International Outsourcing:
A Process Approach for Apparel Industry

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Short Biography

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Abstract

International outsourcing is a common practice nowadays. However, there is evidence of a lack of methodologies on deciding, developing and implementing international outsourcing processes.

The aim of this study is to build an international outsourcing process framework for apparel industry that facilitates managerial decisions and actions regarding outsourcing decision and implementation. In order to do that, a review of literature on outsourcing frameworks is made to ground the construction of the conceptual model. This proposed framework will describe the main stages of international outsourcing process and their main activities all according to the apparel industry context. After that, a case study is taken to verify if our particular framework is workably and reliable for this specific industry and to introduce improvements on proposed framework based on case study results.

We found that international outsourcing process on case study company can be described using our proposed framework meaning that outsourcing literature reviewed is reinforced. There were some adjustments regarding definition of the implementation stage and also concerning power on decisions in each stage which resulted in a revision of proposed framework.

Keywords: international outsourcing; apparel industry; frameworks

JEL-Codes: F23; L23; L67

Table of Contents

List of Figures

List of Tables

Introduction

Outsourcing is an increasing activity among international firms, a business level strategy that is becoming more corporate since outsourcing decision had evolve from operational to strategic issue (Zhu *et al.*, 2001; Schniederjans and Zuckweiler, 2004; Kremic *et al.*, 2006).

Literature on outsourcing is full on investigation upon determinants (Quinn and Hilmer, 1994; Gibbon, 2001; Schniederjans and Zuckweiler, 2004), benefits (Schniederjans and Zuckweiler, 2004; Nassimbeni, 2006; Qudrat-Ullah, 2009), risks (Schniederjans and Zuckweiler, 2004; Nassimbeni, 2006; Qudrat-Ullah, 2009) and strategies (Bolisani and Scarso, 1996; Graziani, 1998; Elmuti and Kathawala, 2000; Åkesson *et al.*, 2007) of outsourcing. However, empirical research is concentrated on the USA (Welch and Nayak, 1992; Lankford and Parsa, 1999; Elmuti and Kathawala, 2000; Schniederjans and Zuckweiler, 2004; Kremic *et al.*, 2006) and on some European countries (e.g. Italy) (Bolisani and Scarso, 1996; Graziani, 1998; Mol *et al*, 2005; Kremic *et al.*, 2006; Nassimbeni, 2006; Åkesson *et al.*, 2007; Belso-Martinez, 2008; Efstathiades *et al*, 2009). Concerning sectors, there is a lot of empirical evidence on services firms (Quinn and Hilmer, 1994; see Kremic *et al.*, 2006, for further references) and lesser focusing on manufacturing firms (Kremic *et al.*, 2006)[1].

Some research gaps on outsourcing literature and most specifically on international outsourcing were identified, among others, by Kremic *et al.* (2006). Specifically, these authors claim that there is not sufficient research on developing and offering decision models, tools or guidelines to support managerial decisions with the adequate empirical evidence background (Kakabadse and Kakabadse, 2000; Zhu *et al.*, 2001; Franceschini *et al.*, 2003; Marshall *et al.*, 2005 and Kremic *et al.*, 2006). Centered on the overcoming of such lacuna, the purpose of this study is to contribute on designing an international outsourcing process for apparel industry which might facilitate managerial decisions and actions regarding outsourcing decision and implementation. In order to do that, a review of literature on outsourcing process frameworks is made to ground the construction of the conceptual model. A framework is composed by "a number of logically sequential steps" that gives "recommendations of what to do and what should be done" (McIvor, 2000: 24).

[1] For an extensive literature review on outsourcing see Kakabadse and Kakabadse (2000) and Kremic *et al.* (2006).

After model conceptualization, a case study is taken to verify whether our particular framework is workably and more reliable than previous frameworks attempts. We test the proposed framework on a Portuguese firm from the apparel sector due to two main reasons: first, can be representative of outsourcing processes and flows (Gereffi and Frederick, 2010), and second, there are outsourcing studies for apparel on other European countries such as Italy, UK and Spain (Bolisani and Scarso, 1996; Graziani, 1998, Gianelle and Tattara, 2007; Puig *et al.*, 2009), but no empirical evidence for Portugal exists despite this industry being a quite important industry in economic terms (Bessa and Vaz, 2007).

Similarly to other relevant studies concerning outsourcing, our study uses primary data from structured interviews applied to senior managers of the selected Portuguese apparel firm. The aim of this case study is to understand whether the proposed conceptual process is workably and consistent for this specific industry and to accommodate case study findings on it.

Apart from the introduction, this thesis consists of five chapters. The first one is a literature review on outsourcing. This includes state of the art of theoretical approaches and empirical evidence from previous research. Chapter 2 presents the research methodology, followed by the description of the proposed framework and its explanation in Chapter 3. Chapter 4 is the description and discussion of the case study. We end this paper with the conclusions of the study, the limitations and directions for future research.

Chapter 1. Outsourcing Process: a Literature Review

Literature on outsourcing appears in a more constant rhythm in the last decade of twentieth century. Initially studied as a business level strategy of firms (as an operational issue), it evolved to a corporate level strategy (Zhu *et al.*, 2001; Schniederjans and Zuckweiler, 2004; Kremic *et al.*, 2006). In this section we clarify sourcing/outsourcing concepts, and then we review the literature on outsourcing frameworks approaches. Finally we characterize outsourcing process on apparel industry through examination of existing empirical studies.

1.1. Defining international outsourcing

Outsourcing has increasingly being identified as a management strategy given that firms transfer "major non-core activities to specialized and efficient providers" (Elmuti and Kathawala, 2000: 112) in order to sustain and enhance competitive advantages (Weele, 2005).

Outsourcing is defined as moving to external organizations activities that were previously developed internally (Parkhe, 2007). If sourcing is done outside home country borders we can have two distinct concepts: international outsourcing and offshoring. International outsourcing (IS) is moving activities traditionally developed in-house to external firms in foreign countries (Schniederjans and Zuckweiler, 2004). Offshoring is moving production activities outside home-country borders to foreign affiliates (activities are kept internally) (UNCTAD, 2004). Concepts disambiguation is shown in Table 1.

Table 1 – Concept disambiguation

		Home Country	
		Inside	Outside
Firm	Inside	(Internal) Sourcing	Offshoring
	Outside	Outsourcing	International Outsourcing

Source: Author

Recently, due to globalization phenomena, a new concept was developed: global outsourcing (Elmuti and Kathawala, 2000). This results from managing integrated outsourcing activities located inside and/or outside home-country borders (Elmuti and Kathawala, 2000).

1.2. Literature review on outsourcing frameworks

In 1996, a PA Consulting Group survey revealed, among other findings, that managers were disappointed with the outsourcing outputs on their firms – only five percent of the managers said that the objectives were achieved (Lonsdale, 1999). According to Lonsdale (1999), this disappointment results both from the weak management decision capacity and the lack of outsourcing methodologies.

In fact, the absence of methodologies, tools and guidelines are often referred (Lonsdale, 1999; McIvor, 2000; Zhu *et al.*, 2001; Marshal et al., 2005; Kremic *et al.*, 2006). Since the 1990s there were several efforts in order to provide outsourcing guidelines and frameworks to operationalize outsourcing process in firms (Jennings, 1997; Embleton and Wright, 1998; Lonsdale, 1999; Vining and Globerman, 1999; Fill and Visser, 2000; McIvor, 2000; Incognito, 2001; Zhu *et al.*, 2001; Franceschini *et al*., 2003; Marshall *et al*, 2005).

To analyze the communalities and differences between the proposed frameworks we establish a common mainframe. We assume that outsourcing processes can be divided into four major stages, as proposed by Zhu *et al*. (2001): 1) planning, 2) developing, 3) implementing and 4) evaluating. There is a stage zero (before firm consider to outsource) that is not considered by Zhu *et al.* (2001). This stage zero is when firm examines motivations for developing outsourcing, the expected benefits and risks and decides to consider outsourcing as one of available strategies (Schniederjans and Zuckweiler, 2004; Marshall *et al.*, 2005; Kremic *et al.*, 2006). Thus, in stage 1 we assume that firms made that examination and are considering outsourcing. During development stage, firms that determined the activities that will be outsourced access the supply markets to search and select potential providers. The development stage ends when contract negotiation is done. Stage 3 is the implementation of the contract in both sides (involving the transference of the outsourced activity from the buyer to the vendor). Stage 4, surviving, includes two main aspects: post review of outsourcing process and managing outsourcing relationship.

Considering these four stages, only three frameworks are longwise: Embleton and Wright (1998), Zhu *et al.* (2001) and Marshall *et al.* (2005) – only these refer implementing stage. Table 2 shows the catch-all of these frameworks according to the mainframe assumed.

Table 2 – Outsourcing process approaches

	Stage 1 Planning	Stage 2 Developing	Stage 3 Implementing	Stage 4 Surviving
Jennings, 1997	★	★		★
Embleton and Wright, 1998	★	★	★	★
Lonsdale, 1999	★	★		★
Vining and Globerman, 1999	★	★		
Fill and Visser, 2000	★			
McIvor, 2000	★	★		
Incognito, 2001		★		
Zhu *et al.*, 2001	★	★	★	★
Franceschini *et al.*, 2003	★	★		★
Marshall *et al*, 2005	★	★	★	★

Source: Author

Stage 1: Planning

When firms consider outsourcing they need to engage certain activities in order to make outsourcing decision. Franceschini *et al*. (2003) suggest that firms should do an internal benchmarking which includes identification of core competences and the processes that can be outsourced.

Core competences are those that give firms a sustainable competitive advantage (Prahalad and Hamel, 1990; Quinn and Hilmer, 1994; Trent and Monczka, 2002). Some authors (eg., Prahalad and Hamel, 1990; Lonsdale, 1999) argue that core activities (activities that result from core competences) should stay in-house and "non-core competencies" should be outsourced in order to enhance focus on core competencies. Others (eg., Quinn and Hilmer, 1994; McIvor, 2000) defend that firms can also consider to outsource core activities – strategic outsourcing. Identification of core competences is also referred by Jennings (1997), Embleton and Wright (1998), Lonsdale (1999) and McIvor (2000). These two last authors also referred a supply chain analysis in order to identify processes along the supply chain that will benefit from outsourcing decision.

After identifying the activities that can be outsourced, firm should engage in an internal cost analysis (Jennings, 1997; Embleton and Wright, 1998; Vining and Globerman, 1999; Fill and Visser, 2000 and Zhu *et al.*, 2001). Outsourcing is expected to reduce production costs (Vining and Globerman, 1999; Fill and Visser, 2000). However, each firm should do cost analysis in order to determine if expected cost from outsourcing is lower than firms cost associated to perform the activity in-house (Embleton and Wright, 1998).

To an accurate cost analysis Jennigs (1997) and Zhu *et al.* (2001) stress the importance of recognizing and measuring explicit and implicit cost (hidden costs). Based on Williamson's (1979) transaction costs theory, Vining and Globerman (1999) and Fill and Visser (2000) propose a cost analysis balancing product complexity, asset specificity, and transactions frequency. Vining and Globerman (1999) indicate three types of costs: 1) production costs (higher product complexity lead to higher productions costs); 2) bargaining costs (cost of negotiation and monitoring); and 3) opportunism costs (result from self interest acts that change agreement terms). A firm should decide to outsource an activity if the internal production costs are higher than external production cost plus transactions costs (which includes bargaining and opportunism cost and depends on product complexity and asset specificity).

In the same line of thought, Fill and Visser (2000) indicate outsourcing coordination costs (cost of governance) that depend on asset specificity (customization degree of the transaction) and the transaction frequency. In the extreme cases, if transaction frequency is low and asset specificity is high, transaction cost theory previews that activities should be governed by hierarchies (internal sourcing or offshoring), whilst if asset specificity is low and transactions are frequent, those transactions should be handled through markets (outsourcing or international outsourcing) (Williamson, 1979; Fill and Visser, 2000).

Other relevant assessments for taking outsourcing decision are business environment and organization structure and capacity (Jennings, 1997; Fill and Visser, 2000). Outsourcing as a strategy may be a way of reacting to changes in business environment (Jennings, 1997). The more uncertain is the market and competition the greater are the effects on outsourcing decision (Jennings, 1997). Looking inside the firm, organization structure and corporate strategy also impact outsourcing decision (Fill and Visser, 2000) and outsourcing may impacts on corporate culture as well (Embleton and Wright, 1998).

Stage 2: Developing

During this stage firms need to access supply markets and search for potential providers (Jennings, 1997; Embleton and Wright, 1998; Lonsdale, 1999; McIvor, 2000).

According to Jennings (1997) and Lonsdale (1999), on accessing supply markets, firms should avoid entering in monopolistic markets due to the risk of dependency from supplier. This is, if there is few (or only one) suitable suppliers in that market that raises his potential power. If supplier proves disappointing, costumer firm has two choices: faces high switching cost in contracting a worse supplier (supposing that first choice was the best at the time) or, if there isn't another suitable provider, the firm may re-conduct the activity in-house (Jennings, 1997; Lonsdale, 1999).

In searching for potential providers, firms should undertake an external benchmarking (Franceschini *et al*., 2003) with two objectives: cost and capability analysis. Regarding costs, firm should clarify if outsourcing selected activities will result on cost savings by comparing internal production costs with providers' (Franceschini *et al*., 2003). Regarding capabilities, firms should examine if there are suppliers with necessary capabilities to perform appropriately (Jennings, 1997; McIvor, 2000). This includes not only infrastructures but also both technology and knowledge (Jennings, 1997). If providers have no sufficient capacity, firms should consider to keep activities in-house (McIvor, 2000) or establish cooperative alliances in order to transfer technology or knowledge (Jennings, 1997).

In this stage, business relationship with potential providers must be developed (Jennings, 1997; McIvor, 2000; Zhu *et al.*, 2001; Franceschini *et al*., 2003). This includes defining the type of provider and outsourcing strategy and also negotiation of supply contract (Incognito, 2001; Franceschini *et al*., 2003). Incognito (2001) indicates four categories of providers: supplier, preferred supplier, alliance partner and strategic alliance.

Franceschini *et al*. (2003) make the same approach classifying outsourced-outsourcer relationship according to its specificity and complexity. If specificity and complexity are low (this means, goods/process may allow different uses and there is low difficulty on specifying and monitoring terms and conditions of the transaction) the provider will be a traditional vendor; if complexity is low but specificity is high firms will establish short term relationships with providers. When it is difficult to establish and monitor contract terms of the outsourcing relation, firms can engage in strategic unions (alliances) with

suppliers if there is low specificity or network organization (strategic alliances) if goods/process do not allow different uses.

Negotiation of supply contract must pursue a win-win solution both for costumer and supplier (Incognito, 2001).

Stage 3: Implementing

Implementation of outsourcing starts after the supply contract is made. This stage is characterized by transferring outsourced activity from buyer to vendor.

Assuming that outsourced activity is not new, the implementation of outsourcing contract has impacts on buyer firm in terms of managing human resources and company morale (Embleton and Wright, 1998). Deciding to outsource, firm has three staff options (Embleton and Wright, 1998): leave the firm (downsizing), join the outsourcing firm or stay in the firm. Outsourcing processes impact firms' morale, mainly if that implies labor downsizing (Embleton and Wright, 1998). To avoid human costs and low morale, Embleton and Wright (1998) defend that firm should communicate outsourcing decisions, processes and impacts on company; employees must be aware of (Embleton and Wright, 1998): companies' goals, employees' roles (how roles changed with outsourcing), employees' expectations on skills and knowledge needed for new roles and companies' priorities.

Zhu *et al*. (2001) have a project management perspective of outsourcing implementation process. They argue that outsourcing transition plan must include all tasks to be accomplished, even the small or common ones. This includes a communication plan and also outsourcing transition timeline, scope definition, human and physical resources (Zhu *et al.*, 2001).

Note that implementing stage is not consensual to studied framework authors, as they miss on referring this stage as exposed on table 2.

Stage 4: Surviving

This stage is characterized by two main aspects: a post outsourcing review (Jennings, 1997; Embleton and Wright, 1998; Zhu *et al.*, 2001) and the management of outsourced-outsourcer relationship (Embleton and Wright, 1998; Lonsdale, 1999; Franceschini *et al.*, 2003).

Post outsourcing review. In this stage, a post outsourcing review should be made (Jennings, 1997; Embleton and Wright, 1998; Zhu *et al.*, 2001). First, cost analysis should be re-done and compared with the previously made during contract negotiation (Zhu *et al.*, 2001). If costs revealed to be higher than expected, firm should try to identify the activities/processes which are causing those deviations (Zhu *et al.*, 2001; Franceschini *et al*., 2003). In an extreme case, the firm may consider to abandon the outsourcing relationship (Franceschini *et al*., 2003). Besides costs, the objective of post review is to determine if the outsourcing process has occurred has planned and to target activities or processes that should be changed or improved (Zhu *et al.*, 2001). This is also the moment to examine effective impacts of outsourcing in buyers' organization culture and structure (Embleton and Wright, 1998).

Managing outsourcing relationship. Also in this stage, firm should monitor and evaluate outsourcing relationship (Embleton and Wright, 1998; Lonsdale, 1999; Incognito, 2001; Franceschini *et al*., 2003). This includes monitor supply contract accomplishment (Lonsdale, 1999; Incognito, 2001) and evaluate supplier performance (Franceschini *et al*., 2003). Service levels and other evaluation criteria should have been defined during contract negotiation (Franceschini *et al*., 2003). In doing so, monitoring and evaluating, firm is preventing supplier opportunism and controlling supplier bargain power (Lonsdale, 1999). To monitor and evaluate outsourcing contracts and suppliers, buyer firm should assure an in-house outsourcing management structure, which might imply new management skills (Franceschini *et al*., 2003).

According to Marshall *et al.* (2005), previous attempts on developing outsourcing process frameworks (e.g., Zhu *et al.*, 2001) had several gaps: a static perspective from outsourcing process ignoring organizational and environmental factors and not detailing activities under each stage. In this study we will try to overcome two of the mentioned gaps, proposing a dynamic outsourcing process framework and exploring each phase individually, identifying activities under each stage.

1.3. Outsourcing in apparel industry: summarizing the empirical evidence

International trade liberalization, strengthened by the end of Multi Fiber Agreement on 2005, caused an increase of competition on apparel industry (Gibbon, 2001): low labor cost countries as China or India were able to export their products and compete with traditional manufactures in Europe and North America (Strange, 2006). In order to survive

and compete, European and North Americans' manufactures developed international outsourcing activities as shown by the increase of imports of apparel in both continents (Gibbon, 2001; Strange, 2006; Gereffi and Frederick, 2010).

The conceptual framework justifying outsourcing in apparel industry goes beyond simply "make or buy" decision (Strange, 2006) and it steps in global commodity chains theories (Gibbon, 2001; Strange, 2006; Gereffi and Frederick, 2010). It explains international outsourcing as a functional upgrading on apparel global value chain: firms in developed countries (lead firms) focus on their most valued activities which are basically design and marketing and moved other functions, mainly production, to suppliers in developing countries (Gibbon, 2001; Strange, 2006; Gereffi and Frederick, 2010). Outsourced activities are usually labor intensive, where developed countries cannot be competitive, while knowledge and technological activities are kept in-house (Gibbon, 2001).

Literature on outsourcing of apparel (Bolisani and Scarso, 1996; Graziani, 1998; Gibbon, 2001; Teng and Jaramillo, 2005; Strange, 2006; Tam *et al.*, 2006; Åkesson *et al.*, 2007; Kumar and Arbi, 2007; Qudrat-Ullah, 2009) aims to response to these questions: *why*, the motives and drives to outsource; *where*, in which geography and/or market; and *how*, which outsourcing strategies to undertake. Another question lesser referred but that can be made is *what* to outsource and refers to which activities should be kept in-house and which should be outsourced (Bolisani and Scarso, 1996). A summary of reviewed papers on outsourcing in apparel industry is shown in Table 3.

Table 3 – Outsourcing in apparel industry: summary

	Motives	Strategy		Methodology	
	Why	*Where*	*How*	*Method*	*Country*
Teng and Jaramillo, 2005			●	Case study	USA
Kumar and Arbi, 2007		●	●		USA
Bolisani and Scarso, 1996	●	●	●	Multi case study	Italy
Graziani, 1998	●	●		International Trade data analysis	Italy
Gibbon, 2001	●	●	●		UK
Tam *et al.*, 2006			●	Survey	Hong Kong
Åkesson *et al.*, 2007		●	●		Sweden
Qudrat-Ullah, 2009	●	●		Empirical evidence from previous studies (literature review)	USA
Strange, 2009	●		●	Explanatory	---

Source: Author

According to Bolisani and Scarso (1996), international outsourcing can be made with four motives: natural resources seekers, market seekers (also mentioned by Qudrat-Ullah, 2009), efficiency seekers and strategic asset seekers. Other motives for outsourcing are: cost reduction (Gibbon, 2001; Strange, 2006), which includes labor cost (Graziani, 1998; Qudrat-Ullah, 2009); flexibility and availability of capacity (Gibbon, 2001) and production expertise (Gibbon, 2001; Strange, 2006).

Regarding location strategies, these depends on the nation specific resources, as labor (Bolisani and Scarso, 1996; Qudrat-Ullah, 2009), trade ability issues as delivery times, tariff barriers and logistics (Bolisani and Scarso, 1996; Qudrat-Ullah, 2009) and cultural issues (Bolisani and Scarso, 1996). Location strategies are mentioned by Graziani (1998), Gibbon (2001) and Åkesson *et al.* (2007) on their empirical studies. They reflect the tendency on international outsourcing (mainly to Asia) but they also refer the "near-to-home" strategy (Graziani, 1998; Gibbon, 2001) that justify apparel firms from north and central Europe to outsource to eastern European manufacturing firms, in order to give quick response to markets (Gibbon, 2001). Double sourcing (Åkesson *et al.*, 2007) is when a firm produces the same product in a long and in a short distance supplier, the first justified by cost and the second because of a quick response to markets.

Concerning outsourcing strategies, there isn't a clear consensus. Bolisani and Scarso (1996), define how to outsource considering supplier selection criteria and investment form. This is, firstly, firm decides on supplier depending on the number, size and specialization of supplier plant, technology and coordination mechanisms (Bolisani and Scarso, 1996). Also Gibbon (2001) refers expected capacities from suppliers as determinant on outsourcing strategy. Åkesson *et al.* (2007) presents an alternative approach on outsourcing strategies. There are three supply channels (Åkesson *et al.*, 2007): direct contact with suppliers, indirect (contact suppliers via agents) and own (direct investment or acquisition). This last one is not an outsourcing strategy (it will be offshoring).

These articles (see Table 3) can also be assembled in the four-stage main frame of previous section. Bolisani and Scarso (1996) contributes to stage 1 (planning) on considering which activity from production phase should be outsourced. Stage 2, developing, gathered contributions from Bolisani and Scarso (1996), Gibbon (2001) and Åkesson *et al.* (2007)

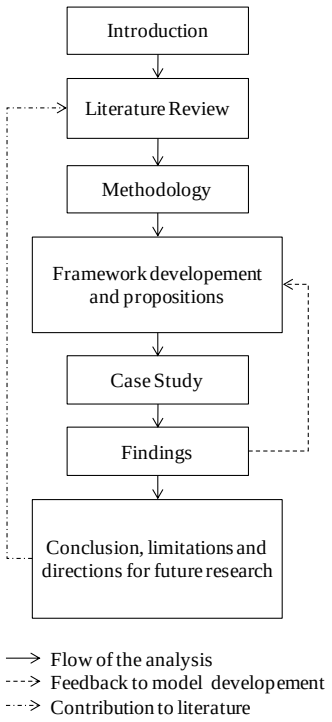
on accessing supply markets and selecting providers. Finally, Gibbon (2001) and Kumar and Arbi (2007) gave huge contributions on last stage, surviving, specifically on managing buyer-supplier relation.

Chapter 2. International Outsourcing Process for Apparel Industry: Methodological Considerations

The aim of this study is to propose a new framework for decision taking and assessing the international outsourcing process in buyer firms of the apparel industry. Such tool aims at helping apparel industry managers to operationalize their outsourcing strategies.

The research procedure is shown in Figure 1.

Figure 1 – Research procedure



Source: Adapted from Pero *et al.* (2010)

To achieve such objective, a conceptual and methodological framework is developed in next chapter based on the empirical evidence provided by several studies and previous frameworks proposed by Jennings (1997), Embleton and Wright (1998), Lonsdale (1999), Vining and Globerman (1999), Fill and Visser (2000), McIvor (2000), Incognito (2001), Zhu *et al.* (2001), Franceschini *et al.* (2003) and Marhsall *et al.* (2005). This framework follows the four-stage process explored on literature review. To each stage, we identify and characterize the main activities and their sub-activities.

To test if the proposed framework is workably and reliable for this specific industry, a case study is made. This involves the construction and implementation of a questionnaire (see table in Appendix 1) which is applied through two in-depth interviews to senior managers (director and operational manager). Questionnaire questions aim to answer to three main topics: a) which activities occurred since the beginning of the outsourcing process; b) the sequential order of activities and c) the learning during process (what would they have done differently). This will help us on: a) finding activities not included on the model, b) confirming or discarding the four-stage sequential logic and c) analyzing the process dynamics, among other findings.

A case study firm is chosen inside the Portuguese apparel industry and this firm should run outsourcing processes on production in foreign suppliers (located outside Portugal). Because of research time constrains, it will not be possible to follow an outsourcing process during the four stages. Instead, the case study firm should be in the last stage (surviving) and we will study the previous stages based on historical data. Resuming, these are the three main criteria on selecting case study firm: belonging to Portuguese apparel industry, outsourcing at least one of manufacture activities and having an implemented outsourcing process (being at the last stage, surviving).

Examining apparel value chain (see figure in Appendix 2) proposed by Gereffi and Frederick (2010), they distinguish research and development from design and from production activities. This makes sense because they have different value adding to the apparel chain but in our perspective this activities may be seen all together because they origin the final product.

Considering the criteria defined previously, a case study firm was selected among Portuguese apparel industry. Our selected company designs on its own label, produces (outsources), distributes and sell women and menswear (mainly trousers, knit wear, jackets and shirts) for more than ten years. Our case study firm outsources production activities and that is our unit of analysis.

Chapter 3. International Outsourcing Process for Apparel Industry: the Proposed Framework

Gathering the inputs both from international outsourcing process literature, namely frameworks on outsourcing process, and apparel industry outsourcing literature enable the construction of an outsourcing framework for apparel industry (Figure 2, presented next page).

There were some hypothesis behind construction of the framework:

H1 – International outsourcing process framework is a four-stage process.

H2 – Beginning and end of each stage:

H2.1 – Stage one begins with company's decision to start an outsourcing process and ends when company decides which activity will outsource at first.

H2.2 – Stage two begins when company starts to search on international market for suppliers and ends when outsourcing contract is made with one supplier.

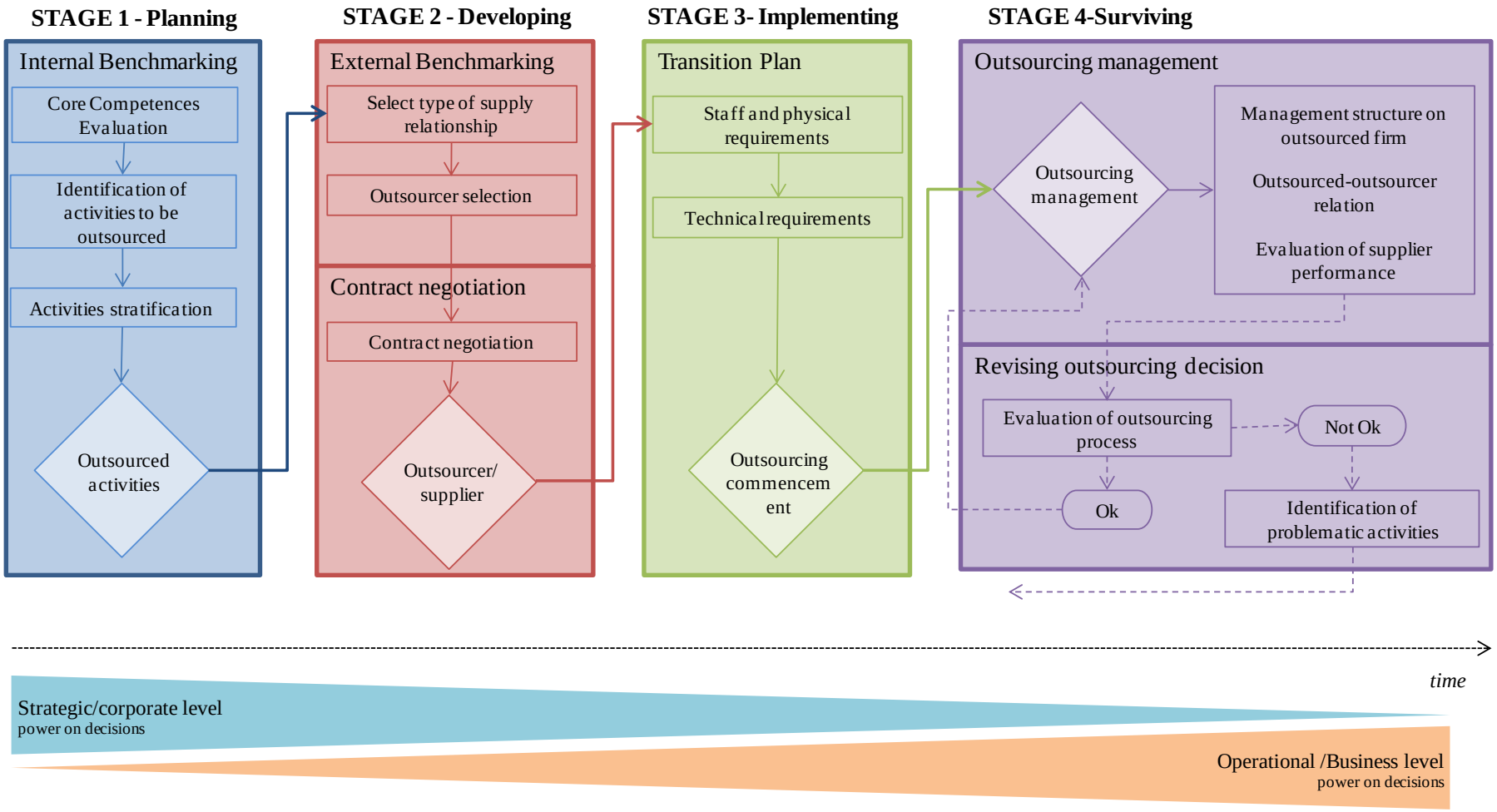
H2.3 – Stage three begins when outsourcing contract is made and finishes when supplier is fully capable to start executing the contract (starts producing).

H2.4 – Stage four begins when supplier starts to execute contract (producing). This stage ends when outsourcing contract and relationship is extinguished.

H3 – Corporate level decisions characterize stage one and corporate participation on decisions decreases along the four-stage process. In reverse, stage four is mainly operational level decisions and operational participation on decisions diminish as we go back to stage one.

Considering proposed framework we present the activities from each stage. Although most of the activities were referred on literature review we will remember them and translate them to apparel industry context.

Figure 2 - International Outsourcing Process for Apparel Industry



Source: Author

Stage 1 – Planning

Firm is considering on engaging on an international outsourcing process. An internal benchmarking analysis is made to find out which activity (ies) might be outsourced.

Core Competences Evaluation: Consists on evaluating company's core competences that foster company's competitive advantages. Most common core competences are design, branding and marketing. Most common competitive advantages of companies on the apparel industry are product differentiation and innovation, superior quality, high service, quick response and quality/price ratio (Bolisani and Scarso, 1996 and Gereffi and Frederick, 2010).

Identification of the activities to be outsourced: after knowing company's core competences it is needed to identify which activities are core and which are not. Company should make outsourcing decision as a way to improve and reinforce company's competitive advantages. At apparel industry, it's common to outsource operational activities, namely manufacturing process. It is possible to outsource the entire process or only some activities. Apparel manufacture includes: design, grade-mark, fabric cut or knitting, assembly, press-iron and inspection packaging. Knitting is a capital intensive activity while assembly and press-iron are labor intense (Gereffi and Frederick, 2010) this impacts on next stage regarding selection of the market or country and supplier since that for assembly company will prefer low wage countries and for knitting company will look for a supplier with technology to do it.

Activities stratification: if more than one activity is selected do outsource, company must prioritize them. Usually the primary activity to outsource is assembly (also known as cut-make-trim, CMT), because they are labor intensive activities. Design is the activity that usually is kept in-home due to its importance on company' competitive advantage (Gereffi and Frederick, 2010).

At the end of this stage, firm must be aware of which activity will be the first to enter in an international outsourcing process.

Stage 2 – Developing

At this point, firm should engage an external benchmarking analysis in order to select potential suppliers. After that firm should select the suitable supplier and negotiate contract terms.

Select type of supplier relationship: company should decide which type of supply relation want to establish. According to supplier functional capabilities there are three main types of suppliers for apparel industry. Marginal Suppliers are suppliers that only cut, make and trim (CMT or assembly): it's paid a processing fee, but not a price for the garment, since all fabrics, and trims, are sourced and owned by the buyer. Preferred supplier are those who produces according to buyer specifications and design and are capable of sourcing and financing fabric and trims needed for the production and also production services as finishing and packaging (also called Original Equipment Manufacturing - OEM - or Free on Board - FOB). Finally, strategic supplier: is the full package supplier or Original Design Manufacturing (ODM). This supplier carries all production steps sometimes including design and product distribution (Gereffi and Frederick, 2010).

Outsourcer selection: outsourcer selection may be preceded by market or country selection to outsource. Outsourcing near-home or at distant countries affects orders lead time (if quick response is one of the competitive advantages of the company it might be better to outsource internationally but in near-to-home countries). Other relevant factors on selecting outsourcing country are trade tariffs, taxes and transportation facilities (also affects delivery time); cultural factors may be important too (Graziani, 1998; Gibbon, 2001).

According to Embleton and Wright (1998), selecting a supplier implies determining supplier profile, that is, the desired characteristics of the supplier. This profile may result from previous benchmarking among suppliers on some particular market or product line. After that, firm should conduct request for information to the potential suppliers regarding supplier interest on the relation, its capabilities, corporate culture and strategy. After analyzing suppliers' response, firm should conduct request for proposal to target convenient suppliers, in which outsourced company provides general information about its own organization and its outsourcing strategy, including outsourcing objectives and detailed outsourcing requirements (this may or not be part of the contract). Outsourced firm should also conduct site visit to confirm if referred characteristics exists on reality, and check outsourcer capabilities, technologies and processes.

Contract negotiation: contracts enclose mandatory legal topics and commercial specific terms. Graham (1993) refers some of legal and specific terms of the outsourcing contracts which includes: description of outsourcing scope, detailed service characteristics and requirements, how contract can be changed either by outsourced firm or by the supplier,

the responsibilities of each user and mechanism to solve minor problems, users' rights to terminate the contract, establishment of supplier performance measures and the method to monitor and evaluate them and also the rebates in case supplier do not meet defined goals.

At the end of this stage firm must have found and contracted at least one supplier for each outsourced activity.

Stage 3 - Implementing

In this stage outsourced firm must transfer all information and material needed by outsourcer in order to contract execution.

Staff and physical requirements: outsourced firm must assure that the supplier has the human and physical requirements to execute outsourcing contract (Zhu *et al.*, 2001). In case supplier has some deficit, as human resources, outsourced firm may transfer temporarily own staff or provide training sessions. In some cases human resources may be transferred permanently to the outsourcer.

Technical requirements: outsourced firm must assure that the supplier has the technical requirements to execute outsourcing contract (Zhu *et al.*, 2001). This includes transferring all technical specifications and access to information on the outsourced firm. This may imply access to information systems.

At the end of this stage outsourcer must be capable to perform contract and outsourcing relationship is commencing.

Stage 4 – Surviving

This last stage is compound by a surviving stage which is the outsourcing management and also by a post-outsourcing analysis.

Management structure on outsourced firm: despite firm starts outsourcing one or several activities, it needs to assure a management team, an outsourcing management team which is responsible for all outsourcing process.

Outsourcer-outsourced relation: outsourcing management team is responsible to balance this relation. It's important for outsourcer firm to be aware of the desirable length and flexibility of the relation: not too shorter or stiff in order to take all benefits from it and not too longer or wide that may arise supplier bargain power. Authors as Gibbon (2001) and Kumar and Arbi (2007) refer partnership and long term relationship as important factors

for successful outsourcing on apparel industry. They insist that outsourcer-outsourced relation should be based on transparency, trust and commitment.

Evaluation of supplier performance: outsourcing management team is responsible for monitoring and evaluating supplier performance, as established on contract. Most common performance items on apparel are delivery, quality, costs and reliability (Gibbon, 2001; Teng and Jaramillo, 2005). Teng and Jaramillo (2005) have a detailed list of performance items (see Figure in Appendix 3) on which include flexibility.

Evaluation of outsourcing process: at this point it's necessary to compare outsourcing outputs with the initial expectations and predicted benefits of it to find out if outsourcing process actually improved company performance (ex. by increasing gross margin) and contributed to company's competitive advantages. If evaluation of outsourcing process is positive, company may proceed with the outsourcing management. If not, company must identify each problem and return to the earliest stage in which problems must be solved, for example by selecting a new supplier, by revising existing contract, etc.

Chapter 4. International Outsourcing Process for Apparel Industry: Case Study Analysis and Main Findings

Now we are going to present the most important notes regarding case study analysis upon the two interviews (see fragments on Appendix 4).

Regarding planning stage, core activities of the company are not outsourced; they are kept internally to protect company's competitive advantages, as previewed on literature. A cost analysis is done for selecting outsourcing activities but didn't seem to be as accurate as recommended by Jennings (1997). They also are aware of the impact on outsourcing decision of product specificity and complexity, which is in accordance with coordination cost theory of Fill and Visser (2000).

On developing stage, they mainly use FOB as supply relationship type but for the specific products they use 'semi-finished' products supply type. This is similar to FOB regarding supplier responsibilities with the exception that last stage of production is made internally by the buyer (because it is a core activity) - buyer company pays for the semi-finished product a unit price. Most of the company's suppliers are preferred suppliers as per Gereffi and Frederick (2010) denomination.

The factors for selecting one market or country are in accordance with Graziani (1998) and Gibbon (2001), though they have referred proximity with the source of raw materials and components even this is a supplier responsibility and also assumed to apply benchmarking with other firms in the industry. For supplier selection their process is pretty similar to the process described by Embleton and Wright (1998) including procurement, request for information, site visit and request for proposal which in this case is a request for quotation probably followed by the first and experimental production order. The criteria referred on selecting the supplier is cost, quality, production lead time dimension and production capabilities as some authors mentioned (e.g. Jennings, 1997) but also minimum quantity order requested and also other clients of the supplier. They also mentioned that they sometimes have double sourcing situations as argued by Åkesson *et al.* (2007) in order to respond to market minimizing lead time constrains (in one supplier they benefit from short lead time and in the other they benefit from lower unit cost).

Still on developing stage, contract negotiation was a common referred step among our framework authors (e.g. Incognito, 2001) although there is few detailed information about

it mainly inside apparel industry. This case study allowed us to understand much more about apparel outsourcing contracts. First, there isn't a supply contract with the providers. When starting a relation with the supplier he must agree and sign a *vendor manual*, the primary document that govern the relationship between outsourcer and outsourced. This *vendor manual* includes topics such as: description of ordering process, buyer and vendor responsibilities, propriety rights, confidentiality, quality requirements, definition of the supplier key performance items, establishment of order quantities tolerance, establishment of delay or anticipation tolerance, rebates in case on nonfulfilment, incoterms rules, payment conditions, logistics specifications and ethical, social and environmental requirements. The secondary document guiding the relation is the production order document. This document contains identification of the product(s) to be produced, quantity, unit price, delivery date, incoterms and payment conditions. This type of contract is fairly one-sided. Although it can and should be negotiated buyer firm tends to prevail its self-interest, not pursuing a win-win solution as defended by Incognito (2001).

Case study was also very helpful on reaching implementation stage. The discordance stage among reviewed outsourcing authors revealed to be important to the execution of the outsourcing contract. In order to execute the contract they provide themselves with an outsourcing management team, gathering people with product and production technical know-how. In proposed framework (Figure 2), management team was on last stage, but as shown in case study, it is reasoning that the creation of outsourcing management team exists on implementing stage in order to help on executing the contract. Then they implemented tools for sharing data with suppliers as an internet website and for each product they order, they need to send to supplier documents with technical information such as: technical drawing, raw materials, color, assembly and sewing instructions and artworks. They can also send a prototype sample to exemplify. Also, depending on the know-how and experience of the supplier, they may send for medium-short periods of time technical support and/or quality control staff to help supplier on start producing.

Considering the changes on implementation stage, outsource management will be composed by outsourced-outsourcer relation and supplier's performance evaluation. Outsourcing management team is responsible for follow up outsourcer-outsourced relation. This includes following up the production order by checking and making comments on validation samples sent by supplier, monitoring production quality either internally (through the samples received) or locally on supplier manufacture, carrying out periodic

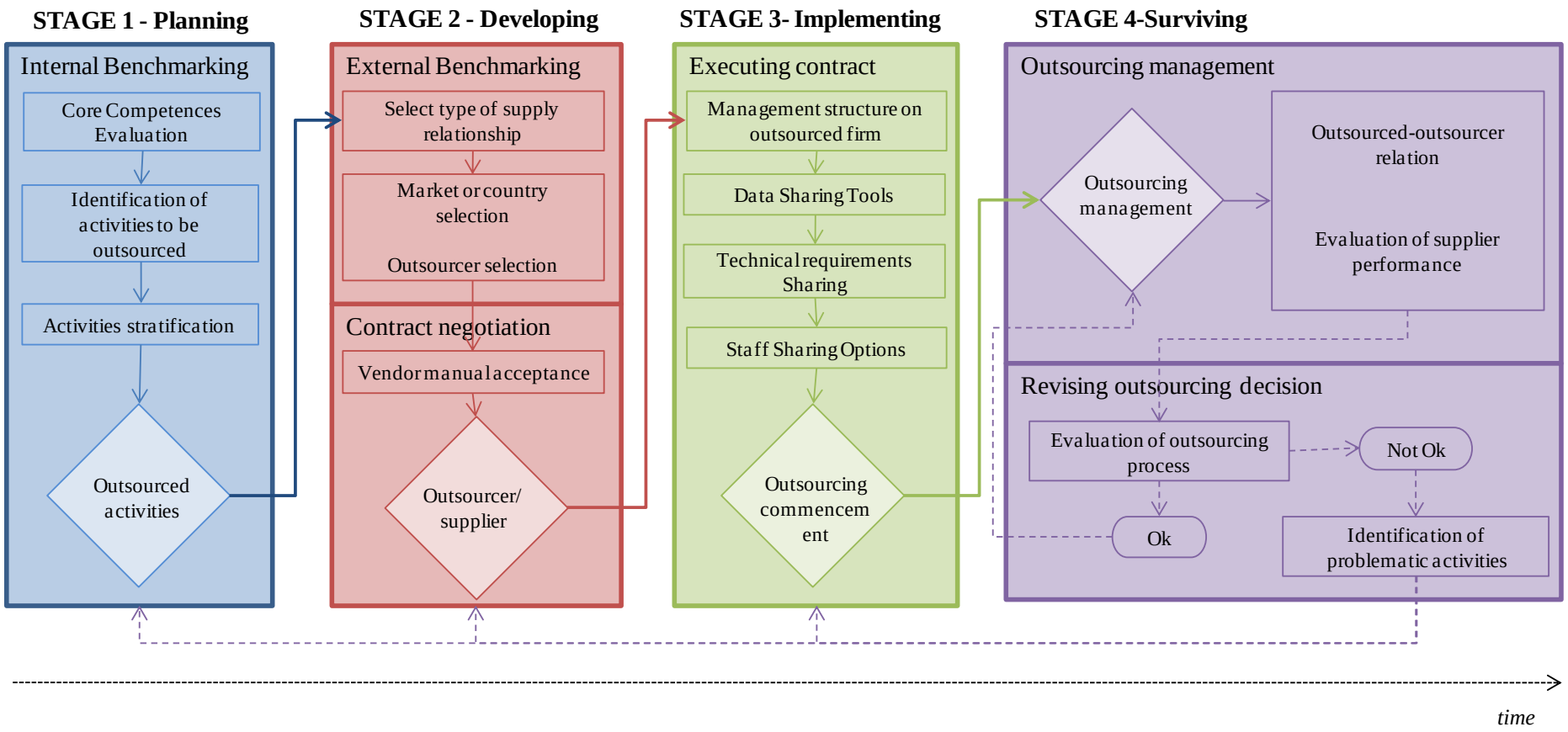
visits to supplier and monitoring delivery dates and other relevant data and finally assisting supplier in their doubts, problems and difficulties. This demonstrates some commitment and partnership as mentioned by Gibbon (2001) and Kumar and Arbi (2007). Outsourcing management team is also responsible for monitor supplier performance. The key performance indicators are mostly the same referred by Teng and Jaramillo (2005) even the most subjective indicators such as flexibility, easy communication and improvement capacity. Except the subjective ones, the indicators are defined on *vendor manual*. From this evaluation results on construction of a ranking list of the suppliers where are identified preferential suppliers. It is also proposed improvement plans and support to supplier that had a bad performance but for other reasons company wants to keep the relationship (this also demonstrates partnership and commitment referred above). In some case, in result of long bad performance company may ends the relation.

The case study company affirms that the outsourcing process is evaluated constantly, although a formal evaluation is made at least once a year. This goes in accordance with Jennings (1997) and Embleton and Wright (1998) proposal of post outsourcing review. Case study firm says that by evaluating outsourcing team members they can extend the results of their evaluation to the outsourcing process itself. Outsourcing team members are evaluated by same indicators as suppliers, namely cost target, quality standards achievement and accomplishment of expected lead times. With this they try to identify potential problematic activities. They investigate to try to found the causes for the inefficiency and after that they implement corrective actions such as improvement plans. These corrective actions were already used at least once: change supplier (select a new one); revise or change contract terms; change supply market or country.

After conducting case study and analyzing its results, we decided to review proposed framework. Figure 3, displayed next page, contains the reviewed international outsourcing process for apparel industry.

Main differences from initial one are on implementing stage. Since implementation stage wasn't deeply investigated by previous authors (Embleton and Wright, 1998 and Marshall *et al.*, 2005) it was difficult to describe that stage on initial framework.

Figure 3 – Reviewed International Outsourcing Process for Apparel Industry



Source: Author

Case study had revealed that after contract with supplier is done there is a period of time when outsourced and outsourcer firm must execute contract. For the buyer company, this means the creation of a management structure (if it doesn't already exists) for managing outsource contract (as mentioned by Embleton and Wright, 1998), implies the development of data sharing tools (e.g. email, internet website, etc.), requires transferring of technical specifications and, sometimes, staff sharing options (as technical staff support of the buyer firm on the vendor). This configuration of the implementation stage is according to Marshall *et al.* (2005) although this author had labeled it as the management stage. In this study we opted to maintain implementation stage since is a transitory stage to the management stage or assessment stage as they named it.

On planning stage, we split outsourcer selection into market or country selection and outsourcer selection itself. This is because even not always market or country selection is made prior to outsourcer selection this is a particular sub-activity that must be discussed during any international outsourcing process. We also renamed sub-activity regarding contract negotiation: as it was seen on case study, on the apparel industry contract take form of a *vendor manual* agreement followed by production orders.

Regarding hypothesis made prior to framework construction, they weren't refuted by case study with the exception of last one.

H1. International outsourcing process framework is a four-stage process.

Four stage framework wasn´t refuted: it all depends on how people divide the process into distinct stages. During interviews, both director and outsourcing manager answer, when asked for dividing their outsourcing process into phases, planning outsourcing strategy, search and select supplier (development stage), outsourcing contract execution (implementation) and managing and evaluating supplier. Although they didn't separate them into phases (they referred them only as sequential activities) this correspond to our stages that we aggregate into a four stage framework as other outsourcing authors (Zhu *et al.*, 2001 and Marshall *et al.*, 2005).

H2. Beginning and end of each stage

The second hypothesis, which are four in total, were validated during case study. In the answer transcribed above, they mentioned specific activities that are the transition activities between one stage and the next one. The case study was important in validating the H2.3 since outsourcing literature was not clear about the existence of this stage and the

activities it contained (Marshall *et al.*, 2005). Thus, implementation stage starts when a contract is made with the selected supplier and ends when outsourced firm had transferred all information and resources needed to start executing contract and supplier is fully capable to start producing.

H3. Power on decision

Regarding the last hypothesis, results from case study that power on decisions it’s not consensual issue for both interviewees: director tends to say that most of decisions are from corporate level while operational manager tends to answer that the decisions are taken by operational team. Although, we found some similarities: on planning stage decision it’s at a corporate level as well as on last stage, when revising outsourcing decision. On developing stage, activities are executed by operational team but require administration's approval (e.g. contract). Implementation stage is mainly at operational level and outsourcing management, which includes supplier evaluation, is also carried out by operational team. So, in reviewed framework we had eliminated this variable.

Conclusion

On previous sections we presented an international outsourcing framework for apparel industry that was tested and reviewed as per case study results. We conclude that proposed framework shows very completely, the international outsourcing process on the apparel industry and also resumes outsourcing framework literature review made at the beginning. We have detailed and explained the activities and sub-activities per stage enriching the framework and also added some dynamic to the process admitting backwards for example when post outsourcing analysis is done.

Since it is a single case study investigation, we must take into account that conclusions made upon case study results may not be representative of Portuguese apparel industry.

In order to enforce framework reliability it should be applied to other apparel industry companies in other countries maybe studying not only production activity but also other activities from apparel value chain.

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Appendices

Appendix 1- Interview Questionnaire

Outsourcing process stages

1 If I ask you to divide the outsourcing process of your company into different stages, how many and which would them be?

Introduction of the four-stage Framework by explaining briefly each stage and the linkages between stages

2 Do you agree with this four-stage Framework? It is suitable to your international outsourcing process?

3 If not, please name the main differences.

Stage 1 - Planning

4 Which factors influenced your company on deciding which activity (ies) to outsource, namely regarding production outsourcing?

5 Who is responsible for the decision of outsourcing internationally?

6 Comparing with other company's activities which is the relative importance of production?

7 From those activities, which ones, besides production, are outsourced?

8 In your opinion, which are the company's core competences? I.e., the competences that arise competitive advantages.

Stage 2 - Developing

Consider the following: Your company decides to begin an international outsourcing process of production of a new product for female jeanswear.

9 What kind of relation would you establish with your suppliers?

Free on board
CMT (Cut-Make-Trim)
OEM/Licensing
Other

10 What are the factors that determine the selection of a specific market or country to outsource?

11 Who is responsible for the final decision on selecting a market or country?

Regarding supplier selection:

12 Describe the process of supplier selection.

13 What are the criteria on selecting the supplier?

14 Do you only have one supplier per product?

15 Who is responsible for the final decision on selecting the supplier?

After selecting the supplier:

16 What are the subjects to be discussed before sign outsourcing contract?

17 Which is the contract duration most frequent?

18 Who negotiates the outsourcing contract?

19 Who approves and sign the contract?

Stage 3 - Implementation

20 After contract is set, does buyer company have to transfer information or other resources (as human and/or material) needed for the execution of the contract?

If yes:

21 What kind of information/resources?

How occurs the implementation of the contract regarding:

22 Human resources

23 Material resources (ex. equipments, etc)

24 Information flow

25 Financial flow

Stage 4 - Surviving

Management

26 By which means your company follows and monitors the contract evolution?

27 What are the KPI's (key performance indicators) to evaluate the supplier?

28 Where these KPI's defined since the contract?

29 Who perform the evaluation of the supplier?

30 What type of actions result from supplier evaluation?

31 Who is the responsible for these actions?

Revising

32 Is it made an overall evaluation upon outsourcing process, in order to understand if the outsourcing expected goals have been reached?

If yes:

33 How do you revise the outsourcing process?

34 Who does the revision of the outsourcing process?

35 What happen when are detected problems and or inefficiencies?

How frequent does your company have to take any of these corrective actions?

36 Change supplier

37 Review/change the contract with actual supplier

38 Review/change the implementation way of the contract

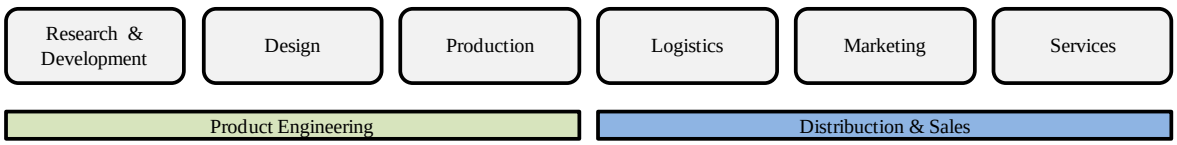
39 Review the decision of outsourcing that specific product

40 Change market or country of supply

41 Others

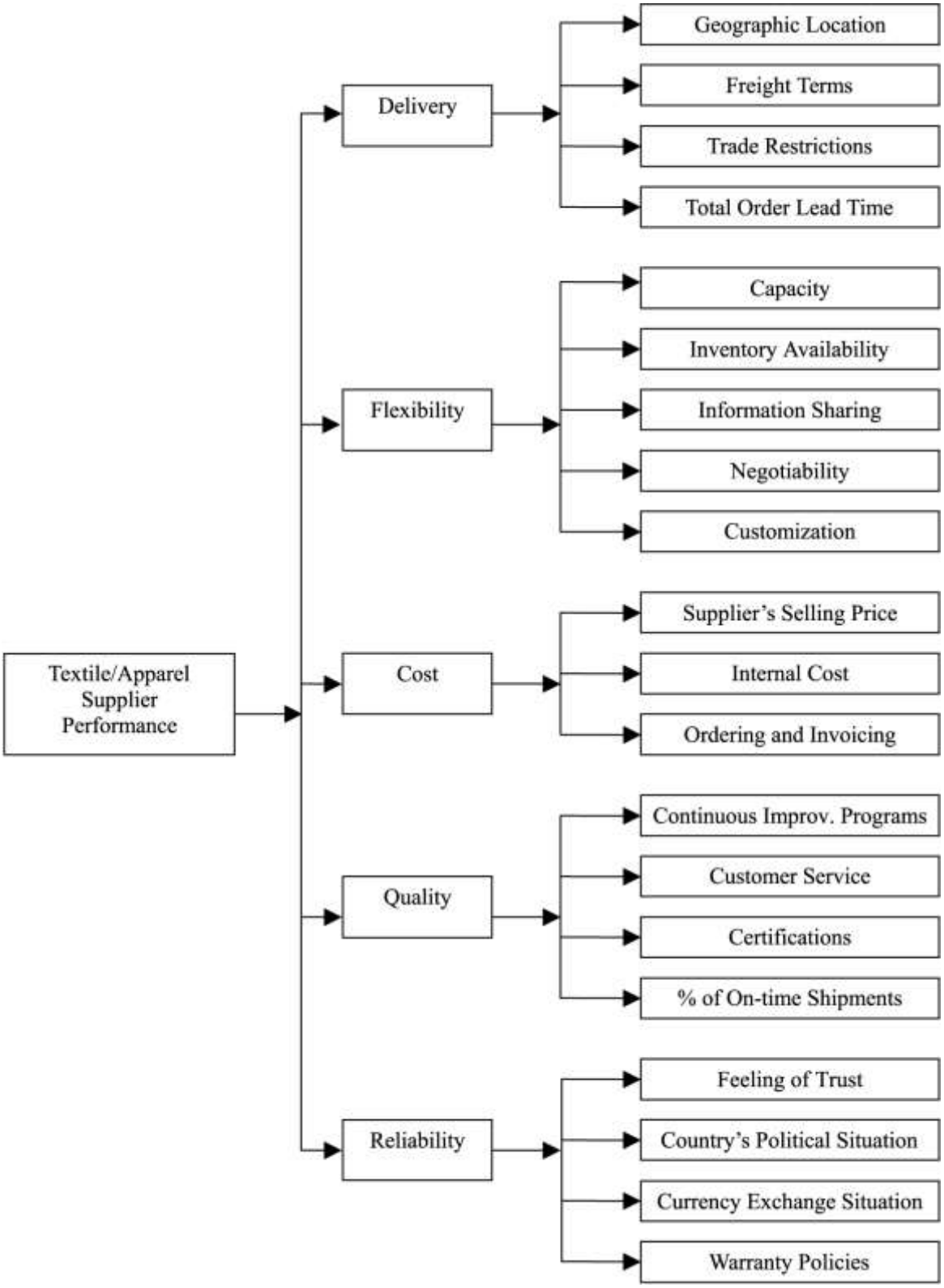
42 The several outsourcing process of your company are homogeneous or each process is unique and distinct from the others?

Appendix 2 – Apparel Value Chain



Source: Adapted from Gereffi and Frederick (2010).

Appendix 3 – Apparel Supplier Performance



Source: Teng and Jaramillo (2005).

Appendix 4 – Fragments from case study interviews

Outsourcing Director	Outsourcing Manager
Which factors influenced your company on deciding which activity (ies) to outsource, namely regarding production outsourcing?	
Although outsourcing decision was taken a long time ago and not being sure about all the motives, it is clear that they won't do outsourcing of the laundry activity since it is determinant and enable company's differentiation and innovation.	These factors have facilitated outsourcing decision: supplier's technical know-how, product specificity, costs and benchmarking – best practices in the industry.
In your opinion, which are the company's core competences? I.e., the competences that arise competitive advantages.	
Own design, innovation (laundry) and deep product knowledge.	Technical production knowledge, own store selling, outsourcing strategy.
What are the factors that determine the selection of a specific market or country to outsource?	
Lead-time, labor cost, geographical proximity, logistic and custom costs, proximity to raw material and components supplier.	Proximity (lead-time), labor cost, quality, benchmarking.
Describe the process of supplier selection.	
Procurement, first evaluation (according to data available), site visit, second evaluation, request for quotation, first production (test production).	
What are the criteria on selecting the supplier?	
Price, technical expertise, production capacity, lead time, risk analysis, minimum quantity order.	Lead time, price, quality, dimension, production capacity, minimum quantity order.
What are the subjects to be discussed before sign outsourcing contract?	
Confidentiality, property rights, social, ethical and environmental rules. Plus: Describe outsourcing process, distinguish buyer and supplier responsibilities, allowed variation on quantity, allowed variations on delivery date, penalties in case of not accomplishment, supplier key performance items, quality standards, payment conditions, delivery conditions (incoterms)	There isn't a supply contract. There's a vendor manual which is accept by the supplier (it is very one-sided contract). Plus:
What are the KPI's (key performance indicators) to evaluate the supplier?	
Variation on delivered quantities, lead-time and quality measures.	Lead-time, quality, average price, ease communication, development capability, quick answer, availability and flexibility.