International Outsourcing: A Process Approach for Apparel Industry

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Abstract
Purpose – The purpose of this paper is to build an international outsourcing process framework for apparel industry that facilitates managerial decisions and actions regarding outsourcing decision and implementation.

Design/methodology/approach – The development of an undemanding and flexible framework describing the main stages of international outsourcing process and their main activities all according to the apparel industry context. A case study approach was adopted with primary data collected through in-depth interviews and secondary data aggregated from company reports and documents.

Findings – We found that international outsourcing process can be described using the proposed framework. There were some adjustments regarding definition of the implementation stage and the power on decisions in each stage. The framework provides apparel companies with an easy way to carry out and manage outsourcing activities in a more efficient and effective approach. Most apparel companies using this framework can help them to reduce costs and increase competitiveness in the market.

Research limitations/implications – In order to strengthen the framework it could be applied to other apparel industry companies in other countries and, thus, providing valuable comparisons.

Practical implications – Apparel companies can use this framework to support and supervise international outsourcing processes. With minor modifications, this framework also can help companies in most industries for improving their outsourcing activities and operations.

Originality/value – There is evidence of a lack of methodologies on deciding, developing and implementing international outsourcing processes. This study provides a simple model that can help companies in apparel industry enhance their outsourcing activities and operations, and which contributes to the academic understanding of the subject.

Keywords International Outsourcing; Apparel Industry; Frameworks; Decision Making

Paper Type Research Paper
Introduction

Outsourcing is an increasing activity among international firms, a business level strategy that is becoming more corporate since outsourcing decision had evolve from an operational to a strategic issue. The thought of outsourcing an activity represents a fundamental dilemma faced by many managers. Companies have finite resources and can’t always meet the expense of having all technologies in-house. Due to its importance, this question – outsource some activities - has been an important issue for many decades and in several developed countries. In the last decade, for instance, various authors have developed a number of strategies and approaches for addressing outsourcing.

Empirical research is concentrated on the USA and on some European countries. Although these approaches have been helpful in determining outsourcing strategies, they seem to be highly aggregated to help this particular activity sector (apparel industry) in taking managerial decisions and actions regarding outsourcing decision and implementation.

Some research gaps on outsourcing literature and most specifically on international outsourcing were identified, among others, by Eriksson and Daugherty. Specifically, these authors claim that there is not enough research on developing and offering decision models, tools or guidelines to support managerial decisions with the adequate empirical evidence. This research aims at addressing this gap by developing and operationalising a framework for apparel industry which captures relevant factors to be taken into account in international outsourcing decisions.

This paper reports on the development of an outsourcing process framework to address the outsourcing decision for apparel companies. In order to do that, a review of literature on outsourcing is made in Section 1, to ground the construction of the conceptual model. In this first section it is also summarized the empirical evidence on outsourcing in apparel industry. Secondly, the development of the outsourcing framework is described as well as the data collection methods and other methodological aspects. The description of the proposed framework and its illustration using a case study is made in Section 3 and 4, respectively. The paper concludes with a discussion of its contribution to industrial practice, and with directions for future research.

1. Outsourcing Process in the literature

Outsourcing has been an important issue for many decades. Initially studied as a business level strategy, it evolved to a corporate level strategy. Outsourcing has increasingly being identified as a management strategy given that firms transfer major non-core activities to efficient and specialized providers in order to sustain and enhance competitive advantages.

Outsourcing is defined as moving to external organizations activities that were previously developed internally. 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 whilst offshoring is moving production activities outside home-country borders to foreign affiliates (activities are kept internally). Due to the globalization phenomena, a new concept was developed: global outsourcing, which consists of managing integrated outsourcing activities located inside and/or outside home-country borders. In this paper we focus on international outsourcing activities since
international outsourcing represents a higher risk to buyer companies than other sourcing options thus it need more support on management decisions.

The research of Lonsdale revealed that managers were disappointed with the results of their management decision capacity. This disappointment results both from the weak management decision capacity and the lack of outsourcing methodologies. Actually, the absence of methodologies, tools and guidelines to support outsourcing decisions are often referred in literature - since the 1990s there were several efforts in order to provide outsourcing guidelines and frameworks to operationalise outsourcing process in firms.

To analyze the differences and the common aspects between the existing frameworks we established a common mainframe. We assumed that outsourcing processes can be divided into four major stages, as proposed by Zhu: 1) planning, 2) developing, 3) implementing and 4) evaluating. There is a stage zero (before firm considers outsourcing) that is not considered by Zhu. 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. Thus, in stage 1 we assume that firms made that examination and are considering outsourcing. During development stage, firms that defined the activities that will be outsourced, access to 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 four frameworks are longwise: Embleton, Zhu, Marshall and Tate – only these refer implementing stage. Table 1 shows the catch-all of these frameworks according to the mainframe assumed.

**Table 1 – Outsourcing process approaches (About here)**

**Stage 1: Planning**

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

Core competences are those that give firms a sustainable competitive advantage. Some authors 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 defend that firms can also consider to outsource core activities: in that case we are in the presence of the strategic outsourcing.

After identifying the activities that can be outsourced, firm should engage in an internal cost analysis. Outsourcing is expected to reduce production costs. 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. The transaction cost theory plays an important role in many of the models mentioned above and has its first roots in Coase..
To an accurate cost analysis, Jennigs and Zhu et al. stress the importance of recognizing and measuring explicit and implicit cost (hidden costs). Based on the transaction cost theory revival, Vining and Globerman propose a cost analysis centered in the balancing of product complexity, in the asset specificity, and in transactions frequency.

In the same line of thought, Fill and Visser indicate outsourcing coordination costs (cost of governance) that depend on the 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), while if asset specificity is low and transactions are frequent, those transactions should be handled through markets (outsourcing or international outsourcing).

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

The idea of outsourcing being an issue that goes beyond cost factors is not new: in 1915, Ford and Porter emphasised the importance of strategic factors for make-or-buy decisions.

**Stage 2: Developing**

During this stage firms need to access supply markets and search for potential providers. According to Jennings and Lonsdale, on accessing supply markets, firms should avoid entering in monopolistic markets due to the risk of dependency from supplier. If there are few (or only one) suitable suppliers in that market that raises his potential power. If supplier proves disappointing, customer 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.

In searching for potential providers, firms should undertake an external benchmarking 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’. Regarding capabilities, firms should examine if there are suppliers with necessary capabilities to perform appropriately. This includes not only infrastructures but also both technology and knowledge. If providers have no sufficient capacity, firms should consider keeping activities in-house or establishing cooperative alliances in order to transfer technology or knowledge.

In this stage, business relationship with potential providers must be developed. This includes defining the type of provider and outsourcing strategy and also negotiation of supply contract. Incognito indicates four categories of providers: supplier, preferred supplier, alliance partner and strategic alliance. Negotiation of supply contract must pursue a win-win solution both for customer and supplier.

**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. Deciding to outsource, firm has three staff options: leave the firm (downsizing), join the outsourcing firm or stay in the firm. Outsourcing processes impact firms’ morale, mainly if that implies labor downsizing. To avoid human costs and low morale, Embleton and Wright defend that firm should communicate outsourcing decisions, processes and impacts on company; employees must be aware of: 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. 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. 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 and the management of outsourced-outsourcer relationship.

In this stage, a post outsourcing review should be made. First, cost analysis should be re-done and compared with the previously made during contract negotiation. If costs revealed to be higher than expected, firm should try to identify the activities/processes which are causing those deviations. In an extreme case, the firm may consider to abandon the outsourcing relationship. 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. This is also the moment to examine effective impacts of outsourcing in buyers’ organization culture and structure.

Also in this stage, firm should monitor and evaluate outsourcing relationship. This includes monitor supply contract accomplishment and evaluates supplier performance. Service levels and other evaluation criteria should have been defined during contract negotiation. In doing so, monitoring and evaluating, firm is preventing supplier opportunism and controlling supplier bargain power. To monitor and evaluate outsourcing contracts and suppliers, buyer firm should assure an in-house outsourcing management structure, which might imply new management skills.

According to Marshall et al., previous attempts on developing outsourcing process frameworks 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.

1.1 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: low labor cost countries as China or India were able to export their products and compete with traditional manufactures in Europe and North America. 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.

The conceptual framework justifying outsourcing in apparel industry goes beyond simply “make or buy” decision and it steps in global commodity chains theories. 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. Outsourced activities are usually labor intensive, where developed countries cannot be competitive, while knowledge and technological activities are kept in-house.

Literature on outsourcing of apparel 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. A summary of reviewed papers on outsourcing in apparel industry is shown in Table 2.

According to Bolisani and Scarso, international outsourcing can be made with four motives: natural resources seekers, market seekers, efficiency seekers and strategic asset seekers. Other motives for outsourcing are: cost reduction, which includes labor cost; flexibility and availability of capacity and production expertise.

Table 2 – Outsourcing in apparel industry: summary (About here)

Regarding location strategies, these depends on the nation specific resources, as labor, trade ability issues as delivery times, tariff barriers and logistics and cultural issues. Location strategies are mentioned by Graziani and Åkesson et al. on their empirical studies. They reflect the tendency on international outsourcing (mainly to Asia) but they also refer the “near-to-home” strategy that justify apparel firms from north and central Europe to outsource to eastern European manufacturing firms, in order to give quick response to markets. Double sourcing 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 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. Also Gibbon refers expected capacities from suppliers as determinant on outsourcing strategy. Åkesson et al. present an alternative approach on outsourcing strategies. There are three supply channels: 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 1) 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 Åkesson on accessing supply markets and selecting providers. Finally, Gibbon and Kumar gave huge contributions on last stage, surviving, specifically on managing buyer-supplier relation.

2. Framework development and data collection methods

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 has been developed in accordance with the guidelines proposed by Pero et al. and it is shown in Figure 1.

Figure 1 – Research procedure (About here)

In order to build a comprehensive outsourcing framework that captures relevant factors to be taken into account in such decisions, input from theory and practice has been considered. First, a literature survey on outsourcing in general (operational and strategic aspects) and on apparel industry in particular was carried out (previous section). From this review, key factors to be considered in outsourcing decisions were identified and grouped into four stages of the decision taking. To each stage, based on the empirical evidence provided by several studies and previous frameworks proposed by Jennings and Gupta, we identify and characterize the main activities and their sub-activities. These were captured into a preliminary framework, which was discussed and iteratively modified five times as a result of the input received from interviews with academics and an in-company case study (that includes several interviews with senior managers). As suggested by the research procedure presented in Pero et al., as information has been collected and the knowledge of the domain of study become more robust and integrated, the framework has been modified by adding and subtracting information. Input from theory and empirical research has been the key for building the framework. According to Voss and Yin, theory and empirical research are helpful in identifying overlaps and contradictions between theory and practice.

This process is now described in more detail below.

In order to gain a better understanding of outsourcing and to discuss the preliminary framework built from theory and to get new ideas for the development of the framework, we begin by interviewing two academics from the field of supply chain management and industrial management (both from the University of Porto). Semi-structured interviews were conducted and it aims to answer to 5 main topics, besides interviewee details: 1) areas related to outsourcing, 2) critical factors for doing outsourcing, 3) activities to be taken into consideration when outsourcing, 4) main advantages and problems related to outsourcing and 5) discussion on the preliminary framework. Each interview lasted about 30 minutes and they were registered by the interviewer. Then each of them was analyzed in order to include the information obtained into the framework.

The principal inputs from the interviews with academics were related to the level of detail that framework should have, the need for it be easy to understand and to use by managers and the focus
it should have in the activity being outsourced (which activities? Which phase of production process? Design? Distribution?). These considerations were taken into account for the improvement of the framework that would be presented to managers and then tested in the case study company chosen from the apparel industry. Some factors were added and some relationships between phases and decision levels established.

As the aim of this study is to create a practical framework for decision taking and assessing of the international outsourcing process in buyer firms of the apparel industry, managers interviews were vital. In order to do so, a large company from apparel industry was selected and two in-depth interviews to senior managers (director and operational manager) were made. The case study firm was chosen inside the portuguese apparel industry and it run outsourcing processes on production in foreign suppliers (located outside Portugal). The case study company was in the last stage of outsourcing (surviving), so we can study the previous stages based on historical documented data. The 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.

Semi-structured interviews were conducted to help providing a more comprehensive view of the outsourcing process issue and they lasted about 60 minutes. Questionnaire questions aim to answer to three main topics, besides details of company: 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. The sessions were audiotaped and transcribed. The interview transcriptions were analyzed to extract information on the issues of interest and incorporated into the framework.

The main inputs from the interviews with managers were related to frontiers of the four stages and the more detailed specification of the sub-activities involved in the each phase. The incorporation of additional factors and activities into the framework, let to a reflection on the way they were grouped (in stages). Those elements identified during the interviews were compared with the ones included in the preliminary framework and added if they had not been considered or slightly changed if they were not in the needed detail. Another worry we had, when analyzing interviewers information, was associated with the avoidance of overlaps and making sure that the heading of the various stages were representative of the decisions and activities comprised within it. During this process, we took in mind the need for an approach to be easy to use and understand.

3. Proposed Framework

Gathering the inputs both from theory (international outsourcing process literature, namely frameworks on outsourcing process, and apparel industry outsourcing literature) and practice (academics and managers interviews) enabled the construction of an outsourcing framework for apparel industry (Figure 2). In contrast with the existing approaches that are highly aggregated to help this particular activity sector, the framework provides a tool to assist apparel industry managers in taking managerial decisions and actions regarding outsourcing and its implementation.
Considering the proposed framework we present the activities from each stage. Although most of the activities were referred on literature review we will recall them and translate them to the apparel industry context.

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

*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. 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 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.

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.
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.

According to Embleton and Wright, 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. Once 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 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. 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. 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 and Kumar 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. Teng and Jaramillo have a detailed list of performance items on which include flexibility. The evaluation of supplier performance should be done with care because there are studies that show outsourcing leads to lower product quality.

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.

4. An illustration of the framework using a case study

This section shows how this framework and its content seem to match the considerations of the outsourcing decisions (in each stage) at a in-company case study. The case is described using the framework.

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. 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.

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 denomination.

The factors for selecting one market or country are in accordance with Graziani and Gibbon, 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 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 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. 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 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.

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 and Kumar. Outsourcing management team is also responsible for monitor supplier performance. The key performance indicators are mostly the same referred by Teng and Jaramillo 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 and Embleton 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.

5. Discussion

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, 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. 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.

Conclusions

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 so representative of 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.

Acknowledgement

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References


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Table 1 – Approaches to the outsourcing process

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<th>Developing</th>
<th>Implementing</th>
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Table 2 – Outsourcing in the apparel industry: summary

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List of Figures

Figure 1 – Research procedure

- Introduction
- Literature Review
- Methodology
- Framework development and propositions
- Case Study
- Findings
- Conclusion, limitations and directions for future research

Flow of the analysis
Feedback to model development
Contribution to literature

Source: Adapted from Pero et al. (2010)
Figure 2 – Proposed Framework for Apparel Industry

STAGE 1 - Planning
- Internal Benchmarking
  - Core Competences Evaluation
- Identification of activities to be outsourced
- Activities stratification
- Outsourced activities

STAGE 2 - Developing
- External Benchmarking
  - Select type of supply relationship
  - Market or country selection
  - Outsourcer selection
- Contract negotiation
  - Vendor manual acceptance
- Outsourcer/supplier

STAGE 3 - Implementing
- Executing contract
  - Management structure on outsourced firm
  - Data Sharing Tools
  - Technical requirements
  - Sharing
- Staff Sharing Options
- Outsourcing commencement

STAGE 4 - Surviving
- Outsourcing management
  - Outsourced outsourcer relationship
  - Evaluation of supplier performance
- Revising outsourcing decision
  - Evaluation of outsourcing process
  - Identification of problematic activities

- Ok
- Not Ok