

Chapter 10

Offshoring Process: A Comparative Investigation of Danish and Japanese Manufacturing Companies

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ABSTRACT

The purpose of this chapter is to contribute to the knowledge on how production offshoring and international operations management vary across cultural contexts. The chapter attempts to shed light on how companies approach the process of offshoring in different cultural contexts. In order to achieve this objective, the authors employ a qualitative methodology and compare three Danish and three Japanese manufacturing companies. On the basis of this comparative investigation, the authors find that the parent companies from both contexts employ offshoring as a remedy for the challenges of globalisation. Yet there are clear differences in how offshoring is conducted in Denmark and Japan. The main differences are outlined in a framework and explained employing cultural variables. The findings lead to a number of propositions suggesting that the process of offshoring is not simply a uniform technical-rational calculation of the most efficient organisation of activities across national borders, but it is rather specific to the parent companies' national contexts.

INTRODUCTION

The IT-revolution, market liberalisation, market integration, innovative production technologies and numerous other factors related to globalisation have enabled many tasks to be performed at

a distance. In order to utilise the best locations for discrete value-added activities, companies configure these activities on a global scale. As a result, growing numbers of production companies resemble dynamic, complex globally dispersed and interconnected webs of internal and external relationships, rather than static and traditional co-located production systems.

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In this chapter, the global dispersion of value-added activities is referred to as offshoring. This process arises through substituting overseas activities for domestic activities; as a rule, it also involves a re-configuration of the existing global operations set-up (Farrell, 2004; Pyndt & Pedersen, 2006; Lewin & Couto, 2007). Offshoring is closely interrelated with the management of global supply chain relationships. The nature of offshoring suggests that it inevitably leads to more complex and varying relationships amongst entities in globally stretched configurations of operations.

The topic of offshoring has received extensive attention in the literature. Since the 1960s, the international business (IB) literature has dealt with various aspects of why multinational corporations (MNCs) exist and how they organize the relationship between headquarters and international subsidiaries (e.g. Dunning, 1977; Bartlett & Ghoshal, 1986). The strategy literature has applied the lenses of transaction cost economics (TCE) (Williamson, 1975), resource-based view (RBV) (Barney, 1991) and core competencies (Hamel & Prahalad, 1990) to the analysis. The operations management (OM) literature has discussed the changing roles of manufacturing (e.g., Voss, 2005; Riis et al., 2007) and newly emerging manufacturing systems organised as global manufacturing networks (Ferdows, 1997; Shi & Gregory, 1998).

In spite of their variety, the theoretical approaches to the topic of offshoring have been predominantly rooted in the inherent economic logic. The factors and variables of offshoring have been treated as uniform and universal for a very broad spectrum of leading firms from the industrial triad of North America, Western Europe and Japan. This perspective is based on a basic assumption that, in order to remain competitive, these lead firms have to move parts of their operations activities to the low-cost regions of non-Japan Asia, Latin America and Eastern Europe (e.g., Quinn, 1999; Mol et al., 2005; McIvor, 2005; Kakabadse & Kakabadse, 2003). As vital

and valid that this assumption might be, the issue of how the process of offshoring varies across the cultural context of these developed countries remains largely unexplored.

The research objective of this chapter is, therefore, to add to the existing literature by exploring whether and how offshoring process patterns depend on the cultural context of a dispatching organisation. We refer to the dispatching organisation as the parent company, located in the domestic base from which an offshoring initiative originates. The receiving organisation, on the other hand, is defined as the wholly owned subsidiary or third party facility in a foreign country to which operations activities are being relocated.

We recognize the importance of the receiving context and its fit with the dispatching context. However, this chapter primarily focuses on the dispatching organisation and the role of its cultural context. The underlying premise is that the initial offshoring decision, as well as the process that follows it, is influenced more by the dispatching organisation than by its differentiated partners and affiliates on the receiving side. The support for this premise can also be found in the literature. For example, Buckley (2009) argues that spatial distribution strategies make the role of parent organisations more important in the new global set-up than in conventional firms.

The objectives of the study are achieved by conducting a comparative investigation of Danish and Japanese companies. We identify a number of differences in the companies' offshoring journeys and discuss the role of the parent companies' cultural context which, among other factors, has influenced a particular approach to offshoring.

We pursue these arguments in the rest of the chapter. The following section introduces the concepts and theories employed in the investigation. Next, we introduce recent studies that outline the patterns of offshoring in Danish and Japanese companies. This is followed by six case studies from these countries. Finally, we present the analysis and

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