International Business Review 20 (2011) 291–313

Contents lists available at ScienceDirect

International Business Review

journal homepage: www.elsevier.com/locate/ibusrev

Governance modes for offshoring activities: A comparison of US and German firms

Thomas Hutzschenreuter [a,*], Arie Y. Lewin [b,1], Stephan Dresel [a,2]

[a] Chair of Corporate Strategy and Electronic Media Management, WHU – Otto Beisheim Graduate School of Management, Burgplatz 2, 56179 Vallendar, Germany
[b] Fuqua School of Business, Duke University, 100 Fuqua Drive, Durham, NC 27708, United States

ARTICLE INFO

Article history:
Available online 22 March 2011

Keywords:
Entry mode
Governance mode
International expansion
Multidimensional framework
Offshoring
Offshore outsourcing

ABSTRACT

A new field of research centered on the offshoring of white-collar tasks is opening. We analyze the choice of governance mode for international offshoring activities based on a four-fold framework that integrates multiple theoretical perspectives. Firms choose between an internal or external mode based on their institutional environment, the offshoring behavior of similar firms in their reference group, firm-specific characteristics and objectives, and the particular setting of specific implementations. We test our relationships using detailed data on offshoring activities of US and German firms. Based on the outcomes we conclude that each dimension of the chosen framework is needed to explain the governance mode decisions of firms and this overarching framework may also be applicable to other topics in internationalization research.

1. Introduction

Firms in developed economies have been offshoring manufacturing work to low-cost countries since the 60s when considerable differences in labor costs motivated them to offshore blue-collar jobs. In the 90s a new type of offshoring emerged as companies started to move administrative and technical functions (*e.g.*, IT, call center, and product development) abroad to save on labor costs and to tap into new sources of talented and highly-skilled employees (Lewin & Peeters, 2006b). This has been particularly true since the burst of the dotcom bubble in 2001.

Traditionally, internationalization has been a stepwise process in which firms first export products and services, then transfer parts of their production to serve foreign markets, and finally re-import products back to the home country. The offshoring of white-collar functions represents a new type of internationalization. Firms are not necessarily taking a step-by-step approach in transferring support functions (Doh, 2005). They might establish a call center abroad or transfer IT activities to a country where costs are lower without having any aspirations of conquering new markets. Thereby, they feel insecure about benefits and shortcomings, and lack knowledge about transferring and managing offshoring activities abroad. At the same time, because firms are not slowly easing into working in foreign environments there is some uncertainty about the benefits of offshoring and a sense of insecurity about managing offshoring entities abroad. In the face of such ambiguity, firms must decide on the governance mode of their foreign offshoring activities (*e.g.*, Demirbag & Mirza, 2000; Jiatao, 1995; Yigang & Chi, 1999).

* Corresponding author. Tel.: +49 261 6509 200; fax: +49 261 6509 209.
E-mail addresses: th@whu.edu, Thomas.Hutzschenreuter@whu.edu (T. Hutzschenreuter), ayl3@duke.edu (A.Y. Lewin), stephan.dresel@whu.edu (S. Dresel).
[1] Tel.: +1 919 660 7832.
[2] Tel.: +49 89 54525 582.

0969-5931/$ – see front matter © 2011 Elsevier Ltd. All rights reserved.
doi:10.1016/j.ibusrev.2011.01.007

As in regular internationalization activities setting the governance mode in an offshored entity is a central component that impacts its performance and the achievable savings (Lu, 2002). The governance mode is of high strategic importance, as each mode offers specific benefits (*e.g.*, exploring know-how, access to qualified personnel) as well as risks (*e.g.*, loosing intellectual property, dependency from service provider). Possibly most important of all, the governance mode is a significant determinant of the overall success of foreign activities (*e.g.*, Haiyang & Hu, 2002; Simmonds, 1990; Woodcock, Beamish, & Makino, 1994). It is no wonder then that choosing the correct governance mode for the offshoring entity is so important and that the interest in how firm do that is so great.

In this article we identify the factors that influence a firm's governance mode choice for its offshoring activities and determine their impact. We focus primarily on internal and external governance modes. In case of an internal governance mode the firm owns the foreign entity whereas in case of an external governance mode the firm outsourced its activities and leverages a local service provider. To uncover the relevant factors which determine the governance mode choice we build a multidimensional framework comprised of four distinct analytical perspectives and disucss (*i*) the impact of the institutional environment wherein firms are embedded in their home country (*e.g.,* culture, political and economical factors), (*ii*) impact of the surrounding population of similar firms, (*iii*) impact of firm-specific characteristics (*e.g.,* managerial intentions), and (*iv*) impact of individual settings of a particular implementation (*e.g.,* chosen host country). We analyze the impact of each of them on the governance mode choice using data on the offshoring of IT, call centers, HR, finance & accounting, procurement, R&D and product development of 407 US and 95 German firms. In the following pages, we summarize the relevant literature, derive research hypotheses, present our methodology and then our results. We conclude by pointing out the limitations of our study and its contributions.

2. Background

The offshoring of support activities has reached substantial proportions. Research institutes estimate a total revenue volume of about US$40 billion in 2005 (Schaaf, 2005). Despite the remarkable volume of offshoring and its omnipresence in the media (Levy, 2005), managers underestimate the intricacies involved. Firms face in offshoring many of the challenges that are typical of an internationalization step (*e.g.*, adjust to culture in the host country, transfer management methods and values, make adaptations to their home-grown organizational structures and systems, Barkema, Bell, & Pennings, 1996; *e.g.*, adjust to culture in the host country, transfer management methods and values, make adaptations to their home-grown organizational structures and systems, Benito & Welch, 1994; Fisher & Ranasinghe, 2001). The knowledge and capabilities for coping with these challenges of offshoring are not standardized commodities and cannot easily be obtained. They have to be built within the firm or acquired from external sources that have the needed expertise (Eisenhardt & Martin, 2000; Makadok, 2001). An appropriate organizational model is required and whatever approach is chosen, significant managerial effort is needed to implement it (Agarwal & Ramaswami, 1992).

2.1. Potential governance modes for offshoring

Firms that go abroad to serve foreign markets have to first decide (Kogut & Singh, 1988) between creating a subsidiary abroad or acquiring an existing foreign company. They then must determine the optimal degree of ownership. They can own a foreign subsidiary completely or hold a share in it, that is, joint venture, and at times purely contractual arrangements suffice (Chang & Rosenzweig, 2001; Hennart, 1988; Tihanyi, Griffith, & Russell, 2005). Firms offshoring activities very rarely acquire a foreign entity, but they do establish new ones abroad. If they do start afresh, they have three options: internal governance based on a wholly-owned subsidiary; a joint venture; or external governance, also called offshore outsourcing, which is a contract-based arrangement (Kaka, 2003). Lewin and Couto (2007) have shown that joint ventures are rarely used for offshoring. US firms, for example, use it for just 5% of their offshoring implementations (Lewin & Couto, 2007). Because the equity holders of a joint venture can exert influence over the foreign entity that is similar to that exerted in wholly-owned subsidiaries, we abandon the differentiation between these two modes in the remainder of this paper and treat both as internal governance.

The mode of governance affects (a) the degree of control a firm has over its foreign operations, (b) the amount of effort required to implement and operate the offshored entity abroad, (c) the level of risk associated with offshoring implementation, and (d) the extent of know-how a firm can access or leverage. By using an internal governance mode, firms can retain their existing organizational structures transferring them to offshoring locations with limited adaptations, and exert full control over offshored entities without running the risk of conflicts with partners or service providers (over quality issues and targeted service levels). On the other hand, they have to cope with all the challenges and adversities of an offshoring implementation on their own with their lack of local knowledge potentially causing serious delays in the establishment of the offshoring entity or putting them at a disadvantage in resolving problems. Furthermore, they have to provide all of the financial and managerial resources needed to establish and run the offshoring entity (*e.g.*, hiring and training of employees, acquiring governmental permissions, and managing daily business), and if it fails, they are in the uncomfortable situation to shut-down the offshored entity and write-down their investments.

By using an external governance mode, firms transfer their support functions to a service provider and free limited resources for other business activities. At the same time they have the chance to access critical knowledge on offshoring not available within the firm (Das & Bing-Sheng, 2000; Zhao & Calantone, 2003). An external service provider might not only

have more specialized knowledge and expertise in a given area, but might also be able to operate on a larger scale which may result in significant cost advantages for the firm (Chalos & Sung, 1998; Heikkilä & Cordon, 2002; Prahalad & Hamel, 1990). However, there can be significant disadvantages with an external mode. Managers may spend so much time and effort on information exchange and coordination with the foreign service provider that efficiency gains are cancelled out (Levy, 1995; Rasheed & Gilley, 2005; Schilling & Steensma, 2002). It is also often the case that firms must share sensitive information and they run the risk of valuable knowledge becoming available to competitors (Leiblein, Reuer, & Dalsace, 2002), a particularly serious issue in offshoring of product engineering and R&D activities. Keeping in mind that some host countries have less restrictive laws (or do not apply them in a restrictive way) the loss of intellectual property may represent a serious threat. Furthermore, firms may also lose control over transferred functions, become dependent on a service provider, and so open the door to opportunism and abuse (Quinn & Hilmer, 1994; Razzaque & Cheng, 1998).

2.2. Theoretical framework

As we have shown, the transfer of an activity to a host country is a manifold challenge and each governance mode has advantages and disadvantages. We are aware of no theoretical strand that exhaustively explains by itself the choice of governance mode. We believe what is needed is a framework that integrates multiple theoretical perspectives ranging from the influence of a firm's institutional environment to the challenges presented by each given implementation. According to Lewin, Weigelt, and Emery (2004) organizational selection and adaptation processes can be analyzed from the perspective of: (a) the institutional environment of a firm, (b) the population surrounding a firm and (c) firm-specific characteristics. While there are many overlapping, even complementary theories that attempt to explain elements of each dimension, as far as we can tell no all-embracing theoretical concept exists. Thus, we borrow from several theoretical streams to build a framework for a comprehensive picture of the governance mode decisions of firms. This approach allows us to get a much broader understanding of the governance mode choice than the analysis of individual theoretical perspectives. We discuss major decision mechanisms and show where well known literature might be applicable in the offshoring context.

Chandler and Hikino (1990) showed that nation states greatly influence managerial practices and organizational adaptation. Each firm is embedded in an institutional environment of norms, standards and expectations which are country-specific and primarily based on historical, cultural, political, economical and social factors (Lewin & Kim, 2004; Roberts & Greenwood, 1997). These nation-specific traits drive sustained variations in organizational and institutional capabilities (Kogut, 1991). A nation-state imprints its characteristics on a firm's organizational structure and processes. These characteristics are omnipresent, can severely constrain a firm's management team, and so may substantially influence the offshoring behavior of firms. Managerial practices vary country by country and are rooted in history, the traditional role played by the government, legal and educational systems, culture and language, and capital markets (Calori, Lubatkin, Very, & Veiga, 1997; Lewin & Kim, 2004). Furthermore, values, and socio-cultural norms and belief systems in the home country shape the design and implementation of offshoring activities and by extension influence the choice of governance mode. Lewin and Couto (2007) indicate already a connection between nation-states and governance mode choice in their findings that US, British and Dutch firms have a much higher likelihood than German or Spanish firms of using an external governance mode.

Firms try to evaluate and imitate the organizational structures and processes of other firms in an effort to benefit from the experiences of those firms. They are especially likely to try to do this when they are in doubt about their own strategies (DiMaggio & Powell, 1983; Haunschild & Miner, 1997), and offshoring is often seen as unknown territory. Many inexperienced firms are uncertain about potential benefits of offshoring, and wary of its costs and so they rely on what they can learn about offshoring from the activities of other firms. Such mimetic behavior is typified by the population level perspective. Firms copy the offshoring behavior of other firms that they perceive to be successful, gaining legitimacy and increasing their likelihood of survival. Inter-firm imitation might result in many firms in the population making the same governance mode choice (Lu, 2002).

Every firm has its own set of prerequisites for managerial action and pursues its own objectives according to its firm-level perspective. A firm that lacks offshoring experience does not have the know-how to interact with local service providers, employees and governmental institutions (Barkema & Vermeulen, 1998; Benito & Welch, 1994; Vermeulen & Barkema, 2002). This thwarts offshoring ambitions and can push a firm into selecting a particular governance mode. However, with every transfer step a firm can gain experience and build capabilities for future offshoring activities, in other words, advance on its development path (Barkema, Shenkar, Vermeulen, & Bell, 1997; Johanson & Vahlne, 1977, 1978). So, the development path of a firm represents a certain legacy for making governance mode decisions. At the same time, decision-makers will leverage their remaining managerial discretion to pursue strategic targets (Hutzschenreuter, Pedersen, & Volberda, 2007), and the management team will use its discretion in part trying to shape the firm's environment so as to make it less vulnerable to external influences (Miles & Snow, 1978, 1994), and also especially in pursuing deliberate strategic objectives and reacting to surrounding forces. The objectives in offshoring might be the realization of cost advantages, enabling growth or access to new markets (Lewin & Couto, 2007; Lewin & Peeters, 2006a,b), and coming full circle, achievement of those targets will necessitate, or at least encourage, the choice of a particular governance mode.

The last critical component of our framework is implementation-specific elements and reflects an additional perspective which has not been covered in the original framework of Lewin and Kim (2004). The implementation-specific elements include the kinds of functions to be transferred, to which geographic locations, and the mechanics of the process. The

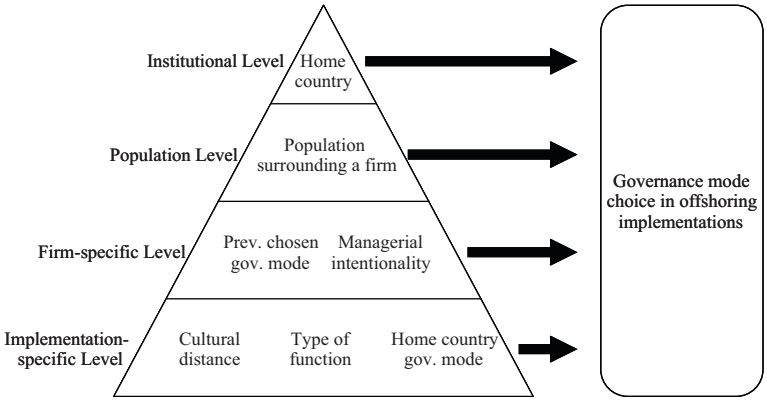

Fig. 1. Multidimensional framework.

institutional environment, the surrounding population of firms, and firm traits explain certain tendencies in making governance mode choices. Implementation is different in that it is specific to a particular offshoring effort. The choice of governance mode is motivated, even necessitated, by the function to be transferred, the intricacy of the transferring and operating activities, and the firm's existing home country governance mode. Some governance modes are particularly appropriate for certain functions to be offshored (Lewin and Couto, 2007; Lewin & Peeters, 2006a). For example, US firms choose an external governance mode more often for IT than for finance and accounting (Lewin and Peeters, 2006a). Obviously, there are some functions that can be detached more easily from an organization than others. For instance, some activities involve a lot of intellectual property and confidential information, others are idiosyncratic and require the transfer of tacit knowledge. The challenges associated with externalizing such tasks, and the resulting reluctance of firms to do so, are evident. The specific requirements of the function to be transferred, and equally the mechanics of accomplishing that, influence the governance mode decision. The targeted host country is also a decisive factor (Agarwal, 1994; Kogut, 1988). US firms will face different challenges in transferring support activities to India than to Canada. In India they may experience problems in transferring management techniques and corporate values and adapting organizational structures and processes to the new environment (Gatignon & Anderson, 1988; Stopford & Wells, 1972). Obviously, a firm considers such difficulties in selecting a particular governance mode decision. Finally, a firm has to take into account the organizational structure already in place for an activity. As re-use of an existing governance mode can keep adaptations to a minimum, a firm will weigh the costs and benefits of re-using established organizational structures by continuing use of a particular governance mode (an overview on the presented framework is shown in Fig. 1).

In the following section, we analyze in detail the last three components related to the actions of other firms, its firm-specific characteristics, and the fit between a particular activity and the existing organizational structure for determining a firm's choice of governance mode. A firm's governance mode decisions adapt to these components and trigger a variety of different strategies. Later on, we will resume the impact of the firm's institutional environment and so complete our four-fold framework.

3. Hypotheses

3.1. Population level perspective

Despite the fact that there were some early movers in offshoring during the 80s, substantial interest in offshoring can be traced to 2001 when the dot com bubble burst and many firms started looking for ways to reduce costs. Until that time, only a limited number of firms had acquired comprehensive expertise in offshoring. Even today many companies still lack a detailed understanding of the relevant particulars of offshoring and are uncertain about its benefits and shortcomings. In such situations firms look to other companies for cues how to transfer activities to offshoring countries. They try to find models on which they can base their own offshoring decisions and imitate the structure of other firms (DiMaggio & Powell, 1983; Haunschild & Miner, 1997). Consequently a firm may come to resemble other firms in its offshoring behavior that share a given set of environmental conditions (DiMaggio & Powell, 1983), and over time the structures of the firms tend to become more and more similar to the point of homogeneity in organizational forms, or as Haveman (1993) put it, mimetic isomorphism. In offshoring the imitation might occur with respect to various managerial decisions as the choice of the host country, the type of activities to be transferred or the governance mode choice. Firm mimetic behavior may be caused by a desire for legitimacy which encourages them to copy widely-applied practices (Meyer & Rowan, 1977), or it might be that frequently used forms come to be taken for granted. In fact, this has been also confirmed in interviews conducted during our study as some decision makers acknowledged that various activities may have been transferred because it is a common industry trend. Firms may not even be aware of this process and have neither the desire nor the intention of imitating others. The copying might occur through employee transfers, consulting firms that imprint their offshoring concepts on several different firms or during the normal information exchange in industry and trade associations (DiMaggio and Powell, 1983).

Such an information exchange may focus among other things on advantages or disadvantages of specific governance modes (*e.g.*, level of control, flexibility, access to external resources and expertise), on feasibility of specific modes for certain host countries or type of functions to be offshored. Overall, we derive the hypothesis:

Hypothesis 1. The probability of a firm selecting a given governance mode will be greater the higher the number of surrounding firms having chosen this governance mode.

3.2. Firm level perspective

As indicated before many inexperienced firms face uncertainty and doubts about offshoring and may imitate other firms. However, firms can also cope with uncertainty by acquiring their own knowledge and by building their offshoring expertise. The seminal work of Johanson and Vahlne (1977) stresses the relevance of experience and knowledge in general internationalization. Over time a firm can gain experience in controlling foreign offshoring entities, learn how to recruit, train and manage foreign employees, and work with external providers abroad, all of which enhances general understanding and specific competences as well as fostering a more accurate perception of foreign risks (Gatignon & Anderson, 1988). Obviously, these steps facilitate successful offshoring implementation. For example, firms with offshoring experience are better prepared to organize a successful and smooth transfer of their activities. They will know the typical issues around culture and local labor laws, and have a good understanding what type of functions can be transferred successfully. They may be in the comfortable situation to have proven transfer concepts and time schedules in place, know about typical quality issues and have the expertise to quickly fix them. Be that as it may, experienced firms may not be able to freely choose their favored governance mode. Not everything that is learned from one offshoring experience can easily be applied to the next one. Some experience is only applicable to particular governance modes (Leiblein & Miller, 2003). Hence, companies differ in their expertise and capabilities to successfully implement certain governance modes dependent on their hitherto existing development path. The implementation of an external mode requires substantial skills in identifying and evaluating offshoring service providers, negotiating with them and managing them (Doz & Hamel, 1998; Rangan, 2000). For example, a mid sized-company willing to transfer its IT department to India has to cope with serious challenges to find the right partner in India, to negotiate appropriate service levels and to get a fair price. Obviously, such required skills can hardly be acquired with an internal governance mode. Consequently, a manager who has experience with internal offshoring implementations will be strongly motivated to build on that experience and again choose an internal governance mode, and vice versa for external provisioning (Chang & Rosenzweig, 2001). This process reflects "intra-organizational imprinting" (Lu, 2002). Whenever a certain organizational decision is made, than there is a high likelihood that the same decision will be made in the future again. Or as Mezias (1990) argues, as the frequency of adoption of new decisions based on the chain of past decisions increases the original organizational adaptation is more likely to be taken for granted. Additionally, affected employees may be skeptical about offshoring activities and resist structural changes (Folger, Daniel, & Skarlicki, 1999), because of their fears about potential changes in their own responsibilities, loss of authority, unfamiliar tasks, disruption of established processes and structures, and the necessity to reshape or build new social relationships (Giangreco & Peccei, 2005). In short, a change in governance mode may overwhelm some employees and make them reluctant to support the inevitable change process (Cummings, Huse, & Worley, 1997; Giangreco & Peccei, 2005). The management team may believe that resistance to organizational change can be curtailed by using existing governance models. In summary, we derive the hypothesis:

Hypothesis 2a. The probability of a firm selecting a given governance mode will be greater the greater the number of times it has previously chosen this governance mode.

A firm's decision to offshore will also depend on the personal preferences of its managers. This perspective goes back to the idea of strategic choice (Miles & Snow, 1978, 1994; Thompson, 1967). According to Lewin and Couto (2007) and Lewin and Peeters (2006a), for most firms cost reduction is an important, or very important, driver of offshoring, albeit that other drivers are gaining in importance (Couto, Mani, Lewin, & Peeters, 2006). The combination of offshoring and outsourcing promises to lead to significant cost advantages (Maskell, Pedersen, Petersen, & Dick-Nielsen, 2006). These advantages emerge from classical scale effects (Barthelemy, 2003; Heikkilä & Cordon, 2002) in combination with the low labor cost advantages in the offshoring country (Farrell, 2005; Khan & Islam, 2006). Particularly, in case of simple offshoring activities as call centers such scale effects may be substantial. These activities can be easily taken over as well as managed by the service provider, and service quality can be simply monitored by the firm. Therefore, companies for which cost reduction is a primary motivator an external governance mode is likely to be particularly interesting. Nonetheless, there are also drawbacks to be taken into consideration, *e.g.*, loss of control or dependency on a provider (Quinn & Hilmer, 1994; Razzaque & Cheng, 1998), decline in innovation (Bettis, Bradley, & Hamel, 1992), loss of expertise and crucial capabilities (Rasheed & Gilley, 2005). These drawbacks might become painfully aware particularly in case of knowledge intense functions as product development, R&D or product design. Albeit, a firm that attaches more importance to cost savings is more likely to be willing to take the risks of outsourcing and will also be more likely to decide in favor of an external governance mode. Thus, we derive the hypothesis:

Hypothesis 2b. The more important cost saving as a motive for offshoring, the greater a firm's likelihood of selecting an external governance mode.

Cost advantages are not an exclusive offshoring driver. Lewin and Peeters (2006a,b) found that a number of firms use offshoring to access new markets or to support growth and, in fact, in a later study a third of the firms rated access to new markets as an important driver for offshoring. At first glance, this is surprising. Setting up distribution channels or exporting products would seem to be more appropriate vehicles for entering new markets. What we have to keep in mind is that offshoring can be used to achieve several objectives at the same time. Cost advantages might be the primary objective, but companies can pursue access to new markets at the same time. Offshoring can also lay the groundwork abroad for sales-orientated activities later. A company can use offshoring to gain experience of all kinds, connect to a local culture, build relationships, in essence get a start in the host country. The investments in case of an internal mode support the company to establish a long-term presence in the market (Agarwal & Ramaswami, 1992). Starting from such a basis the access of local markets is substantially eased. The firm gains experience about local labor market, specific laws, cultural values and behavioral patterns. It has a local management team in place which might act as a nucleus for future market activities. An external governance mode can also represent the first step towards market entry, albeit that the firm has much less interaction with the local environment as most contact is limited to the service provider. The firm gathers less knowledge about local employees, suppliers, governments, etc. and does not have an opportunity to learn about local culture and so, the firm does not build (or only to a limited extent) a local basis for future market expansion activities. Thus, the firm is less prepared for any market entry in the future and so we derive the hypothesis:

Hypothesis 2c. The more important market-seeking as a motive for offshoring, the greater a firm's likelihood of selecting an internal governance mode.

Undoubtedly one benefit of an internal governance mode is that it brings opportunities for learning in the host country. This might be in many cases the basis for future growth in the host country as well as home country. With an internal governance mode the firm gains additional resources and incorporates knowledge and talent of its new employees. This may be a vital source for future growth. The firm extends its footprint and has full flexibility and control over the offshored entity. It is not restricted by contracts with service providers and may easily extend or modify the service portfolio provided by the offshored entity to support its growth ambitions. It fully exploits the growth opportunities on its own and does not share with an external service provider. But the internal governance mode also ties up a lot of internal resources and many firms with growth ambitions have restricted resources, for instance they cannot free enough employees to drive other growth opportunities (Eisenhardt & Martin, 2000; Teece, Pisano, & Shuen, 1997). The cost of hiring and training new employees is a drain on resources, so can reduce benefits and delay implementation. By consequence, there are also advantages to have an external partner. He takes over tasks lifting the burden from employees of the firm and leaving them free to focus on activities that might more directly foster the growth of the firm. The partner might provide know-how which might be vital to realize the growth opportunities and which is not accessible in the firm. He may provide extra resources which are not available internally. In essence, the firm gives up direct experience and the opportunity to extend its work force that could be important to success in the future, in order to leverage an external partner to get quick access to know-how and other resources. Obviously, an internal as well as an external governance mode might be promising to foster growth. Thus, we derive two hypotheses:

Hypothesis 2d. The more important growth as a motive for offshoring, the greater a firm's likelihood of selecting an external governance mode.

Hypothesis 2e. The more important growth as a motive for offshoring, the greater a firm's likelihood of selecting an internal governance mode.

3.3. Implementation-specific perspective

In addition to the influence other firms, and of firm-specific elements, there are implementation-specific constraints to be considered in making governance mode choices, i.e. the type of function to be transferred, where it is to be transferred, and the hitherto used governance mode.

No governance mode is feasible for all support functions. We take potential functional effects into account by dividing support functions into three groups: knowledge-intensive functions such as R&D, product development and design, idiosyncratic functions including finance and accounting, HR and procurement, and quasi-autonomous functions like IT and call center. Knowledge-intensive functions are characterized by open-ended, less strictly defined processes. Tasks are performed by highly-skilled employees with expertise in specific areas (Ernst, 2002; Farrell, Kaka, & Sturze, 2005). An unrestricted exchange of ideas is vital in innovation-related activities, and an external governance mode might hamper that and thus undermine innovativeness (Lundvall, 1992). Functions might be of strategic importance, represent core capabilities, and even encapsulate confidential information (Kumar, 1996), and as a consequence firms are often reluctant to externalize them. All of these factors would seem to point to using an internal governance mode for knowledge-intensive functions, nevertheless, external procurement is being used more and more in this domain. Infosys or Wipro offer a wide portfolio of engineering services and provide a high-quality product (Engardio et al., 2005). Firms are outsourcing R&D and product development activities in a bid to increase their flexibility and to gain access to specialized resources (*e.g.*, Allweyer, Besthorn, & Schaaf, 2004; Carson, 2007; Khan, Currie, Weerakkody, & Desai, 2003). Employees capable of designing and

engineering new products are scarce. Some engineering activities can be shifted relying on "open innovation" (Chesbrough, 2003) thus accessing the knowledge resources of an external partner. But so far, very few companies have the strategies and capabilities in place that enable them to fully leverage the contribution of an external partner and as a result, an external mode might still be rather exceptional for knowledge intensive functions.

Idiosyncratic functions are particularly firm-specific and require detailed knowledge about existing processes and structures. An external governance mode may not be ideally suited as it is a major challenge to transfer this kind of knowledge to a service provider as its tacit nature means that most of it is not easily codifiable (Nonaka & Takeuchi, 1995; Polanyi, 1962, 1966). Highly complex activities such as procurement, finance and accounting are equally ill-suited to an external governance mode. Furthermore, home country-specific legal regulations can hamper the transfer of this kind of knowledge (Myloni, Harzing, & Mirza, 2004; Verburg, Drenth, Koopman, Muijen, & Wang, 1999), as the effort it takes to meet such requirements can mean that the service provider may lose economies of scale and scope. Once again, an external governance mode is less promising.

Quasi-autonomous activities like call centers and IT are typically modularized and so they are more easily detachable from the rest of the organization. Compared to what is involved with some other functions, call center tasks are low in complexity. A moderately well-educated staff of agents is usually satisfactory and newly-hired employees can be trained relatively quickly. On the other hand, IT can be highly complex. Nevertheless, there is a long tradition of externalizing IT activities and that often means a modular organizational structure enabling an easy transfer. Whether it is due to ease of transfer or tradition, call center and IT are activities that are outsourced quite often.

What we detail above are factors that point towards an internal or external governance mode. Yet, within every function there are activities which might be more or less detachable, more or less complex, and more or less restricted by concerns about confidentiality. Thus we can only argue that there will be certain tendencies. In summary, we derive the hypothesis:

Hypothesis 3. There is a greater likelihood of a firm selecting an external governance mode for autonomous functions than for knowledge-intensive or idiosyncratic functions.

There is the "what" to be offshored, and there is the "where". Both are decisive considerations. According to IB theory, cultural differences between the home and the host country significantly increase the complexity of transferring functions abroad (Agarwal, 1994; Chang & Rosenzweig, 2001). The more culturally distant two countries are, the more the organizational characteristics of the firms in those countries will differ (Lincoln, Hanada, & Olson, 1981), as culture is a determinant of organizational and administrative practices and of employee expectations (Kogut & Singh, 1988). Those located in the home country have to interact with those who are working offshore, be they colleagues, employees of a local service provider or others, who have different belief systems and values. There may be interpersonal difficulties that hamper operations in the offshored entity. Overcoming such barriers can be difficult, although it is vital for a successful offshoring implementation. Managers have to adapt well established structures, systems and processes to the new environment in order to run the offshored functions in an efficient manner. More complex or additional control mechanisms may be necessary to steer the offshored entity. Thus, the ambiguity that goes hand and glove with offshoring to a foreign country results in an inability to assess costs and risks, which in turn generates uncertainty which, of course, managers want to avoid, or at least reduce (Agarwal, 1994; Fisher & Ranasinghe, 2001). In these circumstances, managers feel less confident about successfully adapting and so have a stronger need for external support (Benito & Welch, 1994). By using a service provider, managerial tasks can be assigned to local staff with local roots and experience, who are familiar with the local culture (Fisher & Ranasinghe, 2001), and who are better able to manage the local workforce (Franko, 1976; Stopford & Wells, 1972). Firms can rely on the established structure of the service provider and more quickly achieve the expected results with respect to service quality or savings. The integration of a partner might make up for the lack of appropriate resources within the firm and help to mitigate problems related to cultural distance.

Taking an external partner simultaneously necessitates sharing control of the transferred functions. This may result in a dependency from the service provider who might act opportunistically and takes advantage of the setting (Quinn & Hilmer, 1994; Razzaque & Cheng, 1998). The firm has to make an effort to coordinate activities, and creates the risk to lose expertise or intellectual property (Leiblein et al., 2002; Levy, 1995; Rasheed & Gilley, 2005). Thus, an external governance mode is not necessarily advisable for every offshoring implementation. A balance has to be struck between the benefits of knowledge enrichment through an external source and the disadvantages associated with using an external service provider. The greater the cultural distance, the more the advantages of an external mode outweigh the disadvantages. We therefore derive the hypothesis:

Hypothesis 4. The greater the cultural distance between the home country of a firm and the host country, the greater a firm's likelihood of selecting an external governance mode.

A change in governance mode, be it from an internal governance mode to an external one or vice versa, always entails other challenges. Such changes require new structures and control mechanisms, as well as changes in the current status of management processes and managerial roles (McIvor & McHugh, 2000; Schilling & Steensma, 2002), and this causes disruption in established coordination mechanisms that have evolved within the current boundaries of the firm (Nelson & Winter, 1982; Yuri, Pollock, & Porac, 2004). These changes are particularly challenging in case of offshoring activities. The management is not only stressed by the transfer to the host country but also by the change of the governance mode. When

there is in-sourcing, that is, switching from an external to an internal governance mode, new human, organizational and physical structures need to be provided. For instance, a new management team must be built, a new organizational structure has to be in place, and new IT interfaces developed or existing ones adapted. And all of these changes have to fit in the new environment at the host country. In outsourcing, switching from an internal to an external governance mode, even when the local workforce and most of the physical infrastructure is provided by the external service provider, means that the company needs resources to build dedicated technical interfaces and to coordinate cooperation with the provider. In addition, an appropriate organizational structure for cooperation with the external provider itself has to be installed. Keeping in mind that the external provider is located at the host country these tasks are very resource demanding. All of these tasks require special managerial expertise, particularly as it has to take place at the host country (at least partially). But, the management team capable of driving such adaptations in a foreign country may be limited in capacity (Eisenhardt & Martin, 2000; Teece et al., 1997). Hence, a change in the governance mode can overwhelm the management team and force it to postpone, or even abandon, other important firm activities. Furthermore, the required organizational changes sometimes make affected employees feel insecure and when that happens they tend to increase their resistance to offshoring activities (Stanislao & Stanislao, 1983). Reluctance on the part of employees to support the inevitable change process undermine the offshoring efforts of management (Cummings et al., 1997; Giangreco & Peccei, 2005). Overall, a change in governance mode might overstretch the available managerial resources of a company and also might have a negative impact on the overall profitability of a company.

In contrast, firms that do not adopt a different governance mode at the offshoring site might be able to leverage abroad the mode that exists at home (albeit some changes to adapt to local conditions are inevitable). Managers and other employees will be familiar with the existing governance mode, organizational structures, and processes optimized in the past and so the firm will benefit from existing knowledge and capabilities and an ongoing learning process. Retaining the existing structure calls for less adaptation on the part of employees and so ensures stability thereby reducing the risk of failure. For these reasons, companies prefer to retain their current governance mode. We therefore derive the hypothesis:

Hypothesis 5. There is a greater likelihood of a firm retaining the existing governance mode of the home country in the offshoring location than of selecting another governance mode.

4. Methodology

4.1. Data sample

We used data provided by the Offshoring Research Network (ORN, 2007) to test our hypotheses. The ORN is a joint effort of several research teams in the US and in Europe. In response to a lack of robust and detailed firm-level data on the emerging trends in offshoring, in 2004 ORN launched a multi-year international study on offshoring by US and European firms. This study consists of separate country-specific surveys that query the past, current and planned offshoring activities of firms. The content and the data collection processes, namely by surveys, are essentially the same, with the exception of some minor national considerations.

We discuss here the data collection process for German firms. (Details of the process for US firms are available upon request from the authors.) We contacted by email and telephone the 500 largest German companies in terms of annual sales in 2005,[3] identified senior managers to guarantee an appropriate overview across all support functions, and asked them to complete an online questionnaire about their offshoring activities in IT, call centers, finance and accounting, human resources, purchasing, product development and R&D. We received completed surveys from 124 respondents, most of whom were senior officers, 28 percent being top executives (CEOs, board members, senior vice presidents) or individuals reporting directly to persons in such positions, another 55 percent were division or department heads, and the remaining 17 percent were managers. Given their personal involvement as well as positioning in the firm, we believe that our respondents have been knowledgeable informants, whose responses are reasonably accurate to our survey. To check on non-response bias we selected randomly some non-participating firms and asked about reasons for non participation. The firms stated primarily lack of resources, confidentiality concerns and company policies. Further statistical checks did neither show significant differences on our major variables among the responses from early versus late respondents nor significant differences on demographic variables as company size and industry affiliation among participating and non-participating firms. Based on this outcome we believe that non-response bias is not a problem in our data (Armstrong & Overton, 1977). Finally, five questionnaires were excluded as they were from persons at subsidiaries of parent companies otherwise covered in the study. Of the remaining 119 companies, 42 already reported having performed offshoring activities that represented in total 178 offshoring implementations, the average size of which was about 76,000 employees. This is comparable to the responses to the US survey with 122 US firms having offshoring entities in 447 sites around the globe, having an average size of 41,000 employees. Overall our sample includes 525 offshoring implementations in all.

[3] We based the list of the 500 largest German companies on a ranking provided by Die Welt, a well-known German newspaper which identifies the largest German companies yearly.

4.2. Measurement of variables

Our dependent variable is a dichotomous variable that takes the value of one if the offshoring implementation was governed internally and zero if it was governed externally. The independent variables were operationalized as follows: to measure the impact of the surrounding firms (population) on the choice of the governance mode we determined the governance mode choices of other firms (with the same country of origin) for the year the focal offshoring implementation was undertaken. In detail we calculated the average share of internal implementations in the specific year and used it as an independent variable. To cope with finite size effects in early years we used moving averages over five years to obtain a continuous and steady proxy for the preferred governance mode in the population. Offshoring experience with a particular governance mode was determined by the number of previous offshoring implementations and their previously used governance modes. To account for the ratio between internal and external modes as well as for frequency of use, we built a composite index which covers both dimensions. We determined the number of internal and external implementations launched in the past, and used the ratio between them as an index reflecting past tendency to use a particular mode. The ratio was represented by a number between −1 and +1 where −1 represents an offshoring path with external implementations exclusively and vice versa for +1. A number in-between indicates that a mix of governance modes was used in the past. To account for the frequency we multiplied that number by the total number of previous implementations. For example, a firm that had implemented four internal offshoring activities and an external one in the past would have an internal implementations share of 80 percent. This share mapped to a figure between −1 and +1 is represented by a value of 0.6. Multiplied by the total number of 5 implementations this results in an index value of 3. This sophisticated method allows us to measure the amount of experience with a specific governance mode as well as the uniformity of governance modes previously used. To do so we had to incorporate not only the last recent offshoring activity but also the complete history of previous implementations of the firm in scope.

We obtained the relative importance of various motives for offshoring. We asked managers to rate the importance of cost savings, access to new markets, and growth on a five-point Likert scale. We also included a categorical variable in our analysis which differentiates between three different types of functions: (a) knowledge-intensive functions such as R&D, product development and design, (b) idiosyncratic functions such as finance and accounting, HR and procurement, and (c) quasi-autonomous functions such as IT and call center. Cultural distance between the home and the host country was operationalized with two different measures. On one hand, we asked respondents to rate the risk of cultural differences on a five-point Likert scale. On the other, we measured cultural distance based on the Kogut–Singh index (Kogut & Singh, 1988) which we calculated as the square root of the difference between two countries in Hofstede's four cultural dimension (power distance, individuality, masculinity and uncertainty avoidance) while controlling for variance in each dimension. This method has been widely used in international entry mode research (*e.g.,* Agarwal, 1994; Benito & Gripsrud, 1992; Fisher & Ranasinghe, 2001).

The operationalization of the governance mode used previously in the home country was similar to that used for our dependent variable. However, we had to take into account that the previous operations in the home country were conducted in several entities using different governance modes. In this specific case the previous governance mode is represented by a mix of governance modes. To cover this ambiguity, we used an index variable defined as the share of internal governance modes in the previous entities in the home country. For example, there were three entities in the home country and one of them had an internal governance mode. The resulting index value is 0.33. This sophisticated method allows us to leverage all data points even in case of ambiguous governances mode in the home country.

Our control variables include home country of firm and its firm size. As described before the nation-state and the institutional environment may have a substantial influence on a firm's control mechanisms and governance structures (DiMaggio & Powell, 1983). The home country is modeled by a dichotomous variable that takes a value of one for German firms and zero for US firms. With respect to firm size, many internationalization studies did show, that it can explain the firm's strategy and so it has always been of interest to scholars (Pan & Li, 2000). As discussed previously, firms, especially small and medium-sized ones, lack the managerial resources that are needed for internationalization (Kor & Mahoney, 2000, 2004; Mahoney & Pandian, 1992; Penrose, 1995, p. 43). Such firms are constrained in terms of capital, cash flow, managerial capacity and other resources (Benito & Welch, 1994; Pan & Li, 2000), and need to concentrate more on a few offshoring activities (Agarwal & Ramaswami, 1992). In contrast, larger companies have a greater capacity to commit resources and absorb risks (Agarwal, 1994; Buckley & Casson, 1976; Shan, 1991), and as a result it is easier for them to achieve economies of scale and scope and to build up knowledge (Pan & Li, 2000). Therefore, we included the number of employees at a firm, a widely established measure in the literature for firm size (*e.g.*, Gatignon & Anderson, 1988), as a control variable.

A first check of the data revealed that significant parts of the sample were not entirely available because some surveys were returned incomplete. As data for individual variables were missing for more than 5 percent of our observations, list-wise deletion of incomplete observations would have significantly reduced sample size and thus compromised model power so this was deemed unacceptable (Roth, 1994). Little's MCAR test (Little & Rubin, 1987) confirmed that data was not missing completely at random ($p < 0.001$). Thus, we used SPSS's EM method to impute missing values, following the methodology literature's recommendation to prefer ML-based imputations over other methods (Graham, Hofer, & MacKinnon, 1996).

Table 1 displays the means, standard deviations and correlations of the variables. Most of the correlations among the variables are relatively small. Furthermore, an examination of the variance inflation factors (VIF) for all of the independent

Table 1
Descriptive statistics.

Items	Mean	STD	1	2	3	4	5	6	7	8	9
1 Size	2.397	2.996	1	0.274***	0.070*	−0.075*	0.146***	0.142***	0.224***	0.008	0.210***
2 Prevalent governance mode	0.548	0.153	0.274***	1	0.156***	−0.128***	−0.054	0.307***	0.140***	−0.282***	0.155***
3 Prev. impl. gov. mode	0.356	1.959	0.070*	0.156***	1	−0.104***	0.040	0.139***	−0.075*	−0.042	0.174***
4 Growth	2.730	0.937	−0.075*	−0.128***	−0.104***	1	0.150***	0.213***	−0.092*	0.124***	0.163***
5 Cost savings	3.394	0.771	0.146***	−0.054	0.040	0.150***	1	−0.119***	0.241***	0.064	−0.072*
6 Access to new markets	1.529	1.148	0.142***	0.307***	0.139***	0.213***	0.119***	1	−0.027	−0.011	0.297***
7 Perceived cultural distances	1.852	0.902	0.224***	0.140***	−0.075	−0.092*	0.241***	−0.027	1	−0.060	−0.007
8 Kogut and Singh index	2.678	0.890	0.008	−0.282***	−0.042	0.124***	0.064	−0.011	−0.060	1	0.056
9 Home country gov. mode	0.866	0.188	0.210***	0.155***	0.174***	0.163***	−0.072*	0.297***	−0.007	0.056	1

Table does not include categorical variables.
* $p < 0.1$.
** $p < 0.05$.
*** $p < 0.01$.

variables reveals that all values are close to 1. The largest VIF value is 1.96, which is far below the threshold of 10 as recommended by Neter, Wasserman, and Kutner (1985). So, the potential impact of multicollinearity effects is limited.

4.3. Model

We used a logistic regression for modeling the choice of governance mode. To test our hypotheses, we estimate the probability of an internal governance mode for implementation i by the logit model

$$P_i = \frac{1}{1 + \exp(-z_i)} \quad \text{(I)}$$

whereas

$$z_i = b_0 + b_1\text{POPU}_i + b_2\text{EXPE}_i + b_3\text{COST}_i + b_4\text{MAKT}_i + b_5\text{GROW}_i + b_6\text{FUNC}_i + b_7\text{CULT}_i + b_8\text{GMHC}_i + b_9\text{HOCO}_i + b_{10}\text{SIZE}_i \quad \text{(II)}$$

The probability of observing an internal governance mode for implementation i is determined by the preferred governance mode in the population (POPU_i), the firm's experience with a particular governance mode (EXPE_i), the importance of the cost-savings motive (COST_i), the importance of access to new markets motive (MAKT_i), the importance of the growth motive (GROW_i), the type of function to be offshored (FUNC_i), the cultural distance between home and host country (CULT_i), the previously used governance mode in the home country (GMHC_i), the home country of the investor (HOCO_i), and the size of the firm (SIZE_i).

5. Results

The results of the logistic regression are presented in Table 2. A positive sign for a coefficient indicates that the probability of an internal governance mode increases when the underlying explanatory variable increases and vice versa for a negative sign.

Table 2 presents nine different models to verify the proposed hypotheses in detail. Model 1 includes only the control variables, Model 2 adds the impact of surrounding firms, Model 3 the experience effect, Model 4 the impact of managerial intentionality, Model 5 the impact of all firm-specific variables, Model 6 the effect of the functions to be transferred, Model 7 the impact of cultural distances, and Model 8 the influence of the previously used governance mode in the home country. Finally, Model 9 includes all effects simultaneously. Each model is structured similarly. The first column named "All firms" illustrates the results for both US and German firms. The second and third column named "US firms" and "German firms" show the results for the respective sub-samples. The expected signs for the coefficients of the explanatory variables are also given.

Hypothesis 1 states that firms imitate the offshoring behavior of other firms. This is clearly confirmed in Model 2. US as well as German firms tend to choose the governance mode of surrounding firms (for both sub-samples $p < 0.01$). Also Hypothesis 2a can be confirmed (Model 3). For both sub-samples we observe a preference for using the governance mode used for previous offshoring implementations. This relationship is highly significant for US firms ($p < 0.01$), less so for

Table 2
Determinants of offshoring governance mode (internal mode).

Perspective	Variables	Expected signs	Model 1 (control variables)											
			All firms				US firms				German firms			
			b-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.
Control variables	Intercept	N/A	−0.091	(0.125)			−0.029	(0.129)			1.130	(0.228)	***	
	Size	N/A	0.031	(0.031)		1.031	0.000	(0.036)		1.000	0.114	(0.058)	*	1.121
	Home country	+	1.417	(0.218)	***	4.125	N/A				N/A			
Popul. level	Prevalent governance mode	+												
Firm level	Prev. impl. gov. mode	+												
	Cost savings	−												
	Access to new markets	+												
	Growth	+/−												
Implementation-specific level	Knowledge intense functions	+												
	Idiosyncratic functions	+												
	Autonomous functions	N/A												
	Perceived cultural distances	−												
	Kogut and Singh index	−												
	Home country gov. mode	+												
Statistics	−2 Log-likelihood		656.468				480.972				172.772			
	Chi-square		50.997				0.000				3.695			
	Degrees of freedom		2				1				1			
	Significance		0.000				0.995				0.055			
	Cox and Snell		0.093				0.000				0.021			
	Nagelkerke		0.125				0.000				0.033			
	McFadden		0.072				0.000				0.021			
	N		525				347				178			

Perspective	Variables	Expected signs	Model 2 (population level)											
			All firms				US firms				German firms			
			b-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.
Control variables	Intercept	N/A	−2.190	(0.479)	***		−2.001	(0.684)	***		−1.770	(0.884)	**	
	Size	N/A	−0.015	(0.033)		0.985	−0.032	(0.038)		0.969	0.037	(0.064)		1.038
	Home country	+	0.582	(0.270)	**	1.789	N/A				N/A			
Popul. level	Prevalent governance mode	+	4.623	(1.018)	***	101.779	4.295	(1.465)	***	73.327	4.696	(1.452)	***	109.56
Firm level	Prev. impl. gov. mode	+												
	Cost savings	−												
	Access to new markets	+												
	Growth	+/−												
Implementation-specific level	Knowledge intense functions	+												
	Idiosyncratic functions	+												
	Autonomous functions	N/A												
	Perceived cultural distances	−												
	Kogut and Singh index	−												
	Home country gov. mode	+												

Table 2 (*Continued*)

Perspective	Variables	Expected signs	Model 2 (population level)											
			All firms				US firms				German firms			
			b-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.
Statistics	−2 Log-likelihood		632.878				472.006				159.776			
	Chi-square		74.587				8.966				16.691			
	Degrees of freedom		3				2				2			
	Significance		0.000				0.011				0.000			
	Cox and Snell		0.132				0.026				0.090			
	Nagelkerke		0.179				0.034				0.142			
	McFadden		0.105				0.019				0.095			
	N		525				347				178			
Perspective	Variables	Expected signs	Model 3 (firm specific experience)											
			All firms				US firms				German firms			
			b-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.
Control variables	Intercept	N/A	−0.074	(0.133)			−0.036	(0.140)			0.976	(0.236)	***	
	Size	N/A	0.021	(0.032)		1.021	0.001	(0.038)		1.001	0.088	(0.060)		1.092
	Home country	+	1.070	(0.231)	***	2.914	N/A				N/A			
Popul. level	Prevalent governance mode	+												
Firm level	Prev. impl. gov. mode	+	0.665	(0.099)	***	1.944	0.836	(0.133)	***	2.306	0.285	(0.146)	*	1.330
	Cost savings	−												
	Access to new markets	+												
	Growth	+/−												
Implementation-specific level	Knowledge intense functions	+												
	Idiosyncratic functions	+												
	Autonomous functions	N/A												
	Perceived cultural distances	−												
	Kogut and Singh index	−												
	Home country gov. mode	+												
Statistics	−2 Log-likelihood		577.100				401.648				167.657			
	Chi-square		130.365				79.324				8.810			
	Degrees of freedom		3				2				2			
	Significance		0.000				0.000				0.012			
	Cox and Snell		0.220				0.204				0.048			
	Nagelkerke		0.297				0.272				0.077			
	McFadden		0.184				0.165				0.050			
	N		525				347				178			
Perspective	Variables	Expected signs	Model 4 (managerial intentionality)											
			All firms				US firms				German firms			
			b-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.
Control variables	Intercept	N/A	0.046	(0.532)			−1.538	(0.696)	**		4.826	(1.413)	***	
	Size	N/A	0.033	(0.033)		1.033	0.003	(0.038)		1.003	0.135	(0.074)	*	1.144
	Home country	+	1.250	(0.239)	***	3.491	N/A				N/A			
Popul. level	Prevalent governance mode	+												

Firm level	Prev. impl. gov. mode	+											
	Cost savings	−	−0.307	(0.132)	**	0.736	−0.067	(0.156)		0.935	−1.015	(0.401)	**	0.363
	Access to new markets	+	0.437	(0.095)	***	1.549	0.458	(0.114)	***	1.580	0.807	(0.223)	***	2.242
	Growth	+/−	0.126	(0.107)		1.134	0.398	(0.132)	***	1.489	−0.629	(0.273)	**	0.533
Implementation-specific level	Knowledge intense functions	+												
	Idiosyncratic functions	+												
	Autonomous functions	N/A												
	Perceived cultural distances	−												
	Kogut and Singh index	−												
	Home country gov. mode	+												
Statistics	−2 Log-likelihood		616.445				447.275				140.459			
	Chi-square		91.020				33.697				36.008			
	Degrees of freedom		5				4				4			
	Significance		0.000				0.000				0.000			
	Cox and Snell		0.159				0.093				0.183			
	Nagelkerke		0.215				0.123				0.291			
	McFadden		0.129				0.070				0.204			
	N		525				347				178			

Perspective	Variables	Expected signs	Model 5 (firm level variables)											
			All firms				US firms				German firms			
			b-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.
Control variables	Intercept	N/A	0.228	(0.578)			−1.741	(0.791)	**		4.819	(1.426)	***	
	Size	N/A	0.033	(0.035)		1.034	0.015	(0.041)		1.015	0.126	(0.075)	*	1.134
	Home country	+	0.938	(0.253)	***	2.555	N/A				N/A			
Popul. level	Prevalent governance mode	+												
Firm level	Prev. impl. gov. mode	+	0.609	(0.095)	***	1.838	0.799	(0.130)	***	2.224	0.203	(0.124)		1.225
	Cost savings	−	−0.394	(0.146)	***	0.675	−0.102	(0.180)		0.903	−1.081	(0.410)	***	0.339
	Access to new markets	+	0.403	(0.102)	***	1.496	0.470	(0.128)	***	1.601	0.742	(0.230)	***	2.101
	Growth	+/−	0.191	(0.117)		1.211	0.506	(0.155)	***	1.658	−0.549	(0.281)	*	0.577
Implementation-specific level	Knowledge intense functions	+												
	Idiosyncratic functions	+												
	Autonomous functions	N/A												
	Perceived cultural distances	−												
	Kogut and Singh index	−												
	Home country gov. mode	+												
Statistics	−2 Log-likelihood		542.868				370.269				137.255			
	Chi-square		164.597				110.703				39.212			
	Degrees of freedom		6				5				5			
	Significance		0.000				0.000				0.000			
	Cox and Snell		0.269				0.273				0.198			
	Nagelkerke		0.364				0.364				0.314			
	McFadden		0.233				0.230				0.222			
	N		525				347				178			

Perspective	Variables	Expected signs	Model 6 (function to be transferred)											
			All firms				US firms				German firms			
			b-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.

Table 2 (*Continued*)

Perspective	Variables	Expected signs	Model 6 (function to be transferred)											
			All firms				US firms				German firms			
			b-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.
Control variables	Intercept	N/A	−0.591	(0.160)	***		−0.556	(0.172)	***		0.771	(0.278)	***	
	Size	N/A	0.037	(0.032)		1.037	0.005	(0.038)		1.005	0.122	(0.060)	**	1.130
	Home country	+	1.494	(0.225)	***	4.456	N/A				N/A			
Popul. level	Prevalent governance mode	+												
Firm level	Prev. impl. gov. mode	+												
	Cost savings	−												
	Access to new markets	+												
	Growth	+/−												
Implementation-specific level	Knowledge intense functions	+	0.978	(0.260)	***	2.658	1.021	(0.300)	***	2.776	0.846	(0.514)		2.330
	Idiosyncratic functions	+	1.128	(0.239)	***	3.089	1.205	(0.265)	***	3.335	0.827	(0.538)		2.287
	Autonomous functions	N/A	N/A				N/A				N/A			
	Perceived cultural distances	−												
	Kogut and Singh index	−												
	Home country gov. mode	+												
Statistics	−2 Log-likelihood		625.761				454.330				168.293			
	Chi-square		81.704				26.642				8.174			
	Degrees of freedom		4				3				3			
	Significance		0.000				0.000				0.043			
	Cox and Snell		0.144				0.074				0.045			
	Nagelkerke		0.195				0.099				0.071			
	McFadden		0.115				0.055				0.046			
	N		525				347				178			

Perspective	Variables	Expected signs	Model 7 (cultural distances)											
			All firms				US firms				German firms			
			b-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.
Control variables	Intercept	N/A	0.926	(0.393)	**		0.839	(0.454)	*		2.458	(0.734)	***	
	Size	N/A	0.076	(0.034)	**	1.079	0.050	(0.039)		1.052	0.139	(0.064)	**	1.149
	Home country	+	1.519	(0.233)	***	4.570	N/A				N/A			
Popul. level	Prevalent governance mode	+												
Firm level	Prev. impl. gov. mode	+												
	Cost savings	−												
	Access to new markets	+												
	Growth	+/−												
Implementation-specific level	Knowledge intense functions	+												
	Idiosyncratic functions	+												
	Autonomous functions	N/A												
	Perceived cultural distances	−	−0.536	(0.112)	***	0.585	−0.619	(0.131)	***	0.539	−0.266	(0.222)		0.767
	Kogut and Singh index	−	−0.048	(0.111)		0.954	0.054	(0.129)		1.055	−0.354	(0.224)		0.702
	Home country gov. mode	+												

Statistics	−2 Log-likelihood		631.629				455.564				168.833		
	Chi-square		75.836				25.408				7.634		
	Degrees of freedom		4				3				3		
	Significance		0.000				0.000				0.054		
	Cox and Snell		0.135				0.071				0.042		
	Nagelkerke		0.182				0.094				0.067		
	McFadden		0.107				0.053				0.043		
	N		525				347				178		

Perspective	Variables	Expected signs	Model 8 (previously used gov. mode)											
			All firms				US firms				German firms			
			b-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.
Control variables	Intercept	N/A	−0.091	(0.125)			−0.029	(0.129)			−1.879	(0.784)	**	
	Size	N/A	0.031	(0.031)		1.031	0.000	(0.036)		1.000	0.107	(0.063)	*	1.113
	Home country	+	1.417	(0.218)	***	4.125	N/A				N/A			
Popul. level	Prevalent governance mode	+												
Firm level	Prev. impl. gov. mode	+												
	Cost savings	−												
	Access to new markets	+												
	Growth	+/−												
Implementation-specific level	Knowledge intense functions	+												
	Idiosyncratic functions	+												
	Autonomous functions	N/A												
	Perceived cultural distances	−												
	Kogut and Singh index	−												
	Home country gov. mode	+		N/A				N/A			3.481	(0.852)	***	32.504
Statistics	−2 Log-likelihood		656.468				480.972				151.477			
	Chi-square		50.997				0.000				24.990			
	Degrees of freedom		2				1				2			
	Significance		0.000				0.995				0.000			
	Cox and Snell		0.093				0.000				0.131			
	Nagelkerke		0.125				0.000				0.208			
	McFadden		0.072				0.000				0.142			
	N		525				347				178			

Perspective	Variables	Expected signs	Model 9 (integrated model)											
			All firms				US firms				German firms			
			b-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.
Control variables	Intercept	N/A	−1.878	(0.925)	**		−3.775	(1.289)	***		0.998	(2.428)		
	Size	N/A	0.020	(0.039)		1.020	0.014	(0.048)		1.014	0.074	(0.088)		1.077
	Home country	+	0.327	(0.321)		1.387	N/A				N/A			
Popul. level	Prevalent governance mode	+	3.938	(1.135)	***	51.295	3.026	(1.848)		20.605	4.025	(1.728)	**	55.970
Firm level	Prev. impl. gov. mode	+	0.589	(0.097)	***	1.803	0.803	(0.136)	***	2.233	0.098	(0.125)		1.103
	Cost savings	−	−0.224	(0.162)		0.800	0.055	(0.197)		1.057	−1.236	(0.610)	**	0.291
	Access to new markets	+	0.327	(0.108)	***	1.387	0.396	(0.138)	***	1.485	0.643	(0.263)	**	1.903
	Growth	+/−	0.152	(0.126)		1.164	0.459	(0.163)	***	1.583	−0.534	(0.321)	*	0.586

Table 2 (*Continued*)

Perspective	Variables	Expected signs	Model 9 (integrated model)											
			All firms				US firms				German firms			
			b-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.	*b*-value	STE	Sign.	Odd rat.
Implementation-specific level	Knowledge intense functions	+	0.867	(0.299)	***	2.379	1.049	(0.366)	***	2.855	−0.039	(0.645)		0.962
	Idiosyncratic functions	+	1.020	(0.271)	***	2.773	1.160	(0.324)	***	3.191	0.106	(0.655)	***	1.112
	Autonomous functions	N/A	N/A				N/A				N/A			
	Perceived cultural distances	–	−0.304	(0.135)	**	0.738	−0.254	(0.172)		0.776	−0.217	(0.308)		0.805
	Kogut and Singh index	–	−0.012	(0.130)		0.988	0.075	(0.153)		1.078	−0.437	(0.299)		0.646
	Home country gov. mode	+		N/A				N/A			4.087	(1.243)	***	59.581
Statistics	−2 Log-likelihood			501.953				344.183				111.042		
	Chi-square			205.513				136.789				65.425		
	Degrees of freedom			11				10				11		
	Significance			0.000				0.000				0.000		
	Cox and Snell			0.324				0.326				0.308		
	Nagelkerke			0.438				0.434				0.489		
	McFadden			0.290				0.284				0.371		
	N			525				347				178		

Value in brackets represents std. error; items with "N/A" are not applicable.

* $p < 0.1$.

** $p < 0.05$.

*** $p < 0.01$.

German firms ($p < 0.1$). The picture is more ambiguous for Hypotheses 2b and 2c. Cost savings, Hypothesis 2b, are significant drivers of offshoring for the total sample ($p < 0.05$) as well as for the German sub-sample ($p < 0.05$), but not for the US sub-sample. In contrast, market-seeking, Hypothesis 2c, is highly significant in both sub-samples ($p < 0.01$). US firms that list growth as a reason for offshoring prefer to use an internal governance mode ($p < 0.01$) while the reverse is true for German firms ($p < 0.05$). This supports both Hypotheses 2d and 2e. Model 5 includes all firm-specific variables. The results confirm those of Models 3 and 4 with some minor adjustments. Models 6–8 add implementation-specific factors. Model 6 shows a significantly higher probability of using an internal mode for knowledge intensive and idiosyncratic functions than for autonomous functions for both the total sample and the US sub-sample. Model 7 tests Hypothesis 4 that predicts that cultural distance is negatively related to an internal governance mode choice. Perceived cultural distance is significant ($p < 0.01$) in the total sample as well as in the US sub-sample, but significance of Kogut–Singh index cannot be confirmed. Model 8 tests Hypothesis 5. The results for the German sub-sample clearly show ($p < 0.01$) firms conforming to the governance mode prevalent in the home country, but due to some deficiencies in the data this could not be tested for the total sample or the US sub-sample. Model 9 tests all the hypotheses simultaneously. For the total sample the results remain unchanged except that the impact of the home country and that of cost savings as a driver for offshoring lose significance.

Turning to the control variable, there is no consistent picture with respect to the size of the firm. In contrast, there is a significant difference in the governance mode choice between firms in different institutional environments. This can be clearly observed in our data. Compared to US firms, German firms have a significantly higher likelihood of using an internal governance mode ($p < 0.01$).

In summary, all hypotheses are confirmed in the total sample as well as partially in the sub-samples. The integrated model reaches reasonable Cox and Snell, Nagelkerke and McFadden pseudo R squares (*e.g.*, Cox & Snell, 1989; McFadden, 1974; Nagelkerke, 1991). Most variables are stable in the models separately testing hypotheses, specifically Models 2 to 8, as well as in Model 9, the integrated model.

6. Discussion

The primary objective of our study is to identify which factors influence the choice of governance mode in offshoring of support functions. As we know from internationalization theory (*e.g.*, Haiyang & Hu, 2002; Simmonds, 1990) the governance mode has a pivotal role and is a significant determinant of the overall success of foreign activities. We derived a theoretical framework comprised of four different perspectives to describe influencing factors based on the multi-dimensional framework of Lewin et al. (2004). We analyzed in detail the impact of the offshoring behavior of others within a firm's group of reference, the effect of firm-specific characteristics, and the impact of a range of particulars specific to a given implementation. The results of our empirical analysis using data from the combined offshoring implementations of 525 US and German firms provide clear support for our hypotheses.

6.1. Population level

Our analyses clearly indicate that firms follow other firms that are in the home country in devising their offshoring strategies. They have a demonstrable tendency to copy the offshoring behavior of other firms which face the same environmental and institutional conditions (DiMaggio & Powell, 1983; Haunschild & Miner, 1997). Every firm compares itself with other firms and forms its objectives not only on its own experience but also to some extent on the methods, procedures and success of other firms (Cyert & March, 1963; Festinger, 1954; Levitt & March, 1988). Consequently, their decisions are influenced by the strategies and intentions of other firms. Despite this, it is reasonable to suppose that firms do not compare themselves to every other firm, but to specific firms within their frame of reference. Haunschild & Miner (1997) introduced three different types of imitation processes: frequency-based, trait-based and outcome-based. Frequency-based imitation means that firms copy the organizational structures that have been implemented by large numbers of other firms (Haunschild & Miner, 1997). This represents the imitation approach of firms which we extensively discussed before. Trait-based imitation means that they copy practices used by a subset of firms based on given traits. For instance, they might imitate the organizational structures and processes of firms with a high favorable reputation in a given area, from the same industry or with similar firm size, and in doing so, they are using reputation as a proxy for the adequacy of the organizational structures chosen by the target firm. Some firms might even have multiple reference groups. To investigate whether trait-based imitation is relevant in offshoring, we performed a supplementary analysis and used solely large firms as a reference group (similar to the study of Haveman, 1993). As before, we clearly observe an impact from surrounding firms. However, the impact of the reference group is less than it is in case of frequency-based imitation. This indicates that trait-based imitation on the basis of size, as a measure for reputation, seems to be less relevant. Outcome-based imitation takes trait-based imitation one step further. It assumes that firms are able to evaluate the particular actions of other firms that have contributed to a positive result. Of course, very sophisticated information gathering and analytical abilities are required to follow such an approach as it implies that a firm can judge from the outside the actions of other firms, challenging in most situations, more difficult still in offshoring. Getting reliable information on the success of other firms about the success of governance models abroad is quite difficult. Firms face an especially high degree of uncertainty about outcomes when they offshore. Thus, outcome-based imitation might not be possible in case of offshoring, and as a result firms can be expected to follow more often frequency-based or trait-based imitation processes.

6.2. Experience

We also confirmed the impact of previous offshoring implementations on a firm's governance mode choice. Companies prefer to re-leverage the governance modes of previous offshoring implementations. It is natural that firms would want to keep existing structures and leverage existing knowledge. We argued that firms learn through the implementation of a given governance mode (Chang & Rosenzweig, 2001). Firms build distinctive competencies, have different levels of knowledge, and are more or less capable of implementing a particular mode successfully based on their previous experience. Each firm evolves in a different way and has to cope with its own firm-specific path dependencies in each transfer step (Nelson & Winter, 1982)

6.3. Managerial intentionality

In addition to the path dependencies we also verified the influence of managerial intentionality. As Hutzschenreuter et al. (2007) pointed out, managerial objectives are often excluded from analyses of internationalization phenomena. We clearly demonstrate that managerial intentionality plays a vital role in offshoring decisions (see pseudo-*R*-squares in Model 4). This outcome may encourage other researchers to follow the call of Hutzschenreuter et al. (2007) to attach more importance to this topic. We prove specifically the impact of cost reduction, market access, and growth strategies. Surprisingly US firms which declared they offshored for growth tended to prefer an internal governance mode, while their German counterparts relied more on external modes. This result is in line with our hypothesized relationships. However, such a diametrically opposed outcome is striking and merits further investigation. US and German firms have a different attitude to realize growth. The German firms leverage external resources to free up employees who are staffed on growth topics. In contrast, US firms rely on the offshore hired employees to foster further growth. This outcome is even more surprising when we keep in mind that German firms much more often prefer an internal governance mode. Regarding the two other motives, cost reduction and market access, the outcomes are as expected and have been confirmed in many interviews with practitioners (which we held during conduction of our study).

6.4. Function type

As we have written, there are situation-specific constraints beyond the influence of firm-specific ones. Not all support functions have the same feasibility for a specific governance mode. It is much more likely that firms will use an internal governance mode for knowledge-intensive and idiosyncratic functions than for autonomous ones primarily because of the characteristics of the respective activities. While knowledge-intensive and idiosyncratic functions are characterized by less standardized processes or firm-specificities that hamper external delivery, autonomous functions are typically modularized and so more easily detached. The outcome is not surprising, but a more detailed analysis of the US data revealed further insights, including that the impact of the function is amplified by the size of the firm. The larger a firm, the more relevant the impact of the function. This may be because in small firms the characteristics we outlined previously are less pronounced. It might be easier for small firms to codify knowledge and transfer it to an external provider, though without doubt, there are also highly sophisticated processes in small companies and their transfer to an external partner is not trivial. However, the sheer volume of highly complex processes might be expected to be less in a smaller firm than in a larger firm, and so despite a complex environment, it might be easier for a service provider to acquire the relevant knowledge and to set up appropriate processes. Furthermore, idiosyncrasies might be less decisive for small firms, and so perhaps for them, maybe particularly because of them, might be based on very firm-specific rather than standardized activities, and so as we have just argued, it might be easier for an external service provider to quickly get a grip on those processes because they are relatively limited in number. Whatever the reasons behind it, the function-specific aspects for the offshoring behavior are less pronounced for small firms than for large ones.

6.5. Cultural distance

We argued that governance mode choice is not only influenced by the type of activity to be transferred but also by some characteristics of the host country. We found, in line with many other scholars (*e.g.*, Benito & Welch, 1994), that the cultural distance between the home and target country significantly impact the offshoring efforts of a firm. These challenges may be more effectively addressed by using an external partner (Fisher & Ranasinghe, 2001). We were able to confirm the relationship between the cultural distance between two locales and a preference for an external mode of governance. However, German firms seem to behave differently than US firms. This may be for historical reasons or it may be due to specific market conditions in the home countries. German firms have a long tradition of internationalization, and in many cases have shown an ability to cope with foreignness. One often cited example is the dye industry which German firms dominated world-wide for many years (Murmann, 2003), with five German firms controlling about 75 percent of the global market in the early 1900s (Redlich, 1914). This was mainly based on an appropriate alignment between governmental institutions and the educational system. Sophisticated business education especially allowed German firms to rise to the top in some industries from the end of the 19th century to the beginning of the 20th (Usdiken, Kieser, & Kjaer, 2004). German firms can look back on a long history of international activities and based on that might have more know-how and a lower

risk for going international nowadays. In addition, some might argue that there is a more pragmatic reasoning for the proficient handling of cultural distances by German firms. Whereas US companies can leverage a large home market, the size of the German market often prompts firms to go abroad to grow. That this is the case is clearly seen in the very high export orientation of the German economy. Germany has had a large trade surplus for many years, for example, in 2005 German exports of goods and services exceeded imports by US$150 billion (OECD, 2007), in contrast to a US trade deficit of US$762 billion. Furthermore, German firms not only go abroad to conquer new markets but also to avoid what they see as disadvantageous regulatory settings at home. Taxes, social security contributions and high and inflexible regulation of the labor market represent substantial barriers for growth (Deutsche Bundesbank, 1997). German internationalization activities may be seen as an escape from institutional constraints in the home country (Witt & Lewin, 2007). Like their US peers, German firms face difficulties arising from cultural differences, but German firms seem to take on those challenges more readily because of the sense of confidence their industrial history gives them and because the relative size of their national market and regulatory environment prompt them to do so.

Our measure of cultural distances led to a surprising observation. We asked managers to rate the risks of offshoring in light of perceived cultural differences, a subjective measure. We also used the well-established Kogut–Singh index (Kogut & Singh, 1988) to capture cultural differences, an objective measure. We observed the impact of cultural difference like those we describe above solely with the subjective measure. This counterintuitive result might be due to a universal, yet unnoticed, distinction between general cultural distance and the distance actually relevant to offshoring. Whereas general cultural distance might be decisive for sales-orientated internationalization steps, its relevance for offshoring activities could be limited, because the firm interacts with a limited number of parties, mainly employees, suppliers and governmental institutions. In the former case though, a firm has to interact with retailers or directly with numerous and diverse customers. This requires a deep understanding of local culture and the adaptations that must be made to it. In responding to our questions about cultural differences, perhaps respondents did only take into account cultural distance as it relates to offshoring (Tihanyi et al., 2005). Be that as it may, the ambiguous outcome resulting from the Kogut–Singh index is in keeping with many other studies on governance mode decisions. Zhao, Luo, and Suh (2004) cite in their extensive meta-analysis on entry mode studies a substantial number of articles that reveal positive, negative, and even insignificant relationships between cultural distance and a chosen entry mode. Still, they were capable of predicting a significant impact of the Kogut–Singh index based on their empirical analysis. At the same time, there is now extensive debate about the general applicability of Hofstede's seminal work (1980) on cultural distance upon which the Kogut–Singh index is based. The authors of the 2006 GLOBE project argue that there might be substantial deficiencies in Hofstede's scoring of cultural dimensions, and by extension in the Kogut–Singh index (*cf.* Hofstede, 2006; Javidan, House, Dorfman, Hanges, & De Luquet, 2006; Smith, 2006). Obviously, further investigation is needed.

6.6. Previously existing governance mode

Offshoring and the relocation of activities are major challenges. Firms must become familiar with new cultural and structural settings in the host country, yet managerial capacity to adapt to new settings are limited. Adopting a governance mode at the offshoring site that has not been in use in the home country causes additional complexity. New organizational structures and control mechanisms and changes in processes are needed to be established at the offshoring site, causing additional stress on managerial resources. Employees tend to resist any organizational change as they feel uncomfortable about structural adjustments, and so they might hamper the change process (Cummings et al., 1997; Giangreco & Peccei, 2005). Hence, companies prefer to use the existing governance mode of the home country at the offshoring site. To confirm this hypothesized relationship, we checked whether the companies do indeed use at their offshoring sites the same governance mode as previously used in the home country. Due to a deficiency in our data set we were able to test this relationship only for German firms which clearly confirmed the expected offshoring behavior.

6.7. Institutional environment

With respect to the impact of the home country there is a clear difference in the governance mode decisions between the US and German firms. Whereas the likelihood of a US firm choosing to use an internal governance mode abroad as opposed to an external one is about 1 to 1, a German firm is about four times more likely to do so. This finding is in line with the earlier observations of Lewin & Couto (2007). The different ratios show that there are substantial differences in the offshoring behavior of US and German firms. The reason for this may be based on different institutional environments. In Germany, we can observe a serious exertion of control by the government as state-owned and controlled firms, inhibition of dismissals without valid reasoning and others (Lewin & Kim, 2004). This can hamper firm efforts to realize one business opportunity or another and coerce firms into more traditional business behavior. The consequences of such country-specific configurations are enormous. In Germany, there is a greater orientation towards the welfare of workers and firms devote more resources to their professional development (Calori & Dufour, 1995). Due to the strong influence of works councils the German firms are more conservative than their US peers, are less willing to pursue short-term strategies, and want to be entirely in control of all corporate functions. Thus, an externalization of activities might be less promising from the perspective of a German firm. In contrast, US firms are more intensively profit orientated and tend to pursue the kind of short-term targets that markets reward. Therefore, the chance to realize cost savings by offshoring in the absence of governmental and societal pressure is

likely to encourage them much more than their German peers to externalize parts of their activities. This outcome is quite surprising. Despite the current emphasis on global markets, players and competition, our data shows striking dissimilarities between these two different nations-states. There are country-specific reasons for offshoring that are based on a nation's history and its contemporary situation. Firms have to be particularly thorough when they probe and imitate the offshoring strategies of firms in other countries.

6.8. Four-fold framework of governance mode choice

In addition to the implications of all of these individual variables, our framework itself (see Fig. 1) is highly relevant. As we can derive from Table 2, a single perspective could not satisfactorily explain offshoring behavior. Comparing the different perspectives and their corresponding pseudo-*R*-squares in Table 2 (items Cox and Snell, Nagelkerke, McFadden), we see that each individual perspective contributes to the explanation of the variance in governance mode decisions. Furthermore, there is a clear indication that the institutional environment alike the population surrounding a firm and firm- as well as implementation-specific characteristics substantially determine a firm's governance mode choice. With such an extended, four-folded framework we are capable of explaining governance mode decisions to a substantial extent. Nevertheless, many internationalization studies that discuss governance mode decisions in sales-orientated internationalization activities (*e.g.*, Barkema et al., 1997; Gatignon & Anderson, 1988), focus on just one or two perspectives. Obviously, such an approach ignores valuable explanatory power from other perspectives. So, our results encourage other researchers to use our framework not only in the offshoring but also in the more general internationalization context.

7. Limitations and suggestions for further research

We managed to build a consistent framework of multiple theoretical perspectives explaining the governance mode choice of firms. Each of the used perspectives substantially contributes to our understanding of a firm's choice. Albeit, we have to acknowledge that the presented structure may only be a starting point for further research activities. Future studies may use our framework to analyze the interactions between the individual dimensions and its aligned impact factors in more detail. By doing so, our framework may be the basis for a much more complex coevolutionary framework as some of the key properties are already available *e.g.,* multilevelness/embeddedness or path and history dependence (*cf.* Lewin & Volberda, 1999).

We tested our theoretical framework with data on the offshoring activities of US and German companies in an effort to verify the impact of the institutional environment. A broader scope including firms from other nations would undoubtedly provide additional insights into the discussed effects of the institutional environment. Because our data only includes the offshoring activities from just two countries, we were able to analyze home country effects only on the basis of a dichotomous dummy variable. Thus, it would be beneficial to enhance the analysis with further data from other nations.

Further, in looking at the influence of surrounding firms we made no allowances for the evolutionary nature of offshoring even though in the early stage of offshoring, the number of firms with credible experience was obviously limited. Clearly one could hardly expect that in the early days of offshoring firms had a sizable impact on the governance mode decisions of one another. However, in the course of time as more and more firms offshored the pressure "to follow the pack" increased. Future analyses might look more closely at this phenomenon. We also assumed that each surrounding company has the same impact, but in practice some firms act more as role models than others. Firms might look more to companies in the same industry or that have a similar geographic footprint. Some firms might even have multiple reference groups (firms with the same size, firms with the same level of internationalization, firms offering similar products, etc.). So, it might be interesting to see what type of reference groups exist and what type has the most relevant impact. With our test using solely large firms as a reference group we did a first step in this direction. However, further studies are necessary to analyze the impact of surrounding firms based on these and other different measures of this kind.

Regarding firm level variables we analyzed the impact of cutting costs, enabling growth and access to new markets motives. The argumentation for these motives is not surprisingly very "intuitive" and could be mostly confirmed. Based on our outcomes future research might go one step further and analyze more complex motives. Many European firms may offshore not as a proactive approach, but in reaction to extensive regulation of business and inflexibilities in the labor market (*cf.* Witt & Lewin, 2007). Especially in the early days of offshoring, governance mode decisions may also have been influenced by the desire to buy political favor in certain countries by using an internal governance mode (Delios & Henisz, 2003). Additionally, the interaction between motive factors might reveal interesting and counterintuitive insights. Realizing cost savings as well as accessing new markets might not be achievable with the same governance mode. So, the impact of one motive might be moderated by the other motive. Also interactions with variables on the implementation level might uncover further insights. For example, the impact of the cost savings motive might be much less relevant for knowledge intense functions as product development or R&D than for autonomous functions as IT and call centers.

We included cultural distance as a source of complexity in offshoring and demonstrated its significance. Geographical, economic or administrative distances may also be motivators for a particular governance mode choice (Ghemawat, 2001; Terpstra & Chwo-Ming, 1988), and so could also prove fertile ground for future studies. We joined wholly-owned implementations and joint ventures into an internal governance mode in contrast to an external one because our sample size did not allow use of a more fine-grained analysis and to treat joint ventures as a separate governance mode. At the same time,

elimination of joint ventures was not advisable, if only to avoid the loss of additional data points. Further studies differentiating between purely internal and external governance modes, and also joint ventures with various types of equity share, could provide additional insights.

Some parts of our argumentation, specifically the advantages and disadvantages of an external governance mode, are derived from the manufacturing outsourcing literature. However, we were not able to determine if all our conclusions could be equally applied to the external delivery of white-collar activities as well. Gereffi (2005) indicates that there might be substantial similarities and that much of the blue-collar offshoring phenomenon may be replicated in white-collar offshoring.

8. Conclusion and implications

We have demonstrated that firms make their governance mode decisions based on the institutional environment, the surrounding population of similar firms, firm-specific characteristics, and the individual settings of a particular implementation. Based on the outcomes, we conclude that the multi-dimensional framework is effective in explaining governance mode decisions, and might also be applicable to other aspects of internationalization.

Our research implies that the choice of governance mode should be based on several components, an outcome that should be of particular interest to managers. Firms should be aware of national historical strengths and take the institutional environment of their home countries into account as well. Copying strategies that originated in other countries might be misleading, or worse, while on the other hand, analyzing the offshoring strategies of other firms in the home country might be beneficial. It may be inevitable that the managers of firms compare their offshoring efforts to those of other firms. That is not necessarily harmful, however, firms should not blindly copy the offshoring strategies of other companies. For example, German firms should not in all respects, imitate the offshoring behavior of US firms, and certainly not without question.

In looking at firm-specific factors, we found that companies should keep in mind path dependency effects. By following a deliberate offshoring path firms can build required offshoring capabilities, limit inevitable organizational adaptations to a minimum, and reduce the resistance of the employees to structural change. The management team has to select an appropriate governance mode in light of the specific offshoring objectives of the firm. Not all targets can be equally well achieved with every governance mode. Finally, firms may have to prioritize their offshoring aims and pursuit a limited set of targets. Some governance modes are better suited than others for given offshoring functions. If a firm settles on an inappropriate governance mode it might very well endanger the results of an offshoring effort. This can especially be so in firm-critical functions such as R&D and product development as these functions represent critical competencies and are likely to incorporate intellectual property. Furthermore, as we have shown, managers ignore cultural distance to the target country at their peril. Executives must take into consideration the hitherto existing governance mode in the home country as a change in governance mode can overwhelm employees and management alike. Making the wrong governance mode decision or improperly managing firm capabilities can not only jeopardize the success of a given implementation, but can overstretch the limited sources of the firm and so have a detrimental impact on day-to-day business, and in the long-run have a negative impact on overall firm performance.

References

Agarwal, S. (1994). Socio-cultural distance and the choice of joint ventures: A contingency perspective. *Journal of International Marketing, 2*(2), 63–80.

Agarwal, S., & Ramaswami, S. N. (1992). Choice of foreign market entry mode: Impact of ownership, location and internalization factors. *Journal of International Business Studies, 23*(1), 1–27.

Allweyer, T., Besthorn, T., & Schaaf, J. (2004). *IT outsourcing: Between starvation diet and nouvelle cuisine*. Frankfurt a. M., Germany: Deutsche Bank Research.

Armstrong, J. S., & Overton, T. S. (1977). Estimating nonresponse bias in mail surveys. *Journal of Marketing Research, 14*(3), 396–402.

Barkema, H. G., Bell, J. H. J., & Pennings, J. M. (1996). Foreign entry, cultural barriers, and learning. *Strategic Management Journal, 17*(2), 151–166.

Barkema, H. G., Shenkar, O., Vermeulen, F., & Bell, J. H. J. (1997). Working abroad, working with others: How firms learn to operate international joint ventures. *Academy of Management Journal, 40*(2), 426–442.

Barkema, H. G., & Vermeulen, F. (1998). International expansion through start-up or acquisition: A learning perspective. *Academy of Management Journal, 41*(1), 7–26.

Barthelemy, J. (2003). The seven deadly sins of outsourcing. *Academy of Management Executive, 17*(2), 87–100.

Benito, G. R. G., & Gripsrud, G. (1992). The expansion of foreign direct investments: Discrete rational location choices or a cultural learning process? *Journal of International Business Studies, 23*(3), 461–476.

Benito, G. R. G., & Welch, L. S. (1994). Foreign market servicing: Beyond choice of entry mode. *Journal of International Marketing, 2*(2), 7–27.

Bettis, R. A., Bradley, S. P., & Hamel, G. (1992). Outsourcing an industrial decline. *Academy of Management Journal, 6*(1), 7–22.

Buckley, P. J., & Casson, M. (1976). *The future of the multinational enterprise*. New York: Holmes & Meier Publishers.

Calori, R., & Dufour, B. (1995). Management European style. *Academy of Management Executive, 9*(3), 61–71.

Calori, R., Lubatkin, M., Very, P., & Veiga, J. F. (1997). Modelling the origins of nationally-bound administrative heritages: A historical institutional analysis of French and British firms. *Organization Science, 8*(6), 681–696.

Carson, S. J. (2007). When to give up control of outsourced new product development. *Journal of Marketing, 71*(1), 49–66.

Chalos, P., & Sung, J. (1998). Outsourcing decisions and managerial incentives. *Decision Sciences, 29*(4), 901–919.

Chandler, A. D., & Hikino, T. (1990). *Scale and scope: The dynamics of industrial capitalism*. Cambridge, MA, London: Belknap Press.

Chang, S.-J., & Rosenzweig, P. M. (2001). The choice of entry mode in sequential foreign direct investment. *Strategic Management Journal, 22*(8), 747–776.

Chesbrough, H. W. (2003). The era of open innovation. *MIT Sloan Management Review, 44*(3), 35–41.

Couto, V., Mani, M., Lewin, A. Y., & Peeters, C. (2006). *The globalization of white-collar work*. Chicago: Booz Allen Hamilton Inc.

Cox, D. R., & Snell, E. J. (1989). *Analysis of binary data*. London: Chapman and Hall.

Cummings, T. G., Huse, E. F., & Worley, C. G. (1997). *Organization development and change*. Cincinnati, OH: South-Western College Pub.

Cyert, R. M., & March, J. G. (1963). *A behavioral theory of the firm*. Englewood Cliffs, NJ: Prentice-Hall.

Das, T. K., & Bing-Sheng, T. (2000). A resource-based theory of strategic alliances. *Journal of Management, 26*(1), 31–61.

Delios, A., & Henisz, W. J. (2003). Policy uncertainty and the sequence of entry by Japanese firms, 1980–1998. *Journal of International Business Studies, 34*(3), 227–241.
Demirbag, M., & Mirza, H. (2000). Factors affecting international joint venture success: An empirical analysis of foreign-local partner relationships and performance in joint ventures in Turkey. *International Business Review, 9*(1), 1–35.
Deutsche Bundesbank. (1997). *Entwicklung und Bestimmungsgründe grenzüberschreitender Direktinvestitionen [Developments and Causes of Foreign Direct Investment]*. Frankfurt a. M., Germany: Deutsche Bundesbank.
DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review, 48*(2), 147–160.
Doh, J. P. (2005). Offshore outsourcing: Implications for international business and strategic management theory and practice. *Journal of Management Studies, 42*(3), 695–704.
Doz, Y. L., & Hamel, G. (1998). *Alliance advantage: The art of creating value through partnering*. Boston: Harvard Business School Press.
Eisenhardt, K. M., & Martin, J. A. (2000). Dynamic capabilities: What are they? *Strategic Management Journal, 21*(10/11), 1105–1121.
Engardio, P., Einhorn, B., Kripalani, M., Reinhardt, A., Nussbaum, B., & Burrows, P. (2005). Outsourcing innovation. *Business Week, 3925*, 84–94.
Ernst, D. (2002). Global production networks and the changing geography of innovation systems. Implications for developing countries. *Economics of Innovation & New Technology, 11*(6), 497–523.
Farrell, D. (2005). Offshoring: Value creation through economic change. *Journal of Management Studies, 42*(3), 675–683.
Farrell, D., Kaka, N., & Sturze, S. (2005). Ensuring India's offshoring future. *McKinsey Quarterly (Special Edition),* 74–83.
Festinger, L. (1954). A theory of social comparison processes. *Human Relations, 7*(2), 117–140.
Fisher, T. F., & Ranasinghe, M. (2001). Culture and foreign companies' choice of entry mode: The case of the Singapore building and construction industry. *Construction Management & Economics, 19*(4), 343–353.
Folger, R., Daniel, P. S., & Skarlicki, D. P. (1999). Unfairness and resistance to change: Hardship as mistreatment. *Journal of Organizational Change Management, 12*(1), 35–50.
Franko, L. G. (1976). *The European multinationals: A renewed challenge to American and British big business*. Stanford, CT: Greylock Publishers.
Gatignon, H., & Anderson, E. (1988). The multinational corporation's degree of control over foreign subsidiaries: An empirical test of a transaction cost explanation. *Journal of Law, Economics & Organization, 4*(2), 305–336.
Gereffi, G. (2005). The global economy: Organization, governance, and development. In N. J. Smelser & R. Swedberg (Eds.), *The handbook of economic sociology* (pp. 160–182). Princeton, NJ: New York Princeton University Press; Russell Sage Foundation.
Ghemawat, P. (2001). Distance still matters. The hard reality of global expansion. *Harvard Business Review, 79*(8), 137–147.
Giangreco, A., & Peccei, R. (2005). The nature and antecedents of middle manager resistance to change: Evidence from an Italian context. *International Journal of Human Resource Management, 16*(10), 1812–1829.
Graham, J. W., Hofer, S. M., & MacKinnon, D. P. (1996). Maximizing the usefulness of data obtained with planned missing value patterns: An application of maximum likelihood procedures. *Multivariate Behavioral Research, 31*(2), 197–218.
Haiyang, C., & Hu, M. Y. (2002). An analysis of determinants of entry mode and its impact on performance. *International Business Review, 11*(2), 193–210.
Haunschild, P. R., & Miner, A. S. (1997). Modes of interorganizational imitation: The effects of outcome salience and uncertainty. *Administrative Science Quarterly, 42*(3), 472–500.
Haveman, H. A. (1993). Follow the leader: Mimetic isomorphism and entry into new markets. *Administrative Science Quarterly, 38*(4), 593–627.
Heikkilä, J., & Cordon, C. (2002). Outsourcing: A core or non-core strategic management decision? *Strategic Change, 11*(4), 183–193.
Hennart, J.-F. (1988). A transaction costs theory of equity joint ventures. *Strategic Management Journal, 9*(4), 361–374.
Hofstede, G. (2006). What did GLOBE really measure? Researchers' minds versus respondents' minds. *Journal of International Business Studies, 37*(6), 882–896.
Hofstede, G. H. (1980). *Culture's consequences, international differences in work-related values*. Beverly Hills, CA: Sage Publications.
Hutzschenreuter, T., Pedersen, T., & Volberda, H. W. (2007). The role of path dependency and managerial intentionality: A perspective on international business research. *Journal of International Business Studies, 38*, 1055–1068.
Javidan, M., House, R. J., Dorfman, P. W., Hanges, P. J., & De Luquet, M. S. (2006). Conceptualizing and measuring cultures and their consequences: A comparative review of GLOBE's and Hofstede's approaches. *Journal of International Business Studies, 37*(6), 897–914.
Jiatao, L. (1995). Foreign entry and survival: Effects of strategic choices on performance in international markets. *Strategic Management Journal, 16*(5), 333–351.
Johanson, J., & Vahlne, J.-E. (1977). The internationalization process of the firm: A model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies, 8*(1), 23–32.
Johanson, J., & Vahlne, J.-E. (1978). The internationalization process of the firm. *International Executive, 20*(1), 19–21.
Kaka, N. (2003). A choice of models. *McKinsey Quarterly, 4*, 46–47.
Khan, H., & Islam, M. S. (2006). Outsourcing, migration, and brain drain in the global economy: Issues and evidence. *U21Global Working Papers Series, 4*, 1–18.
Khan, N., Currie, W. L., Weerakkody, V., & Desai, B. (2003). Evaluating offshore IT outsourcing in India: Supplier and customer scenarios. *Paper presented at the 36th Hawaii international conference on system sciences*.
Kogut, B. (1988). Joint ventures: Theoretical and empirical perspectives. *Strategic Management Journal, 9*(4), 319–332.
Kogut, B. (1991). Country capabilities and the permeability of borders. *Strategic Management Journal, 12*(4), 33–47.
Kogut, B., & Singh, H. (1988). The effect of national culture on the choice of entry mode. *Journal of International Business Studies, 19*(3), 411–432.
Kor, Y. Y., & Mahoney, J. T. (2000). Penrose's resource-based approach: The process and product of research creativity. *Journal of Management Studies, 37*(1), 109–139.
Kor, Y. Y., & Mahoney, J. T. (2004). Edith Penrose's (1959) contributions to the resource-based view of strategic management. *Journal of Management Studies, 41*(1), 183–191.
Kumar, N. (1996). Intellectual property protection, market orientation and location of overseas R&D activities by Multinational Enterprises. *World Development, 24*(4), 673–688.
Leiblein, M. J., & Miller, D. J. (2003). An empirical examination of transaction- and firm-level influences on the vertical boundaries of the firm. *Strategic Management Journal, 24*(9), 839–859.
Leiblein, M. J., Reuer, J. J., & Dalsace, F. (2002). Do make or buy decisions matter? The influence of organizational governance on technological performance. *Strategic Management Journal, 23*(9), 817–833.
Levitt, B., & March, J. G. (1988). Organizational learning. *Annual Review of Sociology, 14*(1), 319–338.
Levy, D. L. (1995). International sourcing and supply chain stability. *Journal of International Business Studies, 26*(2), 343–360.
Levy, D. L. (2005). Offshoring in the new global political economy. *Journal of Management Studies, 42*(3), 685–693.
Lewin, A. Y., & Couto, V. (2007). *Next generation offshoring: The globalization of innovation*. Durham, NC: Duke University, The Fuqua School of Business.
Lewin, A. Y., & Kim, J. (2004). The nation-state and culture as influences on organizational change and innovation. In M. S. Poole & A. H. Van de Ven (Eds.), *Handbook of organizational change and innovation* (pp. 324–353). New York: Oxford University Press.
Lewin, A. Y., & Peeters, C. (2006a). Offshoring work: Business hype or the onset of fundamental transformation? *Long Range Planning, 39*(3), 221–239.
Lewin, A. Y., & Peeters, C. (2006b). The top-line allure of offshoring. *Harvard Business Review, 84*(3), 22–24.
Lewin, A. Y., & Volberda, H. W. (1999). Prolegomena on coevolution: A framework for research on strategy and new organizational forms. *Organization Science, 10*(5), 519–534.
Lewin, A. Y., Weigelt, C. B., & Emery, J. D. (2004). Adaption and selection in strategy and change. In M. S. Poole & A. H. Van de Ven (Eds.), *Handbook of organizational change and innovation* (pp. 108–160). New York: Oxford University Press.
Lincoln, J. R., Hanada, M., & Olson, J. (1981). Cultural orientations and individual reactions to organizations: A study of employees of Japanese-owned firms. *Administrative Science Quarterly, 26*(1), 93–115.
Little, R. J. A., & Rubin, D. B. (1987). *Statistical analysis with missing data*. New York: Wiley.

Lu, J. W. (2002). Intra- and inter-organizational imitative behavior: Institutional influences on Japanese firms' entry mode choice. *Journal of International Business Studies, 33*(1), 19–37.
Lundvall, B.-Å. (1992). *National systems of innovation: Towards a theory of innovation and interactive learning*. London: Pinter Publishers.
Mahoney, J. T., & Pandian, J. R. (1992). The resource-based view within the conversation of strategic management. *Strategic Management Journal, 13*(5), 363–380.
Makadok, R. (2001). Toward a synthesis of the resource-based and dynamic-capability views of rent creation. *Strategic Management Journal, 22*(5), 387–401.
Maskell, P., Pedersen, T., Petersen, B., & Dick-Nielsen, J., (2006). Learning paths to offshore outsourcing – from cost reduction to knowledge seeking, *DRUID Working Paper No. 05-17*, 1–24.
McFadden, D. (1974). Conditional logit analysis and qualitative choice behavior. In P. Zarembka (Ed.), *Frontiers in econometrics*. New York: Academic Press.
McIvor, R., & McHugh, M. (2000). Collaborative buyer supplier relations: Implications for organization change management. *Strategic Change, 9*(4), 221–236.
Meyer, J. W., & Rowan, B. (1977). Institutionalized organizations: Formal structure as myth and ceremony. *The American Journal of Sociology, 83*(2), 340–363.
Mezias, S. J. (1990). An institutional model of organizational practice: Financial reporting at the fortune 200. *Administrative Science Quarterly, 35*(3), 431–457.
Miles, R. E., & Snow, C. C. (1978). *Organizational strategy, structure, and process*. New York: McGraw-Hill.
Miles, R. E., & Snow, C. C. (1994). *Fit, failure, and the hall of fame: How companies succeed or fail*. New York: Free Press.
Murmann, J. P. (2003). *Knowledge and competitive advantage: The coevolution of firms, technology, and national institutions*. Cambridge, UK: Cambridge University Press.
Myloni, B., Harzing, A.-W.K., & Mirza, H. (2004). Host country specific factors and the transfer of human resource management practices in multinational companies. *International Journal of Manpower, 25*(6), 518–534.
Nagelkerke, N. J. D. (1991). A note on a general definition of the coefficient of determination. *Biometrika, 78*(3), 691–692.
Nelson, R. R., & Winter, S. G. (1982). *An evolutionary theory of economic change*. Cambridge, MA: Belknap Press of Harvard University Press.
Neter, J., Wasserman, W., & Kutner, M. H. (1985). *Applied linear statistical models: Regression, analysis of variance, and experimental designs*. Homewood, IL: RD Irwin.
Nonaka, I. o., & Takeuchi, H. (1995). *The knowledge-creating company: How Japanese companies create the dynamics of innovation*. New York: Oxford University Press.
OECD. (2007). *Dataset: Country statistical profiles 2007*. Paris: OECD.
ORN. (2007). *Offshoring research network* Retrieved February 1, 2009 from http://offshoring.fuqua.duke.edu/.
Pan, Y., & Li, X. (2000). Joint venture formation of very large multinational firms. *Journal of International Business Studies, 31*(1), 179–189.
Penrose, E. (1995). *The theory of the growth of the firm*. Oxford and New York: Oxford University Press.
Polanyi, M. (1962). *Personal knowledge: Towards a post-critical philosophy*. Chicago: University of Chicago Press.
Polanyi, M. (1966). *The tacit dimension*. Garden City, NY: Doubleday.
Prahalad, C. K., & Hamel, G. (1990). The core competence of the corporation. *Harvard Business Review, 68*(3), 79–91.
Quinn, J. B., & Hilmer, F. G. (1994). Strategic outsourcing. *Sloan Management Review, 35*(4), 43–55.
Rangan, S. (2000). The problem of search and deliberation in economic action: When social networks really matter. *Academy of Management Review, 25*(4), 813–828.
Rasheed, A. A., & Gilley, K. M. (2005). Outsourcing: National- and firm-level implications. *Thunderbird International Business Review, 47*(5), 513–528.
Razzaque, M. A., & Cheng, C. C. (1998). Outsourcing of logistics functions: A literature survey. *International Journal of Physical Distribution & Logistics Management, 28*(2), 89–107.
Redlich, F. (1914). *Die volkswirtschaftliche Bedeutung der deutschen Teerfarbenindustrie*. München-Leipzig: Germany: Duncker & Humblot.
Roberts, P. W., & Greenwood, R. (1997). Integrating transaction cost and institutional theories: Toward a constrained-efficiency. *Academy of Management Review, 22*(2), 346–373.
Roth, P. L. (1994). Missing data: A conceptual review for applied psychologists. *Personnel Psychology, 47*(3), 537–560.
Schaaf, J. (2005). *Outsourcing to India: Crouching tiger set to pounce*. Frankfurt a. M Germany: Deutsche Bank Research.
Schilling, M. A., & Steensma, H. K. (2002). Disentangling the theories of firm boundaries: A path model and empirical test. *Organization Science, 13*(4), 387–401.
Shan, W. (1991). Environmental risks and joint venture sharing arrangements. *Journal of International Business Studies, 22*(4), 555–578.
Simmonds, P. G. (1990). The combined diversification breadth and mode dimensions and the performance of large diversified firms. *Strategic Management Journal, 11*(5), 399–410.
Smith, P. B. (2006). When elephants fight, the grass gets trampled: The GLOBE and Hofstede projects. *Journal of International Business Studies, 37*(6), 915–921.
Stanislao, J., & Stanislao, B. C. (1983). Dealing with resistance to change. *Business Horizons, 26*(4), 74–78.
Stopford, J. M., & Wells, L. T. (1972). *Managing the multinational enterprise: Organization of the firm and ownership of the subsidiaries*. New York: Basic Books.
Teece, D. J., Pisano, G., & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic Management Journal, 18*(7), 509–533.
Terpstra, V., & Chwo-Ming, Y. (1988). Determinants of foreign investment of U.S. advertising agencies. *Journal of International Business Studies, 19*(1), 33–46.
Thompson, J. D. (1967). *Organizations in action; social science bases of administrative theory*. New York: McGraw-Hill.
Tihanyi, L., Griffith, D. A., & Russell, C. J. (2005). The effect of cultural distance on entry mode choice, international diversification, and MNE performance: A meta-analysis. *Journal of International Business Studies, 36*(3), 270–283.
Usdiken, B., Kieser, A., & Kjaer, P. (2004). Academy, economy and polity: Betriebswirtschaftslehre in Germany, Denmark and Turkey before 1945. *Business History, 46*(3), 381.
Verburg, R. M., Drenth, P. J. D., Koopman, P. L., Muijen, J. J. V., & Wang, Z.-M. (1999). Managing human resources across cultures: A comparative analysis of practices in industrial enterprises in China and The Netherlands. *International Journal of Human Resource Management, 10*(3), 391–410.
Vermeulen, F., & Barkema, H. (2002). Pace, rhythm, and scope: Process dependence in building a profitable multinational corporation. *Strategic Management Journal, 23*(7), 637–653.
Witt, M. A., & Lewin, A. Y. (2007). Outward foreign direct investment as escape response to home country institutional constraints. *Journal of International Business Studies, 38*(4), 579–594.
Woodcock, C. P., Beamish, P. W., & Makino, S. (1994). Ownership-based entry mode strategies and international performance. *Journal of International Business Studies, 25*(2), 253–273.
Yigang, P., & Chi, P. S. K. (1999). Financial performance and survival of multinational corporations in China. *Strategic Management Journal, 20*(4), 359–374.
Yuri, M., Pollock, T. G., & Porac, J. F. (2004). Are more resources always better for growth? Resource stickiness in market and product expansion. *Strategic Management Journal, 25*(12), 1179–1197.
Zhao, H., Luo, Y., & Suh, T. (2004). Transaction cost determinants and ownership-based entry mode choice: A meta-analytical review. *Journal of International Business Studies, 35*(6), 524–544.
Zhao, Y., & Calantone, R. J. (2003). The trend toward outsourcing in new product development: Case studies in six firms. *International Journal of Innovation Management, 7*(1), 51–66.