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**Globalisation impact on Danish SME:
Offshore Outsourcing local
competitiveness**

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13 March 2010

Online at <https://mpra.ub.uni-muenchen.de/96529/>
MPRA Paper No. 96529, posted 16 Oct 2019 05:37 UTC

Globalisation impact on Danish SME: *Offshore Outsourcing & local competitiveness*



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ABSTRACT

Offshore outsourcing is a prevailing deterrent in the business economic front. Given the competitive pressures put on firms, outsourcing is an elemental practice that can enable cost reduction measures and raise operating efficiencies; or otherwise access resources and competencies by simply choosing how and where to capture gains. This learning mechanism enhances organisation agility across geographical and cultural regions in a practice described unique to cross border operation strategic challenges, regardless of organisation age and size.

Within such context, better prospects are expected of organisations with diverse experience, typically serving very broad consumer markets. Competitiveness is nurtured from the right mixture of organisation culture and tacit knowledge; home grown expertise and leadership insight that creates a highly sophisticated value supply chain with a built-in complexity on organisation dynamics that influences the ability of the decision maker over cost implementation.

Denmark outsourcing activities are far more aggressive than European counterparts, with a small liberalised state economy and SMEs representing a greater proportion. Given its narrow national consumer base compensated through export oriented policy mechanisms; any structural changes in the economy must tantamount an increased role for the SMEs. In contrast of other European countries, employment protection is weak and Danish firms can fine-tune employment schemes with relative ease, even when more than three quarters of the whole labour force are union members. This peculiar labour market model has resulted to high turnover rates of an average tenure of about eight years. A Danish worker is remunerated with relatively generous unemployment benefits yet sternly reinforced through monitoring and sanction —otherwise known as the *flexicurity labour model* characterised with extreme wage dispersion particularly in the Danish labour market.

This study finds that there are no inhibiting elements on the future growth and development of the Danish SME. Firms engaged in offshore outsourcing see better prospects in those markets, with the leeway of establishing or increasing operations in those specific regions. Strategic alliances and closer relations with providers that seemingly blur the boundaries of the enterprise, has positive impact on the worker capability and wages in Denmark. For the future Danish SME has right disposition and ability to influence change.

KEYWORDS: Offshore outsourcing, SME, Flexurity labour model, Cross border expansion

1 INTRODUCTION

The study seeks to establish how Danish competitiveness is affected by offshore outsourcing, particularly for the small and medium enterprises (hereafter referred to as SMEs), by examining the effects of outsourcing on the home based company. Outsourcing these days has become a fundamental practice that enables cost reduction measures by choosing how and where to capture gains (Amaral et al 2006). Globalisation as the primary mechanism behind, has increased competitive pressures put on firms and collapsed vertical integration. Company competence relies on the use, circulation and absorption of outsourcing across the different business activities: production, support and IT services, and R&D. Given so, regions having advantage are those with cheap labour-intensive capabilities, and increased IT competencies over the last decade (Bengtsson et al 2009, Windrum et al 2009).

SMEs carry a significant role in the social structure and the successful changeover of economic development across regions (OECD 2000). An SME must make authentic innovations such to compete with larger and more established firms (Almeida et al 2001) because these SMEs supplement the dynamic efficiency of regional economy (Agarwal & Audretsch 1999, Audretsch 2002). As a matter of fact, the proliferation of concepts and theories on outsourcing has to some extent fuelled a scholastic debate (Bengtsson et al 2009, Windrum et al 2009) that competition focuses on multinational organisations and do not emphasise the fact that SMEs are a crucial component in international markets (Coviello & McAuley 1999, Christensen 1991).

Danish SMEs take up niche strategies founded on tacit knowledge, proprietary processes, authentic products, and long-standing contracting relationships. Many SMEs have exerted huge effort in relocating segments of the value chain, even at enormous initial cost and risk, placed on the competitive capabilities of the firm (Freytag & Mikkelsen 2007). Outsourcing is the practice of engaging private contractors even in cross border locations (Browne & Wilson 2005), to complete functions for the company (Bendor-Samuel 2000). This entails the transfer and management of day-to-day implementation of business functions to an external provider, or otherwise the subcontracting to a third-party entity these specific processes such as product design, manufacturing etc. (Ventureoutsourcing.com 2007).

1.1 PROBLEM STATEMENT

Local competitiveness of the Danish SME is affected by offshore outsourcing. Therefore it is important to delve into which business functions and categories of the Danish SMEs choose to outsource; where and why, and how to thwart its effects (Clark 2005). Danish Small to Medium Enterprises is determined by employee count, balance sheet or annual turnover. A Small to Medium Enterprise is defined as businesses with 10 to 250 employees with an annual turnover between two million EUR and 50 million EUR or as indicated in company annual balance sheets (EU 2005).

Offshore outsourcing is the mechanism of contracting company functions to a third party providers located offshore. To clarify the geographical reach that differentiates offshore as opposed to near shore, all outsourcing to countries outside of the European Union are considered offshore outsourcing to a Danish company. Outsourcing is further grouped into several categories, the most popular being multi-sourcing, near shore outsourcing, offshore outsourcing, contractual outsourcing and captive outsourcing.

Most offshore outsourcing of Denmark concerns business support functions. Business support functions are defined as technical and administrative activities related to the business, such as procurement and technical development, human resource management and marketing, finance, customer support and sales, recruitment, payroll and general administration. These functions can be done remotely via the internet or via telephone. The work does not include the manufacturing of goods. The Danish economy has its manufacturing arm centred on exportation and is supported by export oriented mechanisms already in place to compensate for the narrow domestic market. As such, the Danish services sector dominates offshore outsourcing, and an increased role of offshore outsourcing for the services industries then tantamount to structural changes,

2 PROFILE OF DANISH SMES BUSINESS SUPPORT SERVICES

Offshore outsourcing is a unique form of cross border operations, since it is not driven by market motivation (Lewin & Peeters 2006). Cost savings are derived mainly from labour arbitrage, but have even deepened into technical work and administrative functions such that specialised knowledge is increasingly vital (Maskell et al 2007, Dossani & Kenney 2003, Lewi et al 2009). The practice entails the direct export of jobs to an overseas location, requiring the transfer of competencies is fundamental to the operation that internationalisation occurs. The impact on the industry varies as to the degree of offshore outsourcing and destination country (Roza et al 2011, Brainard & Riker 1997, Mankiw & Swagel 2006, Harrison & McMillan 2006, Kohler & Wrona 2010).

Subsequently offshore outsourcing is not correlated to the market performance of products (Kotabe & Omura 1989), even when outsourcing activities is engaged by larger organisations to compete with industry movers (Bengtsson et al 2009). For developing nations, a positive impact is experienced (Jabbour 2010), however from an overall Global stance, no clear patterns are determined on the impact on macro and micro economies resulting this activities (Olsen 2006).

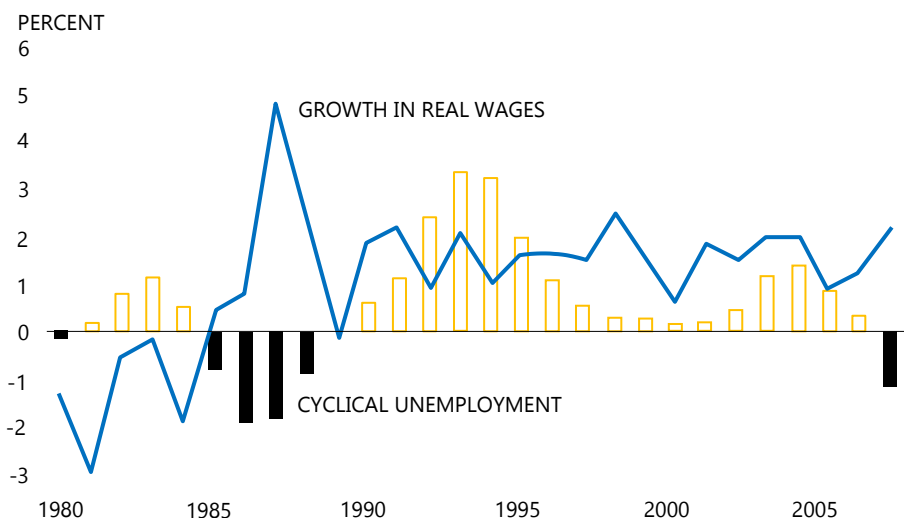


Figure 1 The relationship between wages and unemployment (The Danish Economic Council 2004)

Figure 1 shows the increase and cyclical unemployment between 1980 and 1989 there was a clear link between cyclical unemployment and wage increases. From 1980 to 1984 there was a negative growth in real wages, while at the same time actual unemployment was higher than structural unemployment. From 1985 to 1989 there was a rapid rise in real wages, at the same time as actual unemployment lay below the structural level. Since 1990 there has only been a limited connection between the two measures. Previously, real wage increases oscillated violently from year to year. In recent years they have been stable. Structural unemployment in Denmark has been in decline since the 1980s because of improved labour market structures. Actual unemployment varies around the structural level in step with the economic cycle.

Nonetheless, the minimal unemployment is very much a result of sound economic policies of Denmark that has enhanced the labour market structures through recent decades. For one the Danish labour market is stated as flexible since the 1980s that the structural unemployment has been reduced to half (Rockwool Foundation Research 2006). Observations on Denmark's economic stability are stated as independent of the economic cycles and international trends that this no longer affects domestic wages.

The level of cyclical unemployment which is defined as the difference between the current intensity of unemployment and structural unemployment, shows that no indication of a shortage of jobs and labour. In other words, a positive cyclical unemployment figure means that there is labour available. However, given the fact that structural unemployment has dropped the correlated level of unemployment and wage increases are progressively weaker in Denmark (Danish Economic Council 2004).

2.1 ORGANISATION OFFSHORE OUTSOURCING CAPABILITY

Organisation structural characteristics can determine the likelihood of offshore outsourcing. Size is a structural factor frequently argued. One point is that small organisations are constrained from offshore outsourcing activities with inadequate managerial, financial and IT resources, especially when compared with larger firms (Buckles 1989). Nonetheless small company size can be compensated in various ways using advanced technologies that enable a highly efficient operation under scarce resources, at the same time engage in outsourcing activity. Contrary to which large organisations require the scale of multiple providers and reduce costs by subcontracting (Merino & Rodriguez 2007, Coviello & McAuley 1999, Bonaccorsi 1992). Earlier research suggests that the size of a firm influences the varying degrees and scope of challenges, but cannot be directly correlated to the propensity of offshore outsourcing (Jensen & Pedersen 2007).

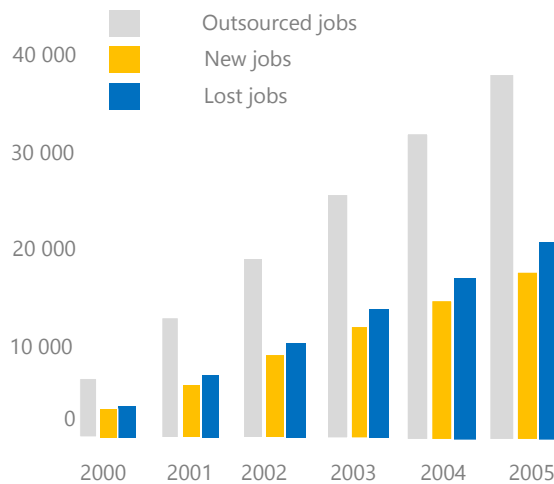


Figure 2 Total numbers of outsourced, new jobs and lost jobs (Tema 2008)

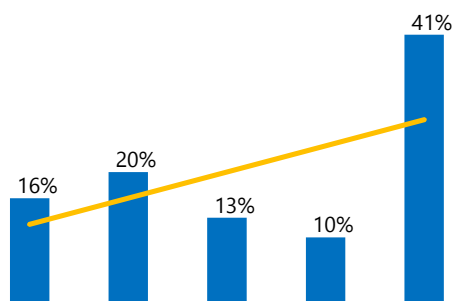


Figure 3 Denmark trend of offshore and inshore outsourcing 2002–2005 (Orberg et al 2006).

Figure 3 shows 16 percent have no Offshoring and in-shoring of jobs 2002 to 2005 but anticipated in next years. 20 percent of SME have inflow of jobs and 13 percent have taken up offshoring of jobs. Ten

percent of SMEs have both offshoring of jobs and inflow of jobs, and 41 percent of SMEs that have no Offshoring and in-shoring of jobs anticipate both in the future.

Age of firm, in traditional perspective, dictates the capability for offshore outsourcing. Meaning to say the life cycle of the organisation has positive correlation on the potential for internationalisation because more knowledge is accumulated over time (Bilkey & Tassar 1997, Johanson & Vahlne 1990, Eriksson et al 1997). Nonetheless, SMEs do engage in offshore outsourcing at the outset of founding. In the same way some other companies practice offshore outsourcing without the accumulation of knowledge. Therefore, the age of a firm does not tantamount to the propensity and dynamism of offshore outsourcing (Weeraeardena 2007, Moen & Servais 2002, Rialp et al 2005)

Flexibility as a first is the ability of the company to adapt to recurring fast changes due to geographical distance, interactive learning and cultural distance (Boschma 2005). The quality of flexibility in offshore outsourcing is a rudimentary requisite of company, given the geographic dispersion that characterise offshore outsourcing activities (Mudambi 2008).

Work quality is frequently correlated, in fact negatively, to the likelihood of a firm to practice offshore outsourcing. Low quality has resulted from much offshore outsourcing activity. The fact is that organisations focused on quality do not to practice offshore outsourcing (Gray et al 2001). However, organisations focused on quality but equipped with a capability of innovativeness, are more likely to practice offshore outsourcing. This is most especially for firms motivated with seeking knowledge (Story 2007).

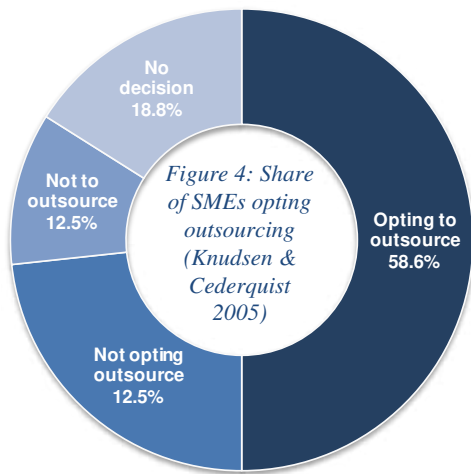


Figure 4: Share of SMEs opting outsourcing (Knudsen & Cederquist 2005)

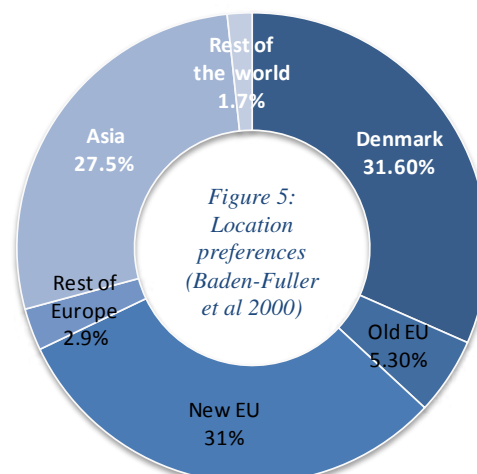


Figure 5: Location preferences (Baden-Fuller et al 2000)

Figure 4 shows that 58.6 percent of SMEs are to opt to outsource and 27.3 percent practically decided. 12.5 percent are decided not to take up offshore outsourcing and 18.8 percent do not have a final decision. The extent of offshore outsourcing is usually less than 25 percent of production cost. 81 percent or four-fifths of SMEs outsource less than 25 percent. Apparently, companies with prior experience with outsourcing typically look forward to the offshore outsource of a larger share of operating costs when compared to companies without earlier experience (Knudsen & Cederquist 2005).

2.2 FACTORS INFLUENCING OFFSHORE OUTSOURCING DECISIONS

The occurrence of domestic outsourcing is mainly to focus all company activities on core competencies and to gain access to new resources. While several reasons are behind offshore outsourcing, the fundamental reason is motivated by cost savings that come in the form of low wages,

corporate tax advantages or enhanced global market competition are very attractive to countries with stagnant industries (The Levin Institute 2012). Table 1 presents the basic reasons that influence outsourcing decision (Bengtsson et al 2009).

Table 1: Factors influencing outsourcing decision (Bengtsson 2009)

	Denmark	EU	Asia
Achieve lower cost	5.35	6.2	6.34
Focus on own core competencies	5.48	5.5	5.17
Gain access to resources & competencies	4.64	3.5	3.11
Entry to new markets	2.72	3.1	3.32
Networking new suppliers	3.06	3.7	4.28
Competition	4.17	5.5	5.72
Turn deficit to surplus	3.21	3.4	3.17
Total scale for initiating factors	4.22	4.6	4.66

On the overall, Danish firms still show a strong preference for domestic or near shore outsourcing to Poland, the New EU and three Baltic countries, rather than engaging offshore outsourcing. A survey in 2010 states about one third of Danish firms or 31.6 percent outsource domestically and 68.4 percent outsource offshore (Knudsen 2010). Table 1 highlights the significance of trust when choosing a partner for outsourcing relationships, aside the economic value.

The importance of good company reputation in both offshore and locally aside a relationship of trust that is well established is a critical factor in the selection of a services provider. A service provider is often engaged for activities that are new to the organisation (McIvor et al 1997). Support services providers are chosen for quality and control of processes, trust and confidence, country location, competence, and cost savings. Cost saving remains the critical criteria in offshore outsourcing (Canéz et al 2000).

2.3 MOTIVES OF OFFSHORE OUTSOURCING

Offshore outsourcing comes with a variety of motives. First and foremost is staffing cost reduction, which is the widespread advantage across industries that it is perceived as most important. Labour arbitrage can be achieved when outsourcing in countries such as Bangladesh, India, china and Mexico. Second would be the operating cost reduction because the provider is able to work within a structure of reduced expenditure, resulting in substantial savings of the part of the company. The third advantage is company focus improvement because certain functions that are not considered a core competency or expertise are better yet outsourced.

Table 2: Distribution of offshore outsourcing (Mol et al 2005)

Denmark	54	8.5	34	34
EU	58	9.1	36.5	70.4
Asia	47	7.4	29.6	100
Total	159	24.9	100	204.4

A fourth advantage is that outsourcing enables flexibility because the overall delivery of services directly depends on the number of workers and organisations contributing the objectives and targets set. In certain situations, outsourcing can boost performance in short term tasks. The fifth advantage is the reduced time to market because outsourcing moves sales across broad geographic coverage without necessity of physical presence. A sixth advantage is access to specialist skills rather than absorbing the expensive and not easy to find specialists needed. The seventh advantage concerns risk mitigation or risk sharing wherein the services provider guarantees delivery dates otherwise subjected to penalties. The eighth advantage by off outsourcing is quality improvement, whereas internal processes are streamlined aside the advantage of learning the process of from the provider with a wealth of experience from a

variety of companies. A ninth advantage is effective management because the use of resources and operating efficiencies are raised (Sood 2005, Ahorlu 2007).

3 THE CASE OF DENMARK

The Danish economy can be characterised as a small open economy with small and medium enterprises representing a greater proportion. Export oriented mechanisms compensate for the narrow domestic market. Similar with other European countries, the dominant sector relates to Danish services that any structural changes in the economy must tantamount an increased role for the services industries. Globalisation as the linchpin of cross border expansion has broadened subcontracting overseas and servicing markets across regions. For the Danish enterprises, this is particularly true with the small national consumer base. New enterprises wrestle with internationalisation at an early stage. Integration into global value chains and provider networks has become all the more crucial (Andersen et al 2006).

Table 3: Previous experience with provider (McIvor et al 1997)

	Denmark	EU	Asia	Total
Has traded with the partner previously	64.7	38.9	30.8	45.8
Has not traded with partner previously	35.3	61.1	69.2	54.2

Denmark outsourcing activities are far more aggressive than other European countries. Through the period of 2001 and 2006, Denmark lost roughly 6300 jobs annually, and created 2900 offshore outsourcing jobs over the same duration. A total of 6300 jobs described as low-education, work intensive jobs and but a few intellectual functions like research have moved offshore. A bulk of the functions is IT related posts while financing and service functions are moved abroad too. Research functions fell from 1.78 percent to 1.65 percent between 2003 and 2006. The Danish Statistic Research finds 60 percent of private companies actively outsourcing and off shoring and complete 72 percent of Danish overall export (Tema 2008, Ramsay 2005). One out of every five Danish companies outsourced some job function between 2001 and 2006. The functions that are typically outsourced offshore can be classified in categories that can be service related, administration functions, production or manufacturing, and design and development. Two out of three Danish firms are geared towards offshore outsourcing (Nielsen et al 2008).

Table 4: Criteria for choosing a partner (Windrum 2009)

	Denmark	EU	Asia	Significance
Trust	5.95	5.4	5.34	0.001
Control	4.54	5.15	4.81	0.067
Country location	4.13	3.95	3.17	0.001
Trust and confidence	5.47	4.91	4.87	0.002
Competence	5.18	4.58	4.56	0.018
Quality	5.25	4.75	4.78	0.075
Cost saving	5.27	5.74	6.31	0

A study conducted in 2011 indicates that 28 percent of large enterprises engage in offshore outsourcing jobs. The on-going pattern indicates that a large volume of jobs and escalating number of functions are outsourced overseas. Half of the organisations participating in these activities reason that the financial crisis had raised the volume of offshore outsourcing (Thelle et al 2011).

While offshore outsourcing has increased, subsidiaries abroad can be further associated to establishing subsidiaries overseas. Recent trends indicate cross border subsidiaries have also increased. The number of Danish owned subsidiaries is more by almost 22 percent between 2007 and 2010. This increase particularly marked across Asia. EU countries with subsidiaries have also increased by 7.3

percent between 2007 and 2009. Nevertheless, the number of employees related to the growth of subsidiaries does not indicate continuous growth in any market.

Table 5: Functions outsourced offshore and percent

Functions	Count	Percent
Production technology	4	4%
Production preparation	2	2%
Manufacture	74	73.30%
Assembly	13	12.90%
Test & quality management	1	1%
Maintenance	2	2%
Other	5	5%
Service Administration	52	26%
Finance/Accounting	10	19.60%
HR	0	0%
Marketing & sales	7	13.70%
IT	12	23.50%
Call centre/ Customer service	3	5.90%
Procurement & supply management	3	5.90%
Logistics	8	15.70%
Legal services	0	0%
After sale support	2	3.90%
Other	6	11.80%
Design & development	38	21%
Research	0	0%
Product design	4	10.50%
Product development	8	21.10%
Software development	23	60.50%
Other	3	7.90%

The Danish labour market and the eastward expansion of the EU, the significance of offshore outsourcing might not be reflected comprehensively enough. Characteristics of the scope and magnitude of these activities such as offshore locations and monetary values are not further qualified. Each company engaged in offshore outsourcing activity is given equal weight; insofar that one might be contributing on a much higher degree (Ibsen & Westergaard 2005).

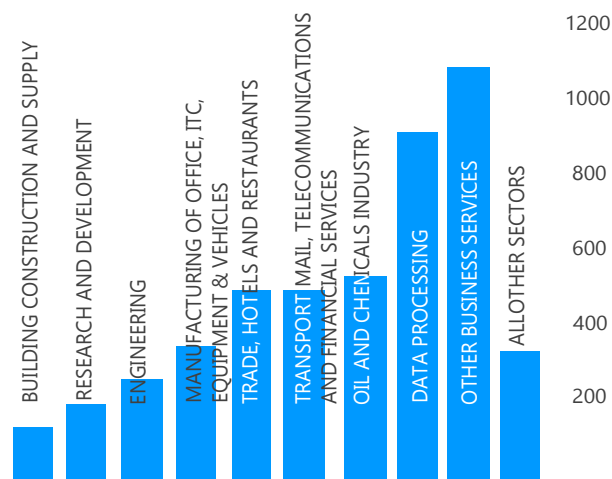


Figure 6 Eastern European labour in Denmark 2003 to 2007 (Gylendal 2009)

The figure presents the foreign experts are often employed in sectors where competition is international, and where production is based on scientific knowledge. Five sectors account for almost 75

percent of the nearly 5000 foreign experts working in the private sector in Denmark. A Danish firm that opts not to outsource would have either of the following reasons. One is that there is a concern whether the overall offshore outsourcing expenditure goes beyond the expected gains. Another is that the problems with distance are difficult to handle and that there are legal or administrative barriers in the destination country. Language or cultural distance is another realistic concern, and that the physical distance to the existing customers can create future problems. The lack of management expertise, trade barriers such as tariffs or tax issues, uncertainty of international standards in the destination country, worker concerns including trade unions, difficulty finding suppliers overseas, discrepancy with social values or violation of patents and other unforeseen challenges (Thelle et al 2011).

High wage bands in Denmark has pushed offshore outsourcing for Danish SMEs to 27.3 percent with about 10–199 jobs outsourced between 2001 and 2004. 75 percent of offshore outsourcing is expected to reduce expenditures by about 30 percent. The hackneyed explanation is that these companies are however reluctant to create new jobs in Denmark because of the economic instabilities. Asian countries of China, India or Thailand account for 27.5 percent of the overall offshore outsourcing of Denmark. A majority of offshore outsourcing occurred intra-regional or in the European Union at about 34 percent and 55 percent are outsourced locally. Denmark appears as the principal outsourcer even with 63.2 percent (Mol et al 2005).

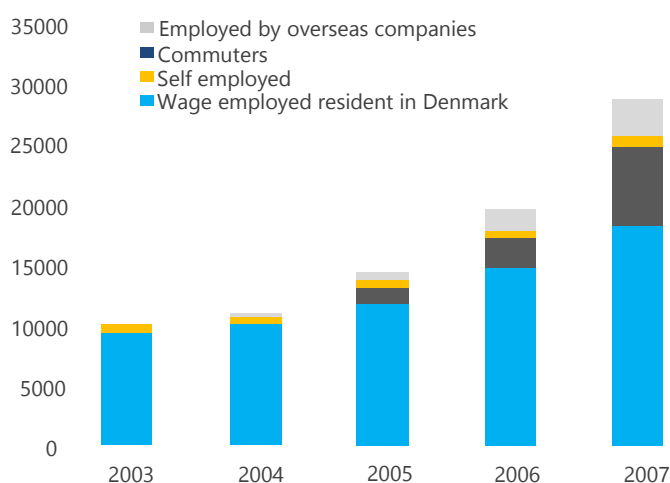


Figure 7 Number of foreign experts employed in different sectors in 2005 (Gylendal 2009)

Figure 7 illustrates wage employed workers including commuters from overseas, self-employed, and overseas employed stationed in Denmark. Data for commuters from overseas are only included from 2005 onward. The figures for wage employed and self-employed living in Denmark are based on the total number of immigrants in 2007 divided according to the proportions of wage employed and self-employed registered in 2006.

All job creations associated to subsidiaries growth level can be characterised as two-thirds mostly in routine jobs. Small organisations between 20 and 50 workers in particular, create routine jobs. Large companies having more than 50 workers have 62 percent routine jobs in subsidiaries abroad, small enterprises comprise of 71 percent routine jobs. Due to Global financial crisis, a significant increase in company of bankruptcies and closures in Denmark account to nearly 6,500 annually between 2011 and 2012. 40 percent of bankruptcies belong to enterprises with no employees registered, while small businesses with 0–4 employees appear to be underrepresented in terms of statistics, and enterprises with 5–49 workers are overly represented in the Denmark bankruptcy statistics (Erhvervs-og Byggestyrelsen 2011).

3.1 DIFFERENTIATING MNC AND SME

'Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment. The new SME definition, which entered into force on 1 January 2005, represents a major step towards an improved business environment for SMEs and aims at promoting entrepreneurship, investments and growth. This definition has been elaborated after broad consultations with the stakeholders involved which prove that listening to SMEs is a key towards the successful implementation of the Lisbon goals' (Verheugen 2003).

Small and Medium Enterprises are defined to employ 250 workers or less, and have an annual turnover which does not more than 50 million euro and depicted in the annual balance sheet not to more than million euro. More specifically, a medium-sized company has less than 250 workers with about 50 million euro in annual turnover and more or less 43 million euro indicated in the annual balance sheets. A small sized company has less than 50 workers with about 10 million euro in annual turnover and more or less 5 million euro indicated in the annual balance sheets. The micro sized company has less than 10 workers with about 102 million euro in annual turnover and more or less 2 million euro indicated in the annual balance sheets (Article 2 EC 2003). SME was first defined in 1996 and which was typically applied across regions until its adoption was taken into effect in 2005 (Commission Recommendation 2003).

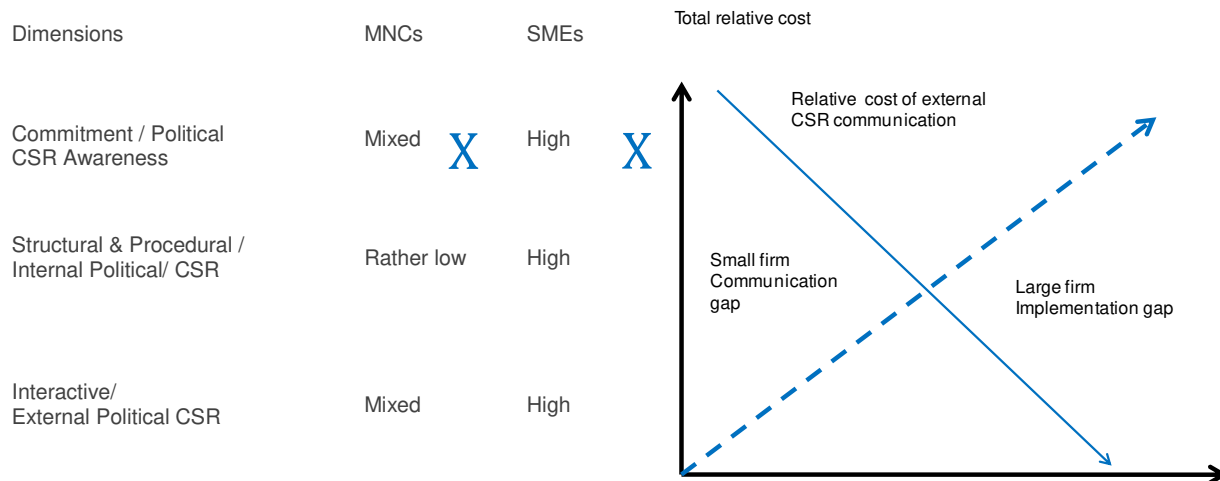


Figure 8 Implementation comparative of MNE & SME (Wickert 2012)

MNCs are noted for implementation gaps in CSR initiatives. It is reasoned that the large organisation would spend more to get these values in the daily operations. On the other hand, SMEs present with communication gaps because the absence of good technologies makes it more costly for them to constantly communicate (Wickert 2012).

SMEs are the linchpin of the European economy because it is thee rudimentary source of innovation, entrepreneurial skills and employment, representing about 75 million jobs and 99 percent of all enterprises. However, the SME is frequently challenged with market imperfections in respect to financial access for capital or credit, particularly at the start-up phase. Given the limited capital base the technologies and innovations might not be sufficient for economic growth and social cohesion (EC 2005).

Multinational Enterprises MNE typically consist of several entities or companies established in several countries under a co-ordinated operation. One or more of these entities can dominate the rest or display influence over the activities of others. The extent of autonomy within the MNE often varies

between individual MNEs. The organisation can be private, state own or mixed; and the methodological distribution of responsibilities is very different, as may be the work expectation (OECD 2008).

SMEs are the backbone of country economy since this sector holds the majority of economic activity. While some believe that the MNEs are treated better off, the significance of the SMEs and role is well acknowledged (Moy & Lee 2002). An SME has innate focus on a particular local region and has a wealth of history, insight and information on the local region. In fact it is easy to gauge the economic impact of its products and services (Chapman et al 2005).

Job security in an SME is more stable, as is a critical dimension in employment, and the fact that workers easily grasp the complete business process. As such any worker can easily evaluate the company success or failure in an insightful manner, as when compared to the MNC. The SME has a more relaxed workplace with less competition, which suggests lower turnover rates when compared to the MNEs. The atmosphere of familiarity, belonging and security shapes part of the innate strengths that builds the competence level of the SMEs (Görg & Strobl 2002).

Work in the SMEs stands out for the capacity to enable a good work life balance with less overexertion or crucial deadlines pressing on the workers. Effectually there is more work ethic while pursuing an active family and social life (Görg & Strobl 2002). An SME is founded in continuity and cooperation for lengthy periods with the same team. The lower work pressure encourages the worker to pursue other initiatives, besides work (Grubb et al 2007).

SMEs operate on a small employee pool with very effective levels in communication and good personal relationships. Emphasis on teamwork and support is a highly appreciated good. But because of a small workforce requirement, the inadequacy of job advancement opportunities turns out as a categorical weakness (Moy & Lee 2002, Rogovsky 1996). The structure is too rigid with few leadership characters strongly influencing the organisation direction (Theodossiou & Zangelidis 2009). Work could turnout monotonous and less challenging (Hakkala et al 2008).

But when comparing the SME and the MNE, a very crucial aspect would be the wage gap between these company structures. The bad side is that the general perception is success is often measured the amount of money that could be earned (Heyman et al 2004, Lau & Pang, 1995).

3.2 DECISION MAKING PROCESS

In the context of offshore outsourcing, the fundamental differences between SMEs and large firms apart from the difficulty of constrained resources, biased market access, and inadequate experience in outsourcing activities, the SMEs have relatively lesser opportunity sets and typically less absorptive capacity (Almeida et al 2001).

The choice of offshore outsourcing for business support services are based on the internal organisation goals which could be cost savings or enhancing core competencies. A good frame of reference for deciding offshore outsourcing is indicated in Figure 9.

Greater prospect of the large organisation emerge from the experience and interface with various external environments as a result of serving broad markets. The exposure in having several larger markets increases the chance of receiving new information through exchanges with other organisations and consumer base. It can be said that large firms have advanced absorptive capacity when compared to the SMEs. This suggests that the successful cross border operation of the SMEs are those involved with a large number of clientele established in the offshore outsourcing process (Denis & Depelteau 1985).

43 percent of Danish enterprises actively participate in the cycle of international redistribution of labour through outsourcing activity. Of the composition, sixteen percent have not prior outsourcing experience within the recent three years but look at doing so in the incoming years. Given this limitation, the activities acquired overseas to be more than the activities that are outsourced on an international level. Thus it can be said that offshore outsourcing has a positive effect on the Danish SMEs with increased

business opportunities resulting there from. A positive trade balance is determined particularly in the eastern region of Denmark that has attracted economic activities from offshore markets.

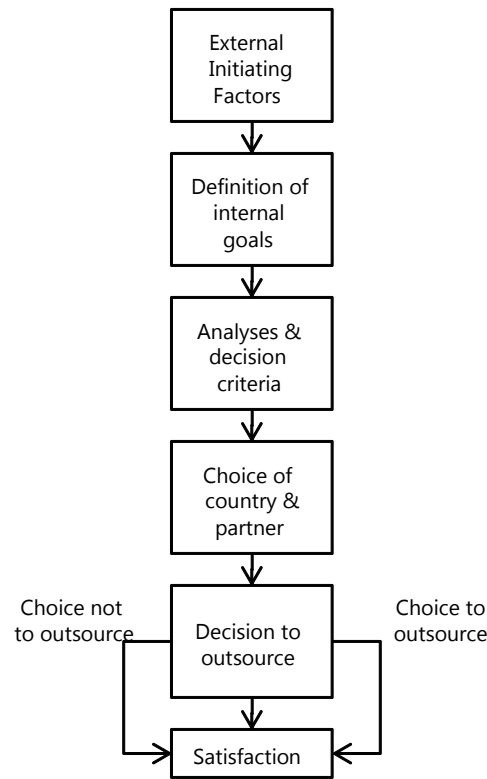


Figure 9: Decision process model (Knudsen 2010)

Prior to Global market transitions, the SMEs have relied steadily on the domestic consumer base to which a competitive advantage the access to local assets was established. Given the rise of cross border economic activity, SMEs need to become increasingly intercontinental in scope. This circumstance is viewed as the small and medium-sized exporters' squeeze (Christensen 1991). These days SMEs are more and more active in Global markets through international alliances, export activities, direct investments and electronic commerce (OECD 2000).

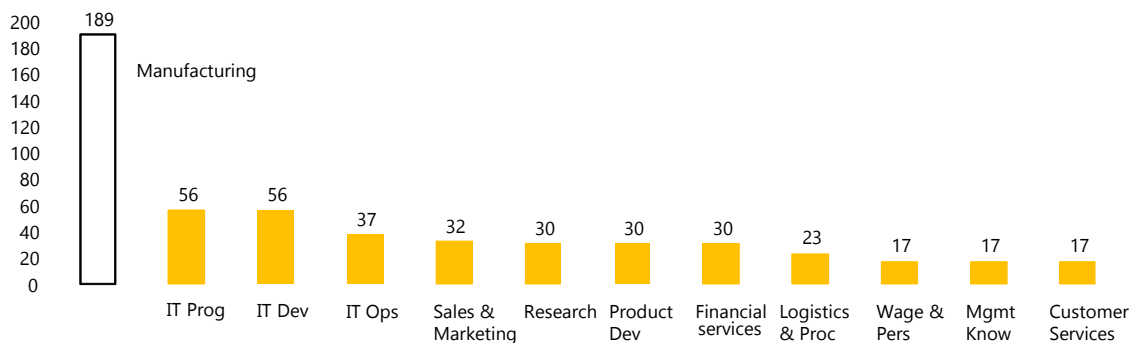


Figure 10 Companies with offshored activities to Denmark by sector of activity (Orbeg et al 2006)

The foremost reason is the wear out or saturation of local niches that were effectively served by SMEs effectively. Second is associated with the proliferation of market penetration by large foreign competitors that challenge SMEs on own domestic markets. In some instances, even forces the SME to exit the industry. On the positive note, the gradual broadening of consumer markets result in increased Globalisation enables economic opportunities for some SMEs to pursue specific niches in the international community.

A closer look foresees a reduced significance and uniqueness of the national or domestic assets of these firms. In fact the advances in technology have radically reduced the traditional roles of location (Porter 2000). Other studies suggest that SMEs can still rely heavily on local assets and firm specific competencies to generate a broad range of opportunities for globally operating firms (Hagedoorn 1994). Competition can be tackled through innovation and learning (von Hippel 1994), while keeping focus on expertise and quality (Sornn-Friese 2000, Lundvall et al. 2002, Porter 2000).

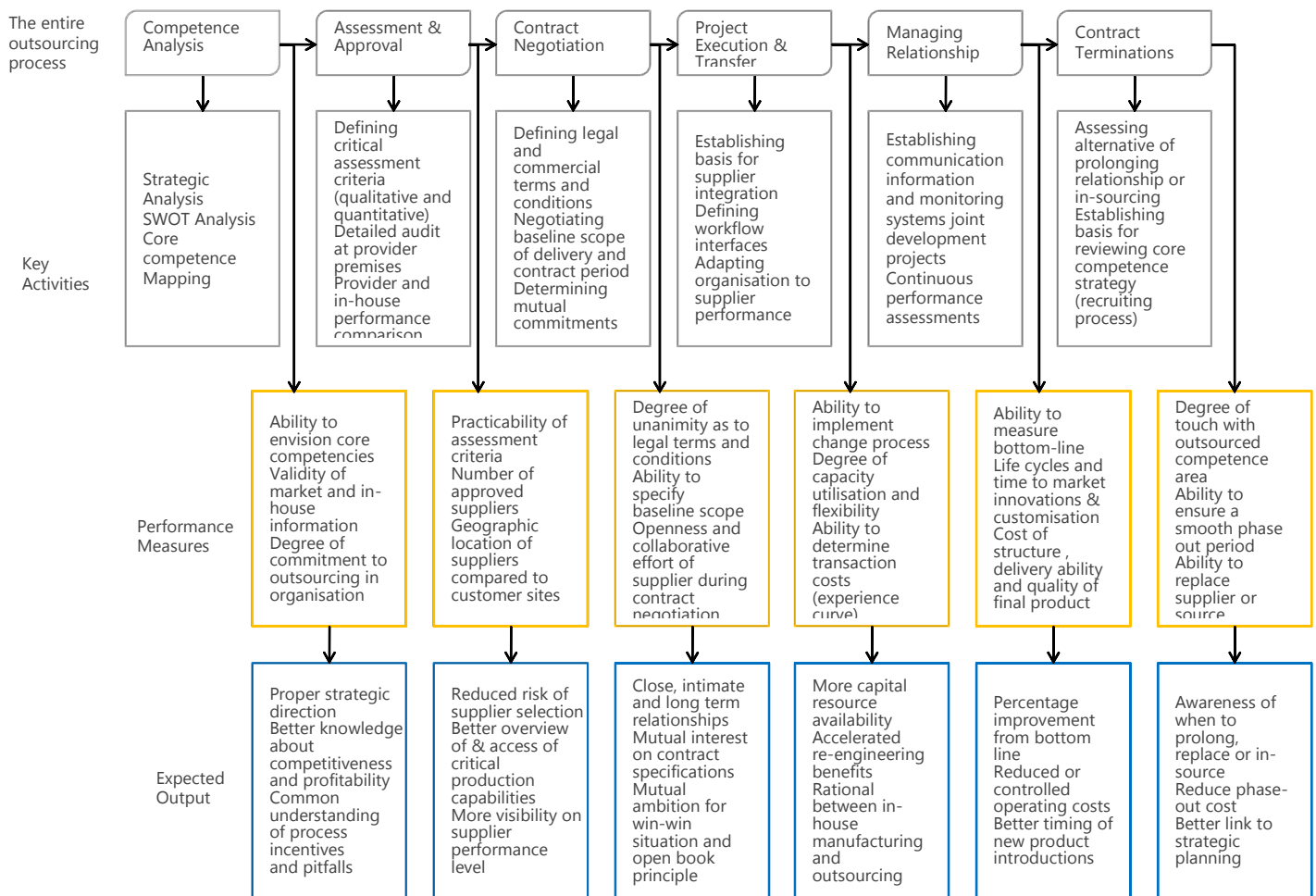


Figure 11 Processual Framework

The very first outsourcing activities in Denmark are in respect with land-based pressure vessels that set out in 1999, for the formulation of an integral component of integration exploration. Subsequently, the action research developed the Aalborg Industries' outsourcing team to innovate a practical framework to shore up the Strategic Outsourcing Programme. The frame of reference is primarily to function as a mechanism that is to guide participants through the fundamental decisions and actions in connection

with the process and system. It is further developed to particularly facilitate the learning and adaptation on outsourcing projects by the organisation, and supplement added value. The integration defined six generic phases of the complete outsourcing process for each phase different key activities of related performance measures and forecast output identified. The basic result is presented in Figure 11 (Momme 2001). Although it is not exhaustive it highlights the decision variables and dependency on context and scope of an individual organisation. This must be interpreted, thoroughly examined and adapted on situational factors by the person responsible of offshore outsourcing. The interdisciplinary team assigned to outsourcing projects is to add a broad range of perspectives on the decision variables, providing insight on the prioritisation and validation (Momme 2001).

The more important destinations for offshore outsourcing by Danish firms are stated in the table as Eastern Europe and Asia. These regions are providers for labour savings worth taking, at the same time the strong trade partners are identified as the United Kingdom, Germany and Sweden. Industry representation on offshore outsourcing by Denmark is stated in the figure below. Of twenty three percent of all companies engaged in these activities, more than half are outsourcing in manufacturing. Service providers represent about forty five percent of the lot, mostly in IT related processes. This follows the same trend of the United States and the United Kingdom in terms of outsourcing sector representation. Research and Development is one component of the services outsourced, with twenty nine of these Danish companies that have transferred research requirements to an international provider (Orbeg et al 2006).



This established off-shore outsourcing processual framework illustrates the correlation between each

4 ENHANCING COMPETITIVENESS

Competitiveness sits the core of company success or failure (Porter 1998). It is defined as the aggressive and enthusiasm to compete or be full of fight. The propensity of individual or organisation competitiveness is in concurrence with Globalisation, wherein organisations are urged to action and respond strategically to every opportunity, even at times in oppose to immediate monetary return (Barney 2001).

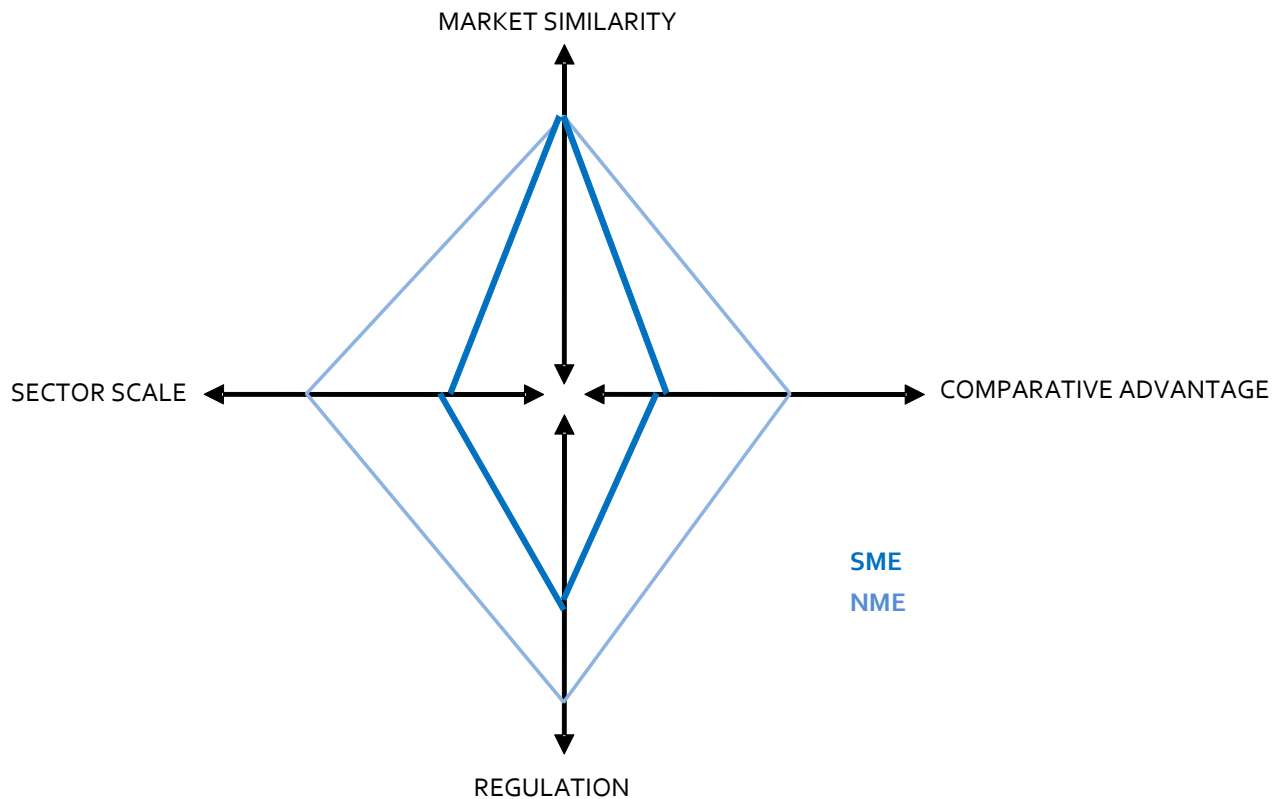


Figure 12 Globalisation framework (Lessard 2003)

Competitiveness entails the right mixture of organisation culture, tacit knowledge or expertise, and leadership insight, to create value out of investments (Boyer & Lewis 2001). The concept of competitiveness qualifies or examines particular strengths of an organisation, outfit or sector; using a defined frame of reference, in respect with context. Competitiveness is comprehensive and multidimensional, with the increased cross border exchange of goods, skills or ideas (Murths & Lenway 1998). Organisations with good quality, high operating efficiencies and cost effectiveness are capable of creating greater value and satisfaction than competitors (Hammer & Champy 1993, Johnson & Johnson 1992). In any case, there are slight variations in the interpretation of competitiveness as to the organisation category and industry (Corbett & Wassenhove 1993, Ross et al 1996, Grupp et al 1999).

The competitiveness of an organisation can be influenced by industry rivalry and attractiveness, sector scale and regulation that are expressed in the company growth and market share. Apart from which, core competencies can support the organisation in the international market (Lessard 2003).

Industries weigh up to the dimension of local responsiveness and global integration (Prahalad & Bettis 1986). Each sector has specific measurable in the determination of industry capability and

competence, when examined in global scale (Bartlett & Ghoshal 1991). Competitiveness is evaluated firstly by identifying the geographical scope, whether the company or industry has strong international or local clout. Then it is evaluated as to its potential cross border integration, price volatility, reputation and others (Kogut & Singh 1988).

Market similarity is characterised as a vertical reference indicating the market conditions whether effectively homogenous or whether several geographically defined segments exist (Smith 2003). Sector scale identifies the magnitude of the industry in terms of trade turnover, number of organisations, capitalisation and market share (Levitt 1983). Comparative advantage typically arises of experience and expertise particularly in periods of significant structural change that can present with first mover opportunities (Yip 2001). Interventions are regulatory in nature and occasionally limit the geographical scope of the particular industry through tariffs and non-tariff barriers on trade. Cross border investments can also be curtailed (Kogut & Singh 1988).

4.1 COMPETITIVE PRIORITIES

A key decision variable for offshore outsourcing is to clearly understand company competitive priorities. Competitive priorities are indicative of strategic emphasis in the creation of a specific segment of company operations, and its position in the marketplace. Competitive priorities guide decisions related to the planning, production process, capacity building, technological infrastructure and control (Skinner 1969, Hayes & Wheelwright 1984, Ward et al 1998).

In the past two decades, the industry-shared framework for operations strategy of offshore outsourcing emerged. The framework took up the weighting of organisation capabilities, including low cost, quality, flexibility, and delivery (Swink & Way 1995). Several studies suggest innovativeness and service as other important priorities (Schmenner & Swink 1998, Ward et al 1998). On the overall, the effectiveness of an operations strategy can be influenced further by the degree of consistency between competitive priorities and the corresponding decisions in regards with operational structure and infrastructure to coincide with the competitive priorities (Leong et al 1990).

Considering that the framework is fairly well defined the argument of the relationship between competitive priorities remains unanswered. The dimensions put out integrative models, the trade-off models and the cumulative models. A trade-off model suggests that organisations must make decisions on which competitive priority requires the most investment of time and resources (Skinner 1969). The allocation of resources is according to the resource and time savings derived (Hayes & Wheelwright 1984, Garvin 1993). A cumulative model argues that tradeoffs are immaterial in the context of intense competition. Rather the competitive priorities must be viewed as complementary in form, and not isolate of the other existing company capability (Corbett & Van Wassenhove 1993, Noble 1995). Lastly, the integrative perspective falls in between both the cumulative and trade off models. It also links other insights such as the importance of focused operations for enhancing practices and establishing expertise to achieve goals (Hayes & Wheelwright 1984, Hayes & Pisano 1996, Schmenner & Swink 1998, Skinner 1974).

It is to note that competitive priorities are difficult to evaluate because of the complexity. Organisations are challenged with vital trade-offs, and hard choices and qualifiers for priority constructs. Typically, cost savings is a competitive priority that is expected to result in reduced inventory, increased capacity utilisation, reduced production cost, and increased labour productivity. Quality is a competitive priority that provides high performance products, consistent reliable quality, and better conformance to specifications of the outsourced specialisation. Delivery is a competitive priority that provides fast deliveries, reduces production lead time and meets delivery promises. Flexibility is a competitive priority that enables rapid responses to changes in spite the volume requirement and degree of services or product variety (Boyer & Pagell 2000, Hayes & Pisano 1996, Boyer & Pagell 2000)

Switzerland	5.74
Sweden	5.61
Finland	5.47
Netherlands	5.41
Germany	5.41
Denmark	5.40
UK	5.39
Belgium	5.20
Norway	5.18
France	5.14
Austria	5.14
Luxembourg	5.03
Ireland	4.77
Iceland	4.75
Estonia	4.62
Spain	4.54
Czech Rep.	4.52
Poland	4.46
Italy	4.43
Lithuania	4.41
Portugal	4.40
Cyprus	4.36
Hungary	4.36
Malta	4.33
Slovenia	4.30
Turkey	4.28
Montenegro	4.27
Latvia	4.24
Russia	4.21
Slovak Rep.	4.19
Bulgaria	4.16
Romania	4.08
Croatia	4.08
Albania	4.06
Macedonia	4.05
Ukraine	4.00
Greece	3.92

4.2 CHANGING FROM COST TO COMPETENCE

The Genesis of offshore outsourcing has its roots and focus on cost differences between countries (Trent & Monczka 2003, Bunyaratavej et al 2007, Kinkel 2012). Research survey findings in earlier work indicate that companies engaged in offshore outsourcing activity, take it up a strategy. In fact more and more organisations formulate and spread internal functions to overseas locations (Offshoring Research Network, Lewin et al 2009, Manning et al 2008) that to some extent, Governments have attempted to restrain such activity with concern over domestic job losses. However, it has been widely recognised that offshore outsourcing activities is another means of accessing the global pool of skilled talent, particularly in areas of domestic shortage (Lewin et al 2009). The popularity of offshore outsourcing begins with the gained competence of flexibility, a lesser corporate development costs, shorter time to market; plus the access to focused resources of providers. The applicability of this generic strategy cuts across many sectors and disciplines (Carson 2007, Lewin et al 2009).

Offshore outsourcing potential to reduce cost is a very appealing strategy from a company perspective. Nonetheless, the strategy has equal capacity to relieve expenditure on the domestic labour workforce including high level posts, that a possible impact on the core competence of the firm can ultimately diminish (Manning et al 2008, Kshetri 2007, Liu et al 2011). Thus it is sufficient to state that the role of offshore outsourcing, as a justifiable means of cross border entry, and alternative solution over foreign direct investment, licensing or joint venture, has received far less attention (Welch et al 2007, Johanson & Vahlne 2009).

4.3 ECONOMIC GROWTH COMPETITIVENESS

Offshore outsourcing has evolved into a complete branch of company operations that many corporations such as AIG, Citi Group, Dell and IBM have leveraged as a service provider or vendors such as Accenture, IBM, EDS, and SAP have designed services into system models. A forecast by International Data Company states that offshore outsourcing is to grow to a Global value of 641.2 billion dollars in 2009 (Gibson 2005), and deciding investments and strategies in this segment is critical (Erlanger 2006, Slack et al 2004). The choice of outsourcing platform has a considerable long term impact on company, from costs to quality and associated risks on the survival of an SME.

The column on the left presents the economic growth competitiveness index GCI that measures the quality of macroeconomic environment, public institution effectiveness, and technological readiness. A high degree of competitiveness grades between 5.51 and 7. A good grade is between 4.51 and 5.50, a moderate rating is between 3.51 and 4.50, and a low grade would be between 3.01 and 3.50. A very low grading is between 0 and 3.

Denmark in 2008 had about 10 percent of SMEs to have outsourced at least one function overseas between 2001 and 2006. By definition, offshore outsourcing replaces the domestic workforce with overseas provider capabilities (Roza et al 2011), and the reduction of specific activities in the company of origin (Mudambi 2008). The process entails the transfer of

knowledge from its origin into another segment of the full value chain.

4.4 QUALITY RESULTING IT INFRASTRUCTURE

Quality is regarded as the foremost driver of competitiveness in the offshore outsourcing sector. This would mean that improvements on operating efficiencies such as increased revenue and optimal resource and increased productivity –is expected from the outsourcing engagement. Nevertheless, there seems that no universal definition of quality exists (Reeves & Bednar 1994). Quality can be described as the overall features and characteristics of an outsourced service or product that is shown in the table which combines the work of Garvin (1987) and Parasuraman et al (1991).

Quality of services is intangible and difficult to measure, at the same time difficult to separate from the person providing the services (Ma et al 2005). Because of which it is frequently defined as quality of services and measured through services delivery (Zeithaml et al 1993). The perception of services quality is from how good a provider performs in the lens of the user (Cronin & Taylor 1992). In this sense, there has been no viable theory developed (Kettinger & Lee 1997).

Particularly for offshore outsourcing, the dependability of IT infrastructure directly improves, if not impedes on services quality. Therefore services quality is explained as the outsourcing quality expectations of user and the service provider, and both tangibility and reliabilities are measures used to determine service quality (Grover et al 1996). The factors to measure service quality are availability, assurance, conformance, empathy, features, reliability and security (Ma et al 2005).

The perfection of services quality can be measured by the gap between the service performance and customer expectations. Given which it is important to identify the quality criteria from the user perspective and aim to satisfy and exceed this expectation (Cronin & Taylor 1992). The earlier defined processual framework serves as a guide to outline the phase to phase expectation from end to end of the offshore outsourced supply chain (Coopers 2002).

Table 6 Dimensions of quality (Ma et al 2005)

Framework	Product quality	Dimension	Definition
Garvin (1987)		Performance	Performance Primary operating characteristics
		Feature	Supplements to basic functioning characteristics
		Reliability	Does not malfunction during specified period
		Conformance	Meets established standards
		Durability	A measure of product life
		Serviceability	The speed and ease of repair
		Aesthetics	How a product looks, feels, tastes and smells
Parasuraman et al. (1991)		Perceived quality	As seen by a customer
		Tangibility	Physical facilitates, equipment and appearance of personnel
		Reliability	Ability to perform promised service dependably & accurately
		Responsiveness	Willingness to help customers and provide prompt service
		Assurance	Knowledge & courtesy of employees.
		Empathy	Ability to inquire trust & confidence Caring, individual attention by provider to customers

4.5 KNOWLEDGE TRANSFER

Knowledge transfer occurs from the location where these operating activities were conducted to a unit offshore. As such, the practice of offshore outsourcing is argued to bring about the loss of certain competencies and the induced transfer of these competencies to the overseas unit (Grant 1996, Nonaka & Takeuchi 1995).

A Danish SME is enabled into successful international operations, first of all, by managing the knowledge transfer which flows between a wide dispersion of operating units. This is a foremost challenge for the SME, given that the MNCs are highly competent in transferring and combining knowledge (Kogut & Zander 1993). A direct focus on knowledge management, particularly on the factors that facilitate or impede the absorption level is essential for the SME survival (Szulanski 1996, Simonin 1999, Gupta & Govindarajan 2000, Pedersen et al 2003, Kotabe et al 20078, Ambos & Ambos 2009).

Knowledge transfer is characterised to have two mechanisms, the codified and the tacit transfer of information. With the present trend of increased geographical distance between operating units, the difficulty in knowledge transfer most especially in high degree of tacit, raises the cost over the distance (Goodall & Roberts 2003, Hansen & Lovas 2004, Ambos & Ambos 2009, Howells 2002, Bathelt et al 2004, Teece 1977, Galbraith 1990). The cumbersome transferring tacit knowledge across distance has caused the grouping of certain regions (Maskell & Malmberg 1999) even more with its implication that there implies a cultural distance (Johanson & Vahlne 1977, Howells 2002, Gertler 2003, Boschma 2005).

Table 7 Offshore outsourcing destinations
(Enterprise survey, Rambell Management 2005)

Destination	Percent of firms outsourcing offshore
Western Europe	46
Asia	42
Eastern Europe	41
North	13
South America	4
Other regions	4
Total number of companies surveyed = 332	

4.6 DECISION ERROR

Particularly in the circumstance of offshore outsourcing, the sheer complexity of the operation and organisation influences the ability of the decision maker in cost implementation. Subsequently, the tendency to systematically overlook crucial costs can occur when strategic decisions are drawn (Durand 2003, Hogarth & Makridakis 1981, March & Simon 1958).

Table 8 Change in employment after offshore outsourcing in percent (Ramboll Management 2005)

Category	Fewer employees	More employees	Unchanged number of employees	Do not know
Unskilled workers	22	4	64	10
Skilled workers	15	6	70	8
Short & medium length education	19	12	64	5
Tertiary education	13	17	66	5

Total number of companies surveyed=332

Organisation dynamics is characterised as the interdependence and interfaces between its individual members. Consequently, the enormity of a given dynamics escalates exponentially as the number of individual members then increases. That is, the number of interfaces is raised correspondingly to the number of members (Ethiraj & Levinthal 2004, Grandori 2001, Langlois & Robertson 1992, Loasby 1976, Nickerson & Zenger 2002, Rawley 2010, Simon 1962, Thompson 1967, Williamson 1975).

An organisation that is comprised of many small autonomous components that are interdependent on one another entails a higher number of interfaces in the coordination of day to day activities and in the process of deriving decisions. Thus an ongoing communication becomes more and more critical to the organisation for joint and interdependent operations (Thompson, 1967). Consequentially, the information processing is more massive and the likelihood of errors raised (Simon 1955, Levinthal 1997), because a decision maker exerts more effort and might take longer to recognise and anticipate the full operational behaviour, interdependencies and performance; as the complexity of the organisation increases (Ethiraj & Levinthal 2004, Zhou 2011). It is sufficient to state that organisation complexity can impede on the recognition of all critical decision factors, and the competence of decision superiority

(March & Simon 1958). Hidden costs are associated with the implementation costs unforeseen or what has failed to receive attention, at the point a decision is drawn for strategic direction (Ocasio 1997).

Table 9 Offshore outsourcing of jobs, 2002-2005 (Ramboll Management 2005)

Job function	Number of jobs on offshore outsourcing	Percent of total
Low skilled manual work	826	31
Operator and process-related functions	301	11
Skilled trade and craft operations	527	20
Sales and customer functions	145	5
Administrative functions	791	29
Management functions	107	4
Total	2697	100

5.7 HIDDEN COSTS

Hidden costs are the unforeseen expenditures that were not inclusive in a set forecast budget. In which case, these expenditures could be disruptive on the overall implementation phase, and critical if these contradict the rationale of an existing strategic decision. Typically, these costs are overlooked during the decision making processes, and represent the discrepancy between the actual expenditure and budget (Dean & Sharfman 1996, Eisenhardt & Zbaracki 1992, Mintzberg et al 1976, Durand 2003, Makadok & Walker 2000, Harrison & March 1984). Cost discrepancies are traced to the inability or bias of the decision maker, usually when discernments are casually, routinely or autonomously made, and therefore raises the inclination of creating blind spots in the process (Das & Teng 1999, Kahneman & Tversky 1984, Nelson & Winter 1982, Prahalad & Bettis 1986).

Examining the hidden costs to offshore outsourcing is important to the survival of an SME. Offshore outsourcing entails cross border communications in order to interface domestic operations and coordinate interlinked processes or activities (Contractor et al 2010, Manning et al 2008, Srikanth & Puranam 2011). A single decision is tantamount to several decision factors, and is derived to achieve the expected reduction in labour and production costs, access the international pool of talent, discover areas of growth and learning opportunities (Jensen 2009, Dossani & Kenney 2003, Lewin et al 2009).

The downside is that hidden costs can ultimately prove offshore outsourcing to be more costly when hidden costs surface (Dibbern et al 2008, Massini et al 2010, Stringfellow et al 2008).

Earlier research has identified three dimensions of offshore outsourcing hidden costs are examined. One is the impact of hidden costs on the overall monetary value of offshore outsourcing. Second is that internationalisation raises the risk of losing control of the organisation over its resources and eventually the ownership to an external partner, when compared against the cost of vertical integration. Particularly for offshore outsourcing, hidden costs are within the costs for knowledge transfer, coordination cost and control costs which do not occupy the same magnitude in the case of vertical integration (Barthélemy 2001, Bettis et al 1992, Dibbern et al 2008, Hendry 1995, Overby 2003, Reitzig & Wagner 2010).

The last dimension centres on the basic relocation of activities and redesigning cost incurred in the reconfiguration of the value chain across a broad network of interfaced organisations. Hidden costs can easily arise from unforeseen organisational needs such as training, too much interdependency, protection of intellectual capital, and performance monitoring (Contractor et al 2010, Dossani & Kenney 2003, Kumar et al 2009, Levy 1995, Manning et al 2008, Srikanth & Puranam 2011).

The research '*Uncovering the hidden costs of offshore outsourcing*' finds the interplay of complexity, organisation design and experience," centres on the organisation complexity and cost estimation errors, organisation strategic approach in contrast of opportunistic goals, and the positive association of offshore outsourcing experience.

The work examines primary data gathered by ORN, the Offshoring Research Network and secondary sources. Respondent composition from a total of 183 companies is characterised as fifty six percent American firms and forty four percent European firms. Industry composition is 14 percent in technical

services, 18 percent financial services and insurance, eighteen percent in software and thirty two percent in manufacturing. Eighteen percent of respondents are SMEs with less than 500 workers, forty seven percent of respondents are medium sized organisations with 500-10,000 workers, and thirty five percent are large organisations with a workforce over 10,000 employees. Outsourced tasks complete 531 functions or an average of 3.2 implementations mostly in engineering services, call centre services and IT services support.

Table 10 Provider Options

Options	Benefits	Risks	Management issues
Sole supplier	<ul style="list-style-type: none"> ✓ Sole accountability ✓ Potential to pass on economies ✓ Streamlines contracting costs and processes ✓ End-to-end key performance metrics 	<ul style="list-style-type: none"> ✓ Monopolistic supplier behaviours ✓ Compromise quality where the supplier is not best of breed in services, industries or geographic locations 	<ul style="list-style-type: none"> ✓ Management issues ✓ Extensive contract flexibility weights due to the dependence on supplier ✓ Independent expertise to avoid solution channelling and ensure value for money (quotes are market values)
Prime contractor	<ul style="list-style-type: none"> ✓ Single point of accountability ✓ Allows best of breed subcontracting costs and processes ✓ End-to-end KPIs 	<ul style="list-style-type: none"> ✓ Prime must be expert at subcontracting: selection, management and disengagement ✓ Client may desire different subcontractors ✓ Client often required resolving issues between the prime and subcontractors ✓ Prime and subcontractors often encroach "territories" 	<ul style="list-style-type: none"> ✓ Contract ensuring various rights over the subcontracting access, selection, veto, etc ✓ Compliance auditing ensuring the prime passes obligations to the subcontractors ✓ Oversight ensuring all parties are operating as an efficient and united front
Best of breed	<ul style="list-style-type: none"> ✓ Greater control ✓ Flexibility to chop and change ✓ Promotes competition and prevents complacency 	<ul style="list-style-type: none"> ✓ Attracting the market for small slices of work ✓ Keeping suppliers interested giving management focus and allocating staff ✓ Interdependent services and contracts ✓ Integration complexity ✓ Tracing accountability 	<ul style="list-style-type: none"> ✓ Designing interdependent contracts between independent suppliers ✓ Multi-party interface and handover management ✓ End-to-end process management is more difficult ✓ Multi life cycle management
Panel	<ul style="list-style-type: none"> ✓ Buy services and assets when required ✓ Promotes on-going competition ✓ Prevents complacency 	<ul style="list-style-type: none"> ✓ Attracting the market when panel is a pre-qualification and doesn't guarantee work ✓ Adding new panel members or wanting to use suppliers not on the panel 	<ul style="list-style-type: none"> ✓ Panel bidding process for work ✓ On-going ranking of panel members based on performance ✓ Managing and evaluating the total program

The offshore providers comprise of 755 providers with thirty two percent in the USA, nineteen percent in Western Europe, eighteen percent in India, eight percent in other Asian nations, seven percent in Eastern Europe, six percent in Latin America and four percent in China. Forty four percent of the sample represented small providers with less than 500 workers, thirty seven percent are medium size providers with less than 10, 000 workers and nineteen percent of the providers are large organisations with more than 10,000 workers. Majority of these providers are in the sectors of IT services, software development, call centres, finance and accounting, human resource services, engineering services, marketing and sales, procurement, legal services and R&D. All in all the study captures a combined entry

of 3,399 services. The research defines that a positive association between cost estimation errors and value chain complexity can be moderated by the organisation structure and orchestration.

Organisation structure is described as the efficient mechanisms that simplify activity interconnectedness and systematic workflow from each node of the full network that is comprised of various offshore providers. A streamlined orchestration of the entire network interactivity is an indication of good understanding of operating systems and organisation knowledge (Brusoni & Prencipe 2006, Henderson & Clark 1990). Given so, the right expectations can be drawn and the structure effectively supported. The dynamics of offshore outsourcing provides a unique learning experience gained from the heterogeneous and complex nodes, intertwined under shared goals (Haunschild & Sullivan 2002).

Table 11 Niche supplier versus broad

Supplier capability	Niche supplier	Broad supplier
Leadership	Supplier leaders will be well known and there will be easy access to CEO and straightforward deployment of resources	Harder to contact top management
Planning and contracting	Suppliers have more vested interests in the relationship because they cannot absorb or afford failures	The client should push hard for creative contracts, as suppliers have greater ability to absorb risk than niche players
Organisational design	Less formal design is required and the deal is more based on personal relationships	Formal organisational design is more important
Process improvement	Niche suppliers may rely less on processes like six sigma, CMM but make up for this with domain expertise	Broad suppliers may rigidly use CMM
Domain expertise	There will be better domain knowledge because of specialisation, but specific elements of business knowledge will still need to be transferred to the supplier	Clients need to pay special attention to knowledge transfer. Large suppliers can gain domain knowledge through the transfer of relevant employees

5.8 MITIGATING COST ESTIMATION ERRORS

A positive association between offshore outsourcing complexity and cost estimation error can be mitigated by the strategic orientation of the firm in contrast opportunistic. A deeper integration of the offshore provider requires the tacit knowledge in operating systems, otherwise which the outsourcing process relies heavily in the learning-by-doing mechanism. Before pioneering in an offshore outsourcing initiative, it is ideal to have extensive exposure in different sets of organisations, in order to draw good decisions on issues and concerns, aside having the knack of cost estimation (Jensen 2009, Hutzschenreuter et al 2007, Maskell et al 2007).

A positive association between offshore outsourcing and cost estimation errors is mitigated by experience. The upper hand of experience can be measured either through interval of exposure in offshore outsourcing and the breadth of exposure. The longer an organisation has engaged in offshore outsourcing, the more competent it is in cost estimation exercises. It is also sufficient to say that the same organisation gains an equal amount of exposure in a shorter duration working a highly complex network (Lewin et al 2009).

The study finds that the propensity for cost estimation errors is not reduced by the strategic orientation in contrast opportunistic. While strategic orientation does not ensure savings for the organisation, it nonetheless raises the accuracy of expenditure forecast (Lewin & Couto 2007, Massini et al 2010). At the same time the organisation structure as defined in its scale and scope does not reduce cost estimation errors, by itself, nor can it ensure cost savings. Rather the right orchestration of the

globally dispersed and disaggregated structure can reduce cost estimation errors and ensure savings. A proactive adaptation and understanding of individual provider capabilities is vital to achieve so (Argyres & Mayer 2007, Dibbern et al 2008, Kumar et al 2009, Massini et al 2010, Manning et al 2008, Stringfellow et al 2008, Srikanth & Puranam 2011).

Organisation experience underscores the importance of accumulated knowledge which helps facilitate in the prediction of organisation responses, behaviour and performance that ultimately impedes on cost. Organisation experience is further supported by the leadership quality and the criticality of bias in the decision making process for strategic direction. In terms of cost estimation errors the decision maker must grasp how decisions affect the coordination between nodes, the interdependent activities, and the response capacity of the globally dispersed operation (Anderson 1999, Brusoni & Prencipe 2006, Durand 2003, Ethiraj & Levintal 2004, Hogarth & Makridakis 1981, Henderson & Clark 1990, Kahneman & Lovallo 1993, Kahneman & Tversky 1984, Langlois & Robertson 1992, Loasby 1976, Madsen & Desai 2010, Makadok & Walker 2000, March & Simon 1958, Nadler & Tushman 1997, Nickerson & Zenger 2002, Simon 1955, Srikanth & Puranam 2011, Nadler & Tushman 1997, Thompson 1967).

5 IMPACT OF OFFSHORE OUTSOURCING TO DANISH SME

The motive of Danish firms when compared to the exchanges by other countries can be stated as far more strategic for the fundamental reason that Denmark was an early participant in offshore outsourcing, gaining firsthand experience and opportunity as one of the first movers within the region (Kakabadse & Kakabadse 2002).

During the period between 2002 and 2005, a greater number of Danish companies that have been actively outsourcing overseas, received inshore opportunities within the last two years. Although the trend is quite volatile and may be subject to alterations, the pattern is an observation across the country. This suggests that a motivating factor of the Danish organisations, in the aspect of the knowledge gained through successive exchanges, aside the cost saving derived, and as a result the broadening of opportunities on the long term. With the overview of long term business development that include emerging markets, product development, innovative technologies and best practices; it can be said that more of the outsourcing activities set to regional destinations are beneficial only on the short term. Otherwise, a stop gap resolution using one time cost savings. Furthermore, the offshore outsourcing impact shall curb the inclination to resort to short term goals (Maskell et al 2005).

5.1 LABOUR STRUCTURAL CHANGE

Unlike many continental European countries, employment protection is weak in Denmark, and Danish firms may adjust employment with relative ease. This labour market model has led to turnover rates and an average tenure which are in line with those of the Anglo-Saxon countries. In 1995 the average tenure in Denmark was the lowest in continental Europe at 7.9 years, similar to the level in UK (7.8 years) and lower than Germany (9.7 years). As compensation for high job turnover workers receive relatively generous unemployment benefits, but incentives to search for jobs during unemployment are reinforced through monitoring and sanction. Together these ingredients form what has been called the 'flexicurity' model.

Denmark is characterised to have a highly flexible labour market, with more than three quarters of the whole labour force to be union members. In its earlier formation the labour market took up the typical Standard-Rate system for negotiating optional set wages at industry level. Having gone through a heavy process of decentralisation, about sixteen percent of the workforce adheres to the Standard-Rate System, beginning 1995. Wage contracts are presently negotiated at the worker and firm level. Effectually, decentralisation has raised the wage dispersion in the Danish labour market (Dahl et al 2012). This summarises that wages are indicative of the particular worker and firm characteristics, such as worker

marginal productivity. Between 1980 and 2000, the Denmark 90/10 wage ratio rose to 2.35 from 2.1, presenting a slight increase in wage inequality. Given the wage formation in Denmark, it has become significantly more flexible.

The findings suggest that Danish offshore outsourcing activities are more geared to higher skilled and qualified workers, with strong scholastic qualifications. While the bulk of outsourcing is still dominated by the manufacturing sector, the expertise gained from the nature of the challenging circumstance develops a different set of skill and abilities for the Danish company. For example, firms move the full line up of business activities to overseas providers for IT activities, which include the programming, development and operation. For such reasons the company outsourcing is faced with more complex and equally challenging requirements for the supervision of content and more innovative tasks (Farell 2005).

Alterations in employment characteristics related to offshore outsourcing is stated in the table below. The largest cutbacks are on the unskilled worker category at about twenty two percent. A lesser number of skilled workers are affected by the phenomenon, indicating that the highly qualified or skilled worker is retained by the Danish companies. Workers having short or medium length scholastic backgrounds are the vulnerable groups affected by offshore outsourcing. As the outsourcing process matures, these companies outsourcing are seen to have employed a greater number of workers with short and medium term scholastic backgrounds, up to twelve percent. There is also an indication that these companies, over the long term have employed a larger number of highly skilled workers than the volume retrenched. This suggests that the long term impact of offshore outsourcing has positive trade results in the case of the Danish SME. More importantly, the retained domestic workforce comprises a highly skilled knowledgeable group that the Danish worker is most likely to pursue higher education (Danish Economic Council 2004).

From the dimension of job functions, other than scholastic achievement, a total of 2697 jobs have been transferred overseas from the Danish domestic labour market, or about seven percent of the overall regional employment. This occurred between 2002 and 2005. Characteristics of job functions and number of people are indicated in the table below. The manufacturing sector seats the most number of outsourced jobs, or fifty seven percent of all offshore outsourced initiatives, representing the unskilled worker and a portion of workers with specialised expertise.

Compared to the United Kingdom and the United States, very few of Danish companies outsource call centre functions, given the language differences. These follows with sales and services support components that a typically outsourced to overseas labour markets. Nearly one third of all offshore outsourcing programs are related to administrative functions of finance, legal and recruitment. However the more sensitive management functions are not commonly outsourced (McCarthy 2002).

To summarise these findings, MNEs are shown to inshore almost twice as much activity than the overall Danish offshore outsourcing program. Domestic headquarters transfer task to subsidiaries at nearly the same magnitude that is received back. All the same a positive net trade effect occurs on the long term, benefiting the domestic workforce. More work opportunities brought into the Greater Copenhagen region are related to highly specialised and well-paid jobs. Effectually, a strong comparative advantage is defined from offshore outsourcing on the long term. It is to note that Copenhagen is rated as the eighth most expensive city to live in when compared worldwide, and follows after London and Switzerland on regional scale (Orbeg et al 2006).

Workers in routine jobs are the identified vulnerable group faced with a wage slump, as a result of offshore outsourcing. Knowledge based occupations from mathematics, languages, social science have by contrast gained from the phenomenon of offshore outsourcing. Knowledge based occupations from sets of the natural sciences and engineering do not (Autor et al 2003).

As an example, offshore outsourcing pushes the workers for communication intensive functions that can even induce job spells for both ends of the offshore outsourcing chain. Subsequently, the unskilled worker cohorts are exposed to persistent wage losses that can equal to eleven and a half percent over five

years. On the other hand the skilled workers reach a modest loss of one and a half percent (Ebenstein et al 2012, Ottaviano et al 2012).

5.2 INTAKE OF MIGRANT WORKERS ABRIDGE GOVERNMENT FISCAL SHORTFALL

Denmark has evolved into a workplace for many Eastern Europeans successfully employed and contributing in the prospect of country welfare. In a study by the Rockwool Foundation Research (2006) on the Danish labour market finds that the growth of the EU in 2004, defined as a triple fold rise in Eastern European workers on the Danish labour market from less than ten thousand to about thirty thousand between the years 2003 and 2007. A majority of the migrant workers are Poles and nationals of the Baltic countries. The implications of the uptake of migrant workers are that immigration that can bring enormous benefits to Danish society, and is thought that in a matter years this is to abridge Government annual fiscal deficit of about fourteen billion kroner (CEBR 2004).

The study evidences that the employ of a migrant worker with a particular expertise in a Danish service company is advantageous for the firm and at the same time the rest of the workers. Organisations that employ expatriates are inclined toward increased productivity and salary escalations when compared to its competitors. These economic results are seen to help shape the overall social disposition and attitude on the uptake of migrant workers. The Danish society present with no hostile disposition towards work immigrants as when compared to the European communities (Graham 2000).

In an earlier forecast by the Denmark Economic Council, Eastern Europeans are thought to benefit the Government deficit closer to 25 billion DKK and includes the welfare budget for a large population segment that is expected to retire from the labour market. A reduction in fiscal deficit of about 25% of is attributed to the uptake of migrant workers that inject inflows to the domestic economy. Coming to Denmark is tantamount to tax contributions from the outset, the expenditures into public services of transportation, day-care and schooling, among others.

It is more important to note that the uptake of migrant workers has not drastically changed the rate of unemployment among native Danes, indicting an overall neutral effect on the labour market. Nearly nine out of every ten Eastern European nationals are employed by Danish companies, with three out of every four migrant workers resided in Denmark, and the remaining portion are those that commute from home countries. There are about thirty thousand East European migrant workers in Denmark in 2007, with roughly one thousand that are actually self-employed (Denmark Economic Council 2006).

Denmark's migrant worker pool is dominated by Poles to nearly sixty percent while those that come from Estonia, Latvia or Lithuania comprise twenty percent. Migrant workers are employed across a broad selection of services from hospitals to hairdressers to schools. In 2008 there were more men migrant workers than women, with seventy five percent men and only twenty five percent women.

5.3 ECONOMIC CYCLE NO LONGER AFFECTS WAGES

A labour shortage is determined by a negative cyclical unemployment. This occurrence results in high wage increases as suggested in economic theory suggests, and reversely a positive level of cyclical unemployment is to result in slowed wage increases. Denmark during the first half of the 1980s decade presented with economic recession and poor to negative real wages increases. Into the succeeding half of the decade a wage increases spiked resulting in a shortage of labour. At present, this correlation cannot be seen (Samuelson 2004).

Beginning from the 1990s, a stable and reasonable real wage increase is observed in spite the labour supply shortage or excess. This disassociation was explained further with the overall Globalisation trend where wage earners lose the advantage of low unemployment trends to negotiate good compensation arrangements. Labour protection movements can simply result in the immigration of labour or increased offshore outsourcing. This theory is demonstrated by the movement of large facilities into less developed nations or the inflow of migrant workers. In the case of Denmark, this can be associated with the

construction industry and meat production sector. In contrast, the offshore outsourcing effect has a different effect on Denmark's labour demand and supply, indicating less sensitivity to the economic cycle, and in fact evens out over the long term.

5.4 INCREASED PRODUCTIVITY AND REMUNERATION

Studies by the Copenhagen Business School state that the employ of foreign experts tantamount to a positive impact on the firm and the co-workers. Significantly, the productivity level is raised at a faster pace, in the context production volumes against the number of workers, equipment and other inputs. Wages increased between 1999 and 2005 at about three percent for services providers employing foreign experts. The pattern has turned more visible basing on the Danish register of data; individual workers became more productive and in effect had more chances for higher compensation scales.

The study can however state that the reason why foreign experts are employed is due to the domestic shortage on the particular expertise. The transfer of knowledge than instantaneously raises the level of each qualified worker potential on the domestic labour market. Another explanation is that sheer access to the Global labour market, increases the capability of the firm in defining and recognising the particular workforce characteristics required to achieve higher productivity goals. It is also said that the influx of workers from various cultural environments come with a new set of experience of a different management tradition that is very useful to the company growth. In the case of offshore outsourcing, the trends are exactly the same. Company workforce productivity is raised by the intermingling of different cultures (OECD 2008).

Literature on offshore outsourcing defines the case of Denmark as a classic example where the micro-economic influences exceed the hackneyed macro-economic interpretations on the role of offshore outsourcing and the impact on employment. A study of the Copenhagen Business School (2011) states that the impact of offshore outsourcing in Denmark cannot be understood at face value, rather this has to be examined in the lens of industry category of the particular outsourced activity. This finding has been well supported by data analysis that correlates multiple firms clustered as one comparable control group of the firm engaged in offshore outsourcing.

Firms engaged in offshore outsourcing activity present with lower growth levels for number of workers, most especially for workers with medium and low scholastic accomplishments. On the average, a decline in the number of workers in that category has been observed, but varies as to industry. The manufacturing industry outsources core activities while the services sector outsources supporting tasks such as sales and marketing. The services sector also has increased the number of workers with high scholastic accomplishments, and differs significantly higher for workers in the science and engineering and social science and administration (Egger & Egger 2005).

The public sector employs a third of Danish workers and Government expenditures amounts to thirty percent of GDP, which is in fact the highest when compared to all OECD countries. Given the composition and size of the labour market of Denmark, industry rivalry in the private sector is not as robust as seen in other countries, but is in fact the movers for growth and innovation. Poor competition levels can result to low growth and productivity in the private sector. The circumstance seats an advantage for offshore outsourcing which is a freer access of labour and goods, sharpens competition and performance levels, flexibility and adaptability. In response to this trend, the Danish Government has launched initiatives in education, innovation and entrepreneurship, and research (OECD 2008).

6 ENABLING SUCCESSFUL OFFSHORE OUTSOURCING FOR THE SME

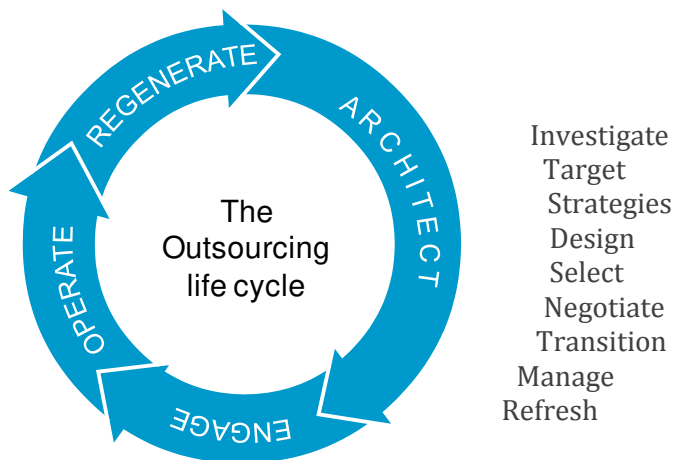
Offshore outsourcing takes up a minor part of a very broad responsibility in an overall cross border value chain and it has an insignificant place in the entire operations. Offshore outsourcing has to be treated as a current evolving process (Manning et al 2008), which should result in the advancement of

outsourcing capabilities within the company, at the same time finding opportunities where further offshore outsourcing can be done (Kotabe et al 2008). The dynamics of offshore outsourcing which entails the co-evolving organisation and internationalisation, influence at the same time absorb the set of evolving operation modes in various overseas markets. As an example, outsourcing could be executed through a licensing arrangement with the overseas assignee. As such, offshore outsourcing is not operating as an independent isolate mode with separate activity in a given overseas market, but can be in joint operation with several other activities and modes in a single integrated package (Benito et al 2009). Companies servicing offshore markets now use the outsourcing mechanism early on entry a new market or regions, and by which the impact on and internationalisation occurs. Mostly this is done to reduce on costs but at the same time flow-on cost implications can exist and are difficult to measure at the outset (Di Gregorio et al 2009). More organisations move into outsourcing and have less interest in moving beyond basic contractual arrangements (Einhorn 2009).

6.1 CAPITALISE ON BARGAINING POWER

Outsourcing offshore begins by the selection of a good provider. In the provider selection into the negotiation phase, the SME outsourcer holds the most bargaining power. At this point it is critical that this bargaining power is worn wisely to pass up future repercussions. The person responsible for representation of the transaction must have the authority and influence throughout the process.

In choosing a provider the SME person responsible needs to evaluate the competencies and capabilities, and not the resources. The importance of staying focused on the capabilities and competencies even when the resources are easy to see through the resumes or balance sheets, the core of offshore outsourcing is how a provider can turn these resources into effective tools and technologies that enhance the worker performance and effective services delivery. To enable the SME ability to make a good provider selection, the following twelve key capabilities are explained. These twelve provider capabilities are what make a provider deliver into a long term business relationship.



Tendering is the typical mechanism used for the selection process and an effective strategy, which requires interaction and transparency between both parties throughout the negotiation stage. It is important to note that negotiation without tendering is only suitable for experienced SMEs in the offshore outsourcing process.

In principle there is two critical roles, first is selecting a good provider and that the arrangement is comes with the right price; second is that the contract stipulations are aptly put, such that the provider performance optimises all capabilities. Provider capabilities are further examined as to which are mandatory and which are qualitative and the cost entailed. All these are supported by the formal

agreement or contract. Contract stipulations require that the outsourcing configuration is well defined. This part requires the involvement of the provider through the input of expert opinion and prioritisation.

In the engagement phases which completes the selection and negotiation the SME outsources has the bargaining power at its height. Given so, realistic expectations on provider responsibilities must be used as a guide for the deal to work out in practice. In doing so, a healthy balance of bargaining power is applied throughout the tenure. Offshore outsourcing should be viewed as a life cycle that can be characterised to complete four phases and nine building blocks of investigate, target, strategise, design, select, negotiate, transition, manage and refresh. The first four blocks fall under the architect phase wherein both parties jointly lay the foundation for the actual agreement. Blocks number five and six comprise the engagement phase where the selection occurs and the deal comes through. The operate phase are made up of block number eight and nine wherein the functional deal is managed. The last phase is the regenerate portion where the SME decides to resume the cycle or not.

6.2 CHOOSING A PROVIDER: NINE KEY PROVIDER CAPABILITIES

Leadership is the first of the twelve capabilities of a services provider. Leadership per se is portrayed as the social influence of an individual to seek the support of others to achieve shared goals (Chemers1997). In the context of offshore outsourcing, the leadership role is to determine the provider and accomplish the task. A capable leader establishes strong business relations with each provider and with individual members of its own organisation.

Business management is the second of the twelve capabilities. The term manage derives from the Latin word literally translated in English as hand, the origin of the verb manage is Italian maneggiare, meaning to handle and is influenced by the French word mesmanagement that is translated in English as to manage (Oxford English Dictionary). Business management in the context of offshore outsourcing relates to the skill of engaging and facilitating the several service providers to cooperate towards the completion of the task and the accomplishment of shared goals.

The third capability is domain expertise which is defined as the specialisation and breadth of knowledge of an individual in a very specific field, which might require particular skills. The term is frequently used in the IT industry and refers to the software domain. As an example domain expertise in logistics relates to the special know how in the logistics software solution and operating logistics as well in order to recognised with some form of specialisation (iSixSigma). In the context of offshore outsourcing, it is very important that the service provider has demonstrated domain expertise in the task being outsourced, both in the task area of assignment and the outsourcing infrastructure set by the SME. More importantly, the chosen service provider must have the ability to contextualise this expertise to the given SME priority areas of concern.

A Provider must have the capability for behaviour management. Behaviour management is characterised by modification of behaviour which is a subtle way of saying behaviour therapy and is centred on maintaining order (Baldwin & Baldwin 1986). In the context of offshore outsourcing, the overall performance of the value chain is optimised when the provider can forecast, pre-empt and control the behaviour of its own organisation in an orchestrated manner that results as the value chain dynamics. In which case, the SME should examine the provider practices, economies of scale, infrastructure and degree of professionalism that ensures the delivery standards. In getting a globally dispersed and disaggregated group of providers to work under shared goals, individual provider behaviour is thoroughly assessed in order to understand behaviour inclinations in the overall group dynamics. That way, the chances of a successful integration and cooperation is raised and the objectives of the value chain can be accomplished.

The sixth capability that a services provider should have is process improvement. This is defined as the systematic approach to organisation flaws or weakness, or simply to utilise a given organisation strength to raise operating efficiencies (Harrington 1991). In the context of offshore outsourcing, the selected provider must demonstrate a key strength in process improvement because it is inevitable that

the processes to complete the services requirement in a distant area can change from time to time, especially with the growth of the business. A constant improvement in the system helps improve the tracking or records, or change capabilities of the various providers. Without this capability, it is very difficult for the provider to adapt to the dynamics or the value chain when changes occur.

Technology exploitation can be defined as the level and availability of hardware, and its utilisation. Each machine or device has its own degree to which the technology can be optimised (IBM general information 2009). A provider must be capable of technology exploitation that the immediate deployment of a new system can be made when needed. This is a major reason for the spur of outsourcing is that the provider has the necessary infrastructure needed to support the services delivery.

Customer development is a critical capability of the service provider, and is defined as the ability to build a consumer based for the SME through the services being provided. This skill is important because some consumer markets fail while others succeed simply because of the complexity of the market or the product. It is also important not to note how focused is the provider on the SME consumer base, and that in every transaction the customer is given the choice on the different service levels, the functionality and cost.

Governance is the last of all competencies, which derives from the word *kubernáo* in Greek, which would mean to steer (European Commission). Governance in the context of offshore outsourcing is associated with the ability of the provider to track and measure its own performance in relation to the shared goals of the value supply chain. This entails a degree of flexibility, making it able to adapt to the fast changing environment.

6.3 CHOOSING A PROVIDER: COMPETENCE

All nine capabilities are motivated into three crucial competencies: delivery competency, transformation competency and relationship competency. The delivery competence would now depend on the provider's willingness and set of capabilities to respond to the day to day operational needs of the SME. This entails provider capabilities as explained in the earlier part. The transformation competency characterises the provider competence to deliver a completely new and improved services in the dimension of both cost and quality. Relationship competence is described as the capacity and initiative to align itself with the corresponding consumer values, goals and needs.

A majority of the offshore outsourcing relationships are established through fees for service contracts, in which a client affords the provider services delivery. Using a service provider contract, the SME is motivated to squeeze the provider for more resources and services without interest to afford more. The provider is on the other hand motivated to squeeze as much profit margin as possible through contract add on and delivery into service levels agreement. The SME then has to ensure that the plans and contracts motivate the provider meet all sourcing expectations. Thus it is thought that the relationship competency is the most difficult competency to find in a provider.

6.4 GET THE PROVIDER CONFIGURATION RIGHT

Provider configuration must best fit the customer purpose or the outsourcing activity, and the SME must be aware of the different options and be actively involved in the choosing between these. An SME that is wise enough to recognise its company limitations and matching these in choosing provider capabilities and configurations. Otherwise the SME can also engage a professional outsourcing adviser for the analytical work, gather of information, facilitation and the management.

There are four configuration options to choose from the different providers: sole supplier, prime service provider, best of breed service provider and panel service provider. A sole provider configuration is defined as a single provider to handle the entire portfolio or package. The benefits include sole accountability and seamless services, but this model nonetheless could compromise service quality, as no one provider can be outstanding in all areas. A prime contractor arrangement comprises of a network,

with several crews under the direction of the head provider, and is a well-recognised mechanism of value supply chain contracting. The head provider is accountable and contractual liable for the entirety of the contract, but can avail of any number of subcontractors to complete the services delivery or part of it. In most instances the subcontractors are engaged for a specialisation or expertise, otherwise operate in regions that the head provider does not or are deployed by the SME to support its local consumers. This can also take shape in alliance networks where two or more providers offer services as a package and is applied in lengthy outsourcing durations. Providers in this arrangement require contract provisions that define what can be subcontracted and to which of these affiliates. Furthermore this mandates the monitoring and control at the end of the head provider.

In a best of breed network which is also understood as the multi-vendor or multi sourcing or selective sourcing, the SME has a number of providers and thus is in effect is the lead provider itself. The difficulties and benefits of this mechanism is associated this option and relate to competition, even though competitive tension are inclined to result in continuous improvement and cost effective benchmarks, it is very difficult to manage providers working under keen competition with each another. A panel arrangement is comprised of different providers that are within an environment of continuous competition. Interactions are very dynamic and work is not guaranteed because each provider competes on a regular basis for various contracts or work orders over a specific duration. This is the usual approach in applications development, or other IT hardware purchasing and consulting, considering that the requirements vary with each initiative.

6.5 CHOOSE A BID PRICE EFFECTIVELY

There is no wisdom in paying too much, in the same way it is unwise to pay too little, because one can sometimes lose everything when what was paid for is completely incapable of doing the thing it bought it to do (John Ruskin). It cannot be emphasised more strongly that outsourcing is not about getting the lowest price at all costs. This is about receiving the lowest price for sustainable services under a fair contract from a superior service provider. Outsourcing is not an isolated transaction that can be instantaneously implemented after the parties come in agreement. It is a fragmentary business relationship with long term consequences, each time depending on the preferences of the parties and subsequently the behaviour of these organisations. With an SME that chooses unwisely, the consequences can be very serious. In a circumstance where a provider is saddled with commitments but from which stand to make no gain then the provider and the SME are both in trouble.

7 SYNTHESIS & CONCLUDING REMARKS

While it might be understood that the SMEs can have relatively lesser opportunity sets and thought to have less absorptive capacity. But at the same time, this further suggests that the successful offshore outsourcing operation of the SMEs is most likely for those participating in a large number of patrons gained in the progress of outsourcing operations. This puts forward the idea of organisation competitiveness, defined and demonstrated in the capability of an organisation to create greater value out of investments, resulting in consumer market satisfaction, in contrast to other competitors. Competitiveness is nurtured from the right mixture of organisation culture, tacit knowledge or expertise and leadership insight. Organisations with good quality, high operating efficiencies and cost effectiveness are most likely to be successful in offshore outsourcing. Even though the outsourcing process relies heavily in the learning-by-doing mechanism, it is ideal that for an SME to have extensive exposure in different sets of organisations, to acquire a knack of such sophisticated dynamics (Almeida et al 2001, Boyer & Lewis 2001, Denis & Depelteau 1985, Hammer & Champy 1993, Johnson & Johnson 1992, Murths & Lenway 1998).

Knowledge transfer is one special feature which occurs throughout the course of interaction and exchange between offshore outsourcing participants. The degree of absorption or transfer of competencies then becomes a critical variable for SME survival. A Danish SME is enabled into successful offshore outsourcing operations by managing the knowledge absorption levels, channelled among operating units that are globally dispersed and disaggregated. What is more is this special feature shifts the importance of cost to competence, and is most likely gained by flexibility of an outfit. Organisation flexibility is a capability that results in lower development costs, shorter time to market and accessibility to focused resources across several industries and disciplines. It is important to note that IT infrastructure is regarded as the foremost driver of competitiveness in the offshore outsourcing sector. This suggests that organisation competencies can be enhanced exponentially with the exploit of technology (Ambos & Ambos 2009, Carson 2007, Garvin 1987, Grant 1996, Gupta & Govindarajan 2000, Kogut & Zander 1993, Kotabe et al 2007, Lewin et al 2009, Nonaka & Takeuchi 1995, Parasuraman et al 1991, Pedersen et al 2003, Reeves & Bednar 1994, Szulanski 1996, Simonin 1999).

For the most part, organisation dynamics derives from the interdependence and interfaces between its independent operating units globally disperse and disaggregated. With the enormity of independent operating units, the probability of decision errors escalates. By so it is important to note that a positive association between offshore outsourcing complexity and decision errors can be mitigated by the strategic orientation of the firm in contrast opportunistic interests, through experience and leadership quality. Strategic orientation does not ensure savings but raises the accuracy of expenditure forecast. In parallel a manner, organisation structure as pronounced by scale and scope, does not reduce decision errors by itself; rather the precise orchestration of the globally dispersed and disaggregated structure can ensure savings. Nonetheless, the lack of experience is compensated by good comprehension of organisation behaviour and performance that can eventually affect cost, and a proactive adaptation and understanding of individual provider capabilities is vital. Organisation experience is supported by the leadership quality and foresight that is quick to grasp how decisions affect the coordination between interdependent nodes and the response capacity of the globally dispersed operation (Argyres & Mayer 2007, Anderson 1999, Brusoni & Prencipe 2006, Durand 2003, Dibbern et al 2008, Durand 2003, Ethiraj & Levinthal 2004, Grandori 2001, Hogarth & Makridakis 1981, Henderson & Clark 1990, Hutzschenreuter et al 2007, Jensen 2009, Kumar et al 2009, Kahneman & Lovallo 1993, Kahneman & Tversky 1984, Langlois & Robertson 1992, Loasby 1976, Lewin & Couto 2007, Massini et al 2010, Madsen & Desai 2010, Makadok & Walker 2000, March & Simon 1958, Manning et al 2008, Maskell et al 2007, Nadler & Tushman 1997, Nickerson & Zenger 2002, Rawley 2010, Simon 1962, Stringfellow et al 2008, Srikanth & Puranam 2011, Thompson 1967, Williamson 1975).

Denmark outsourcing activities are far more aggressive than European counterparts, with a small liberalised state economy and SMEs representing a greater proportion. Given its narrow national consumer base compensated through export oriented policy mechanisms, any structural changes in the economy must tantamount an increased role for the SMEs. In contrast of other European countries, employment protection is weak and Danish firms can fine-tune employment schemes with relative ease, even when with more than three quarters of the whole labour force are union members. This peculiar labour market model has resulted to high turnover rates of an average tenure of about eight years, remunerated with relatively generous unemployment benefits, but sternly reinforced through monitoring and sanction. Otherwise known as the flexicurity labour model characterised with extreme wage dispersion in the Danish labour market. Effectually, this mode of decentralisation which allows wage contracts to be negotiated at the worker and firm level, results in a greater degree of tolerance for international economic impacts, to the extent that the economic cycle no longer affects Denmark wages. Economic theory suggests that a labour shortage is defined by negative cyclical unemployment induces high wage increases, and reversely, a positive level of cyclical unemployment is to slow the frequency of wage increases. Into the first half of the 1980s decade, the economic recession of Denmark resulted poor to negative real wages increases. Over the succeeding half of the decade a shortage of labour spiked the wage increases. Today there are no observations on this correlation in the Danish labour market that it is

sufficient to say that the impact of offshore outsourcing does not impede on wages (Andersen et al 2006, Dahl et al 2012, Samuelson 2004).

The economic advancement of Denmark has developed a multicultural workplace for many nationalities contributing to country welfare. Nearly nine out of every ten Eastern European nationals are employed by Danish companies, with three out of every four migrant workers resided in Denmark, and the remaining portion are those that commute from home countries. Nonetheless, the triple fold rise in migrant workers on the Danish labour market has brought enormous benefits to Danish society. For one, the uptake of migrant workers migrant intake has abridged Government annual fiscal deficit of about fourteen billion kroner and has no significant impact on the rate of unemployment among native Danes, validating a neutral effect on the labour market. Foreign experts are employed to substitute the domestic shortage in very specific industry expertise. With these highly competent expatriates participating in domestic operations, the transfer of knowledge instantaneously elevates the competencies of the Danish worker on the same team, and in due course the capability of the SME to achieve higher productivity goals. It is also explained that by the intermingling of different cultures, the leaning from a different set of experience and different management tradition proves very useful to the company growth (CEBR 2004, Denmark Economic Council 2006, Rockwool Foundation Research 2006, OECD 2008).

Offshore outsourcing has strengthened and deepened the ties that weave economies to each other and SMEs to the rest of the world. These activities bring substantial benefits to Denmark through the transfer of competencies and high standards of business conduct that further enhance the growth of the SME. In this context, enabling successful offshore outsourcing operations for the SME becomes the focal point of many organisations. An SME takes up a very broad responsibility in an overall cross border value chain represented by minor fractions treated as independent organisations, under shared goals and operating in a continuously evolving process. At the same time, the SME absorbs the set of competencies observed in various overseas markets and inculcates these into its domestic activity (Kotabe et al 2008, Manning et al 2008).

This begins by the selection of a good provider into the negotiation phase, where the SME holds most bargaining power. A good negotiation results in a well defined contract and influences a level of authority throughout the operating cycles. A model for the selection identifies nine key provider capabilities to ensure the services delivery: leadership, business management, provider configuration, domain expertise, behaviour management, process improvement, technology exploitation, customer development, and governance. All nine capabilities boost the provider delivery competency, transformation competency and relationship competency. Delivery competence characterises the initiative and capability to respond to day to day operational needs of the SME, transformation competency means the deliverance of a new and improved services of good quality and at cheaper cost. Relationship competence is the provider capacity and initiative to align with the corresponding consumer values, goals and needs identified by the SME. Provider configuration must best fit the purpose of the outsourcing activity, and it is crucial that the SME is acquainted with these options. The significance of choosing the right provider in the context of offshore outsourcing is not about getting the lowest price at all costs. This is about receiving the lowest price for sustainable services under a fair contract from a superior service provider (Baldwin & Baldwin 1986, IBM general information 2009, Willcocks & Cullen 2007, iSixSigma).

8 CONCLUSION

This study finds that there are no inhibiting elements on the future growth and development of the Danish SME. Firms engaged in offshore outsourcing see better prospects in those markets, with the leeway of establishing or increasing operations in those specific regions. Strategic alliances and closer relations with providers that seemingly blur the boundaries of the enterprise, has positive impact on the worker capability and wages in Denmark. For the future Danish SME has right disposition and ability to influence change.

Notwithstanding the temperament of these challenges faced by SMEs in the prospect of offshore outsourcing, there is an apparent responsibility for policymakers to facilitate smaller businesses through multiple areas for action that promote SME competitiveness. Although it is not possible to forecast the growth areas and new business categories that are to emerge in the future, the necessary innovation and transformation has to root within these SMEs per se. The Competitiveness Report 2010 measures growth conditions in Denmark with very distinct features that strengthen its economic tolerance away from the rest of the Global economy, marking good Governance and citizen participation that is difficult to find in other nations.

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