures, R&D contracts or other types of alliances. Equity based entry modes include equity-based joint venture or wholly owned subsidiary as Greenfield investments or acquisitions. Licensing is in many cases the first step for firms to move abroad, whereas the following step may be outsourcing. (Pan and Tse, 2000) The next step can be equity-based joint venture or a Greenfield (Aksin and Masini, 2008), closely related to captive offshoring (Pan and Tse, 2000). When the firm has decided which entry mode to use for its offshoring setting, it is time to start preparing for the process.

2.2 Preparing for Offshoring

2.2.1 Transformation Readiness

Preparing and planning for the offshoring process requires relevant knowledge, experience, documentation and standard procedures. The organization ought to have clear expectations and understanding of the overview of work and service level agreements (Mezak, 2006). It includes the level knowledge embedded in the work and the level of contact offshore service providers have with customers. The embedded knowledge is often closely linked to the process itself and to the skills that are needed to execute the process (Youngdahl and Ramaswamy, 2008). When the knowledge is closely linked to the location, or even location specific, the knowledge is sticky (Szulanski, 1996). The stickier the knowledge is, the harder and more costly the knowledge is to transfer (Jensen and Petersen, 2013b). Speed, intensity and efficiency of the processes creates knowledge and absorptiveness, whereas building trust depend on the existing level of knowledge and to the extent the employees find the opportunities rewarding (Johansson and Vahlne, 2009; Andersen, 2006). In addition to the level of absorptiveness and stickiness, the knowledge embedded in employees, so called implicit knowledge, should be transferred to explicit knowledge available for all individuals in the organization (Jensen and Petersen, 2013b). Further, having the needed resources in place at the right time ease the transition, thus making the accessibility to the required resources crucial. The most important resources, such as time, qualified personnel and assistance in the sourcing process, are often scarce and critical for the success of the offshoring process (Trent and Monczka, 2005). When the transformation is prepared, the organizational change that offshoring requires can be initiated.

2.2.2 The Organizational Change

Taking the step to captive offshore does not only demand accessibility to resources but also requires the MNC to restructure the organization, demanding heavy efforts on the infrastructure and resources. The global sourcing strategy should be aligned to the organizational structure in terms of selecting teams, designing a reporting structure to the MNC and formal systems of communication relating to the MNC as a whole (Trent and Monczka, 2005; Van de Ven et al., 1976). Therefore, the process of offshoring should not be underestimated as a tactical action, but rather actions that reflect the strategy of the MNC. It involves complexity, uncertainty and requires that the task dependency is at a high level (Jensen et al., 2013). Figure 2 below illustrates how MNCs relate to tactical and transformational global sourcing. The combination of the three waves determines the degree of how close the firm is to tactical or transformational global sourcing. Exploration and exploitation refers to the level of risk seeking and experimenting respectively efficiency and execution within the hub. Replication and specialization refer to how unique the hub is. If the hub serves a specialized regional cluster or is operating as a centre of excellence, it is determined as specialized compared to replication, which means that the hub is without modularized content, which involves lower autonomy. Lastly, concealing and revealing is explained as the degree of the strategic knowledge transferred from the home country to the hub. (Jensen and Petersen, 2013b)

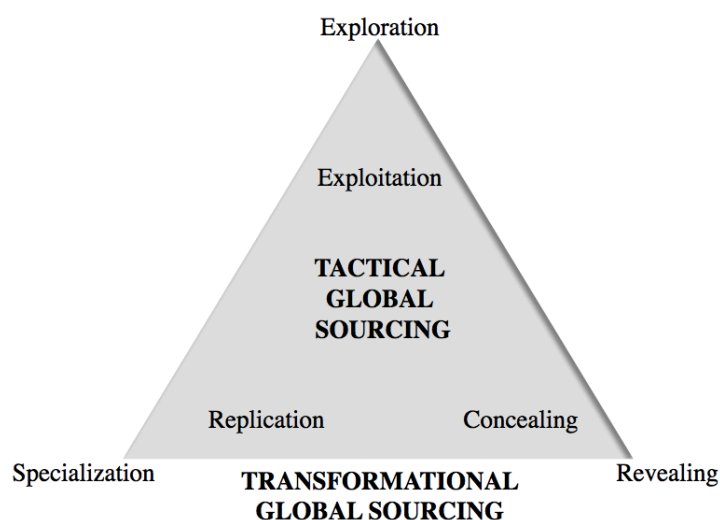


Figure 2: Transformational Global Sourcing. (Jensen and Petersen, 2013b, p. 71)

During changes, internal resistance may arise which can impede operational efficiency as in-time delivery and performance issues. This may be due to the lack of trust, communication and understanding of processes among the different roles within the organization (Levina and Vaast, 2008). Also, administrative, technological and structural changes may produce resistance (Dent and Galloway, 1999), which the management team have to consider before the change. Kotter (1995) observed that employees often understand the change in terms of a new vision, but identified obstacles preventing the execution of it, such as struggling between the new vision and personal interests. Moreover, the importance of two-way communication between managers and employees may be the first step for accepting the change (Dent and Galloway, 1999). Coch and French (1948) concluded that when the employees were involved in the design and progress of the changes, it resulted in less resistance. By involving the employees in the procedures, the uncertainty of the future decreases as more insight to the new strategy and change of the MNC is given (Dent and Galloway, 1999). The MNC need to actively work with quality, technological linkages and customer satisfactions requiring processes and routines to be governed and more monitored than before, but it is further crucial to be aligned with other captive centres (Karmakar, 2004).

2.2.3 Disintegrating and Reintegrating Activities

When an MNC has reached the decision to offshore tasks and activities, it must identify which activities that can be unbundled and what activities should remain within the borders of the organisation. Preparing for offshoring can be regarded as a three-staged process of disintegration, relocation and reintegration, see figure 3 on the next page. Firstly, the MNC has to analyse and break down the organizational activities into a number of sub-processes to identify what could be offshored, which will isolate those activities that create significant value and the extent of value captured by the MNC (Aron and Singh, 2005). The disintegration influences the decision makers to the nature of the activities, business function, the strategic objective but also industry and institution level factors (Kedia et al., 2009). A relocation of the identified activities from the home country to a foreign host location includes reaching lower costs, new employees and discovering the new market. When the offshored activities have been relocated, the next step is to reintegrate them in the organizational activities (Jensen et al., 2013). Mutual trust, on-going communication

and knowledge transfer between the onshore and offshore unit becomes highly important when reintegrating (ibid). At this stage, it is common for firms to experience unexpected challenges or hidden costs of offshoring, and that it is more costly and difficult to coordinate activities from another part of the world than expected.

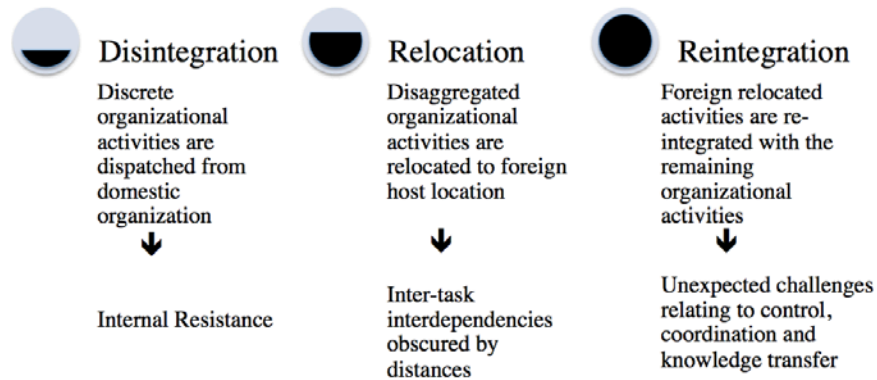


Figure 3: Disintegration, Relocation, Reintegration (Jensen et al., 2013, p. 3)

2.2.4 The Choice of Tasks

To identify the extent of embedded knowledge and coordination required in a process or activity (Youngdahl and Ramaswamy, 2008) is an important first step in offshoring. One firm activity common for offshore outsourcing where the knowledge embeddedness is fairly low (Youngdahl and Ramasmaway, 2012) is business process outsourcing (BPO). BPO services are back-office work as support functions involving human resources (HR), finance and front-office processes, but also high-end knowledge processes as customer analytics, legal services, software development, and data analytics (Youngdahl and Ramaswamy, 2008). Increasingly, firms choose to offshore BPO services when these can be performed better, faster, and more cost efficient by overseas entities within the firm (Gupta, 2005; Kehal and Singh, 2006). Lastly, BPO services involve significant challenges, including difficulties in ensuring service quality, codifying content, and coordinating multiple processes (Luo et al., 2013; Mudambi, 2008). KPO is work that requires higher level of embedded knowledge and the complexities of managing the process of offshoring the tasks also increase. KPO services can involve design, financial and legal research and clinical trials management (Cuoto et al., 2006). How to identify the scope of tasks to be offshored involves analysing and deciding what can be unbundled. When the firm has decided what or which activities to offshore, the location for the offshoring

process has to be considered.

2.2.5 The Choice of Location

Some countries have been more successful in attracting foreign companies than others. India, Philippines, and China are some of the emerging countries that have opened up their markets for foreign investments and experienced heavy deregulations (Kedia et al., 2006; Tholons, 2013). These countries can offer a large scale of educated and mobile talents that can be leveraged in comparison to the MNCs home country (Kedia et al., 2009). Choosing offshoring location by its specialisation give the MNC the reassurance of cost effectiveness, educated talents and a pleasant environment for the given tasks in regards to laws and regulations (Willcocks and Lacity, 2006; Jensen and Pedersen, 2011).

The location specific factor is interrelated to the external factors that drive offshoring and outsourcing in the first place, such as IT, talent pool, labour costs, government regulations and infrastructure (Doh, 2005; Graf and Mudambi, 2005). Dunning's (1988) ownership, location and internalization (OLI) framework describes advantages the MNC can gain when pursuing foreign direct investment (FDI). These include ownership specific advantages, location specific advantages and internalizing specific advantages, which could either encourage or discourage firms to engage in FDI when offshoring activities (Kedia et al., 2009). This is illustrated in Figure 4 below.

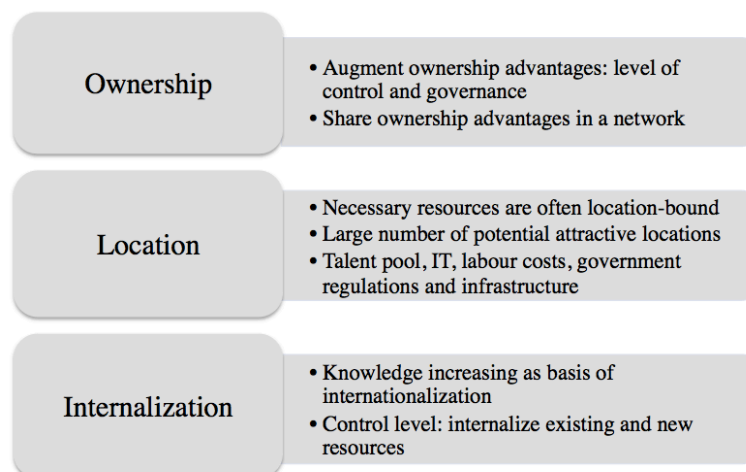


Figure 4: OLI framework, (Dunning, 1988) Adapted by the authors.

It depends on the strategic importance of a task if a company takes advantage of ownership, location and the internalization factors. This could in turn affect the MNC operation, which could have an impact on the chosen location (Graf and Mudambi,

2005). Dunning (1988) argues that firms prefer internalizing tasks and activities within own boundaries rather than externalizing those activities to third party vendors abroad. The locational factors further lead to the feasible level of learning and standardizations within the MNC. Some locations are more popular than others for specific service activities, which has resulted in higher competition of talent in these places. Therefore, it is important for the firm to consider its availability to handle the *race for talent* at the location considered for its offshoring activities.

2.2.6 Race for Talent

The competition for talents is hardening due to increased offshoring activities of MNCs (Lewin et al., 2008). The driver for the MNCs to go beyond the borders of the organization refers to the shrinking pool of talent in the home market and the surplus in emerging markets (Deloitte, 2004; Lewin and Couto, 2007). The supply of engineering and science talent in the western world is decreasing, countries as India and China have an increasing supply of qualified engineering and science talent. Many MNCs therefore enter a global search for talent resulting in the participation in the *race for talent*. To manage the talent requires high effort from the firm to implement new recruiting and retention strategies, but also new methods for managing, sharing and exploiting knowledge (Lewin et al., 2008). Talent is an intangible resource for the firm, and the ability to organize and manage talent becomes an important capability for the MNC. In regards to people management, project planning dedicates and empowers the best employees through incentives that motivates and creates value (Al-Ahmad and Al-Oqaili, 2013). Nonetheless, the knowledge the resources receive through training, e-mails, asset specificity and education can easily leak out to competing or neighbouring firms through employee turnover. Therefore, it is of high importance to make sure that the processes and activities of the firm are documented and standardized to ensure that the knowledge can be transferred in the case of resigns.

2.2.7 Standardizing for Transferability

The absence of standardized processes makes the knowledge more location-specific and stickier (Trent and Monczka, 2005). Therefore, integrating frameworks when relocating offshore standardize the specificities of the tasks and activities and identify the transferability (Hätönen, 2009). When it comes to frameworks and common ways

of working, it is known that companies that use intranets and web based systems to increase knowledge are successful in global sourcing (Trent and Monczka, 2005). Developing sharp routines and processes should be regarded as best practice since it makes learning between employees and departments easier, and integrates the routines in the organization (ibid). Keeping the information online is however not enough, it also have to be visible and known to everyone in the organization. Transferring tasks offshore involves teaching new employees, and since the routines should be repeatable, transferable and standardized, they have to be sufficiently trained (Youngdahl and Ramaswamy, 2008). This takes longer time than normally anticipated and becomes a challenge when an issue of unique character arise and the employee can not solve the issue by the pre-define process solutions (Karmakar, 2004). When the tasks to unbundle are decided, the location is chosen, the competition of talent is considered and the processes are documented and standardized, the next step of the offshoring process is the transformation.

2.3 The Transformation Process

2.3.1 Knowledge Transfer

The implementation process of offshoring often begins by a decision to offshore a service or activity, and then the MNC choose an appropriate vendor and location (Srikanth and Puranam, 2011). Once the decision of offshoring is taken and the vendor is selected, the planning of the process begins, which involves analysing tasks and evaluating the possibilities to transfer the activity offshore (Al-Ahmad and Al-Oqaili, 2013; Srikanth and Puranam, 2011). The knowledge transfer is illustrated in Figure 5 below. The first phase, *due diligence*, involves the scope of planning (Srikanth and Puranam, 2011), which includes standardization of processes, documentation, understanding the tasks and activities that are supposed to be transferred and continuous communication between the parties. Following, the design stage focus on controlling that the budget is aligned with the plan and developing a way to monitor and follow up the process of the knowledge transfer's delays and errors. After the design phase, emphasis on timelines in the installation plan is key (Al-Ahmad and Al-Oqaili, 2013). In this stage, the onshore location is involved in how to unbundle and transfer the process to the offshore location. The team responsible for the transition visits the onshore location to understand all the details of the process or activity. To understand the scope of the task or activity requires being

familiar with how it is performed today, as well as its links to other processes.

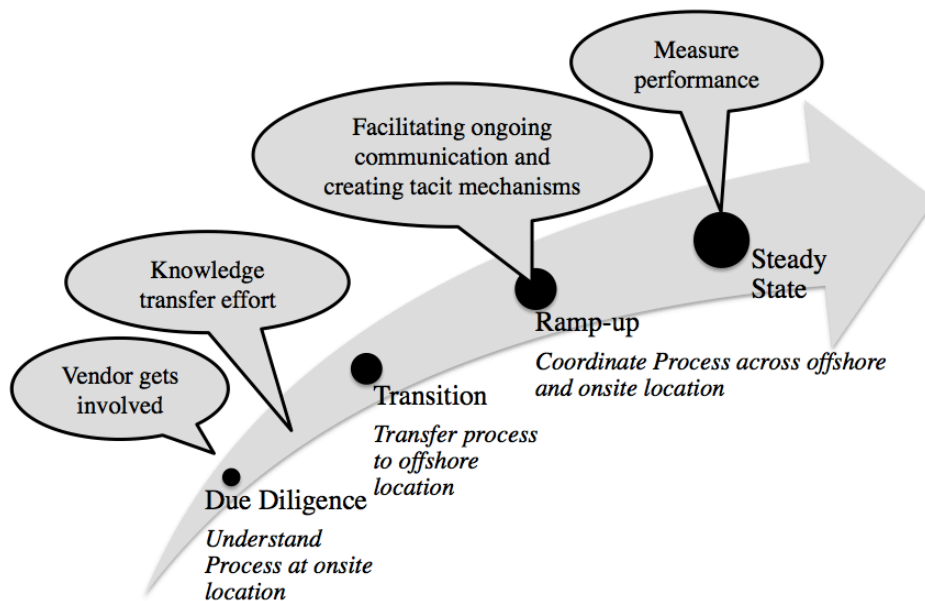


Figure 5: Knowledge Transfer. (Srikanth and Puranam, 2011, p. 852)

At the *transition* phase, the knowledge transfer is extensive from the onshore location to the transition team, and the knowledge transfer should be supported by extensive documentation of policies and procedures of how the process is suppose to work as well as how it currently works. It is in this stage that the documentation of the process takes place and is being tested for the first time (Srikanth and Puranam, 2011). After the training stage, the transition team returns to the offshore location and the *ramp up* process begins. The team starts by transferring knowledge to employees at the offshore location and the activities are transferred through parallel working. Often, the parallel process begins with 50 per cent produced by onshore and the other 50 per cent by offshore, and after some weeks of parallel working, the process ramps up with an increasing amount of work produced by offshore. Further, in the ramp-up phase, both onshore and offshore continue to learn to eliminate bugs or error in the processes (Srikanth and Puranam, 2011). After this, the process goes live. The post knowledge transfer phase includes continuous audit and control of work, which also should be done during the whole knowledge transfer (Al-Ahmad and Al-Oqaili, 2013). This is also called *the steady state* (Srikanth and Puranam, 2011).

2.3.2 Coordination, Control and Monitoring During the Transformation

Regardless of the choice of ownership, governance models can mitigate the challenges that escalate during the implementation process. These could include risk control, cost savings and quality assurance, profitability and process monitoring (Madhok, 1997; Stratman, 2008). In the different ownership modes, flexibility, safeguarding of IP and level of engagement from the management may vary (Kedia and Mukherjee, 2009). Nevertheless, having a captive centre gives the MNC full control due to higher level of IP protection and further allows the MNC to exert control over capabilities and technical knowledge (Lonsdale and Cox, 1998).

The hidden coordination costs increase in the same speed as the task dependency (Larsen et al., 2013). It takes longer time to clear something through e-mail or by phone than meeting face to face, hence, the coordination time increase. Coordination therefore becomes a major issue and topic to prioritize when dealing with captive offshoring since it involves hidden costs, longer time to conclude, less face time and more bounded rationality. In a captive offshore, people are scattered all over the world, making face time difficult which can create conflicts due to time pressure and dual-responsibilities (Trent and Monczka, 2005). The different parties working together may have different cultures, dialects or laws which creates misunderstandings that are time consuming and unnecessary. It may also delay decision-making processes or create ignorance due to coordination issues. In this case, web based tools such as video conferencing enable the relationship between the parties and eases the issues with coordination and communication (Trent and Monczka, 2005).

2.4 Theoretical Outline

The theoretical framework discussed the main academic literature supporting the process of captive offshoring. The framework explained the preparation followed by the transformation process. Firstly, the preparation phase involve organizational change, how to analyse processes and sub-processes to identify possible services to offshore, and the determinants of the scope and content of offshored services. This involves on-going communication and knowledge transfer where gathering and sharing documentation and standard procedures is key. Moreover, during the transformation process, the various phases of the knowledge transfer are significant as it explains each step of the implementation to captive offshoring.

3. METHODOLOGY

This chapter outlines the research method. It discusses the choice of company, cases and data collected. Further, the research process, quality of study and lastly the reliability and validity of the thesis will be discussed.

3.1 Research Approach

As mentioned in chapter 1, the research question is *how a knowledge and technology driven service firm implement the decision of moving from offshore outsourcing to captive offshoring*. To answer this question, two case studies have been conducted to identify the implementation process of transitioning work from third party vendors to an own captive offshoring hub. What is typical with a case study is the object of interest and aim to provide an in-depth knowledge out of a situation or phenomenon (Collis and Hussey, 2009; Bryman and Bell, 2007). Yin (1994) defines a case study as ‘an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when boundaries between phenomenon and context are not clearly evident.’ As also supported by Collis and Hussey (2009), evaluating a phenomenon and identifying and examining challenges makes case study appropriate since it can determine trends in an organization.

The literature focusing on outsourcing and offshoring processes is extensive, but not many researchers have elaborated on the implementation process itself, other than business press giving light attention to the implementation due the many failures of outsourcing relationships (Hirschheim and Lacity, 2009). Nevertheless, most researchers focus on the outsourcing and offshoring processes in general, but the move from third party vendors or onshore locations to a captive offshore hub, so called insourcing (Freytag et al., 2012), is still an area where additional literature is needed. Therefore, the study aims to contribute to this research area and increase the knowledge of the implementation processes within insourcing and challenges related to this phenomenon. In other words, the seemingly inadequate existing theory made a case study well suited for this research (cf. Eisenhardt, 1998).

The case studies performed in the thesis can by evaluating the processes, challenges and activities in this specific transformation contribute to the research area of insourcing and implementation process. To be able to identify patterns, key phases and discuss challenges in a transformation, a multiple case study was chosen

consisting of two different processes within the same MNC. As the aim of the study is to identify a general path of the implementation process, a multiple case design is appropriate (cf. Ghauri, 2004). Comparing two cases made it possible to identify differences and similarities in the processes. Since the two offshore hubs that were studied belong to the same MNC and were implemented close in time, it is appropriate to use two cases to recognize phases, patterns and challenges faced in the processes as the research question evaluate the implementation process of how an MNC move from offshore outsourcing to captive offshoring.

3.2. Choice of Case and Sampling

In the field research, it is important to consider determinants as research site, time, people and events for the study (Merriam, 1998). In this thesis, convenience sampling has been used, which is explained as when the researcher selects a sample based on availability or access (ibid).

3.2.1 The Company

To identify the processes and answer the research question, insight in the company performing the implementation is needed. The access to interviewees and other resources are required for achieving relevant results. PharmaT has been chosen due to one of the researcher's contact with the firm, which further is the reason for both researchers to be aware of the performed transformations. Data, interviewees and other resources were accessible, which has been an advantage in the sampling selection phase. The minor descriptions of PharmaT and its activities are due to a confidentiality agreement between the firm and the researchers. Hence, anonymity of interviewees is held, as well as limiting information regarding industry specificity throughout the thesis and quotes made in the empirical findings.

3.2.2 The Cases

PharmaT has performed numerous insourcing transformations during the last four years, and it was therefore an opportunity for the researchers to evaluate more than one of the implementations. To choose which and how many transformations to focus on became crucial in the beginning of the process. Since the aim was to identify the implementation process itself, it was considered important to choose transformations that were close to completed where the whole implementation chain could be evaluated. Due to time and financial constraints, it was perceived

overwhelming to discover more than two locations. Thus, if more than two processes were evaluated, the empirical data would be shallower and the different aspects of the implementation process would be harder to recognize. Based on this criterion, the Bangalore hub was chosen since it was where the first transformation took place, and it became the largest one implying a significant impact for the organization. The Manila hub was chosen since it was the second established hub, and was transformed close in time to the Bangalore hub. By choosing these two cases, it was possible for the researchers to evaluate the whole process from the start of the transformation until the result of the transformations, and to determine how the implementation process arose.

3.3 Data Collection

The research and data collection was performed in Sweden, India and the Philippines. The method of data collection was to perform face-to-face interviews with employees that had experienced the transformation at both locations. The research was designed to include investigation and observation of the environment and the infrastructure of the offshoring hub in both research locations. Data collection through telephone interviews was performed in Sweden before the fieldtrips to prepare, but also after the fieldtrips to follow up on the interviews. Each interview was recorded and transcribed to text by one of the researchers, which later was reviewed by the other researcher. Some interviewees were contacted in after hand to verify the information given in the interviews. This could for instance be when the responses deviated from the observed data or unclear information was given.

3.3.1 Primary Data

The data collection consisted primarily of face-to-face interviews, but telephone interviews and observations were also used to create a larger and verifiable understanding of the settings (Ghuri and Grønhaug, 2005). The interviews covered three different hierarchical levels to get a fair and triangulated view of the implementation process. Corporate managers, middle managers and associates shared their stories according to the experiences they hold. This includes both established staff, newly recruited as well as relocated headcounts from previous outsourcing providers. The length of the interviews ranged between 20 minutes to over 2 hours, and the research totalled to 28 interviewees whereas some interviewees were

interviewed more than once. The interview schedule on the next page, in figure 6 presents time, length, hierarchical levels and location of each interview.

Company	Respondent	Method	Date	Location	Duration
Hub 1	HR manager	Face-to-face	27 Feb 2014	India	47 min
Hub 1	Associate 1	Face-to-face	26 Feb 2014	India	25 min
Hub 1	Associate 2	Face-to-face	25 Feb 2014	India	24 min
Hub 1	Associate 3	Face-to-face	26 Feb 2014	India	20 min
Hub 1	Associate 4	Face-to-face	25 Feb 2014	India	33 min
Hub 1	Local director	Face-to-face	24 Feb 2014, 28 Feb 2014	India	150 min
Hub 1	IT Director	Face-to-face	26 Feb 2014	India	35 min
Hub 1	Manager 1	Telephone	26 Feb 2014	India	31 min
PharmaT	Corporate	Telephone	18 Mar 2014	Sweden	32 min
Hub 1	Analytics Manager	Face-to-face	28 Feb 2014	India	34 min
Hub 1	Manager 2	Face-to-face	24 Feb 2014	India	45 min
Hub 1	Finance Manager	Face-to-face	27 Feb 2014	India	25 min
Hub 1	Manager 3	Face-to-face	24 Feb 2014	India	45 min
Hub 1	Manager 4	Face-to-face	28 Feb 2014	India	43 min
PharmaT	Corporate	Telephone	28 Mar 2014	Philippines	36 min
Hub 2	Manager 1	Face-to-face	17 Mar 2014	Philippines	42 min
Hub 2	Manager 2	Face-to-face	17 Mar 2014	Philippines	34 min
Hub 2	HR manager	Face-to-face	17 Mar 2014	Philippines	40 min
Hub 2	Manager 3	Face-to-face	17 Mar 2014	Philippines	64 min
Hub 2	Finance Manager 1	Telephone	19 Mar 2014	Philippines	31 min
Hub 2	Finance Manager 2	Face-to-face	19 Mar 2014	Philippines	21 min
Hub 2	Associate 1	Face-to-face	20 Mar 2014	Philippines	25 min
Hub 2	Associate 2	Face-to-face	20 Mar 2014	Philippines	51 min
Hub 2	Associate 3	Face-to-face	20 Mar 2014	Philippines	51 min
Hub 2	Manager 3	Face-to-face	20 Mar 2014	Philippines	41 min
Hub 2	Local director	Face-to-face	17 Mar 2014, 20 Mar 2014	Philippines	180 min
Hub 2	Associate 4	Face-to-face	18 Mar 2014	Philippines	26 min
PharmaT	Corporate	Telephone	29 Jan 2014, 13 Feb 2014, 21 Apr 2014	Sweden	240 min

Figure 6: Interview Respondents

The interview questions were modified to the person's involvement in the organization. By interviewing, the aim was to identify how the implementation process of the change from offshore outsourcing to captive offshoring was completed, what decisions were made, the level of communication, why the processes were formed in different ways in the offshoring locations and the implications of this. All interviews were performed in English, a language the researches have a high

proficiency in. The interviews were performed in a semi-structured way, meaning that interview questions were prepared (Appendix 1), but the order of them varied due to the flow of the conversation (Saunders et al., 2009). Further, the aim of the interviews was to let the interviewee speak freely about experiences and challenges from the transformation process. To embark on the interview flow and insights, protocols were held throughout the entire interview period. Also, before entering the two research locations, a defined view of which people to interview was planned in terms of job role and key persons. The people chosen for the interviews were partly contacted by the researchers due to their current position or involvement in the transformation process. In Bangalore, the interviews were not decided before the visit. Instead, after the two first interviews, the manager and the second person interviewed recommended people to be interviewed. The researchers tried to do spontaneous interviews at several occasions, but these were hindered for various reasons. In Manila, the director assistant planned all interviews prior to the visit resulting in less freedom to conduct spontaneous interviews. In some cases, it became evident that the person interviewed was not the most relevant which resulted in the need of more interviews to be conducted to receive the relevant answers.

3.3.2 Secondary Data

The empirical data consists of mainly primary data, but secondary data was also collected. Frameworks provided by the hubs, searching the intranet of PharmaT and Internet about the MNC and their processes to get an understanding was a part of the secondary data collection, enabling savings of resources such as time and capital (Ghuri and Grønhaug, 2005). This is in accordance with the view of Ghauri (2004) on triangulation, who stresses the importance of validating information received from various sources and examining it from different angles. Observations of the environment at both locations is also counted as secondary data, since it has affected the way the researchers perceive certain answers by the interviewees, as the understanding of frameworks and the overall strategy of PharmaT, enhancing the triangulation (cf. Ghauri, 2004).

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3.4 Research Process

The research process has an abductive process as shown in figure 7 below. This method, termed abductive process, occurs when the research continuously checks the theory to align it with the empirical findings (Van Maanen et al. 2007). Firstly, a theoretical framework was shaped prior to collecting data to provide explanatory theories for understanding the social phenomena that were to be observed. The observed constructed reality changes constantly through the researchers perceptions and experiences (Collis and Hussey, 2009), explaining why the theoretical framework was continuously revised and developed. The research process is illustrated through figure 7. In the initial state, collecting general theory about offshoring, outsourcing and organizational change, part 2.1, 2.2 to 2.2.5 in the theoretical framework, which resulted in conceptualization zero. Conceptualization zero was brought to the first location and was confronted by the first case study.

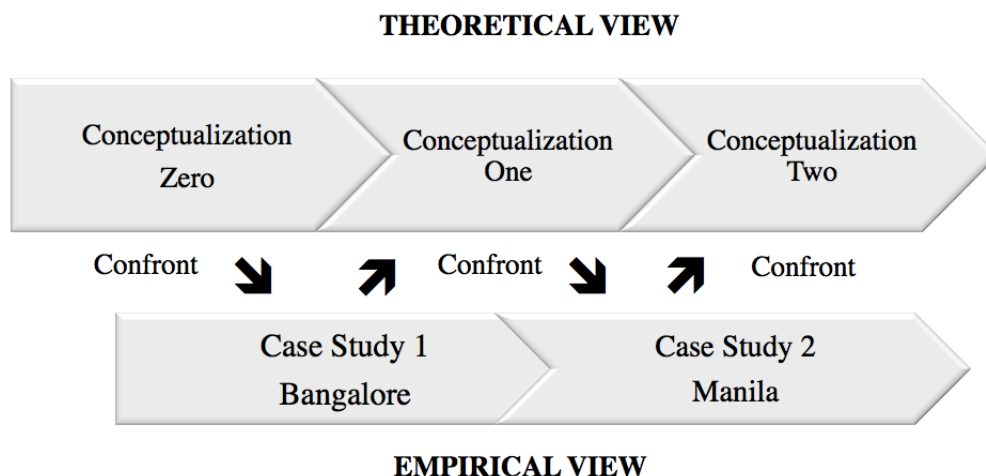


Figure 7: Research Process. Own Conceptualization.

This led to conceptualization one as the empirical findings provided the researchers with more knowledge, which resulted in part 2.2.6 to 2.3.1 in the theoretical material about the race for talent, people management and the impact on the organization of

implementing an offshore hub. When the Manila field study was completed, the researchers realized the importance of hidden costs, governance and monitoring, resulting in part 2.3.2. New views were confronted, which resulted in conceptualization two. Going back and forth between the empirical findings and the theoretical framework implied that once the two field study experiences was conducted, it was realized that more theory was needed in order to compare the two implementation processes. The different frameworks, cultural dissimilarities and the deviating focus on people management were taken into account when conducting conceptualization two.

3.5 Quality of Study

To ensure the quality of the study, it is crucial to consider the validity and reliability of the findings. Mason (1996) argued that reliability, validity, and generalizability are different kinds of measures of the quality, rigour and wider potential of research, which are achieved according to methodological and disciplinary conventions. Moreover, it is impossible to freeze the events in the social setting that was observed and it becomes incomparable if not pursued with a different research method. The theoretical framework is aligned with the empirical findings, which helped reach the results of the thesis together with answering the research question. In combination with this, having an abductive approach eased the process as the theory and the empirical findings were constantly analysed back and forth (Van Maanen et al, 2007), which increased the reliability and validity of the study.

3.5.1 Validity

In qualitative research, reality is perceived as holistic, multidimensional and ever changing. This implies that human beings construct reality, and there is no such thing as a common reality (Merriam, 1998). Therefore, the validity of qualitative studies needs to be considered carefully to ensure that the findings capture what has actually been observed.

Internal Validity

Internal validity occurs when the empirical findings and theoretical ideas align or match each other (LeCompte & Goetz, 1982). Merriam (1998) presents different strategies to enhance internal validity. Firstly, the researchers should strengthen the empirical results through triangulation by using multiple sources of data or multiple methods to confirm the empirical findings. Further, internal validity can be reached

through checking collected data and interpretation with the people interviewed to ensure that no misinterpretations have occurred. Since the research had a multiple case design, the sources were confirmed in the two research locations to verify the answers, such as cross-investigating two senior operating managers and two local directors from each location. This is further linked to the collaborative modes of research, meaning that the researchers should involve participants in all phases of the research, from the start of the study until formulating the findings. Merriam (1998) also suggests peer examination, implying that the researchers should ask colleagues to comment on the findings, which have been performed with the supervisor from the university as well as the supervisor at PharmaT. Lastly, the internal validity is strengthened by the researchers' explanation of assumptions taken, the worldview perceived as well as theoretical orientation at the outset of the study. By using both deductive and inductive process gives proof that the study has a certain internal validity. In addition, in order for the collected data to be less biased, the interviews have been double-checked by reformulating questions, and when some answers have been unclear, the researchers contacted the respondents to clarify.

External Validity

External validity refers to the extent of generalization (LeComte and Goetz, 1982), and if the findings in the study can be applied to other situations (Merriam, 1998). Since a case study is selected due to the researcher's will to get an in depth understanding of a certain process or phenomenon, it is difficult to generalize the findings to other cases. Due to the small sample, the findings should not be generalized to other cases. The external validity is low due to the low possibility of replication (Bryman and Bell, 2006); however, due to the multiple case designs the results derived are confirmed at two locations. Moreover, an analytic generalization is proposed by Yin (2003) where the results are defined to a theory of the phenomenon being studied, which has wider applicability than the particular cases that have been studied. Thereby, the case studies contribute to a general theory of the phenomenon., but can not be generalized to all similar cases.

3.5.2 Reliability

The reliability of the study refers to the extent to which the findings of the research can be replicated (Merriam, 1998). This case study was possible due to one of the researcher's close contact with PharmaT, which makes the study non-replicable and

implies that the study lacks reliability (Bryman and Bell, 2006). However, Merriam (1998) states that the consistency data is of greater importance than if the empirical findings could be found again. To increase the reliability of the case study, the selection of informants and the context from which the data have been collected have been described, and the researchers have clarified assumptions taken and choice of theoretical framework. Lastly, an audit trail have been included in the research process, meaning that the researchers have described in detail how data was collected and how decisions were made throughout the inquiry, which have been clarified in the research process and in the appendix. The internal reliability also increases as both researchers have been holding the interviews and due to the use of recording device.

4. EMPIRICAL FINDINGS

This chapter discuss the empirical findings identified from both case studies relevant to the implementation process of moving from offshore outsourcing to insourcing the work. The chapter is divided in three parts, starting with an overview of PharmaT's background followed by the empirical findings from the first case study and lastly the second case study will be discussed.

4.1 PharmaT Background

The Western based firm is a knowledge and service company in the healthcare business with a global presence in over 100 countries. The MNC employs about 10 000 individuals across the globe and was established during the 1950s. Currently, the work is highly automated and technological but had a focus on manual labour processes a few years ago. The weight of manual labour is diminishing and the MNC is becoming more cloud based. PharmaT was an MNC with a global strategy focused on heavy use of third party vendors both offshore and onshore.

“With the new CEO coming in, it took a turn with the strategy, and we started to insource work.”

- Indian Manager, Bangalore

As a result of a new CEO in 2010, the outsourcing strategy was modified by insourcing the work, translating to the creation of several offshoring hubs within the firm. This vision aimed at relocating tasks and activities as IT, BPO and KPO services that previously were produced by third party vendors, but also new tasks as sales and marketing offshore were relocated. It was realized that the decreased control and creativity of the processes resulted in loosing talented and innovative resources. Therefore, the purpose was to create added value by protecting the core competence and the intellectual property by bringing the employees under the same roof using the same applications and processes as the rest of the MNC. Calculations estimated that by performing the work themselves, instead of using third party vendors, would result in a 50% reduction of costs.

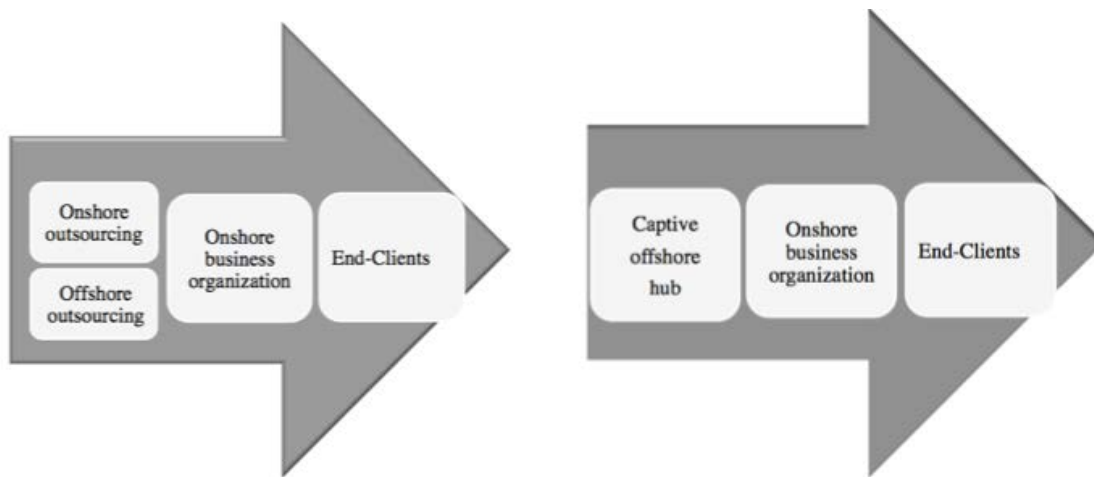


Figure 8: PharmaT Sourcing Strategy pre 2010 and post 2010. PharmaT. Adapted by the authors.

Prior to the organizational change, there existed numerous of third party contracts and each transition of work was handled differently. Figure 8 above illustrate the sourcing strategy development for PharmaT. The left figure shows that PharmaT used third party vendors for outsourcing both onshore and offshore, and the right figure shows how captive offshore hubs replaced the outsourcing contracts after 2010. Prior to the transformation, 80% of the work was performed onshore and 20% offshore. Today, it is the other way around. The first and currently largest offshoring hubs were implemented in Bangalore and Manila. The offshoring hub in Bangalore focuses on advanced services as IT, KPO and analytics, while the Manila hub is a production hub with less advanced services as BPO and voice work. In March 2014, the two offshoring hubs accounted for 1500 respectively 600 headcounts. Due to proximity of existing outsourcing providers, right technical competences, language skills and low labour cost, the decision to set up a captive offshore hub in Bangalore was taken, whereas in Manila, an abundance of nurses triggered the initiation.

4.2 Bangalore Transformation

4.2.1 Background

To take over work from third party vendors and have an own hub is not a new and unique phenomenon in Bangalore. Instead, PharmaT was described to be a late entrant of setting up an own hub in the end of 2010. Before the establishment of PharmaT's offshore hub, the MNC did not have any presence in Bangalore except for the existing offshore outsourcing contracts. The local director of Bangalore was employed with the purpose to solely set up the offshore hub by recruiting people and manage the process of insourcing work. In January 2011, the building lease was

signed and the first headcounts entered in April 2011. Apart from the IT, which was assisted by the global MNC, the offshore hub did all of the work transition by itself. The transition did not use any global frameworks and did not have any standardized framework in place; instead, the local director's personal experience was used. The hub transitioned projects from both third party vendors and onshore business organizations. Simultaneously as installing the hub with employees, computers and desks, numerous transitions were processed and the hub is today still relocating work. Therefore, it is worth taking into account that quality improvements of the work are still progressing. During the last 20 years there has been an enormous development in Bangalore, and the skills and capabilities, but also the infrastructure and logistics as Internet connection have improved rapidly. Consequently, the location choice was a natural step for PharmaT according to the interviewees. The English proficiency is high and few people feel insecure speaking English since it is a mandatory language and the low cost levels implies that companies can take advantage of the scale of work. The offshore hub acknowledges the importance of having proximity to time zones, to speak with the same accent and to have the same understanding of different words. However, confusions and frustration arose when calls are scheduled 5 am from the US to the Bangalore hub to match time zones.

Having a leader that is a change agent with an open mind for offshoring, prioritizing documented processes, know how to execute processes and how you need to train resources is critical for success.

- Indian manager, Bangalore

The third party vendors that were used are compiled below due to the contracts and transitions being handled differently. Some of the work was relocated to the Bangalore hub and some were transferred to Manila.

Vendor 1

Vendor 1 was located in Mumbai, India, and the work was relocated to both Manila and Bangalore. In Bangalore, the work functions consisted of finance and HR during the ramp up of the new offshore hub, which included recruiting employees and salary payments. In Manila, the work consisted of supporting production of analytics and KPO. During the transition, trainers from Vendor 1 were on-site in Manila for six

weeks. In September 2013, after six months, the transition was completed. After this, the employees were told that no assistance could be sought from Vendor 1.

Vendor 2

Vendor 2 was situated in Bangalore and the work was relocated to the Bangalore offshore hub. Due to contract restrictions, no employees could be transferred to PharmaT and no documents were allowed to be shared with the hub. Thus, the Bangalore hub had to act quickly in regards to recruitment and knowledge transfer. According to PharmaT, Vendor 2 should never have been used, as the relationship was perceived as unimportant for Vendor 2 due to the relatively small size of PharmaT. After the knowledge transfer, the Bangalore hub ended up recruiting 15 employees less than stated in the prior contract.

Vendor 3

Vendor 3 was located in Bangalore and had been cooperating with PharmaT for a long period of time. PharmaT also had shares in Vendor 3. Due to the long cooperation and ownership, the process of insourcing was predicted to be relatively easy. The work Vendor 3 performed consisted of KPO services.

Vendor 4

Vendor 4 was located in Bangalore and the work was divided between the Bangalore and the Manila hub. The work was split between the two locations depending on whether it was BPO or KPO services, but the majority of the employees relocated to Bangalore. In Manila, four resources initially accepted the relocation package, but due to tax uncertainties only one transferred to Manila. Consequently, the recruitment of new people for the transition was time constraining. The knowledge transfer finished in April 2013 and took about six months.

4.2.2 Transformation Readiness

During the preparation of transitioning third party work, it became apparent that needed documentations was lacking from the vendors. Therefore, the local manager ensured that documentations were in place before following transitions by developing own documents and processes. This required elimination of complexity, which in turn took considerable amount of time. The errors during the early phases were seen as inevitable and could have been mitigated by transparency and better communication between the hub and the vendors.

Once the vendor knows, they will start transition their best resources to other projects, which is important to be aware of.

- Indian manager, Bangalore

Due to time and financial constraints, the decision of outsourcing the HR and finance manager roles was taken. This was done when the local manager realized that the team did not have enough time to find suitable candidates for these roles during the four months of transformation. The manager decided to hire Vendor 2 for these roles, as the relationship between PharmaT and the vendor was long and well established. However, no clear directions, expectations or guidelines were given, resulting in that the vendor did what they thought were best, which unfortunately were not in line with the expectations of PharmaT. The lack of directions given resulted in large undo and redo work for the HR and finance manager. It took four months for the finance manager to understand the structure and implement the systems that were supposed to be in place from the beginning.

To hire a third party vendor for the support functions was a mistake. They all have an incentive to make money out of it, and they really do not put the best people there.

- Indian manager, Bangalore

It was estimated that the transition and the knowledge transfer would take three months. This was later understood to be too short for most project transitions to reach required level of effectiveness and quality. Several factors are scrutinized to evaluate if the transition is ready for sign-off, such as decrease in errors and customer satisfaction. The planning and the pre-work of the transition together with the third party happen at the same time. In regards to the project management, the third party would need to know the period of time of the transition, as when to start transferring resources to other projects, as soon as possible. Nonetheless, a majority of the headcounts from the third parties were relocated to the offshore hub in Bangalore.

4.2.3 Knowledge Transfer Framework

After the first transition was made, a knowledge transfer framework was created within the offshore hub. A majority of the knowledge transfer was to be executed by the offshore hub in collaboration with the onshore business organizations owning the projects and together with the third party. Reliable communication channels and

frequent meetings were embarked on to ensure smooth and timely knowledge transfer. In addition, there was large focus on clear roles to know who could answer which questions and explain how the transition would develop in different steps. The framework in Bangalore involve five phases, which all require a sign-off before moving to the next phase. The framework is illustrated in the figure below.

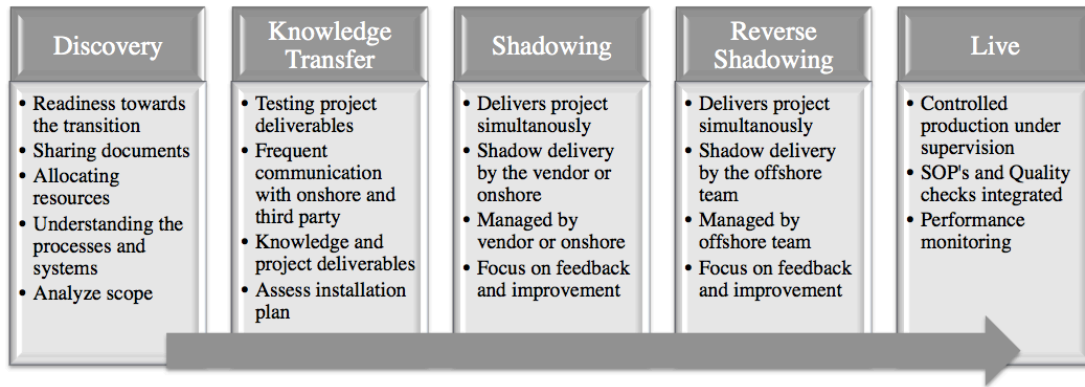


Figure 9: Knowledge transfer framework in Bangalore. PharmaT and adapted by the authors.

Discovery

The first phase is the discovery, which allows the parties to get to know each other and understand the work that will be relocated. It involves sharing documents, understanding the processes and allocating resources needed for the project being transitioned. The onshore team is building up confidence in the performance and quality of the offshore hub, which is secured through various meetings where information is shared. The goal of the discovery phase is to gain proficiency and understanding the outcome of taking on the work to the offshore hub.

We needed to transition all roles that Vendor 2 was performing, because they had inclined to move any resources into our office. We needed to understand what type of work that was done, what activities would happen, and then we could start hiring.

- Indian manager, Bangalore

One large challenge in the discovery phase for the Bangalore hub was the allocation of employees for new projects. In most transitions, the employees relocated from the third party, which implied that the hub did not need to focus on any recruiting process. However, when resigning the contract with Vendor 2, it was found out that no resources could be relocated, and no documentations or standardized processes were allowed to be shared. This resulted in many stressed decisions taken by

PharmaT as faulty recruitments and the emerging decision of hiring a vendor to fill up support functions. After the transition from Vendor 2, the hub ended up recruiting fewer headcounts than the third party contract stated, mainly since the vendor was not willing to help with the transformation, which resulted in that the hub did not have enough time to recruit the number of resources required.

Knowledge Transfer

The phase after discovery is the essence of the knowledge transfer. This phase involves knowledge- and project deliverable tests. It further involves assessing the installation plan by stressing frequent communication with both onshore and third party. In this phase, the training of the new employees was extensive, and the Bangalore hub offers a wide range of different training areas. To have e-learning in conference rooms for a few days is common, and it involves both training in the client experience framework, mantras, but mainly in the work that will be produced. To perform workshops in how customers should be handled is also involved in the knowledge transfer phase and is unique for the Bangalore hub. For all employees that followed from the acquisitions of third parties, the training was about the corporate culture, how to work with clients and stakeholders, as well as integrating them in the new ways of working.

When bringing in work, relevant documents may or may not exist. Work that already has SOPs and other documentations in place is an easier target for offshoring. If it is lacking, the hub needs to create its own.

-Indian Manager, Bangalore

Shadowing

The shadowing phase is when the onshore or third party team delivers the work, but the offshore team simulates the delivery. In other words, there is double work done by offshore and onshore. This is done to prevent errors when the team goes live, and to match the quality required. During the shadowing phase, the teams have started to work actively with the projects and the offshore team delivers a project simultaneously as the third party or onshore, but not to the client.

The philosophy is that if you want to make errors, make them in the shadowed phase.

- Indian associate, Bangalore

The project delivered by offshore is thereby scrutinized and compared with the one delivered from onshore. Feedback and possible improvements are emphasised as the shadowing is repeated until the quality and efficiency has reached expected levels. It could take one to several rounds depending on the complexity of the activity or revenue implications. This and the following phase is costly due to double work, but over the life cycle, the expenses become insignificant compared to if the team would have made all errors in the delivery to the stakeholder.

Reverse Shadowing

Reverse shadowing is when the onshore or third party vendor shadows the work done by the offshore team. Similar to the shadowing process, the work is conducted parallel to improve the quality, and monitored to secure that it reach the proficiency required. In this phase, the offshore team does the deliverable simultaneously as the onshore team, but the deliverable created by the offshore team goes directly to the stakeholder.

In terms of quality, the onshore team have done the job for years. It is impossible for us to have the same quality after ten weeks.

- Indian associate, Bangalore

The process of scrutinizing and comparing deliverables are the same as in the prior phase. When the offshore team has produced their deliverable, feedback from onshore or third party vendor is given to ensure that errors are corrected and to improve the quality continuously. The support from onshore or third party is intensive, and the offshore team is encouraged to ask questions or ask for advices as soon as there are any ambiguities.

Live

The next phase is when the team goes live, which is when the offshore team controls the whole process. When the team has come to this phase, the continuous support from onshore or third party has slowed down, and the team is now supposed to handle the whole project by themselves. Even though the offshore team is responsible for the process, the management team and onshore govern and monitor the results continuously through different key performance indicators (KPI). These KPIs are followed up and feedback is given to the teams to increase the quality of the work. In this stage, it is also expected that SOPs have been completed for new processes overtaken by the hub, which is of high priority.

Before going live, quality checks are done with the onshore team to ensure quality in the leverage of the project. There is someone in the management team that controls KPIs, and if we do not deliver as expected, we will know it.

- Indian associate, Bangalore

4.2.4 Stakeholder Excellence Framework

The stakeholder excellence (SE) framework was developed within the hub and is now integrated in the work. It illustrates the steps in how to handle stakeholders which is illustrated in figure 8 below. The employees serve the onshore business organization, i.e. the stakeholders, and the stakeholders directly serve the end clients. When communicating with the onshore teams via various meetings, minutes are always held to capture all clarifications and requirements. If additional questions arrive, the communication continues by e-mail or telephone at a later stage. Feedback is continuously sought from all parties as it helps the employees and the onshore to understand the processes. The SE framework is integrated in the routines and ways of working, which is emphasised by having e-learning courses of how to deal and communicate with stakeholders.

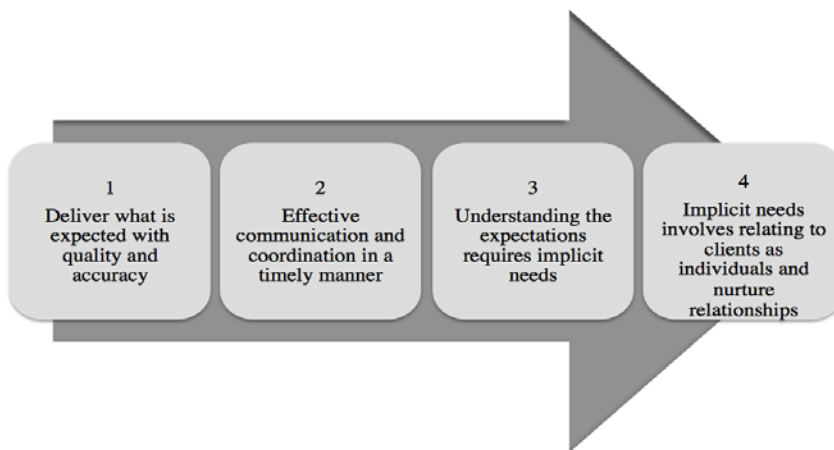


Figure 10: Stakeholder Excellence Framework. PharmaT and adapted by the authors.

Expectations are a key word when talking about offshoring and outsourcing. If you can balance the client's expectations, the onshore expectations and the offshore expectations, then the process is smoother. If there is a misalignment in expectations, you can create a disaster when trying to offshore.

- Indian manager, Bangalore

The first step is about the basic quality and accuracy of the delivery or analytics to the client. This could be the mapping of products or having the right data in place for the stakeholder. The second step is how to communicate effectively with the client, as flagging or solving issues in an efficient way. The third step focuses on the business context, which involves asking critical questions and learning in terms of communicating and understanding why the client is saying that the project should be treated and delivered in a certain way. If this is not understood, the job cannot be performed as required. The final and fourth step is about handling the relationship with the client, and this goes to an individual level. The first two steps of the framework is building good companies, whereas the two last steps builds great companies that understand the business context and customer relationship.

It helps us understand how to think about the client, how to think about the requirements, how to communicate, how to deal with the client and how to handle changes. It is a nice process to follow, and it helps a lot.

- Indian associate, Bangalore

4.2.5 Transformation Waves

The transformation of captive offshoring from third party vendors is explained to have three waves. The first wave is transaction-based, where the basic services are implemented. These services ought to be standardized, repeatable and autonomous, and have documentations on how to be performed. When the team gain expertise, the offshoring can move against wave two, which is the project work. The project wave includes the ability for the team to work independently in projects, but with heavy support from onshore. The last wave is the creation of virtual integrated team, where location is insignificant. The offshoring hub needs larger skill sets and capabilities prior to moving to wave three. This step also requires larger amount of client interaction and higher complexity, which implies longer development time. The Bangalore hub is explained to be in the second wave producing project work, but the ambition is to reach the third wave of being a virtual integrated team.

It should not matter if it is produced in Bangalore or in Sweden, or anywhere else. We are working against wave three; when the process is seamless.

- Indian manager, Bangalore

4.2.6 Hub Culture

Mantras are a large part of the established culture in Bangalore, which is a type of framework practiced in workshops to ensure efficient thinking. The mantras are present on all walls in the hub and have sayings such as “do not reinvent the wheel” and “culture of positive energy”, which are integrated in the ways of thinking and acting. Workshops for learning about mantras and culture are held about four times a month for 25 people in groups of five in a classroom. The mantras are discussed and linked back to recognitions and annual awards that are given to people who are seen as practicing these mantras.

The most important ingredient is culture; everything else will then fall in place. It is about influence. People appreciate the fact that we have a good culture and are referring other friends.

- Indian manager, Bangalore

The offshoring hub in Bangalore is a melting point with people from various organizations. The offshoring hub is working with a sharing culture, which means that employees are encouraged to share knowledge and experience. When one employee shares knowledge or experience the other employees are encouraged to listen carefully, and afterwards share it to other employees. Employees are told to not keep information to them self since the stakeholders do not acknowledge if the information is not shared. Further, community forums are set up to discuss challenges and new structures in projects. This creates a common language, which is key in regards to articulating the culture. The resources share memories and talk about things that occur, which makes them understand each other. For instance, the offshore hub practices the SE framework together with the mantras in order to integrate the language and behaviour among the employees. Many employees agree that the culture at PharmaT is friendlier than at the firm they were transferred from due to high transparency in the organization and recognition for good work.

4.2.7 The On-boarding Process

PharmaT has a referral policy, which is a part of the global strategy. This is explained as an employee recommending a friend for an open position, and receives a small incentive if the friend gets the job. In addition, collaborations with universities allow the students to get to know PharmaT before graduating and PharmaT a chance to

recruit them before someone else signs them. By integrating the company into the curriculum of a course that is relevant to the work in the offshore centre also creates awareness from both parties. In the ramp-up, the hub recruited 50-60 new people two times a month. Receiving a buddy is part of the on-boarding program, and is necessary in such intense ramp-up process, as the new employees need to know who to go to when question arises. The buddy is introduced to the newly recruited employee on the first day and belongs to the team or close to the field of work. The purpose is assisting with practical information, such as policies and guidelines, as well as introducing the company and the job role.

4.2.8 Race for Talent

Recruiting in Bangalore is difficult in regards to the competition of talent since it is a challenge to attract good talent and keep them within the company. Talents can easily go to other companies to get better offers due to the large amount of companies craving for talents. Prior to on boarding, PharmaT call the talent every other week to check if everything is fine and ask if there are any queries. This procedure was developed at a later stage due to a large amount of dropouts, which is when employees accept offers but do not show up on the start day. The offshore hub tries to improve retention without using retention bonuses but rather show the resources career and growth opportunities within the firm.

I have not thought of changing company. I will be working here at least for the six coming months.

- Indian associate, Bangalore

Due to the race for talent in Bangalore, it is of high importance to standardize work to not be dependent on single employees, as the employee turnover is 9%. However, no employees interviewed considered to shift job, at least not for the next six months. Today, the offshore hub is working with career opportunities to attract, develop and retain the right people, such as titles and hierarchical levels.

It is always a struggle to attract good talent, and to keep them within the company.

- Indian manager, Bangalore

4.2.9 Empirical Concluding Remarks from Bangalore

From a quality standpoint, the offshore team is expected to hold as good quality as the onshore team or third party who have been doing the work for years. In terms of efficiency, the offshore team use longer time to complete the tasks, but as time passes the employees move towards automation and higher efficiency. In the first year, 12 million dollar was saved, and it is expected to be 100 million dollars in the long run. The aim of the offshoring hub has been to reach the target of increased efficiency, capacity and thereby reduced costs.

The processes should have been put right the first time. The support function came in late and did not have the required level of skills. If we were to do it all over again, get support functions in first.

- Indian manager, Bangalore

The offshore hub was not satisfied with the third party work done for the HR and finance functions. No ownership was taken of the processes, nor was guidelines given that would ensure quality. The vendor did not understand the firm, its policies and its core values, and the firm did not provide the vendor with directions and standardized procedures. The largest challenge for the Bangalore hub was to undo and redo the work that was misled.

The methodology created for the offshore hub is not location-specific. Currently, the offshore hub is only sharing the mistakes and best practices within the walls of the hub, and not with other hubs within PharmaT. The plan is to build a solid culture and then inseminate best practices and frameworks across the MNC. On the other hand, frameworks were shared with the implementers of the Manila hub before it was ramped up, as the knowledge transfer framework. Documents were communicated, but a meeting was never held due to time constraints.

Communication is one of the largest challenges. In a face-to-face meeting, you ask until you understand and until everything is clear. In a phone call, you try twice and if it is not understood, you'll leave it.

- Indian associate, Bangalore

A large challenge is the time zone and language differences. Meetings and conference calls require proximity of time zones and similar English dialects. The text work can

however be delivered on the next working day and does not require similar English dialect. From onshore surveys, it has been observed that the offshore team is ranking well on communication, quality and accuracy. The opportunity of using time zone differences implies that the work can be done during 24 hours instead of 12. When the US employees leave, the workforce in the offshore hub arrives, which makes the processes highly efficient. This does however have its challenges when voice meetings between the onshore and offshore centres are to be held.

4.3. Manila Transformation

4.3.1 Background

The history of the Manila hub is different to the one in Bangalore. The Manila office was established 40 years ago, and its primary purpose was to function as an onshore business organization serving the local market. In 2006, the office transformed to an offshore hub serving the APAC region with a total of 70 headcounts, which included support functions of one HR person and one finance person. The financial crisis during 2008 forced overseas Filipino nurses back home, creating a surplus of experienced nurses that PharmaT saw the opportunity to benefit from. In the end of 2011, the corporate management suggested to use this knowledge to bring outsourced processes in house by expanding the offshore hub in Manila.

It was the perfect opportunity – it was now or never.

- Philippine manager, Manila

It was decided to try the concept with one pilot, which was run in April 2012. It consisted of five employees serving the US and Canada team which shortly after led to the ramp up of relocating work from third party and onshore business organizations. Evaluations were done to see the scope of work that could be transferred to the hub. Simultaneously, new people were recruited and divided into three shifts consisting of morning-, afternoon- and nightshift to increase efficiency and utilization serving multiple time zones.

I have been working night shifts for 9 years now.

- Philippine manager, Manila

The hub is operational in BPO services, working with production 24 hours a day five days a week to serve the onshore business organizations in Europe, the US and Asia. The tasks consist of reference management, voice work, and bridging and coding data to make the products universally applicable to the applications used. The onshore business organization sends data involving voice work and written tasks to the hub, which is processed and sent back. Prior to the creation of the Manila hub, third party vendors were directly serving the onshore business organizations with the same tasks. These offshore outsourcing contracts have been cancelled and the work is now produced in house in Manila. Vendor 1 to 4 relocated work to both Bangalore and Manila, while Vendor 5 was located in Manila and transitioned work directly to the Manila hub. PharmaT managed to transfer one employee by going around the contract and buying out the employees. Other offers were made, but due to contract restrictions, only one relocated. The employees were informed about the transition in February and the transition started in March 2013.

4.3.2 Transformation Readiness

In the beginning, the transition of work was chaotic due to lack of procedures and standardized routines. In an effort to standardize processes, the hub handed out overviews of the work routines and the expectations to each headcount. It was important for the hub that documents were standardized to reach automated processes. At an early stage, the local Bangalore director shared the knowledge transfer framework document to the local Manila director, which was customized to suit the hub.

The team should be confident and have some kind of ownership of the processes before the contract is signed off. The expectation is that the team should ask reasonable questions and propose recommendations rather than asking how to do it.

- Philippine manager, Manila

The corporate goal is to increase the efficiency gain with 10% per year. Therefore, various KPI's are used to measure the production and delivery in terms of quality. In addition, a number of SOPs for each team are stored in the intranet accessible for all employees. Various offshore hub teams updated the documentations together with the third party vendors before and during the transition. The results of the KPIs are thereby assessed by feedback sessions based on measuring, analysis and control. In

addition, as a result of a bumpy recruitment process in the beginning, monitoring is now accentuated on project fulfilment, absence and performance level of employees.

4.3.3 Knowledge Transfer Framework

A knowledge transfer framework is used to transition work. The framework is adapted to the work, the complexity and which country the project or task has arrived from. Employees from the whole offshore hub are constantly updating the frameworks, which improve the processes and make it relevant for new projects. Officially, the knowledge transfer is set to three months, but could be extended for additional months depending on the complexity of the activity. The framework has five phases, as illustrated in the figure below, whereas each phase is being signed off before stepping onwards to the next phase.

We were able to ramp up in 24 months. The only reason for us to be able to do this was because of the frameworks.

- Philippine manager, Manila

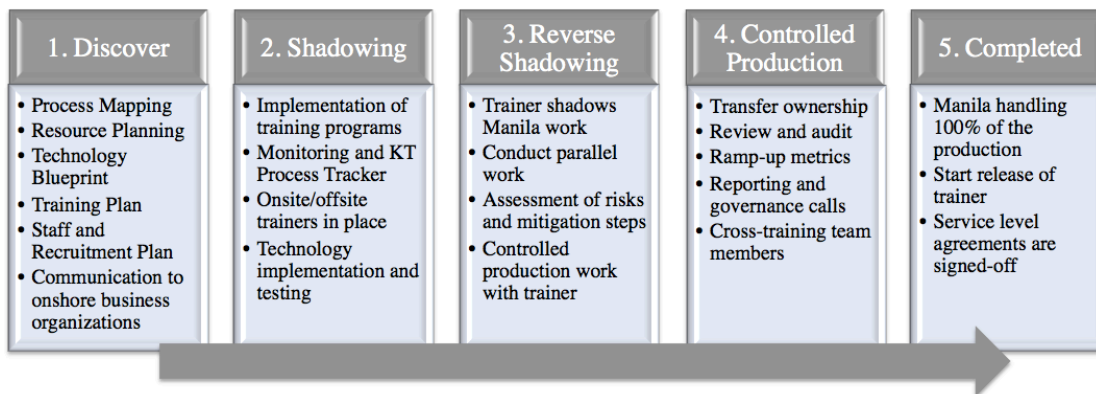


Figure 11: Knowledge Transfer Framework in Manila. PharmaT and adapted by the authors.

Discovery

In the first phase of the process the initial assessment is informed and presented to the offshore team with information about the required amount of resources, the extent of the operational work, skill requirements, technical aspects and job description. The various sub-processes involved are identified in detail, and the offshore team is given training materials and training plan for the new employees.

We quickly had to hire new people since no one wanted to relocate from the third party. The ideal situation would have been to relocate so that people with three or four years of experience would continue to do the job.

- Philippine manager, Manila

Coordination meetings are held with the onshore business organization to transfer the project, which includes an overview of how the offshore team is progressing. A large part of this phase is the resource and staff planning. To the third party employees, offers were given but few accepted as it involved relocating from India to Manila, and various tax implications. To facilitate the recruitment, the starter kit framework was developed.

The Starter Kit

The Manila hub has one HR manager, and as most of the transitions do not include relocation of employees, recruitment of new people was needed. To rely all recruitments on one person was not a sustainable solution and resulted in faulty recruitments and mismatching skillsets. The purpose of the starter kit is to ease the recruitment procedure and make the process more standardized with simple steps to follow. The idea was to make all employees aware of how to transition a project in regards to the HR and recruitment processes. When a new project is decided to be in-sourced, the starter kit is used in the discovery phase. It is practiced in combination with the knowledge transfer framework and an integral part of the recruitment process.

We only had one HR person. What to do? Why not have people aware of how the project works, and if they had any questions, they could just come to us. So we created the starter kit.

- Philippine manager, Manila



Figure 12: Starter Kit. Manila, PharmaT and adapted by the authors.

The starter kit is illustrated in the figure above. It is constantly under development and the information is shared with the onshore business organization and contains a complete set of steps required for transitioning a project. It evaluates the scope of work, feasible duration of the project and if the professional requirements are in

house. It also includes which times of the day the hub operates in compared to the opposing time zone served. *Recruitment Planning* consists of the expected requirements such as purchase of hardware and skills needed. It includes process owners, number of resources, salary guidelines, linguistic skill set required, employment contract and regulations. The following phases includes screening applications, reviewing skills, conducting interviews and giving offers to qualified candidates, and signing contracts. The chosen candidates conduct several tests and those with 85% pass proceed to personal interviews. If the job description is on a low skilled level, the offshore hub decides whom to sign. If it is a medium skilled job, the onshore unit is an important part in the decision process. This phase also includes the on boarding and daily updates of the work that is being performed. The production managers are involved in hiring and performing the interviews. With support from the onshore business organization, the hub ensures that the new resources have the capabilities and experience required. It takes approximately 90 days from the start of the recruitment until the employees can start working with the projects. After these steps are completed and signed off, the next step is the *shadowing* phase of the knowledge transfer framework.

Shadowing

Shadowing is usually the longest phase of the knowledge transfer. The onshore or third party vendor team holds trainings where application tools and databases are explained in detail. Since the learning by doing is an important part of the knowledge transfer in Manila, training is included in this phase. The training plan includes learning procedures and following SOPs and e-learning courses. The most important processes in this phase are to standardize and make sure that process documents are in place and can be used in the production. Usually, one trainer is borrowed from onshore or third party vendor team, which is the person responsible for transferring the knowledge to the offshore hub team. This is done either remote or onsite. The trainer completes the training program and monitors the production by the offshore team. This phase further includes technology implementation and testing to prepare for the next phase.

The parallel is not really parallel in the way that we are doing the same thing. We are sharing the task and separating, so we are already producing live from the start.

- Philippine associate, Manila

In Manila, the shadowing phase means that onshore produces 70 per cent of the work in the beginning, while offshore produces 30 per cent, and the work amount produced by offshore increases continuously. This implies that the offshore team delivers directly, even though it is to a small extent. During the interviews, many employees have emphasized that it is worrying to produce live immediately without being controlled and shadowed firstly, which may imply that errors are delivered to the stakeholder. In some cases, the training did not reach the quality required for transferring the knowledge to offshore, which implies that the knowledge transfer process have to continue by conference calls or video conferencing, and consequently takes longer time.

Reverse Shadowing

In this phase, the amount of work produced by onshore increases continuously, and shall be 70 per cent offshore and 30 per cent onshore. The offshore unit is given more responsibility, and their work is benchmarked against the onshore or third party vendor to discover potential errors. The work is also produced double by offshore, as there is one maker and one checker that are changing roles and checking each other's work results. The maker and checker should have the same result in their processes, which means that they code the same answer. If there are any differences, a team manager checks the answers. When errors are discovered, the team manager has a meeting with both the maker and the checker to discuss why the error occurred and how it should be prevented in the future. In some processes, the work are always double done by one maker and one checker, but in most of the processes it is a part of the learning process. In this phase, the trainers are back in their home facility and follow up from distance.

It is a quite normal scenario that the results mismatch. We should be able to do it right the first time.

- Philippine associate, Manila

Controlled Production

Controlled production involves less handholding and larger amount of transferred work to the offshore hub. In this phase, there is a transfer of the process ownership and continuous reviews and audits of the work produced. The offshore team reports on regular basis to onshore or third party vendor to ensure that the quality is high enough, and ramp-up metrics are used to improve efficiency and speed of the

production that identifies the control. In this phase, the work is not produced parallel anymore. Governance calls are supposed to be held to ensure that the teams are able to deliver, and there are cross training of the team members to understand the whole process and not only a certain task. Governance is emphasized on weekly basis by having a roadmap update. The knowledge transfer sign-off is continuously evaluated through metrics and timelines covering quality and standard requirements.

Handover Completed

In this phase, as in the previous one, the hub is handling 100 per cent of the processes. There is no support from the trainers, and the offshore unit is completely responsible for the deliverables. All sign-off confirmations have been done and the team monitoring the process evaluates the offshore team. It should be mentioned that not all teams have reached the quality required for the production in this phase but are still learning and improving. The offshore team is given continuous feedback from onshore, and the offshore manager monitor results to decrease errors and delays.

After the knowledge transfer was finished we could no longer turn to the vendor for help or assistance. We had to know everything for ourselves.

- Philippine associate, Manila

4.3.4 Hub Culture

Building an excellent working culture is seen as an important factor in an offshore hub. During the transitions, heavy efforts were made on certifying that the talents were accepting the offers. Firstly, prior to the on boarding of new resources, a welcoming mail is communicated to all new employees. This is a new routine for the offshore hub and was introduced to reduce the number of dropouts. During the first week of the on boarding, the local director meets all new employees to make them familiar with the history and processes of PharmaT.

People have to see that you really care about them to create a great and excellent culture. We have created a very similar concept here.

- Philippine manager, Manila

New employees are asked to share something special about them to make the corporate culture more personal and create relationships between the people. After the employee meets HR and its reporting manager, the manager becomes a buddy for the

new employee. As observed, the emphasis of being assigned an official buddy was not considered essential due to the headcount of 600 people filling the premises of three story building and stating that everyone knows each other.

I cannot see the need of having an official buddy here. We are only 600 people, everybody knows each other.

- Philippine manager, Manila

The hub arranges different social activities as sport events, town halls and karaoke nights and celebrates birthdays every first week of the month. The management designate an employee of the month and other recognitions for employees performing extraordinary results. The nominations for the awards are given based on hard numbers and the honours are monetary.

4.3.5 Governance and Control

During the organizational rearrangement of ramping up the hub, various departments experienced chaos due to many resources resigning. During this time, deliverables were lagging but the order was reinstated after eight weeks. It was further decided that the employees have three chances to excel or the person is resigned. The hierarchical levels are the same as PharmaT global follow, and it is not perceived to be necessary with intermediate levels in the Manila hub.

We have strong KPIs, hard numbers, we have to achieve and deliver. It is counted on you, and we expect you to deliver. We have no emotions when it comes to delivering.

- Philippine manager, Manila

Feedback is considered an important aspect of the learning process. It is based on accuracy, benchmarks, deadlines and various supports. Feedback and regular governance is relied on from the onshore through frequent interaction focusing on quality controls and random queries. This is done mostly through online messenger, e-mails or calls. The local director also has daily chats with each production team to get updated on the timelines and delays of each project.

4.3.6 The On-boarding Process

Having BPO service tasks in house requires talented resources and sustainable value. Continuing with the existing resources within the third parties that already had three

to four years experience would be an ideal and easy situation. However, only few headcounts agreed to transfer location, which forced the offshore hub to recruit new employees instead. In addition, retention bonuses and promotions were offered to already established headcounts to ensure that the transition was moving smoothly. The hub manager argued that it was advantageous to start fresh with new employees, which makes it possible to integrate and shape the new employees. However, as mentioned, due to previous problems in the recruitment, the starter kit was created, and was used to ease the recruitment process.

We have seen that the trainers use different teaching methods, consequently with different results for different employees.

- Philippine manager, Manila

As part of the training procedure, cross trainings are suggested to be mandatory, which may result in higher flexibility and increased understanding for the processes. The trainees are given feedback continuously during the training period, but also from onshore during production. This is assumed to create innovative employees finding out how to improve the work and efficiency of handling the processes. Often, one person from onshore or third party team is sent to the Manila hub to do the training prior the work transition, why there is no standardized way for the training process. The training methods vary from weekly assessments, one-to-one feedback, written assessments, long test questionnaires and gut-feel training. It is proposed that there should be a standard methodology and approach to training due to the variation in quality. According to the interviewees, face-to-face training is advantageous, and result in closer relationship with the onshore hub.

The trainer is here around six weeks, but he needs to do his normal job so we have to be very fast and efficient with the training and learning.

- Philippine associate, Manila

4.3.7 Race for Talent

The Manila hub is looking for BPO talents with a bachelor degree. Some of the applicants have one to two years of professional experience and are normally within the range of 20-30 years old. The candidates vary between nurses, pharmacists, computer scientists, linguists, and biologists. In regards to attrition, feedback sessions focusing on future goals, areas for improvements and motivation are arranged for the

employees. This improves the way of working and increase motivation among the employees. The perception is that if the employees enjoy their work, they will find it hard to consider other companies. In 2013, the lowest attrition was in night shifts with 9.4%. The goal is to have it above 7%, since attrition is regarded to be positive for the organization.

We believe that if they enjoy the work, they will find it very hard to consider other companies.

- Philippine manager, Manila

Growing from 70 to 600 employees has increased the career opportunities and development for all resources in the hub. The management team tries to identify skills and personalities that could be potential leaders in the future and those people will be given the necessary tools and equipment to train their skills. The global referring policy is also present, and the referring employee will be rewarded with 7000 PHP (USD 150) if the friend receives a job offer.

4.3.8 Empirical Concluding Remarks of Manila

The Manila hub has struggled with faulty recruitments and mismatching skillset among new employees due to overload of work on the recruitment manager in the ramp-up of the hub. To prevent similar problems in the future and to ease the recruitment process, the starter kit was created. Now, the production managers are involved in the recruitment process and are responsible for the first steps in the starter kit. The work overload is another problem. In the first transition, many resources worked 13-hourdays, which caused to frustration and irritation. The increased amount of work became a challenge for the teams, which resulted in decreased productivity and efficiency. The teams did not have enough time to learn the work and to train and improve their new skills. It takes time to learn the work, and even though the knowledge transfer is at least three months of parallel work, the teams need more time for training and learning.

We do not want overtime, so instead we make sure that we can pick people from other departments if we get a heavy workload.

- Philippine manager, Manila

The Manila hub prioritizes efforts to reduce overtime, mainly to decrease unnecessary costs. Monitoring is used to determine if there are possibilities to allocate resources across other departments and projects. When resources resign, they are often not replaced, but instead the amount of workload increases for other employees to enhance efficiency. Hence, the respondents are experiencing overload of work and stressed deadlines. Moreover, governance and monitoring is an important part of the work process in the hub. Daily reports are sent to the local manager where results from KPIs are marked as green, yellow or red depending on the daily results. If there are any yellow or red areas, the local manager immediately follow up on the issue to ensure that it is resolved, or to find a solution.

The first part of the knowledge transfer was fine, but when the volume came the productivity went down because we were learning from scratch.

- Philippine associate, Manila

It exists expectations that the teams should ask qualified questions and recommendations at an early stage and have a certain number of records that they have to complete every week, and the learning process is expected to speed up continuously. The resources are still after a year encountering work that is new to them since it is impossible to learn all different scenarios during the knowledge transfer process. The employees need to be able to resolve it based on their understanding, which takes more than three to six months to build.

5. ANALYSIS

In this chapter, the theoretical framework will be used to discuss and analyse the empirical findings. Firstly, the case studies will be analysed separately and are divided into the phases of transformation readiness and transformation process. The transformation readiness includes an analysis of how well the offshore hub was prepared for the implementation process of transitioning work. The transformation process contains an analysis of the various phases that were observed during the transformation process. These two distinctions are therefore seen as crucial to separate in the analysis. Lastly, there will be comparative analysis recognizing common and diverse actions between the cases.

5.1 Bangalore Analysis

5.1.1 Transformation Readiness

Standardizing the Processes

It is crucial for successful offshore processes to have relevant knowledge, experience, documentations and standardized procedures (Mezak, 2006) for the transition phases. Prior to the Bangalore transformation, there were no global frameworks or best practices, no standardized procedures and no guidance for such transition within PharmaT. Since there were no developed processes to follow, the manager of the hub created his own based on his experience. During the preparation to transition third party work to the hub, it became apparent that the needed documentations was lacking from the vendors as well. To have frameworks in place makes the relocating phase more transferable (Hätönen, 2009) and should be regarded as best practice, since it makes the learning easier, and integrates the routines in the organization (Trent and Monczka, 2005). After the first transformation, documented processes and standardized documents was emphasized to have in place before the next transitions. To have standardized procedures and documented activities globally, but also at third party vendors, is of high priority and it makes the transformation less ambiguous.

Availability of Resources

The timeline for the first transformation and start-up of the hub was extremely short, which required more help than the three headcounts that were in place. The most important resource when preparing for transitioning is time, which is scarce (Trent and Monczka, 2005). Since the workload increased rapidly, there was a need to recruit more people quickly. To have qualified personnel in place is an important

determinant for success (Trent and Monczka, 2005) but a clear guideline for whom to recruit and skillset needed have to be present. Due to time constraints, it was decided to outsource the HR function, which have been described as the largest failure with the transformation. This situation could have been avoided in two ways. Firstly, by employing an HR manager with relevant experience, the recruitment process would have been controlled and well overviewed. This person could have developed frameworks, standards and well-defined processes of whom to recruit and what to consider in the process. Secondly, if it was decided to outsource the HR function, time should have been allocated to prepare directions and guidelines to avoid misunderstandings and faulty recruitments. To allocate time and resources for such significant part of the implementation as recruitment is of high importance if PharmaT wants to avoid negative effects in after hand.

Support Functions

Going from offshore outsourcing to captive offshoring forces the hub to take ownership of the processes, involving tax regulations, recruitment and necessary equipment (Hätönen, 2009). It is expected that the hub take control and provide proper guidelines for how things are going to work, and this should be communicated at an early stage. The Bangalore hub outsourced two of its most important support functions, HR and finance, due to financial and time constraints for finding suitable candidates that could take care of these functions in the first stage. It was the lack of direction and guidelines provided by PharmaT due to the low knowledge of what was required that made this decision a failing one. Having these functions insourced was emphasized due to the heavy workload of undo and redo work done poorly. In some occasions, support functions have to be outsourced due to time-, financial- or competence constraints. In those situations, clear directions, expectations and tools should be provided (Karmakar, 2004; Trent and Monczka, 2005).

Hub Climate

The mix of acquisitions, transfers from third party vendors and newly recruited headcounts has resulted in a wide mix of people and experiences from previous employers. Some of the interviewed emphasized that it was a large challenge to move from a small firm to a larger, while others discussed the challenges with taking over work from onshore and third party. New work, corporate culture, processes and other changes might lead to internal resistance (Levina and Vaast, 2008) due to the lack of

understanding for the transformation among the employees. In Bangalore, there was confusion around the rapid transformations in the beginning. However, the local manager decreased the confusion through communicating with the employees that were supposed to be transferred at an early stage, which instead increased encouragement (cf. Coch and French, 1948).

5.1.2 Transformation Process

A knowledge transfer framework was developed after the first transition of work and it was found that such framework was crucial to ensure that the work transferred properly, and to safeguard that no steps were missed. The rising organizational commitments can pose challenges when pursuing the captive mode of operation (Luo et al., 2013), which forced the hub management to rethink the organizational structure and to create valuable SOPs. The preparations for the transformation were therefore lacking at first, but experience and the creation of frameworks improved the onboarding and integration at later stages. Among the various phases observed during the transformation, there were stages that were more critical than others. The knowledge transfer framework developed by the hub director was according to the respondents followed in each transition.

Discovery

In the discovery phase, it is expected for the parties to share documents, understand the processes and allocate necessary resources for the project to be successfully transformed (Al-Ahmad and Al-Oqaili, 2013). The estimation of headcounts for a certain project was a challenge for Bangalore, which implies that the hub was not fully knowledgeable about the processes that were supposed to be transferred, and did not have enough experience to make well-calculated estimations. Having the right assistance during the transition is considered as best practice (Trent and Monczka, 2005) and should be carefully planned before the transition phase. The documents and processes that were supposed to be transferred in this phase did exist in most cases, and were shared without significant setback due to a long relationship with the vendors. The low assistance from Vendor 2 resulted in lower cost and higher efficiency, even though it was a critical period for the hub.

Knowledge Transfer

In the knowledge transfer phase, the resources shall be installed, and SOPs and relevant documentations should be in place (Srikanth and Puranam, 2011). In

Bangalore, the training of the new resources was extensive and provided in conference rooms for couple of days. Moreover, e-learning is a large part of the training to ensure that all areas were covered and since the use of IT services is extensive at this location. Further, the employees were trained in the client experience framework to ensure that customers were handled in the right way and that specified requirements were not missed. Workshops in how to handle customers and mantras is training that is needed in India, since the cultural differences are significant between onshore and offshore in this case. In various transformations, the employees relocated from their third party vendor during the transition, which in reality only meant that the employees changed office but did the same job as before.

Shadowing

In this phase, it is expected to find errors and mostly important to prepare for producing live (Srikanth and Puranam, 2011). The number of times a project is shadowed depends on the complexity of work, but also on the expected turnover. If the first deliverable is almost perfect, the team can move on to the reverse shadowing phase immediately. A team can however be shadowed up to six or seven times before moving on to the next phase. This phase is deviating from the shadowing phase in the model developed by Srikanth and Puranam (2011) since their model suggest parallel working of producing 50 per cent each in the start and continuously offshore takes on more work while onshore decrease their part. The reason for the knowledge transfer framework used in Bangalore to do the knowledge transfer differently is explained by two reasons. Firstly, the services produced in Bangalore are advanced and require training before producing live. Secondly, due to the uncertainty in how the result will be the first time, it is more appropriate to produce shadowed the first time.

Reverse Shadowing

When the project has been reviewed and approved by onshore, it is time for offshore to deliver to the stakeholder for the first time. At the same time, onshore or the third party vendor still produce the same deliverable to compare with and discover potential errors (Srikanth and Puranam, 2011). The phase of having two deliverables produced for the same deliverable while only using one is a costly process since two teams are doing the same job. Even if this phase is perceived as excessive, it is the only possible control for the offshore management before the offshore team produces the deliverable all by themselves, why it is important to be controlled to avoid errors.

Live Production

It is important to implement continuing audit and control of the offshored tasks (Al-Ahmad and Al-Oqaili, 2013), and to improve documentations and standardizations as the knowledge among the resources develops. The hub has full responsibility for the quality of the deliverable when going live but also that requirements are filled and understood in the right way. Since the Bangalore hub work with advanced services, support documents and performance monitoring is of high importance to ensure that the product is in accordance with the expectations.

5.1.3 Implementation Challenges in Bangalore

Due to the competition of talents, retaining the employees has become a major challenge and it requires high effort to succeed (Lewin et al., 2008). To handle the race for talent in an IT hot spot as Bangalore (Manning et al., 2008) is a large challenge, and is something PharmaT is aware of and work with intensively. For example, the Bangalore hub implemented sub-levels in the global hierarchical scale so that the talents can be promoted more often without actually climbing in the global hierarchical scale. This is something that only exists in the Bangalore hub and is perceived as necessary for the talents to stay in the firm. On the other hand, there are no existing retention strategies at the moment. Instead, if crucial headcounts for the success of a project resigns, retention bonuses are distributed to retain the talent as an emergency strategy. To work with retention bonuses was not supported by HR, but it was still done at times.

Bangalore performs mostly KPO services and IT work, which compared to BPO services are not automated (Sako, 2006). To know what processes to standardize and what processes that require more insight and analytical skills is therefore key knowledge. The employees need to understand requirements, expectations and the extent of work allocated from onshore or third party vendors. This also put pressure on tools provided from PharmaT to facilitate the communication between onshore and offshore (Trent and Monczka, 2005). Moreover, time zone differences are perceived to be an advantage as when onshore stops working, offshore starts and thereby each day is fully utilized. On the other hand, the time zones are impeding good communication, as confusion, misunderstandings and frustration can occur (Trent and Monczka, 2005).

5.2 Manila Analysis

5.2.1 Transformation Readiness

Standardizing the Processes

The main type of work performed in Manila is voice work and BPO services, which requires attention to details and makes the SOPs and standardizations highly important. As work is taken over continuously, the need of new resources increase. The Manila hub has a strategy of requiring new people rather than natural transfer from third party vendors when insourcing, mainly since resources from vendors were not willing to move. To be able to train new resources and give them sufficient learning tools demands that the routines should be repeatable, transferable and standardized (Karmakar, 2004). The manager's initiative to create SOPs for each existing task has enabled new headcounts to quickly replace previous headcounts and do the same job. The Manila hub has saved SOPs digitally and made sure that all headcounts are aware of where to find the information needed by making the local intranet user-friendly, which helps the transferability of the work (Hätonen, 2009). Moreover, each headcount is encouraged to emphasize possible improvements and changes in the SOPs. This has resulted in an awareness of what each team is doing, which function each team is serving but also enabled cross-functional work among the employees. To implement such system has taken long time for the hub, and it is developing over time as the processes changes and updates are needed continuously.

As voice work and BPO services are the main type of work, high automations are needed to complete the tasks required (Youngdahl and Ramaswamy, 2008). Therefore, automations and standardizations were implemented in the evaluation process of reviewing new projects from the onshore business organization. This involves how projects are allocated in regards to time, delivery timeliness, labour and evaluating if the skillset is already present in the hub or if recruiting is required.

Availability of Resources

When taking over more work, it is of great importance to consider the availability of resources (Trent and Monczka, 2005). The starter kit framework was created to know if the hub had the resources and skills required, and further if it was possible to allocate the resources to the project considered. Having only one HR representative in house further triggered the creation of the starter kit to become an important factor in

the start of the work transition. The starter kit release work from the HR manager regarding the recruitment process, but instead demands heavy workload and time from the production managers, since it involves responsibility for recruiting, resource planning and transitioning. The production managers therefore had to find time to cover both their ordinary tasks, but also the phases of the starter kit. It is positive that the managers are included in new routines and systems, but on the contrary, it demands time, resources and recruitment strategies from the hub, which according to the respondents were not present. The empirical findings have shown that one HR representative is not sufficient, resulting in stressed recruitment activities ending up with wrong skillsets. To handle the result of mismatched skillset has been a great challenge for the Manila hub. The time needed for recruiting and installing the resources was underestimated (Trent and Monczka, 2005), which resulted in challenges that now have to be managed.

Hub Climate

Resignations were experienced during the ramp-ups causing frustration and worn out headcounts. The large teams combined with the rapid increase in workload discouraged the empowerment of the change among the employees, as the employees felt less involved in the transformation. During an organizational change, internal resistance arises when the resources are not involved (Dent and Galloway, 1999). As a consequence of the increased use of the starter kit and production managers being involved in important decisions as recruiting, governance was implemented to ensure that the right candidates were hired. Further, risk controls, quality assurance and process monitoring enabled control and governance over processes (Madhok, 1997; Stratman, 2008). On a daily basis, each team updates the project fulfilment and performance levels in reports sent to the hub manager. Retaining and developing the resources was therefore controlled in a way that would not disturb the headcounts. Managing talents requires high effort to implement new recruiting and retention strategies, but also new methods for managing, sharing and exploiting knowledge (Lewin, Manning, et al., 2008). This is not only to retain talents by ensuring achieved performance, but also to measure the effectiveness of the hub.

5.2.2 Transformation Process

When the Manila transformation was decided, it seemed reasonable to learn from the Bangalore experience. However, only one document was shared between the hubs,

which was the knowledge transfer framework due to lack of time from both sides. This has been modified to the services produced and the people working in Manila, explaining why it is slightly different to the one explored in Bangalore. Moreover, Manila increased the number of headcounts by recruiting new people instead of relocating from third party vendors. This implies that the knowledge from the third party had to be transferred from implicit to explicit knowledge to be spread across the hub (Jensen and Petersen, 2013b), meaning that there had to be documents and clear steps informing about how to complete the job. In the end, fewer headcounts than the third parties had used were employed for the same jobs. To increase efficiency by decreasing headcounts seems to be a part of the Manila hub strategy. The same pattern existed when resources resigned, as those employments often are not filled up with new ones. Instead, the work is allocated on the existing resources that are expected to be more efficient continuously.

Discovery

In the discovery phase of a new project, the starter kit is the main focus. This tool has been of great importance for the production managers within the start-up of new projects, as it has well-defined steps of how to proceed and clearly defines what information is needed. It is heavily used within the hub, and described as the most important tool in the knowledge transfer by both managers and associates. Even though the processes are well defined, standardized and clear, the production managers describe that more time is needed to fulfil all the steps within the Starter Kit. Further, when the new employees are installed, they are expected to move directly into the shadowing phase without any previous training other than what the specific task requires for the job role, resulting in lack of training in professionalism and client handling.

Shadowing

As the services in Manila are standardized and automated, there is no time allocated for solely training in Manila. Instead, learning is by doing with the support from one person sent from onshore or the third party vendor. The training consists of one person having training sessions while the employees are working to exemplify problems and issues that might occur. To have one trainer on a month's basis is not enough according to the associates. To ensure a successful transformation, accessibility to required resources is crucial (Trent and Monczka, 2005), which

includes time, qualified personnel and assistance in training and practicing. The time allocated to learn how to handle different problems in the training is according to the associates too short, as the employees do not have enough time to learn how to handle potential obstacles. The training in the shadowing phase had to continue much longer in many transitions, which resulted in remote learning and unnecessary mistakes and errors.

The shadowing phase in Manila is similar to the model developed by Srikanth and Puranam (2011), where the shadowing phase does not imply double work. Instead, onshore starts to produce 70 per cent while offshore begins with 30 per cent, and after time, onshore decrease their part while offshore increase their part. This is something the associates criticized, as it was perceived unsure and risky to deliver the service without being controlled and shadowed by onshore first. This was explained to be due to time constraints and tight deadlines, but also since it is expensive to have onshore employees on the location. According to Srikanth and Puranam (2011), the parallel work is an important phase in the knowledge transfer, and should not be underestimated or missed. It can lead to decreased quality of the work produced, which may imply high costs due to customer dissatisfaction but also decreased confidence from onshore, resulting in less work for the hub.

Reverse Shadowing

In this phase, the Manila team has started to take over a large part of the work. It is explained in the model as a phase where the offshore team is being shadowed by onshore and the real work is delivered by offshore. However, the associates described that the only difference from the prior phase is more work without a trainer onsite and the teams checking each other's work, i.e. doing double work. To constantly produce double work in some processes is ineffective, and as the services produced are simple tasks with high autonomy (Youngdahl and Ramasmaway, 2008), it should not be needed to constantly produce the same work two times to check each other.

Controlled Production

In the controlled production phase, the offshore team produce 100 per cent of the work while being governed and monitored by onshore. This may not only reduce the coordination costs, but also realize the expectations from onshore towards the hub. This control is also a way to measure how the hub is doing and if training of any kind is needed (Madhok, 1997; Stratman, 2008). The level of control highlighted in the

hub is a result of previous recruiting issues where wrong skillset have been employed causing poor quality and errors in the production. To prevent this, the managers govern the quality controls daily, and if there are any red areas in the report, it is followed up immediately.

Handover Completed

In theory, the phases reverse shadowing and controlled production are when the offshore team should handle the whole production with continuous support and learning from offshore. This, however, occurs already in phase two which is the shadowing phase. To start producing the real deliverables in such early stage increases the risk for errors (Karmakar, 2004), and should be avoided. This is something the hub has experienced, but due to time constrains and budget restrictions the production still starts in phase two.

5.2.3 Implementation Challenges in Manila

BPO standardization can take longer time than anticipated, which becomes a challenge when an issue of unique character arises and the resource cannot solve the issue through the standardized documents (Karmakar, 2004). The cultural difference between the offshore and onshore team exists, making it important to align the expectations by educating both parties. Moreover, the three shifts covering 24 hours a day implies that there are no gaps in the work produced. The planning of when to allocate voice work and bridging and coding was observed to be efficient, as well as the office infrastructure.

Even though processes and work have been well documented and accessible for all employees, the hub has been forced to handle issues with faulty recruitment and has also struggled with bad quality during the ramp up. This was partly a result of the work transferred from the HR manager to the production managers through the starter kit. The thought of sharing knowledge and insights are crucial, but not if it takes focus from other crucial work tasks. The employees are expected to become more efficient and to be able to handle the increase of workload from resignations and relocations, which is reasonable, but it does not occur immediately. The resources need more time to be able to produce work without errors.

5.3 Comparative Analysis

The implementation of processes in both hubs reflects the level of tactical or transformational global sourcing. Innovations and developments are fostered in both hubs, illustrating how all processes cannot be fully standardized at all times. This mainly occurs in the Bangalore hub where high focus is on how to solve problems, while in Manila, maintaining SOPs are more emphasized and an important part in the way of working. The level of modularization is high in both hubs and the employees are specialized in diverse services, as KPO and IT services being central in Bangalore and BPO and voice work in the Manila hub. It does not seem likely that the hub strategy and way of working have simply been replicated in these hubs, but rather modified to the purpose of each activity and task. However, in regards to the strategic knowledge, the entire process is understood mainly by the onshore, while the hubs only learn the tasks required for their job roles. Therefore, complying to Jensen and Petersen, (2013b) levels of global sourcing, both hubs lean more towards transformational than tactical global sourcing.

5.3.1 Transformation Readiness

Preparation

When moving work that previously has been outsourced to third party vendors, close cooperation and transferability is required from both parties, which have been observed from the findings. To ease the transfer, the third party vendor provides the hubs with well-defined processes, documentations and standardizations of the work. Further, a contract clause allowing for headcount relocation is of value before and during the transition as seen in the case of Bangalore. Vendor 2 did not share documents to the hub and refused to allocate employees, which made it difficult to implement existing routines and procedures. In Manila, most contract clauses did not allow for transfer of employees and when they did, the employees were not willing to relocate to Manila. This enforced abrupt recruitment of new employees. In both cases, the above problems led to stressed decision-making processes since the hubs did not have the experience or the knowledge of similar processes, and relied heavily on the vendors for assisting the transitions.

Support Functions

The Bangalore transformation is a solid example of how important support functions are in organizational changes. Outsourcing of support functions is feasible, however,

as seen in Bangalore, the lack of directions, guidelines and standardized processes can create major issues. In Manila, the HR manager was short staffed, which led to the creation of the starter kit. This involved production managers in the process of recruitment and taking over new projects. Since the production managers were not released from their ordinary working tasks when being involved in the starter kit, the result was over-time working managers that now took care of both their initial job as well as the recruitment aspect. The consequent was faulty recruitments and decrease in quality of the work produced. The reason for these consequences could be that the production managers did not understand the task given of starting up the new projects through the starter kit. Another reason could be that the production managers simply did not have the experience or the knowledge required for interviewing and how to identify the right skills. Lastly, it has to be considered that the setting was stressful when the starter kit was implemented in the way of working, and the production managers did not have enough time to train, learn or ask questions.

Bangalore relied on the third party to have sufficient HR knowledge and perform according to expectations, but the result was disappointing. By sharing this knowledge to Manila before the transformation implied that the Manila hub emphasised a framework focusing on clear guidelines and directions to avoid the faults occurred in Bangalore. In addition, an HR manager was already in place. Evidently, Manila perceived the HR issue to be solved, but it rather created an overload of work on non-HR employees. Both hubs are still struggling with large undo and redo costs after transitioning, which could have been avoided in both cases. The learning from one hub to another was shared and there were improvements, but due to different backgrounds and inceptions it did not work as expected.

Location Determinants

Due to the supply of talent, regulations and education given in the specific location, different services are more or less appropriate in certain places. The choice of location for BPO and KPO services implies that the global management team at PharmaT were well familiar of the advantages and disadvantages of locating an offshore hub in both Manila and Bangalore. PharmaT saw an opportunity in Manila for both BPO and voice work, and IT opportunities combined with higher education in Bangalore.

The both cases have shown how important it is to have an awareness of the cultural differences in the offshore locations. In Bangalore, corporate culture, mantras, career opportunities and titles are emphasised, which makes the employees engaged and motivated. The Bangalore employees demand such activities to create a good atmosphere, but it also decrease the risk of losing employees to competitors. In Manila, the stakeholder excellence framework, mantras or focus on hierarchical levels does not exist, simply because the employees does not need it for motivation. Instead, it is important to focus on governance and monitoring to ensure quality and efficiency. Moreover, the services in Bangalore are more advanced requiring higher education, while in Manila, a lower education degree is required. Therefore, the implementation process requires knowledge of the locations entered to be able to handle the competition of talent and retain the employees. The comparison is an observation of that the same activities implemented in both locations may not give the same benefits as the hub expects.

Training of Employees

As observed from theory and empirical findings, standardizations, documentations and well-defined processes is a tool to reach explicit knowledge. To transfer the knowledge previously outsourced from implicit to explicit knowledge is a crucial step to ensure knowledge transfer to the employees in the implementation process. Further, this knowledge has to be efficiently trained. In Bangalore, emphasising training of the English dialect, the way of speaking and how to structure a telephone call or e-mail is needed. In Manila, training in how to ensure quality, hold deadlines and how to act when facing a problem is needed. The training method and length depends on the complexity level of the services produced at the location, which implies that the training is activity-based, but also location specific as the cases have shown that cultural dissimilarities affect the choice of training. Both offshore hubs work closely with the stakeholders implying that professional communication skills have to be in place. In Bangalore, the services are more advanced and require specific skills and knowledge, whereas in Manila, the services are more standardized and autonomous, hence a lower education level required for the services produced. It is however not possible to standardize all kind of training since there always will arise problems that not could have been solved by a standardized template. Instead, the employees need

training in how to reach solutions, knowing where to find SOPs and who to contact to solve the problem.

5.3.2 Frameworks

The Bangalore hub used own experience rather than a global framework during the ramp-up since there were no global frameworks in place. Although the frameworks the Bangalore hub created was shared with the Manila hub prior to their ramp up, it was done in an inefficient way without giving the time and insights to challenges that were faced. The knowledge transfer framework shared from Bangalore was modified to suit the services produced in the Manila hub. Figure 13 below is a creation based on the knowledge transfer frameworks in Bangalore and Manila, but also from parts of the workload increase input, due diligence and steady state phase from Srikanth and Puranam (2011). The first phase is an introductory phase with due diligence whereas the second and third phase involve the knowledge transfers and the last and fourth phase measures the overall performance.

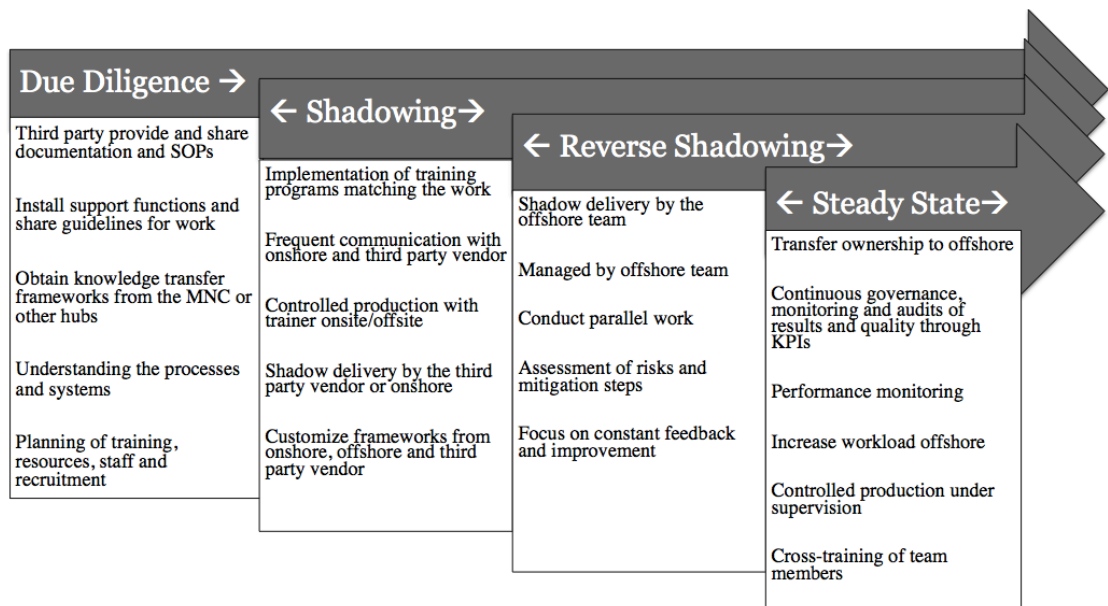


Figure 13: Modified Knowledge Transfer Framework. Developed by the authors

Due Diligence

The case studies showed that it is of great advantage to have close contact with the vendor to ensure information sharing, but also to make sure that the relationship ends in the best manner. The introductory phases in Manila and Bangalore were quite different. In Bangalore, the vendors were helpful in the transformations, except for one vendor who were not willing to share information or transfer employees which

became an issue due to the lack of documents, standardized procedures and work content. In Manila, the start-up processes were well developed and described the steps that should be followed in detail. However, no employees, except a few, transferred from the vendors. This enforced hasty recruitment of new employees, which required time. The employees in Manila stated that more time should be allocated to this phase, as many errors in the processes are due to the tight time span. Further, the starter kit belonging to this phase does not include training, but only checks on the requirements for the new candidates. The employees did not get sufficient time for training, which disturbed the quality of the work produced.

Shadowing

The Bangalore hub provides the new employees numerous training occasions, which include training of the working tasks but also in how to manage clients and how to structure the process of a new project. As the work in Bangalore is more advanced than in Manila, it is reasonable that there is more emphasis on training. However, the training in Manila is still needed and the respondents emphasized the lack of training in the interviews. By including this phase in the Manila knowledge transfer framework, it is most likely that quality and experience issues in the work produced could be avoided. Relevant training and knowledge in the work is necessary as observed from the findings, and the knowledge transfer phase is seen as one of the most important phases in the knowledge transfer framework (Srikanth and Puranam, 2011).

The shadowing phase is important as it prevails the offshore team from producing deliverables with poor quality or errors and to identify potential problems that might occur the first time a team perform the tasks. In Bangalore, the work is done double and delivered by onshore or third party. In Manila, the team produces 30 per cent of the work in the beginning of the transition, which implies that the team goes live already in this phase. The Manila hub has already experienced the consequences of diminishing the shadowing phase through low work quality. Even if the model developed by Srikanth and Puranam (2011) suggests that the shadowing should start by 50 per cent offshore and 50 per cent onshore, this is not in accordance with the empirical findings. Instead, by giving the offshore teams a chance to produce the deliverable and to learn from the mistakes while being shadowed is from the Bangalore case viewed as appropriate, as they emphasize doing mistakes in the

shadowing phase. To deliver to a stakeholder for the first time is risky and might lead to decreased confidence from onshore, eventually resulting in less work for the hub.

Reverse Shadowing

In this phase, the Bangalore hub delivers their work for the first time to the stakeholders, while still being shadowed by onshore. The potential errors are found in an early stage of the transformation, implying that it might be worth the investment of having the team shadowed by offshore in this phase as well. In Manila, the offshore team has taken over the largest part of the work and is continuously increasing its workload. The employees are checking each other by producing double to decrease the risk for errors. As mentioned in the interviews, errors occur often, indicating that the employees did not get the training necessary for reaching the expectations. The reason for the Manila hub to start producing live directly may again be related to the activity performed, as it is supposed to be standardized and autonomous processes. Since the activity is reviewed as simple, the teams are expected to be able to produce live from the start and most likely also have tighter deadlines with lower budget restrictions, which affects the time and effort spent on the phases.

Steady State

To implement continuous monitoring and governance is shown from the empirical findings to be of importance to ensure that expectations are met and that the work holds the quality required. Further, many errors did not occur in the beginning of the transitions, implying that continuous monitoring and audit is required after the steady state as well. Hence, there is a great importance of KPIs, quality controls and customer satisfaction to ensure that the performance on expected levels. In Bangalore, the hub produce live for the first time while the Manila team has produced live from the shadowing phase. Evidently, the employees in Bangalore have received abundant training and experience before working live compared to the employees in Manila. Even though the developments of the activities determine the level of training needed, the employees in Manila emphasized to be given an opportunity to train and learn from mistakes without concerns about delivering to the stakeholders for the first time.

5.4 Concluding Remarks – Knowledge Transfer Framework

Figure 13 on the previous page is product of the conceptualization created by this thesis. The implementation process has several phases, and they have been observed and analysed throughout this thesis. The time span for each are individual as well as

the frameworks due to the uniqueness of each hub and the need to customize the processes to the activities they are enrolled in.

Allocating time to develop well-defined processes has indicated from the analysis to be an important determinant in the implementation process. The cases have shown that if this has not been prioritized, the result has been large undo and redo work. Both hubs realized in their individual transitions that frameworks had to be created to smooth the work transition, and interviewees state that the frameworks have been of great importance for the hubs' ramp-up processes. To fulfil each step in the frameworks and not skip parts due to resource constraints have also proven to be crucial from both case studies, where the results of such actions have been poor quality and stressed employees.

Following up by governing and monitoring quality and KPIs have proven to be efficient to prevent errors and poor quality. The observations have shown that the training varied between the different transitions, which caused fluctuating results in work and quality. The suggestion from several interviewees was to standardize training, which would eliminate the large differences in outcome. According to the knowledge transfer frameworks in both hubs, quality controls should be completed continuously during the whole transformation process, but also when the work is implemented since issues may arise at later stages.

6. CONCLUSION

This chapter presents an answer to the research question developed in chapter 1 based on the empirical findings and the analysis. From the two case studies examined, two major phases in the implementation process of moving from offshore outsourcing to captive offshoring have been identified, transformation readiness and transformation process. The most important factors within these phases will be discussed below. Lastly, contributions and suggestions for further research within this area will be presented.

6.1 Research Question Revisited

The aim of this study has been to answer the research question of *how a knowledge and technology driven service firm implement the decision of moving from offshore outsourcing to captive offshoring*. The answer to this question is that the implementation process needs a knowledge transfer framework for the work to be successfully transitioned, and the framework needs to be modified to suit the specific task, culture and location. Two major phases have been identified based on the empirical findings and the literature reviewed, named *transformation readiness* and *transformation process*.

Firstly, transformation readiness includes the aspects crucial when preparing for the transition of work and the implementation process. This foremost involves matching the choice of tasks with the chosen location. It further includes setting the expectations in regards to time zones and integrating support functions as HR and finance. Creating clear guidelines and directions are crucial (Mezak, 2006), where the Manila solution of creating a standardized recruitment framework is a good example of how to make one process in the knowledge transfer framework less complicated. The readiness phase further includes frequent communication with the onshore team or the third party vendor to ensure transfer of documents and SOPs. The findings further propose that the focus on acquiring employees and retaining them are key determinants for the firm as it keeps the knowledge within the organization. To have an organization with the skillset matching the requirements for the tasks and processes in combination with well-developed guidelines and directions is crucial for the implementation process. Accordingly, more time and effort ought to be allocated to the readiness of the transition rather than the actual implementation process. This implicate that the final result is a consequence of the initial phase including

preparations, standardized frameworks and resource planning. If this is not prepared sufficiently, the cases have proved that there will be large undo and redo costs.

Secondly, several phases are on going simultaneously since the transition of projects starts at different times. Frameworks are therefore the backbone of each implementation processes since it helps the firm to keep track on which stage the transition is in, what needs to be done and what has been done. Implementing training programs is further crucial during the implementation. In Bangalore, the mantras, English dialect training and the SE framework was a central part of the training, all customized to the activities performed in the hub. In Manila, the training emphasized how to ensure the quality required, deliver on time and how to act when facing a problem. The shadowing and reverse shadowing phases of the knowledge transfer framework were performed differently in the hubs. Having a gradual increase of workload for the offshore team and release work every week from onshore results in learning by doing in a step-by-step model. The offshore team should be shadowed every time a new task is produced, which will increase the quality of the deliverable and eliminate errors. Before producing live, quality controls and monitoring through KPIs needs do be conducted and approved by managers. When the process has gone live, continuous governance, monitoring and audits ensure that the work continue to hold the required level of quality, but also meet the expectations from the stakeholder. Manila performed well on creating a digital system for the manager to have a daily overview of the results on the three shifts' performance, attendance and quality provided. However, all issues cannot be solved through standardized processes and documents, as new challenges and errors arise when the employees become integrated in the work. Also, not all tasks allow for standardization. Therefore, it is important to train employees in how to reach solutions, ask the right questions and where to find SOPs.

Finally, it is evident from both case studies that frameworks have to be modified to the specific hub in the specific location producing the specific activity. Other factors as time zones, competition of talent and cultural differences also have to be considered before transitioning. Experience, good project management and preparations are helpful for the firm to implement the decision of moving from offshore outsourcing to captive offshoring.

6.2 Contributions and Recommendations for Further Research

The literature focusing on motives to outsourcing and offshoring is extensive. However, not many researchers have elaborated on the implementation process of moving from offshore outsourcing to captive offshoring (Al-Ahmad and Al-Oqaili, 2013) other than trade press giving light attention to the implementation due the large number of failures in outsourcing attempts (Hirschheim and Lacity, 2009). The study performed in this thesis motivates that the MNC need to develop a customized knowledge transfer framework for each specific offshore hub, which is also a part of the theoretical contribution. Further, a suggestion of a standardized framework is created from the empirical findings, which can help managers in their planning of moving from offshore outsourcing to captive offshoring.

Our study has contributed to the academic literature through examining two different implementation processes within the knowledge and technology driven service firm PharmaT. The two processes were implemented at two different locations, which have shown how cultural differences and location-specific factors affect the results of the transformations. Further, the working activities of the hubs differ, why the empirical findings may be affected by the activities of the hubs. Therefore, it would be of great interest to see further patterns in another two-case study within the same activities in two different locations. To investigate a single case study within the same field of research would also be of interest in order to find hidden patterns and challenges within the implementation process. This would increase the depth of the study and phases could be discovered and evaluated more closely. In addition, performing a study from the beginning of the implementation process, such as during the discussion of disintegrating tasks and activities, until the steady state of the transition would be of significance, as it would show the development and implications of decisions taken. Since this study has focused on the implementation process without examining the post-implementation, it would be of great interest to see a qualitative study evaluating the period after the steady state and how the MNCs strategy changes when inflation in the emerging offshore location occurs.

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APPENDIX

Interview Questions

1. **How did the offshoring transition happen?**
 - a. What was the main drive of having these tasks in house?
 - b. What tasks were you doing more specifically?
 - c. How did you mitigate the risks involved with moving the tasks?

2. **How were you involved in the offshore processes to bring the work back in?**
 - a. Describe your position and role in the offshoring strategy work
 - b. What tasks are you doing more specifically?

3. **Was a transition framework used in the implementation process - is this documented and how did it look?**
 - a. How did you find out how to do it?
 - b. Is this used across other hubs? How is it transferred across hubs?
 - c. Are you using the same transformation framework for other hubs?

4. **What is the most challenging with integrating from offshore outsourcing to captive offshoring?**
 - a. Did you employ any people previous working for third party vendors?
 - b. How do you handle unforeseen situations?

6. **How do you evaluate that you can perform the processes you have moved in house better yourself?**
 - a. Are there any KPI's, measures to evaluate how the work is done?
 - b. How long time can be expected before the processes are in expected quality?

7. **If you could go back to before the transition happened, what would you have done differently?**

- a. What could have been done in a more efficient way?
 - b. What could have been highlighted as a best practice?
- 8. What would push the decision of going back to outsourcing from third party vendors?**
- a. Do you outsource any services from the Bangalore/Manila hub today? If so, what services?
 - b. Which tasks would not according to the strategy be taken in house?
- 9. Regarding the chosen location;**
- a. What was attractive about Bangalore/Manila?
 - b. What defines a good offshore location? What are the determinants?
 - c. Have you started any strategic alliances with local universities or technical institutes to get top talents?
 - d. Has the rules/regulations in India/Philippines changed and warmed up towards this branch?
- 10. What are the advantages of performing services in house?**
- a. How is the training designed?
 - b. How does the recruitment develop?
 - c. Do you rely on a partner to recruit or are you doing it by yourselves?
 - d. How do you create and develop value?
 - e. Is everything documented?