



Exploring heterogeneity in preferences for offshore functions, governance modes and locations

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Carine Peeters

ULB – Solvay Brussels School of Economics and Management

Brussels, BELGIUM

carine.peeters@ulb.ac.be

Abstract

Using survey data from the Offshoring Research Network on offshoring by firms in the United-States (US) and Europe the paper explores whether preferences for offshoring certain functions, using particular governance modes, and in specific locations vary depending on the country of origin of the company making the decision. It assesses the heterogeneity between the US and Europe as well as across European countries and concludes that intra-European heterogeneity in offshoring practices is as high as heterogeneity between US and EU as a whole. The paper also shows that differences in functions offshored explain only a limited portion of differences in governance modes and offshore locations selected.

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1. Introduction

Offshoring refers to the process of sourcing and coordinating tasks and business functions across national borders both in-house through captive subsidiaries offshore and from outside the boundaries of the firm through outsourcing to external providers (Lewin et al., 2009). It is a very diverse phenomenon that covers a wide variety of activities, governance modes and locations. Today, the empirical literature on choices regarding these activities, governance modes and locations remains limited and biased towards case studies and surveys of American companies. Few authors have tried to identify and explain cross country differences that may exist between American and European companies as well as across companies from different European countries in terms of preferences for offshoring certain functions, opting for particular governance modes, or selecting offshore locations. The Offshoring Research Network dataset offers a unique opportunity in that respect that this paper seeks to leverage.

Several authors have worked at developing theoretical frameworks and practical guidelines to help companies that contemplate initiating or extending offshoring decide what functions they could offshore, and even more importantly what particular processes and tasks. Going beyond Hamel and Prahalad's (1990) notion of core competence often used in the strategy literature on outsourcing, Aron and Singh (2005) argue that companies should create a value hierarchy of their processes and base their offshoring decisions on the processes' contribution to value creation for customers and value capture for the business. Building on dimensions such as the degree of customer contact, physical presence need, degree of customization, information intensity, and labor intensity (e.g. Apte and Mason, 1995; Chase, 1981; Schmenner, 1986), the service classifications proposed by the operations management literature are also useful to study the possible relocation of activities. For instance, Stratman (2008) suggests that standardized back office activities requiring workers with only minimal training are the most amenable to offshoring. Youngdahl and Ramaswamy (2008) further argue that due to higher risk and complexity, offshoring of processes characterized by high levels of customer contact and knowledge embeddedness is likely to be driven by considerations other than just cost savings.

Governance mode choices are traditionally studied using transaction cost economics (Williamson 1975). The idea is to opt for performing an activity internally or using the market depending on what governance mode is associated with the lowest cost of transaction, taking into account the degree of uncertainty and asset specificity. Additional factors that come into play in "make or buy" decisions include the strategic value of an activity and associated need for control, and the relative capabilities of firms compared to providers (Perry, 1988; Langlois, 1992; Venkatesan, 1992). In the context of offshoring, Grote and Täube (2007) more recently argued that outsourcing decisions also depend on how processes are embedded in relations with other departments and actors inside and outside the firm. Metters (2008) further proposes that governance mode decisions depend on the strategic objectives and managerial concerns of an organization regarding particular processes.

The question of where to offshore is the last major offshoring decision this study explores. Several authors have developed insight and frameworks to help companies in the difficult choice of an appropriate offshore location. For instance, Bunyaratavej et al. (2008) studied the efficiency of several countries in using their inputs to provide an attractive environment for the offshoring of services. Looking at key inputs such as wages, education and infrastructure certain countries appear

to be particularly attractive. They are China, India, Ireland, the Netherlands, Pakistan, Slovakia, Spain, and the UK. In order to avoid congestion problems in hot spots of offshoring, Farrell (2006) recommends diversifying the locations selected by making the decision based on six categories of factors: cost, availability of skills, environment, market potential, risk profile, and quality of infrastructure. Focusing on offshore outsourcing more specifically, Graf and Mudambi (2005) also argue that firm-specific factors, such as the outsourcing objectives and the experience of the company, as well as situation-specific factors, such as the nature of the business process and customer expectations, moderate the effect of these variables on the attractiveness of offshore locations.

What we do not know is whether preferences for offshoring certain functions, using particular governance modes, and in specific locations are homogenous or if they vary depending on the country of origin of the company making the decision. Seeking to bring elements of answer to this question, the present study provides descriptive statistics of offshoring decisions by companies in the US and six European countries. It focuses more specifically on the role that differences in functions offshored potentially play in explaining the observed cross-country heterogeneity in governance modes and offshore locations. After briefly describing the dataset in section 2, section 3 is devoted to the empirical analysis. Concluding remarks and avenues for further research are discussed in section 4.

2. The dataset

The data used in this study come from the Offshoring Research Network surveys realized in the US and 6 European countries (Belgium, Denmark, Germany, Netherlands, Spain and UK) between 2005 and 2007. The initial dataset contained 3562 observations. As we were interested in comparing companies' behavior with respect to functions offshored, governance mode selected and location of offshoring we deleted 1085 observations from companies that had not yet started offshoring services activities at the time they were surveyed. To minimize noise and possible biases we further eliminated observations that had missing or unusable data for the key variables of the study. The final dataset has 1635 observations on single offshore implementations¹, 57.5% of which from the US and 42.5% of which from Europe. Table 1 displays for all countries involved in the survey the number of offshore implementations, the number of firms from which the implementations originate, and the percentage of firms by size category. Both the Danish and UK samples are likely to suffer from small sample issues that will be taken into account in the analyses. Furthermore, despite the small size of the country economy the Danish sample is overwhelmingly represented by large companies.

¹ An offshore implementation represents a function offshored by a company in a particular country in a given year.

Table 1: Description of the dataset

	# observations	# firms	Small	Medium	Large	Large+
Belgium	104	37	44%	19%	36%	0%
Germany	175	43	8%	3%	46%	45%
Netherlands	199	70	31%	27%	43%	0%
Denmark	28	24	12%	6%	82%	0%
Spain	136	27	17%	11%	50%	22%
UK	53	24	20%	33%	14%	33%
US	940	226	18%	9%	44%	29%

Small: fewer than 50 employees; medium: between 50 and 249 employees; large: between 250 and 19,999 employees; large+: 20,000 and above employees in country of origin.

The dataset reflects ORN study's objective to be as inclusive as possible, covering offshore implementations by firms in any industry or size category, offshoring of any type of service, and in any location. No country sample can however claim representativeness of the country's total involvement in offshoring as this would be impossible to evaluate. Domestic outsourcing and services located abroad to support local sales are also excluded from the study as they do not correspond to the definition of offshoring (Lewin et al., 2009). Participants were recruited through emailing to selected companies from manufacturing and services industries, collaborations with industry associations, and alumni and other networks ORN partners are involved with.

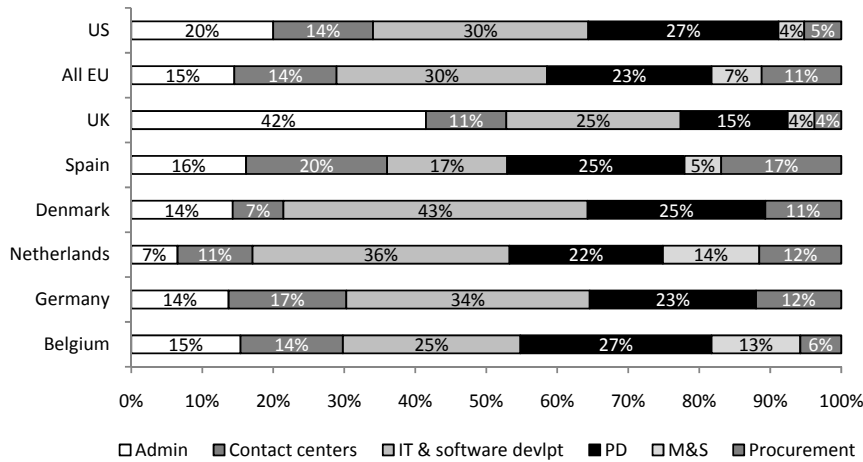
3. Cross-country similarities and differences in offshoring of business services

4.1 Functions offshored

For the purpose of the study, offshored functions were grouped into 6 categories: Administrative (finance, accounting, HR, legal, back office support functions), Contact centers (call centers, customer support and technical help desks), IT & Software development, Product development (R&D, design and engineering services), Marketing & Sales, and Procurement. Figure 1 shows that when taken together, EU companies do not behave differently from their US counterparts in terms of types of functions offshored². However, these aggregate figures hide some cross country differences within Europe, with Spain for instance that has much fewer IT and software development implementations and more contact centers, and the Netherlands and Denmark that have comparatively more IT and software development implementations but fewer contact centers. Spain also distinguishes by the higher percentage of procurement implementations. In comparison to other countries, the UK has a much larger and the Netherlands a much smaller share of Administrative implementations. The case of the UK should however be interpreted with caution due to limited sample size. Only product development activities seem to have a similar importance across all countries, with around 25% of implementations involving R&D, product design or engineering services.

² In the remainder of the article, "All EU" refers to the aggregation of offshore implementations by all European countries involved in the study.

Figure 1: Percentage of implementations by type of function and country

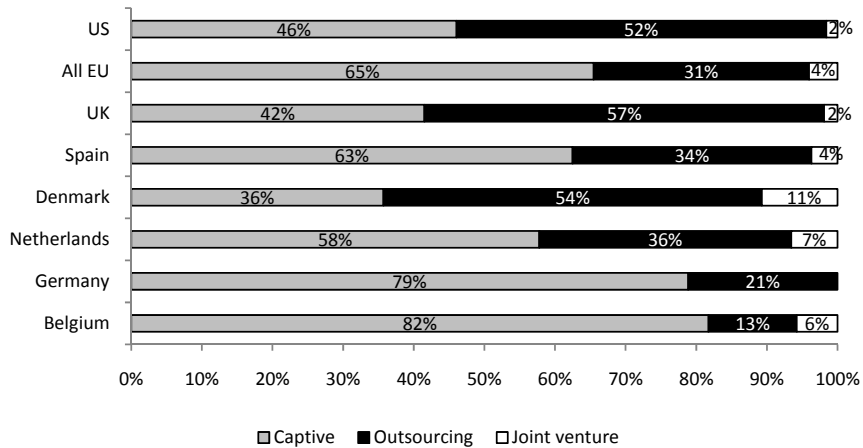


The next sections will determine whether the differences in functions offshored are reflected in differences in governance modes and locations chosen by companies in different countries.

4.2 Governance modes

Offshore implementations were divided into 3 categories depending on the governance mode chosen: captive, outsourced or joint venture. Figure 2 reveals a striking difference in terms of preference for the captive or outsourced governance mode between the US and Europe. European companies chose the captive mode for 66% of implementations while US companies chose the outsourced mode for 52% of implementations.

Figure 2: Percentage of implementations by governance mode and country



But these aggregate numbers hide even more important cross-country differences within Europe than differences in functions offshored. Similarly to US companies, a majority of implementations by companies in the UK and Denmark involve a third party service provider, although the two European countries display very different patterns in terms of type of functions offshored. At the other

extreme of the spectrum, German and Belgian companies have selected to operate their own captive offshore centers in about 80% of cases. Spain and the Netherlands occupy a similar position in the middle of the spectrum, again despite different patterns in functions offshored.

Table 2 further clarifies the relationship between functions offshored and governance modes by showing the percentages of captive and offshore implementations by function. It reveals that the general preference for captive governance mode of EU companies holds independently of the function offshored. Conversely, Product development is the only function for which US companies favour the captive mode of offshoring. For contact centers and IT-related activities they have a strong preference for outsourcing. Although not a strict preference, these two functions are also those EU companies are most likely to outsource. Spain is the only clear exception to the preference for captive offshoring in Europe. Contact centers, which Spanish companies offshore proportionately more than other EU companies, are outsourced offshored in 67% of cases.

Table 2: Percentages of captive and outsourced implementations by function and country

Functions	Belgium		Germany		Netherlands		Spain		All EU ³		US	
	Capt.	Out.	Capt.	Out.	Capt.	Out.	Capt.	Out.	Capt.	Out.	Capt.	Out.
Administrative	81.3	0.0	79.2	20.8	30.8	61.5	68.2	22.7	61.4	32.7	49.5	48.4
Contact centers	80.0	20.0	65.5	34.5	66.7	33.3	33.3	66.7	58.0	42.0	39.4	59.1
IT and software devel.	69.2	26.9	73.3	26.7	56.9	38.9	65.2	34.8	61.7	35.9	38.9	60.0
Product development	82.1	10.7	90.2	9.8	48.8	32.6	73.5	23.5	68.3	23.6	56.0	42.5
Marketing & sales	100	0.0	0.0	0.0	88.9	11.1	–	–	79.6	16.3	44.1	55.9
Procurement	–	–	90.5	9.5	47.8	47.8	87.0	13.0	75.6	21.8	42.9	53.1

Percentages of joint ventures not shown but included in computations. "–": percentages not shown for samples <10 implementations.

The offshore outsourcing category can be further refined and disaggregated in function of the type of service provider selected, be it a local provider in the offshore country, a large international provider with presence in several countries, or a provider in the home country of the company that offshores the activity on behalf of its client. Table 3 shows that the six European countries studied share a similar preference for working with a local provider directly in the offshore country of their choice (56%) whereas US companies prefer working with a large international provider (61%). Very few companies rely on the indirect outsourcing model whereby a domestic provider offshores on their behalf. Only Spain differs in that regard, with 27% of companies working with a domestic provider and only 20% working with an international provider. This could be due to their larger share of contact centers offshored compared to other countries. Contact centers are an activity that companies have outsourced domestically for a long time. More recently, many providers of such services have offered their clients to offshore these contact center activities to take advantage of the large pools of lower cost, qualified Spanish speaking workers in Central and South America, which advances in ICT make more easily accessible.

Table 3: Percentage of implementations by type of service provider and country (in outsourced offshored sub-sample)

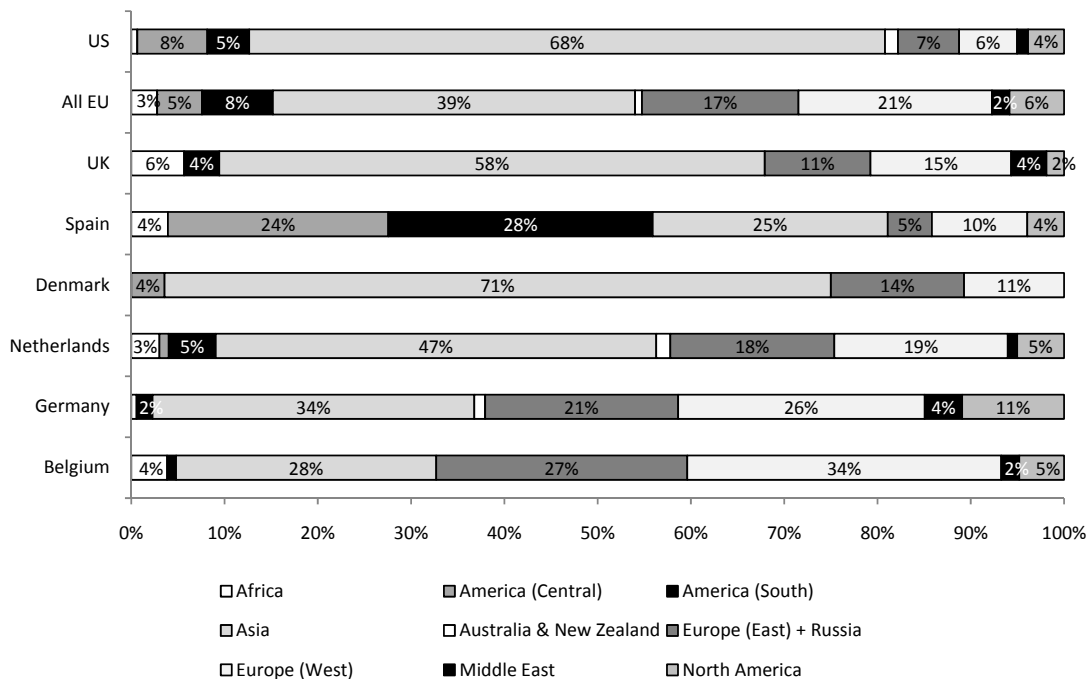
Provider	Belgium	Netherlands	Denmark	Spain	UK	All EU	US
Local	61.5	57.2	53.3	53.3	53.3	55.7	29.8
International	38.5	31.4	40.0	20.0	40.0	32.3	61.2
Domestic	0.0	11.4	6.7	26.7	6.7	12.0	9.0

³ Denmark and the UK not shown due to small sample issues but included in the aggregate EU average.

4.3 Offshore countries

For the purpose of the present analysis the offshore countries selected by companies in the sample were grouped into 9 regions covering the entire world map: Africa, Central America, South America, North America, Asia, Australia and New Zealand, Eastern Europe and Russia, Western Europe, and the Middle East. Figure 3 reveals huge cross country differences, both between the US and Europe as a whole and across EU countries. At the aggregate level, European companies are characterized by a much larger preference for European offshore destinations (17% and 21% of implementations in respectively Eastern Europe and Western Europe) compared to US companies (7% and 6% of implementations in Eastern and Western Europe respectively). Conversely, 70% of US originated implementations are located in Asia compared to 40% of Europe originated implementations. In terms of the importance of Asian offshore locations, the UK and Denmark are much more similar to the US than they are to other EU countries. When it comes to the importance of European offshore locations, Germany and Belgium again differ from other countries with above average shares of implementations in both Eastern and Western Europe. At the other extreme, Spain has very few intra European offshore implementations, close to US percentages. The bulk of Spain originated offshore implementations are actually located in Central or South America where companies can find large pools of Spanish speaking workers. In terms of offshore locations too, the Netherlands occupy a rather central position between Asia focused UK and Denmark and the EU focused Germany and Belgium.

Figure 3: Percentage of implementations by offshore region and country of origin



The fact that, on average, EU and US companies have similar behaviors in terms of type of functions offshored suggests that the functions offshored are not sufficient to explain the large difference between the two sub samples in the share of implementations going to Asia and Europe. An alternative explanation could be that EU and US companies have different preferences for offshoring

certain functions in certain locations. This question is investigated in Tables 4 and 5, which show for each function the percentage of implementations offshored in the five main regions, for EU companies (Table 4) and US companies (Table 5).

Table 4: Percentage of implementations by offshore region and function (EU sample)

	Asia	Central America	South America	Eastern Europe	Western Europe
Administrative	29.7	6.9	4.0	17.8	29.7
Contact centers	22.0	5.0	14.0	14.0	25.0
IT & Software dev.	50.0	2.4	6.8	18.4	12.6
Product development	43.5	5.6	3.1	13.7	22.4
Marketing & Sales	26.5	2.0	2.0	18.4	38.8
Procurement	35.9	7.7	17.9	17.9	7.7

All offshore locations enter in the computation of the percentages but for space reasons only the five most important regions are shown.

Table 5: Percentage of implementations by offshore region and function (US sample)

	Asia	Central America	South America	Eastern Europe	Western Europe
Administrative	67.0	11.2	3.2	5.9	6.9
Contact centers	57.6	15.9	6.1	3.8	5.3
IT & Software dev.	68.1	5.6	6.0	9.8	5.3
Product development	70.6	3.2	3.2	6.3	6.0
Marketing & Sales	82.4	0.0	2.9	0.0	11.8
Procurement	69.4	8.2	4.1	2.0	8.2

All offshore locations enter in the computation of the percentages but for space reasons only the five most important regions are shown.

Table 5 shows that US companies have a strong preference for offshoring to Asian countries across all functions. On the contrary, although Asia is an important offshore location of EU companies for all functions too, a significant share of their implementations is located in other regions (Table 4). But here again the average percentages at EU level hide important cross-country differences in preference for certain locations depending on the function offshored. To illustrate these differences Table 4 is reproduced in appendix for the four largest samples of the EU dataset: Netherlands, Germany, Spain and Belgium. For IT and Software development, the largest functional category, the Netherlands show a strong preference for Asian locations. Belgium and Germany share this preference, although they also recognize the attractiveness of certain European countries, both East and West. Spain on the contrary has a strong preference for Southern American destinations. For Product development activities, the second largest functional category, the Netherlands has again a strong preference for Asia, which is this time shared with Spain. Germany and Belgium, although recognizing the potential of Asia, tend to favour Western European countries. As far as contact centers are concerned, Spanish companies primarily offshore to Southern American countries. The Netherlands, Germany and Belgium this time all share a similar pattern of offshoring contact centers to Western Europe, Asia or Eastern Europe. Turning to Administrative functions, Germany and Belgium share a preference for European destinations while the Netherlands clearly favours Asian countries and Spain primarily goes to Central America. These results should however be interpreted with caution due to the limited size of certain sub-samples.

A study of specific countries selected in these various regions reveals further interesting cross country similarities and differences (Table 6). In aggregate, Asian offshore locations selected by US and EU companies are relatively similar, with India playing a dominant role (65% and 58% of Asian implementations by US and EU companies respectively). Next two most important countries in Asia are China with 16% and 19% and the Philippines with 12% and 8% of Asian implementations for

Table 6: Offshore countries selected by offshore region and country of origin

	Belgium	Germany	Netherlands	Scandinavia	Spain	UK	EU	US
America (Central)	0	0	Mexico (2)	Mexico (1)	Dominican Rep. (2), El Salvador (1), Guatemala (1), Mexico (25), Nicaragua (1)	0	Dominican Rep. (2), El Salvador (1), Guatemala (1), Mexico (28), Nicaragua* (1)	Costa Rica* (17), Dominican Rep. (1), El Salvador (2), Guatemala (1), Jamaica* (8), Mexico (40), Panama* (1)
America (South)	Suriname (1)	Brazil (3)	Brazil (7), Colombia (2), Ecuador (1)	0	Argentina (14), Brazil (5), Chile (6), Colombia (3), Ecuador (2), Peru (3), Uruguay (2), Venezuela (1)	Brazil (2)	Argentina (14), Brazil (17), Chile* (6), Colombia (5), Ecuador* (3), Peru* (3), Suriname* (1), Uruguay (2),	Argentina (12), Bolivia* (6), Brazil (19), Colombia (1), Uruguay (2), Venezuela (2)
Africa	South Africa (3), Tunisia (1)	South Africa (1)	Morocco (2), South Africa (2), Tunisia (2)	0	Ghana (2), Morocco (3)	Ghana (1), Mauritius (2)	Ghana* (3), Mauritius* (2), Morocco (5), South Africa (6), Tunisia* (3)	Egypt* (1), Kenya* (3), Morocco (1), South Africa (1)
Asia	China (3), India (20), Malaysia (3), Singapore (3)	China (15), India (32), Indonesia (1), Japan (3), Malaysia (3), Pakistan (1), Philippines (2), Singapore (2), Thailand (1)	China (21), India (48), Indonesia (4), Japan (2), Malaysia (3), Philippines (7), Singapore (2), South Korea (1), Taiwan (3), Thailand (1), Vietnam (2)	Bangladesh (1), China (3), India (15), Philippines (1)	China (6), India (16), Philippines (10)	China (2), India (23), Malaysia (3), Philippines (1), Singapore (1), Vietnam (1)	Bangladesh* (1), China (50), India (154), Indonesia* (5), Japan (5), Malaysia (12), Pakistan (1), Philippines (21), Singapore (8), South Korea (1), Taiwan (3),	China (102), India (415), Japan (5), Malaysia (9), Pakistan (10), Philippines (76), Singapore (7), South Korea (1), Taiwan (4), Thailand (3), Vietnam (1)
North America	US (5)	Canada (2), US (17)	Canada (5), US (5)	0	Canada (2), US (3)	US (1)	Canada (9), US* (31)	Canada (36)
Europe (East) + Russia	Czech Rep. (2), Hungary (1), Lithuania (4), Moldova (3), Poland (8), Romania (4), Russia (1), Slovakia (4), Ukraine (1)	Bulgaria (1), Czech Rep. (13), Hungary (5), Latvia (1), Poland (3), Romania (4), Russia (5), Slovakia (3), Ukraine (1)	Belarus (1), Croatia (1), Czech Rep. (4), Hungary (4), Poland (4), Romania (9), Russia (10), Serbia & Montenegro (1), Slovenia (1)	Czech Rep. (1), Poland (2), Ukraine (1)	Czech Rep. (1), Hungary (2), Poland (2), Slovakia (1)	Czech Rep. (2), Poland (2), Slovakia (1), Ukraine (1)	Belarus* (1), Bulgaria* (1), Croatia* (1), Czech Rep. (23), Hungary (12), Latvia* (1), Lithuania (4), Moldova* (3), Poland (21), Romania (17), Russia (16), Serbia &	Czech Rep. (9), Hungary (6), Lithuania (1), Poland (11), Romania (3), Russia (14), Slovakia (6), Ukraine (11)
Europe (West)	France (7), Germany (5), Ireland (1), Luxembourg (5), Netherlands (8), Portugal (3), Spain (3), Switzerland (1), UK (2)	Austria (1), Belgium (1), Denmark (1), Finland (2), France (5), Ireland (6), Italy (3), Netherlands (2), Portugal (2), Spain (6), Sweden (2), Switzerland (2), UK (13)	Austria (1), Belgium (1), Denmark (3), France (1), Germany (8), Greece (1), Ireland (2), Italy (4), Norway (4), Portugal (3), Spain (1), Sweden (3), UK (5)	Germany (1), Spain (1), UK (1)	Germany (5), Italy (1), Netherlands (3), Portugal (1), UK (3)	Germany (2), Luxembourg (1), Netherlands (2), Spain (3)	Austria (2), Belgium (2), Denmark* (4), Finland* (2), France (13), Germany (21), Greece* (1), Ireland (9), Italy (8), Luxembourg* (6), Netherlands (15), Norway* (4), Portugal (9), Spain (14), Sweden (5), Switzerland*	Austria (2), Belgium (2), France (6), Germany (5), Ireland (11), Italy (1), Malta* (1), Netherlands (5), Portugal (1), Spain (2), Sweden (3), UK (19)
Middle East	United Arab Emirates (2)	Turkey (7)	Kuwait (2)	0	0	United Arab Emirates (2)	Kuwait* (2), Turkey* (7), United Arab Emirates* (4)	Iraq* (1), Israel* (9), Jordan* (1)
Australia & New Zealand	0	Australia (2)	Australia (1), New Zealand (2)	0	0	0	Australia (3), New Zealand* (2)	Australia (13)

*Offshore countries specific to European companies; ° offshore countries specific to US companies; number of implementations into parentheses.

respectively the US and EU. Within Europe, Germany and the Netherlands show the greatest diversity in the specific Asian offshore locations selected beyond India, China and the Philippines.

Europe and the US are much more different in terms of European compared to Asian offshore locations selected. In Eastern Europe, EU companies select much more diverse countries, probably reflecting a more fine grained understanding of the specificities of different Eastern European countries, or simply historical ties or path dependence due to past non-offshoring related investments in these countries. Although representing only very small percentages of offshore implementations, only European companies selected countries such as Belarus, Bulgaria, Croatia, Latvia, Moldova, Serbia and Montenegro, and Slovenia. The three European countries that show the highest shares of offshore implementations in Eastern Europe (Belgium, Germany and the Netherlands) appear to be also the most diverse in terms of specific countries selected.

As of 2007, intra European offshoring within Western Europe was still predominant over offshoring to Eastern European countries. This means that most countries act as both senders and recipients of offshore implementations, the same way the US is both a sender and a recipient of offshore implementations from Western Europe. These long lasting cross country relationships explain not only the number of offshore implementations located in Western Europe but also the variety of countries involved in these relationships. While US companies offshoring to Western Europe focus primarily on the UK and Ireland, the importance of intra European offshoring tend to follow the size of countries with large countries (UK, Germany, France and Spain) receiving more implementations than smaller ones. The Netherlands is rather exceptional in that respect.

The US and Spain are the only two countries included in the study involved in offshoring to Central and South America. This offshoring destination however represents a much larger share of total offshoring from Spain (52%) than from the US (12%). Probably reflecting different company strategies, the two countries also differ in the relative importance of Central and South America in total Latin American offshoring. Offshoring to Latin America from Spain is almost equally distributed between Central and South America (45% and 55% of implementations respectively). This is in line with Spanish companies seeking large pools of workers sharing a same culture and language. On the contrary, US companies offshoring to Latin America favour Central over South America (63% and 37% of implementations respectively), reflecting more a nearshoring strategy intended at reducing difficulties linked to geographical distance and time zone differences.

Offshoring from both Europe and the US to Africa and the Middle East is still very limited. Interestingly, the specific countries selected in these nascent offshore destinations differ for European and US companies as well as across EU companies. US companies selected Egypt, Kenya, Morocco and South Africa; UK companies selected Ghana and Mauritius; and Dutch and Belgian companies are the only ones that selected Tunisia.

4. Concluding remarks

The study shows that EU and US companies do have different behaviors in terms of governance modes and locations of offshore implementations. But intra-European heterogeneity in offshoring practices appears to be as high as heterogeneity between US and EU as a whole, rejecting the idea of

a “European way” of offshoring. This heterogeneity should be explicitly taken into account in studies of offshoring practices and controlled for in statistical analyses and econometric models.

The fact that for similar functions companies from different countries make different governance and location decisions shows that differences in functions offshored explain only a limited portion of differences in governance modes and offshore locations. This suggests that companies from different countries vary in their preferences for particular governance modes and locations. Future research should study more extensively the factors potentially determining cross country heterogeneity in preferences and decisions regarding these two important aspects of offshore implementations. The factors could be looked for at the country level, such as differences in national cultures that might partly explain why companies from certain countries are more likely to use captive subsidiaries offshore while companies from other countries choose to use the market despite greater risks. But as Graf and Mudambi (2005) and Metters (2008) suggest, company specific and project specific factors are likely to play a very important role as well. Although large scale quantitative studies provide interesting insight on the general trends, they are generally focused on the average behavior of the studied sample and should therefore be complemented with detailed case studies. In depth case studies would indeed be more appropriate to study low frequency events, such as the emergence of a new attractive location, or to identify company or project specific factors potentially explaining preferences and decisions regarding offshoring, such as the possession of an existing captive infrastructure in a certain country. The case study of a large international financial company for instance revealed that the choice of the captive mode was almost exclusively the result of a merger with another company that ran its own captive center in India. Before the merger the company had started a few offshoring projects through outsourced arrangements.

Finally, although relevant the “make or buy” conceptualization is only a simplified view of the complexity companies face when selecting an appropriate governance mode for offshore activities. Captive offshoring and outsourced offshoring indeed constitute the two extreme of a continuum of possible organizational arrangements that allow companies to source services from abroad (Metters, 2008), such as dedicated offshore centers, joint ventures, and build-operate-transfer (Robinson and Kalakota, 2004). Even outsourcing is not a black or white decision as companies still need to decide the type of provider they want to enter in relationship with, the degree of collaboration, and the type of contractual arrangement, to name just a few variables of any outsourcing deal. Several authors actually argue that outsourcing has evolved from pure arms length arrangements to much more collaborative settings where service providers are increasingly seen as partners in more strategic, value creating or even transformational relations (e.g. Linder, 2004; Kedia and Lahiri, 2007; Hätönen and Erikson, 2009). More research is needed to understand governance mode decisions at a more fine grained level than the simple make or buy dichotomy.

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Appendix

Table A1: Percentage of implementations by offshore region and function (Belgian sample)

	Asia	Central America	South America	Eastern Europe	Western Europe
Administrative	12.5	0.0	0.0	25.0	50.0
Contact centers	33.3	0.0	6.7	13.3	33.3
IT & Software dev.	34.6	0.0	0.0	26.9	23.1
Product development	28.6	0.0	0.0	25.0	42.9
Marketing & Sales	30.8	0.0	0.0	38.5	23.1
Procurement	16.7	0.0	0.0	50.0	16.7

All offshore locations enter in the computation of the percentages but for space reasons only the five most important regions are shown.

Table A2: Percentage of implementations by offshore region and function (German sample)

	Asia	Central America	South America	Eastern Europe	Western Europe
Administrative	16.7	0.0	0.0	33.3	41.7
Contact centers	20.7	0.0	3.4	20.7	27.6
IT & Software dev.	48.3	0.0	1.7	21.7	20.0
Product development	29.3	0.0	0.0	14.6	31.7
Marketing & Sales	0.0	0.0	0.0	0.0	0.0
Procurement	42.9	0.0	4.8	14.3	14.3

All offshore locations enter in the computation of the percentages but for space reasons only the five most important regions are shown.

Table A3: Percentage of implementations by offshore region and function (Dutch sample)

	Asia	Central America	South America	Eastern Europe	Western Europe
Administrative	53.8	0.0	7.7	15.4	7.7
Contact centers	28.6	0.0	4.8	19.0	38.1
IT & Software dev.	55.6	1.4	2.8	18.0	11.1
Product development	51.2	2.3	2.3	18.6	16.3
Marketing & Sales	22.2	0.0	3.7	14.8	48.1
Procurement	56.5	0.0	17.4	17.4	0.0

All offshore locations enter in the computation of the percentages but for space reasons only the five most important regions are shown.

Table A4: Percentage of implementations by offshore region and function (Spanish sample)

	Asia	Central America	South America	Eastern Europe	Western Europe
Administrative	18.2	31.8	9.1	4.5	22.7
Contact centers	3.7	18.5	37.0	7.4	7.4
IT & Software dev.	26.1	13.0	47.8	4.3	0.0
Product development	50.0	23.5	11.8	0.0	5.9
Marketing & Sales	14.3	14.3	0.0	0.0	42.9
Procurement	13.0	26.1	39.1	8.7	4.3

All offshore locations enter in the computation of the percentages but for space reasons only the five most important regions are shown.