Globalization: Managing Multinationals. A comparison of offshoring and outsourcing strategies in UK and German multinational corporations.

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Globalization: Managing Multinationals - A comparison of offshoring and outsourcing strategies in UK and German multinational corporations.

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Abstract. This paper outlines research exploring differences in approach to outsourcing and offshoring by multinational corporations. In particular, a comparison is drawn between German and UK headquartered organizations in the airline and engineering sectors. A novel conceptual framework is developed; and the initial findings from two case studies are that German organizations are less inclined to outsource (in both sectors) preferring to retain control as a wholly owned business offshore. The UK businesses were less risk adverse and seemed to be more flexible and agile in their sourcing policies – using competitors when there is a sound business case. The relationships' with trade unions / works council was also found to be very different, with reluctance by management in Germany to progress radical initiatives. A favorable economy in Germany has also created an environment in which overseas expansion could take place without a loss of jobs at home.

Keywords: ***offshore, outsource, varieties of capitalism***

1 Introduction

Offshoring and outsourcing represent on-going and accelerating (at least until recently) trend in the reorganization and restructuring of firms and has become a major part of (although not an exclusive driver of) the globalization trend. Offshoring can be defined as the performance of tasks in a different country to that where the firm's headquarters is located; while outsourcing may be regarded as the performance of tasks under some contractual arrangement by an unrelated third party (Harms, Lorz et al, 2009). Mergers and acquisition have a high risk of failure (Mitchell, 2004) and in recent years organizations have therefore sought alternative means of non-organic growth such as partnerships, joint ventures and alliances (Barthélemy, 2011). While the initial justification to offshore is typically to arbitrage labor costs, the rapid growth in demand for outsourcing may lead to cost increases (Economist, 2011) and justification increasingly becomes a complex balance of proximity to markets, suppliers, ability to innovate and institutional factors such as governance and immigration policy (Pisano, 2009). Further, there is an increasing trend to outsource and offshore activities that demand higher levels of skills. According to Kirkegaard (2008) few topics in international economics have risen faster to the top of the political agenda, while also being so poorly understood and quantified as has outsourcing. Recent economic pressures have led governments in the United States and Europe to 'encourage' multinationals to return jobs and investment back to home markets (Economist, 2011); beyond this, backshoring and reverse offshoring have been motivated by poor or disappointing experiences in host countries, and declining economic conditions at home (Liebl, Morefield et al, 2010).

However, the institutional aspects of offshoring are under-explored and this research aims to compare the practices, strategies and outcomes for case study firms from The UK and Germany, which are characterized by different capitalist models (Hall and Soskice, 2001; Lane, 1998). It is suggested that German firms for example, typically have stronger institutional links than typical UK competitors (Lane 2006 cited in Morgan, Whitley and Moen, 2006). Furthermore, UK and German economies have different comparative advantages and industrial infrastructures, yet both countries also play host to a number of successful multinationals (MNC). The institutional context here can be understood as *both* the configuration of formal institutions (government, banks, trade unions and other firms) or as deeply embedded business practices and norms and 'ways of doing business'. This will shed light on how UK and German competing organizations differ in managing global expansion, and take advantage of the various resources and support available.

Following German reunification (1990) a period of austerity and strict wage control took place in Germany, and this helped to drive investment at home together with a strong export led economic revival. In 2012 German productivity was assessed to be 24 percentage points ahead of the UK in terms of output per hour (O'Connor, 2013). UK productivity is also currently 16 percentage points below the G7 average – the widest gap since 1994. A contested area is that the UK has been retaining employees rather than losing jobs to offshoring, while new work is created by UK outsourcing providers (see below). Throughout the 2008-9 recession, increased part-time working in the UK and even the hiring of new employees occurred at a time of minimal growth (O'Connor, 2013).

This research should be of interest to researchers, students and business managers. Also to those who are interested in globalization, the role of the multinational corporation, the relationship between a headquarters and its divisional or national subsidiaries. A further challenge is the extent to which offshoring and outsourcing practices have created wealth for shareholders, the host country and employees. Added interest is generated by challenging popular questions and criticism made of multinationals and their role in globalization together with the debate by politicians and others on policy towards domestic employment and wealth creation at home at a time of prolonged economic uncertainty.

1.1 The overall aim of the research is:

To examine the extent to which the offshoring and outsourcing strategies of UK and German based multinational corporations (MNCs) are embedded in the institutional contexts of their respective home countries. This gives rise to a number of sub – questions:

1. What are the differences between UK and German based MNCs in the geographical, functional and temporal patterns of outsourcing and offshoring?
2. How far do mechanisms such as ownership, control, coordination and the degree of autonomy differ between the UK and Germany?
3. How is this reflected in divergent international divisions of labour regarding the employment of indigenous or ex-pat managers from the home country?
4. To what extent do preferences for cultural proximity affect location choices?
5. What is the influence of trade unions in the process of outsourcing and offshoring and how is this reflected in the structuring of the firms' labour markets?
6. What evidence is there of a reversal in policy – backshoring / reversed offshoring / outsourcing and why may it be occurring?

2 Literature Review

The purpose of the first contextual stage of the literature review is to review the varying definitions, challenges with measurement, recent trends, background issues to, and the debate around outsourcing and offshoring. This will help in understanding the motivation for offshoring and outsourcing. Firstly, some definitions because the two terms outsourcing and offshoring are sometimes confused and deployed in very different scenarios. This will provide a context for the changes that have been taking place at the level of a firm in response to globalization and competition.

Offshoring means that work is moved outside the home country and therefore has geographical connotations, usually to a country which can perform the work at lower cost, or perhaps has special skills; although there might also be a business case for offshoring around new market entry and moving operations closer to the country of destination.

Outsourcing currently implies that an organization decides to move selected activities from in-house (inside the organization) to a third party or external supplier through a formal contract arrangement. The supplier may or may not be in the same country of origin as the organization undertaking the outsourcing. The reasons for doing this may be multiple, but the usual starting point is to reduce costs, often labour and associated overhead charges. In so doing, the instigating organization can be said to be reorganising its value chain and moving either core or support activities to the responsibility of another organization.

Measurement difficulties often arise from problems associated with the identification beforehand and the allocation of costs and/or poor recording of government statistics. Offshoring work in particular may be outsourced to a third party or indeed undertaken through a wholly owned subsidiary business (adapted from Contractor, 2010). Questions continue to be raised about the value of multinational expansion (Contractor, 2012). While sourcing costs may be reduced locally, and foreign knowledge and intellectual property may be acquired in rapidly developing markets as can the hedging of currency risks. There are a number of other costs to consider; e.g. R&D and headquarter costs, often retained in the home market may increase substantially. Each foreign affiliate may have to incur substantial reorganization costs and change for example to incorporate group information and accounting systems, there may also be increased overheads to facilitate group controls and quality systems. Central costs of coordination will increase as the number of foreign markets rise, along with supply chain and inventory costs, risks of stock-out, supply failures. Institutional and cultural distance issues again add complexity, communication challenges and potential cost.

Offshoring and outsourcing could be analyzed as global disaggregation of the value chain and as an attempt to combine comparative advantages of geographic location with an organization's resources and competencies to maximise competitive advantage (Mudambi, 2010). The interplay of comparative and competitive advantages determines the optimal location of value chain components (offshoring decisions) as well as the boundaries of the firm and the control strategy (outsourcing decisions).

Three different but interrelated strands of theory have also been explored. From the fields of:

1. Business and economics, (Barney,1991) the Resource Based View (RBV).
2. Geography and economics, (Hall and Soskice, 2001) the concept of differing Varieties of Capitalism (VoC); and finally, from
3. Operations, geography, economics and strategy, (Coe et al, 2004) the concept of Global Production Networks (GPN).

The intention is to synthesize these differing approaches together with an understanding of offshoring to answer the research questions and to explore differences in how German and UK multinationals operate in specific business sectors, and manage offshoring / outsourcing processes in particular. This will also help in developing a conceptual framework – explored further under Methodology.

The lack of research on the interdependencies of geography and control is underplayed considering that firms operating in international markets face these decisions simultaneously (Dunning, 1988) and so whilst addressed in part by researchers of GPNs, the field is contested. Making these decisions independent of each other leads to short term, tactical sub-goal optimization. The strategic integration of these decisions can result in significant firm-level performance improvements (Banker et al., 1984). Most of the offshoring literature takes control decisions as a given. Similarly, the mainstream literature on outsourcing usually fails to explore the location decision.

Understanding the cost-benefit of offshoring and outsourcing is informed by RBV theory and concepts. This goes beyond the simple assumption of labor cost arbitrage towards the complexities of disaggregating home based processes and deciding what exactly to move offshore and where to locate it. Behavior, whether rational or not, can be explored between buyers, suppliers and third parties in negotiating contracts and rents. If this can be combined with a better understanding of how to ensure that economic goals are embedded into social structures and the subsequent impact on behaviour then we have a compelling approach.

There are obvious limitations in clustering nation states, nevertheless broad comparisons seem possible. VoC can provide fascinating insights to the role of governments and institutions in juggling support and resources from the public to the private sector (and vice versa) also the extent to which institutions or the market influence prices and positioning. The real issue is the extent to which this benefits longer term growth and prosperity for firms and their shareholders. Whether coordinated versus liberal, production versus finance dominated, or corporatist versus pluralist private enterprise, most writers on VoC agree on distinct differences between UK and German systems of capitalism. The significant distinction is how German or UK MNCs then coordinate policy and whether they take their lead from the market or influential institutions to coordinate stakeholders. Further understanding of inter-firm linkages, power and competition is provided by the study of GPNs. The role of the lead firm is considered crucial in managing the impact of institutional policy on resource allocation decisions. Once offshore processes are sufficiently embedded that they add value back to the lead firm, further complex decisions are often required on (re)positioning (typically expensive) R&D and innovation resources, along with suppliers and customer markets. There seem to be several issues that are underplayed by existing literature.

Firstly, institutional aspects of differing workplace environments and management groups largely responsible for decision making and policy setting of outsourcing and offshoring activity. If we consider the lead firm in a GPN, then there is an attractive argument that sustainable competitive advantage depends upon the firm's ability to manage the institutional context of its resource decisions (Oliver, 1997). Hence combining the resource based view with institutional perspectives from organizational theory overcomes both some of the criticism of VoC (Granovetter, 1992) and seems compelling in practice. Institutional theory assumes that individuals are motivated to respond to external pressures. A criticism of GPN research (Hess and Wai-chung Yeung, 2006) is that empirical studies have a preference for qualitative interviews with actors rather than empirical research data on the mechanisms and processes of GPNs. The 'cultural clash' that arose from European post socialist transformation over the past 17 years has attracted the attention of business partners from across the CEE. The body of organizational knowledge based on traditional, stable western market economies needs rethinking for sometimes unstable and ambiguous post- socialist environments (Soulsby and Clark, 2007). State Owned Enterprises (SOE's) tend to have functional hierarchies designed to have instructions and targets handed down through the various levels. A well connected MNC and the use of FDI could be critical in changing past practice and delivering demanding service level agreements (SLA's). This is clearly not easy, local managers will criticize the economic rationality of western values and practices such as financial control and downsizing while trying to defend local values such as a duty of care and the value of labour (Soulsby and Clark, 2007).

Secondly, a hotly contested area includes groups of labor and the impact of offshoring on employment levels. It has been suggested that improvements in technology (that link tasks across distance and borders) lead to domestic job losses through offshoring but also create jobs from cost savings associated with enhanced trade. Employment takes time to adjust to improvements in offshoring technology (Kohler and Wrona, 2010). In support, assume that an organization relocates 500 jobs to India than this constitutes a relocation effect (Gorg, 2011). If however, offshoring these jobs results in an increase in business productivity and sales increase so does employment. So whilst there may well be contested arguments for and against offshoring with disputes on the pros and cons there is also a level of misreporting which confuses the facts. This is interesting to note as data reported tends to focus on jobs lost through offshoring misrepresenting the true effect; reconciling jobs lost and new jobs created (elsewhere) is extremely difficult. Gorg proposed four policy implications regarding employment: Firstly that offshoring leads to higher job turnover in the short run. Secondly, low skilled workers suffer, higher skilled may benefit but no evidence of overall increased employment in the long run. Thirdly, different studies result in conflicting results; and fourthly, globalization leads to structural changes in advanced economies from manufacturing to service sectors. But causal relationships are still to be investigated.

Thirdly, the dynamic and contradictory nature of relationships associated with backshoring. The underlying reasons could be a mixture of changes in policy, costs, customer requirements, market and / or business strategic plans. Either when poor decisions are taken at an early stage, or when institutional pressures change so work may be returned (or backshored) to the home country. We need to better understand when backshoring is simply the consequence of an over enthusiastic initial response to the competition, a response to a radical change in the cost and business model or the more recent political and institutional pressure in the 'national interest'. Today, new institutional rules need to be defined that reflect the economic uncertainty and a lack of stability (Lane, 2008).

3 Data & Methodology

A mixed methods approach to a case study methodology is adopted with competitive comparisons drawn across airline and engineering sectors for both UK and German headquartered MNCs. Eight semi-structured interviews with nine senior executives in Germany, UK, India and Poland were undertaken for the research. Initial research questions were refined and additional data requested. Further interviews were undertaken with supplementary visits to host and supplier locations. (see Table 7). Opportunistic interviews took place in China and more are now planned to follow. The responses were analyzed on a qualitative basis and where secondary data has been obtained quantitative analysis has also been carried out in respect of comparative costs and performance. Data may also be triangulated by checking responses at different levels and in different parts of an organization. Initial interviews were with senior executives. Subsequent visits and interviews will be intended to include middle management, staff and where possible, trade unions / works council representatives. Because the case studies inevitably comprise different sections of a business rather than the organization as a whole the 'unit of measure' will be important in making comparisons and drawing wider implications. The methodology can be summarized as:

Table 1. Selected Combination of Approaches (author adapted from Saunders et al)

CRITERIA	SELECTION
Philosophy	Pragmatism – combining positivism and interpretivism
Approach	A combination of deductive and inductive
Strategy	Multiple case studies that are paired by sector with multinational corporations MNCs who are significant market players. To support the case studies some additional secondary data and / or research of archive material will be required to triangulate the findings.
Choice	Mixed methods
Time horizon	Cross sectional with some historical perspective to current time
Techniques & Procedure	Semi structured interviews, recorded transcripts, analysis using a mixture of quantitative and qualitative techniques, supplemented with additional secondary data collection.

3.1 Developing the Conceptual Framework

It has been suggested that a firm's decisions might evolve from initial cost saving through the outsourcing of support activities as a first stage of disaggregating the value chain and then process improvement and further leveraging of labor cost savings through offshoring. Finally, if the economic circumstances in the home market change then politicians might in some manner influence MNCs to reverse their policy and restore work back into the home market – backshoring or similar (McKinsey, 2012). While this appears logical at a generic level, it may be rather too simplistic, especially at the level of a firm. Let us develop a more rigorous approach.

3.1.1 Proposed theoretical conceptual framework

A taxonomy of the relationships between LMEs and CMEs and their predicted approach to outsourcing and offshoring activity is shown below in Table 2. The first column distils the key questions that have been identified towards outsourcing and offshoring. Column 3 lists what are considered to be key dimensions to be explored through the research and subsequent analysis. Columns 4 and 5 represent hypotheses of anticipated responses if the companies conform to the stereotypical national LME model for the UK and CME for Germany.

It is intended that this conceptual framework and taxonomy will help in exploring case study differences in the rationale, success and lessons between the UK and Germany for each of the airline and engineering sectors as an empirical focus. The variables or dimensions chosen include the choice of location for outsourcing and / or offshoring which is essentially the reason or motivation that the company has for making the change, the control and coordination mechanisms in place, the levels of involvement and participation and finally, an ability to cope with changes in circumstances. The UK and Germany are compared using differing concepts of varieties of capital. The assumptions set out below and summarized in Table 2 are drawn from the literature (Lane, 1998; Lane and Probert, 2009; Whitley, 1997) in some cases reflecting a view that LMEs and CMEs are polar extremes, in other cases that over time there is some convergence and middle ground.

Taking each in turn, it is predicted that the motivation for outsourcing and offshoring will differ in that an LME will focus on short term cost cutting, budget control and shareholder interests. Initially, arbitrage of lower wages will be an inducement. If offshore they might also have a preference for English language speaking countries and traditional trading zones. On the other hand CMEs whilst also regarding low cost as a 'given' will focus on medium and longer term benefits in quality and performance and therefore a reluctance to outsource losing control and potentially intellectual property, if they offshore preferring central or European locations with a cultural or language similarity. This makes assumptions, such as all companies in a particular country will to at least some extent mirror and practice some of the characteristics associated with that classification of VoC. Also, the model can be regarded as rather static when in reality countries, sectors, markets and individual company approaches are dynamic and adapt to differing economic situations. So for countries such as Poland, Hungary or the Czech Republic the VoC positioning may be regarded by some as having shifted from a 'Transitional' positioning to a 'Pluralist Private Enterprise' (LME) or even to a 'Mixed' central position.

Thus there is a link to the second dimension of ownership and related aspects such as control and co-ordination and degrees of autonomy. This draws on GPN theory to the extent that policy and practice become embedded in the supply chain, the network and the territory. Also LMEs might be expected to be heavily focused upon the needs of the shareholder, strict cost and budget control as referred to above and an arm's length approach towards strategy – do what you have to do to meet budget and hence a high level of autonomy, as long as the local business stays within budget. A CME however, might be expected to be more likely to follow a multiple stakeholder model with a balanced approach to the differing needs of customers, suppliers, employees as well as shareholders; this is often referred to as market driven and customer focused. A CME might also be predicted to retain tight control over strategy, policy setting and resource allocation, and hence comparatively low levels of local autonomy, with a more hierarchical structure and somewhat slow to change with major decisions to be ratified centrally. A CME is therefore more constrained by institutional factors that influence managerial decisions such as 'what to offshore or outsource' and 'where to'?

The RBV and associated work on dynamic capabilities helps to inform us on how the lead company will manage core competences and resources. In deciding to transfer work from in-house and the home market are there than sufficient skilled resource to help the business transition work to either a third party or to an offshore subsidiary? With regard to managerial division of labor, LMEs might recruit local expertise with only a minimum of expatriate managers. Such individuals are often attracted to the lifestyle and financial benefits and choose to stay longer term. In terms of cultural proximity they are more likely to be flexible and opportunistic with a low(er) level of concern other than an ability to speak and work in English where possible. CMEs may be predicted to invest more initially in setting up offshore operations with a comparatively high level of expatriate managers to transfer processes, set-up operations and organize training of a local workforce. Gradually they might transfer expertise to local management. Compared with LMEs a higher level of priority would be given to cultural proximity in terms of behaviors and language.

One of the key institutional factors to be explored is the role played by the trade unions and works council; and the inter-relationships with employees and management. For LMEs it is assumed that the influence is low or even non-existent, management will 'push the boundaries' once a decision has been taken within legal requirements and may be confrontational to enforce the decisions considered essential for the future of the business, especially at a time of poor economic prospects. CMEs on the other hand, will assume to be very much more consultative, actively avoiding confrontation and use times of growth to create jobs overseas and simultaneously move into key international markets.

Finally, we address evidence of a reversal in policy and returning work to the home country. For LMEs this might be influenced by political pressure or economic incentives. With CMEs we are assuming that this may be more likely to be a result of a change in market focus and /or strategy or a loss of intellectual property rights.

So, a theoretical projection is shown below in Table 2 presenting a series of hypothesis on what we might expect from a MNC headquartered in either the UK (LME) or Germany (CME). We have explored some relevant theory to underpin and construct this conceptual framework. The case studies will provide a 'test' for the conceptual framework of the theory both in use and practice. The first case study comparison is for airlines (UK and German) which will include passenger transport, cargo, maintenance and overhaul. The second case study is for engineering and manufacturing (UK and German) this covers products such as pumps, valves and seals for the offshore oil and gas industry together with software / hardware for the automotive components market. See Table 3 (airlines) and Table 4 (engineering) for summaries also further analysis in with preliminary findings (to date) in Tables 5-6.

Table 2 Conceptual Framework - Theoretical Projection

Question	Approach	Dimensions	Liberal market economy UK (LME)	Coordinated market economy GERMANY (CME)
What are the differences in the geographical, functional and temporal patterns of outsourcing and offshoring?	Outsource	Motivation	• Cost cutting and employee reduction • English speaking countries • Traditional trading zones	• Quality and performance, cost control is 'a given'. • Central / Eastern Europe preferred
How far do mechanisms such as ownership, control, coordination and the degree of autonomy differ?		Ownership	• Shareholder driven	• Multiple stakeholder
		Control & Coordination	• Arm's length on strategy. Strict cost and budget control	• Tight HQ control of strategy, policy and resources
		Degree of autonomy	• High – if meet financial targets then local control	• Low • Hierarchical structure • Can be slow to respond to change
How is this reflected in divergent international divisions of labor regarding the employment of indig-enous or ex-pat managers?	Offshore or outsourced offshore or reverse offshore (Back-shore)	Managerial Division of labor	• Low initial use of ex-pat managers who then stay on	• High initial use of ex-pat managers for set-up and training. Subsequently local management
To what extent do preferences for cultural proximity affect location?		Cultural Proximity	• Low, flexible, opportunistic	• High – language, behaviour
What is the influence of trade un-ions in the process of outsourcing and offshoring and how is this re-flected in the structuring of the firms' labor markets?		Relationship with em-ployees / Trade Un-ions	• None, limited to legal requirements • Push the limits • Can be confrontational to enforce desired changes	• Consult widely • Actively avoid confrontation • Opportunistic – use growth to create additional jobs elsewhere
What evidence is there, and why of a reversal in policy – backshoring / reversed offshoring / outsourcing?		Change of policy	• Loss of initial cost-benefit. • Political pressure or economic incentives	• Loss of intellectual property • Change in market focus or strategy

4 Empirical Analysis

4.1 Discussion of the transport sector. (Let us call the UK airline ‘A’ and the German airline ‘B’).

With only initial semi structured interviews to date at both ‘A’ and ‘B’, albeit in some depth and detail, it is only possible to draw some general points regarding answers and relevance to the research questions. It is hoped to follow up these interviews shortly and also to visit some of the countries involved with the offshore activity. Apart from seeking a local perspective it would be appropriate to talk with a range of levels of personnel, not just senior executives. Trade Union and Works Council members are included and discussions are still on-going.

The two competitors selected in the airline sector show differences in approach. Both have moved back office support services and administration offshore, but the German organization has set up wholly owned shared service center’s ‘nearshore’; whilst the UK company moved processes to India, then as the business unit developed it was demerged and contracts are now in place to buy increasing levels of service back into ‘A’ from the offshore and outsourced provider. With engineering, repair and maintenance work, also catering the approaches are again different. The German company ‘B’ retains control and manages cost by leveraging labour costs offshore and using agency employees where necessary although this can cause questions around control. The UK business however works through its procurement and contracts team to place work either offshore or outsourced or both to keep costs down. ‘A’ have now learnt to manage these contracts more effectively and even buy in catering and engineering services from the competitor ‘B’ when appropriate in best value terms. Where labor costs are less of a concern they have improved processes now to such an extent they are prepared to reverse a previous policy and bring work back into ‘A’ where it now cheaper following efficiency savings. ‘A’ aim for flexibility and an ability to react to market changes. The yield and volume of seat tickets sold are carefully monitored with metrics such as unit costs for an available seat per km. With price reductions and discount promotions, again the cost base is carefully monitored (with and without fuel costs that cannot be controlled). Productivity improvements have to fund pay awards; efficiency improvements are regarded as important with large volume activity.

For a summary of findings and comparison with conceptual framework (see Appendix Table 3). The key challenges for the Airlines include (see also Appendix Table 4):

1. Highly competitive, overlapping segments in the market e.g. low cost passenger travel, and price competition for larger organizations.
2. Network of partner and alliance companies for global coverage.
3. Passenger transport and engineering businesses can be counter cyclical.
4. Profitability is sensitive to fuel costs, economic conditions and competition.
5. Customer loyalty is a key factor in a high profile customer service business.
6. Differing levels of power, control and influence between management, trade unions and works council.

4.2 Discussion of the manufacturing and engineering sector. (Let us call the UK engineering company ‘C’ and the German engineering company ‘D’).

Once more with only initial semi structured interviews to date at both ‘C’ and ‘D’, albeit in some depth and detail it is only possible to draw some general points regarding answers and relevance to the research questions. It is hoped to follow up these interviews shortly and also to visit some of the countries involved with the offshore activity. These two engineering case studies do therefore provide some early insights on differences in approach with respect to competences, technology transfer around the world and the development of key alliances; as postulated by Lynn and Salzman (2009).

There are similarities in focus for both UK and German companies – to initially cut costs, keep prices down and then to improve efficiencies, processes and customers service. The method of delivery however, is different. The UK company ‘C’ takes a long term view but with short term deliberate steps towards partnership and then integration and acquisition utilizing outsourcing and offshoring where appropriate. The German company ‘D’ however, prefers to retain centralized control by establishing a subsidiary business offshore from the outset, with no or little consideration of outsourcing. There is also little evidence of synergies across the German group. Both ‘C’ and ‘D’ companies have grown and employment has been largely protected, although the United States division of ‘C’ has reversed a policy to move work to Mexico back into the US. It would also seem that complex work offshored to India by ‘D’ has subsequently had to be re-worked in India.

For summary of findings and comparison with conceptual framework (see Appendix Table 5). The key challenges for the engineering businesses include (also see Appendix Table 6):

1. On-going cost control, especially in the UK company which is Shareholder driven.
2. Customers ask for, and expect lower prices and local supply.
3. Competitor pressure within the market and industry sector.
4. Preferred tendency with ‘C’ to try a joint venture and then acquisition, integrate and restructure to reap rewards.
5. More control if it is a wholly owned subsidiary of ‘D’, can then avoid issues of IP with a third party.

5 Conclusions

It is well known that Germany has managed its economy in such a way that it has been less exposed to the economic pressures suffered by much of the rest of Europe. To some extent this has allowed management to move operations offshore but not outsource, gain the benefit of lower costs (some 10 per cent at least) without losing jobs at home. However, as costs increase at a faster rate in many overseas markets the search for productivity benefits and efficiency gains continues. The basic components of a ‘coordinated market economy’ seem to prevail with evidence of institutional coordination, long term planning but also central control and an aversion to risk. The UK companies in both case studies were quicker to outsource, favored short term cost savings but were also more flexible and agile, taking risks with trade unions and suppliers and customers to seemingly favor shareholders. In many respects this is consistent with the ‘liberal market economy’ capitalist model. In both cases the choice of location was often different, as was the approach to delegation and autonomy suggesting differing views on governance. The underlying theoretical constructs of varieties of capitalism, the resource based view and global production networks were each found to be of value. (Research Questions 1 & 2, Tables 3 & 4).

German Companies use expatriate managers for the short term but then mostly rely on local skills. UK companies use local staff from the outset. German companies also place more emphasis on language, near shoring and cultural empathy (Research Questions 3 & 4 , Tables 3 & 4). UK companies may have a tendency to be adversarial with trade unions, forcing job reductions when considered to be essential whereas German companies were cooperative and averse to conflict where possible. (Research question 5, Tables 3 & 4). Only isolated cases of reverse offshoring or backshoring were evident from the four companies. (Research question 6, Tables 3 & 6).

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APPENDICES

Airline case summary

Table 3 UK and German Airlines Compared

Question	**Approach**	**Dimensions**	**Liberal market economy UK (LME)**	**Coordinated market economy GERMANY(CME)**
What are the differences in the geographical, functional and temporal patterns of outsourcing and offshoring?	Outsource	Motivation	India, South Wales. Cost and reduced employees numbers. Catering, administrative and revenue accounting, engineering, maintenance, repair and overhaul.	Poland, China, Thailand, Mexico. Quality, performance and cost. Shared services, ticket booking, invoicing, maintenance, repair and overhaul.
How far do mechanisms such as ownership, control, coordination and the degree of autonomy differ?		Ownership	Outsource: Shareholder value	Retained offshore subsidiary
		Control & Coordination	Offshore and outsourced. Arm's length, market driven. Open book, service level agreements. Procurement led/ contract driven.	Tight HQ organizational control
		Degree of autonomy	Generally high. Maintenance retained at an internal subsidiary.	Low, but Increasing, based offshore or nearshore
How is this reflected in divergent international divisions of labor regarding the employment of indigenous or ex-pat managers?	Offshore or outsourced offshore or reverse offshore (Backshore)	Managerial Division of labour	Local staffs. No ex-pats.	Run by ex HQ managers At start-up managerial level withdraw at operative level as soon as possible and recruit locals
To what extent do preferences for cultural proximity affect location?		Cultural Proximity	Unimportant. Global reach.	Important – language & culture. Focus on regions Europe, SE Asia, S America.
What is the influence of trade unions in the process of outsourcing and offshoring and how is this reflected in the structuring of the firms' labor markets?		Relationship with employees / Trade Unions	Adversarial, non co-operative	Cooperative, aversion to conflict
What evidence is there and why, of a reversal in policy – backshoring / reversed offshoring / outsourcing?		Change of policy	MRO work retained / returned in-house	Not so far

Table 4: Interpretation of initial pilot research questions – headline comparison of Airline sector case studies - approaches to offshoring and outsourcing. Source: author

RESEARCH QUESTION	FINDING
To what extent are German and UK multinational companies displaying different varieties of capitalism and how does that effect decisions and strategies related to the deployment of outsourcing and offshoring?	Both organizations have responded to an industry need to cut costs, responding to low cost competition and customer needs. Both have deployed a mixture of outsourcing and offshoring tactics. In Germany these have developed and grown as a contributor to long term strategy, and the need for tight governance that has been acknowledged by a new CEO. Control is exercised through keeping units as subsidiary businesses within the group. The UK model is not purely cost driven, there is a determination to seek value for money and reverse earlier decisions by in-shoring or in-sourcing when productivity improvements have been realized.
What is distinctive about the governance of German and UK multinational firms?	A sense that for the German firm power and key decisions are centralized and taken at a high level in the organization. Added value often assumed to come from head office in Germany. For the UK business there is more evidence that the Procurement dept. have considerable power for contracts and post-acquisition integration in conjunction with legal. Work is generally put out to competitive tender on a periodic basis any exception must then be approved by the UK main board.
How is the above reflected in idiosyncratic patterns of outsourcing and offshoring at both a national and sector level?	For Germany, a very careful selection of preferred countries, with a reluctance to engage with India because of language and cultural differences. Search for cities where similar work is clustered e.g. Krakow. For the UK a willingness to use the German competitor (in the core business) where there is a clear business case and conflict of interest.
Which functions or processes are moved offshore, where to and why?	Non-core, administrative processes e.g. revenue accounting, catering, engineering and maintenance.
In what ways does the embeddedness of firms influence the motives, control and strategy of the parent multinational company?	The German company has concentrated shared service centers at several locations around the world to serve key global markets. As they grow so the significance increases of these sites in Krakow, Bangkok and Mexico. As part of the restructuring of the new UK holding company board, responsibility is retained for overall strategic direction at group level.
To what extent are outsourcing and offshoring policies reversible, and what is the experience in Germany and the UK?	To date there seems to have been no evidence of reversing policies with the German business. However, the UK business have reversed and insourced work, previously given to third party contractors following internal productivity improvements, that both freed capacity and rendered the operations cost effective.

Engineering Case Summary

Table 5 UK and German Engineering compared

Question	**Approach**	**Dimensions**	**Liberal market economy UK (LME)**	**Coordinated market economy GERMANY (CME)**
What are the differences in the geographical, functional and temporal patterns of outsourcing and offshoring?	Outsource	Motivation	UK, Czech republic, China Less keen on India Catering, administrative and revenue accounting, engineering, maintenance, repair and overhaul. Cost	India, Vietnam, Czech Republic – 'lead' global roles in Asia, Europe and North / South America. Embedded software applications, IT systems, accounting, call centers. In Czech Republic – the development of new automotive platforms; R&D, Engineering and Manufacturing. Local expertise and cost.
How far do mechanisms such as ownership, control, coordination and the degree of autonomy differ?		Ownership	Offshore through Joint Venture then wholly owned acquisition. Financial control via HQ, but freedom to run business locally.	Now wholly owned, offshore subsidiaries, budget control and OEM contact through HQ.
		Control & Coordination	Global operations via HQ	HQ with OEM, divisional control and global coordination from HQ
		Degree of autonomy	Relatively high	Relatively high in terms of design and delivery. Close budget and resource planning and monitoring from HQ.
How is this reflected in divergent international divisions of labor regarding the employment of indigenous or ex-pat managers?	Offshore or	Managerial Division of labor	Kept to a minimum	Ex-pat initially as senior manager. Replaced with local after 5 years, maybe 5 ex pats out of 10,000 local employees. In Czech Republic initial training of engineers in Germany then on-site over 2 years. Ex pats may stay.

To what extent do preferences for cultural proximity affect location?	outsourced off-shore or reverse offshore (Backshore)	Cultural Proximity	Significant preferences through experience	Less important – although with the Czech Republic there are advantages of proximity, similar markets, some ease of language and cultural affinity.
What is the influence of trade unions in the process of outsourcing and offshoring and how is this reflected in the structuring of the firms' labor markets?		Relationship with employees / Trade Unions	Redundancies where required	Avoid conflict, timed to coincide with growth to avoid job losses in Germany. Few issues in Czech republic – weak union but also free labour market and plant growth offering security.
What evidence is there, and why, of a reversal in policy – backshoring / reversed offshoring / outsourcing?		Change of policy	Mexico back to the US	Stories of complex work being returned from India to Germany for rework.

Table 6: Interpretation of initial pilot research questions – headline comparison of Engineering sector case studies: approaches to offshoring and outsourcing. Source: author

RESEARCH QUESTION	FINDING
To what extent are German and UK multinational companies displaying different varieties of capitalism and how does that effect decisions and strategies related to the deployment of outsourcing and offshoring?	To some extent the differences here are subtle rather than significant. There is some evidence of Corporatist / coordinated behavior in Germany and liberal by the UK company. A huge reluctance to outsource anything other than Travel services by the German organization is apparent. The similarities are common – both employ high quality engineers and other specialists, both are keen to cut cost and improve efficiencies. Both have grown and are successful.
What is distinctive about the governance of German and UK multinational firms?	The role of MNC in transferring technology is a key FDI flow. Both cases meet the usual criteria high R&D, large share of professional and technical workers, complex technical products, high levels of differentiation. Advantages come from Ownership, location and internalization (Dunning, 1988); and democratic countries such as India and Czech Republic tend to attract more FDI with lower country risk, debt risk. The relationship between headquarters and subsidiaries can be understood by Agency Theory and ordinarily competition would encourage coordination and cooperation, between and across subsidiaries. What is unusual with the German case here is that there is little communication across the group only between headquarters and a specific subsidiary.
How is the above reflected in idiosyncratic patterns of outsourcing and offshoring at both a national and sector level?	The UK case suggests that they will deploy whatever approach is most applicable, especially for short term gain; also that the German organization will avoid outsourcing in favor of controlled offshoring.
Which functions or processes are moved offshore, where to and why?	Not so much functions as products and then the entire business support system that is required for those products in both Germany and the UK.
In what ways does the embeddedness of firms influence the motives, control and strategy of the parent multinational company?	In Germany long term development of FDI has resulted in considerable growth and recognition that maturity is now close to optimum in India leading to the establishment of a second, smaller clone in Vietnam. The UK company have restructured and developed a global strategy, a current priority of which is to coordinate common IT platforms across the sites.
To what extent are outsourcing and offshoring policies reversible, and what is the experience in Germany and the UK?	None observed here within Europe but the US division of the UK Engineering company has reversed a policy to move work from the US to Mexico.

Table 7: List of semi structured face to face and telephone Interviews

(typically 1hour each)

Case Study Airlines		Case study Engineering	
UK **Company ‘A’**	**German** **Company ‘B’**	**UK** **Company ‘C’**	**German** **Company ‘D’**
London Nov 2011 Procurement / strategy manager	Cologne Oct 2011 VP services	Slough Dec 2011 VP Ops	Stuttgart Oct 2011 VP Eng
Follow-up Nov 2012	Hamburg Oct 2011 Director Engine Lease	Slough Dec 2011 Director Group Ops	India Dec 2011 Company President
	Krakow Jan 2012 MD Service Centre		Prague Jan 2013 Director
	Follow-up Nov 2012	Follow up Nov 2012	Follow up Nov 2012
Trade Union Nov 2013 Academic, former TU National Officer			