

Maintaining Competitiveness
The Case of New Zealand Small- Medium Technology
Manufacturers

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Abstract

The purpose of this study was to understand how New Zealand small-medium sized firms within the high technology manufacturing industry maintain their international competitiveness through offshore sourcing to China.

This study was conducted using the philosophical position of post-positivism within the interpretive framework and multiple case studies as a strategy of inquiry and stories of offshore sourcing to China told by three entrepreneurs during in-depth, semi-structured interviews which were analysed. Using the metonymic title of *maintaining competitiveness*, theoretical constructs developed from the findings were integrated into a framework and discussed in the light of relevant literature.

The results suggest that offshore sourcing impacts these firms in two ways. First, the initial impacts of offshore sourcing provide significant benefits including cost savings, quality improvements, and opportunities to access new markets (which are offset by operational issues including quality fade and the intellectual property (IP) protection concerns, as well as challenges of operating internationally, managing cultural differences, Chinese local officials, and labour issues). The second impact is the dynamic process of evolving governance of these firms' practices in China, based on their network and the incremental knowledge about this particular geographical location.

The results illustrate that maintaining a firm's international competitiveness through offshore sourcing can be challenging but manageable, but one that can offer an opportunity for a stronger and competitive market position. Policy makers, educators, and entrepreneurs can benefit from the findings in this study as it highlights factors critical to offshore sourcing and its contribution to international competitiveness

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Attestation of Authorship

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgments), nor material which to substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.



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Chapter 1: Introduction

Over the last few decades there have been massive improvements in communication technology and transport/logistics, which have facilitated global communication and control (Ministry of Business, Innovation & Employment [MBIE], 2013b). The technological and communication revolutions have mixed impacts on different aspects of international business activities. On the one hand, such communication and technological developments help firms to communicate with their suppliers beyond their home country boundaries. On the other hand, such developments increase the competitive pressures on businesses, not only from local competitors but also from new market entrants and foreign firms from overseas (Kedia, Gaffney, & Clampit, 2012). Some of these new market entrant firms could be classified as emerging market multinational enterprises (EMNEs) as they originate from emerging markets such as India, China, Brazil, and Russia (Scott-Kennel, 2013; UNCTAD, 2006).

Literature has focused for the last few decades on China as an attractive place for different offshore sourcing activities by covering aspects of this phenomena for different firms' sizes within various countries and industries. However, in recent years consensus has begun to build around the importance of also studying small-medium sized entrepreneurial enterprises' (SMEs) offshore sourcing in order to develop a more holistic understanding of offshore sourcing phenomenon. It has been argued that the limited resources possessed by these firms can have an impact on their decision-making in subsequent ventures (Scott-Kennel, 2013; Price, Stoica & Boncella, 2013).

In New Zealand, local firms have been subject to rising competitive pressure from EMNEs, who can provide similar products or services at lower prices than those of New Zealand firms (Gupta, Govindarajan & Wang, 2008). These competitive pressures have increased since the economic reforms which liberalised the New Zealand economy from 1984 (e.g., removal of import tariffs in different industries, experiential learning, innovative products with global potential, business networks and focus / niche strategies have supported rapid internationalisation) (Scott-Kennel, 2013). New Zealand economic integration via trade, foreign direct investment, capital flows, migration, and the spread of technology has transformed the New Zealand economy from a highly regulated nation to an open market economy within the OECD (Evans, Grimes, Wilkinson & Teece, 1996; Chetty, 1999). Local firms have been forced to search for different ways to improve their competitiveness in terms of costs, knowledge, market

access etc. to counteract the competition. Such responses tend to favour international solutions rather than on a national level due to significant locational differences. The technological revolution allows firms to gain locational advantage by sourcing resources which vary significantly in terms of cost, quality and availability from remote locations in order to maximise profits. Small-medium enterprises (SMEs) are a very important part of New Zealand's economy, which has a number of entrepreneurial innovative high-medium technology manufacturing companies with a notable international market share, managing their global activities from a New Zealand base.

In spite of such acknowledgements, the dynamic aspects of knowledge development about how offshore sourcing process can be managed for these local entrepreneurial SMEs within the high technology manufacturing industry have not received sufficient attention in the previous internationalisation studies and remains a relatively under-researched area.

Therefore, this multiple case study research study aims to get better understanding of the offshore sourcing activities to China of New Zealand SME's within high-technology manufacturing industry. The overarching research question for this study is: *"Why are New Zealand small to medium enterprises within the high-tech manufacturing industry offshoring their production to China?"*

Four sub-questions seek to elaborate the principal research question. These are:

- *"What issues and challenges do they face with such ventures?"*
- *"What are the main attractions for such ventures?"*
- *"How does offshore sourcing contribute to international competitiveness?"*
- *"How does offshore sourcing impact on their business strategy?"*

At this stage in the research, offshore sourcing will be generally aligned with Olsen definition's (2006). He explains that offshore sourcing is "the relocation of jobs and processes to any foreign country without distinguishing whether the provider is external or affiliated with the firm" (Olsen, 2006, p.6).

This dissertation contains 8 chapters. The first chapter covers the research introduction, aim, the research main and sub-questions, industry background, the Free Trade Agreement FTA between New Zealand and China, and China institutional reformation. Chapter two reviews the main literature and theories that are related to the researched phenomenon, offshore sourcing. Then it provides the definition, benefits, challenges, and motives for offshoring sourcing. Chapter three explains the research methodology

and methods. Chapters four and five illustrate data collection and data analysis respectively. Chapter six presents the research findings, while chapter seven presents the discussion of the application of the proposed theories to the research findings. Finally, chapter eight presents conclusions, contributions, limitations, and recommendations.

1.1 New Zealand Small-Medium Enterprises Background

New Zealand (NZ) has a complex and diverse economy with a wide range of sectors. Enterprises with 20 or fewer employees, are considered “the lifeblood of New Zealand’s economy” (Ministry of Business, Innovation & Employment [MBIE], 2012, p.3); and they make up to 97% of all NZ enterprises with a substantial contribution to the national employment, production of goods and services, and innovation (MBIE, 2012).

According to the small business sector report for 2014, NZ has 459,300 small firms (0-19 employees) employing 584,000 employees and 8,800 small-medium enterprises, and SMEs, (20-49 employees) employing 261,000 employees.

Accordingly, small businesses and SMEs “are all businesses with fewer than 50 employees” (Ministry of Business, Innovation & Employment [MBIE], 2014, p. 10). Small businesses with fewer than 20 employees make a significant contribution to the NZ labour market, with more than 584,000 people employed in such enterprises, accounting for 30% of the workforce. These figures do not include self-employed, which number over 380,000. The high proportion of all enterprises that are small businesses is similar to the pattern found in most OECD countries (MBIE, 2014).

1.1.1 The Importance of High & High-Medium Technology SMEs to New Zealand Economy

Hon Steven Joyce, the NZ minister of science and innovation, stated that innovation is the key driver of growth in this century (Ministry of Business, Innovation & Employment [MBIE], 2013a). NZ has a number of innovative high and medium-high technology manufacturing (HTM and MHTM) companies with a notable international market share managing their global activities from a NZ base (MBIE, 2013a). Both HTM and MHTM are sub-sets of manufacturing industries in which expenditure on research and development (R&D) is greater than 8% of revenues for the former, while in the later sub-industry R&D expenditure is between 2% and 8% of revenues when measured across multiple developed countries (MBIE, 2013a). Over the last two decades HTM has grown rapidly, with exports rising from less than \$100 million a year

in 1990 to \$1.4 billion in 2012; and NZ's top HTMs are global leaders because they generally specialise in niches. Exports of M and HTM goods combined are twice the size, at \$2.8 billion. The NZ government's "Business Growth Agenda" (GBGA) has set a target to increase "the ratio of exports to GDP" by 10% from the present 30% to 40% by 2025 (MBIE, 2013a; MBIE, 2014, p. 3).

1.1.2 Poor International Performance & the Need to Improve Competitiveness

Since 1984, NZ has become a globalised economy through its political and economic reform; and its integration with the international economy via trade, foreign direct investment, capital flows, migration, and the spread of technology has transformed it from a highly regulated economy to one of the most open market economies within the OECD (Evans et al., 1996; Chetty, 1999).

The limited experience of doing business overseas and resource constraints are the most common barriers to small businesses wanting to export (MBIE, 2014). Therefore, it is important to know how this vital part of New Zealand's economy is faring (Ministry of Economic Development [MED], 2011). The NZ government is trying to support these enterprises' growth by creating the right economic and regulatory framework at the international level, which is the key theme of NZ government's "Business Growth Agenda" (GBGA). According to the World Bank Doing Business report for 2014, NZ is ranked first in the world for starting business and investor protection; and third for the "ease of doing business" after Singapore and Hong Kong (MBIE, 2012; MBIE, 2014). In spite of all the NZ government efforts, NZ is still "less well connected to the global economy than other small developed economies on measures of inward and outward direct investment" (MBIE, 2014 p. 11). In terms of connectedness, emerging export sectors such as Information and Communications Technology (ICT) and High Technology Manufacturing (HTM) "have higher rates of both inward and outward direct investment, reflecting the need for knowledge intensive firms to be close to customers, have access to distribution networks and take advantage of lower manufacturing cost structures to remain competitive" (MBIE, 2014, p. 11).

1.1.3 New Zealand Offshore Sourcing to China

Offshore sourcing has become common between enterprises in different industries and for many firms, offshore sourcing is a key step in the internationalisation process and could be their first international activity (Arnold, 1989). Due to high levels of competition between firms, offshore sourcing is considered as a key strategic option to

help firms maintain their competitiveness and to meet their customers' expectations of lower price and better quality (Sinha, Akoorie, Ding & Wu, 2011). As a result, many firms have begun to consider relocating part of their activities, such as production, to low-cost countries. A number of studies have identified China as a preferred location to offshore production activities, with the benefit of dramatic costs reduction (Berra, Piatti, & Vitali, 1995; De Clercq, Sapienza, & Crijns, 2005; Li, Li, Liu, & Wu, 2008).

Similar to other countries, New Zealand industries perceive China as a preferred location to offshore their production to maintain their competitiveness such as SMEs within HTM and MHTM. NZTE, New Zealand Trade and Enterprises, (2014) explains that investing in China could provide firms:

access to China's rapidly growing domestic market, brings production closer to Asian and European markets, proximity to downstream manufacturers (increasingly based in China) for makers of intermediate goods, lower capital costs,.....getting access to increasingly competitive and sophisticated Chinese research, science and technology, both in personnel and technologies (Reasons to consider manufacturing in China, para. 1)

Senior Chinese manufacturing executives believe that the strongest competitive advantages that China could offer to the manufacturing industries are low cost of labour and materials (as cited in Castalia Strategic advisors, 2014, p.27). Yang and Lindsay (2011) point out that New Zealand apparel firms' offshore outsourcing their production to China have a significant cost saving in labour costs due to the wage differences between NZ and China; average wages for NZ apparel workers were \$12-15 per hour compared to \$1.44 -1.73 per hour in China, based on \$250- 300 per month at the time.

According to the MBIE report for 2013 a CEO of a large NZ firm stated that:

Our staff starts to look quite expensive. ...When you look at the true low cost countries, of China and Mexico and the like, you're down to about a fifth or sixth of the hourly rate of New Zealand, particularly at these exchange rates. And if your particular product has any measurable labour content in it, and I'd say anything more than about 10% or 15% of its total cost being labour, you're going to be thinking pretty seriously about manufacturing it somewhere else (p. 86)

In the last few years NZ research has considered SMEs within different manufacturing industries and their offshoring and offshore outsourcing. For example, Sinha et al. in 2011, studied the motivations for offshore outsourcing by manufacturing SMEs and

their suppliers in China; covering SMEs from different countries and industries. The main findings of this study suggest “increasing efficiency and labour cost reduction while holding quality constant maintain flexibility in resource allocation [and] providing ... SMEs with an opportunity to enter new markets” (Sinha et al., 2011, p.67).

Scott-Kennel (2013) examined the internationalisation patterns and models that have been adopted by various industries and the level of international activity of NZ firms and how these patterns are changing in response to global environmental pressures. Other NZ literature (Skiffington, Akoorie, Sinha, & Jones, 2013) has studied SMEs’ production offshoring and offshore outsourcing practices in printing, publishing and packaging industries. The authors have developed a managerial framework, which is production-based, to assist SMEs from different industries and countries that partake in production tasks, in their future offshore outsourcing ambitions. Finally, a recent study within the international marketing strategy area, (Battisti, Jurado, & Perry, 2014) sought insight into the reaction of NZ exporting SMEs with different degrees of international experience, i.e. timing, scope and scale of internationalisation, to FTAs that were concluded between NZ and various Asian countries in the period 2001 to 2009.

1.2 New Zealand-China FTA

New Zealand has had a good diplomatic relationship with China for the last 35 years and in 2008 both countries signed a free trade agreement (NZ-China FTA) making NZ the first developed country to sign a comprehensive Free Trade Agreement with China. The NZ-China FTA agreement promotes cooperation between the two countries in a wide range of economic areas, especially within the trade of goods, services, and investment areas that provide both parties equal beneficial concessions within these areas. Different key outcomes have resulted from the NZ-China FTA, benefiting both countries.

The FTA agreement eases people movement between the two countries for an extendable temporary stay. This point helped New Zealand investors in China to improve their offshored business conditions by regular site visits. New Zealand, under this agreement, provides a temporary employment entry visa and the working holiday scheme visa. The former visa is given to a limited number of Chinese skilled workers, a temporary employment entry visa for temporary employment (up to three years’ visa) within specific approved sectors to cover these areas’ skilled labour shortages in New

Zealand. The later visa type is given to young, skilled Chinese to engage within particular industries' employment (up to 12 months) in New Zealand, which assists the country to meet its labour shortages within specific areas such as hospitality, horticulture and viticulture industries, at the same time providing employment and work experience opportunities for these young skilled Chinese people (NZTE, 2014).

Furthermore, New Zealand and China have agreed to improve business visa terms and processing between them. So, the FTA agreement established a framework of cooperation between China and New Zealand aimed at improving the business investment environment and to create new investment opportunities (New Zealand Ministry of Foreign Affairs & Trade, 2014), and treat each other's investors as their own national investors, which encourages the investments flow between them. Different measures have been used and designed to reduce business barriers between the two countries, such as customs procedures, sanitary and phytosanitary procedures (SPS), technical barriers to trade (TBT), and intellectual property (IP).

This resulted in establishing a Joint TBT Committee to work towards joint standards and regulations between New Zealand and China, whilst with intellectual property (IP), which covers copyright, trademarks and patents rights, both countries have agreed to form and maintain transparent IP rights rules, systems, and cooperate to eliminate trading products that breach the IP rights, subject to each country's laws (NZTE, 2014).

This agreement covers other aspects of investment protection, which are in line with New Zealand's current regulations and practice, such as international standards of fair and equal treatment, reimbursement for losses in special circumstances such as wars, and investor protection (NZTE, 2014), while for the Chinese side, there is a lot which needs to be done to reach New Zealand current regulations and practice.

As a result of this agreement China has become a very important trade partner to NZ, which boosted exports to China, rising significantly from 2.3 billion NZ dollars in 2008 up to 6.7 billion NZ dollars in 2012 (NZTE, 2014), and in the year to June 2014, China accounted for "about 19 percent of [NZ] exports and 14 percent of [NZ] imports" (NZTE, 2014; Kendall, 2014, p. 3). The gradual reduction of the applied tariffs and the level of regularity to the New Zealand products, as a result of the FTA agreement, increased the Chinese firms' demands for New Zealand products, highlighting the reason behind the increased level of NZ exports to China. Major New Zealand exports to China are "dairy, forestry, seafood, and wool, and the second largest destination for

meat products and hides” (Kendall, 2014, p. 6). Dairy products is the largest New Zealand export to China, volume and price-wise.

On the other hand, for the last couple of decades and due to the availability of low cost labour in China, many New Zealand companies have moved their production activities to China for cost reduction reasons. Major New Zealand imports from China are labour intensive manufacturing goods such as clothing, toys, etc., which expanded in the last few years to include more sophisticated manufactured products including machinery, mechanical, electrical, audio-visual equipment, household appliances, printers and copiers, industrial machinery, electrical circuitry, wiring, etc. (Kendall, 2014, p.11).

1.3 Trade Liberalisation and Reform of the Chinese Economy

China has undergone rapid industrialisation in the last few decades, driven by its growing integration into the global economy (Herrigel, Wittke & Voskamp, 2013). Prior to the introduction of the open-door policy, and the reforms in 1978, China was not classified as a favourite destination of FDI, until the early 1990s when it undertook a good deal of trade liberalisation and unilateral tariff reduction. In December 2001, China joined the World Trade Organization (WTO), which crystallised the reform and liberalisation process (Zheng, 2013). For example, The Global Edge study in 2013 regarding “Market Potential Index” (MPI) for emerging markets EMs – 2013, depicts China as one of the top ten most attractive emerging markets due to its large size and high growth rates, which has a direct impact on investments.

Nevertheless, it was during the last three decades that China’s economic transformation in FDI flows occurred with rapid growth in foreign trade combined with a large inflow of foreign capital. Due to the low production costs and huge market potential, China has also attracted massive inflows of FDI into the country; which has resulted in China becoming the second largest recipient of FDI, after the United States. Through massive FDI flows, China has become a main centre of manufacturing for labour-intensive industries. Thus, China has become an international manufacturing economy, and managed to create a dominant position within regional and global production networks to emerge as the world’s largest manufacturer (Morrison, 2013). In conjunction with such “rapid expansion in foreign trade and investment, the Chinese economy has become [deeply] integrated into the world economy” (Agarwal & Wu, 2004, p.280).

Many MNEs from different industries use contract manufacturers (CM) as a form of entry mode for their outsourcing strategy (i.e. MNEs offshoring their production to China), and thus entry mode (i.e. foreign MNEs to China) can be interpreted through three sequential phases: “experimental phase, strategic investment phase, and dominant phase” (Zhang, Zhang, & Liu, 2007, p. 575; Barkema Bell, & Pennings 1996; Delios & Henisz, 2003; Luo & O’Connor, 1998). There are possibilities that MNE might use mixed strategies of entry modes such as contract manufacturing which can be interpreted as a hybrid of existing modes. Thus, firms with two entry modes for different products are handled as two separate entries (Bose, 2012, p.35).

Both Joint Venture (JV) and the Wholly Owned Enterprises (WOE) were the most desirable entry modes to China in comparison to the other entry modes for foreign MNEs (Vanhonacker, 1997). For example, between 1980 and 1985 the JV contractual agreement represented between 25-33 percent of the total FDI that dropped significantly to 16.2 percent in 2000 and then to 21 percent in 2012 (OECD, 2003; Davies, 2013, p.15). During the first ten years of the new millennium the WOE format dominated FDI in China, which rose from 47.3 percent to 77.1 percent in 2012 (OECD, 2003; 2006; Davies, 2013). For example, MNEs in the early investment period entered China to obtain cheap labour and resources in order to create a higher profit in the long run within the sequential process (Chen, 2012; Puck, Holtbrügge, & Mohr, 2009). For the period 2002 - 10 wholly-owned enterprises exports increased by 10 percent, from 55 percent to 65 percent (Morrison, 2013). Davies (2013) and Vanhonacker (1997) suggest that the main reasons behind the increase were due to the lack of trust and confidence about the Chinese joint-venture partners. Second, was the liberalisation of the Chinese regulatory process which permitted establishing “Greenfield investments and also for acquiring Chinese enterprises” (Davies, 2013, p. 14). Third, was MNEs’ accumulated knowledge and experiences for the last few decades about the Chinese market, culture, and business environment, and MNEs became more confident in their capacities within such market (OECD, 2003; 2006).

However, according to the Deloitte 2013 report regarding the Global Manufacturing Competitiveness Index, China was placed first whilst United States was in the third position; and the report predicted that China will remain in the first position for the next five years till 2018, while the United States will slip to the fifth position by this time (Wayne, 2013, p.9).

China supported its economic transformation by using policies such as setting up economic zones in the coastal provinces and delta regions which was another major strategy in attracting FDI. It not only became the most attractive destination for EM economies, but also drove the 2010 investors' confidence index - the highest for China. (Wilson, 2009; Das, 2012). Then China has renewed its support for state-owned enterprises in sectors which it considers important to "economic security" (Lockyer, 2014; Wilson, 2009). Therefore, in July 2005 China revalued its currency by 2.1% against the US dollar and moved to an exchange rate system that references a basket of currencies. Thus between mid-2005 to late- 2008 cumulative appreciation of the Chinese currency (RMB) against the US dollar was more than 20%. (Wilson, 2009; Lockyer, 2014; Das, 2012). After that, the government policy makers became very selective about the quality of MNEs manufacturers in China; this was due to high levels of pollution (i.e. soil, air, and water) that resulted from the different manufacturing activities in China, especially by foreign manufacturers, and secondly, to increase the country's technological levels. Chinese policy makers are currently focusing on increasing the country's technological innovation level through encouraging MNEs to shift their R&D centres to China by cutting or reducing taxes, removing any barriers and/or reducing tariffs and taxes, and sometimes providing financial support through national banks, etc. when entering Chinese markets (Davies, 2013, p.15). For example, the share of the Chinese high-tech exports by foreign MNEs rose from 79 percent in 2002, reaching 82 percent in 2010 (Morrison, 2013).

Accordingly, the Chinese trade structure underwent a dramatic transition, from a command economy to a market-based economy, and it has been remarkably successful by measures, like the rapid growth of China's exports and imports of commodities. For example, between 1990 and 2000, the average growth rate for the country's exports and imports was 15 percent per year, and that made China the seventh largest exporting and the eighth largest importing country in 2000 (Wang, 2011). This was combined with a shift in China's export structure towards hard manufacturing, such as machinery, electronics goods, and computers during the same period.

On the other hand, during the reform period the Chinese government faced, and are still facing, a number of challenging issues that might discourage some MNEs from offshore sourcing to China, and these issues need to be resolved to maintain the economic growth. One of the main issues is the indirect government treatment favouring local and state-owned enterprises over foreign MNEs through the

discriminatory treatment against foreigners by the creation of regulatory barriers like the discretionary implementation of vaguely composed laws and regulations, lack of harmonisation of different officials, lack of coordination with global standards; the registration procedures for companies or for products, and the varied standards of local implementation of Chinese standards (Davies, 2013).

The second main issue is the low level of intellectual property rights (IPR) and protection, which is related to the lack of harmonisation with global standards. There are many reasons behind the poor performance of the IPR law: Firstly, although China has acknowledged IPR since 1979 and it announced its IPR law in 1982, the first IPR training centre founded in 1996 created numerous difficulties in implementing IPR law due to the insufficient education about the intellectual property and the awareness that the infringement is considered a crime (The United States Trade Representative, 2009). Secondly, the different levels of local government and the state council. For example, the IPR law implementation depends on the local IPR staff efforts that is incorporated with the help of the local police. Thirdly, different interpretations for the IPR law between the Chinese local authorities (Harris, 2009). Finally, due to the local government protectionism attitude that diluted the law implementation by creating barriers for any IPRs investigation when the forger or counterfeiter is someone that they know, where firms might take advantages of such lack of government law enforcement to increase their profits (Priest, 2006; Morrison, 2013).

The third main challenging issue that faces the Chinese government is the contrast between local authorities' and the central government's priorities because of the decentralised system that the government has to control the country's economic system. For example, although the central government focuses on the quality of FDI rather than increasing its quantity, the local authorities focus on increasing their region's FDI inflows portfolio rather than concentrating on the quality (Davies, 2013, p.15).

By considering China as a targeted location for offshore sourcing activities, a firm could benefit from the low-cost labour, high technology production, and willingness for learning. On the other hand, China's biggest threats are IP protection, quality control issues, political risks, the potential of increasing labour costs in the future, cultural differences, and language barriers, all of which need to be considered when offshoring from a western culture (Johansson & Reischl, 2009, p.126).

Chapter 2: Literature Review

In the previous chapter the researcher introduced the researched topic and explained the research aim and questions. Then a short background about the studied industry and its location, NZ SMEs within HTM manufacturing industry, has been covered. In this chapter, the researcher covered the most relevant literatures and theories that are related and the definition to the studied phenomenon, offshore sourcing.

2.1 Offshoring

According to Galan, Gonzáles-Benito and Zuñga-Vincente (2007), this competitive pressure rationalises the importance of firms' cross-border investments. Consequently, many firms have begun to move or relocate some or all of their value chain activities to offshore locations as a way of increasing their competitiveness, whilst maintaining other activities onshore, resulting in a multinational enterprise (MNE).

Offshoring is related to the international relocation of a firm's activities beyond its home country geographical borders and location. Accordingly, offshoring is the relocation of a firm's activities, production or services, to any foreign country without distinguishing whether these activities are going to be done by an external firm or internally by the firm's own affiliates.

There are four main motives for MNEs' offshore activities: "market seeking, resource seeking, efficiency seeking, and strategic asset seeking" (Dunning, 2000, pp. 164-165). Doh (2005) explains that the offshore location is a crucial element for both market and cost reduction strategies, which are the main objectives of offshoring. For example, according to Farrell's (2004) study, offshoring could enable firms to "save up to 70 percent of their total costs, where 50 percent of these [savings] comes from offshoring activities," during their globalisation process, (Johansson & Reischl, 2009, p.51).

MNEs could benefit from having access to the offshored location's unique natural resources and capabilities and provide the MNE with a non-imitable set of locational bound assets that complement the firm's own core competence, (Dunning, 2000). Offshoring might provide MNEs access to new market opportunities at these offshored foreign countries. These opportunities could help the firm to grow and stretch beyond their boundaries through research and development to provide new products and

services, or customise existing products and services for new potential markets and customers, (McDougall & Oviatt, 2000; Oviatt & McDougall, 2005).

Although offshoring provides MNEs with different benefits that vary according to the foreign country-specific advantages and MNE's product, characteristics and industry, at the same time it contains several challenges related to different kinds of uncertainties. These uncertainties are related to the relocation activities at the host country such as the foreign country "exchange rate, political risks, [government] regulations and policies, and cultural differences" (Dunning, 2000, p. 165). Therefore, offshoring MNE's activities could be analysed according to the selected offshore location, and host country advantages at a country-level. Thus, analysis helps us understand and identify the motives or reasons behind such relocation, the benefits that are expected to be gained, as well as the challenges that MNEs are likely to face when going to that particular offshore location.

Finally, when deciding the location of the MNE's offshore activities by analysing the geographical factors (i.e. cost, technology, and market) and how these factors could be linked to the firm's motive(s) for offshoring activities, MNE management needs to decide how these activities will be managed, and the best governance approach for such relocated activities.

MNEs have different forms of involvement within international markets. As well as considering overseas location, the firm also needs to consider how to integrate and coordinate their diverse activities; this is the governance decision. While the sourcing concept is related to the governance of a firm's activities it encompasses two sub-concepts, insourcing and outsourcing. Insourcing implies that the firm will undertake the activities itself. This is related to the concept of internalisation and the decision to 'make' rather than 'buy'. Joyce (2008) defines outsourcing as "the relocation of a function to a third party producer, domestic or abroad" (p. 8). This implies the externalisation of activities which are performed by an outside party such as a contract manufacturer or supplier.

Thereby, offshore sourcing is the relationship between offshoring and sourcing concepts; and it is related to contracting part of the firm's value chain activities to a third party, whether the provider is external or part of the firm's network, in a foreign

country. Accordingly, offshore sourcing links the ownership and locational concepts, (Pedersen, Bals, Jensen & Larsen, 2013).

Based on the geographical location and the governance style or the ownership level of these activities, these offshore activities result in different types of investments that might range from foreign direct investment (FDI) through to non-equity mode (NEM) investments, which are discussed in more detail in the following sections.

To understand and distinguish between the different relationships between location and ownership, Figure 1 summarises these in a simple matrix (See Figure 1 on the following page). The matrix plots ownership (insourcing vs. outsourcing) and on one axis, and geographical location (domestic vs international) on the other axis.

For the present study the term “offshore sourcing” covers both international outsourcing in grid 1, and international insourcing, (sometimes called captive offshoring) in grid 2. Accordingly, for the present study offshore sourcing is defined as “the relocation of jobs and processes to any foreign country without distinguishing whether the provider is external or affiliated with the firm,” (Olsen, 2006, p.6).

The MNE’s decision to “make or buy”, thus to choose between FDI and internalisation through ownership or non-equity modes (NEM) involving externalisation or outsourcing, will be “based on relative costs and benefits, associated risks, and the feasibility of each option” (UNCTAD, 2011, p.124; Buckley & Casson, 2001). Grids 1 and 2 in Figure 1 cover the firm’s offshoring governance mode as entry strategy for its international activities.

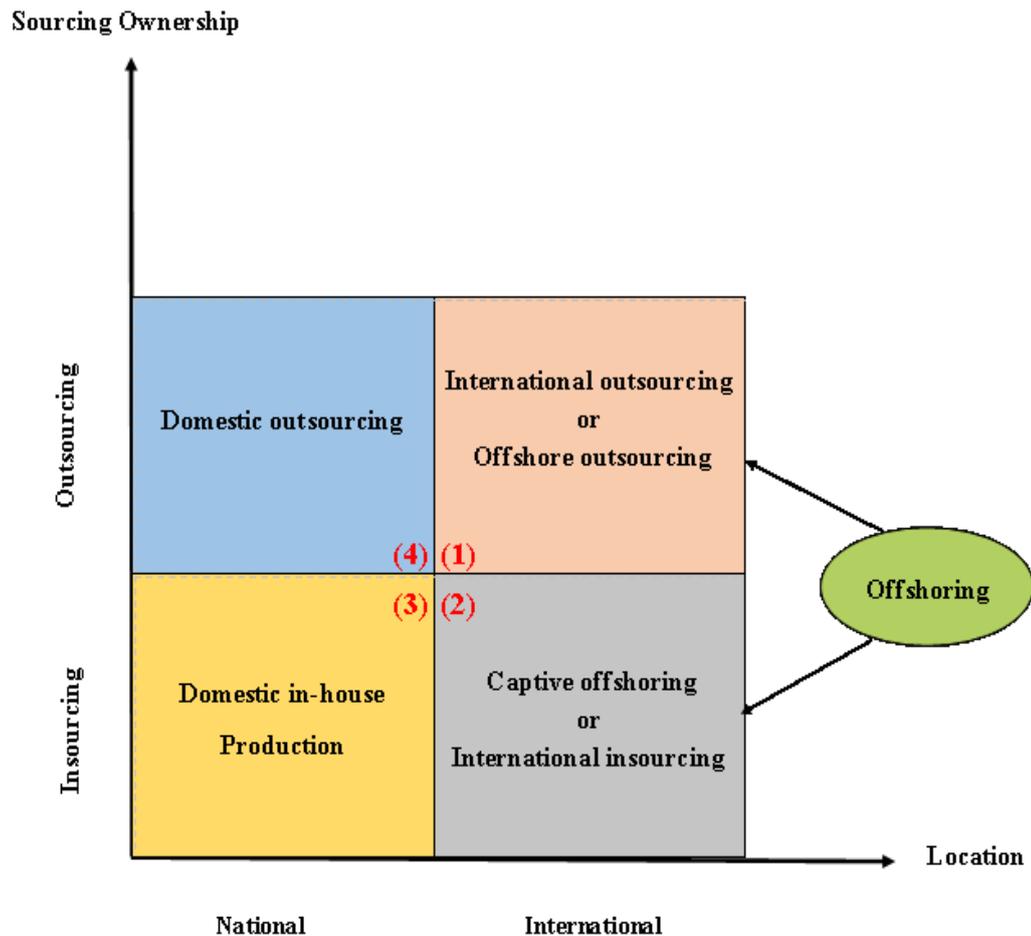


Figure 1: An illustrative matrix of insourcing, outsourcing, and offshoring.

Adapted from *The Offshoring Challenge: Strategic Design and Innovation for Tomorrow's Organization* [EBL version] (p. 12), by T. Pedersen, L. Bals, P. D. Ø. Jensen, & M. M. Larsen, 2013, Retrieved from <http://link.springer.com>.

2.1.1 FDI

Foreign direct investment (FDI) is an equity based strategy based on control through ownership and is widely adopted by MNEs in their foreign operations, (UNCTAD, 2011; Maister, 2012), and Grid 2 in (Figure 1) shows the international insourcing or captive offshoring that is related to full ownership and control (as FDI) through internalising the firm's activities at the offshore location (Roza, Van den Bosch, Frans, & Volberda, 2011). So, it is related to the firm's physical investment in a factory, building or acquiring another enterprise that operates in a different country and this new facility becomes an affiliate to the parent company. The affiliate should be owned and managed by the parent company from the home country or a regional HQ (O'Sullivan & Sheffrin, 2003). FDI is the establishment of a company by a different enterprise from outside the country and results in the creation of a multinational enterprise (MNE) between the parent company and its foreign affiliate (Pitelis, & Sugden, 2000). MNEs

favour this type of investment in foreign countries when they face a high level of risk such as when intellectual protection is low or high levels of market failure in the host country encourage cross-border internalisation (Vernon, 1983). Three types of market failure are the main reasons behind FDI and the internalisation of markets: the first type of market failure is related to the risks and uncertainty, which are covered by Vernon (1983); the second type is related to the market imperfection conditions when the firm is unable to “exploit the economy of large-scale production”; the last type of market failure “occurs where the transaction of particular good or service yields costs and benefits external to transaction, but that are not reflected in the terms agreed by the transacting parties,” (Dunning, 1988, p. 3).

2.1.2 Externalisation (outsourcing)

Grid 1 in (Figure 1) depicts international outsourcing, which relates to externalising a firm’s activities which were previously produced internally within the firm, to external suppliers with the aim of gaining competitive advantages by tapping into lower cost or more productive outside suppliers, (Lankford & Parsa, 1999; Gilley and Rasheed, 2000; Bean, 2003; Beaumont, & Sohal, 2004). Moreover, outsourcing is considered a strategic business process that could help firms to focus on their core competencies and achieve more than just cost savings, (Joyce, 2008). International outsourcing implies a loss of ownership and the use of contractual modes of control (Yang & Lindsay, 2011). Outsourcing is a strategic decision which aims to reduce the costs of the supplied goods or services and (or) improve the firm’s performance and flexibility, (Quélin & Duhamel, 2003). The three main benefits that firms could obtain through outsourcing strategy, could be summarised as shown in Table 1 (See Table 1 on the following page).

Table 1: Outsourcing benefits (has a mix of font sizes, and some items are not bulleted consistently.)

	Cost Saving	Flexibility	Specialisation
Outsourcing	<ul style="list-style-type: none"> • Helps a firm to control their expenses 	<ul style="list-style-type: none"> • Assists the firm's process improvement through an internal reform 	<ul style="list-style-type: none"> • Boosts the firm's improvement and capability
Why	<ul style="list-style-type: none"> • Reduce the total operational costs through sourcing labour and materials at a lower cost • Reduces investments' risk impact on the firm 	<ul style="list-style-type: none"> • Sharpens the business focus 	<ul style="list-style-type: none"> • Gets access to resources and highly skilled labour • Acquires ready-made innovations, and new technology
How	<ul style="list-style-type: none"> • Contracting a specific business function to a third-party service provider 	<ul style="list-style-type: none"> • Concentrating on the firm's core competences. 	<ul style="list-style-type: none"> • Through compensating for internal expertise shortage
Result	<ul style="list-style-type: none"> • Frees the firm's resources for profitable business units • Risk sharing with the other service providers 	<ul style="list-style-type: none"> • Increases the firm's flexibility in responding to market changes and demand; • Reduces time to market • Having an access channel to a flexible workforce 	<ul style="list-style-type: none"> • Improves the quality of the supplied service or product by the MNE

2.1.3 Non-Equity Modes (NEMs)

NEM is related to grid 1 in (Figure 1) but it is a different strategy from FDI as NEM is exercised through contract specifications relating to design, quality, production standards, or a required business model that the local partner must abide by. Thus, NEM consists of a range of modes where the control is exercised through different structures and levels such as contracts and bargaining power.

Accordingly, NEM is related to outsourcing strategies that firms might use to govern their resources. NEM includes a variety of emerging activities of multinational enterprises (MNEs) such as “contract manufacturing, services outsourcing, contract farming, franchising and licensing, as well as other forms of contractual relationships,” (Maister, 2012, Full text section, para. 3). According to the world investment report for 2011, the growth of NEMs exceeds industry growth in which they operate. NEMs focus on generating higher sales, adding value, exporting, and creating worldwide

employment based on contract manufacturing and service outsourcing. For example, NEMs created \$2 trillion of sales in 2009 and provided approximately 21 million jobs worldwide operations (UNCTAD, 2011).

According to Hanks (2014), the main advantages that firms could achieve through NEMs compared to FDI investment, are faster entry to foreign markets with the least amount of investment and reduced risks.

NEM enriches FDI in creating global value chains. For example, the risk analysis could be a parameter in analysing the strength of the rule of law in the host country in relation to intellectual property (IP). Therefore, MNEs will be in favour of creating an NEM arrangement in comparison to an FDI agreement as an entry mode, especially when the host country has a strong legal system that protects MNEs' private contractual arrangements and their IP. According to WIR11, the end result in choosing between NEM and FDI might be a complicated mixture of "directly owned, partially owned, contract-based and arm's-length operations" (UNCTD, 2011; Maister, 2012).

2.2 Offshore Outsourcing Motives

According to Roza et al. (2011), the three main motives for MNEs to offshore outsource their activities are cost, resource, and entrepreneurial motives which are explained below:

2.2.1 Cost Driver

The cost driver is based on the theoretical perspective of Transaction Cost Economics (TCE), (Farrell, 2005), which aims to reduce a firm's expenses by weighting the costs of the produced product or service and increase firm's revenue; and it highlights that merely reducing labour costs is not sufficient to explain offshore cost drivers. Firms might choose to offshore these outsourcing activities to a foreign location where labour and resources are cheaper than the home country to increase their saving; but such a move might contain a high level of uncertainty which elevates transaction costs (Coase, 1937; Williamson, 1975). Accordingly, offshoring as an activity increases transaction costs, which might be partially misaligned with or offset the savings point of view of TCE (Stratman, 2008). For example, outsourced offshoring might reduce a firm's total cost of labour, production, and transaction costs when offshore outsourcing costs are below home country domestic market costs; but there are hidden costs that should be considered when calculating the total savings. These include offshoring set-up costs,

(Ellram, Tate & Billington, 2008), communication related costs (Stringfellow, Teagarden & Nie, 2008), and other forms of hidden costs. Furthermore, offshore outsourcing might improve a firm's efficiency through having access to new technology and to a large number of suppliers in the host country who can provide high quality services, due to the availability of a large number of these suppliers in the host country. The availability of a large number of suppliers competing on the basis of both cost and quality, can help reduce transaction costs when buyers face a wide range of competing offerings (Holcomb & Hitt, 2007; Ellram et al., 2008).

2.2.2 Resource Driver

Resource seeking is the second driver of offshore outsourcing strategy. This driver is based on the resource-based view (RBV) that considers the firm as a collection of resources, and sees a firm's competitive advantage as a result of the combination of a set of firm-specific resources and capabilities that are unique, valuable, and rare, where there may not be commonly available substitutes (Barney, 1991). RBV suggests that firms should focus and invest in their core competencies and outsource other (non-core) activities (Skiffington et al., 2013) and assess the economic returns on any resources that the firm may own, acquire, or develop (Penrose 2009; Barney, 1991).

The resource driver covers two types of resources, natural and labour resources (Franco, Rentocchini & Vittucci Marzetti, 2010), and efficiency seeking resources. Grant (1991) distinguished six types of resources: physical, human, capital, financial, technological and reputational. On the other hand, Dunning combined all resources together (i.e. natural resources, labour, and technological and managerial capabilities) under one group, arguing that firms are "prompted to invest abroad to acquire particular and specific resources at a lower real cost than could be obtained in their home country (if, indeed, they are obtainable at all)." (1993, p.56).

Due to the importance of understanding the differences between such resources the present study divided this driver into two sub groups (natural resources and labour, and efficiency and knowledge seeking).

- **Natural Resources and Labour Seeking Driver**

This resource driver focuses on accessing particular resources that are not available in the firm's home country like natural resources (i.e. raw materials, or natural scarce resources) or could be acquired at lower cost in the host country (i.e. skilled and

unskilled cheap labour). This resource seeking type is a very important motive for offshore outsourcing in manufacturing industries because without these resources the firm will not be able to provide its final product or service (Franco et al., 2010)

- **Efficiency and Knowledge Seeking Driver**

This type of resource driver is related to technological and managerial capabilities. It focuses on knowledge-seeking and efficiency-seeking, both of which are very important in both manufacturing and service (i.e. information-intensive) industries (Nachum & Zaheer, 2005). This resource driver occurs because of a lack of MNEs' own resource-based competencies. MNEs may use offshore outsourcing to improve their quality, efficiency and flexibility by utilising others' unique resources (Gregorio, Musteen, & Thomas, 2009). For example, accessing the right managerial personnel might improve a firm's efficiency in doing its existing activities in more productive ways (i.e. reducing production waste, time, etc.), resulting in costs savings. So, the efficiency seeking motive emphasises gaining knowledge and efficiency from the offshore location to maintain and improve the firm's competitive position (Nachum & Zaheer, 2005; Lewin & Peeters, 2006; Westhead, Wright, & Ucbasaran, 2001).

Though RBV recognises the importance of firm's knowledge in attaining a competitive advantage, it does not perceive the different varieties of knowledge-based competences and "treats knowledge as a generic resource, rather than having unique characteristics" (Juntunen, 2009, p.87)

Therefore, Grant (1996) advocates a knowledge-based theory, which perceives the available knowledge within the firm is one of its most important resources. This theory argues that firm's knowledge should be considered as a competitive advantage that results in superior performance because such knowledge could be embedded within the firm's culture, policies, documents, systems, team members, etc. to a degree that make it very difficult to be imitated by the others. This firm knowledge-based view perspective has been developed into Dynamic capability perspectives (Bengtsson, 2004; Saarenketo, Puumalainen, Kuivalainen & Kylaheiko, 2004; Teece, Pisano & Shuen, 1997) extending the RBV into more dynamic environments. Teece et al. (1997) define firm's dynamic capabilities as the "...firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments" (Teece et al., 1997, p. 516). Saarenketo et al. (2004) explain that the "dynamic process view ...is of great relevance in our endeavour since technological discontinuities and ability to

manage knowledge acquisition in turbulent markets largely affect the growth and internationalization strategies of the firms” (p.368).

2.2.3 Entrepreneurial Driver

This driver is based on entrepreneurship theory, and it considers offshoring strategy as a motive for growth and entering new markets (Lewin & Peeters, 2006). It focuses on addressing the new resource combinations and the importance of strategic choice. In other words, it focuses on perusing new opportunities through the ability of recognising such opportunities and managing to provide the needed resources (Arthurs & Busenitz, 2006), as well as the willingness to grow beyond the firm’s boundaries. Different scholars have covered the entrepreneurship field from the international perspective, and found this type of entrepreneurship could be categorised under offshoring strategies. The main motives behind the emergence of international entrepreneurship are to be closer to the firm’s potential customers or to other new business opportunities through increasing speed to market, differentiation strategy, and access to new markets (McDougall & Oviatt, 2000; Oviatt & McDougall, 2005). Furthermore, evaluating a firm’s decision for outsourcing their activities could be visualised by the firm’s investment project that might be varied according to the investment specifications, the project options - will be cost saving, gaining flexibility, and specialisation option - which will be the main motives for an outsourcing decision.

2.3 Focal Theories

As explained earlier, offshore sourcing takes on a variety of forms, therefore different scholars studied this phenomenon aiming to understand and investigate the forces or reasons behind offshoring activities within different contexts such as management, economic, strategy, and many other different fields. In the present study, the following discussion will cover the eclectic “OLI” paradigm and its elements, the Uppsala model, and the LLL model, along with related theories to explain offshoring and sourcing activities.

2.3.1 OLI

OLI is also known as the eclectic paradigm or model; it is a “multi-dimensional rationale for international production...perspective on international investment” (Doh, 2005, p.698); and was developed by Dunning (1980, 1988, 1993). OLI provides a holistic framework to identify and evaluate MNEs’ offshore production activities by

covering several elements of economic theory like the macroeconomic theory of FDI and the microeconomic theory of the MNE. This framework contains three main elements: a firm's ownership advantages "O", location advantages "L", and internalisation advantages "I" of MNE's outward FDI.

- **Ownership "O"**

Ownership "O" is the most important element of OLI framework because it explains the set of advantages that differentiate the MNE from its competitors; and that provides the bases of differentiation. It focuses on MNE's investment in pursuing and gaining the ownership of specific competitive advantages over its competitors, whether engaging in new FDI investment or to increase its existing FDI (Dunning, 2000). It is based on the resource-based view (RBV), which explains that a firm could gain sustainable competitive advantages based on a firm's capability of the efficient and effective usage of its resources, tangible and intangible.

To consider these resources as a part of the firm's specific advantages, they should be valuable to the company by providing income; be unique and exclusive to the company and generating assets; and irreplaceable resources for the firm to get similar comparative advantages and imitable by the others and internationally transferable (Dunning, 1988; Beugelsdijk, Brakman, Garretsen, & Van Marrewijk, 2013) such as "trademark, production technique, entrepreneurial skills, [and] returns to scale" (Twomey, 2000, p. 8). Furthermore, under this element, Dunning expands the ownership advantages of firm-specific advantages by linking them with the host country- advantages through managing this combination of resources; and thus helps to clarify the reasons behind transferring or offshoring a firm's knowledge and technology between its units across home country borders while maintaining the "property rights over such assets" (Dunning & Rugman, 1985, p. 228).

- **Location "L"**

This element is related to the geographical location and is a key factor for MNEs' motives to their FDI activities. It is linked to the foreign locational resource commitments, requirements, the availability, and the cost of resources such as the "existence of raw materials, low wages, [and] special taxes or tariffs" (Twomey, 2000, p. 8). It is based on the country-specific advantages such as labour costs, societal infrastructure, and governmental control. Therefore, L advantages could be explained by the country-level analysis providing the locational advantages and attractions for the

firm's added-values activities. It is related to the locational fixed resources that are required by the firm to secure its competitive position. But these resources are immobile and very hard to move or transfer between international locations, which is contrary to the O element flexibility and mobility.

Accordingly, the MNE might decide to expand or exploit its own "O" specific advantages to the selected offshore location and then use L and O advantages jointly to gain and sustain the firm's competitive advantages (Dunning, 2000, p.164). Many emerging locational variables-related FDI activities have been added to the "L" advantages such as "exchange rate and political risks, the regulations and policies of supra-national entities, inter-country cultural differences" which impact the valuation of the other variables related to the MNEs' national or international locational choices (Dunning, 2000, p. 165).

The modern economic notion suggests that locational unique natural resources and capabilities are categorised according to their ability to provide "a distinctive and non-imitable set of location-bound *created* assets... [to] foreign MNEs ...to complement their own core competencies," as well as the institutional structure within which MNEs operate, rather than merely based on the ownership of such locational unique natural resources and capabilities (Dunning, 2000, p. 178; 1996). Accordingly, L-specific advantage could be seen as part of the O-specific advantages of the firm. For example, when the host country government gives an MNE access to a particular unique natural resource such as natural gas through a long term contract between them, this host country L advantage could be transformed into an O advantage. This shows how L and O are interdependent and incoherent if taken apart from each other (Dunning, 2000, p. 175).

The "L" element considers a key factor, which according to Doh (2005), is used for market and resource seeking, as well as cost reduction strategies for MNEs. The locational element "L" of OLI framework could be used to explain different aspects of offshoring phenomenon.

- **Internalisation "I"**

The internalisation advantages element "I" based on internalisation theory focuses on international production of MNEs. It explains that O should be retained and protected within the company; and it should be in the best interest of the firm. The transfer of the

firm's ownership advantages beyond its home country borders should stay within the firm, rather than selling them or licensing them to foreign enterprises (Dunning, 2000). This point of view proposes that MNEs perceive that international marketplace is not the best option for transacting intermediate goods and services. So, the OLI includes transaction cost economies (TCE) within its framework; and the level of transaction cost saving is constrained by three main elements, "rationality, opportunism and uncertainty" (Roza et al., 2011, p.316), which characterise the firm's offshoring governance decisions (Stratman, 2008).

Similar to the internalisation theory this element reviews all a firm's knowledge flow aspects by linking research and development (R&D) to production and marketing (Markusen, 1995); and considers that internalising a firm's proprietary knowledge will be more beneficial for the MNE when host country intellectual property rights are weak (Rugman, Verbeke, & Nguyen, 2011). Therefore, internalisation advantages suggest that the development of a new technology should stay within the MNE and could be transferred between MNEs' facilities, nationally and internationally.

The last three sections' discussion showed the interaction between O, L, and I advantages within OLI paradigm. Therefore, it is very important not to focus on one element without considering the other two elements because they are all linked to MNEs', FDI decisions, and together they are providing an explanation for the industrial MNEs' FDI patterns in foreign countries (Dunning, 1993; Rugman, 2010).

Furthermore, in relation to the offshoring 2x2 matrix in Figure 1, both ownership and internalisation elements could be used to explain the governance, whether to insource (produce in-house) or outsource (contracting outside to a third party), side of this matrix; while the location element of OLI paradigm could be used to explain the geographical location, domestic or international, of the offshoring matrix.

2.3.2 Uppsala Model

The Uppsala International model developed by Johanson and Vahlne through a series of publications (1977, 1990, 2006, 2009), explains how a firm "gradually increases its international involvement" (Johanson & Vahlne, 1990, p. 11); and covers a firm's development or its international expansion. The Uppsala model is based on stages, theory which suggests that the firm's involvement in offshoring activities will increase

in stages as a result of growing experience and knowledge about that particular offshore location.

This model distinguishes between two types of acquired knowledge. The first type is the objective knowledge, which could be taught. The second type is the experiential knowledge, which could be acquired and developed through personal experiences; this type is related to decreasing the “psychic distance” (Baronchelli & Cassia, 2008, p. 7). The Uppsala model has been revised by Johanson and Vahlne in 2006; and they highlighted the importance of networking with other firms and its positive impact in building a firm’s knowledge, creating opportunities, and reducing uncertainty. Accordingly, “the opportunities identified by a specific firm at a particular point in time depends on the stock of knowledge and commitment” (Baronchelli & Cassia, 2008, p. 7).

This model explains that firms gain their initial knowledge from their own local domestic markets before venturing into offshore markets. Therefore, these firms start expanding their operations and entering foreign markets in another country that shares some similarities, such as cultural characteristics, political system, language, and proximity to the firm’s home country; and then move to more distant foreign markets (Johanson & Vahlne, 2009). The additional time that the firm stays in a foreign market impacts the firm’s acquired knowledge positively about that particular market, which encourages the firm to target new markets which are characterised “by greater psychic distance” (Baronchelli & Cassia, 2008, p. 6). Thereby, a firm enters new foreign markets initially through exports and thereafter progressively commences using the other operational modes such as sales subsidiaries, alliance, joint venture, FDI, etc. (Saarenketo et al., 2004, p. 369). Accordingly, this model explains the incremental internationalisation and the gradual movement or expansion between different locations, for example, between a firm’s home and host country.

Conversely, offshoring is also related to a firm’s expansion and movement between different geographical locations. Therefore it is not a gradual move between geographical locations as firms need to set out to offshore locations in the early stage, without having enough time to build up or gather sufficient knowledge about the new location. The urge for such a move could be to compensate for these firms’ lack of raw material, workforce, etc.; and these offshore locations may not be similar to the firm’s

home country market, whilst in internationalisation context, these firms should succeed in their home market first and then later in global markets.

Basically, both ‘offshoring’ and ‘internationalisation and offshoring’ are similar in relation to the movement between different geographical locations but their process is not the same. Therefore, offshoring could be seen as a form of internationalisation, but conceptually is completely different. In relation to the offshoring 2x2 matrix, Uppsala model concept, points out that accumulation of foreign market knowledge could help to explain the firm’s mode of governance structure.

2.3.3 LLL Model

Based on the FDI theory, the LLL model developed by Mathews (2002, 2006), contains the three ‘L’ elements: linkage, leverage, and learning. This model has been considered as complementary to Dunning’s OLI paradigm by some authors. It is useful in explaining NEM of governance and focus on firms’ internationalisation that lack resources in foreign countries (i.e. firms from developing countries, late market entrants, or SMEs from developing and developed countries). Such firms could expand to foreign markets overseas through the integration of linking, leveraging and learning effectiveness, without having ownership, internalising, and location advantages (Mathews, 2006). For example, in the case of emerging economies, MNEs, which are becoming active participants within FDI and are considered as new entrants to the international markets, can benefit from the existing advanced technology that is available in these markets through imitation. Imitating others could be seen as a lack of “O” advantages or property benefits (Dunning, Kim & Park, 2008) whilst having a positive impact. For example, when a Chinese MNE makes use of a German MNE’s FSA, the firm’s specific advantages such as technologies, brands, and other intellectual property rights, will assist the Chinese MNE to build organisational structure, relationships and networks through linkage and learning from the German MNE (UNCTAD, 2006). Furthermore, such relationships may open new markets or consumer opportunities to the Chinese MNE through leveraging from its connection with the German MNE.

So basically, both offshoring and LLL are related to the firms’ movement between different geographical locations. In relation to the offshoring 2x2 matrix, LLL model concept, proves that especially for SMEs from developed countries, learning about the new foreign market or the offshored location could be gained through having a link with

local firms in the foreign country, leveraged from these local firms' networks; and learning by sourcing knowledge from these local firms.

Generally, Reid (1983) advises that each firm should be treated as a unique situation that has its own specific situational characteristics, whilst Johansson and Reischl, (2009) explain the decision-making process with regards to the firm's offshore sourcing location. Initially, the firm needs to have a clear vision with regards to the advantages that could be gained from the offshore location, and why they require that particular location for their offshore sourcing activities. Secondly, firms need to evaluate the perceived threats and benefits from the chosen location; the location becomes attractive if the benefits are substantial. Thirdly, the level of "integration and strategic change within the company" should be considered as the entry mode for the targeted location which will be determined by the level of integration. Finally, cultural differences should be considered. Furthermore, Susman (2007) states that "SMEs may not progress steadily to more advanced market entry modes (such as from exporting to FDI) and to more psychically distant countries. Instead, their choices of market entry mode and country to enter depends on the firm's initial resources and capabilities, business model, technology, degree of market development, and proactive or reactive stance toward innovation" (p.6).

Therefore, this research aims to provide a better understanding of "*Why are New Zealand small to medium enterprises within the high-tech manufacturing industry offshoring their production to China?*" through four sub-questions seek to elaborate the principal research question, which are :

- "*What issues and challenges do they face with such ventures?*"
- "*What are the main attractions for such ventures?*"
- "*How does offshore sourcing contribute to international competitiveness?*"
- "*How does offshore sourcing impact on their business strategy?*"

Chapter 3: Methodology and Method

The previous chapter highlighted the most relevant literature and theories related to the studied phenomenon, offshore sourcing, as well as its motives, challenges, strategies, and benefits. This chapter covers the research methodology and methods that have been used in this study. The first part, research methodology, explains the research epistemological and ontological philosophical position and the research paradigms. The second section of the methodological part covers the research design including the research field of enquiry and the research approach. The second part of this chapter discusses the methods that have been used to collect the research data, participant selection, the ethical considerations issues, and data analysis process.

3.1 Research Methodology

3.1.1 Philosophical Position

Almost all research is based on a philosophical assumption, or on a philosophical foundation “about the nature of the world and how knowledge about the world could be obtained”; and very often such assumptions are implicit and embedded in a researcher’s mind (Myers, 2013, p.24). There are two interrelated terminologies explaining any philosophical assumption: ontology and epistemology (Campbell & Wasco, 2000; Solem, 2003). The former term, ontology, refers to the most basic “beliefs about what kind of being human is, and the nature of reality”; so it is related “to the nature of reality and its characteristics” (Creswell, 2013, p.20). The latter term, epistemology, can be defined as “the nature of the relationship between enquirer and known, what counts as knowledge, and on what basis we can make knowledge claims” (Grant & Giddings, 2002, p. 12) and it is related to acquiring known knowledge through personal experiences and individual views (Creswell, 2013).

Myers (2013) argues that the researcher should be clear about his/her philosophical assumptions because these assumptions impact methodological choices and the interpretation of the findings of the study.

The philosophical position that underpins the researcher’s assumptions in this study is based on Burrell and Morgan’s (2003) four paradigms scheme: functionalist; interpretive; radical humanist; and radical structuralist, and which result from the integration of the social theory dimensions: subjective–objective and regulation–radical

change (Burrell & Morgan, 2003; Bryman & Bell, 2007). The relationship between these four paradigms is illustrated in Figure 2 below. Furthermore, the researcher considered Creswell’s categorisation of the interpretive schemes or frameworks (e.g. positivism, post-positivism, interpretivism, constructivism, hermeneutics, etc.) to support the researcher’s philosophical position assumptions for the present study (Creswell, 2013).

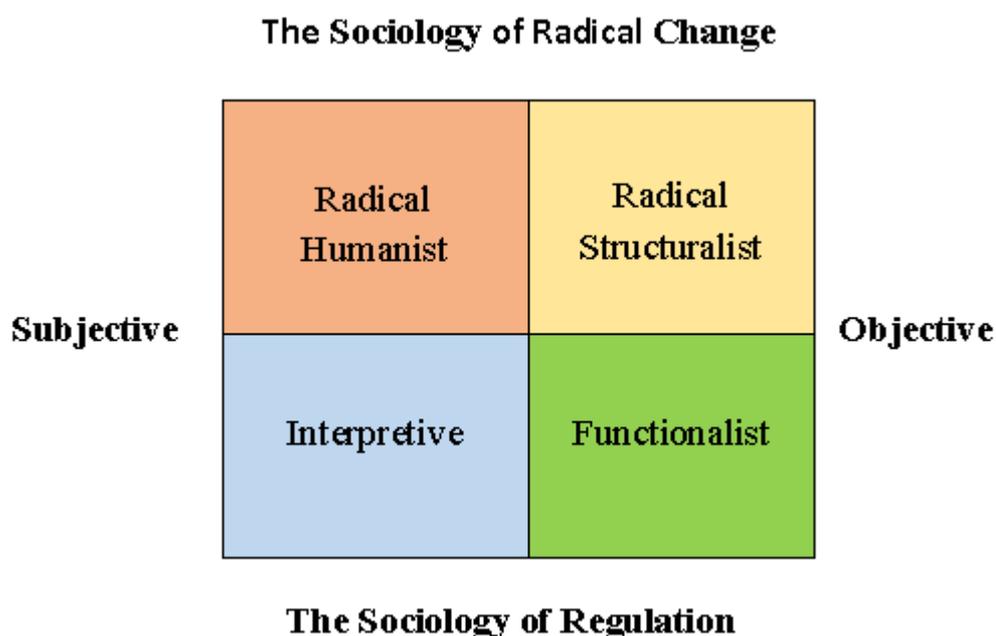


Figure 2: Four paradigms for the analysis of social theory.

From *Sociological paradigms and organisational analysis: Elements of the sociology of corporate life* (p. 22), by G. Burrell & G. Morgan, 2003, London, England: Heinemann Educational Books.

For the present study, the researcher’s philosophical assumptions fit within the post-positivist paradigm within the interpretive framework. Therefore, this paradigm will be discussed more fully in the next section.

Burrell and Morgan’s four paradigms scheme has always been debated between scholars. For example, Deetz (1996) sees this style as likely to “obscure important differences in current research orientations and lead to poorly formed conflicts and discussions” (p. 191). While others like (Bircham - Connolly, 2007) find this style very helpful in understanding and clarifying critical parts of any research study such as the research central assumptions, whether it is offering a “descriptive” or a “prescriptive” model, and the researcher’s position within that particular research (pp. 67-68).

3.1.2 Post-positivist Paradigm

Bryman (2003) defines paradigm, as “a cluster of beliefs and dictates which scientists in a particular discipline influence what should be studied, how research should be done, [and] how results should be interpreted”(p.4). As stated earlier, the current study is aligned with the post-positivist paradigm within the interpretive frameworks; Nordqvist, Hall, and Melin (2009) argue that the interpretivism focuses on “understanding seeing something... interpreting [the] seeing things in new ways, [or] assigning new meanings to them” (p. 298).

The interpretivist view believes that sense-making of the previous knowledge and information through the interpretation process could be seen as the “product of mind” (Burrell & Morgan, 2003, p. 227); and this concept highlights the importance of an individual’s life and action within cultural studies (Bryman & Bell, 2007). Post-positivism “has the elements of being reductionistic, logical, empirical cause-and-effect oriented, and deterministic based on priori theories”. Therefore, the post-positivist paradigm within the interpretive framework “employs a social science theoretical lens” and presents its “qualitative studies in a form of scientific reports... (e.g., problem, questions, data collection, results, and conclusion)” similar to the quantitative studies structure (Creswell, 2013, p. 23-24).

Myers (2013) explains that interpretivist believe that the truth could only be reached through social constructed comprehensions such as language and shared meanings. Thereby, interpretivism emphasises “the things themselves” (Husserl, as cited in Grant & Giddings, 2002, p. 16). Interpretive framework researchers try to understand human experience or action and the meanings that are attached to particular experience from different theoretical perspectives and from the individual’s point of view (Grant & Giddings, 2002; Nordqvist et al., 2009). Accordingly, Creswell (2013) explains that post-positivist researchers within this framework “view inquiry as a series of logically related steps, believe in multiple perspectives from participants rather a single reality, and use multiple levels of data analysis for rigor”, which could be seen very clearly in the data analysis strategies of case comparisons of Yin (2009) work (p.24).

Accordingly, the present study adopts the post-positivist philosophical position which has different methodological approaches that provide researchers the flexibility in using

a variety of methods and strategy of inquiries. The following section elaborates the current study approach (Creswell, 2013; Denzin, 2004).

The post-positive paradigm with an interpretive framework view applied in this research is that SMEs' managers make sense of their experiences and act on the basis of the meanings attached to these experiences. It is the phenomenon of offshore sourcing that the researcher is interested in understanding and explaining through the interpretations of the managers who have experienced it. The researcher is informed by existing literature to identify specific reasons for considering offshore sourcing prior to collecting data. In addition, the researcher uses theoretical frameworks to develop interview questions and analyse the data to present the findings. This makes the study objective in nature. However, and as explained earlier at the literature section and in the first chapter of this study, there is a lack of understanding on the issue as to why companies offshore to China and how they manage such venture. Thus, the focus of this study is not in testing what is already known, but to build knowledge and understanding about the offshore sourcing experience phenomenon based on the firms' managers points of view within NZ SMEs in High-Tech manufacturing industry with a focus on how they experienced it, why they chose China in particular as a destination for their venture, what challenges they faced, and how they managed to overcome them (Flick, 2009, p. 15).

3.1.3 Research Design

Research design could be considered as a road map or a technique, which contains sequential decisions and strategies that the researcher has to make at certain points of the research process; these decisions help in clarifying the research plan that should be adopted to answer the research questions (Creswell, 2013; Flick, 2009). Scholars describe three important interrelated elements relating to research design that the researcher should consider: the research philosophical position, strategies of inquiry, and the research methods. Choices regarding these three elements will impact the conducted research type which might be qualitative, quantitative, or mixed method (Creswell, 2013; Bryman & Bell, 2007).

For the present study, the first element of the research design, which is the philosophical position interpretive, has been explained and discussed in the previous section. The second element includes the strategies of inquiry, sometimes called "research

methodologies” (Creswell, 2009, p.11), that guide the research design procedures’ direction and help the researcher to move from the research philosophical position stage to the research method stage where the research data will be collected and analysed (Denzin & Lincoln, 2003).

According to the interpretive paradigm and to understand a social phenomenon (offshore sourcing) from the individual’s (firm manager) point of view who are living it and its attached meaning to them, a qualitative inquiry approach has been adopted. The qualitative approach for the present research will be discussed in the following section; and the current study stages have been summarised in Figure 5 (See Figure 5 on the following page). Furthermore, the case study approach which is considered as one of the several strategies of qualitative research has been adopted as a strategy of inquiry for this study; and it will be discussed in further detail under the “Case study as a Strategy of Inquiry” (See page 34).

The research method is the third and final element of the research design, which covers data collection, analysis, explanation and interpretation choices that the researcher needs to make. This element will be elaborated in relation to the present study within the qualitative research design under four separate sections: data collection, data analysis, presentation of findings, and discussion.

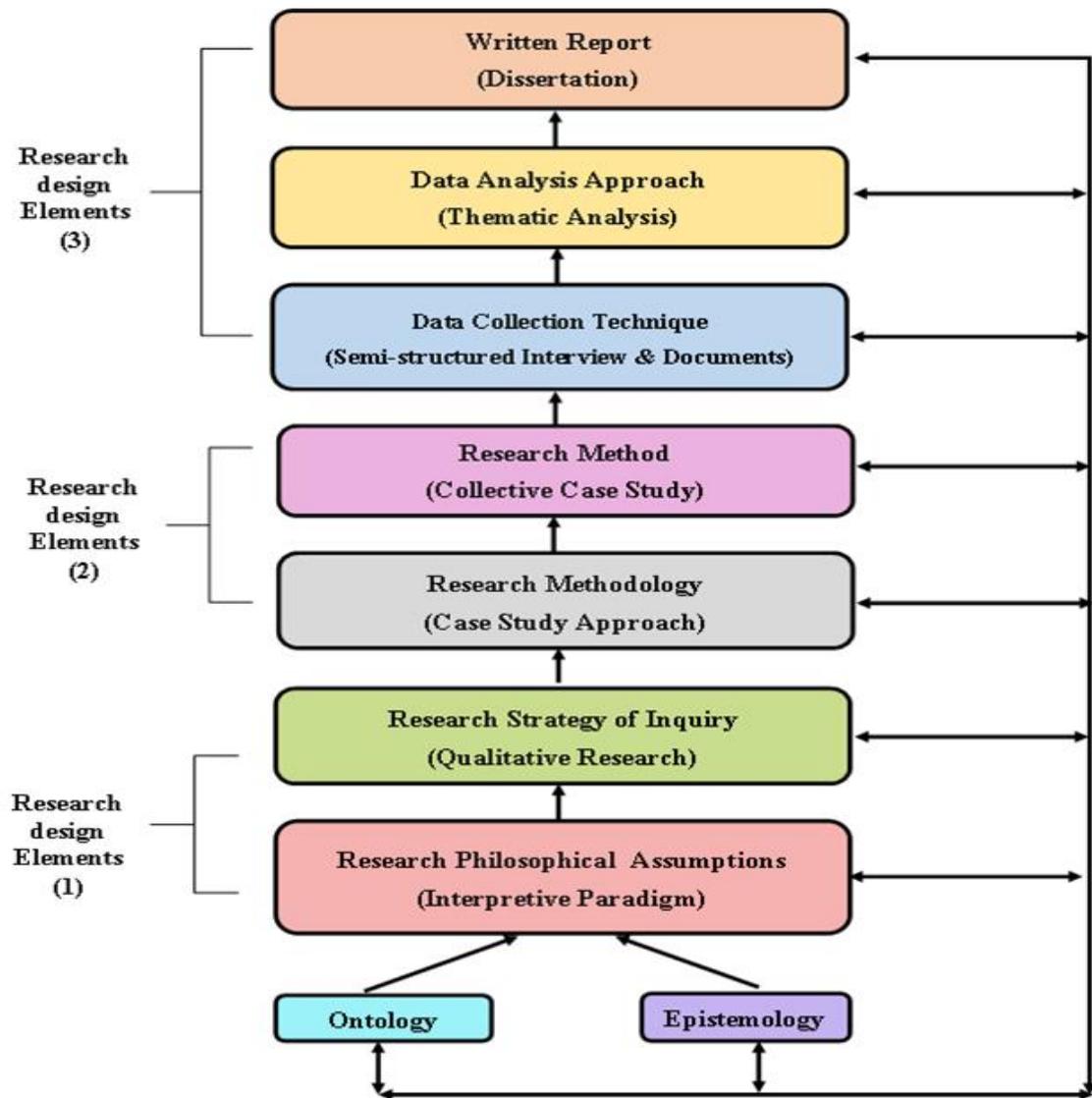


Figure 3: The current study research stages.

Adapted from *Qualitative research in business & management* (2nd ed., p. 37), by M. D. Myers, 2013, Los Angeles, LA: Sage.

3.2 Qualitative Research

The present study adopts Auerbach and Silverstein's (2003) definition of qualitative research, as a type of “research that involves analysing and interpreting texts and interviews in order to discover meaningful patterns descriptive of a particular phenomenon” (p.3). Creswell (2009; 2013) summarised several interweaving characteristics that qualitative researchers view as being commonly shared and which the present study researcher aligns with. For example, the researcher collected the research data in person through face-to-face interaction within a natural setting, by interviewing the participants in their office environment. Second, several sources have been used to collect the research data e.g. interview and the publicly accessed company

website to make sense of findings and develop themes. The researcher used a deductive method to analyse the collected data and build the research data bottom up focusing on the participants' interpretation of the studied phenomenon rather than the researcher's own point of view or what has been written in literature about the researched issue (Creswell, 2013; Grant & Giddings, 2002). Furthermore, the use of different theoretical lenses, along with a flexible-open-end research process, helped the researcher to build a holistic picture of the researched phenomenon which has been examined from different angles thereby constructing a framework to explain the different aspects of the studied phenomenon and its process (Creswell, 2013).

3.2.1 Case Study as a Strategy of Inquiry

As previously noted, this study is set within the qualitative field of inquiry, and thereby the focus of this section will be on case study from the qualitative research perspective. The present study adopted the exploratory case study approach, in relation to Creswell's (2013) classification of case study approaches (explanatory, exploratory, or descriptive).

According to Yin (2014) the case study approach acknowledges "multiple realities" through having several meanings of the findings depending on the researched topic (p.17); and helps the researcher to "retain a holistic and real-world perspective such as..... Organisational and managerial processes.....international relations" (Myers, 2013, p.4). Accordingly, the case study offers a basis for an explanatory study, which is trying to answer "how" and "why" questions about real-life or an existing phenomenon which cannot be separated or identified clearly from the surrounding context; and in which the researcher has no control over the phenomenon (Yin, 2014, p.10; Stake, 1995). Hence, the case study researcher aims to provide an in-depth elucidation of the researched issue or "object of interest" (Bryman & Bell, 2007, p. 63).

A major strength of the case study is its ability to deal with different varieties of resources in collecting data, including news clippings, mass media or community newspaper articles, documents, artefacts, interviews, and observation (Yin, 2014); and it enhances the reader's understanding of the case since the research illustrative report provides an opportunity to make their own interpretation, along with the researcher's interpretation of the case (Stake, 1995).

Creswell (2013) clarifies that there are different types of case study within qualitative inquiry. They can be distinguished according to "the size of the bounded case" or

according to “the intent of case analysis”. For the former group, case study might involve one individual, several individuals or a group, an entire program or part of the program, or an activity. While the latter group contains three options: “the single instrumental case study, the collective or multiple case study, and the intrinsic case study” (p. 99). Yin (2009) argues that multiple case study design utilises the logic of replication by replicating the procedure for each case. Nevertheless, in general, case study researchers hesitate to generalise their findings from one qualitative case study due to the differing contexts between cases. However, they use collective or multiple cases for generalisation purposes (Creswell, 2013). So, a case study approach can assist researchers to directly access the real phenomenon experience in which current information has not been lost by time (Creswell, 2013; Yin, 2014; Stake, 1995).

The main concern for researchers is the number of cases that are required to be considered for the selected data collection and analysis, as a vast number of cases may result in losing depth and diluting analysis. Conversely, a single case study research could be confused with narrative inquiry, especially when the case’s boundaries or parameters such as place and time are not clear, due to the usage of simple language and narratives in explaining the case like “key episodes or testimonies” in representing what happened (Stake, 1995, p.40). Therefore, literature recommends the benefits of no more than 4-5 cases at a time (Yin, 2014; Creswell, 2013; Stake, 1995). Furthermore, within a business setting, the main concern of the case study is the difficulties of accessibility to a particular company, group, organisation or individual, and specific and sensitive information about the researched topic (Myers, 2013).

The present study uses a multiple case study approach, focusing on one firm’s activity, offshore sourcing, involving the firm’s decision maker (manager/managers) with the aim of investigating, understanding and illustrating the offshore sourcing phenomenon between SMEs within NZ High-Tech manufacturing industry. The present study contains three current cases of SMEs that have offshore sourced their production to China for more than two years, thereby the collected information has not been lost in time; and the selected case number helps to confirm and support the emerging concepts from the analysis of the collected data while offering an acceptable depth in data collection.

Chapter 4: Data Collection

Creswell (2013) explains that case study data collection contains a wide range of procedures and decisions that the researcher has to make to provide an in-depth report. These include participant selection, the sample size, data sources, and the form or source of collected data.

In relation to the data sources, the collected data can be classified as primary or secondary. Primary data, which includes interviews, direct observations, or field notes, is data that the researcher collects directly from the study participants and it is unique to the research project. The secondary sources of data refer to data that has already been collected and published by others in the form of books, reports, newspaper articles, journal articles, and so forth. Primary data is considered to be richer and adds more value to the study in comparison to secondary data (Myers, 2013; Yin, 2009).

The present study uses multiple resources to collect data. Primary data is collected through in-depth, face-to-face interviews, while the secondary sources of data included company websites, reports, and publicly accessed media (i.e. local newspaper).

4.1 The Interview Methods

Stake (1995) suggests “the interview is the main road to multiple realities” (p.64); and Myers (2013) sees the interview as an excellent “window” into an organisation (p.81). This approach is an extremely helpful method and enables the researcher to explore and understand the participants’ perceptions. (Creswell, 2013).

Myers (2013) offers two bases to categorise interviews. The first basis is the interview format such as structured, semi-structured, and unstructured interviews. Each type has specific advantages and disadvantages. The second basis relates to the interview question type: open-end or closed-end questions, factual questions, or question about attitudes, beliefs, normative standards and values, and knowledge (Bryman & Bell, 2007). Researchers can choose any of these categories and can mix and match between them according to their preferences and to the research requirements. This research project adopts the interview method to collect its primary data using a semi-structured interview format asking open-end questions focusing on participants’ present experience of offshore sourcing phenomenon.

4.1.1 The Semi-Structured Interview

The semi-structured interview is considered to be a mixed style between structured and unstructured interview and it is very commonly used in business and management research. It contains some pre-formulated questions but it has room for flexibility to add new questions or adjust the existing questions during the interview process that may emerge due to “conversation improvisation” encouragement (Myers, 2013, p. 122).

As Myers explains, this style is a good method to elicit a participants’ point of view and help to get a good contextualised and comprehensive insight of events and experience as the participant is less likely to be concerned about the answer’s limitations, as in the case of a structured interview, or losing the main focus of the research within the participant’s detailed narrative that could include unnecessary details in an unstructured interview (Myers, 2013). To conduct a semi-structured interview, the interviewer crafts open-ended, pre-prepared questions which are specific “for the interesting experiential domain to be taken up as a central theme” (Flick, 2009, p. 178). However, the researcher needs to ensure that there is consistency across the interviews by asking the same set of questions at the beginning of each interview.

The present study uses a semi-structured interview method with open-ended questions. Table 2 provides the semi-structured interview’s open-ended questions that have been used in the current study (See Table 2 on the following page).

Table 2: Current study interview questions

-
1. Can you tell me about your company background, size, products, market position, and customers?
 2. When and why did you start thinking of offshoring your production activities?
 3. What were the transaction stages? What were the key factors that you considered in this decision?
 4. Who did you consult with, inside and outside the company?
 5. Why did you choose China in particular?
 6. What kind of issues did you and your company face in this process?
 7. What have been the main benefits that have resulted from offshoring these activities?
 8. What have been the main difficulties you have experienced and how have you overcome these?
 9. Will you repeat this experience again in the future? If so, how are you going to do it this time? Will you do anything differently? How and why?
-

The interview questions are underpinned by the literature review section to help answer the research questions. For example, the fifth interview question investigates the reasons that encouraged the participant to offshore their production to China in particular. Based on the literature review section, these reasons might be related to different internationalisation frameworks like the country geographical location, which could be linked to the locational advantages of OLI paradigm and LLL framework; or low cost of labour and resources, which might be related to the RBV model.

Table 3 links the research questions, as they form an important element of the thinking that goes into the development of the semi-structured interview questions, with the literature. It is made explicitly clear where the propositions developed into interview questions are derived. It shows where the interview questions in table 2 and derived from are, and which research questions they help answer (See Table 3 on the following page).

After asking the question, the researcher (interviewer), actively listens and waits for the participant to finish answering the question, after which the researcher then moves to the next question. If required, the interviewer asks additional open-ended questions about the relevant section of the participant's answers that are of interest to the research but have not been sufficiently covered by the participant.

Table 3: Connections between the interview questions, theoretical perspectives and internationalisation approaches, and the research questions

Interview Questions	Internationalisation Approaches	Research Question
Q1	RBV, OLI	
Q2	RBV, TCE	How does offshore sourcing contribute to international competitiveness?
Q3	OLI	How does offshore sourcing impact on their business strategy?
Q4	Uppsala	
Q5	LLL, OLI	Why are NZ SMEs within the HTM industry offshoring their production to China?
Q6	OLI	What issues and challenges do they face with such ventures?
Q7	LLL, OLI	What are the main attractions for such ventures?
Q8	OLI	What issues and challenges do they face with such ventures?
Q9	RVB	

4.2 Ethical Considerations and Behavioural Guidelines

Regardless, the qualitative approach of inquiry that has been chosen for any study, different ethical issues that might face qualitative researchers during their research stages (Lincoln, 2009; Mertens & Ginsberg, 2009). Therefore, in any research, the researcher has specific ethical obligations toward all the people who might be affected by the study or its results (Myers, 2013). For example, during the qualitative interview, interviewees might provide some information which, if made known, might damage the participants' or other peoples' life or reputation. Therefore, the researcher needs to make sure that the interviewee has not been victimised by the interviewing process (Gubrium & Holstein, 2002; McCracken, 1988, p. 26).

The present study carried out the following procedure in addressing the ethical issues that might be raised at any stage of the study: First, an application was sent to the Auckland University of Technology Ethics Committee (AUTEK) for ethical approval for this study. Secondly, before conducting any interview, participation information

sheets (PIS) and consent forms (CF) were presented to all the study interviewees. PIS provided the interviewees with relevant information about the nature of the study to help them out in decision making, whether to participate or not (Kent, 1996), while CF could be seen as a formal agreement between the interviewer and interviewee to protect both sides' rights. It clarified the interviewees' main concerns such as the voluntary participation (Creswell, 2013; Seidman, 2013) and they could withdraw at any stage and that would not place them at undue risks which might affect their lives or privacies (Creswell, 2013; Neuman, 2014), the interview would be tape-recorded (Creswell, 2013). Furthermore, during the interview process and due to the nature of the researched topic that participants might reveal some sensitive and critical information about themselves or their businesses (Taylor & Bogdan, 2003, p. 100), the researcher has followed certain behavioural guidelines like being a tentative listener, maintain eye contact, showing respect, caring and understanding, not being judgmental, and being open minded to any of the participants' comments or points of view (Creswell, 2013; Patton, 2009; Lincoln, 2009; Mertens & Ginsberg, 2009).

4.3 Selection of Participants

The selected participants for this study were chosen based on three principles that had been suggested by Taylor and Bogdan (2003) study, which recommended that the participants should be key personal (i.e. who have the "decision-making authority", can provide insightful information, and had experienced the studied phenomenon), had time to participate, and does not know the researcher (Myers, 2013, p. 81).

In relation to these suggestions, the present study candidates should be the key personnel (i.e. manager, owner, etc.) within their firms and were involved in the decision making for offshore sourcing their companies' production activities to China, and these firms producing their products in China for more than two years.

To identify participants who matched the criteria described above, the researcher investigated small-medium manufacturing firms within New Zealand high-tech industry through government agencies and other relevant organisations e.g. Ministry of Business, Innovation and Employment (MBIE), <http://www.business.govt.nz/companies>; and the companies' publically available websites. Then, an invitation email was sent to these firms' managers and owners to participate in this study explaining the research aims and goals, followed by a phone call for the none respondent firms of more than two weeks. Twenty firms responded to the invitation email, which was shortlisted down to five

candidates, due to the strategy on inquiry of the present study (qualitative case study research), literature recommendations, and the study time frame. Data was collected between September and October 2014, and at the time of data collection, only three candidates were available and the other two were outside the country for work-related reasons.

The interviews took place at the participants' offices and lasted for an hour each, and they were the main source of data. To gain an in-depth understanding of the researched case, the researcher used secondary sources of data such as public media articles, company websites, governmental agencies' websites, and the researcher's observation notes collected during the interviews (Creswell, 2013; Yin, 2014).

4.3.1 Participant Profile

Three key personnel at the managerial level who are decision makers in the selected companies participated in this study and narrated their experiences of small to medium-sized venture offshore sourcing to China. Each firm and its representative participant in this study was given an alphabetical code name, for example, Firm A and its participant PA, and these match the order in which they appear in this study. Further details about the selected firms are provided in the following three sections: company A, B, and C.

The ventures were amongst a range of manufacturers from the High-Tech industry which existed for a period ranging 12–28 years. At the time of data collection, all three participants were based in Auckland, New Zealand; one of the three owned his company, while the other two participants were in partnerships. At the time of the interview, the experience of offshore sourcing ranged from 8 years to 15 years. The age of the participants at the time of interview ranged between early-fifties to late sixties, and at the time of offshore sourcing, ranged from the late thirties to early fifties. All the participants were male and one of the three participants was born in New Zealand while the other two participants were born overseas and migrated to New Zealand. All participants had previous work experience, qualifications, and knowledge of the field that their product or service offered in their business venture. For example, participant AP had achieved an international business management degree, while both participants BP and CP had obtained engineering degrees before commencing the high-technology

manufacturing business; and both participants AP and CP had overseas work experience.

- **Company A**

Company “A” is a New Zealand firm specialising in manufacturing custom-made electronic components (transformers) for the electronics industry. It is located in Auckland and was founded in 1986 by a local entrepreneur who had many years of experience within this industry. At that time the company supplied the majority of the transformers in the country and had a few customers, which were reasonably-sized companies from different industries in NZ. In 1999, Company A started its journey with offshore sourcing to China and by 2009 had established a wholly-owned manufacturing factory, which was supplying New Zealand and the Chinese local markets. At the time of the data collection, the company had 25 employees in New Zealand and 35 permanent staff, and up to 100 temporary contractors according to the work load and new product specifications for the Chinese operation.

- **Company B**

The company was established in 1986. At the present time the company has about 15 people in the New Zealand office that are involved in the design, research and development, sales and project management side of the business, while offshore sourcing manufacturing. In the early stages the company was manufacturing a general purpose scale focused on the New Zealand local market (i.e. selling and servicing weighing equipment in the Auckland, Wellington, and Hamilton areas). The company started sourcing from China in the early 2000s, and by 2008, the company moved from the general purpose scale to more specialised sophisticated niche markets. The new direction was related to airport baggage scales focusing on designing and manufacturing special weighing equipment, which enabled firm B to become one of the largest companies in the airport weighing equipment niche market

- **Company C**

Company C was established in 2002 and it is specialised in the innovation side of motorway electronic signs, which send varying messages to Intelligent Transport Systems (ITS) that control motorway systems. At the present time the company's products are used in a few countries worldwide (i.e. New Zealand, Australia, Taiwan, etc.), and it has around 30 employees in New Zealand and also has another sister

company in Wellington, and there is a branch in Melbourne, as well as a production plant in China which has another 45 employees. The company has a research centre in New Zealand focusing on developing the intelligence area of the firm's products. On the other hand, the company outsourced the raw materials and the labour intensive manufacturing activities domestically in the early stages, and then moved to international outsourcing, especially from China in 2003-2004.

However, in 2009 the company established its own manufacturing plant in China and by 2011, 100 percent of its production was done in-house in the China factory. At the present time and as a business in China, "Company C" does not only produce its own final products in its manufacturing facility in China, but it is becoming a contract manufacturer to other SMEs from New Zealand within the high-tech industries. It is becoming an intermediary, or a mediator, between New Zealand business and the rest in China. These clients are from different specialised fields than "Company C", but at the same time they are within the electronics industry and they need to have printed circuit boards (PCBs) in their products. So, firm C outsources some material, designs, and manufactures these clients' products which are more quality rather than quantity focused.

Having explained the overall research approach for this study, this chapter now describes the data analysis procedures used for this research.

Chapter 5: Data Analysis

The data analysis stage could be defined as the process of transforming the different forms of the collected data into some meaningful form of findings to the researcher and “intended audience” (Myers, 2013, p.166). Generally, the process of data analysis contains inter-related steps: “organising the data, [e.g. transforming the recorded data to contextual data through transcribing], reducing the data into themes through a process of coding and condensing the codes, and finally representing the data in figures, tables or a discussion” (Creswell, 2013, p.180; Patton, 2009). As for the present study, the literature review section provided a helpful base and a starting point to understand the participants’ experiences of offshore sourcing and to learn from it. The following sections cover in more detail the nature of the process, the key decisions, and the actual steps involved in converting the collected data into presentable findings.

5.1 Iterative Nature of the Process

The process of data analysis in qualitative research is not a straight forward process. Although it sounds like the process has sequential steps, in reality it is moving in “analytic circles” (Creswell, 2013, p.182). This process for the present study had an iterative nature, which is exhibited in Figure 4 (See Figure 4 below), where the researcher moved forward and backward between the different stages of the process.

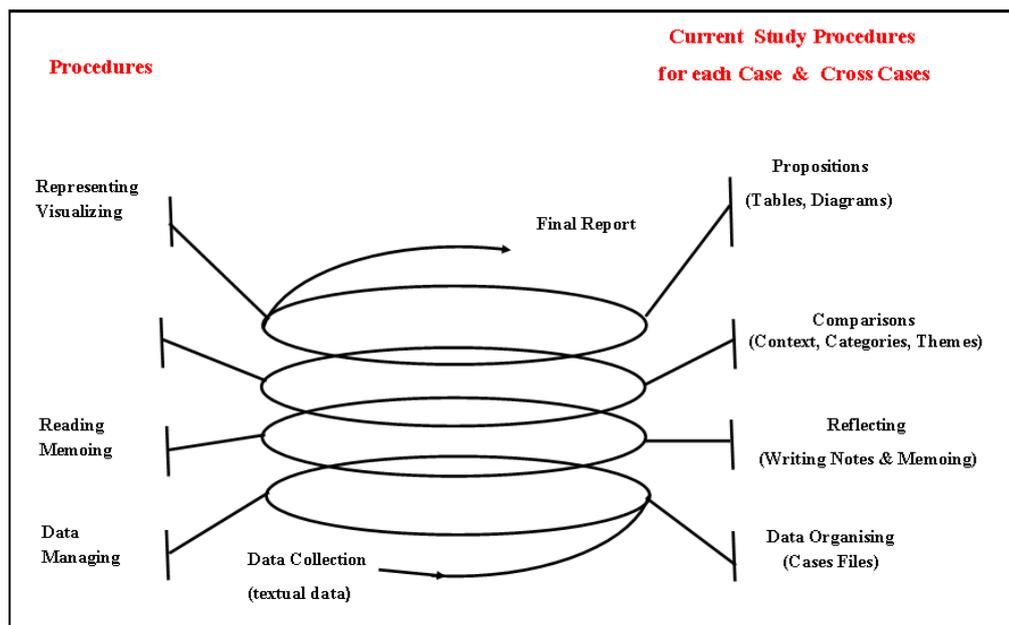


Figure 4: The present study data analysis spiral.

Adapted from *Qualitative inquiry & research design: Choosing among five approaches* (3rd ed., p. 183), by J. W. Creswell, 2013, Los Angeles, LA: SAGE Publication.

In this study, the researcher used mixed techniques during the research data analyses process. For example, Microsoft Word software was used for typing participants' interview transcripts. Then the researcher printed the transcripts for reading, highlighting and "memoing" down of comments on the margin of the transcripts' text; and at a later stage the software was reused for storing data, making diagrams and tables, and presenting the findings. The researcher adopted a number of strategies in analysing the study data, e.g. approaching data with an open mind, spending more time with the data to gain deeper understanding of the data, and allowing creativity within different aspects of the process.

5.2 Presenting the Findings: Balancing Description and Interpretation

Writing up and presenting the research findings stage is considered a critical stage because the researcher has to decide how much description and participants' direct quotes that the final report should contain to support the research findings. For the present study the researcher tried to interweave a sufficient amount of description and participants' direct quotes, or the "most compelling pieces of data" with interpretations (Pratt, 2009, p. 860; Singh, 2011) when writing up the findings, to provide the reader better understanding of collected data and its interpretations (Patton, 2009). This strategy has been used when presenting and discussing the study findings. A framework presenting the connection between the present study cases' theoretical construct was presented. Then reference to literature was made to interpret the main theoretical construct that contains the collective findings from the three cases.

5.3 Data Analysis Steps

In this section, the researcher explains the steps that have been followed to transform the collected raw textual data from the interview transcription and other sources into findings. These steps are supported by examples or visual context like tables or diagrams to provide better understanding and explanation of the studied phenomenon. The researcher was motivated by the simple and clear steps arranged by Creswell (2002, p.266) work as shown in Table 4 (See Table 4 in the following page). So these steps have been integrated and used in the present study as below.

Table 4: The coding process in deductive-analysis

Initial reading of text data	Identify specific text segments related to objectives	Label the segments of text to create categories	Reduce overlap and redundancy among the categories	Create a model incorporating most important categories
→		→		
Many pages of text	Many segments of text	30 - 40 categories	15 - 20 categories	3 - 8 categories

Note: From *Educational research: Planning, conducting, and evaluating quantitative and qualitative research* (p. 266), by J.W. Creswell, 2002, Upper Saddle River, NJ: Pearson Education.

Step 1: Reducing the data by identifying the relevant text to the research questions.

After transcribing all the tape-recorded interviews word by word, the researcher ended up with a large amount of textual data. Then the next task was to reduce the amount of collected textual data to a manageable size so the researcher could begin the process of making sense of it. At this stage, the researcher decided to use the research sub-questions as a helping guide to separate the relevant from irrelevant pieces of the transcriptions’ text. Further reading to the relevant text segment was required and as per the research sub-questions, the relevant texts have been categorised into separate groups or different categories (Kane & Brún, 2001, p. 292). Then the researcher assessed whether these categories illustrated the research question and provided better understanding to the participants’ experience of the researched phenomenon. If so, then they could be considered as relevant text and the segments were aligned with the supporting sub-questions. This process was applied to the three transcripts, and four main categories of relevant data emerged based on the questions that had been asked during the interview. These categories were termed *offshore sourcing issues or challenges, offshore sourcing benefits or outcomes; offshore sourcing stages; and why China*, which became the bases of the following stages of data analysis process. On top of these four segments, another group was called the “orphan” text segments and contained the other text segment that was not aligned with the previous three categories (Auerbach & Silverstein, 2003, p. 58). For example, participant PA talked about their Chinese manager and his friend during setting up their new wholly-owned company in China. The researcher revisited such category of text and then reassigned to the appropriate segments as it become clearer how they could provide further illustration

and better understanding to the research question. In the case of participant PA, the orphan text was found to fit very well with the theme of cost saving through the embedded meaning of networking like knowing the right people at the right place and time.

Step 2: Immersion in the Participants' Point of View, Understanding and Reflection.

The second stage aims to have a closer look at the emerged categories from the first stage, where the researcher involved in deeper examination to the previous stage's findings, aiming to get a clearer understanding and interpretation of the offshore sourcing phenomenon as experienced by the studied candidates. At this stage highlighting and labelling text techniques were used to sort the most relevant text from the less relevant text. So the researcher labelled the highlighted text segments with words, short phrases, or comments that provided the closest meaning of these segments; and participants' exact words or short phrases very often could be used in the labelling stage (Flick, 2009, p. 309). For example, in the following excerpt, the word *cost* was used to label participant PC's text: "the main benefit is the cost". The participant explained his experience of offshore sourcing cost benefits through the reduction of the total production cost. Thus, *cost* is an example of attached label to this data incident.

As for the present study, the research questions during the interviews were open-ended, focusing on the offshore sourcing as experienced by participants which resulted in detailed descriptions. The decision of which parts of the text should be considered as relevant data is based on the researcher's own judgments (Locke, 2001). Therefore, in this study, a reasonable flexibility was used in the highlighting and labelling strategy, which gave the researcher the ability and flexibility to highlight and label a word, a metaphor, a short phrase, a few sentences, or even a paragraph as a piece of data.

Step 3: Within- Case Analysis: Identifying Similar Ideas in Relevant Text of Each Participant's Transcript.

This stage could be called "within-case interpretation" (Nordqvist et al., 2009, p. 301), which is focusing on the highlighted and labelled text, from the previous stage. It is aimed at finding the repeated ideas in each participant's transcript that have similar underlying meaning, and thus, has been used as a basis to categorise different data incidents under the similar idea group that underlying meaning is the same (Alvesson &

Skoldberg, 2009). So, the researcher rechecked the transcript's highlighted and labelled text, searching for the incidents that were found more than once; and then grouped these repeated ideas together under the similar ideas category. For example, Table 5 (See Table 5 in next page.), shows four different examples of similar ideas identified from participant PB's transcript about cost saving, quality improvement, accessing new markets, and IP protection. Then the same iterative process was followed across all the other transcripts of the research interviews.

Table 5: Examples of similar ideas in participant PB's transcript

Similar idea about offshore sourcing reduces costs

"We've tended to source ...finding something overseas and buying it...in Asia I pay a lower price" = **cost reduction**

"It does reduce the cost ...We increased the amount of items we'd put on the shelf, but we didn't increase the amount of money that we put on the shelf. So instead of putting 300 we might put 2000 on, but the 2000 is costing us the same amount of the 300" = **cost reduction**

Similar idea about offshore sourcing improves quality

"We didn't think that we were going to improve quality by going offshore. It turned out that" = **improve quality**

"Maintain quality. We weren't looking to improve quality. And what we found later is, we had been able to improve quality. So we have improved quality" = **improve quality**

Similar idea about offshore sourcing improves new markets

"We started to source some parts out of China ...We started to sell a few...jobs into China, and it's really hard not to consider China because.... It's such a big thing. It's the elephant in the room" = **enter new markets**

"...we were doing a lot of work in Asia.....We sold into Singapore, ...Taiwan and other places,... so we were first in Hong Kong and then that took us into China". = **enter new markets**

Similar idea about IP protection

"We've done the design and own the IP" = **IP protection/ through owning the IP**

"We want to own the IP but we'll pay for the design" = **IP protection/ through owning the IP**

Step 4: A Cross-Cases Analysis: Identifying Repeated Ideas Across Participants' Descriptions

At this stage, the researcher identified the different similar ideas in each script and managed to create a complete list of all the similar ideas for that particular transcript, which is saved under the participant's pseudonym or code-named in the Word document for easy identification. Then the researcher used a similar iterative process with the other two transcripts, resulting in having 3 different lists of similar ideas that become a sub-list of the collective similar ideas list. Each sub-list was grouped under four main analysis titles; cost, quality, markets, and IP.

After that, further checking to these sub-lists was required to identify which similar ideas category were found in more than one sub-list; and when such category of similar ideas was found, then it could be called the "repeating idea" (Auerbach & Silverstein, 2003, p. 54). Such "cross-case interpretation" (Nordqvist et al., 2009, p. 301) helped the researcher to recognise the emerging patterns, similarities and differences, throughout the three participants' transcripts. For example, the four similar ideas that have been shown in Table 4 were categorised as repeated ideas that had similar underlying meaning that were in participant PB's transcript, and were also found in participant PA and PC's transcripts. Table 6 shows the repeated ideas that were found in participants PA and PC's transcripts.

Table 6: Examples of repeating ideas across the three transcripts

Similar idea about offshore sourcing reducing costs

“We started to source some parts out of China ... You can’t help but notice it. So there’s no one reason, other than the obvious...., low cost” = **participant PB / cost reduction.**

“Yes. Ok. Year 2000, that wasn’t the case. Year 2000, China was cheap as chips. The average wage there was probably 800rmb direct. Labour and the exchange rate was 860, Ok. So less than \$100 a month was the cost” = **participant PA / cost reduction/ through reducing labour costs**

“Ok the main benefit is the cost. Without the cost we wouldn’t be there...., so a minimum 40% we get saving in getting things out and done in China...., and that would really give us the edge to compete internationally... , it’s going to be very difficult to compete because the cost of doing things in New Zealand is much higher” = **participant PC / cost reduction**

Similar idea about offshore sourcing improves quality

“..., discovering how poor our documentation was, having to lift our standard of documentation, particularly drawings..... But I think of China.... You might get a big surprise at what you get. So you have to improve your drawings and your documentation, that was the biggest thing” = **participant PB / quality improvement of the company documentation standards**

“So I’d rather go for the lowest common denominator of the lowest, and they have good engineers” = **participant PA / quality improvement/ through targeting the qualified labour markets**

“The savings that we do, we directed [reinvest the savings in]... many places... Quality is another place where we invest and also ... in other areas as.... required, and also we enjoy the extra cash that we get from this saving” = **participant PC / quality improvement /through reinvest the savings from cost reduction**

Similar idea about offshore sourcing provides new markets

“But China’s still a big domestic market for me. The other places are not so big” = participant PB /new market

“So the whole concept was to go eventually after the Chinese market, with our speciality” = participant PA /new market

“Now we have managed to get exports to Taiwan and we also export to Australia ... So I would say that without having our own facility....without being in China, it’s going to be very difficult to compete because the cost of doing things in New Zealand is much higher “= participant PC /new market

Similar idea about IP protection

“There’s a company in [Europe]....we co-operate with. We’ve done the design and own the IP..., so that’s done off-shore. We do some of the manufacturing here [China] [then] We have commercialised the product” = participant PB /IP protection by owning the IP

“In the specialty business we’re in, you need to retain the knowledge, and you need to build skills. It’s not mass production. It’s making weird stuff, you know” = participant PA /IP protection

“We don’t add the actual firmware until the signs arrive in New Zealand, and then in New Zealand we put the right one for it. And this is to protect our intellectual property” = participant PC /IP protection

Step 5: Assembling Repeating Ideas into Themes

During this stage the researcher was trying to cluster or sort all the repeated ideas under a theme. Auerbach and Silverstein (2003) describe ‘theme’ as a group of repeated ideas which are sharing common meaning or connecting theoretically. In the present for example, *R&D for free, accessing cheap labour, lower price, no costing, and negotiate the cost* are a combination of repeated ideas of “costs”. This group of repeated ideas connects the theoretical perspective of Transaction Cost Economics (TCE) to the cost saving driver (Refer page 18), and provides the basis of internalisation advantages within the OLI paradigm (Refer page 24). In addition, ‘quality’ whether *improve quality, maintain quality, quality check, quality supplier, in-house testing, quality control, and managing quality* are combined repeating notions of “quality” ideas. This second group of ideas could be linked to efficiency seeking motives, which is related to the resource driver for offshore sourcing (Refer page 20). In addition, “quality” ideas could be linked to OLI through ownership advantages achieved through maintaining or improving product quality as well as internalisation advantages (Refer page 21-24). On the other hand, *after the Chinese market, bigger markets, first in Hong Kong and then China, our market is global, and Taiwanese market* are all linked to different perceptions of “markets”. This repeating idea group relates to the entrepreneurial and market seeking drivers for offshore sourcing through looking for new opportunities and being closer to the firm’s customers (Refer page 21). In addition, it could be linked to the locational advantages of the OLI paradigm (Refer page 22), as well as for their offshore sourcing. Finally, *own the IP, risking the IP, protect your IP, and control the IP*, are all related to the concept of intellectual property “IP”. This group could be linked to ownership and internalisation advantages of the OLI paradigm (Refer page 21-23).

The four repeated ideas groups were therefore arranged under the theme of cost saving, quality improvement, entering new markets, and IP protection. These themes provided a deeper understanding of the studied phenomenon as experienced by the participants during their professional lives, and they were arranged under one main and wider concept of “Maintaining International Competitiveness”.

Step 6: Organising and Grouping of Themes to Form Theoretical Constructs

Throughout this stage, and similar to organising the repeated ideas with similar underlying meaning into themes, the researcher was trying to find the link between the themes and organise them into larger and more “abstract ideas” (Auerbach & Silverstein, 2003, p. 39). This abstract grouping known as theoretical constructs, which helps to “move the analysis from the description of subjective experience found in repeated ideas and themes to a more abstract and theoretical level” (Auerbach & Silverstein, 2003, p. 67). So, these theoretical constructs provide deeper understanding of the emerged themes from the previous stages and how they fit with each other to “create a coherent [information]” (Pratt, 2009, p. 860). Therefore, this stage is considered a very critical task to any researcher, where the main focus is finding the interrelationship between the research themes by using a theoretical construct to “grasp the meaning” of what the participants said and did in their offshore sourcing experience (Nordqvist et al., 2009, p. 302). Special consideration was given to the chosen title to represent the research theoretical constructs because it represents the underlying meaning and relationship between the study’s themes.

The present study data was examined and referenced to the relevant literature, helped in providing ideas and guided the process on labelling the study constructs. For example, the researcher found that the participants used mixed ways of describing how their firms maintained their international competitiveness through offshore sourcing to China. They explained the reasons behind their offshore venture to China by comparing the advantages and disadvantages between manufacturing in NZ and China. For example, participant PC stated that,

” building of the signs, [required] a lot of labour intensive and there is a lot of things that need to be done in this area... If we do this in New Zealand it will cost us a lot of money and New Zealand is not the best place in the world to carry out such activities. However ...the intelligence [of] these signs, which is the controller... New Zealand is one of the best places in the world to have science
We....outsource the manufacturing stages from outside New Zealand... we foundcompanies.... in China.... could ...provide for us good quality outsourcing facilities to manufacture these products”.

They focused on the four main aspects of offshore sourcing: cost reduction, quality improvements, IP protection, and accessing new markets; and these four aspects were

the main themes of this study. Then all the participants talked about their firms' offshore sourcing experiences coherently, which will be discussed in more detail in the Findings section in the next chapter.

Step 7: Data Analyses Theoretical Constructs

By reaching this stage of the data analysis, the collected data has been summarised to set off themes of similar ideas that emerged and created a theoretical construct within each case of the researched cases, as shown in Figure 5 (See Figure 5 next page). At this stage the researcher moved the analysis further ahead, aiming to generalise these findings across the cases into a larger concept that fit coherently with the research theoretical framework (Auerbach & Silverstein, 2003).

As for this study, few constructs were created according to the previous stage of the data analysis process, explaining the participants' experience of offshore sourcing for each case. For clarification and "strengthen[ing] the argument" of the theoretical constructs' process, an occasional reference to the relevant literature (Charmaz, 2006, p. 166).

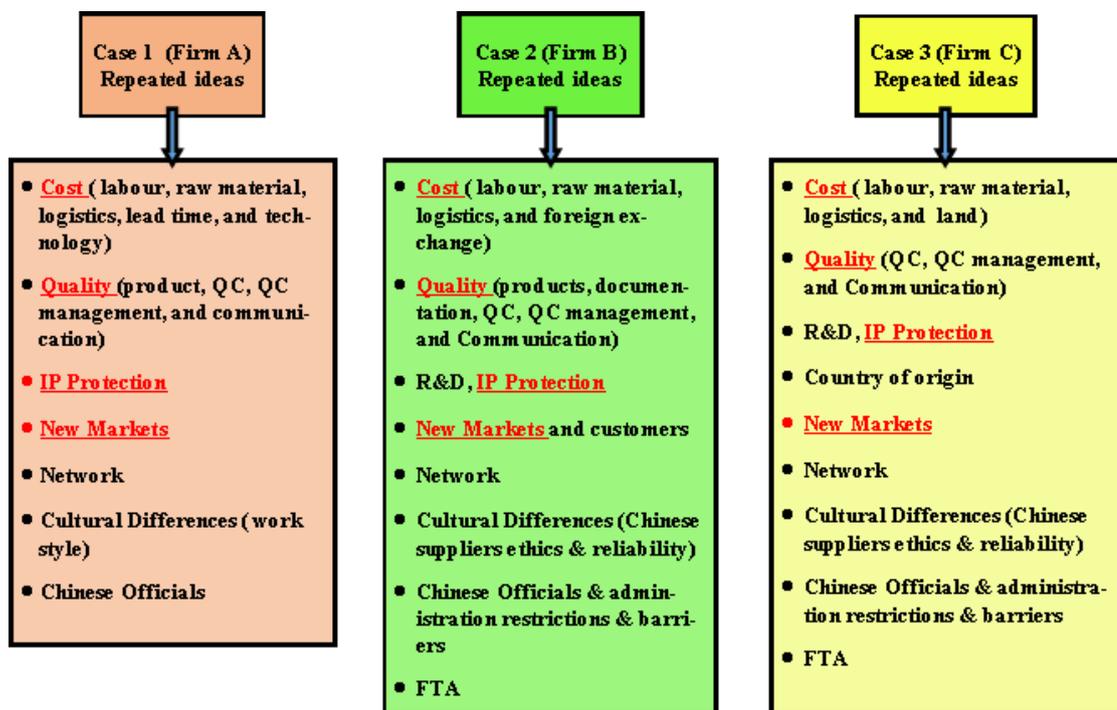


Figure 5: Repeated ideas in each case for the present study

At this stage the researcher presented a constructed visual display of construct framework that links between the study cases' constructs or themes (See Figure 6 on page 57). This cross-cases framework provides better understanding and illustration of

the study findings; as well as helping the researcher to visualise the patterns, relationships, and the process of generalisation across all the researched cases.

To frame the reconstructed experience of SMEs New Zealand high-medium technology manufacturer of the offshore sourcing, was a very challenging task to link and present each case's findings into "meaningful ideas and relationships" (Aita, McIlvain, Susman & Crabtree, 2003, p. 1424). Therefore, a central metonymic title was deployed, which helped to "facilitate our understanding...construction of meaning... creation of new knowledge while learning" through replacing words by similarity and metonymy by association (Beaven, 2011, pp.3-4). So, the researcher used "*Maintaining International Competitiveness*" as a metonymic title for this framework, which became the central point in organising the offshore sourcing phenomenon as experienced by the participants. This is the final and concluding stage of this study data analysis process.

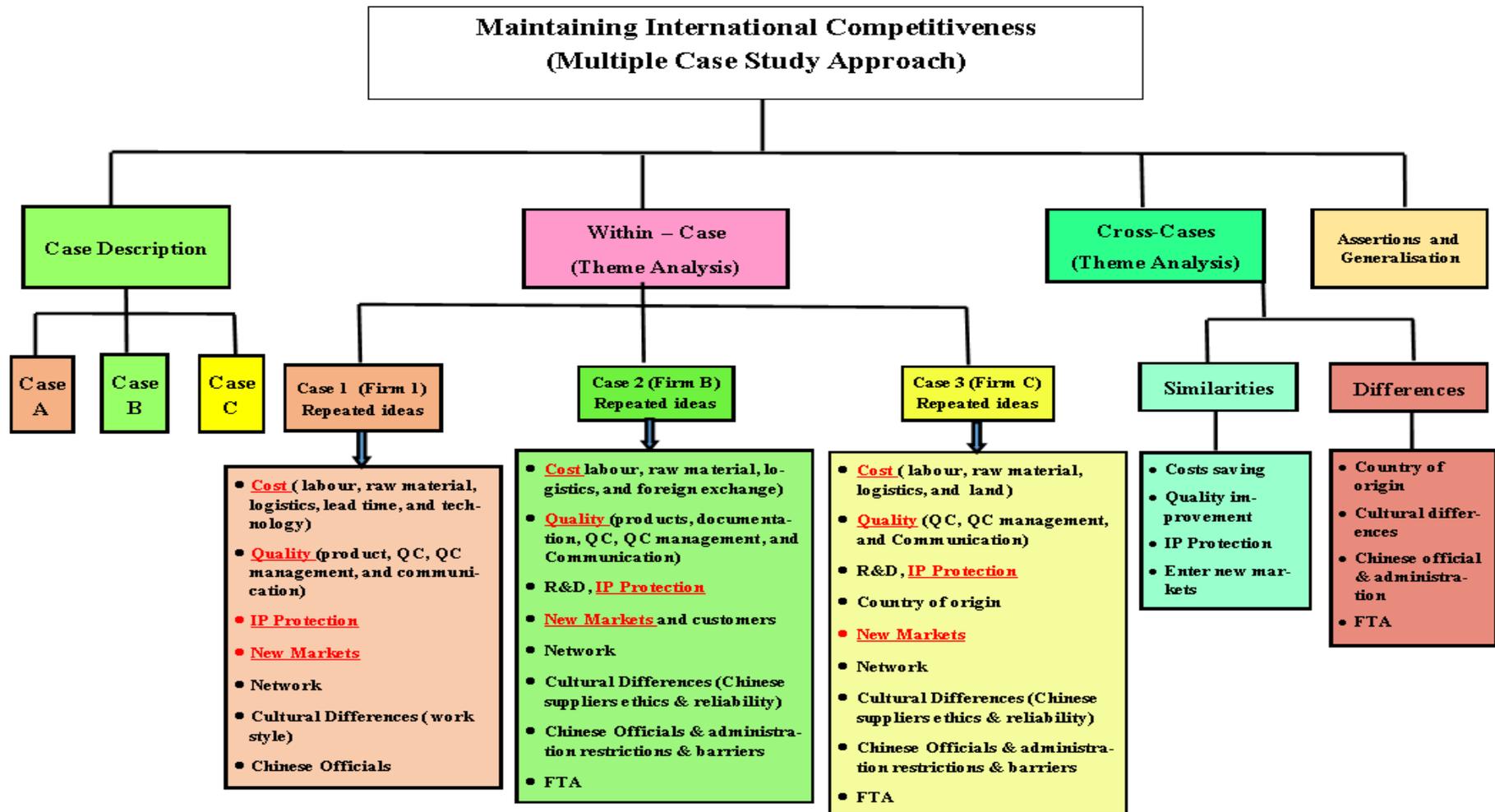


Figure 6: Cross cases analysis for the present study

Adapted from *Qualitative inquiry & research design: Choosing among five approaches* (3rd ed., p. 209), by J. W. Creswell, 2013, Los Angeles, LA: SAGE Publication.

Chapter 6: The Study Findings

In this chapter, Chapter 6, findings on the participants' experiences of offshore sourcing to China experiences of the participants are presented. The chapter is organised into three major sections. In the first main section, findings are presented on the offshore sourcing initial impacts which present the cross cases repeating ideas as the present study main cross-cases themes – “Cost savings, Quality, New markets, and IP protection”; while the other groups of repeating ideas that were not shared across the three cases have been used as supporting ideas for the main cross- cases themes. The following section presents the findings on the offshore sourcing dynamic impacts – “Changing Governance”. The third section shows the impact of offshore sourcing on firms' international competitiveness. Furthermore, figures and tables were used and referred to in the main body of the text, interweaved with participants' quotes to better illustrate and understand the studied phenomenon as experienced by the participants.

The findings from this study indicate that each case contains a few groups of similar ideas which have been chosen as the main themes. These repeated ideas are illustrated in Table 7 (See Table 7 on following page). As can be seen from this, the left column lists all the repeated idea groups for all the cases, while the right column represents the cases that share that particular repeated ideas group. Accordingly, the present study themes that represent cross-cases repeating ideas are: cost savings, quality control, entering new markets, and IP protection; while the rest of the repeating ideas were allocated and used as supporting ideas for the main themes.

Table 7: Repeated ideas within each case and across-cases for the present study

Repeated Ideas	Cases
Cost Saving	A,B,C
Quality Improved	A,B,C
IP Protection	A,B,C
Enter New Market	A,B,C
Network through staff in NZ	A
Network through suppliers & manufacturers in NZ & China	B
Network through suppliers in China	C
Cultural Differences (work Style)	A
Cultural Differences (suppliers cheating)	B & C
Chinese Official	A
Chinese Official & Administration	B & C

6.1 Offshore Sourcing Initial Impacts (cross- cases themes)

The present study found that the offshore sourcing journey for the three cases commenced with one main motive, which was the cost factor that was essential to maintain a company's competitiveness by meeting and exceeding their customers' expectations in terms of quality, and on price. In addition, the three researched firms concluded that other advantages and opportunities have been gained (i.e. cost savings, improved product and (or) documentation system, and entering new markets (or) following customers). For example, Firm A explained how offshore sourcing to China helped the firm to maintain supplies within China and thus was able to maintain ties with major customers.

Conversely, these companies faced certain issues and obstacles in China. These included IP protection, quality fade, cultural differences, Chinese local officials and administration, and labour issues. However, each theme will discuss its benefits and challenges, and then the other challenges will be covered separately in this chapter under the offshore sourcing issues section (Refer offshore sourcing issues on page 70). The layers and levels of the initial impacts of offshore sourcing experience on the three firms already captured in these findings are depicted graphically with the help of Figure 7 (See Figure 7 on the following page).

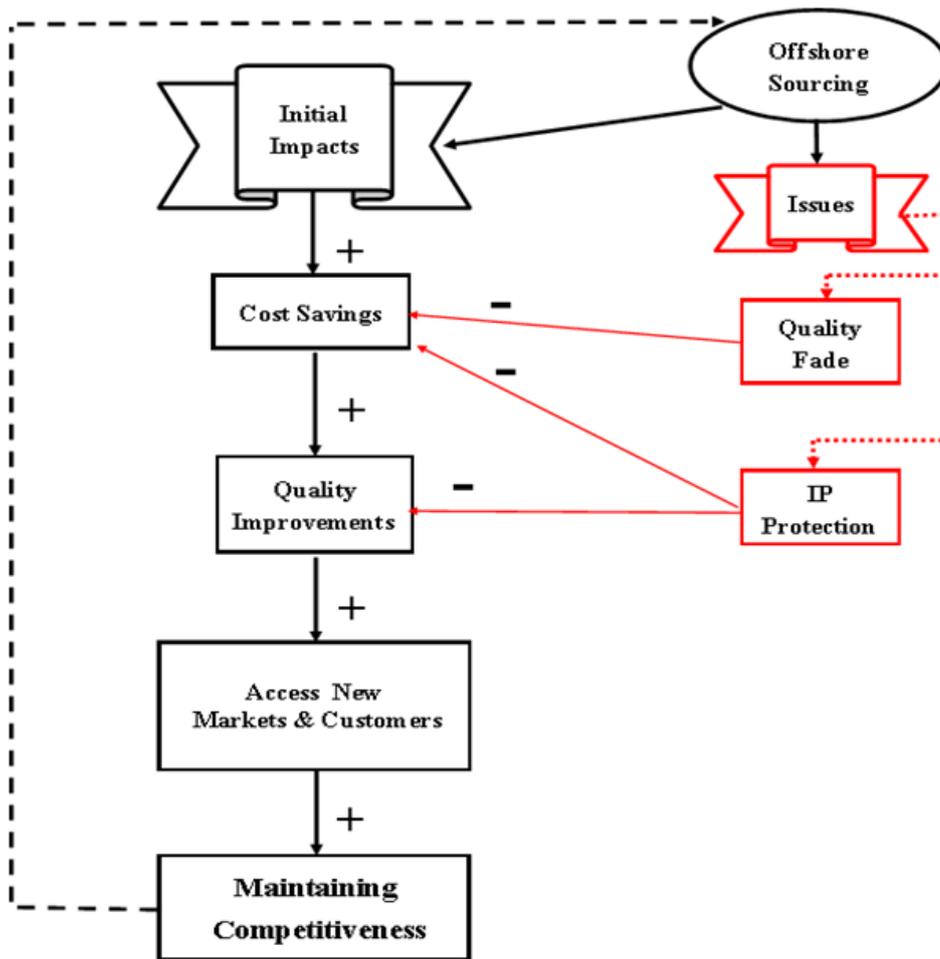


Figure 7: The initial impacts of offshore sourcing for the present study

6.1.1 Cost Saving

All three cases pointed out the main motive for offshore sourcing to China, started with cost reduction, to maintain their competitiveness and survival within their home markets. Additionally, the high level of global competition from other competitors, both domestic and international, brought forth negative impacts on these industries. For example, participant PA stated that,

“1999 to 2007.....things had happened in that time. One, New Zealand companies were disappearing... So there’s been a general deterioration of electronics companies in New Zealand for cost factors and technological factors. And so our market’s decreasing,... the only way to.... be able to compete against the Chinese suppliers or the Taiwanese suppliers is that actually, by having a facility there, or shall we say, accessing cheap labour...it’s a matter of survival ...our industrial base.... capacity is minimal and shrinking, and there’s just no way that we can compete... in very niche, small volume, high value product”.

Participant PB highlighted the importance of being able to provide his customer with high quality products at a competitive price. He also emphasised the importance of including all the relevant costs - direct and indirect or hidden which arise from product quality control checking, logistics costs, etc. in cost calculations. This helps to ensure accurate product costing, and he stated that,

“...you have to be the cheapest. So very much price-driven.... means we have to design out the cost of our product... We have to source out the cost....we have to buy from the lowest cost regions, the right product... [Quality checking and control] It does reduce the cost saving, but there's still, even after taking into account that extra checking, there's still a cost saving”.

Accordingly, the three researched firms who have chosen to offshore source their production to China, have done so due to the availability and accessibility to the raw materials as explained by participant PC, in order to significantly reduce the costs of materials

“... getting the raw material is much easier.... you could find that raw material that you want to do, you find the machine.... You'll find it available locally, and this is a big advantage. While here [NZ]....need to order this material from overseas and that... could be a lot of time and money involved to get things from outside... to New Zealand”.

The three participants explained that China enjoys a vast industrial infrastructure and it is very rich in different resources that these firms require for their production. For example, participant PA stated,

“The choice of China was because... they were already big in that industry, so there were all sorts of component suppliers in China. So they had a whole industry set up.”

While, participant PB clarified why Firm B went to China:

“So there's no one reason, other than the obvious. It's big, it's designed around, it's focused on manufacture, low cost, and we were doing a lot of work in Asia anyway.”

And participant PC stated that the main variables which impacted the firm's decision of moving its production to China was,

“For us to manufacture the [electronic sign]...required to have a lot of components inside. So by default we needed to look outside New Zealand in order to get the raw materials for the manufacture and to do things... China... has the resources and you can continue to have work labour, workforce. You can have as much land as possible and the resources out there.”

All three firms reported a visible cost reduction; and they managed to reduce their landed costs, back in New Zealand, by 40-80 percent depending on the firm’s governance mode in China and its degree of integration within China. For example, participant PA linked the cost reduction to being able to reduce labour costs.

“Year 2000, China was cheap as chips. The average wage there was probably 800rmb direct. Labour and the exchange rate was 860, Ok. So less than \$100 [US] a month was the cost... China has the infrastructure, it has an industry... it had all the advantages”

Offshore sourcing to China, helped Firm C to reduce its production landing costs by 40 percent after deducting all the other extra expenses. According to participant PC,

“Ok, the main benefit is the cost...So number 1 is the cost.....manufacture things in China..., taking off all the requirements, all the other costs of bringing the product here, checking the quality. Still we get an additional 40%.”

Different aspects and forms of cost savings were covered by the three participants which included, having a positive impact on a firm’s total savings such as the price variances between international regions, even for the same international supplier and product; logistics; foreign exchange advantages; and shortening the lead time. Table 8 illustrates these costs’ reductions through participants’ statements (See Table 8, next page).

Table 8: Cross cases extra forms of cost saving

Cost Saving Type	Participants' Statements
Distributors and Regional price differences	<p><i>“Sometimes it was just to cut out the New Zealand distributor or even on a multi-national company like [company X]...., for example. They’re international. But if I buy from [company X] ... in New Zealand I pay one price. If I buy from [company X] in Asia I pay a lower price. So if you’re going to sell on the global stage you have to source from the global stage. New Zealand’s too much of a niche end of the line to rely totally on buying from there, when your competitors are buying globally”.</i> Participant PB</p>
Logistics cost	<p><i>“There’s been some more drivers since then. Another one is logistics because we’re a long way away from the rest of the world. Most of our markets... But we’re 90- 95% export based, so we didn’t have to ship steel back to New Zealand and then away again.... And when you’re doing that, you’ve got to be more focused on quality because you can no longer do the quality checks in our workshop”.</i> Participant PB</p>
Foreign exchange	<p><i>“The other thing..., is foreign exchange because we’re exporting mostly. It’s a natural hedge. We’re selling in say US dollars. I’ve now shifted some of my costs to a US dollar or a US dollar semi-linked, like an RMB currency. So I’ve off-set.... They’re not as volatile as the Kiwi dollar to the US dollar. So while we’re earning in US dollars, or Euros, but just to say US dollars, we’ve changed a lot of our costs out of New Zealand dollars and into something that’s semi-linked to a US dollar. So the only New Zealand dollar part I’m interested in then is my overheads, because that’s still in... and my profit. So I’ve had a foreign exchange advantage by going off-shore as well”.</i> Participant PB</p>
Reducing Product Lead Time	<p><i>“You could send a full container from China to New Zealand - in three to four weeks you can get it here. Sometimes the lead time here in New Zealand could be 12 weeks, so you still can manufacture and do everything and send them to New Zealand, and you still get them much faster than doing them here [in NZ]”.</i> Participant PC</p>

Other Repeated Ideas That Could be Related to Cost Savings:

Two other repeating ideas emerged within this theme: 1) networks, and 2) the New Zealand- China FTA. Together they offer a detailed insight into the benefits (i.e. cost savings, and/ or accessing new markets/customers) and challenges (i.e. IP protection, quality improvements, etc.) that happened as a result of experiencing offshore sourcing to China.

- ***Networks***

All three participants highlighted the importance of networking and its positive impact on the level of cost reduction for their firms' offshore sourcing venture to China in different ways. Networking, within the business context, could be explained as a trade or exchange relationship of information and (or) services between individuals, suppliers, officials, or firms for the objective of creating beneficial relationships for the firm's business (Shafer, Smith, & Linder, 2005). For example participant PA highlighted the positive and negative impacts of networking on the Firm A's overheads. He explained that they chose China as the company's chief engineer is from China and had contacts there, which helped in reducing the search costs to find suppliers. On the other hand, it took their manager in China four years to establish company A's own production facility in China, due to the lack of his network with local officials which resulted in increased establishing expenses. Participant PB talked about his national and international networks with suppliers and friends within the industry, and even with his competitors; and how these networks helped him to source and collect the required information before and after offshoring their production to China. He stated that,

"...we did consult other people from outside, and that started off with consulting some of our suppliers and asking them about other suppliers, and also looking for other companies that might have been sourcing as well.... So we shared a lot of notes about what he was doing and what I needed to do and other people.....other New Zealand manufacturers that I got to know. Other suppliers I had off-shore I asked about, and yeah, just networking."

Participant PC explained his relationship with his Chinese suppliers that goes back ten years helped him to reduce Firm C's establishment and maintenance costs and he stated that

"Until one of our... suppliersbuilt a big factory for themselves...but they were just small enough to occupy less than 20%

of that factory, and they offered for us.... to take over the rest of their factory, which we found tempting because.... They have some networking inside the city and we found that.... so helpful in setting up our facilities over there... I'm very happy with the outcome of this and we came up to their establishing”

- **Free Trade Agreement (FTA)**

All three participants linked the increased level of competition within the local market to the New Zealand economic reforms. For example, participant PA explained how by reforming the New Zealand economy, the local industries and competition were impacted, in which some industries were weakened as their customers moved to the new cheap suppliers from overseas, which resulted in New Zealand manufacturers moving to cheaper locations to compete, and he stated that,

“New Zealand [changed] from a protected market, which was being slowly then drastically unprotected... So suppliers diminish..., and it's just.... As in anything in this world, you're either growing or you're dying. That's the rule.....There is no coasting, you know. You're either growing or you're dying, and that's the way it is.”

As explained earlier, New Zealand was the first OECD country to conclude a free trade agreement with China, which has positive impact on the New Zealand industries and their national and international competitiveness through accessing low cost labour market and raw materials. The participant pointed out a few issues and concerns that might have impacted this agreement implementation and interpretations. For example, participant PB stated that *“it's great having the Free Trade Agreement but it's not a magic bullet”* explaining that firms should not count merely on FTA terms when doing business in China because it is not sufficient by itself due to cultural, work ethics and practise, law implementation level, and interpretation differences between the two countries. Therefore, firms need to work hard when operating in China to maintain the required quality of their production.

Finally, participant PC saw the FTA as helping NZ but he pointed out his concerns about the Chinese side. He reflected on his personal experience about the interpretations and the lack of understanding for the FTA's terms by Chinese officials, which signalled various issues that NZ businesses might face and could increase their costs when offshore sourcing to China

“I think that the Free Trade Agreement between China and New Zealand helped in one way or another. However, you’ll see that the interpretation of that agreement differs between one person and another. And I recall in one meeting that the NZTE invited us, and they had two people from the Chinese customs, to come and explain something, and one of the attendees asked a question and then the two customs officials could not agree between themselves about how to answer the attendee’s question.”

6.1.2 Quality Improvement

The second main cross-cases theme is quality improvements (i.e. quality of documentation system in the case of Firm B), which occurred as a result of offshore sourcing and (or) cost saving spill-over from offshore sourcing (i.e. products’ quality improvement, documentation system improvement, etc.) as reported by the three cases. For example, Firm B aimed when offshore sourcing, to maintain its product quality while lowering the price. Participant PB stated that by offshore sourcing, the company was able to reduce their costs and in addition assisted them to improve their product quality. He said

“We didn’t think that we were going to improve quality by going offshore... We were driving our price and we wanted to maintain quality... We weren’t looking to improve quality. And what we found later is, we had been able to improve quality. So we have improved quality but the drive was to maintain quality and lower cost.”

Participant PC explained the availability of specialised manufacturers in China in comparison to New Zealand, which provide the NZ buyers with a wide range of different quality options to choose from when offshore sourcing to China, leading to quality improvements of these firms’ final products

“, go to China and... you see there are huge investments and they are more specialised manufacturers. For example, in the casing you’ll go there and you see the smallest manufacturer in town could be five or 10 times bigger than the biggest one you’ve seen in New Zealand. They have enough work to expand, to invest in the areas that they’re in, which makes them more competitive.”

On the other hand, the three cases highlighted that moving to China for cost reduction could have a negative impact on product quality (quality fade issue) if the firm did not take necessary precautions. To gain superior quality combined with cost reduction requires hard work and effort. For example, participant PC explained that maintaining a good level of quality is an extremely challenging task in China and it has a negative

impact on costs savings, even when dealing with the same supplier to produce the same product which is still challenging, because Chinese suppliers offer foreign customers a low price, even sometimes below their costs, to get the job. Then, they tried to reduce their expenses to cover their costs plus an extra profit (i.e. changing or reducing the quality of supplied components or cut corners through production process), which might have negative impacts on these foreign customers' final products, by taking advantage of their foreign customers' trust and lack of awareness. Therefore, a foreign customer needs to ensure the quality standards of goods through a regular quality check to avoid or minimise the danger of quality fade.

" each time you.... go through the same processes to check the quality... you could receive a very good batch and then the next month you receive a batch which is not as good as the first...you need to continue to ensure that quality is maintained at the standard level that you accept, and ... have people and personnel in place to ensure that this has been done."

Furthermore, participant PC highlighted another type of quality that could have a positive or negative impact on the firm's success in foreign markets, depending on the accuracy of the implementation process. He emphasised the importance of quality of translation and interpretation that foreign businesses face in communicating with their suppliers, staff, officials, etc. in China; and he said that

" Communication there we speak English, they speak Chinese, and you can just run the business based on the quality of the interpretation of the translation that goes between the management and the workforce, which already they are Chinese....it was really difficult to be there, and in China... You could have two completely different outcomes."

6.1.3 Entering New Markets and (or) Following Customers

After benefiting from cost reduction and quality improvement of the produced goods, all participants stated that their firms were able to enter and target new markets, which is the third cross-case theme, depending on the firm's goals. For example, both participants PA and PB firms' goals were to target Chinese local market, enter new markets and to be close to its customers. On top of this, offshoring to China as explained by participant PA, helped Firm A to continue supply to its previous NZ customers who had relocated their production to China

“[customer X] moved to China – that wasn’t too bad – we continued supplying [customer X] over there.... the benefits of off-shoring. It’s basically competitiveness and bigger markets.... So the whole concept was to go eventually after the Chinese market.”

Participant PB stated that moving offshore helped to extend Firm B’s appearance in different markets; and he said,

“We sold into Singapore, we sold into Taiwan and other places. Some of our western customers have offices in Hong Kong, so we were first in Hong Kong and then that took us into China... But China’s still a big domestic market for me.”

Participant PC explained that being in China helped Firm C to enter new markets that they previously could not enter; and he stated that,

“, we have managed to get exports to Taiwan and we also export to Australia... So I would say that without having our own facility and without being in China, it’s going to be very difficult to compete because the cost of doing things in New Zealand is much higher.”

6.1.4 Intellectual property (IP) Protection

The fourth main cross-cases theme is IP protection, and as explained earlier, the three companies are from the New Zealand technological manufacturing industry and these firms have their own innovation in a product’s designing and developing, or “know how” which is considered the firm’s IP. Participant PA stated his firm’s IP and its relation to the firm’s knowledge on producing their specialised electronic components was the firm’s core business and that IP was an integral part of Firm A’s ownership advantages. He stated that

“But instead [the company] went the route of designing of the engineering side of the industry, which obviously is not the mass production side...the differentiation ... in engineering rather than in price, and we do that to this day.... why we’re successful is because,... it’s about knowledge about these things, which you only get through application, through practise and through doing it. So ... it’s easy to [produce this product]... but it’s very hard to [produce]....it well.”

Thus, offshoring a firm’s production, especially within a technology intensive industry, is considered as being a challenging task when it comes to the firm’s IP protection, due to the weak IP protection laws in China. On this point, participant PC stated that,

“...a key issue for us because one of the challenges of going to China is that you will be risking the IP, and that was a big concern for us.”

The respondent firms kept their R&D and design as part of the business at the parent company in NZ for a number of reasons. Participant PB explained that keeping the firm’s R&D in NZ was mainly due to the low cost of such activities in NZ, in addition to the high level of IP law protection in NZ. He acknowledged this point by saying,

“...we’re good at innovation here [NZ]. People are good thinkers. And we’re relatively low cost for those things. But apart from that there’s a lot of reasons why we should be somewhere else... So we should be doing design and research and control from here, but manufacturing off-shore.”

Firm C created its own IP protection system and participant PC commented:

“, we manufactured everything there in China and We put a special firmware for the sign to test itself, not to function. We don’t add the actual firmware until the signs arrive in New Zealand, and then in New Zealand we put the right one in it. And this is to protect our intellectual property”.

IP protection concerns exist for many firms which are interested in offshore sourcing their production to China for cost reduction reasons, but they are reluctant to make such a move because of poor IP protection in China and their limited resources, especially financial resources, which make it difficult to search for trusted suppliers or establish their own facilities in China. This and being a New Zealand firm, which understands developed countries quality standards, has created a niche opportunity for Firm C in China to service other SMEs, thereby helping to reduce Firm C’s overheads. Participant PC stated that,

“we had many New Zealand businesses where they were interested in us being a manufacturer in China, because we are a New Zealand company so we understand how New Zealand thinks and how things work in New Zealand, and they wanted to protect their IP, so they found that we are a perfect partner to be with... they wanted to outsource their manufacturing with us... I have... other New Zealand business who run their operations from our factory in China, because this is 100% New Zealand owned place. They can protect their IP and the management of the factory is designed to think the way a New Zealand business needs to think.”

Furthermore, participant PC explained how these other firms benefit from using Firm C's services through elimination of duplication of the same scenario. He commented:

“...what we've done to the New Zealand market – instead of affording to do five items, they can afford to do 10. So we've helped the New Zealand market by sourcing a lesser cost product.”

6.1.5 Offshore Sourcing Issues

All three firms highlighted a number of issues and challenges that they faced when undertaking offshore sourcing in China that might impact a firm's performance (i.e. cost savings, product quality, performance and product improvement, IP protection, etc.) such as cultural differences, Chinese local officials' viewpoint and administration, and labour issues.

For example, in regards to the cultural differences challenges between home and host country, one of the participants talked about the differences in work practices between China and New Zealand, while another discussed work ethics differences, and the third participant talked about the differences in work standards between the two countries. Similarly, the three participants explained the Chinese local officials and administration issue (i.e. having different viewpoints between local officials and administration), and labour issues (i.e. increase costs of skilled workforce). These issues have negative impacts on a firm's performance (i.e. reduce cost savings and (or) product quality improvement) if they are not handled properly.

- **Cultural Differences**

Cultural differences raised different obstacles and issues when offshore sourcing at a foreign market, not only from the foreign side (China) but also from the firm's home country perspective (New Zealand).

From the New Zealand point of view, participant PB explained why New Zealand firms' employees do not like to deal with the Chinese suppliers or other affiliates' employees, and he stated that,

“..., culture in the ... company here [NZ]... most people... are scared of [China]... It's partly cultural. But they're not comfortable with China because.... Kiwis don't travel a lot outside of their own culture, maybe.... So they're uncomfortable with China... Maybe because.... they're not familiar with it, it's a different culture... they don't

understand it... Not being familiar with it. Not being in control...difficulties of communication.”

Participant PC highlighted the importance of considering and understanding the cultural differences between a firm's home and host countries when offshore sourcing. He explained how most New Zealand businesses' have inaccurate expectations about Chinese suppliers, assuming that these Chinese suppliers are having similar work standards, ethics, practices, etc. to New Zealand suppliers. For example, when New Zealand firms order a products from a Chinese suppliers, they expect these suppliers will maintain the quality of the supplied goods, like what happens in New Zealand (i.e. meeting the customers' requirements and exceeding their expectations). So, they leave everything to the supplier without any checking or following ups, thinking that the Chinese suppliers understand what they want. However, Chinese suppliers really want to provide these customers with what fits the contract and what they think they need to supply at minimum costs. So, they start making changes to reduce their costs (i.e. reducing the quality of the provided product's components, or through cutting corners during production, etc.) without informing their customers, thus resulting in the customer receiving overpriced and low quality products that have negative implications for final buyers.

“If you really rely on the [Chinese] supplier himself or whether the supplier is going to maintain the quality, like what happens in New Zealand, this will be completely inaccurate and wrong, and from my experience I've seen many New Zealand businesses where they would come to China, they expect suppliers to respond to their requirements as the New Zealand suppliers would request, and they go through very difficult stages where the Chinese want to really provide them with what fits the contract and what they think they need to supply, but the New Zealand manufacturer or the client, they assume that the Chinese understood what they wanted and what they would produce should fit into what they required.”

Participant PA covered the cultural differences from the perspective of stereotyping ideas and about false perspectives about the Chinese work style:

“Labour was very mixed – a difficult one. There's like the??? Chinese or long thinking, loyal, unemotional, calculating – just western stereotype. The Chinese are extremely emotional people who will leave a job at the drop of a hat for any reason....So the labour is the biggest challenge – has been the biggest challenge.”

On the other hand, from a Chinese point of view, the participants explained that the consideration of cultural differences in understanding work ethics between the NZ manufacturers and the local Chinese manufacturers, suppliers, workers, local officials highlighted the trade-offs between costs and quality when offshore sourcing to China. For example, participant PC explained how Chinese suppliers try to reduce their costs by reducing the quality of the used materials without consulting their NZ customers, the cause of which a final product's quality could be compromised. Participant PB explained the importance of face-saving within the Chinese culture and the cost saving for the Chinese suppliers and how these suppliers are willing to trade-off quality for cost savings, to the level of harming others, as long as they are not found out and do not lose face,

“, without you knowing... [Chinese suppliers] can give you something less and you don't complain and you don't find out, then it's Ok in their book. But they ... 'll have shame if you catch them, but they won't have any guilt. So they'll do whatever, and we see examples of that in the press – putting Melamine into milk powder, just to make more money – it might damage babies' health... You have to source the quality and then you have to manage the quality.”

Participant PA explained how the Chinese businesses do not at certain times value others' time and effort.

“, the Chinese have an interesting sense of business in that there's no attachment of cost to efforts made.... I mean, if it was a non-event for the amount of effort, I'd rather do it for myself, and this concept never – we never got past it.”

Participant PB talked about the cultural differences from the order size, quality, and lead time perspective. He explained that to produce a high quality product required longer time and smaller quantity at the beginning, as it needs to be tested and adjusted until the product conforms to the final design. While the Chinese suppliers do not seem to have a long attention span and they have mass production as a solution to increase their profit, due to the low gross profit margins, to cover the production expenses. Therefore, the Chinese suppliers are more interested in customers who have a mass production order with fast and high turnover, rather than customers with small quantity orders. He stated,

“Minimum order quantities, taking us seriously [by the local Chinese suppliers] to start with, being able to act quickly from not being able to place an order straight away. They're not big at understanding it's

a long process. I need to do the design, we need to do samples...we need to prove capability. They want quick response, quick result. They don't have a very long attention span They're there to make money."

Then PC explained why most Chinese local suppliers lose their businesses and (or) fail to meet their international customers' expectations

"It's culture. Mainly it's the cultural differences... the Chinese manufacturer....look at how to get the job... by reducing the price....to get more clients, and then ... they look at how to reduce the cost as much as they can to make money out of that. And this is the trap that they get themselves into where at the end, either they don't get enough business to survive or they get output of product that does not match the requirements of the manufacturers".

Furthermore, participant PB highlighted the difficulties that are being faced by foreign businesses to find the right manufacturer or the right quality suppliers in China that meet their needs, due to the lack of transparency within the Chinese producers and manufacturers' culture

"China's quite difficult, you have to know where to get something to be made and are they telling you the truth, and qualify the supplier. Are they are a quality supplier? Are they actually the manufacturer or are they resellers? Everybody's an entrepreneur, so China's very difficult to really find a quality supplier."

- **Chinese Local Officials and Administration**

The second main issue all the participants faced was in dealing with Chinese local officials and administration issues. This issue could be related to lack of a proper network, lack of transparency, or lack of understanding or interpretations for the governmental laws and instructions. For example, participant PA talked about the local Chinese administration's barriers for foreign investors during their establishment of their WO production facility in the free trade zone, which could be linked indirectly to the lack of network relationship with the local officials,

" , in the end we settled in a free zone ... thinking the free zone would be a free zone like we know free zones. Well, it isn't! It has nothing, nothing even close to being a free zone as we know it, and the bureaucracy is unbelievable there just inside to administer this. It's also a monopoly so the services that are provided are more expensive than elsewhere, so there's been a few issues that we've had to work through."

Participant PC discussed the different results which could be achieved for the same issue in the same city when dealing with different officials, to the level of double charging for the same products; and this seemed to be related to the lack of understanding and interpretation for the law by these officials due to poor training or implementation of the law by the government, which impacts the level of cost savings.

“So ... in China.... It depends on whom you go to and what to say and what to have. You could have two completely different outcomes... Customs is a challenge there, getting things in and out. For example, we sometimes send something and then we need to get it back for repair or something. We need to pay for it as if it's not coming from China.”

The participants talked about the Chinese custom restrictions regarding imported and exported goods. Participant PB commented on the selectiveness of the Chinese administration,

“There's a number of reasons – administration-wise... I'm finding China is getting harder and harder because of the border. Chinese people or the Chinese administration don't really want to buy anything technological from overseas, they want to do it in-house, and so they make it difficult for me to get stuff in and out.”

While participant PC summarised the reasons for the selectiveness strategy of the Chinese government and its officials in permitting foreign companies to manufacturing in China, which is due to the high level of pollution. As explained earlier, the increased level of pollution resulted from the different manufacturing production activities, especially from foreign companies. Therefore, the Chinese government aims to reduce national pollution levels through the selectiveness and strictness strategy in permitting manufacturing facilities activities in China, and focusing more on and supporting the R&D side (or) of businesses rather than manufacturing to reduce the pollution level, and to improve the country's technological levels in research and design; and he said that,

“China has the challenge of the pollution and I've seen myself that China is starting to step out of the area of manufacturing...the Chinese government started to be selective of what permission they give. If the business produces pollution then they would be less attentive to give them permission... if the business is more into technology.... they would even give some hand-outs to those businesses... to the extent where the taxation... refund from the GST is different, depending on how much technology there is in the item. For example, if you export something that has only aluminium or raw

material in it, you likely might not get any refund from your... GST...However...export LEDs, you expect to get 17 out of the 17 of the tax.”

- **Labour**

Both participants PB and PC covered the labour issue from different perspective. Participant PA highlighted increases in labour costs by comparing what he used to pay when they offshored to China in 2000, and what they are paying at present:

“Year 2000, China was cheap... average wage there was probably 800rmb direct. Labour and the exchange rate was 860rmb, Ok. So less than \$100 [US] a month was the costThat’s US dollars. Today, it’s 3,500rmb, so it’s a totally different picture.”

While participant PC talked about how getting the right labour for the job is becoming very challenging;

“Now, believe it or not, we have started to get the challenge of getting the right labour that we want, because many others in China, there’s a bit of shortage, although we’ve said that China is less exposed to labour shortage.....So labour now is a problem – is a challenge rather than a problem”.

6.2 Offshore Sourcing Governance Changes

In all three cases the firms have been through different governance forms in their offshore production activities in China, Figure 8 illustrate the three cases’ governance stages (Refer Figure 8 in page 73). There were a variety of reasons behind such governance changes which were both positive and negative. All three firms’ first and second stages of their offshore sourcing were the same.

The first stage was based on a commercial relationship by sourcing from different suppliers in China, followed by selecting the supplier that best matched the firm’s needs and requirements. Finding these suppliers was done in different ways such as via networks, visiting exhibitions, or through the internet. For example, Firm A made use of the company’s chief engineer’s network in China, where he originally came from. Firm B made use of its network in Hong Kong to find suppliers in China. Firm C found its first suppliers through visiting different electronic exhibitions in Hong Kong, China, and Malaysia.

The second stage for the three firms was contracting the local Chinese manufacturers to produce part or final products. Both Firm A and B reported an increase in the quantity of their products on the shelf without increasing their costs. For example, Firm B reported that the items of finished goods increased from 200 up to 3000 without increasing their costs; while Firm C confirmed its landed cost savings (what sort of savings?) as being 60 percent. Although these levels of saving were dramatic, respondents had significant concerns about the quality of their goods as they have less control over the production process and the quality of the raw material components that have been used in their products.

At the third stage, both Firm A and Firm C formed a joint venture with one of their suppliers to have further control over their production. Firm A reported the total cost saving at that stage was about 75 percent of their landed costs, while Firm B continued to use contract manufacturing to govern its production, and started to contract not only local Chinese manufacturers in China but also foreign manufacturers - New Zealand, American, Australian,- that had established manufacturing facilities in China.

At the fourth stage, both Firms A and C exited from their joint venture (JV) relationship to establish their own manufacturing facility in China and have 100 percent control over their production, testing, and marketing. Different reasons were behind these decisions. For example, Firm C's JV partner commenced making decisions without consulting Firm C and made trade-offs between costs and quality. The reason behind Firm A's exit from its JV was due to differing goals. Firm A wished to target the local Chinese market while the other party wanted to only sell to foreign companies. Both firms reported a decrease in their savings, e.g. Firm A's saving went down from 75 percent to 60 percent while, Firm C's went down from 60 percent to 40 percent, although they have achieved 100 percent control on their production quality, their future goals and their ability to target their own markets.

Firm C progressed its WO facility governance to become as a contract manufacturer for foreign businesses from the electronics industry. These foreign businesses decided to offshore their production activities to China for cost savings but they were concerned about their products' quality and IP, and at the same time they lacked the required financial resources to establish their own production facilities in China.

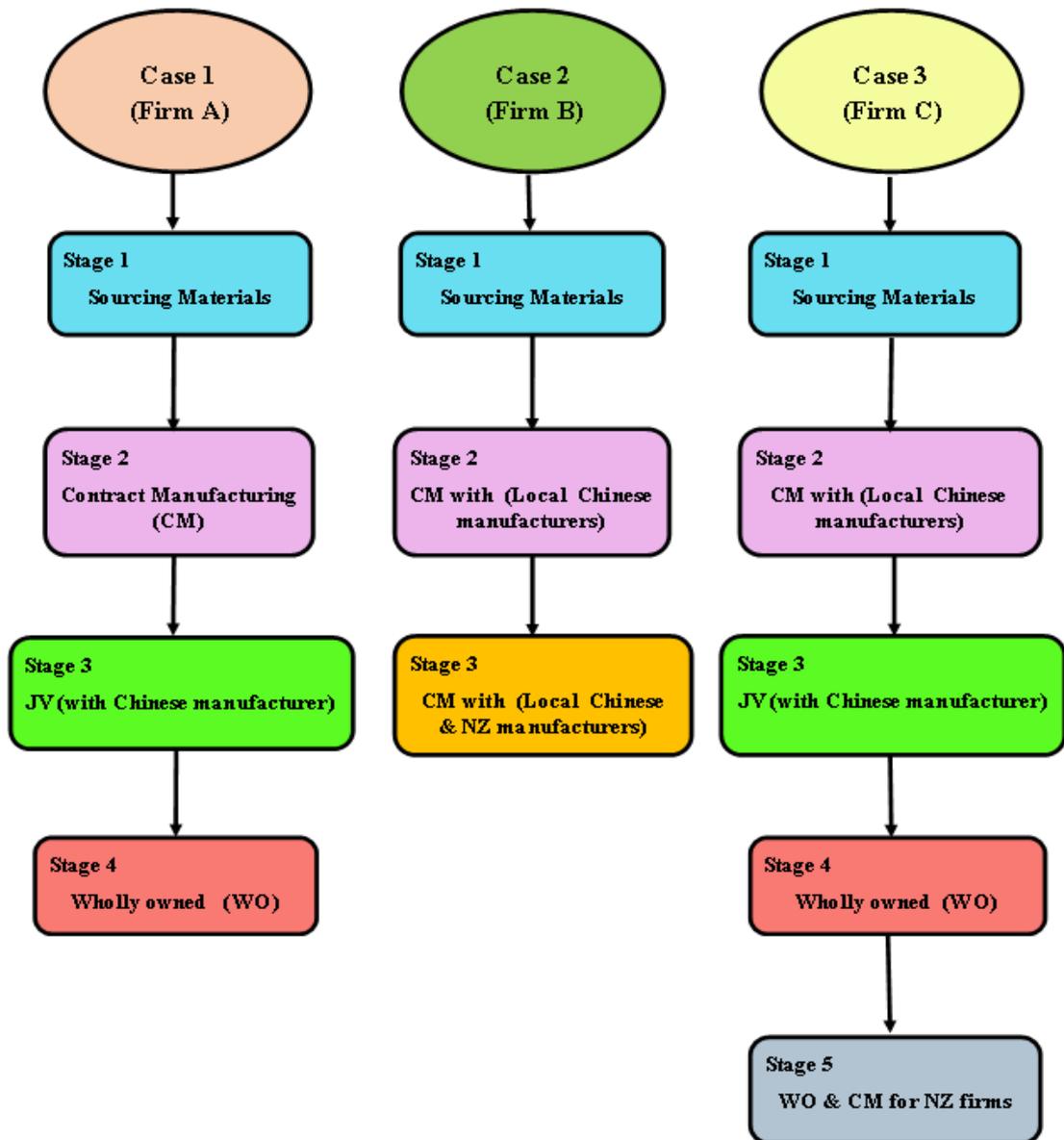


Figure 8: The dynamic impacts of offshore sourcing on each case for the present study firms

Participant PC reported that these firms managed to save 50-80 percent of their costs by contracting Firm C. Firm C successfully reduced a customer's cost for producing a particular electronic controller by 80 percent, going down from NZ\$150 to \$30 for the first batch of production, going down to NZ\$13 for the rest of production; at the same time maintaining both the confidentiality of customers' IP as well as the quality of the supplied products.

6.3 Maintaining International Competitiveness

The three cases reported their offshore sourcing move had helped these firms to maintain or improve their competitiveness, enabling them to become stronger international competitors within their industries. For example, participant PA said,

“So that really, that’s why we moved [China]....., we would be dead in the water We’d be closed, yeah”.

While participant PB stated,

“We wouldn’t be in business today if we didn’t offshore. We would not be in the market we’re in if we didn’t offshore, because our product has become more and more of a commodity, and we wouldn’t be here if we weren’t offshoring”.

Finally, participant PC explained that the amount of cost saving has a spill over effect on the firm’s competitiveness and ability to compete internationally by reinvesting in new technology and machinery that improve the firm’s performance, production efficiency, and productivity helping to reduce wastage, increase savings, and allowed the firm to reduce its products’ prices).

“Ok the main benefit is the cost..... manufacture things in China... we get.... Enough.....saving, and that would really give us the edge to compete internationally.”

The findings discussed here highlight the importance of offshore sourcing strategy in maintaining these SMEs’ international competitiveness. The participants talked about benefits that their firms obtained through offshore sourcing to China. They also talked about the challenges and the issues that faced their firms’ venture in China, which impacted these firms’ governances and the amount of savings that they achieved, which is illustrated in Figure 7 (Refer Figure 7 on page 60).

Chapter 7: Discussion

The findings of the present study have important implications for a number of areas including theory, company management, and public policy. In this section we develop the key implications in each of these three areas.

7.1 Implications for Theory

The findings of the present study support a number of aspects of the OLI, Uppsala, and LLL frameworks. In relation to the OLI paradigm, this study concludes that the three firms have ownership advantages, (i.e. both Firms B and C have their own intellectual property, while Firm A has unique production techniques for producing specialised and sophisticated electronic components) with the added advantage of location, (China in this study) which provides these firms with distinctive sets of competitive advantages. While the internalisation aspects of the OLI model are not clear, especially at the early stages when the firms used contract manufacturing strategies rather than FDI for their offshore sourcing activities, it is apparent that externalisation has become an increasingly viable strategy for participant firms. This is the result of changes in the external environment, particularly in deregulation, liberalisation, stronger IP protection and the rise of specialist contract suppliers, all of which favour externalisation.

China has experienced rapid development of its institutional environment and an increase in the availability of local contract manufacturing firms has improved the quality of these suppliers, making it more attractive and efficient for international buyers to source from China. While the OLI framework recognises these changes in the relative attractiveness of internalisation and externalisation, it does not fully explain the dynamism of the studied firms' changing governance structures in the later stages after establishment.

The steps taken by the three firms and the changes in the governance of their activities in China was based on their incremental knowledge, from their own experiences, supporting incrementalism and the Uppsala model. For example, both Firm B and C's accumulated knowledge from their experiences in China made them aware of the local Chinese suppliers' workmanship standards (i.e. trade-off quality for cost savings). Thus, both Firms B and C decided to sacrifice part of their savings (that could be gained from offshore sourcing) to maintain product quality through changing their business practice

governance (Firm C moved from the JV to a wholly-owned production facility and began checking every component that they received, while Firm B sent quality control personnel to check all productions before granting approval to dispatch these products).

The Uppsala model concept of incremental and accumulated knowledge about that particular location, from own experience or having someone with relevant experience, also helps to explain the gradual movement or expansion between different international locations. Thus it explains the respondent firms' expansions and entry into new markets; and how being in China helped them to understand the Chinese culture and grow their knowledge about local market, business practices, and work shipment standards, as well as building and developing their own networks locally. For example, Firm A was established by a New Zealand entrepreneur, who did not show any interest in overseas markets until the relevant experience was provided at a later stage from his American and Chinese partners.

Conversely, being entrepreneurial firms, senior staff led the way for the three firms to enter new markets, through their ability to recognise and pursue new opportunities, by managing or providing the needed resources to increase speed to market, differentiation strategy, and access to new markets. For example, Firm A targeted the Chinese market by identifying an opportunity within the local Chinese market, and by using a differentiation strategy whilst providing custom-made, high quality specialised electronic components at a low price which were not available within the local Chinese market.

Similarly, accumulated knowledge about China, with the added advantage of being an entrepreneurial firm, helped Firm B to enter many other Asian markets due to the decreased physical distance between these markets, which is related to the experiential knowledge that has been acquired and developed through personal experiences, and is related to decreasing "psychic distance" (Baronchelli & Cassia, 2008, p. 7).

Finally, Firm C managed to enter the Taiwanese market, which was considered to be a part of the Chinese culture, but at the same time having its own ITS system that is different although being compatible with Firm C's products. Furthermore, Firm C managed to enter the Australian market, which is similar to the New Zealand culture, by having the right products with a superior level of quality at a low price, which supported Firm C's competitive advantage.

The networking element, which is a finding from the present study, supports the LLL model. Networking could be defined as a trade relationship in both information and in services between individuals, groups, or firms with the objective of creating beneficial relationships for the firm's business. The LLL model, as explained earlier, suggests motives for outsourcing, which the OLI does not fully consider, although it is useful in explaining non-equity modes of governance for SMEs when offshoring following lack of resources in home countries.

Firms A, B, and C are SMEs that are considered new entrants to international markets who can benefit from the existing local Chinese companies' knowledge and networks through linkage and learning. In general, small-medium sized firms have resource constraints and therefore could leverage from other well established firms. In relation to the present study, certain New Zealand SMEs that decided to offshore source to China made use of Firm C as this firm had spare production capacity and is a classic example of leveraging, which is an element of dynamism. However, as Dunning correctly pointed out, firms cannot proceed with internationalisation without having a certain level of ownership advantages and overseas location advantages. Furthermore, such relationships created new markets or consumer opportunities for the three firms by leveraging from their connection with these local Chinese companies. Based on the incremental knowledge and building their own networks, all three respondent firms leveraged from their linkage with their local Chinese suppliers and learnt about the Chinese culture, work practices and ethics. This study depicts the different stages of governance of NEM relations during these firms' venture to China; how they commenced this process by initially outsourcing their raw materials needs, using contract manufacturers (of which, Firm B is currently following this strategy), creating a JV (for both Firms A and C), leading to FDI by establishing a manufacturing facility in China (in case of firm A and C), and finally becoming contract manufacturers for others (Firm C) as shown in Figure 8 in the previous chapter.

7.2 Implications for Company Management

The main implications of offshore sourcing for New Zealand businesses is in their ability to maintain competitiveness through the cost savings and higher efficiency that are available in China. However, the sustainability of such advantages is questionable.

For example, the present study shows a number of issues and challenges that result from offshoring business to China in relation to the trade-offs between cost savings and quality, IP protection, and business governance. Therefore, other strategies should be implemented to enhance firms' competitiveness and value-added opportunities through the development of firms' international relationships.

In relation to the trade-offs between cost savings and quality, maintaining good or high products quality combined with low costs is a very challenging issue in China, even when dealing with the same supplier for the same item for the same product, due to the lack of clear and good quality communication (i.e. between the New Zealand firms and the Chinese suppliers, and within firms' affiliates) and the lack of transparency of Chinese practices. For example, participant PC explained the reasons for such trade-offs according to his experiences in China, that high level of competition between local Chinese suppliers encourage these suppliers to get as many new jobs as they can, through providing the required product quality at a very low price, even below their real costs. Then after getting the job, these suppliers start looking at how they could make such jobs profitable and still meet their obligations to their customers, and this is often achieved through reducing their costs. These suppliers often attempt to reduce their costs through cutting corners during the production process or reducing the quality of a product's components, which will have negative impacts on the final product's quality and performance.

Trade-offs between cost savings and quality that result from a lack of communication within a firm's affiliates (i.e. between a firm's branches in New Zealand and China) are due to the cultural and language differences between New Zealand and China. There is a possibility of communication breakdown between head office and the R&D team in the home country (New Zealand in this study) and the production affiliates in the host country (China), which have negative impacts on the costs savings and the quality of the produced goods. Therefore, companies within this study attempt to overcome the communication barrier by recruiting people who have the ability to speak and understand both languages within New Zealand and China branches. For example, Firm A has Chinese brothers on its board who studied and lived in westernised countries for more than 10-15 years (one of them is Firm A's third partner and acting as the Technical Director at Firm A, and lived in New Zealand, and the other one is managing the Firm A manufacturing facility in China, who lived in the United States); while both

Firms B and C have bilingual team members within purchasing, customer service, accounting, and engineering areas. Furthermore, Firm C implemented language classes as part of the company training and development scheme for all its staff in China (i.e. learning English for the local staff and Chinese for the team members from New Zealand, when working in China) by hiring a special person permanently who could teach both languages. Participant PC explained the main reason behind this strategy was poor communication ability between the firm's affiliates, especially the technical aspects of their production between R&D in NZ and the production and purchasing team in China, resulting in doubling of the firm's overheads because of duplicate work process for each sign, which in turn doubled the cost and time spent on the produced signs. Due to the many manufacturing technical errors of the received signs, each sign that was produced in China needed to be disassembled in order to fix these errors, and then reassembled again before going to the customer. Therefore, both Firms B and C created their own quality control (QC) systems. For example, Firm B sending QC personnel from NZ to China during production to check the production quality process, as well as the final product, while Firm C has its own production plant in China and a trained inwards goods team checking every item that is received.

Participant PB explained how difficult it was for MNEs to communicate with their manufacturers in China about any quality or technical issues that related to the supplied products by these locals, due to the lack of the work practice transparency between the Chinese local suppliers, making these MNEs unaware as to whether they were dealing with the real suppliers or mediators.

Therefore, New Zealand companies should have strategic engagement in manufacturing with their Chinese suppliers, investing in people and structures, and basing the level of the firm's involvement on total costs, indirect and direct costs, (NZTE, 2014).

Although externalisation of the firm's activities has higher returns in cost saving, it offers less control over the quality of the produced goods in comparison to the internalisation strategy. As explained earlier, the present study's firms have their own unique IP, and they create their own systems to protect their IP during their offshore sourcing to China. Due to the weak IP protection law in China, the three firms decided to keep their core technologies in New Zealand and move their production to China (i.e.

Firm C manufactures everything in China but does not download the actual program for its signs until these signs arrive in New Zealand).

Furthermore, for the purpose of the firm's IP protection, coupled with cost savings vs. quality, the present study's findings show firms could go through different phases of governing their offshore sourcing practices in China based on their knowledge (i.e. through personal experiences or networks) about China local businesses' practices at that particular time. This helps explain why these firms have been moved from NEM to FDI investment in China. For example, Firm C confirmed that although moving its production from contract manufacturing to wholly-owned factory, reduced its products' landed costs, saving 20 percent (from 60 percent to 40 percent). The main reasons for this savings reduction was due to the increase of the firm's overhead expenses (i.e. factory establishing fees, recruiting and training staff, etc.) but even the 40 percent is still an attractive amount of savings that Firm C is willing to go for.

Therefore, company managers should undertake a regular evaluation to their firms' offshore sourcing strategy based on "the relative costs and benefits, associated risks, and the feasibility of each option", to find out the real savings values and then make their decisions accordingly (UNCTAD, 2011, p.124).

7.3 Implications for Public Policy

As explained earlier, China has emerged as a key player in the global economy and is considered one of the top most attractive emerging markets. Its large size, high growth rates, and low production costs, growing integration in the global economy and membership of the WTO, have made China very difficult for any firm not to be considered.

The NZ government saw China as a good potential trade market for New Zealand enterprises from different industries. Various government initiatives were implemented to increase trade and investment with China. For example, the New Zealand government offered support by creating a free trade agreement with China, to become the first developed country to have a comprehensive agreement with China.

However, the Chinese government faces a number of challenging issues including the absence of the legal implementations within government agencies, inadequate understanding and interpretations of the governmental law and international agreements

within local authorities and government agencies, lack of government law enforcement by the local government officials for reasons of personal benefit, very low level of intellectual property rights (IPR) protection, the contrasts between local authorities' and the central government's priorities, and the indirect favouring of local and state-owned enterprises over foreign firms. These issues might put off some MNEs, including some New Zealand enterprises, to offshore sourcing of their activities to China. Indeed, in some parts of the world there have been attempts to ban such outsourcing, especially within the public sector (Halvey & Melby, 2007; Haveman & Shatz, 2004

Conversely, the New Zealand government supports businesses', especially SMEs, international growth by creating the right economic and regulatory framework at an international level, which is the key theme of NZ government's GBGA, Business Growth Agenda, as well as the support agencies such as MBIE (Ministry of Business, Innovation and Employment), MFAT (Ministry of Foreign Affairs and Trade), MPI (Ministry of Primary Industries), Education New Zealand, the New Zealand Export Credit Office, and Callaghan Innovation (MBIE, 2012; MBIE, 2014). In addition, the government provides financial support to assist firms in their internationalisation journey through the IGF, International Growth Fund, (MBIE, 2013a, p. 26). While NZTE (New Zealand Trade and Enterprises) supports business within different aspects of setting business overseas (i.e. market entry, connection and collaboration with other businesses and officials, and growth through demands creation) it focuses on businesses which have ambition for international growth, and this growth will provide long lasting benefits for New Zealand.

However, and according to findings in this study, New Zealand should not view Chinese practice as a direct replacement for local practices; instead it should be seen as a complementary economic position. For example, the firm's core business activities such as R&D or marketing, should be based in New Zealand for IP protection reasons, while the routine work such as assembly, raw material purchase, and manufacturing could be based in China.

The present study's findings suggest that cost savings, paperwork and documentation system improvement, products quality improvement, and accessing new markets helped these SMEs to maintain their competitiveness but the cost savings were offset by low quality and having less IP protection. Firm C is an example of how both countries

complement each other by dividing the business activities into two sections. The first section was offshored to China and is related to the labour intensive manufacturing of the product which involves assembly and production. The second part of the business that is in New Zealand for precautionary measures, includes the intelligence aspect which is the core of the business. Through this splitting of activities, Firm C has advanced its national and international competitiveness to become a renowned firm in its niche market, by incorporating both NZ & China ‘locational’ advantages.

In addition, this study’s findings suggest that the firms most likely to take advantage of the above advantages and support, have certain similar characteristics such as having people born overseas or who have had international business exposure. For example, both Firms A and C managers were born overseas and were equipped with relevant international experience; while Firm B’s manager and founder were born in New Zealand and had international experience.

Furthermore, the present study’s findings support the importance of networks and relationships in doing business in China and align with Morrison’s (2013) suggestion, that successful business in China is mainly based on personal connections with Chinese local officials, governmental and personal networks, rather than simply just market forces.

In summary, the purpose of this chapter was to discuss the different implications (i.e. theoretical, managerial, and public policy) of the present study findings. A metonymic title of *Maintaining International Competitiveness* was used as a central point in conjunction with a framework that integrated the theoretical constructs of Chapters 5 and 6 in organising the findings of offshore sourcing as experienced by the participants, and is summarised in Figure 9 (See Figure 9 below). The framework was discussed in light of the three main strands of literature reviewed frameworks in Chapter 2: OLI, Uppsala, and LLL.

Next, Chapter 8 concludes this dissertation by presenting research limitations, recommendations, and suggestions for further research.

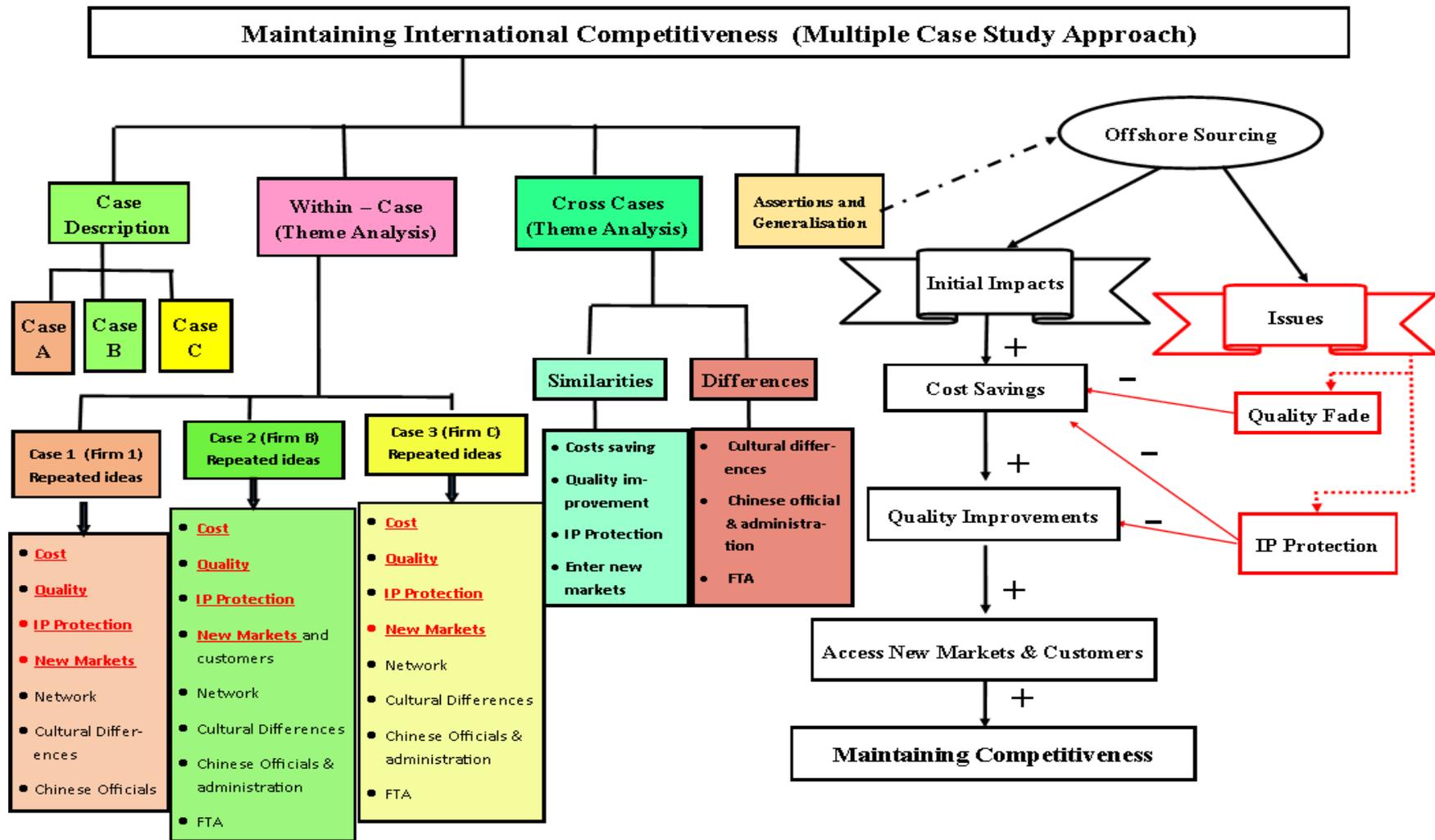


Figure 9: Cross cases analyses framework for the present study

Chapter 8: Conclusions and Recommendations

This chapter provides concluding comments on the research and is organised into three main sections. The first section presents a summarised description of the dissertation chapters and the main findings of this study. The second section highlights the limitations of this research and provides suggestions for future research; while the third section covers recommendations.

8.1 Conclusions

International business literature has focused for the last few decades on China as an attractive place for different offshore sourcing activities encompassing a range of industries and firm types, with an emphasis on larger, more established MNCs. However, in recent years consensus has begun to build around the importance of also studying small-medium sized entrepreneurial enterprises' (SMEs) offshore sourcing in order to develop a more holistic understanding of offshore sourcing and how these firms could maintain their competitiveness by going beyond their home countries' borders. It has been argued that the limited resources possessed by these firms can have an impact on their decision-making in subsequent ventures. SMEs are considered "the lifeblood of New Zealand's economy", in which there are a number of entrepreneurial innovative high-medium technology manufacturing companies with a notable international market share managing their global activities from a NZ base. In spite of such acknowledgements, the offshore sourcing activities of these entrepreneurial SMEs within high technology manufacturing industry remains a relatively under-researched area.

The primary aim of this study was to understand the phenomenon of offshore sourcing from the perspective of SMEs within HTM. This aim was achieved with the help of the overarching research question for this study:

"Why are New Zealand small to medium enterprises within the high-tech manufacturing industry offshoring their production to China?" and its four supporting sub-questions:

- *"What issues and challenges do they face with such ventures?"*
- *"What are the main attractions for such venture?"*
- *"How does offshore sourcing contribute to international competitiveness?"*
- *"How does offshore sourcing impact on their business strategy?"*

The dissertation contains eight chapters.

Chapter 1 provided the background to this dissertation, the research aim and questions, and the outline of this dissertation.

Chapter 2 reviewed three strands of literature, corresponding with the sub-questions: OLI model, Uppsala model, and LLL model in offshore sourcing. The review confirmed that theoretical understanding and research on New Zealand SMEs within HTM industry in relation to offshore sourcing to China are limited.

Chapter 3, 4, and 5 described the methodology and method that was used for data collection and analyses.

Chapters 6 and 7 presented the findings and application of the three model: OLI, Uppsala, and LLL to the study finding.

The final chapter, Chapter 8 of this dissertation and the purpose of this chapter, as previously outlined in Chapter 1, is to clarify the contribution of this dissertation by discussing the study's findings.

The study showed that offshore sourcing to China has helped these New Zealand high technology small- medium manufacturing firms to benefit from cost reduction, improve paperwork system, access new markets, and customers, and give them access to lower costs to maintain or improve their competitiveness. The study shows evidence of learning, networking, and firms' ownership advantages, locational advantages have impacted the firms' cost savings positively. But on the other hand, there were trade-offs; lower costs mean lower quality and issues that these firms have to resolve in China, including quality fade and IP protection, which have negatively affected cost savings.

The study extends the understanding of the phenomenon of offshore sourcing to China within SMEs in high- medium technology manufacturing industry by presenting the importance of previous international experience or exposure to it. For example, the cases are entrepreneur firms, established by people who had international experience. The firms are small, flexible, fast moving, and highly aware of opportunities. These types of firms are not typical New Zealand firms because they were established by people either born overseas, who migrated to New Zealand and (or) who had international experience exposure. Secondly, this study illustrates that maintaining a

firm's international competitiveness through offshore sourcing can be challenging but manageable, and that it can offer an opportunity for stronger market position.

Overall, it is hoped this study contributes to understanding how New Zealand SMEs within the high technology manufacturing industry can maintain their international competitiveness through offshore sourcing, and how this venture can be manageable by seeing it as one that can offer opportunities to gain new knowledge and thus help in fulfilling a firm's potential.

It is hoped that the readers (i.e. policy makers, educators, and entrepreneurs) can benefit from the findings of this study as it highlights factors leading to offshore sourcing, and the repercussions of it within New Zealand high technology manufacturers.

Furthermore, the key message of this dissertation, that is: maintaining international competitiveness; although not easy, is achievable and can enrich a firm's competitive advantages and survival. What is made out of this experience – positively or negatively – lies in the firm's willingness and ability to tap into its network, resources, and knowledge to create possibilities that can transform the firm.

8.2 Further Research and Limitation

The present study's findings about the three firms and how they practise their businesses' activities, cannot be generalised because they are not typical New Zealand firms. As explained earlier they were established by people either born overseas who migrated to New Zealand and (or) who had international experience exposure. Therefore, further research is recommended with a bigger sample size that contains a variety of New Zealand firms with differing ownership and levels of experience and international exposure.

8.3 Recommendations

The limited resources and lack of the international knowledge and (or) exposure typical of SMEs increases levels of the uncertainty for these firms, which results in them being less involved or interested in expanding their activities beyond their home country.

It is recommended that if New Zealand wanted to get more firms into exporting, instead of targeting all the local small-medium firms, it should focus on small- medium sized firms that have been established or managed by people who are migrants or have

exposure to international activities, as they may be more likely to take advantage of the opportunities that international business offers.

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Appendix A: Ethics Approval



AUTEC
SECRETARIAT

2 September 2014

Peter Enderwick
Faculty of Business and Law

Dear Peter

Re Ethics Application: **14/237 Maintaining international competitiveness through offshore sourcing. The case of high-tech manufacturing from New Zealand.**

Thank you for providing evidence as requested, which satisfies the points raised by the Auckland University of Technology Ethics Committee (AUTEC).

Your ethics application has been approved for three years until 1 September 2017.

As part of the ethics approval process, you are required to submit the following to AUTEC:

- A brief annual progress report using form EA2, which is available online through <http://www.aut.ac.nz/researchethics>. When necessary this form may also be used to request an extension of the approval at least one month prior to its expiry on 1 September 2017;
- A brief report on the status of the project using form EA3, which is available online through <http://www.aut.ac.nz/researchethics>. This report is to be submitted either when the approval expires on 1 September 2017 or on completion of the project.

It is a condition of approval that AUTEC is notified of any adverse events or if the research does not commence. AUTEC approval needs to be sought for any alteration to the research, including any alteration of or addition to any documents that are provided to participants. You are responsible for ensuring that research undertaken under this approval occurs within the parameters outlined in the approved application.

AUTEC grants ethical approval only. If you require management approval from an institution or organisation for your research, then you will need to obtain this. If your research is undertaken within a jurisdiction outside New Zealand, you will need to make the arrangements necessary to meet the legal and ethical requirements that apply there.

To enable us to provide you with efficient service, please use the application number and study title in all correspondence with us. If you have any enquiries about this application, or anything else, please do contact us at ethics@aut.ac.nz.

All the very best with your research,

A handwritten signature in black ink, appearing to read 'K O'Connor'.

Kate O'Connor
Executive Secretary
Auckland University of Technology Ethics Committee

Cc: Taghreed Hikmet thikmet@nznet.gen.nz

Auckland University of Technology Ethics Committee

WAS05F Level 5 WA Building City Campus

Private Bag 92006 Auckland 1142 Ph: +64-9-921-9999 ext 8216 email ethics@aut.ac.nz

Appendix B: Participant Information Sheet

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Participant Information Sheet



Date Information Sheet Produced: 16/ 09/2014

Project Title

Maintaining International Competitiveness through Offshore Sourcing
The case of High-tech manufacturing from New Zealand

An Invitation

Good Afternoon Mr. Patterson

My name is Taghreed Hikmet; and I would like to invite you to participate in my research for my Master of Business Degree. Your participation in this research is voluntarily and you may withdraw at any time prior to the completion of data collection. This research is for study and educational purposes only and it is not for any marketing or commercial purposes. Therefore, your name and your company details will be kept confidential.

What is the purpose of this research?

This research for a Master of Business Degree (MBus) dissertation; and it is covering NZ Small to Medium size Enterprises (SMEs) which are considered a vital part of New Zealand's economy; and they make up 97 % of all NZ enterprises with substantial contributions to the national employment, production of goods and services, and innovation (MBIE, 2012). In this sector NZ has a number of innovative small manufacturing companies within the high and medium-high technology industries, which have grown rapidly over the last two decades and have become global leaders. Maintaining international competitiveness may require creative strategies and this research focuses on firms within this niche industry which offshore production to China. So, this research aims to investigate, why New Zealand small to medium enterprises within the high-tech manufacturing industry, which are under researched, are offshore-sourcing their production to China? And what are the issues and challenges that face such a venture

How was I identified and why am I being invited to participate in this research?

You was identified as a manager, CEO, or Founder of your company through your company publicly published website. This research studies small manufacturing companies within the high and medium-high technology industries which offshore production to China (e.g. for more than 1-2 years); and your company fits within the research company size and industry criteria's.

What will happen in this research?

During this research, you will be interviewed by the researcher (myself) talking about your company's offshore-sourcing its production to China; and what are the issues and challenges that face such a venture. The interview will take 1-2 hours of your time and will be audio-recorded. This interview will be transcribed by a professional transcriber who has signed a confidentiality agreement. You can also access his/her interview transcript prior to analysis.

What are the discomforts and risks?

All the information that you are going provide is voluntarily and all the names, your name and your company names, will be kept confidential. Given the size of industry, there is a risk of being identified.

This version was last edited on 8 November 2013

How will these discomforts and risks be alleviated?

Given the size of industry, there is a risk of being identified. As such, there is only limited confidentiality for participants. The interview will be transcribed by a professional transcriber who has signed a confidentiality agreement.

What are the benefits?

The potential benefits of this research to

- Participants will share their experiences with the wider community which might inspire other entrepreneurs and helping them to reducing their establishing and transaction costs.
- Researcher will gain Master Degree in Business (MBus)
- Wider community will be aware of the important role for such industry segment in NZ economy, which was under researched, and how it is important to our economy

How will my privacy be protected?

A certain code will be given to your name and your company's name for confidentiality reasons. So, nobody will know these codes apart from myself and the research supervisor whom signed a confidentiality agreement with you. But, due to the small number of firms in this sector there is a possibility of the participant firm being identified. Therefore, limited confidentiality is offered.

What are the costs of participating in this research?

This research will cost you 1-2 hours from your time

What opportunity do I have to consider this invitation?

1 week after sending the invitation 1 follow up with a phone call if the participant did n.

How do I agree to participate in this research?

If you agreed to participate in this research please signed the Consent Form that attached to this email and re-email to me

Will I receive feedback on the results of this research?

You will receive a copy of the final research results

What do I do if I have concerns about this research?

Any concerns regarding the nature of this project should be notified in the first instance to the Project Supervisor, *enter name Professor Peter Enderwick, email address peter.enderwick@aut.ac.nz, and a work phone number: 64 9 921 9999 ext.: 5748.*

Concerns regarding the conduct of the research should be notified to the Executive Secretary of AUTEK, Kate O'Connor, ethics@aut.ac.nz, 921 9999 ext 6038.

Whom do I contact for further information about this research?

Researcher Contact Details:

Research name: Taghreed Hikmet
Email address:

Project Supervisor Contact Details:

Supervisor name: Professor Peter Enderwick,
Email address: peter.enderwick@aut.ac.nz
Work phone number: 64 9 921 9999 ext.: 5748.

Approved by the Auckland University of Technology Ethics Committee on 16/09/2014, AUTEK Reference number 14/237

This version was last edited on 8 November 2013

Appendix C: Participant Consent Form

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Consent Form

AUT
UNIVERSITY
TE WĀHANGA ARONUI O TAMAKI MAKAU RAU

Project title: **Maintaining International Competitiveness through Offshore Sourcing
The case of High-tech manufacturing from New Zealand**

Project Supervisor: **Professor Peter Enderwick**

Researcher: **Taghreed Hikmet**

- I have read and understood the information provided about this research project in the Information Sheet dated
- I have had an opportunity to ask questions and to have them answered.
- I understand that notes will be taken during the interviews and that they will also be audio-taped and transcribed.
- I understand that I may withdraw myself or any information that I have provided for this project at any time prior to completion of data collection, without being disadvantaged in any way.
- If I withdraw, I understand that all relevant information including tapes and transcripts, or parts thereof, will be destroyed.
- I agree to take part in this research.
- I wish to receive a copy of the report from the research (please tick one): Yes No

Participant's signature:

Participant's name:

Participant's Contact Details (if appropriate):
.....
.....
.....
.....

Date: 02/09/2014

Approved by the Auckland University of Technology Ethics Committee on

AUTEC Reference number 14/237

Note: The Participant should retain a copy of this form.

This version was last edited on 8 November 2013