

***A PASSAGE TO INDIA: PROCESS MODELS
AND ADVANCED SERVICES OFFSHORING TO INDIA.***

Peter D. Ørberg Jensen

Center for Strategic Management and Globalization

Copenhagen Business School

Porcelaenshaven 24

2000 Frederiksberg

Denmark

Email: poe.smg@cbs.dk

Phone: +45 3815 2658

Fax: +45 3815 3035

***A PASSAGE TO INDIA: PROCESS MODELS
AND ADVANCED SERVICES OFFSHORING TO INDIA.***

Abstract

This paper addresses a recent strand of offshoring research that concerns the processes of evolution and change that appear in offshoring partnerships after the launch of offshoring operations. Based on longitudinal case studies of offshoring of advanced IT and engineering services from Danish firms to Indian firms, I identify a process model with three stages that captures the evolution of the initial 1-2 years of the offshoring partnership. Overall, the data portray a rapid development of the Danish-Indian offshoring partnerships which show that once trust is established and offshoring firms gain experience, the offshoring firms will increase the sophistication as well as expand the range and volume of advanced work done offshore. The dynamics of the process therefore suggest that at a broader scale, advanced services offshoring will increase in the coming years.

Keywords: Business linkages; business strategy; organizational learning; process dynamics; services offshoring.

INTRODUCTION

Offshoring (i.e. the transfer of a business process to a different country) from developed countries to destinations in the developing world has become a much debated topic both in the public policy debate, in the business press, and increasingly also in the academic literature, yet in the field of advanced services offshoring we have so far seen merely the tip of the iceberg. While the offshoring of advanced, high-end services to developing countries is still relatively limited, it will grow significantly over the coming decade and become one of the key strategic issues on the agendas of not merely MNCs but all firms with international activities. Time series data from the Offshoring Research Network (an international research project that tracks over time the offshoring of administrative and technical work from US and a range of European countries to low-cost destinations) support the view that services offshoring is still in an early stage but seems to be rapidly evolving (Lewin and Peeters, 2006). In addition, the recent data from this international study point out that there is a trend towards offshoring more advanced activities in the value chain (Lewin and Couto, 2007).

The paper contributes to the emergent strand of research in the international business literature on services offshoring, in particular the research on the process dynamics and resulting firm-level impact of advanced services offshoring. The study addresses the question of how the process of advanced services offshoring evolves in the business linkage between home and host firms. I use the process dynamics of the offshoring partnerships as one measure of the impact of advanced services offshoring on firms (here Danish and Indian firms) that engage in it. The trend in the partnerships' evolutionary path is used as an indication of the direction of advanced services offshoring and the direction of the firms involved.

Through case-studies of advanced services offshoring partnerships between Danish and Indian firms, I propose a three-stage model that describes the evolution of offshoring partnerships in their initial phase. In addition, the study shows a rapid evolution where the change that occurs in the offshoring partnerships over

a relatively short period is significant. This indicates that once firms engage in advanced services offshoring, the scale of the operations will grow.

The paper is structured as follows: section two and three present some contributions from the extant literature and comment on the present status of this strand of research. Section three focuses specifically on previous contributions in the field that address offshoring processes and process dynamics in firms. The research design and methodology is outlined in section four. Section five presents the analysis of the evolution of advanced services offshoring processes in the three Danish-Indian partnerships. Some limitations of the study are noted before the discussion section and the final conclusion section.

OFFSHORING OF ADVANCED SERVICES

Offshoring per se is not a new phenomenon (Lewin and Peeters, 2006; Maskell et al, 2007) and is addressed throughout the international business literature in the seminal works of Buckley and Casson (1976), Dunning (1998), Hennart (1982) and Vernon (1966). Despite the classic roots, recent authors have pointed out that there seems to be a shortage of research that seeks to contribute to the development of a coherent theory able to capture recent years' evolution in offshoring of business activities (Mol et al., 2005), that there is a need to revisit existing theories of the international business in view of offshoring (Doh, 2005), and that a framework drawing on many theoretical perspectives is needed to understand offshoring (Kedia and Lahiri, 2007; Niederman et al, 2006; Hansen et al, 2007).

In this respect services offshoring, in particular the offshoring of high-value, advanced services, is a relatively new phenomenon of a somewhat different nature than "classic" manufacturing offshoring and, as a consequence, the offshoring process is different.

First, the offshoring of manufacturing includes often significant investments in manufacturing facilities in a foreign subsidiary or in a supplier. In comparison, offshoring of services mainly involves investments in people, office space and an infrastructure for communications and data. These investments may also be significant but they are in comparison less heavy and therefore allow firms a much higher degree of agility and flexibility in finding the right offshoring business model (they are “footloose” as noted by UNCTAD, 2004, p. 153). This means that services offshoring processes to a lesser degree are prone to path dependency than manufacturing offshoring processes.

Second, offshoring of manufacturing usually involves rather simple tasks and production processes (Andersen, 2006; Ernst, 2002). In comparison, the tasks involved in advanced services offshoring are of a different nature, since they require a high skill level to execute, they necessitate independent judgment on the part of the implementing person or team, they are often connected with problems of “sticky” knowledge (see Szulanski, 1996, for a discussion on stickiness), and they are codified to a much lesser degree, although some level of codification is likely to exist (Cowan and Foray, 1997; Bryson, 2007). Very little of this type of offshoring will therefore be subject to the commoditization and standardization in the “industrialized information chain”, described by Karmarkar (2004).

Third, the advanced nature of the tasks creates a process of knowledge transfer from home to host firm and vice versa which is fundamentally different from offshoring of manufacturing. The fundamental work process that underpins this type of services is described by Stabell and Fjeldstad (1998) as the “value shop” model, which is based on Thompson’s (1967) notion of “intensive technology” and is a theoretical expansion of Porter’s (1985) value chain theory. Intensive technology is characterized by a high level of uncertainty about how best to produce intended outcomes and a high interdependence among members of the workforce. The problem-solving process in value shops is iterative and cyclical with a high degree of reciprocal interdependence between activities, since the perception of the problem and adequate solutions may well change along the way. Examples include work done in hospitals, educational institutions and professional services firms in medicine, law, IT, architecture, and engineering. From an offshoring perspective, this

means that the creation, transfer and sharing of knowledge is a complicated and dynamic process with many feedback-loops. Offshoring in this type of firm/project must therefore be carefully managed and the workflow coordinated and integrated between the locations in order to be effective.

Advanced services offshoring is presently not well understood, yet it will evolve and deepen during the coming decade. The question about the impact of offshoring is a highly contentious issue. This is particularly the case for advanced services offshoring which, in the eyes of those focusing on the potential dangers of offshoring to high-cost countries and their firms, would come close to selling the “family jewels”. At the same time it is *the* key question for offshoring research in general and research on advanced services offshoring in particular.

At present, that there is disagreement as to what the impact of offshoring are at different levels, i.e. national, industry sectors and firms in both developed countries and developing countries (see e.g. Doh, 2005; Farrell, 2005; Levy, 2005). Some concerns concerning the impact on developed countries are evident in the recent offshoring literature. They range from the possibility of rising and widespread unemployment, even among knowledge workers, as noted by Levy (2005), to the danger of the “hollowing out” of the competitiveness of firms and nations. This danger is addressed in academic work (e.g. Blinder, 2006; Sturgeon, 2006; Trefler, 2005) and in the business press (see Economist, 2004), but the long-term dynamics and implications of the trend do not seem clear. Overall, the lack of agreement concerns both offshoring at large across industry sectors and types of activities offshored, and advanced services offshoring in particular.

THE OFFSHORING PROCESS AND PROCESS MODELS

From a research perspective, measuring the impacts of offshoring is a complicated question, both regarding *what* to measure (the selection of the parameters of impact) and *how* to measure (the methodology). The

impact of offshoring on employment and financial performance are two frequently cited and important parameters of impact. However, in my view there are also other relevant dimensions of the impact of advanced offshoring. Here, the evolution of the partnerships between the Danish and Indian firms is used as one measure of the firm impact. The manner in which firms use and engage themselves in the partnerships over time may indicate how advanced services offshoring influences the Danish firms as they grasp strategic opportunities that appear during the offshoring process. For the Indian firms the evolution of the dyadic relation between the firms may show how the roles and responsibilities of the Indian firms and employees change over time. The evolution of the partnership therefore has the potential to enhance our understanding of the impacts of advanced services offshoring on developing country (here Indian) firms, which is an important but largely uncovered research theme. At a broader scale, the offshoring process in the case studies indicates how advanced services offshoring may evolve in business sectors where this type of offshoring occurs.

Previous attempts to build process models of the firm internationalization process, notably Vernon's (1966) product life cycle model and Johanson and Vahlne's (1977) internationalization process model have been criticized e.g. for being too deterministic, for excluding options of strategic choice, for lack of explanatory power in modern organizational models of MNCs, for lack of clarity and measurement of critical concepts such as Johanson and Vahlne's (1977) "psychic distance" (for a discussion and critique see Andersen, 1993; Björkman and Forsgren, 1997; Melin, 1992). However, despite the critique, internationalization process models have been very influential in international business research (Hutzschenreuter et al, 2007; Melin, 1992) and reflect an interest in a deeper understanding of what happens in processes of downstream and upstream internationalization. A number of contributions in recent offshoring research have investigated the dynamics of the offshoring process.

Maskell et al (2007) show that experience is a key determinant in firms' decisions and behavior regarding offshoring and that offshoring to low-cost countries is best described as a learning-by-doing process in which the offshoring of a firm goes through a sequence of stages towards sourcing for innovation. The authors find

that over time the offshoring experience reduces the cognitive limitations of strategic decision-makers in offshoring firms and the advantages of offshoring to low-cost destinations become increasingly clear.

Although Lewin and Peeters (2006) do not exclusively discuss the offshoring process, their article describes some notable characteristics as regards strategy and learning processes in US firms (MNCs) that offshore services to low-cost destinations. They point out that services offshoring emerge in the firms “as a result of opportunistic bottom-up random experiments that evolve following trial and error and learning-by-doing processes” (Lewin and Peeters, 2006, p. 225). Firms move from offshoring a few specific and simple experimental implementations, most often repetitive, standardized and low knowledge-based processes that are already in digital form, to more diversified and complex business processes. Notably, the authors find that there appears to be an absence of top-down corporate strategies that guide the implementation of offshoring practices at the bottom-up level.

While the above authors identify characteristics of the offshoring process, Carmel and Schumacher (2005; adapted from Carmel and Agarwal, 2002) define an *offshore stage model* for IT offshoring (“SITO – Sourcing IT Offshore”) with four stages that each represent different levels of maturation of offshoring firms: At Stage 1 is the “Offshore Bystander”, a firm that so far has only done domestic outsourcing but may consider offshoring. Stage 2 is the “Experimental” stage where firms offshore some functions in a learning-by-doing process which may last one or more years. Stage 3 is the “Cost Strategy” stage where firms have established offshore projects and processes and where the dominant strategic motive is cost savings. The final Stage 4, “Leveraging Offshoring”, is the most advanced stage where firms go beyond the cost savings motive and pursue other strategic objectives e.g. speed and flexibility in implementation and access to local expertise.

Overall, these contributions (Carmel and Schumacher, 2005; Lewin and Peeters, 2006; Maskell et al, 2007) shed new light on the dynamics of the offshoring process. A general point highlighted in all contributions is the important role of experiential learning in the offshoring firms, which links offshoring to the

organizational learning perspective. Hence the definition of organizational learning presented by Fiol and Lyles (1985): “The development of insights, knowledge, and associations between past actions, the effectiveness of those actions, and future actions” (Fiol and Lyles, 1985, p. 811). Interestingly, all three articles all point out that the move from offshoring less advanced functions to more advanced functions is a dominant feature of the offshoring process.

However, several questions on the services offshoring process remain. First, the articles focus exclusively on the offshoring firms and do not address the dyadic relation between two firms or other aspects of the offshoring process that relate to the providers of services. Second, the articles cover the services offshoring process from the early stage with little/no offshoring or offshoring of basic, standardized services to a stage with strategic or more advanced services offshoring. The move from less advanced to more advanced offshored services is not a process model that universally describes all situations: The Danish firms in this study (which prior to their current Indian operations had no or only very limited offshoring experience) all launch their offshoring to India in 2006 with fairly advanced project work involved. This suggests that firms in the future might leapfrog the basic-to-advanced offshoring learning process and go directly to the advanced services offshoring. More importantly, there is still only limited knowledge about the offshoring process in situations where firms start with the offshoring of advanced services and evolve from this stage and onwards. This question, which is the subject of this paper, is important because it can contribute to a better understanding of the dynamics and the outcomes of business linkages founded on the exchange of advanced services.

The methodology of the study is described in greater detail below, but by way of introducing the proposed process model for advanced services offshoring, it is relevant to note that the study follows an inductive research strategy but from the outset the strategy is designed to capture the evolution of the process. Here, the inductive methodology means that I identified and extracted the stages of the model after coding and analyzing the longitudinal interview data from the three case studies. The process model suggests that there are three main stages in the initial phase of advanced offshoring. These stages may be described as follows:

First, the *exploration stage*, where offshoring firms are testing the waters with the new partners. This is the first stage of offshoring operations in India. The first projects are launched in the spirit of pilot projects, where firms try out different models of implementation, including experimenting with the balance and interface of offshore and onshore work.

Second, the *trust-building stage*, where a building of mutual trust between the two firms and between involved staff from both sides takes place as the Indian partners show they can deliver to their promises. At this stage, the first projects are either partly or fully implemented but have gone sufficiently deep into the project cycle to establish a view in the offshoring firms of positive overall outcome. Experiences from the interaction with the partnering firm are gained at various levels of the organization, from senior management to project managers and project staff.

Third, the *expansion stage*, during which period the offshoring firms increase the scale of their offshoring operations. While the trust-building stage may be seen as an ongoing process that does not have a distinct end, all cases share the feature that (at some point during the initial 17 months period covered in the study) a combination of decisions, specific events and driving forces that over time gain sufficient momentum triggers a shift in the offshoring process and it enters this third and (in this study) final stage.

While the definition of the three stages is founded on the empirical data, the stages do share some similarities with well-established theoretical concepts. The stages 1 and 3 of “exploration” and “expansion” relate to March’s (1991) distinction between *exploration* and *exploitation* in organizational learning. As March (1991) notes, it is necessary to have an appropriate balance between these two elements in organizational learning processes: Too much exploration without exploitation leads to high costs of experimentation without reaping the subsequent benefits; conversely, exploitation without exploration leads the organization to a suboptimal stable equilibrium (March, 1991, p. 71). The bridge between these two stages is the trust-building process, a central theme in the strategic alliance literature (Casson and Mol, 2006; Zaheer and Harris, 2006). The

analysis of the cases shows that the three stages to some extent emerge and evolve in parallel. They are not distinct, sequential stages. A new stage starts when a qualitatively new dimension is inserted into the partnership. For example, Stage 2 – Trust-building – starts when the first significant sign of trust vis-à-vis the Indian partner firm is registered on the part of the offshoring firms, but it is not finalized when the next stage starts. This is quite natural, since trust by nature is not given by humans (or firms) to other humans (or firms) once and for all but must be earned and nurtured constantly through actions, decisions and attitudes.

METHODOLOGY

The case approach

The research approach chosen is qualitative and interpretive. The study follows the general approach mentioned by Eisenhardt (1989) and Yin (2003) whereby case studies can involve either single or multiple cases and numerous levels of analysis. The study includes three case studies, and each case study includes one Danish firm and its Indian offshoring business partner, for a total of six firms. The nucleus of each of the three case studies is the interaction and exchange of services (which in all three cases are organized in projects) between the units located in Denmark and India respectively and the evolution of the business linkage between the firms that occurs over time.

The longitudinal perspective

The ability to trace changes over time is a significant strength of case studies (Pettigrew, 1990; Yin, 2003) and the longitudinal perspective is at the core of this study. The Danish-Indian offshoring collaborations were launched in their operational phase during the spring and summer of 2006. The first round of research interviews were implemented in the period between late October 2006 and January 2007. The second, and final, round of research interviews were conducted in August and September 2007. The case studies cover a period between approximately 1 year and up to 17 months in the longest running case study.

Case selection strategy and theory-building

The strategy for the selection of the cases is a crucial part of the research strategy (Flyvbjerg, 2007). It sets the stage for the generalized use of the findings, and theory-building from case studies, since this is determined by the position of the cases relative to the distribution in the entire population (Eisenhardt, 1989; Flyvbjerg, 2007; Pettigrew, 1990; Yin, 2003). Flyvbjerg (2007) presents a model with different strategies for the selection of cases. Among these, one is central in this study: The “maximum variation” selection strategy. Here, this means that the study is not confined to one industry sector but analyses advanced services offshoring across different professional service firms and sectors. The shared feature between them is that the offshored services are *advanced*, similar to what UNCTAD (2004) categorizes as “high-skill services” which is “the most creative and skill-intensive end of offshored services” (UNCTAD, 2004, p. 151).

Another important selection criterion concerns the nature of the work process of Stabell and Fjeldstad’s (1998) value shop model, as described earlier, which is a defining feature of all the cases. Finally, all Danish and Indian firms are large firms, each with several thousand employees, and they are therefore able to respond to process evolution and problems in many different ways.

Data

The study is primarily based on interviews with key personnel in the six firms. In total, 46 interviews were carried out in two rounds starting October 2006 and ending September 2007. The average duration of each is approximately 1 hour, ranging from 45 minutes to 2½ hours. All interviews are recorded and transcribed. In addition, background information about the firms, press clips, and selected memoranda and strategy documents made available by the firms were used. Where possible, informants were interviewed twice. The interviews are based on a semi-structured guide and are all conducted by the author. The 2nd round of interviews included a question on the evolution on the stages of the process where I asked interviewees whether they retrospectively saw different stages in the collaboration process (i.e. periods of time where the collaboration with their Danish/Indian partner was qualitatively different than before). I condense the

responses to this question into the three stages in the model. The interviews included two main groups of personnel in home and host firms, respectively interviewees with overall management responsibility and interviewees involved in the operational management of the projects. It was agreed between the author and the firms that the identities of the firms and individual informants should not be revealed. The firms are therefore referred to by pseudonyms and informants by the role in the firm.

EMPIRICAL RESULTS

This section introduces the three case studies and presents the findings from the analysis. For each case study, the analysis identifies the factors that create the dynamics of the partnerships and instigate the shift from one stage to the next. These factors consist of a mixture of both distinct incidents (actions, decisions, etc.) and underlying drivers that emerge and mature over a longer period. The causal links and sequence of the influential factors are illustrated for each of the case studies in Figures 1, 2 and 3, respectively.

Case-study 1

Stage 1: Exploration

The first case study consists of one of the largest Danish (and Scandinavian) banks (“DK-1”) and its offshoring of IT services to an Indian IT services firm (“India-1”). Prior to the offshoring parts of IT development to India, the bank was under pressure from a domestic labour market where demand for qualified IT staff had surged. As a consequence it was increasingly difficult to recruit sufficient qualified staff domestically to ensure the integration of new acquisitions made by the bank. Given the bank’s strategic ambitions for international expansion, a realistic future scenario at the time seemed one where lack of qualified labour would impede the desired scale and pace of international expansion. As a result offshoring operations are launched in July 2006 in collaboration with India-1.

Prior to the launch of operations, DK-1 changes its internal organization and establishes a consulting unit where Danish and Indian resources are pooled and assigned to specific projects. Shortly after the launch, the first IT experts from India-1 arrive in Denmark to start work on the pilot projects that are initiated simultaneously. In addition to the pilot projects other activities are initiated, including training programmes in cultural awareness and work culture for both Indian and Danish staff (the two firms have not previously worked in the country of their counterpart), and India-1 staff is assigned to work on a *Services Manual* that outlines procedures and work processes in order to make use of their extensive knowledge of IT processes. While all this takes place onsite in Denmark, operations in India start with the stationing of two expatriate staff from DK-1 to India in October 2006. Their first major task is to oversee the establishment of a separate building on the premises of India-1 that will serve as the Danish firm's offshore IT development centre. By the middle of November 2006 the centre is operational after an intensive work process. However, although secure data transmission and communication lines between Denmark and India are established, technical communication problems continue to mar the dialogue and information exchange between the units in the two countries over the first months. While this may seem like a trivial problem, the implications are not, as described by one of the Danish expatriate managers: *"The technical infrastructure is a very basic thing, but it is this kind of trouble that deters staff in Denmark from supporting the offshoring initiative in India. It is not the fault of the Indian firm or its staff, but it influences in a negative way the Danish organization's perception of success or failure of offshoring to India."*

Stage 2: Trust-building

After positive experiences with the pilot activities, the project work in which India-1 staff get involved is now of an increasingly advanced nature. One of the DK-1 managers describes the projects in the following way: *"The offshore work is not a playground where we can try things out and see how it works. The projects are important projects and it will cause serious problems if they are not implemented with a high quality"*. Nevertheless, the India-1 experts appear to be up to the tasks. DK-1 managers generally express high regard for the expertise which the Indian consultants bring to the table. One of them illustrates this point with an example: *"We had four people from India-1 stationed in Denmark for a while. And after two weeks our*

project manager said that they now knew more about the system than he did". In view of the organizational context in the Danish client organization, where a large share of the IT systems are products of DK-1's own development and many Danish IT staff members have 20+ years experience in the firm, such contributions are not trivial and they are crucial for the mutual building of trust that takes place in this stage. At the managerial level, much is done by India-1 account managers to accommodate the needs of the client in a fast and flexible way, which is noted and appreciated by the Danes.

Despite the positive relations between the two firms there are occasional outbursts of scepticism on the part of the Danish staff. From time to time rumours about the alleged lack of competences of the Indian staff appear and circulate in the Danish organization. To counter such rumours and their negative influence on the partnership, DK-1 managers respond by launching surveys at regular intervals among involved DK-1 employees that measure the satisfaction with their Indian counterparts. The surveys show a positive response across the board in the Danish firm.

Stage 3: Expansion

The *Expansion* stage in this case study is triggered by DK-1's acquisition of a large European bank and the resulting challenge of integrating the IT systems of the two firms in a speedy and efficient manner. Over a period of five months, starting in March 2007 and coinciding with the arrival of a new DK-1 offshore manager in India, DK-1 recruits more than 200 IT consultants from India-1 into its projects. With the 50 Indian IT consultants already engaged in Danish project, this makes the total number of 250 consultants from India-1.

The rapid ramp-up of the scale of the partnership, a hitherto unprecedented experience for India-1, has a range of implications for the organization of the offshoring partnership. First, the number of DK-1 projects with Indian staff increases. However, the majority of India-1 staff does not work offshore but are stationed in Denmark on shorter or longer project assignments. The rationale being that the integration of the Indian consultants into the projects (which are all technologically advanced, and the majority consist of IT systems

developed by the Danish bank, most often with a lack of written documentation and consequently with significant portions of tacit knowledge) is more easily done with the Indian consultants working onsite in Denmark, in close interaction with Danish project team members. Second, the rapid ramp-up of Indian consultants is followed by an intensification of the efforts to integrate the new staff which is needed to make efficient and effective use of the Indian consultants over a short period of time. Third, the expansion causes India-1 to change and develop its recruitment procedures to make these more efficient and capable of managing a larger volume of potential candidates during the recruitment process. Fourth, the expansion creates a need to develop new routines regarding human resource management and information flows. While the Indian consultants remain India-1 employees, they are closely integrated in the DK-1 organization, and DK-1 managers see these aspects of the interaction with the Indian consultants as an important measure that may nurture the motivation of the Indian staff and prevent attrition. At the study's cut-off date, the rapid ramp-up has given the two partnering firms a long list of experiences with the exchange of advanced knowledge and tasks. While the overall contribution is considered positive, it is also clear that the high levels of firm-specific knowledge in many DK-1 projects cause problems and impede the efficiency and effectiveness of the Indian staff. Mitigating these problems therefore remains a priority for DK-1 and India-1 managers. With the ramp-up already implemented, DK-1 managers now increasingly focus on the consolidation of the collaboration and on the deepening of the integration of the Indian consultants into the Danish organization.

INSERT FIGURE 1 ABOUT HERE

Case-study 2

Stage 1: Exploration

The second case includes one of the largest Danish engineering groups ("DK-2") and its offshoring of engineering services to a joint venture in India. The Danish firm has a 50/50 joint ownership with its Indian partner, a large Indian engineering and construction firm ("India-2"). Similar to the bank, DK-2 is also

engaged in a very expansive strategy of internationalization and growth in several European countries, and the Danish part of the group especially experiences a shortage of engineers. While shortage of qualified staff and access to skilled resources in India is the main motive, DK-2 faces an offshoring trend in the international market where competitors start offshoring work to low-cost countries. DK-2 wishes to remain competitive vis-à-vis these competitors, and the cost advantage of offshoring to India-2 thus has some significance as a strategic driver. The offshored projects are infrastructure projects (bridges, roads) where Indian engineers are charged with design work and detailed engineering processes, while project management, client contact, project completion and other activities remain in Denmark. Offshore operations are launched in August 2006 where an expatriate offshore manager from DK-2 is stationed in India and charged with the management responsibility for a new *International Operations* unit. This unit is established as a separate entity of the joint venture firm and located in the western part of India, as the sole unit in the firm. Upon the arrival of the Danish manager in India, the pilot projects with Indian engineers are launched. The main purpose of these projects is to test the offshoring model. One of the department heads in DK-2 explains: *"The pilot projects are low-risk projects because we can take over if they go off the wrong track. The key question is to find out how well does this work, and how quickly can we ramp-up operations."*

Stage 2: Trust-building

The success of the implementation of the pilot projects is acknowledged at a board meeting in the international joint venture in December 2006. This acknowledgement turns out to be a milestone in the trust-building process and it paves the way for additional offshoring projects. Good results combined with documented cost savings between 20%-50% in the pilot projects and the acknowledgement of the board help overcome initial scepticism across the Danish organization where formerly reluctant strategic business unit (SBU) heads now show increased interest in the possibilities in India. A major part of the business development and sales in DK-2 is decentralized and driven by SBUs and convincing the SBU heads about the viability of offshoring to India is critical for the long-term success. Another crucial factor during this stage is the rescue of a project, struck by crisis, in Ireland: A Swedish engineer, posted in the international operations unit in India, is dispatched to Ireland together with a Danish engineer and they manage to steer the

project clear and ensure fast implementation in collaboration with a team of Indian engineers located in India. By the fall of 2007, the story about the successful project is already an anecdote within DK-2 that plays a pivotal role in the trust-building process and serves to illustrate the possibilities in using the capacities in India as well as in cross-border teams.

Stage 3: Expansion

A decision, in March 2007, to move to a new and larger office marks the launch of this third stage in the offshoring process. This is the first in a series of decisions and action that together expand the collaboration significantly: These actions also have organizational implications: The number of Scandinavian expatriate staff is expanded from one to five, while the number of Indian engineers is increased from the initial four to twenty-seven. In addition, a new training program for newly recruited engineers is developed and implemented in the joint venture firm with the purpose to gear the organization better to accommodate an increase in the number of newly recruited engineers. Less than a year after the launch of the new offshore unit in India, the experiences gained is the background for a strategy discussion, initiated by the firm's top-management, about how DK-2 might better explore and exploit the benefits of both offshoring to India and improve the market position on the Indian market. Several SBUs in DK-2 have initiatives in India, including offshoring, in various engineering fields that are organized in different ways and with different partners. The strategic considerations, on how to expand and whether and how to connect the various initiatives differently, are still ongoing at the study's cut-off date, but it is clear that offshoring to India is now on the firm's strategic agenda in a fundamental way. By the end of the study DK-2 employs 27 Indian engineers in the offshore unit in India and continues the recruitment of new staff.

INSERT FIGURE 2 ABOUT HERE

Case-study 3

Stage 1: Exploration

The third case consists of a large Danish IT firm (“DK-3”) and its offshoring of IT development project activities to its Indian partner, one of the top-tier Indian IT services firms (“India-3”). DK-3 serves a wide range of clients in the Danish market and is specialized in the development of IT solutions for the public sector and it is this portfolio India-3 is involved in. Prior to the offshoring collaboration with India-3, DK-3 embarked on a new strategy which meant that all existing solutions and new solutions should migrate respectively be developed using SAP technology (enterprise software applications). Due to a lack of experts in the firm as well as in the Danish labour market, DK-3 engaged itself into collaboration with India-3 which had experts available. India-3 is contracted as an external services provider, but the firms jointly present the collaboration as a “strategic partnership” in a press release in early 2006, which indicates the importance of the collaboration. After contract signature in January 2006 operations start in March 2006 with a few selected pilot activities and mainly with Indian experts working onsite in Denmark, but gradually work is transferred to India. Upon completion of the pilot work, an evaluation concludes that the implementation and the results are positive, and this also marks the conclusion of Stage 1.

Stage 2: Trust-building

The positive results of the pilot activities lead to the initiation of several large projects in August 2006. The projects continue to experiment with various constellations of onsite and offshore project work with the overall intention to ensure the closest possible interaction between the Danish and Indian team members. A defining feature of this stage is the delegation of more discretionary power to the Indian teams, which happens as an outcome of the positive experiences so far and the ongoing building of confidence and trust on both sides. Interviews with DK-3 managers and project managers show recognition of the contribution and technical expertise of the Indian IT experts. However, despite the positive results it is also increasingly clear to DK-3 that a problem of attrition among the Indian staff exists and must be addressed. This leads to the idea of establishing a “core team”, i.e. a group of experts fully assigned to work on various DK-3 projects, and this triggers the start of Stage 3, *Expansion*.

Stage 3: Expansion

The establishment of an offshore centre in India in March 2007 functions as the physical framework for the ramp-up of Indian staff assigned to the core team. The intention is to build up a team that possesses not merely the technical expertise but also has a deeper understanding of the business domain (public sector organization and regulation) of DK-3. Offshoring to India now involves several SBUs, covers different business domains and is widened to include several types of assignments and not exclusively project work. The posting of a Danish offshore manager at the centre in India completes the institutional infrastructure for the offshoring partnership. The expansion of the collaboration creates a need for clarification of internal work processes and a specification of the routines and conditions for the use of Indian staff in projects. As a DK-3 manager notes: *“It has proven more difficult for us to specify in advance the work we want the core team in India to do. Our project managers like to just call somebody and assign them to a task when the need arises, but you have to be more precise and plan better when you’re dealing with an external partner”*.

Overall, the expansion of the collaboration sets in motion a strategy process in DK-3. The offshoring to India was launched primarily in order to get access to a greater number of IT experts for project work, but the mushrooming of different types of business activities involving India-3 staff paves the way for recognition in DK-3 of the need for a more detailed and coherent offshoring strategy. The strategy work is launched shortly before the study’s cut off date, but it is clear that the offshoring strategy will become an integral part of the firm’s future international strategy. An international strategy is in itself a new venture for DK-3 since the firm historically concentrated exclusively on the domestic market. By the end of the study, DK- 3 employed around 70 consultants from India-3, including the core team (26 consultants) and is set to further expand the Indian workforce.

INSERT FIGURE 3 ABOUT HERE

DISCUSSION

Advanced services offshoring, process dynamics and future development

Across the three case studies, one of the striking findings is how quickly the Danish-Indian partnerships have evolved. In all three cases the scale and nature of the offshoring operations accelerate from the start in 2006 to operations with a significant number of offshore staff, with several departments and divisions in the offshoring firms involved and with increasingly sophisticated work done by offshore staff in India.

For the future, it is still an open question how the offshoring partnerships will evolve (as symbolized with the question mark in the three figures). Anecdotal evidence suggests that offshoring partnerships between Western firms and Indian firms continue to evolve over a long period. For example, at the 3rd Annual Conference on the Globalization of Services at Stanford University, CA, in December 2007, Mr. Vasu Sarangapani, Vice President at Wipro (one of the large Indian providers of IT, engineering and other services) described the firm's partnership with a US MNC and how this partnership had evolved over a period of 15 years from a modest start with very basic work done offshore in India to the present stage where Wipro undertakes advanced R&D work for the US client.

Against this backdrop the findings from the Danish case studies suggest that the Danish-Indian offshoring partnerships could evolve to a mature stage at a much faster pace. Part of reason is that the Danish-Indian partnerships benefit from the significant maturation in the Indian market of services providers that occurred since the pioneering era of IT offshoring in the late 1980s and early 1990s, and in this sense the context has changed since the launch of operations in the Wipro example above. The initial period covered in the study (lasting between 1 – 1½ year in the three case studies) shows a fast acceleration of the partnerships. The *Exploration* stage lasts between 4 to 7 months in the three case studies. The *Trust-building* stage characterizes the partnership for 4 to 7 months. While trust-building continues to be an important element between the partners, as mentioned earlier, this second stage is complemented by the third stage – *Expansion* – which then becomes the dominant feature of the offshoring partnerships. At the study's cut off date the

Expansion stage had been going on for approximately 6 months in the three partnerships. In two of the three case studies (2 and 3) the offshoring firms are consumed with ideas and discussion on how to expand the offshoring to India even more. In these firms, a likely scenario for the next 2-3 years is *diversification*, where not only the scale of the offshored services is increased but also the scope with more SBUs involved in offshoring to India, as well as and a wider range of offshored projects and tasks. In case study 1, the significant ramp-up of the offshoring operations from March through July 2007 took place at an almost frantic pace and to some extent this offshoring partnership has therefore matured faster. In this case the expansion stage is already implemented, and a scenario of *consolidation* is likely to play out over the coming year. However, the Danish firm is set on a course of international growth and additional acquisitions in the European financial market could necessitate a continuation of the expansion stage.

As noted previously, previous contributions in the literature on offshoring processes and process models may be seen as theoretically related to organizational learning theory and this paper is no exception to this. Fiol and Lyles (1985) note that organizational learning is a process not an event, and theorists in the field describe three main stages in this process: Understanding new external knowledge, assimilating it, and applying it to commercial ends (Cohen and Levinthal, 1990; Lyles, 1998). These stages relate to learning processes more generally, but the similarities between them and the process model suggested in this paper is evident. However, according to Lyles et al (2003), “little is known about the details associated with each stage, the transitions between the stages, or the impact on performance and survival” (Lyles et al, 2003, p 191). The process model for advanced services offshoring outlined in this paper may contribute to filling this gap.

Managerial challenges in offshoring firms

The three stages of the offshoring process pose different management challenges for the offshoring firms. First, in all three cases initial scepticism exists in particular among internal stakeholders in the firms (staff, managers, unions), but also occasionally among the clients (case study 2), and later in the process rumours and myths may appear with potential negative influence on the success of the offshoring to India. As coined by one Danish manager: “*If the offshored projects fail, then we will face a lot of harsh critics at home*”. In

order to overcome and defuse such scepticism it is essential to have a clear and transparent communication practice from the beginning of Stage 1 vis-à-vis the employees. It is necessary to have a frank communication flow on the objectives, content and implications of offshoring as well as on the successes and barriers that occur along the way. In the “value shop” type of firm and projects, human resources is everything, and ensuring a constructive attitude among home firm staff is fundamental for the success of advanced services offshoring.

Second, due to the advanced nature of the work and due to the work process in “value shop” projects, it is important to create a relatively high level of integration between the project team members from the two firms, at least the central team members. This is necessary for an efficient and effective knowledge exchange and to create an experience of shared objective and success. Two of the firms in the study successfully change between onsite and offshore work, where Indian team members for shorter or longer durations work in Denmark and obtain a deeper understanding of project content and context and communicate directly with Danish project team members instead of using hierarchical lines of communication all the time. In addition, as onsite exposure is often considered attractive by Indian professionals, some Danish managers note this might work as a management tool that can meet career aspirations of the Indian staff and thus prevent and reduce attrition.

Third, managing advanced services offshoring is a constantly evolving task. When the business linkage evolves and matures, inter-firm learning increases. As a result of this maturation process, the services provider understands better the client firm and its business context and may be more deeply engaged in the work processes in the client firms. The management implication is that the interface between the offshoring firm and the services provider must be subject to continuous assessment in order to strike the right balance and apply the resources in an optimal way. In other words, it is not possible, as in classic manufacturing offshoring, to make a set of specifications that remain fairly stable during the production process. As a consequence, the complexity of managing advanced services offshoring increases and necessitates that senior managers continuously monitor the process relatively close and that there are communication and feedback

channels that ensure a flow of information from the operational level (project managers) to the responsible senior managers.

LIMITATIONS OF THE STUDY

Some limitations of the study relate to the general features of qualitative methods while others are specific for this study. The former include a potential cognitive bias due to an observer-expectancy effect that might over-emphasize the similarities between the offshoring processes in the case studies. However, this bias is countered by giving the six case companies the opportunity to comment on drafts of the manuscript. The general limitations of small sample studies also prevail here, although the strategy for case selection is intended to address this limitation.

Moreover, some limitations pertaining to the specific research design should be noted. First, the micro-level study design of selected services within large firms means that a range of aspects regarding the entire firm level, and the influence of industry sector and country context on the offshoring process dynamics are not included. Second, although the study is based on longitudinal data, these only allow for a process model that covers the initial implementation phase. The Danish-Indian partnerships are still evolving, and much may happen over the coming years. Third, the study is conducted during a growing business cycle which has reinforced the labour shortages caused by a diminishing workforce in Denmark. It remains to be seen how the offshoring strategies of the firms, and hence also the offshoring process, would evolve during a business cycle with slow or no growth.

CONCLUSION

This study contributes to the emerging literature on offshoring of advanced services by enhancing the understanding of the evolution of business linkages between developed country firms and developing country firms. Based on three cases of advanced services offshoring from Danish firms to Indian firms, I suggest a process model with three stages that captures the dynamics of the early phase (1 – 1½ year) of the offshoring partnerships. Although each of the three partnerships stands out with a set of specific characteristics, there are similarities in the way in which the partnerships evolve from the launch of the collaboration and during the first 1-2 years of offshoring operations. The similarities between the cases provide empirical support to the proposal that the process model is of general value. The findings may enhance our understanding of the evolution of business linkages founded on advanced services offshoring; an area which several recent authors see as the next wave of offshoring and globalization (Manning et al, 2008). The findings are consistent with the overall idea that advanced services offshoring should not be considered as a static situation, but rather as a dynamic process that evolves over time. However, the incorporation of a dynamic perspective has been rare in previous contributions in services offshoring research.

Moreover, the study shows that the evolution and change that occur in the offshoring partnerships over a relatively short period is significant. This gives an indication of the firm-level impact of advanced services offshoring: While other recent research contributions have pointed out that offshoring of advanced services and other innovation related activities will grow (Dossani and Kenney, 2007; Lewin and Couto, 2007), this study shows that once firms do engage in this type of offshoring, it will evolve rapidly and it will have deep implications for the management, organization and implementation of work at both ends of the business partnership due to the iterative and cyclical nature connected to the problem-solving processes of advanced service work.

REFERENCES

- Andersen, O. (1993). 'On the internationalization process of firms: A critical analysis'. *Journal of International Business Studies*, **24**, 209-31.
- Andersen, P. H. (2006). 'Regional clusters in a global world: Production relocation, innovation and industrial decline'. *California Management Review*, **49**, 101-22.
- Björkman, I. and Forsgren, M. (1997). *The nature of the international firm: Nordic contributions to international business research*. Copenhagen: Copenhagen Business School Press.
- Blinder, A.S. (2006) 'Offshoring: The next industrial revolution?'. *Foreign Affairs*, **85**, 113-128.
- Bryson, J. R. (2007). 'The 'second' global shift: the offshoring or global sourcing of corporate services and the rise of distanced emotional labour'. *Geografiska Annaler, Series B: Human Geography*, **89**, 31-43.
- Buckley, P. J. and Casson, M. (1976). *The future of the multinational enterprise*. London: Macmillan.
- Carmel, E. and Agarwal, R. (2002). 'The maturation of offshore sourcing of IT work'. *Management Information Systems Quarterly - Executive*, **1**, 65-77.
- Carmel, E. and Schumacher, P. (2005). 'Offshore strategy'. In Carmel E. and Tija, P. (Eds.) *Offshoring information technology: sourcing and outsourcing to a global workforce*. Cambridge: Cambridge University Press.
- Casson, M. and Mol, M. J. (2006). 'Strategic alliances: A survey of issues from an entrepreneurial perspective'. In Shenkar, O. and Reuer, J.J. (Eds.), *Handbook of strategic alliances*. Thousand Oaks: Sage.

- Cohen, W. M. and Levinthal, D. A. (1990). 'Absorptive capacity: A new perspective on learning and innovation'. *Administrative Science Quarterly*, **35**, 128-52.
- Cowan, R. and Foray, D. (1997). 'The economics of codification and the diffusion of knowledge'. *Industrial & Corporate Change*, **6**, 595-622.
- Dodgson, M. 1993. 'Organizational learning: A review of some literatures'. *Organization Studies*, **14**, 375-94.
- Doh, J. P. (2005). 'Offshore outsourcing: Implications for international business and strategic management theory and practice'. *Journal of Management Studies*, **42**, 695-704.
- Dossani, R. and Kenney, M. (2007). 'The next wave of globalization: Relocating service provision to India'. *World Development*, **35**, 772-91.
- Dunning, J. H. (1998). *Multinational enterprises and the global economy*. Harlow: Addison-Wesley Publishers.
- Economist (2004). *The great hollowing-out myth*. February 23rd issue. London: The Economist Group.
- Eisenhardt, K. M. (1989). 'Building theories from case study research'. *Academy of Management Review*, **14**, 532-50.
- Ernst, D. (2002). 'Global production networks and the changing geography of innovation systems. Implications for developing countries'. *Economics of Innovation and New Technology*, **11**, 497-523.
- Farrell, D. (2005). 'Offshoring: Value creation through economic change'. *Journal of Management Studies*, **42**, 675-83.

- Flyvbjerg, B. (2007). 'Five misunderstandings about case-study research'. In C. Seale, G. Gobo, J.F. Gubrium, and D. Silverman (Eds.), *Qualitative research practice: Concise paperback edition*. London and Thousand Oaks, CA: Sage.
- Fiol, C. M. and Lyles, M. A. (1985). 'Organizational learning'. *Academy of Management Review*, **10**, 803-13.
- Hansen, M. W., Schaumburg-Müller, H. and Pottenger, E. (2007). *Outsourcing for development: towards a developing country firm perspective*. European International Business Academy, Annual Meeting, Catania, Italy.
- Hennart, J. (1982). *A theory of multinational enterprise*. Ann Arbor: University of Michigan Press.
- Hutzschenreuter, T., Pedersen, T., & Volberda, H. W. (2007). 'The role of path dependency and managerial intentionality: A perspective on international business research'. *Journal of International Business Studies*, **38**, 1055-68.
- Johansson, J. and Vahlne, J. (1977). 'Internationalization process of the firm - model of knowledge development and increasing foreign market commitments'. *Journal of International Business Studies*, **8**, 23-32.
- Karmarkar, U. (2004). 'Will you survive the services revolution?'. *Harvard Business Review*, **82**, 100-7.
- Kedia, B. L. and Lahiri, S. (2007). 'International outsourcing of services: A partnership model'. *Journal of International Management*, **13**, 22-37.
- Levy, D. L. (2005). 'Offshoring in the new global political economy'. *Journal of Management Studies*, **42**, 685-93.

Lewin, A. Y. and Couto, V. (2007). *Next generation offshoring - the globalization of innovation*. Durham, NC: Duke University.

Lewin, A. Y. and Peeters, C. (2006). 'Offshoring work: Business hype or the onset of fundamental transformation?'. *Long Range Planning*, **39**, 221-39.

Lyles, M. A. (1998). 'Learning among joint venture sophisticated firms'. *Management International Review*, **28**, 85-98.

Lyles, M. A., Szabo, K., Kocsis, E., Barden, J., Dhanaraj, C. and Steensma, K. (2003). In Chakravarthy B., Mueller-Stevens G., Lorange P. and Lechner C.(Eds.), *A Longitudinal Study of Organizational Learning, Unlearning and Innovation among IJVs in a Transition Economy* (1st ed.). Oxford: Blackwell Publishing.

Manning, S., Lewin, A. Y. and Massini, S. (2008). 'A dynamic perspective on next-generation offshoring: The global sourcing of science and engineering skills'. *Academy of Management Perspectives*, Forthcoming.

March, J. G. (1991). 'Exploration and exploitation in organizational learning'. *Organization Science*, **2**, 71-87.

Maskell, P., Pedersen, T., Petersen, B. and Dick-Nielsen, J. (2007). 'Learning paths to offshore outsourcing: From cost reduction to knowledge seeking'. *Industry & Innovation*, **14**, 239-57.

Melin, L. (1992). 'Internationalization as a strategy process'. *Strategic Management Journal*, **13**, 99-118.

Mol, M. J., van Tulder, R. J. M. and Beije, P. R. (2005). 'Antecedents and performance consequences of international outsourcing'. *International Business Review*, **14**, 599-617.

- Niederman, F., Kundu, S. and Salas, S. (2006). 'IT software development offshoring: A multi-level theoretical framework and research agenda'. *Journal of Global Information Management*, **14**, 52-74.
- Pettigrew, A. M. (1990). 'Longitudinal field research on change: Theory and practice'. *Organization Science*, **1**, 267-92.
- Porter, M. E. (1985). *Competitive advantage: Creating and sustaining superior performance*. New York, NY: The Free Press.
- Stabell, C. B. and Fjeldstad, Ø D. (1998). 'Configuring value for competitive advantage: On chains, shops, and networks'. *Strategic Management Journal*, **19**, 413-37.
- Sturgeon, T. J. (2006). *Services Offshoring Working Group Final Report*. Boston, MA: Industrial Performance Center, Massachusetts Institute of Technology.
- Szulanski, G. (1996). 'Exploring internal stickiness: Impediments to the transfer of best practice within the firm'. *Strategic Management Journal*, **17**, 27-43.
- Thompson, J. D. (1967). *Organizations in action*. New York, NY: McGraw-Hill.
- Trefler, D. (2006) 'Services Offshoring: Threats and Opportunities', in Collins, S.M. and Brainard, L. (Eds.) *Brookings Trade Forum 2005: Offshoring white-collar work*, Washington D.C.: Brookings Institution Press.
- Vernon, R. (1966). 'International investment and international trade in the product cycle'. *Quarterly Journal of Economics*, **80**, 190-207.
- United Nations Commission on Trade and Development (UNCTAD). (2004). *World Investment Report. the Shift Towards Services*. Geneva, Switzerland: UNCTAD.

Yin, R. K. (2003). *Case study research. Design and methods* (3rd ed.) Thousand Oaks, CA: Sage Publications.

Zaheer, A. and Harris, J. (2006). 'Interorganizational trust'. In Shenkar, O. and Reuer J.J. (Eds.), *Handbook of strategic alliances*. Thousand Oaks: Sage.

Figure 1: Evolution of DK-1 & India-1 offshoring partnership (Jul 2006 - Sep 2007)

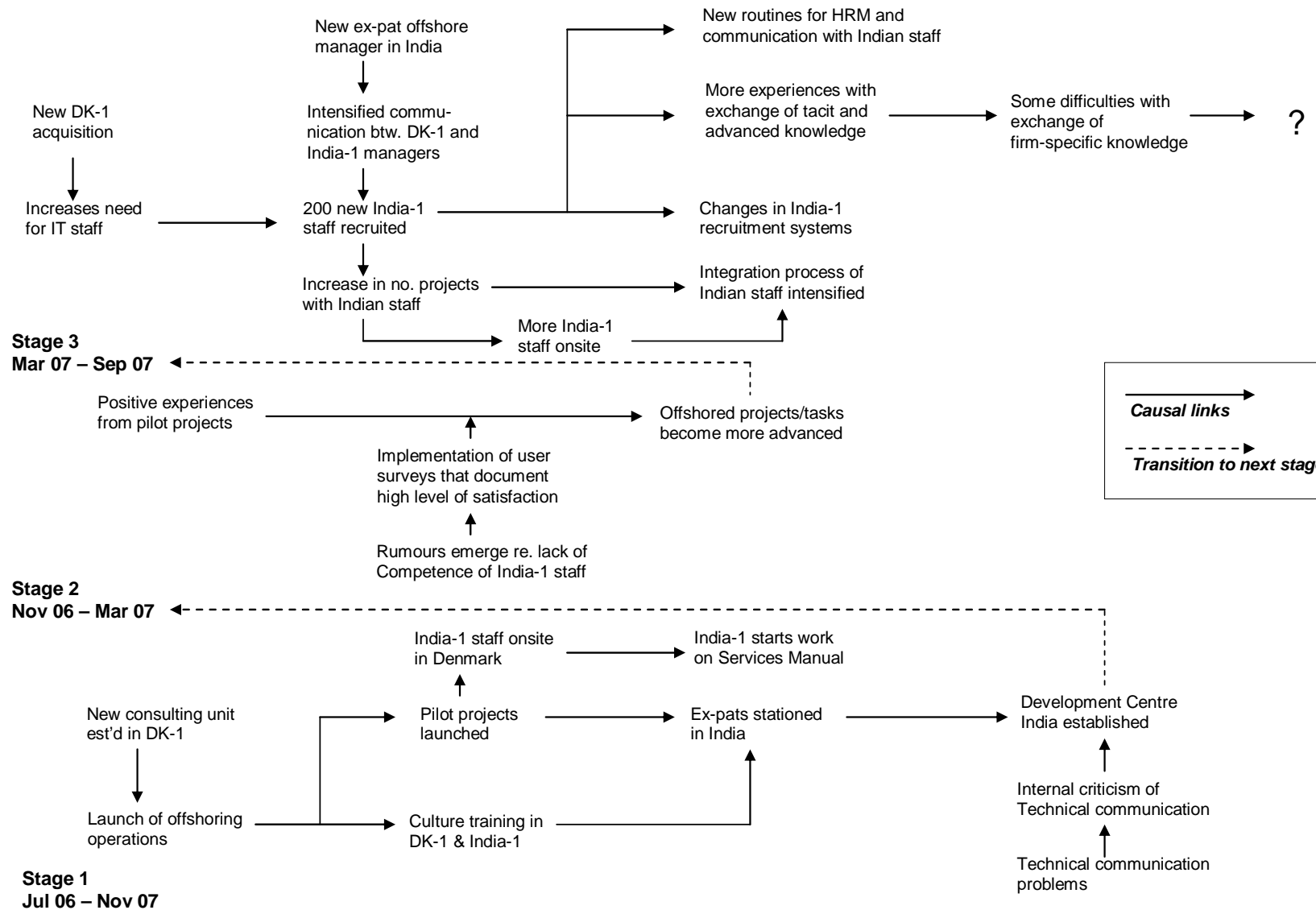


Figure 2: Evolution of DK-2 & India-2 offshoring partnership (Aug 2006 – Sep 2007)

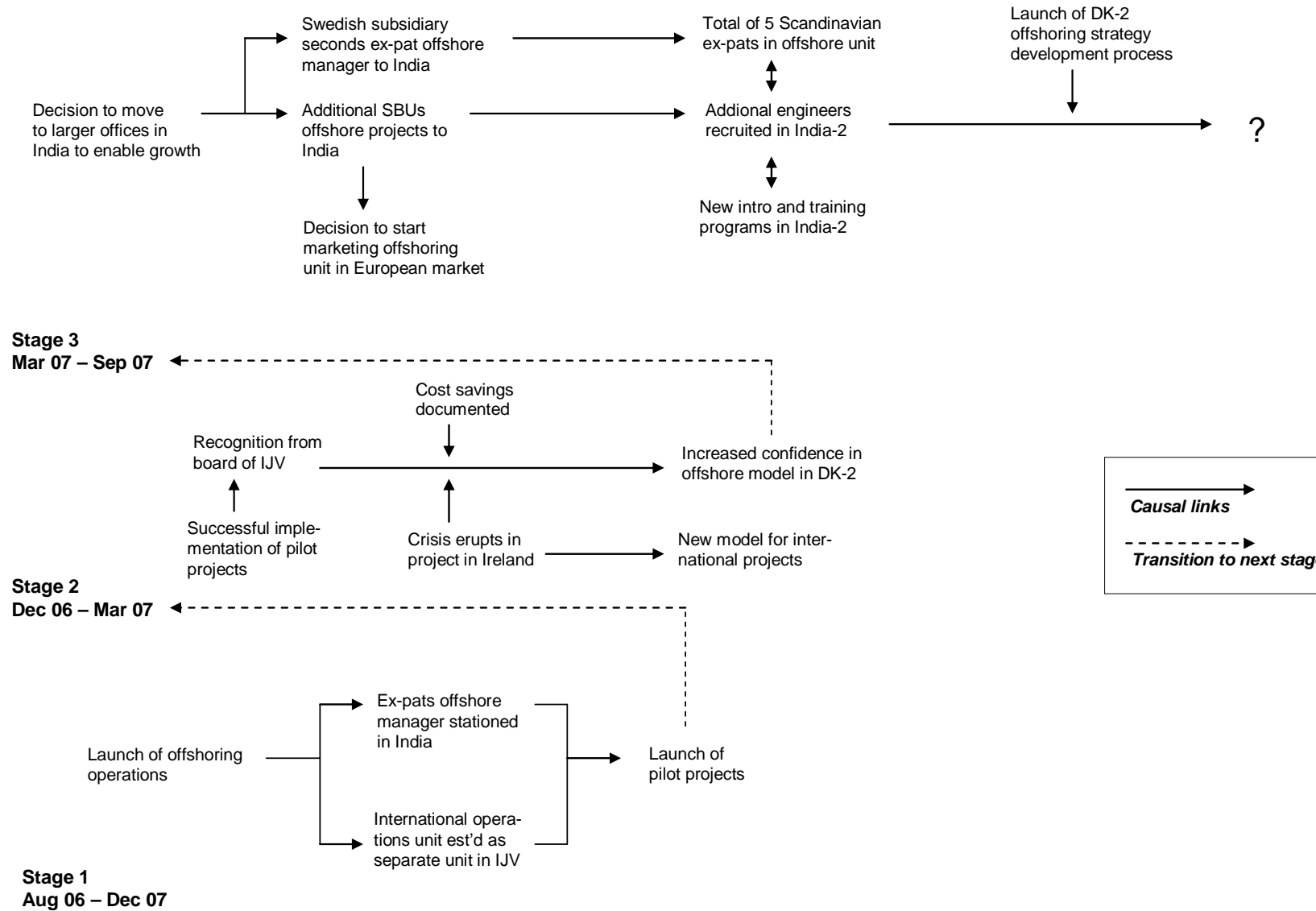


Figure 3: Evolution of DK-3 & India-3 offshoring partnership (Jan 2006 – Sep 2007)

