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# Towards Sustainable Offshore Outsourcing: A Case Study of Quebec Manufacturing Firms Outsourcing to China

by

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## Abstract

The offshore-outsourcing choice is viewed as a source of factory closures and job losses in many developed countries including Canada. The current exploratory paper using qualitative case study methods presents experiences from four Canadian companies based in the province of Quebec. It shows that offshore outsourcing is an important business strategy that can create overall firm-level competitiveness through the generation of more revenues, higher profits, better customer satisfaction, and increased investments in R&D and core competency development.

*Keywords:* Sustainable Offshore-Outsourcing, Competitiveness, Core Competence, China, New Global Division of Labor (NGDL).

## Towards Sustainable Offshore Outsourcing: A Case Study of Quebec Manufacturing Outsourcing Firms to China

The paradigm of globalization has been evolving over the years. During the first generation of globalization, cross-border trade was dominated by exchanges of raw materials or finished goods, the two most extreme elements of the value chain. Since the 1990's, however, cross-border trade consists increasingly of intermediate goods and services (Gupta, Govindarajan & Wang, 2008) that

fall in the middle of the value chain. Offshore outsourcing strategies are employed largely within this new pattern of international trade. *Outsourcing* is defined as the operation of shifting previously internally governed transactions to an external supplier through a long-term contract, frequently involving the transfer of staff to the vendor (Barthélemy, 2003; Quélin & Duhamel, 2003). Rothery and Roberson (1996) describe outsourcing: "The act of turning to an external organization to perform a function previously performed in-house. It entails the transfer of the planning, administration and development of activity to an

independent third party.” The term offshore outsourcing overlaps very often with the term *global sourcing*. Global sourcing is defined as “setting up production operations in different countries to serve various markets, or buying and assembling components, parts or finished products world-wide” (Mol, Rob, Tulderc, & Beije, 2005, p. 601). Espino-Rodriguez and Padrón-Robaina (2006) defined outsourcing as follows:

“A strategic decision that entails the external contracting of certain non-strategic activities or business processes necessary for producing goods or the provision of services by means of agreements or contracts with higher capability firms so that they may undertake those activities or business processes with the aim of improving competitive advantage.” (p.52).

Offshore outsourcing is a comparatively new but rapidly growing field in international business research. Globalization and accelerated competition as well as ever-increasing consumer demands for value have pushed firms to seek to creation of value with the efficient use of limited resources. Offshore outsourcing is one of the ways through which firms try to address the new requirements of the marketplace. Indeed, evidence exists that outsourcing contributes positively to market value (Alexander & Young, 1996). Outsourcing creates value for the firm by reducing costs and improving performance. It also creates value for the end-users or customers. However, many firms fail to achieve the planned objectives of offshore outsourcing.

An increasing number of papers about this highly publicized and very often politicized topic are evident (Mankiw & Swagel, 2006). Many divergences exist among practitioners, politicians, researchers, and the public in general concerning offshore outsourcing’s factors, advantages, disadvantages, and the distribution of profits among the various stakeholders. The emergence of China as the largest manufacturing outsourcing destination for Quebec manufacturing firms has made it a popular target to blame for factory closures or downsizing, job losses, and ever-increasing bilateral trade deficits. The continuous factory closures, job losses, and trade deficits have turned many Canadians against offshore outsourcing and they therefore propose the use of all possible means, including the relocation of production to a third country other than China or even the outright closure of trade relations with China, to prevent offshore outsourcing (Stanford, 2004). Many others have advocated innovations such as “strategies in response to the competition from China” (Normand, 2006). Offshore outsourcing to China has become an issue for vigorous debate among policy makers, researchers, and the public. However, no empirical studies have been published that take into consideration the experiences of Quebec firms outsourcing to China and its impact on their competitiveness.

The economic and financial crises of 2008-2009 will certainly put further pressure on firms to look for cost advantages and seek benefits through coordinating the innovations of others, especially from the advanced emerging countries such as Brazil, Russia, India, and China (BRIC). The pressure will accelerate the pace of offshore outsourcing to the low-cost-high-value countries, thereby increasing the visible effects of offshore outsourcing and causing an increase in the public’s stand against offshore outsourcing. The existing literature focuses disproportionately on immediate labor and social issues and very often overlooks the long-term economic contribution of offshore outsourcing to the competitiveness of firms, especially in Canada’s largest export market, the USA. The lack of strong theoretical development has accelerated the debate about the importance of offshore outsourcing. Most importantly, the lack of hard evidence based on empirical data about the impact of offshore outsourcing has allowed the debate to continue without the merit of a strong information base (Ono & Stango, 2005). In this article, an attempt is made to shed light on the effects of offshore outsourcing with firm-level data from four of Quebec manufacturing firms outsourcing to China.

## Objectives of the Study

The main objective of this article is to understand the effects of manufacturing outsourcing decisions to China upon Quebec firms. Based on a qualitative exploratory research methodology, an attempt is made to address the existing research gap and shed light on the improved competitiveness of those manufacturing firms that have outsourced part of their value chain activities to China. However, a fundamental problem remains: determining how success, or global competitiveness, in outsourcing should be evaluated. This question has not been examined thoroughly (Harland, Knight, Lamming, & Walker, 2005).

Although no consensus exists on the specifics surrounding the measurement of organizational performance, some scholars have suggested that different measures are appropriate for different strategies (Van der Stede, Chow & Lin, 2006, as cited in Parnell, 2008). Inspired by multiple sources such as Parnell (2008), Poulin, Montreuil, and Gauvin (1994), Sharma (2004), Knapp, Sharma, and King (2007), and Olsen (2006), this study has employed qualitative measures and a perceptual point of view of managers in charge of offshore outsourcing from the four firms analyzed. More precisely, the following indicators to measure the firm-level effects of offshore outsourcing were applied: global competitiveness, evolution of revenues, profits, investment in R&D, job creation, investment in core competency development, and customer satisfaction.

The motivations for this article are several. While outsourcing of Quebec’s manufacturing firms to China is

highly publicized, few empirical studies about the effects of outsourcing activity are evident. This article may contribute to a better understanding of the reality of outsourcing to China and complexity. This article may also prove useful to companies and policy makers in the strategy formulation process for offshore outsourcing so that Quebec firms can reap advantages from the emergence of China.

The focus of this paper is to determine what happens to Quebec firms that have outsourced to China. It also attempts to examine whether offshore outsourcing of manufacturing activities to China has implied a loss of competitiveness for Quebec firms. The following empirical data from the case studies were used to answer this question as well as to expand understanding of the field of study:

- Comparative advantages of China (costs of production, labor costs, infrastructure, productivity, and availability of raw materials)
- Motivations for outsourcing to China (costs, competition, reorganization of the business process, development of core competencies, and survival in the face of fierce competition)
- Effects of outsourcing to China on the company (profit level, job creation in Quebec, generation of revenues, innovations, development of core competence, and image).

### Competitive Advantages of Offshore Outsourcing Relationships

Economic globalization creates strong interdependence among countries and firms. This interdependence is characterized not only by the increase of trade in goods, services, and expertise, but also by the widely distributed qualified workforces. This interdependence is part of the *new global division of labor* (NGDL). The NGDL refers to the production of goods in several locations around the world in order to take advantage of certain benefits associated with the cost and quality of production factors, such as labor, energy, and capital (Su, 2009). Thanks to the NGDL development and rapid changes in the environment, a firm can achieve its objectives by positioning itself at any segment in the value chain where it has competitive advantage. In the context of a “modular world” (Berger, 2006, P.34), a product is most often “made in the world” as opposed to manufactured solely by one country. In other words, several countries contribute to the different parts of the value chain of a single product based on their forces, and all the contributing countries enjoy the benefits. Offshore outsourcing falls into the NGDL concept, and the hypothesis is that Quebec firms can profit with efficient and responsible offshore outsourcing strategies to China, which can be beneficial and as contribute to the economies of both parties as a whole.

The theoretical literature on firms’ decisions to produce in-house or outsource through market contracts is

extensive and dates back to Coase (1937) and his theory of the firm. Recently, however, attention on the foreign aspects of this phenomenon has grown (Antràs & Helpman, 2004). Offshore outsourcing activities have been analyzed from the point of view of the value chain concept of Porter (1980), the eclectic paradigm (Dunning, 1988), the resource-based view (Prahalad and Hamel, 1990), the transaction cost theory of Coase (1937), the resource dependency theory (Pfeffer and Salancik (1978), the product life cycle theory (Vernon, 1966), the relationship capital-based theory of Davenport (1996), and the agency theory. However, the resource-based, transaction cost, and principal agent theories dominate the offshore outsourcing research (Ono & Stango, 2005). The relationship-based theory, along with the knowledge-based view (KBV) and the dynamic core competency approaches (DCC) have gained prominence in offshore outsourcing research for explaining offshore outsourcing and competitive advantages at firm level.

Outsourcing could also have productivity-enhancing effects at a more aggregate level if offshore outsourcing led to the creation of new firms and the destruction of old ones (Antràs et al., 2004). This process is often associated with Schumpeter’s theory of creative destruction, and numerous empirical studies have provided support for the positive impact on productivity by offshore outsourcing (Bartelsman et al., 2003). Other relevant theories have examined the potential for productivity-enhancing effects due to the spillover of knowledge as well as firms’ abilities to focus on core competences by outsourcing relatively inefficient activities.

To compete in increasingly competitive economic environments, decisions to offshore company activities are driven by factors related to the costs of production, distribution, and productivity. From the perspective of a firm, offshore outsourcing is seen as a part of its business strategy and value creation. For instance, if offshore outsourcing enables a firm to relocate its relatively inefficient production processes to external providers with cheaper and perhaps more efficient production capabilities, the firm can turn its focus to areas where it has a comparative advantage and expand output or engage in new business activities. More and more firms are offshore outsourcing increasingly higher levels of their activities in order to reap the profit from the low-cost-high-value-innovation and skills from emerging countries (Jahns, Hartmann, & Bals, 2006).

The firm determines its outsourcing strategy based on the shortcomings in its resources or capabilities, which, in turn, are affected by the state of the resources that support the services. Grant (1991, 1996) pointed out that the organization’s competence depends on its capability to combine resources and organizational processes to meet the desired objectives. Grant (1991) also stated that the conventional approach to the creation of resources has focused on a company’s lack of resources and capabilities.

In other words, in order to exploit some of its resources, a company may need to acquire external complementary resources it does not possess. Thus, a firm is not limited to exploiting its own stock of resources and capabilities (Das & Teng, 2000), but may cover its shortcomings by purchases or strategic alliances, one form of which is outsourcing. Therefore, suppliers can be considered resources that consolidate the organization's internal competences.

Based on the above, when the results of the organization's services fall below what is expected or desired, outsourcing is a viable option for covering differences or shortcomings. The results of the services will indicate whether a firm's capabilities are enough to perform required activities in house or whether a firm needs to turn to the outside market. The potential for competitive advantage can be transferred to companies, acquiring services at lower costs, with greater professionalism, and with higher quality for the outsourced services. This phenomenon has been explained with the help of the resource-based view (RBV) of a firm. In terms of the RBV perspective, the core competences approach provides one of the most powerful frameworks for explaining why firms outsource their resources through market agreements (Gilley & Rasheed, 2000). The RBV approach suggests that a firm should invest in those activities that constitute its core competences and outsource the rest (Quinn & Hilmer, 1994). The RBV perspective, however, does not examine the interrelationships and advantages when two or more organizations in a supply network unite to develop relational ties that could contribute to the development and maintenance of competitive advantage (Dyer & Singh, 1998). When firms outsource, they must consider the possibility of associative advantages for their internal and relational capabilities. The associative advantage would be the competitive advantage (Porter, 2005) achieved through the relationship between firms. This synergetic approach is considered in terms of the relationship-based theory (RBT).

The RBT perspective suggests that critical resources can be expanded upon or built beyond the confines of the firm and be integrated into inter-firm routines and processes. The use of outsourcing must be considered a strategy in which essential process activities could be outsourced in a framework of long-term cooperation where the suppliers are considered partners (Pfohl & Buse, 2000). The greater the competitive advantage associated with an activity, the higher that activity's strategic relational value will be. Strategic relational value is generated by the development of capabilities across organizational boundaries and can be achieved through the creation of complementary resources, defined as "distinctive resources of alliance partners" that together generate higher profits than the sum of those generated independently by the resources of each organization (Dyer & Singh, 1998, p. 666). The development of relational capabilities with customers and suppliers through process integration (Hammer, 2001), relational competitiveness, and the simplification of activities (Davenport,

1996; Hammer & Champy, 1994) can all be influential when process activities are outsourced. Thus, the relationship-based theory expands the capacity of firms even firms do not have all the resources and competencies and if the theory encourages firms even to build cooperation in core competence fields. The inter-firm relationships through offshore outsourcing can also contribute to value creation, as indicated in Table 1. From the literature reviewed, it can be assumed that offshore outsourcing will create competitive advantages in terms of revenue, profit, client satisfaction, and higher investment in R&D and will be a win-win case for both the outsourcer and destination firms in their respective value chains.

Table 1  
*Indicators of Value Creation in Inter-Firm Relationships*

Benefits related to	Indicators of value creation
Product	Facilitated product customization and mass customization; reliability and high quality product; profitable product; product line availability; and improved purchased material.
Service	Service quality, reactivity, and reliability.
Delivery and time to market	Enhanced new market penetration and market expansion, efficient distribution, wider distribution coverage, on-time delivery, flexibility, speediness, agility, and reduced order cycle times.
Expertise	Access to missing resources and competences, acquiring, market knowledge, innovation, new product development favored, and better access to new product/process technologies.
Personal interactions	Problem solving orientation, relationship satisfaction, and enhanced decision making.

*Note:* Adapted from "Relationship Value in Business Markets: The Construct and its Dimensions" by W. Ulaga and A. Eggert, 2005, *Journal of Business to Business Marketing*, 12(1), P. 73-99.

## Methodology

Qualitative research relies on methods based on multiple meanings of individual experiences, meanings socially and historically constructed, meanings with the intent of developing a theory or pattern (Creswell, 2003). This exploratory research project is focused on making explicit the reality masked under the offshore outsourcing phenomenon. Thus, the goal of this research is congruent with the choice of a qualitative research methodology. The research process used multiple steps in search of the contemporary truth. First

key indicators were generated, from a systematic literature review of Argyres (1996), McIvor (2000), Koubek, Weinert, and Meyer (2009), Pyndt, Pedersen and Torben (2006), Farrel (2005), and Su (2006, 2009). These indicators included motivations for outsourcing, the comparative advantages of outsourcing to China, managing outsourcing to China, main problems in outsourcing to China, effects of outsourcing to China, and strategic issues for an efficient and responsible outsourcing for Quebec firms. These indicators permitted a decision on the sample firms and on how offshore outsourcing contributed to the degree of success or failure in endeavors to outsource to China.

The second phase of the research process was the case study approach. The case study research method facilitates understanding of a complex issue or subject and can expand experience or add strength to what is known through previous research. Thus, a case study method can confirm or reject previous knowledge gained from a literature review. Yin (1994) defined the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context when the boundaries between phenomenon and context are not evident and multiple sources of evidence are used.

Given the exploratory nature of the project and unavailability of sufficient quantitative data, the investigative strategy adopted in the current research project is a multiple case study. A multiple case study is an interesting method, especially when the study question is asked in the form of what is going on in order to understand and generate ideas about the research issue (Bouma & Ling, 2006). In fact, a multiple case study allows exploitation of the advantages of both the deductive and inductive approaches to the production of knowledge. A multiple case study can provide a thorough understanding of the phenomenon of interest in its real context. According to Bouma and Ling, the results cannot be generalized, but the results can be used to check whether two variables show an association which may be tested rigorously.

Finally, electronic and press reports and documents that discussed outsourcing to China were studied. A content analysis technique was used to generate and categorize items for comparison with the interview results from the managers of the offshore outsourcing firms.

According to Pyndt and Pedersen (2006), three main offshore outsourcing challenges exist, namely, where to go, what to offshore, and what kind of operational mode to use. Keeping these challenges in mind, the identification of the effects of offshore outsourcing decisions on the Quebec firms was attempted by using the following seven indicators of the dependent variable effects of offshore outsourcing:

- Evolution of the the company's revenues since offshore outsourcing

- Evolution of profits since offshore outsourcing
- Evolution of jobs since offshore outsourcing
- Evolution of R&D activities, especially the development of core competences
- Evolution of global competitiveness
- Customer satisfaction

The two independent variables were included to facilitate comparisons between the results the firms achieved.

To select companies for the case studies, several public organizations were contacted, such as the Ministry of Economic Development; Innovation and Export of the Quebec Government; the Chamber of Commerce of Metropolitan Quebec; the Pole Quebec Chaudière-Appalaches; and the Chamber of Commerce and Industry, Montreal, to provide a list of companies that could meet the following criteria for inclusion:

- Manufacturing company
- Has outsourced to China for at least three years

Eleven companies met to the criteria above, but only four agreed to provide information for the case study. In order to maintain confidentiality of the participating firms, the following abbreviations are used: FIF, APIF, CIF, and the EIF. The companies' functional classifications are as follows:

- FIF: furniture industry firm
- APIF: automobile parts industry firm
- CIF: clothing industry firm
- EIF: electronic industry firm

For the cross-sector choice of firms it is assumed, that the choice is representative of the off-shore outsourcing in the manufacturing sector, in so much as the choice includes furniture, clothing, automobile, and electronic firms. Face-to-face and telephone interviews were used for data collection.

An interview guide (see Appendix 1) was used in both face-to-face and telephone interviews with at least one senior manager in each of the four companies. The interview guide is composed of eight open-ended questions framed around the independent and dependent variables. The interviews ranged from 50 to 85 minutes long and took place during the months of November and December 2007. The method was very effective and executives spoke freely, offering hard data about their experiences in the quest for competitive advantage by outsourcing to China. During the interviews, the boundary for discussion was often crossed and other information that the executives considered important for outsourcing to China was gathered. Documents about the firms, obtained from public organizations, such as annual reports, market analyses, and information about Chinese partners and the like, were also consulted.

Knowing that “qualitative research does not always lead to clear conclusions” (Bouma & Ling, 2006), the description and interpretation of the data collected was conducted with care. Each interview was recorded and transcribed immediately right after. Chain of evidence was maintained and a database was made with the data from four firms. An analysis of four cases across different sectors in the manufacturing field, instead of just one case, enabled improved data summarization. Finally, the final drafts of the cases were sent to the interviewees in order to validate the data.

## Analysis of Results

The main objective of the research was to understand the effects of manufacturing outsourcing to China on the Quebec companies and to identify the requirements for beneficial offshore outsourcing. Based on the analysis of the information obtained, some elements of the investigation were answered.

**Cost reduction remains the main instigator for outsourcing to China.** According to Dunning (cited in Pyndt & Pedersen, 2006), there are four motivations that drive companies to opt for offshoring:

- The market-seeking company aims to supply goods in a specific market and, perhaps, adjacent countries.
- The resource-seeking company strives to acquire certain resources at a lower real cost than that which can be achieved in its home country.
- The efficiency-seeking company takes advantage of different factor endowments and tends to locate in markets that offer the company a cost advantage.
- The competition-seeking company follows competitors or clients into foreign markets.

The four companies studied fall into the resource-seeking categories. In fact, the firms’ main motivation for offshore outsourcing to China was the reduction of production costs (see Tables 1 and 2). As stated by the manager of the FIF, “It is definitely the production cost reduction that promoted the first to jump onto the offshore outsourcing wagon”. While the importance of “the China price” (Engardio & Roberts, 2004, p.102) is supported by the results, competitiveness in terms of price comes not only from low-cost labor in China but also, according to the companies included in the study, from the productivity, infrastructure, integrated industrial system, economies of scale, government support policy in economic activities, abundance of raw materials, and competitiveness of Chinese private enterprises (see Table 2). These factors in conjunction contributed to the formation of the China price and the comparative advantages of outsourcing to China. Table 2 demonstrates that all the four companies agreed on the importance of the abovementioned eight

factors for the comparative advantages of outsourcing to China and gave a Likert-type scale reading between 3 and 5 (relatively important to very important) except for the APIF in two items.

Table 2  
*Comparative Advantages of Outsourcing to China*

Firms	FIF	APIF	CIF	EIF
Advantages				
Cost of labor and production	5	5	5	5
Productivity	5	4	5	5
Infrastructure	3	4	5	3
Industrial system	3	2	3	5
Size of the Chinese market and economic scale	5	2	3	5
Government policy	3	3	3	3
Availability of raw materials	5	4	3	3
Chinese competitiveness	5	3	4	4

*Note.* 1 = not at all important; 2 = not important; 3 = relatively important; 4 = important; 5 = very important.

Six factors were identified as motivations to outsource to China: cost reduction, maintaining global competitiveness, customer demand for value, access to the Chinese market, and reorganizing the business process. Table 3 demonstrates that all the four companies gave high importance to these motivational factors for outsourcing except for access to the Chinese market, which was important only for the EIF company.

Table 3  
*Firm’s Motivations of Outsourcing to China*

Firms	FIF	APIF	CIF	EIF
Motivations				
Cost reduction	5	5	5	5
Growth of revenues	5	3	4	5
Maintain global competitiveness	5	4	5	5
Customer pressure	4	5	4	4
Access to the Chinese market	1	1	2	4
Reorganizing business process	4	3	5	5

*Note.* 1 = not at all important; 2 = not important; 3 = relatively important; 4 = important; 5 = very important.

Moreover, in case of the FIF, CIF, and EIF, it is noted that outsourcing to China is a major strategy for the development of the firms’ global competitiveness. Outsourcing to China has enabled the CIF and EIF to reorganize activities and concentrate on higher added-value activities.

The firms acquired the advantages of outsourcing to China and concentrated on higher value-creating activities, thus improving their overall competitiveness.

**Impact of outsourcing to China is positive.** Through the analysis of the four companies, fairly positive results associated with outsourcing activities to China were identified (see Table 4). Based on the works of Parnell (2008), Poulin et al. (1994), Sharma (2004), Knapp, Sharma, and King (2007), and Olsen (2006), seven types of data to gauge the global impact of outsourcing on the respective firms were identified: global competitiveness, evolution of revenues, evolution of profit, evolution of investment in R&D, employment growth in Canada, development of the core competencies of the firm, and the most important, customer satisfaction. All the participants interviewed felt that outsourcing had improved their global competitiveness significantly and their clients were very satisfied with their competitiveness. A detailed breakdown of outsourcing financial impacts (profit) on these companies was not available, but all the firms experienced substantial increases in their revenues, a significant improvement in their R&D activities, and the development of core competencies. At the same time, outsourcing to China has had a somewhat negative impact on employment by these companies in Canada. Only the APIF has succeeded in creating more jobs in Canada, while the CIF and EIF cut jobs because of their restructuring of business processes.

Table 4  
*Firm-Level Effects of Outsourcing to China*

Firms	FIF	APIF	CIF	EIF
Firm level effects				
Global competitiveness	5	5	5	5
Evolution of revenues	5	4	4	5
Evolution of profit	4	NA	3	NA
Evolution of R&D	4	5	5	4
Employment growth in Canada	2	3	1	1
Core competence development	4	4	5	5
Customer satisfaction	5	5	5	5

*Note.* 1 = not at all important (loss of job); 2 = not important (no loss, no gain); 3 = relatively important; 4 = important; 5 = very important, NA = not available.

All companies seem to have made efforts to preserve jobs in Canada. Participants agreed “along with the decision-making process concerning offshore outsourcing, we must also consider the economic, social, and environmental impacts for Quebec and Canada.” Firms have used various ways to tackle this issue (see Table 5).

Table 5  
*Measures Taken to Preserve Local Jobs*

Firms	FIF	APIF	CIF	EIF
Local jobs preservation measures				
Jobs relocated to Québec	Yes	-	Yes	-
Redefinition of certain tasks	Yes	Yes	Yes	Yes
Expatriation of some staff	-	Yes	-	-
Creation of new jobs	Yes	Yes	Yes	Yes
Help to former employees	-	-	Yes	-

Table 5 illustrates that all four companies invested in creating jobs in Quebec and redefined certain other jobs to create different kinds of higher quality jobs in Quebec. The skill level of workers and employees in the advanced emerging countries are fast catching up to the level of developed countries such as Canada. As the manager of the FIF put it, “There are 6 employees in the office; they are all Chinese. Sending a Canadian to China costs a lot, and we are not sure that they could do better than the local Chinese in the Chinese market.” The managers of four firms believed as follows:

- We must know how to use the competitive advantages of other countries in our interests;
- An effective and responsible offshore outsourcing is one of the major ways to prevent some manufacturing companies from bankruptcy and even to avoid the loss of some manufacturing industries in Canada; and
- We must take advantage of offshore outsourcing to further develop the activities of high added value, research, and development in Canada.

According to the manager of the CIF, “We must put away the activities in which we are no longer competitive against the Asian countries and create more activities of high added value.” The manager of the EIF shared that view: “Trying to do everything here is not beneficial at all.” Despite the many advantages that China offers to the Quebec firms, all the managers interviewed were unanimous in identifying the following problems associated with operating in China:

- The Chinese companies are not all weak in quality, but many are.
- Costs are imposed by geographical distance and cultural differences.
- Everything takes longer in China; patience is essential.
- Do not take anything for granted, control!
- Do not assume; check on the spot!
- Prices of several raw materials in China have increased.
- Care must be exercised in the protection of intellectual property rights.

- We never entrust a Chinese supplier to manufacture the whole product.

Validity (construct validity, internal validity, external validity) and reliability (Yin, 1994) tests are employed to judge the quality of the research work in a qualitative case study method. Trustworthiness is also used as a criterion for judging the quality of the research. The *trustworthiness* concept is defined by the credibility, transferability, dependability, and confirmability of the research (Guba & Lincoln, 1981). The multiple data collection methods, in-depth case studies, access to publications about the sample firms, triangulation of methods, and the validation of research results by executives of the firms included at the end of the process allowed for the conclusion that the study fulfills the requirements for validity, reliability, and trustworthiness. One of the widely used measures of trustworthiness is triangulation. Triangulation involves using multiple sources and perspectives to reduce the chances of systemic bias. Three types of triangulation, namely, source, method, and theory were used for the current research.

Contrary to the positivist paradigm which tries to quantify or confirm the results and considers reality to be objective, tangible, and singular (Decrop, 1999), this study intended to look for completeness with respect to the offshore outsourcing issue. The goal of *completeness* has been widely defined as the quest for elements of enhancement, illustration, elaborated understanding, and clarification of the issue (Jick, 1979). Throughout the study, an attempt was made to answer the following question: What happens to the Quebec outsourcing firms when they use other firms in China to do some part of their activities? The various elements of the answer made it possible to gain valuable insights about the phenomena in question.

## Conclusions and Further Research

Offshore outsourcing is often considered the root cause of job losses, factory closures, loss of synergetic advantages, loss of innovation capacity, intellectual property losses, and high dependence on outsourcing vendor firms. The causes engender a situation in which suppliers become competitors and risks Quebec outsourcing firms becoming hollow organizations. The potential risks are assumed to make the firm less competitive in the marketplace, but indications based on the current study are that the offshore outsourcing strategy of Quebec manufacturing firms, despite the presence of annotated risks, can be a way of improving the firms' competitive advantage. Table 3 shows that all four firms achieved a higher global competitiveness measure because of their offshore outsourcing policies. Among the seven indicators used to study the effects of offshore outsourcing, only job creation by the participating firms in Quebec was not satisfactory. Two of the firms cut some jobs, most often low-skilled jobs, one firm remained stable, and the fourth firm created more jobs in Quebec. The loss of

low-skilled jobs through offshore outsourcing allowed the firms to complete the same job more cheaply in emerging countries, making it possible for them to focus on high valued-added design and new product development ventures, thus creating a fresh and better category of jobs (Sharma, 2004), as can be seen in the case of APIF in Table 3. The overall impact of outsourcing to China was to increase the competitive advantage of firms.

The major limitations of this study are that the conclusions are based on the experiences of only four Quebec firms. This shortcoming can limit the generalization of the results to a broader population. Another limitation stems from the fact that all these firms were successful in their offshore outsourcing endeavours, an outcome that may have been influenced by the availability of tangible and intangible resources internally.

Based on the experiences of the firms studied, outsourcing manufacturing activities to emerging countries, for which Canada has no comparative advantages, is one of the few ways to preserve the competitiveness of export-oriented Quebec firms in the American market. The results of the study suggest that it should be possible to create a win-win situation through offshore outsourcing. However, a fundamental challenge remains for the firms: to accurately identify the tasks they must perform for themselves and those that they can outsource to other firms. It is important that outsourcing firms adopt an efficient and responsible offshore outsourcing strategy through which they can strive to generate more value for their firms and create more social and economic benefits for Quebec and Canada. The value created by these firms is not always automatically transferred over to local socio-economic development. The correlation between outsourcing a firm's value creation and socio-economic development has not been established. Appropriate public policies are vital in this regard.

Adequate levels of managerial capability are one of the most important factors for successful offshore outsourcing. In practice, it seems that few companies have the organizational and financial capacity to reap the full potential of offshore outsourcing, and in this light, offshore outsourcing remains a big-company phenomenon. Future research that includes small- and medium-size enterprises in the process of offshore outsourcing can contribute to the research field. Future research can also address issues such as the relationships between regional production networks and offshore outsourcing, disruptive innovation from emerging economies and offshore outsourcing, and inter-organization relation, strategic outsourcing and empirical evidence of productivity gains from offshore outsourcing. Public policies may implement strategies for training and upgrading the skill levels of those who lost their jobs because of offshore outsourcing and try to find ways to redistribute the resources/benefits gained from offshore outsourcing among stakeholders.

Future researchers can also consider offshore outsourcing with a wider range of representative samples



and test the results of this research to determine the impact of offshore outsourcing on firms. A comparative study of different industries could be conducted in order to better understand the situation and the special needs of each industry. In addition, some research could be conducted on how the government should help firms achieve efficient and responsible offshore outsourcing with regards to production activities and achieve better coordination and acquisition of the low-cost-high-value competence and innovation from advanced emerging countries. Future research with a higher number of samples and representation across manufacturing sectors could improve the trustworthiness and acceptance of the research results in the wider community of researchers, practitioners, and policy makers.

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# Appendix 1

## Interview Guide

1. The activities that are outsourced to China (when, nature of activities , % of total, ...)
2. The motivations for outsourcing to China (cost reduction, competition, reorganisation of the business process, development of core competencies, survival, ...)
3. The comparative advantages of China (costs of production, costs of labor, infrastructure, productivity, availability of raw materials, ...)
4. Managing outsourcing to China (development of knowledge about China, selection of a Chinese subcontractor, quality control, protection of intellectual property rights, ...)
5. Main problems in China (quality, infrastructure, language of communication, Chinese management style, ...)
6. Effects of outsourcing to China on the company (level of profit, of jobs, of revenues, innovations, development of core competence, image, .. ....)
7. Other than economic considerations in decision making about outsourcing to China (jobs, wage, investments to Canada; social conditions of Chinese workers, environmental protection in China, ...)
8. Strategic issues for efficient and responsible outsourcing for Canada.

Do you agree with the following statements?

- We must know how to use the competitive advantages of other countries in our interests.
- Efficient and responsible offshore outsourcing is one of the major ways to prevent bankruptcy for some manufacturing companies and even avoid the loss of some manufacturing industries in Canada.
- We must take advantage of offshore outsourcing in order to focus on the development of higher value added activities and more investment in R&D activities.
- When taking a decision about offshore outsourcing, we must consider the socio-economic and environmental impacts on Quebec and Canada as well as the host country.