

The Dynamics of Offshore Sourcing:
A Study of Australasian High-Tech
Small – Medium Manufacturers

Taghreed K. A. Hikmet

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Abstract

This study contributes to knowledge about offshore sourcing dynamics by investigating the determinants of a firm's mode choice during offshore sourcing, highlighting the triggers that initiate mode switching. Accordingly, the study focuses on a foreign firm's choice of governance mode, while also contributing to a deeper understanding of how governance mode switching impacts offshored activities, using a sample of Australasian small and medium-sized enterprises (SMEs) within the high-tech manufacturing industry outsourcing to China. The study investigates the triggers that initiate mode switches and the impact of alternative governance arrangements on a firm's offshored activities in China.

This study utilises the philosophical position of an interpretive framework. It employs multiple case studies as a strategy of inquiry, drawing on the experience of offshore sourcing to China recounted by 20 entrepreneurs or key personnel at the managerial level, during in-depth, semi-structured face-to-face interviews, which were then thematically analysed. The study uses the metonymic title of *governance mode choice and mode switching determinants*, theoretical constructs that developed from the findings and were integrated into a framework and discussed in the light of relevant literature.

The results show that every participant firm changed governance mode at least once whilst offshoring in China and that there was a pattern of mode switching among the studied firms. After being in China for more than two years the findings show that firms start switching their transaction modes in various ways that are termed pure switch, mode expansion, or mode extension. The study shows that a firm's mode and transaction switches could occur simultaneously, which extends understanding of the dynamic aspects of firms' governance mode choices and mode switching during offshore sourcing and provides insights into the determinants that trigger and initiate mode switching.

The findings highlight a relationship between the firms' learning process in acquiring market knowledge and their mode switching behaviour. As firms become more knowledgeable, they were willing to assume higher levels of risk and to commit

resources to building trust-based relationships. This finding contributes to strengthening global value chain (GVC) theory suggesting that it is not only changes in task or transaction variables that trigger mode switching, but also learning, which enables both corrections and moves towards more optimal modes.

The thesis offers three key findings. First, it is clear that there are shortcomings in existing theory, including global value chain theory, transaction cost economics, and process models of internationalization. In particular the model of Gereffi et al. (2005) omits important determinants of both initial mode choice and mode switches. Second, it is not only the 3C variables (complexity, codifiability and supplier capability) that determine mode switching; there are other factors such as home-host country institutional differences and market knowledge acquired through experience in overcoming home-host country institutional differences. Third, the GVC model is static and lacks dynamism which the results of this study reveal in the form of ongoing learning and which is important in initiating different forms of mode switching (pure switch, mode expansion, and mode extension).

The results illustrate that maintaining a firm's international competitiveness through mode switching during offshore sourcing can be challenging but manageable, but one that can offer an opportunity for a stronger and more competitive market position. Policy makers, educators, and entrepreneurs can benefit from the findings that highlight factors critical to successful offshore sourcing and its contribution to SME 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 acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.



Taghreed Hikmet

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Ethics Approval

Ethics Application: 17/221 Governance of offshore sourcing: Australasian high-tech SMEs

I wish to advise you that the Auckland University of Technology Ethics Committee (AUTEC) has **approved** your ethics application at its meeting of 10 July 2017.

This approval is for three years, expiring 10 July 2020.

Introduction and Background

Introduction

Firms of various sizes, and from different industries, are increasingly sourcing parts of their value chain activities outside their home countries and, for many smaller firms, offshore sourcing is a key step in their internationalisation process. Some economists, Blinder for example, describe offshore sourcing as the “third industrial revolution”, or as a “disruptive, historical force” that is restructuring economies, the effects of which will last for several decades (2006, p. 126). In line with Blinder, Wyndrum sees offshoring as an “inevitable outcome of globalization” (2006, p. 18).

The drivers, benefits, and challenges of offshore sourcing are well understood, researched, and studied (Oshri, Kotlarsky & Willcocks, 2015; Roza, Bosch, & Henk, 2011; Beverakis, Dick, & Cecez-Kecmanovic, 2009). However, the determinants of a firm’s governance mode choice and possible governance mode switching, as well as the triggers that initiate mode switches, are not fully understood (Hikmet, 2015; Liesch, Buckley, Simonin, & Knight, 2012). At this stage, the purpose of governance, for example, is to coordinate and integrate stages of a global value chain. On the other hand, Bevir (2012, pp, 2-6) refers to governance as the “processes of social organisation and social coordination [which] combine established administrative arrangements with features of the market”.

The essential governance mode choices in offshore sourcing, are between ownership (captive offshoring), contractual relationships with external providers, and pure trade-based or arm's length relationships. As the majority of offshore sourcing relationships are contractually based (Kedia & Mukherjee, 2009), issues of contractual commitment, performance and enforcement arise. Institutional deficiencies in these areas encourage social arrangements such as a reliance on networks and trust, based on personal relationships and investments in quality assurance and intellectual property protection (Kedia & Mukherjee, 2009; Scott, Gilson & Sabel, 2009).

Accordingly, this research focuses on a foreign firm’s choice of governance mode, while the overall aim of the thesis is to contribute to a deeper understanding of how governance mode switching impacts the offshored activities of small and medium-

sized enterprises (SMEs). As well as governance mode switching, the study investigates the triggers that initiate such mode switches, and the impact of alternative governance arrangements on the firm's offshore activities in emerging markets.

Small-medium enterprises (SMEs) are the dominant form of business, accounting for 95-99% of the enterprises total number around the globe (OECD, 2005). Many international studies examined the international activities of SMEs, including their offshore sourcing, but tend to be concentrated on the internationalisation process (Brouthers & Nakos, 2004; Wolff & Pett, 2000). Only a few studies examine mode switching (Hikmet 2015; Welch Benito & Petersen, 2007; Calof 1993; 1991) and they do not fully explain the dynamics of governance mode switching over the offshore outsourcing cycle, the triggers that initiate mode switches, or the impact of alternative governance arrangements on the firm's activities. This then constitutes a genuine research gap in terms of governance and changes in modes of governance, or as governance mode determination and switching.

Thus, the present study examines Australasian (New Zealand and Australian) small and medium enterprises (SMEs) within the high technology manufacturing (HTM) industry to examine these governance issues. The sample firms are likely to meet the criteria of having a competitive advantage in intellectual property or know-how, and are offshore sourcing part of their production activities to China.

The thesis comprises seven chapters. The first chapter covers the introduction and the background of the studied phenomenon, offshore sourcing, and its definition; the second chapter details the study's literature review; the third chapter covers the study's methods and methodology; the fourth chapter covers data collection and analyses; the fifth and sixth chapters present the findings of the study and the discussion; and the last chapter presents the conclusion, implications, limitations and recommendations.

Definition of offshore sourcing

Offshore sourcing is a combination of two concepts: offshoring, which is related to the geographical location that is located outside a firm's home country, and sourcing concept, which is related to the firm's governance or control choice in managing its activities. In relation to geographical location, some scholars, such as Pain and van

Welsum, provide a wider definition and perceive *offshoring* as an “international sourcing of activities that were previously undertaken within national borders” (2004, p. 88). Beugelsdijk et al. (2009), however describe offshoring as moving a part of a firm’s value chain activities to another country, in order to take advantage of cost variances between and across the different locations.

Sourcing, the latter concept, can be seen as an organisational dimension that is linked to the firm’s make or buy decisions, using either outsourcing or insourcing. The decision to outsource relates to contracting out those activities of a firm to an external party that were once performed internally, without making a distinction about the geographical location, be it domestic or international (Plankenhorn, 2009; Tadelis, 2007; Beaumont & Sohal, 2004). In some cases, firms may contract out some of their activities to a combination of domestic and offshore contractors or suppliers at the same time, which is known as *hybrid outsourcing* (Plankenhorn, 2009, p. 18).

Insourcing decisions relate to undertaking a firm’s activities within the firm’s boundaries, without making a distinction about the geographical location. There is a debate between scholars about the internalising of a firm’s activities within the firm and its subsidiaries’ boundaries in an offshore location, which is known as captive sourcing. Some scholars, however, perceive such activities as a form of outsourcing at an international level (Mol et al., 2005; Ferdows, 1997; Vernon, 1966), due to the different geographical locations of the company’s headquarters and its offshored subsidiaries. However, a company’s affiliates help to expand the capacity of their parent company in the home country by “using ... resources that are internal to the multinational when different competencies are required” (Grobler et al., 2013, p. 301; Mol et al., 2005). They can also be considered as preferred suppliers by their home country or by other firms who want to source from these offshore locations (Mol et al., 2005).

Figure 1.1 is a simple matrix that summarises the different relationships between location and ownership by plotting ownership (insourcing vs. outsourcing) on one axis, and geographical location (domestic vs. international) on the other. For example, Grids 1 and 2 present alternative governance modes that a firm can choose to manage its activities outside national borders, choosing between foreign direct investment

(FDI) and internalisation through ownership, or non-equity modes (NEM), which involve externalisation or outsourcing (UNCTAD, 2011). UNCTAD (2011) defines FDI as “an equity-based strategy, based on control through ownership and is widely adopted by MNEs in their foreign operations” (Hikmet, p. 15). NEM however, is “exercised through contract specifications.... [that] is related to outsourcing strategies that firms might use to govern their resources” (Hikmet, 2015, p.17; Maister, 2012). Grid 1 is linked to international outsourcing, while grid 2 shows the firm’s international insourcing (sometimes called captive offshoring). Accordingly, and in line with Norwood et al. offshore sourcing activities could be divided into two groups: *offshoring* and *sourcing*, which includes shifting a firm’s activities “abroad to unaffiliated firms or their own affiliates” (2006, p. xiv). Grids 3 and 4 in Figure 1.1, display the governance mode choices available to a firm for its domestic activities (internalisation vs. externalisation), which are outside the scope of this study.

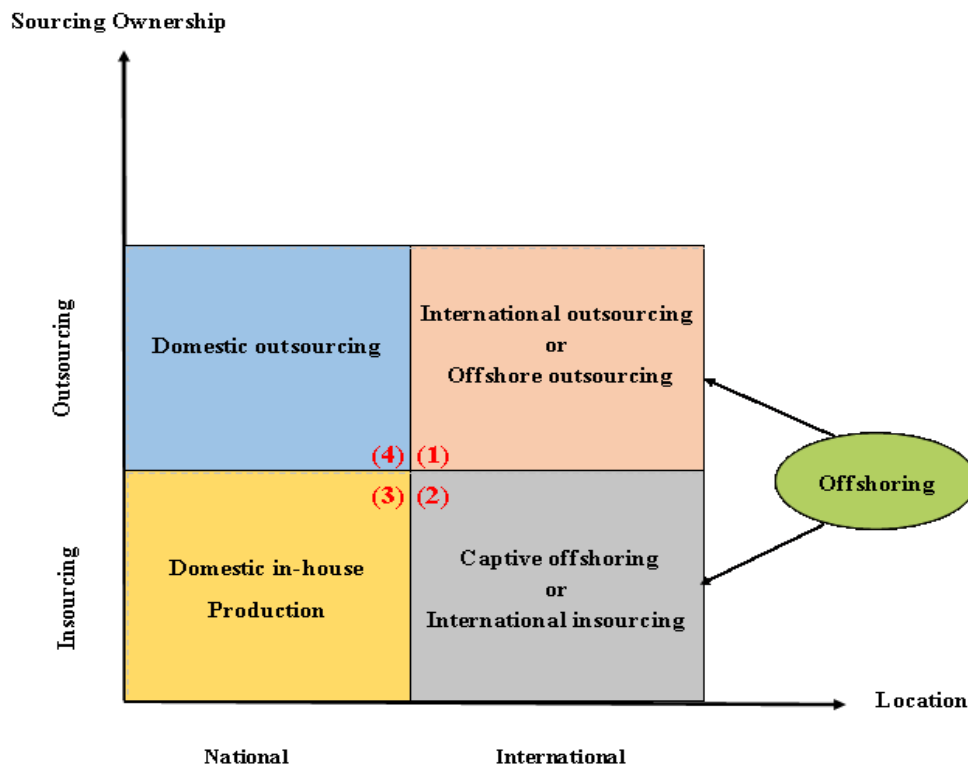


Figure 1.1 An illustrative matrix of insourcing, outsourcing, and offshoring. From (Hikmet, 2015, p. 15).

In line with the definitions provided by Plankenhorn (2009) and Norwood et al. (2006), the present study considers that offshore sourcing covers both captive sourcing within a firm’s overseas affiliates, and external sourcing from a third party beyond the borders of a firm’s home country. Therefore, the present study defines *offshore*

sourcing 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). On this basis, a firm’s decision to “make or buy” at any foreign location will be “based on relative costs and benefits, associated risks, and the feasibility of each option” (UNCTAD, 2011, p.124; Buckley & Casson, 2001).

Offshore sourcing governance mode choice and mode switch

As noted earlier, the offshore sourcing decision is related to the geographical location choice of the firm’s activities and the sourcing decision, which is linked to the firm’s make or buy decision, either insourcing or outsourcing and is related to the firm’s ownership and choice of governance mode in managing the firm’s offshored transactions. Governance, according to Williamson (1979), is a framework based on “the net effects of internal and external transactions” of the firm (Kaplan Financial, 2013, para, 4) and results in different types of investments being made by the firm, such as FDI or NEM investment (Bals, Jensen, Larsen & Pedersen, 2013).

According to the World Investment Report 2011 (United Nations 2011), a firm’s offshore sourcing decisions are no longer based only on a choice between FDI and basic trade, but also on a choice between different NEMs of externalisation. When firms decide to externalise their activities through NEMs, their “control is exercised through contracts and bargaining power” over their suppliers (UNCTAD, 2011, p. 125). NEM can be applied to various stages of the supply chain and it assumes different forms, such as “contract manufacturing, services outsourcing, contract farming, franchising, licensing and management contracts, etc.” (UNCTAD, 2011, p. 127). Thus, within the international business context and based on the firm’s governance structure, offshore sourcing activities can be divided into two types – equity and non-equity-based investment (Schwens, Eiche & Kabst, 2011; Brouthers & Nakos, 2004; Nakos & Brouthers, 2002), as shown below in Figure 1.2.

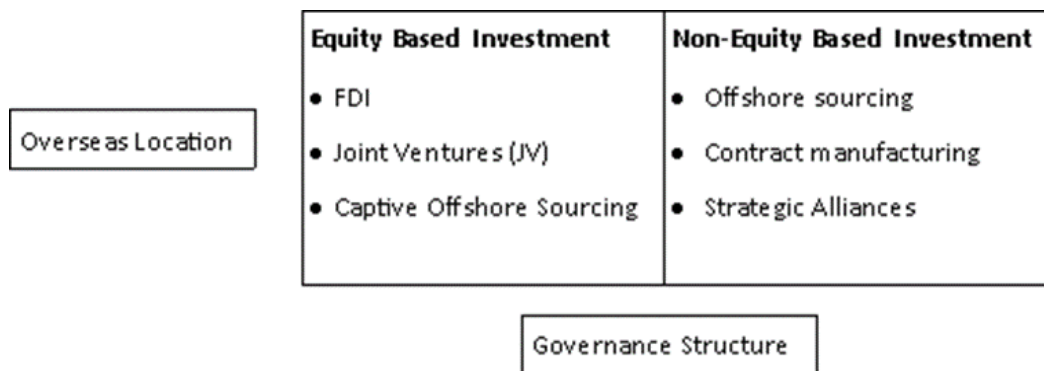


Figure 1.2 Offshore sourcing alternatives based on governance structure.

Governance mode choice

Jessop (1998, p. 29) explains the governance term could refer to "any mode of coordination of interdependent activities", meaning the processes of decision-making that need to be taken by a firm in order to carry out an activity, decide whom to involve, and how to deliver an acceptable outcome within a certain standard. Accordingly, literature defines the governance mode term as "an organisational option used by" the firm to perform a transaction through coordinating its activities to minimise such transaction costs (Simon et al., 2016, p. 3; Williamson, 1975).

Different studies and theories have investigated a firm's governance choice in relation to location and to the nature of the firm's tasks. However, three main literature streams discuss governance issues in detail: Transaction costs (TC), such as Williamson (1981); Networks, such as Gereffi et al. (2005) and Coe, Dicken and Hess (2008); and Institutions, such as Gooris and Peeters (2014) and North (1991). The transactions cost literature identified three governance mode choices that a firm can choose from: hierarchy, network, and market. The network form is considered as a hybrid that involves a mixing of market and hierarchy forms (Roe, 2013; Davies, 2005; Jessop, 1998). Asset specificity, uncertainty (e.g. opportunism and bounded rationality), and frequency of the transaction are the three transaction characteristics that decision-makers should consider when choosing to make or buy (Williamson, 1981). TC's literature suggests these three characteristic variables of the transaction impact a firm's governance mode choice and result in different governance mode choices being adopted.

The network literature stream goes a step further, for example, Gereffi et al. (2005, p. 78) identifies five major governance mode choices – hierarchy, captive, relational, modular, and market – ranging from "high to low levels of explicit coordination and power asymmetry" (see Table 2.1 and Table 2.2). Gereffi et al.'s work identified three transaction variables that management should consider, in managing activities, domestically and internationally, and could affect a firm's governance mode choices: transaction complexity, transaction information codifiability, and "the capabilities in the supply-base" to meet the firm's transaction requirements. The institutional literature stream suggests that a firm's decision-makers should also consider home-host country institutional-differences when choosing the location for performing the firm's activities. According to international business scholars, such as Kostova (1997), the 'institutional difference' term, is used to explain how the institutional system of an offshore location differs from the home country's institutional system. Sharma, Lindsay and Everton (2015) describe home-host countries' institutional differences as very challenging playing "an important role in deciding the fate of the outsourcing venture" (p.6).

In the case of offshore sourcing and links between location and a firm's ownership or governance mode choice, studies show mixed results. For example, TC literature suggests that high levels of home-host institutional differences raise the external uncertainties that make firms lean towards hierarchy governance mode, and away from market types. Institutional literature suggests in such situations, that firms might be inclined to use contractual and low commitment governance modes for their investments "to mitigate the external uncertainty", as well as leveraging from the host "country-specific knowledge and capabilities of local outsourcing partners or international providers experienced in the host location" (Gooris & Peeters, 2014, p.77; Manning et al., 2011). In line with the institutional literature, the network literature also suggests that in such a situation, firms might push their value chain activities "away from hierarchy and captive networks and toward the relational, modular, and market types" (Gereffi et al., 2005, p.96). The three literature streams highlight that "the costs of a hierarchical model would outweigh the transaction costs of a market solution", due to the "liability of foreignness in managing relationships

with local stakeholders" (Gooris & Peeters, 2014, p.74: Arora & Fosfuri, 2000; Meyer, 2001).

Research shows that firms prefer the hierarchy and captive mode for their offshore activities due to the uncertainties that result from geographic and cultural difference, while, in the case of institutional differences, firms favour contracting out their activities to minimise their "foreign commitment (to leverage) the resources and local experience of third party service providers" (Gooris & Peeters, 2014, p. 75). But sometimes, even with the high level of external uncertainties in a host country, firms might still favour adopting the captive or wholly-owned subsidiaries governance mode over their offshore activities, especially ones that can be considered as firm-specific assets such as R&D and know-how activities (Hikmet, 2015). Accordingly, such mixed results about the determinants of the firm's ownership or governance mode choice within the context of offshore sourcing, seems to indicate a literature gap or a weakness that requires more investigation, which is the intention of this study.

Governance mode switch

Literature suggests that a firm's mode choice is unlikely to be fixed and firms may need to switch their governance mode for national and international transactions for many reasons (Welch et al., 2007; Huhtanen, 2009; Hikmet, 2015). For example, firms might face different levels of uncertainty and initial choices are made under conditions of imperfect information available for the decision-maker of these firms. Due to the nature of the present study, governance mode switching is going to be discussed within the international business context. Sachse (2011) explains that mode switching occurs when a firm changes or switches between two governance modes, by moving from one mode to another. Studies highlight that the triggers that initiate mode switches could be related to the external environment of the firm (e.g. change of local government policy) (Huhtanen, 2009) or related to the firm's internal environment (e.g. accumulation of market knowledge about the host country, network at host country, etc.) (Welch et al., 2007).

Scholars like Petersen and Welch (2002) and Benito et al. (2009), highlight that existing knowledge about the nature of a firm's governance mode change, is relatively basic and studies view mode switches from a simplistic and static perspective emphasising

that a firm's mode switching occurs by shifting from one mode to another (Welch et al., 2007; Pedersen et al., 2002; Benito & Welch, 1994). For example, the network literature stream, such as Gereffi et al.'s (2005) suggests that a firm should use one mode structure at a time. Such a singular perspective means that if environmental conditions remain unchanged, a firm can perform one task using one governance mode at a time. It also assumes mode switching happens when a firm's transaction remains the same, only the governance mode changes (Gereffi et al., 2005).

Accordingly, if the firm starts to undertake other transactions, then it may make a different governance mode choice or may wish to combine modes. However, Benito et al. (2009, p. 1455) stated that, within the international context, "observation of business practice reveals a 'messier' reality: in particular, mode packages, mode changes and mode role changes, seem quite common" and this questions the view of mode switches from the singular perspective, shifting from one to another (Welch et al., 2007; Pedersen et al., 2002; Benito & Welch, 1994). At the same time, most of the existing literature about the firm's mode, focuses on foreign operating modes and entry modes rather than governance modes and how these may change during an offshore sourcing lifecycle (see Dow, Liesch & Welch, 2018; Benito et al., 2009; Welch et al., 2007; Pedersen et al., 2002; Petersen & Welch, 2002; Benito & Welch, 1994), which is the point of interest in this study. Therefore, governance mode "needs to be approached in a more explicit way", especially during internationalisation (Petersen & Welch, 2002, p. 162).

China as a location

Offshore sourcing as a strategy (da Silveira, 2014), has been studied and examined, creating a vast literature on the subject (Kotabe and Mudambi, 2009; Contractor, Kumar, Kundu & Pedersen, 2010), covering different aspects such as drivers, barriers, advantages and disadvantages (Babbar and Prasad, 1998; Quintens et al., 2006). Studies show declining trade and investment barriers between different countries, as well as the improvements in both global logistics and communications and their infrastructure in the last few decades, have encouraged more firms to undertake offshore sourcing.

Literature from different business-related fields shows that China is considered a favored location for offshore sourcing activities by many manufacturing firms (Matteo,

2003), particularly for its ability to provide low cost labour and resources as well as high-technology manufacturing and R&D capability (Hikmet & Enderwick, 2015; Brown, 2005). During the last few decades, China has undergone rapid industrialisation driven by its growing integration into the global economy, transforming the country into a more market-based economy (Herrigel, Wittke & Voskamp, 2013). It underwent trade liberalisation and a unilateral tariff reduction in the early 1990s and joined the World Trade Organisation (WTO) at the end of 2001 (Hikmet, 2015; Zheng, 2013). Joining the WTO encouraged the development of the logistics industry as well as increasing the demand for sourcing from China (Agarwal and Wu, 2004).

Moreover, China contains specialised areas, with different cities that specialize in different things and each region of China has specific characteristics. For example, southern China specialises in the electronics industry, which is the broader industrial category of the focal industry of this study, the high-technology manufacturing industry. A region such as southern China, which has a large supply base and is also logistically attractive by being close to Hong Kong, has experienced suppliers who are used to dealing with western companies. This province is also where the regulations are possibly the least taxing for business. Accordingly, the transformation of the Chinese economy ensured it became deeply “integrated into the world economy” (Agarwal & Wu, 2004, p.280), creating “a dominant position within regional and global production networks to emerge as the world’s largest manufacturer” (Hikmet, 2015, p. 8; Morrison, 2013). However, doing business in the Chinese market is not as smooth as it may appear. Like any market, China comes with its own challenges and issues, and these are considered in chapter two.

SMEs

The OECD (2014) reveals that SMEs “constitute the dominant form of business organisation in all countries world-wide, accounting for over 95% and up to 99% of the business population depending on the country” (OECD, 2005, p.16). The report also shows that SMEs have in most economies “grown at a faster rate than the overall enterprise population.... [and they] generate two-thirds of private sector employment”. Studies show that within the OECD countries, SMEs accounted for

more than 95% of manufacturing firms (ITC, 2015; Ardic & Hommes, 2013; Edinburgh Group, 2013; Ayyagari, Demirguc-Kunt & Maksimovic, 2011; ACCA, 2010; OECD, 2005).

Brouthers and Nakos state that SMEs “are not smaller versions of larger companies, but mainly due to their size they tend to interact differently with their environment” (2004, p. 229). According to Schwens, Eiche, and Kabst (2011), the characteristics of SMEs differ from those of bigger firms in several ways; for instance, in ownership, managerial style, availability of resources, specialisation in niche markets, flexibility and response to market changes. Therefore, in recent years’ consensus has begun to build around the importance of studying SMEs’ offshore sourcing, in order to develop a more holistic understanding of the offshore sourcing phenomenon among such firms. It has been argued that the limited resources possessed by these firms has an impact on their decision-making in subsequent ventures (Scott-Kennel, 2013; Price, Stoica & Boncella, 2013). For example, Nakos and Brouthers (2002, p. 48) explain that SMEs might use NEMs when offshoring such as in exporting and licensing, in order to reduce their investment risk or use-equity investment such as wholly- owned subsidiaries. This will be discussed in more detail in the following chapters.

The OECD (2005) report shows that between 30-60% of manufacturing SMEs could be considered innovative firms, because of “their capability to renew technology, to make technological breakthroughs, thereby putting competitive pressure on large firms” (p. 9). In relation to the rising internationalisation level among enterprises, a firm’s innovative capabilities have become critical for sustaining its competitiveness. Therefore, SMEs “have increasingly relied on networks, clusters and partnerships which provide access to information, know-how and new technologies” (OECD, 2005, p.9).

Furthermore, OECD (2005) states that because of rising internationalisation, innovation continues to be critical for sustaining competitiveness. Entrepreneurial SMEs “have continued to be a key source of dynamism, innovation and flexibility” (OECD, 2005, p.9). Accordingly, the present study uses Australasian SME as a vehicle for looking at governance mode choice and mode switching dynamics during offshore sourcing to emerging economies like China.

Australasian SMEs and offshore sourcing

The term Australasia refers to the region that consists of Australia, New Zealand, New Caledonia and New Guinea” (Heads, 2014, p. ix). In the present study, Australasia refers to Australia and New Zealand, while Australasian SMEs refers to small to medium enterprises from both Australia and New Zealand.

Although both countries recognise a small firm as consisting of no more than 20 employees, the figure varies in terms of medium-sized firms, which under Australian standards are described as not exceeding 200 employees, while New Zealand standards state that the number be no more than 50 employees. The definition of an SME in relation to the number of employees, therefore obviously differs. Accordingly, and in line with the New Zealand Ministry of Business, Innovation and Employment definition of SMEs, the present study perceives SMEs as all the enterprises that employ less than 50 employees (Ministry of Business, Innovation Employment [MBIE], 2015; 2014; 2012).

New Zealand and Australia have some similarities, but each also has its own characteristics. For example, both economies depend on primary industries and their exports, which in the case of New Zealand are mainly resource-based products such as agricultural and dairy products, while in Australia they are the mining and ore industries. Moreover, both economies are dominated by SMEs accounting for up to 99.7 and 97% of the Australian and New Zealand ’s total enterprises respectively. Both countries also have open economies that are distant from larger overseas markets, which makes them “highly dependent on international linkages” (Deakins, Battisti, Perry & Crick, 2013, p. 4). Both countries went through an economic reformation and both have signed various trade agreements (e.g., both have an FTA with China, since 2008 for New Zealand and 2015 for Australia), which allowed them to become more integrated with the global economy and has transformed them from being highly-regulated economies, to some of the most open economies in the OECD countries.

Studies show that both countries have diverse economies with a wide range of sectors and each of them has a number of innovative enterprises with “a noticeable international market share managing their global activities from” their home countries base and these SMEs are generally “entrepreneurial innovative high-medium

technology manufacturing” SMEs that specialize in niche markets (Hikmet, 2015, pp.1-2; MBIE, 2013a).

There has been rapid growth within the Australasian high technology manufacturing (HTM) industry over the last few years as a result of economic growth driven by science and innovation which is a top government priority in both countries. This involvement supports businesses becoming more competitive, by improving each country’s technology and R&D innovation levels. The classification of high and medium- high technology industries is based on their level of technological intensity (e.g., R&D expenditure and value added). In other words, they “define on the basis of industry R&D intensity, i.e. R&D expenditures relative to output”, where the SMEs “play a key role in the R&D and innovation system” (OECD, 2014, pp. 470-471). Both high and medium-high technology manufacturing (HTM and MHTM) are sub-sectors under the umbrella of the manufacturing industry and they vary in the amount of expenditure on research and development (R&D) activities. When measured across a range of developed countries, high technology manufacturers (HTMs) spend more than 8% of their revenue on R&D activities, whereas expenditure by medium-high technology manufacturers (MHTMs) on R&D is between two per cent and 8% of revenue (MBIE, 2013).

However, the global openness of the Australasian economies has resulted in greater exposure to global markets and a high level of competition. Such competitive pressure impacts on the local firms’ survival within the Australian and New Zealand national market. The result is that local firms, especially SMEs, “have been forced to search for different ways to improve their competitiveness in terms of costs, knowledge, market access etc. to counteract the competition” and very often they favour international solutions over those at a national level for different reasons. Some are, locational differences, technological revolution, and ease of offshore sourcing activities (Hikmet, 2015, p.1-2).

From the above discussion, and despite the increasing amount of research on offshore sourcing, much remains to be understood at the theoretical level. For example, conceptually, governance alternatives appear straightforward, but the reality in emerging markets such as China is quite different. Since many emerging economies

are characterised by institutional weaknesses or 'voids', confidence in independent enforcement may be low and may need to be supplemented by other forms of trust building or assurance through personal networks and friendships.

Hernandez and Pedersen (2017, p.141) explain that “most of the studies adopt a static perspective when examining the governance decisions”. As noted earlier, different literature streams focused on different elements of governance issues during offshore sourcing, but all of them have quite static outcomes and they offer little detailed discussion of the precise nature of governance structures that firms use to manage offshore sourcing. They do not explain the dynamics of governance mode switches and how governance processes change or evolve, the triggers that initiate mode switches, or the impact of alternative governance arrangements on the firm’s offshore activities (Norwood et al, 2006). This indicates a literature gap or a weakness in terms of governance mode determination and switching, which is the present study's point of interest and which is explored.

Furthermore, a recent study about NZ SMEs within HTMs who moved their production activities to China, has shown that the theoretical perspectives on the governance of offshoring do not seem to capture the reality of operating in a relationship-based economy such as China, where institutional weaknesses mean that greater reliance is placed on networks and relationships. It highlights that the studied firms managed to reduce their transaction costs and still create a profit within such environments, through their governance mode choices and modifying or switching between different governance modes. The extent of their cost savings is linked to their governance choices and networking. In essence, greater control over quality or intellectual property protection, comes at the price of reduced cost savings (Hikmet, 2015; Hikmet & Enderwick, 2015). The study highlighted the importance of understanding how firms manage the governance process and gave some insights into the triggers behind mode switching. Thus, it reveals that the theoretical viewpoints on the governance of offshore sourcing do not seem to capture the reality of operating in a relationship-based economy such as China, where institutional weaknesses mean that great reliance is placed on networks and relationships. Nevertheless, the study did not fully explain the dynamics of governance mode switching over the offshore outsourcing cycle, the triggers that initiate mode switches, or the impact of alternative governance

arrangements on the firm's activities. This seems to indicate a research gap in terms of governance and changes in modes of governance, or as governance mode determination and switching, which is the focus of the present study.

The researchers recommended taking and extending this research using a larger sample to investigate "the choice of governance mode and the triggers that initiate mode switches" (Hikmet & Enderwick, 2015, pp. 13-16) when offshore sourcing to China. Therefore, the present study responds to their recommendation by using a larger sample of firms and building on these results. In this way, internationalisation theories do not deal well with institutions, indicating a weakness in the literature.

Accordingly, the present study aims to address the above-mentioned research deficiencies by studying the relationship between SMEs' activities transaction costs, governance mode switching and triggers that initiate governance modes switching during offshore sourcing. Therefore, the present study's contributions will not just be to academia, by extending the existing knowledge of firm's mode switching during offshore sourcing and the triggers that initiate mode switching, but also managerial decision-making through answering the research question and its sub-questions.

The overarching research question is: *"What factors determine the governance mode choice of Australasian high-tech manufacturing SMEs when offshore sourcing to China and what triggers changes in mode choice?"*

There are five sub-questions which seek to elaborate on the principal research question. These are:

"What factors determine SMEs initial governance mode choice when offshore sourcing to China?"

"Why do companies change their governance modes?"

"What are the triggers that initiate mode switching?"

"How does mode switching contribute to business strategy and international competitiveness?"

"What kinds of adaptations are required for such mode switching?"

Having discussed the importance of high and high-medium technology SMEs to Australasian countries' economies, Chapter 1 comes to an end. The aim of this chapter

was to set the scene and introduce the thesis as well as its structure. The phenomenon under study, governance mode choice and mode switching within the context of offshore sourcing, the nature of the host country, China, and the definition of the SMEs, were briefly outlined. Finally, the importance of offshore sourcing to SMEs within high-tech manufacturing industries and to the economies of their home countries, New Zealand and Australia, was outlined. The following chapter will cover the relevant literature and theories that are related to the studied phenomenon, governance mode choice and switching, within offshore sourcing relations.

Literature Review

The previous chapter introduced the research topic and provided a short background account on the studied industry and its location, Australasian SMEs within the HTM manufacturing industry. This chapter will cover the most relevant literatures and theories that are related to the studied phenomenon, a firm's governance within the offshore sourcing context. The main purpose of this chapter is to clarify where this research fits within the field of offshore sourcing, focusing in particular on questions of governance mode choice and mode switching, by examining what research has revealed on the question of the determinants of mode choice and switches. The remainder of this chapter is organized into six sections. The first section reviews the interweaved relation between the concepts of offshoring and sourcing and the governance mode choices. The second section consists of a literature review on the determinants of choice of governance mode, and the third section reviews the literature on the determinants of governance mode switching. The fourth, fifth, and sixth sections cover, respectively, the focal theory, aim and significance of the study.

Introduction

Firms of various sizes and from different industries are increasingly offshore sourcing parts of their value chain activities. For many smaller firms, offshore sourcing is a key step in their internationalisation process. The literature suggests that offshore sourcing involves three interweaved elements: task, location and governance. The relationships between two of these, location and governance, can be presented in a 2x2 matrix (see Figure 2.1); so that offshore sourcing is a combination of two concepts, offshoring (location) and outsourcing (governance).

The offshoring concept is related to the geographical location of a firm's activities, and specifically, to activities located outside a firm's home country. In theory, offshore operations can be managed within firm boundaries through a wholly or majority owned facility (captive offshoring), or outside these boundaries through arms-length or trading relations, or through some form of contractual relationship. Each offers various benefits and cost implication; for example, a captive facility gives greater control over quality and intellectual property rights but may not offer the cost savings that outside suppliers can achieve. A pure trading relationship may work for the

exchange of standardised commodities but offers little opportunity for customisation or mutual learning. Contracts, while appealing in theory, are only effective if the contracting parties have confidence in the institutional structures of the host country, particularly the legal and policy systems that ensure contractual enforcement.

		LOCATION	
		DOMESTIC	INTERNATIONAL
GOVERNANCE	INTERNALISATION	1: Inshore Insourcing (Domestic production)	3: Offshore Insourcing (Captive offshoring)
	EXTERNALISATION	2: Inshore Outsourcing	4: Offshore Outsourcing

Figure 2.3 An illustrative matrix of insourcing vs outsourcing, and in-shoring vs offshoring

On the other hand, the sourcing concept is linked to the firm's make or buy decision, either insourcing or outsourcing and is related to the firm's ownership and choice of governance mode in managing its activities. The decision to outsource, relates to contracting out activities to an external party, without making a distinction about the geographical location, be it domestic (e.g. grids 1 and 2 in Figure 2.1) or international (e.g. grid 3 and 4 in Figure 2.1) (Plankenhorn, 2009; Beaumont & Sohal, 2004; Tadelis, 2007). Literature suggests that the growth of information technology (IT), especially the development of the internet and its long-distance infrastructure, from the mid-late 1990s onwards, has increased offshore sourcing especially within the service industry sectors. Examples are call centres, computer programming, the reading of medical data, income tax preparation, information technology and business process

outsourcing (IT-BPO services). Different studies point out that the development of the internet has helped the digitization of many services, thus boosting the service industry sector, and currently many firms offshore source different areas of their business, including knowledge processes (Brown, Linden, & Macher, 2005; Gereffi & Fernandez-Starck, 2010). As an illustration, the contract value of the global outsourcing market for the information technology industry grew by 97 percent between 1989 and 2013, from US \$10 billion to US \$344 billion (Oshri, Kotlarsky, & Willcocks, 2015; Bhimani & Wilcocks, 2014).

Generally, the information systems (IS) (Gregory, Beck & Keil, 2013; Rai, Maruping & Venkatesh, 2009) and business processes (BP) (Rai, Keil, Hornyak & Wullenweber, 2012; Lacity, Solomon, Yan & Willcocks, 2011) literature, investigates sourcing from different perspectives, such as project level (Gregory et al., 2013), transaction level (Gopal, Sivaramakrishnan, Krishnan & Mukhopadhyay, 2003), and between domestic and offshore outsourcing (Lioliou et al., 2014; Rai et al., 2012; Lacity et al., 2011; Lacity et al., 2010; Rai et al., 2009). As noted earlier, the present study focuses on the manufacturing industry and as the IS/BP fields of study are categorised under the service industry sector, this limits their usefulness for this study. However, there is secondary relevance to the present study where, for example, the focus is on the efficiency of information processing that relates to the task element of offshore sourcing as well as R&D activities.

In line with the definitions provided by Plankenhorn (2009) and Norwood et al. (2006), the present study considers sourcing at an offshore location as offshore sourcing and it covers both captive sourcing within a firm's overseas affiliates (offshore insourcing Figure 2.1, grid 3), and external sourcing from a third party beyond the borders of a firm's home country, which is known as offshore outsourcing (see Figure 2.1, grid 4). Due to the nature of the present study with its focus on small-medium sized firms, according to literature, such firms face resource limitations (e.g. financial, technology, skilled workers), and both offshore outsourcing and offshore insourcing play key roles as governance choice options. The expectation is that these firms will often outsource their activities, in other words, creating offshore outsourcing, by tapping into third-party resources through different relational governance modes to compensate for their shortage of resources, as shown in grid 4 in Figure 2.1. However, it is possible

they might undertake these activities by themselves, as shown in grid 3 in Figure 2.1, so both grids 3 and 4 are included in offshore sourcing strategy. Therefore, the present study will focus on offshore outsourcing, as the starting point, but at the same time will encompass offshore insourcing where required. Bahlla (2013, p. 348) explains that internalising or externalising a firm's activities, domestically or internationally, is normally "based on the relative costs and benefits, the associated risks, and the feasibility of each option". For example, in the case of offshore sourcing, a firm should decide not only the geographical location for its activities, but also simultaneously, the mode of governance that is related to the "control and coordination" of the overseas activities (Bahlla, 2013, pp. 348-349).

This study highlights three elements of offshore sourcing: task, location, and governance mode (see Figure 2.2). The task element is assumed to be predetermined and is expected to focus on components and sub-assemblies. Similarly, the location element is fixed to China, a popular offshore outsourcing location for manufacturing, but one characterised by high levels of uncertainty. It is the governance mode element for the offshored tasks that is expected to show variation and is the 'dependent' variable.

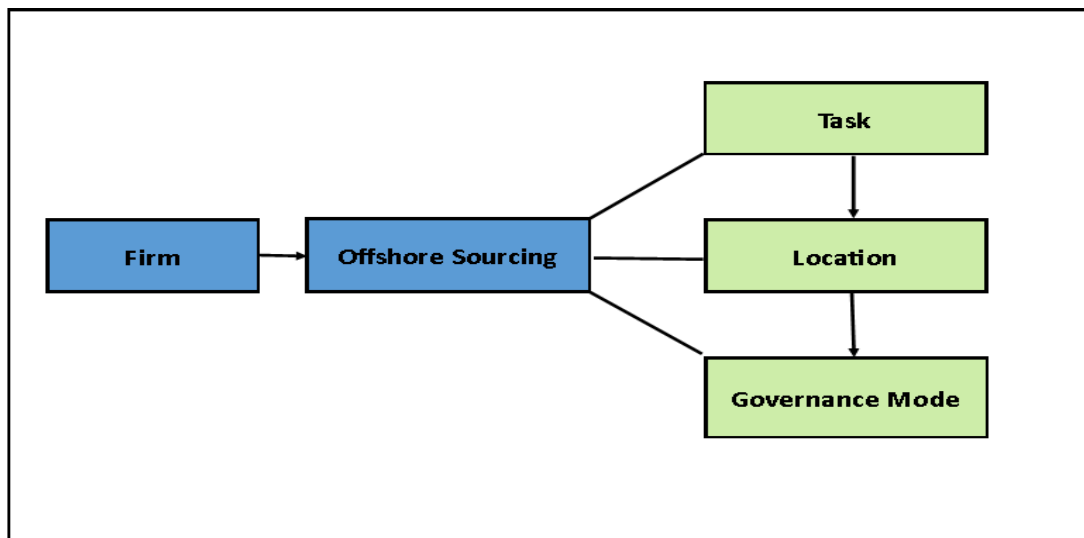


Figure 2.4 Elements of offshore sourcing (task, location, and governance mode) for the present study

Scholars have suggested that the word "governance" is too broad and covers different things according to the context of the study. Roe (2013) states that governance has not been clearly defined and is a broad term that has various definitions based on the

"the issues and levels of analysis to which the concept is applied" (Krahmann, 2003, p. 323). Therefore, the governance term could refer to "any mode of coordination of interdependent activities" (Jessop, 1998, p. 29). For the purposes of this study, governance will be defined as the processes of decision-making that need to be taken by a firm in order to carry out an activity, decide whom to involve and how to deliver an acceptable outcome within a certain standard. It draws directly on Williamson (1979) and perceives governance as a framework based on "the net effects of internal and external transactions" (Kaplan Financial, 2013, para, 4). This will include aspects such as performing a particular transaction within the firm's boundaries, insourcing, or outside the firm boundaries', outsourcing. For example, and in the context of this research, the term 'outsourcing governance' is used in line with Williamson (1979) and sees governance as firms' contractual business relationships, and relates to how firms are managing exchange relationships by contract, because firms do not go outside the organisation based only on trust, but they will have something written down in the form of a contractual relationship. So, the governance term covers different aspects of such bilateral relationships, such as what the relationship means to these firms, what form it takes, or what goes into the contracts. How are they specified? What are their advantages or disadvantages?

Different studies and theories have investigated a firm's governance choice in relation to location and to the nature of these tasks. However, three main literature streams discuss governance issues in detail: Internationalisation stream, such as international process theory (Uppsala model) by Johanson and Vahlne (1977), transaction costs (TC) stream, such as Transaction Costs of Economies (TCE) by Williamson (1981); and networks stream, such as Global Value Chain (GVC) by Gereffi et al. (2005). The present study focuses on a firm's governance mode and mode switching within offshore sourcing, which will be discussed in two sub-sections: determinants of governance mode choice and determinants of mode switching in relation to the three theories identified above.

Determinants of governance mode choice

Simon et al. (2016) define governance mode as "an organisational option used by an economic agent, a firm or organisation, to carry out a transaction". Transaction refers to the business activity, such as the act of buying and selling product or service,

through coordinating its activities to minimise such transaction costs (Simon et al., 2016, p. 3; Williamson, 1975). Ramesh, Wu, and Howlett state that a firm's governance mode choice will be based on their decision-makers' understanding of "(1) the nature of the problem they are trying to address, and the tools they have at their disposal to address it; (2) the innate features of the different governance modes so that they can match these to the problem they seek to address; and (3) the capabilities of [firms] to successfully implement the first best option" (Ramesh, Wu & Howlett, 2015, p. 197). Scholars like Borzel (1998), Jarillo (1988), Mariotti and Cainarca (1986), and Eccles (1981) explain that governance "draws heavily as a concept on transaction economics, referring to the structures of social order" (Roe, 2013, pp. 45-56).

The Uppsala model and its subsequent variants (e.g., Johanson and Vahlne, 1977;1990; 2003; 2006; 2009) describes how firms internationalise gradually through increasing international involvement, based on the firm's incremental learning processes about the foreign market. Johanson and Vahlne (1977) highlight two learning variables that could affect the firm's entry mode choice when entering new foreign market(s): experiential market knowledge and psychic distance. The former variable relates to the firm's previous market knowledge and experience in doing business within similar market(s) to that particular market. The latter variable, psychic distance, is more concerned with the firm's home and host countries' institutional differences, both formal (e.g. law, tax, customs, etc.) and informal (e.g. business practise, language, custom and norms). Knowledge acquisition about the psychic distance is related to understanding the host country 's institutional structure and setting. It is part of the firm's management learning process about that foreign market through understanding the host country's ways of doing business, the role of government, relationships and links that are dynamic and changing. Johanson and Wiedersheim-Paul (1975, p. 308) state that the home-host institutional distance could "impact the information flow between the firm and the host market". Some literature refers to psychic distance as institutional differences or distance (see Gooris & Peeters, 2014, p.76; Meyer et al., 2009; North, 1991).

Firms' internationalisation through stages over time, helps them build their "positions in foreign markets and networks, following iterative cycles of learning and changes in commitment" (Santangelo & Meyer, 2011, p. 894). The Uppsala theory suggests that

the steps that a firm's foreign operation modes within an overseas market, develop and switch in a predictable way (Morschett, Schramm-Klein & Zentes, 2015).

It proposes that the firm acquires experience within its domestic market first before entering a foreign market. Initially a firm enters overseas markets that are "culturally and/or geographically close" to its home country and then "move gradually to culturally and geographically more distant countries". Similarly, the firm starts its offshore activities or "foreign operations" using traditional exports, and then gradually uses "more intensive and demanding operation modes (sales subsidiaries etc)" (Sarkar & Mukherjee, 2019, p.75). Accordingly, firms move "from domestic activities to the initial stages of (in)direct exporting, then to intermediate stages such as establishing a representative office or appointing an in-country agent, licensee or franchise, then finally to later stages involving the establishment of joint or wholly owned production facilities in the foreign market" (Scott-Kennel, 2013, pp. 3-4).

Once the firm enters a foreign market and starts doing business within this market, it starts to accumulate "experiential knowledge incrementally [that] leads to the willingness to commit additional resources" at later stages (Morschett et al., 2015, p.135). This creates an incremental linear chain known as the establishment chain (see Dow et al., 2018, p. 4688; Johanson & Vahlne, 2009). Literature suggests that the establishment chain looks at the firm's progression within markets, with successively greater psychic distance in terms of transaction cost, market understanding, risk, resource commitment, and the need to ensure control over its transactions (Morschett et al. 2015; Forsgren, 2002; Johanson & Vahlne, 1990). Some scholars perceive the Uppsala model as one of the most influential theories that explain a firms' internationalisation process (Ribau, Moreira & Raposo, 2015). For example, Welch and Paavilainen (2014) described it as the only theory "that explains the process of internationalisation" (Vahlne & Johanson, 2017, p.1088).

Forsgren (2002, p.259) states the underlying logic of "incrementalism" could be perceived as the firm's managers or personal learning process through "learning by doing" things (Johnson, 1988; Quinn, 1980). Then the acquired knowledge "must be interpreted" by the firm's decision-makers (e.g. manager, owner, etc.) before it influences the firm's management decision and behaviour. This highlights how the management learning in the foreign market might affect the firm's mode choice or

shifts in mode choice, and particularly the establishment chain. Therefore, under the same conditions, mixed and(or) contradictory outcomes could be observed for firms' behaviours and actions due to the "different interpretations made by different individuals and groups, with different goals and commitments" (Forsgren, 2002, p.268). Accordingly, the Uppsala model provides links between management learning and the establishment chain, highlighting how establishment chains shift as learning increases. Dow and Karunaratna (2006) emphasize the importance of the firm's manager(s)/decision-maker(s) background (e.g. education, international experience, age, etc.) on their sensitivity, perceptions and interpretations of psychic distance (Ojala & Tyrvainen, 2009, p. 264). This suggests that the Uppsala model's experience variable (Johanson & Vahlne 1977; Johanson & Weidersheim-Paul 1975) includes or is indirectly linked to international experience of the firms' management.

Based on the above discussion, the firm's entry mode and its subsequent operational modes within foreign market(s), could be influenced by its experiential knowledge level within that market as well as the psychic distance between home and host country markets. A firm's entry mode, according to Pehrson (2006, p.132), is the initial "institutional arrangement that facilitates the firm's bringing its" product(s) and or service(s) into a foreign market through marketing. Other writers like Sharma and Erramilli (2004, p. 3) link entry mode to sourcing product(s) or service(s) from that particular market through production "operations there by itself or in partnership with others". Therefore, this study perceives the entry mode term as the initial point that the firm entered a foreign market, whether for selling or sourcing products or services, and very often firms base such decisions on the TC consideration.

Literature highlights five types of entry modes: exporting, licensing, franchising, Joint Venture, and wholly owned subsidiary (Cavusgil, Knight & Riesenberger, 2020;2017). Scholars like Meyer (2019) and Welch et al. (2007) criticise the use of entry mode term because there might be differences between entry mode and the final mode or later mode of the firm, and they suggest the use of the term foreign operating mode instead. Scholars define operating mode as an institutional arrangement that a firm uses "for organising and conducting an international business transaction" after entering the foreign market, and there are three primary type operational mode choices: market modes (e.g. direct and indirect export), cooperation or contractual

modes (e.g. contract manufacturing) and hierarchy modes (e.g. captive and wholly owned subsidiaries) (Morschett et al., 2015 pp. 3-323; -, Welch et al., 2007). The Uppsala model highlights that a firm's operational mode choice is based on incremental knowledge acquisition within the foreign market. It suggests that the lack of knowledge and experience in doing business within that foreign market raises the level of uncertainty and inclining the firm to low resource commitment as governance mode choice for its offshore activities. As noted earlier, this research focuses on the triggers that initiate mode switching after entering foreign markets like China, therefore the discussion focuses on the subsequent mode more than the firms' entry mode.

Although the Uppsala model is considered one of the most influential theories of firm internationalisation, it also has some weaknesses. For example, the model is based on the view that the firm designs, produces and markets a certain product or several products but is integrated internationally to utilise the lower risks that integration brings to the firm (Johanson & Vahlne 1977). It does not address a fragmented firm that is interested in the optimum location for parts of its value chain where the firm is willing to share some risks to achieve a cost benefit, which is the present study's point of interest. Therefore, it is hoped that this study and its findings could contribute to filling the above weakness.

The model helps us to think about the firm's operating mode stages when entering a foreign market and how experimental knowledge acquisition by the firm, influence resource commitment progression within that market (Johanson & Vahlne 1977). However, it is relatively static, and it does not generate a great deal of dynamism of learning and feedback. For example, Santangelo and Meyer (2011) argue that within some foreign markets institutional voids and uncertainty (e.g. China) could play a negative role in the firm's experiential learning process and might result in derailing the firm's internationalisation process. Others such as Forsgren (2002) and Dow et al. (2018) criticise the Uppsala model for applying a very "narrow interpretation of learning" and it focuses on acquiring foreign market knowledge through experimental knowledge within the market only (Forsgren, 2002, p.257). They highlight that firms may also acquire foreign market knowledge from various "non-experiential forms of

learning such as through relationships with other firms, imitation of other firms, the use of short-cuts such as acquisitions and focussed searches in new areas”.

As noted earlier, according to the Uppsala model, “firms will follow a gradually increasing resource commitment path in each country” (Carneiro, Rocha & Silva, 2008, p.87). But, some literature shows that some firms might be “skipping some earlier stages of gradual commitment” by hiring people with experience in doing business in that particular market (Carneiro et al., 2008, p96); enabling firms to shorten their learning time within that foreign market (Dow & Karunaratna, 2006). With regards to the importance of the firm’s acquired knowledge and its interpretations, the Uppsala model highlights that market knowledge “is stored, at least partly, in the minds of the individual” (Forsgren, 2002, p.269; Johanson & Vahlne, 1977). However, it “does not deal explicitly with the individual” knowledge acquisition and who is interpreting such knowledge (e.g. managers), which is a weakness of the Uppsala framework (Forsgren, 2002, p.269). For example, a study done by Forsgren (2002) highlights that individuals who are involved in offshore operations are the main holders of the firm’s acquired market knowledge and experiences within that foreign market.

Therefore, this present study investigates mode choice and mode switching determinants from a managerial perspective. It is hoped the study provides insights about the importance of manager/decision-maker interpretation of the offshored acquired knowledge and how such interpretations could influence the internationalisation process of the firm.

Concerning the Uppsala model's psychic distance variable, Sousa and Bradley (2006) argue that this variable is very subjective and relates to personal interpretation, which could vary among firms or even among the employees within the same firm. Ojala and Tyrvainen's study shows that "some employees are more sensitive than others to differences between the home and host countries” (2009, p. 265); and thus, might provide a possible reason why different firms are targeting preferred different foreign markets or even why they are utilising various governance modes for their offshore transactions.

The present researcher perceives Uppsala theory as very useful as a starting point for investigating the studied phenomena because the model emphasises a firms’ learning

perspective, including management learning, within the market knowledge acquisition context. It assists the researcher in examining a firm's governance mode choice and mode switching progression during the offshore sourcing cycle for the studied SMEs at the level of the individual manager. It provides a starting point for looking into the buyer-supplier dyadic-relationship, which relates to different kinds of complex buyer-supplier interactions, that cannot be captured by investigating a firm's transaction only. Therefore, this study utilises Uppsala model as a secondary theory to further investigate such dyadic relationship(s).

In relation to TCE and based on market failure and imperfections (e.g. imperfect information and bounded rationality), especially within intermediate markets, the transaction cost literature identified three governance mode choices that a firm can choose from: hierarchy, network, and market. The network form is considered as a hybrid that involves a mixing of market and hierarchy forms and are termed networks (Roe, 2013; Davies, 2005; Jessop, 1998). Buckley and Casson (1976) suggest that when a firm offshores transactions, the best way of controlling them would be through hierarchy, by moving away from market exchange due to likely market failures in intermediate markets. By doing so, the firm will have more control over its transactions at the offshored locations, especially in the case of R&D and marketing transactions (Buckley & Casson, 2010).

Graham and Richardson (1997) explain that intermediate markets are a type of market that consists of businesses who are producing industrial products, goods, or services to sell to other industrial firms that are going to produce the final product or send to consumer markets. Rugman (1981a) explains that market imperfections occur when markets deviate from "perfect competition, or [from] ... the efficient allocation of resources by the price system alone", and literature underlines that market failure results from extreme market imperfections (Leih & Teece, 2014, p.2). Scholars differentiate between two main types of market imperfections: structural (e.g. governmental regulations, tariffs, lack of information or knowledge) and transactional such as contractual difficulties (Dunning, 1981; Dunning & Rugman, 1985). Very often such imperfections or failures are perceived as country-specific that impact MNEs' locational decisions for their offshore activities (Dunning & Rugman, 1985).

Due to market imperfections (e.g. imperfect information and bounded rationality) different governance mode choices appear, and firms could choose alternative governance structures to minimise their activities' transaction costs (Williamson, 1985; 1981). Transaction cost economics identifies three transaction characteristic variables or dimensions that could impact a firm's governance mode choices: asset specificity; uncertainty (e.g. opportunism & bounded rationality); and frequency of transactions. Ketokivi and Mahoney (2017, p.7) explain that the frequency of transactions relates "to the volume of transactions between the two exchange parties". Williamson (1985) argues that the cost of transactions is always associated with any contractual relationships as well as the transactions' volume and their frequency. Recurring transactions could increase the transaction's costs due to the requirement of specialised governance structures in managing them. Uncertainty is related to the firm's ability to predict the environmental changes and(or) the contractual partner's (e.g. supplier) performance or behaviour under unexpected circumstances (Williamson, 1994). The transaction specificity variable highlights the type of resource commitments or investments made by the firm or (and) supplier to enable the exchange (e.g. product or service) (Ketokivi & Mahoney, 2017, p.7). For example, in the case of buyer-supplier transaction with low frequency, uncertainty and asset specificity could be managed through market exchange (Williamson, 1985).

TCE theory mainly focuses on the firm's make- or- buy decision (Williamson, 1985;1994). It aims to understand how firms govern a dyadic transaction, which is the "specifics of an individual transaction involving two exchange partners [buyer-supplier contractual relationship] and a transaction" (Ketokivi & Mahoney, 2017, p.2).

Therefore, TCE uses a firm's transaction governance mode as the unit of analysis (Ketokivi & Mahoney, 2017, p.14). TCE suggests that the firm's operational mode choice at any given market, is based on transaction costs, where the control is necessary, especially when there is market knowledge scarcity. Accordingly, the firm's operational mode classification to market, cooperation or contractual and hierarchy mode looks at the control side of doing things.

As noted earlier, lack of a firms' market knowledge might occur due to host country market failure that results from imperfect information flows between the firm and the foreign market, and(or) lack of experience in doing business within that market. In

such a situation, TCE theory suggests that at an early stage of offshoring, a high level of control over the firm's transaction within that foreign market is essential, due to the lack of market understanding. As the firm learns more about that market, it moves to reduce the control over its transaction(s) in that market.

TCE theory highlights some structural impediments that might arise when entering a foreign market, such as opportunism or asset specificity. For example, and very possibly in the case of offshore sourcing, Williamson (1981) highlights that the transaction uncertainty might arise because some suppliers behave opportunistically or because of the buyer's bounded rationality. In relation to opportunism, Williamson's **based his viewpoint** on the assumption that everybody has a different level of self-interest that might include unethical forms (e.g. lying, cheating, stealing, etc.) that require a certain level of precaution and distrust, which Verbeke (2015) and others argue against.

According to Verbeke, opportunism cannot always be assumed because some people can be trusted and dealt with immediately, whereas others cannot. Instead, he uses bounded reliability, which refers "to insufficient efforts to deliver on promised behaviour or performance" (Verbeke, 2015, p. 9). According to him, bounded reliability provides the firm with "safeguards or enforcement mechanisms to heighten detection of, and provide punishment for, renegeing" (Verbeke, 2015, p. 57). Within the international business context, Verbeke identifies two sources of bounded reliability: opportunism, and "benevolent preference reversal, in which an actor's initial promise is made in good faith, but the actor's preferences then change over time" without the intent of harming the other "party to which the promise was made" (Verbeke, 2015, p. 57). Taking into consideration not everyone develops intentional opportunism behaviour and that people's intentions might change over time, the present study therefore perceives the bounded reliability approach as a more realistic assumption than Williamson's opportunism approach. In other words, the present study aligns with Verbeke's argument through the transaction cost economy (TCE) theory lens.

Furthermore, previous literature about outsourcing services especially within the information technology industry, reveals that "TCE has been the most frequently

appropriated theory to study IT outsourcing [and] many hypotheses derived from TCE have received strong empirical support ... including External Production Cost Advantage, Transaction Costs, Uncertainty, and Measurement Difficulty” (Lacity, Khan, Yan & Willcocks, 2010, p. 415).

TCE theory has been criticised in some literature, for example, Williamson (1975, 1985) highlights that TCE is a theory that explores how a transaction between two parties is structured to prevent any unnecessary costs, delays, and wasted effort. However, the theory says little about the context of a transaction’s environment. Ketokivi and Mahoney (2017, p.2) highlight different reasons that make a transaction environment challenging such as the transaction’s complexity, future uncertainty, rationalities of decision-makers or "availability of information is constrained”.

Others like Hodgson (2010) criticised TCE for having a static approach, due to its focuses on the transactional characteristics of the buyer-supplier’s dyadic relationship only, predicting “an identical governance structure for identical transactions” (Ketokivi & Mahoney, 2017, p.15). However, literature shows that different firms might govern a similar transaction in various ways, utilising different exchange relationships due to different institutional environments in which transactions occur (Ketokivi & Mahoney, 2017).

As noted earlier, the TCE theory assumes that a contractual agreement provides sufficient safeguards to protect both parties. Williamson (1991), argues such contracts pre-empt potential hazards such as opportunistic actions by one party and(or) both parties, such as information sharing. However, this appears to contradict the TCE assumption of bounded rationality (Ketokivi & Mahoney, 2017; Williamson, 2000). For example, Argyres and Mayer (2007, p.1060) highlight that within the contemporary business context, the contract becomes an essential practice to govern complex, bilateral dependent transactions. They argue dealing with suppliers, for example, is an evolving process that involves various capabilities and expertise of the firm, and “most importantly, learning over time”. They suggest that transactional uncertainty is not limited to how the other contracting party (e.g. supplier) will act under unexpected circumstances, instead it is more related to the firm’s ability to predict environmental changes under unforeseen circumstances; and thus it seems a theoretical weakness

within TCE' framework because transaction environments are uncertain (Argyres & Mayer, 2007, pp. 1602-1064). Ketokivi and Mahoney (2017, p.7) points out the difficulty of such prediction where two exchange parties might "have interests that are only partially overlapping, and disagreements are a source of cost". In such cases, personal connections and relationships become more effective as a safeguard in securing bilateral economic exchange than formal contractual agreements.

Furthermore, TCE does not explain how learning can help firms to deal with the above issues, for instance, how management learning over time could influence a firm's transaction mode choice or shifts in mode choice, and particularly the establishment chain, or how buyer-supplier trust-building over time could help in overcoming suppliers' opportunistic behaviour in the foreign market. According to Argyres and Mayer (2007, p.1064) a transaction's complexity very often "arises from limitations of managers in understanding the nature of the transaction's underlying problem (Knight, 1921/2012; Shackle, 1970/2013; Slater & Spencer, 2000), rather than from, for example, supplier's behavioural uncertainty on governance choice alone" (Williamson, 1985). Therefore, a firm's transaction characteristics cannot be studied or explained in isolation from the economic and social context in which the transaction occurs (Argyres & Liebeskind, 1999).

In relation to the GVC, the theory goes a step further than Uppsala and TCE theories. GVC utilises firms' transaction as the unit of analysis, and it identifies five major governance mode choices – hierarchy, captive, relational, modular, and market – ranging from "high to low levels of explicit coordination and power asymmetry" (Gereffi et al., 2005, p. 78). As shown in Table 2.1 and Table 2.2, each one of the above governance modes has distinct characteristics (Bhalla, 2013).

Table 2.1 Definitions of governance modes

Governance Mode	Definition
Market	In this mode “linkages do not have to be completely transitory, as is typical of spot markets; they can persist over time, with repeat transactions. The essential point is that the costs of switching to new partners are low for both parties”.
Modular	“Typically, suppliers in modular value chains make products to a customer’s specifications, which may be more or less detailed. However, when providing ‘turn-key services’ suppliers take full responsibility for competencies surrounding process technology, use generic machinery that limits transaction-specific investments, and make capital outlays for components and materials on behalf of customers”.
Relational	This mode has more complex buyer-seller interaction, which “creates mutual dependence and high levels of asset specificity. This may be managed through reputation, or family and ethnic ties”. Most of the time it is based on trust and reputation, where these relationships are built-up over time or are based on dispersed family and social groups”.
Captive	This mode rises when “small suppliers are transactionally dependent on much larger buyers. Suppliers face significant switching costs and are, therefore, ‘captive’. Such [governance mode is] frequently characterized by a high degree of monitoring and control by lead firms.”
Hierarchy	“This governance form is characterized by vertical integration. The dominant form of governance is managerial control, flowing from managers to subordinates, or from headquarters to subsidiaries and affiliates”

Sources: (Gereffi et al., 2005, pp. 83- 84; Menkhoff, 1992)

Linking between these five governance choices and Figure 2.1, and as explained in Table 2.1, both market and modular governance choices, are types of external governance at a firm’s chosen offshored location for its activities, located in grid 4 in Figure 2.1. Both hierarchy and captive governance mode choices are types of internal governance, where a firm’s offshore activities are performed within the firm’s boundaries and its affiliates respectively and are thus located in grid 3 on Figure 2.1.

Table 2.2 Transaction characteristics of governance modes

Governance Mode	Strengths	Weaknesses
Market	<ul style="list-style-type: none"> • Transaction characteristics of being low complexity of information and transactions are easily codified that perhaps encouraged the use of market mode • product specifications are relatively simple • low costs and level of monitoring and coordination • Suppliers' capability is very high • Low switching costs to new partners, for both sides 	<ul style="list-style-type: none"> • Low control over suppliers • Low product customisation • Some types of costs still apply (e.g. time costs for negotiating, search costs) • prices set by sellers
Modular	<ul style="list-style-type: none"> • Firm's ability to codify specifications extends to complex products • suppliers to supply full packages • Low monitoring costs, • Linkages based on codified knowledge provide many of the benefits of arms-length market linkages (e.g. speed, flexibility, and access to low-cost inputs) • Low switching costs to new suppliers 	<ul style="list-style-type: none"> • Limited control over final product, • the supplier make the decisions for components and materials on behalf of customers. • Limited products variation due to unifying component product, and process specifications)
Relational	<ul style="list-style-type: none"> • High suppliers' capabilities • complex and explicit coordination and interactions between firms and suppliers • high levels of asset specificity due to the mutual dependence between the firm and its suppliers, and regulated through reputation, social and spatial proximity, family and ethnic ties • regular face-to-face interaction between the firm and its supplier is required 	<ul style="list-style-type: none"> • product specifications cannot be codified • transactions are complex • exit contract "impose costs on the party that breaks a contract" (Williamson, 1983) • high switching costs to new partners (p. 86).
Captive	<ul style="list-style-type: none"> • High ability of codifying transaction • High level of detailed instructions requirement • High complexity, and specifications of the product • Firms tend to lock-in their suppliers to prevent the opportunism by exclude others from reaping the benefits of their efforts • Suppliers face significant switching costs) • The firm provides enough resources and market access to its suppliers to make exit an unattractive option" (pp. 86-87). 	<ul style="list-style-type: none"> • supplier capabilities and competence are low • high level of monitoring, intervention and control by the firm • Suppliers confined to a narrow range of tasks (e.g. simple assembly) and are dependent on the firm for other activities (e.g. design, logistics, component purchasing, and process technology upgrading)
Hierarchy	<ul style="list-style-type: none"> • firm develops and manufactures its products in-house • High control over firm's inputs and outputs activities, and resources, especially intellectual property. 	<ul style="list-style-type: none"> • product specifications cannot be codified • products are complex • no competent suppliers • High transaction costs, due to the high level of control

Sources: (Gereffi et al., 2005, pp .86-87)

While the relational and modular governance choices are more related to buyer-seller interaction, “where these relationships are built-up over time, or are based on dispersed family and social groups”, these governance choices are located in grid 4 on Figure 2.1 (Ekins & Voituriez, 2012, p.251).

Based on the firm’s transaction knowledge factor (i.e. the technological characteristics of the products and processes), Gereffi et al. (2005, pp. 85-98) identified three transaction variables that could affect a firm's governance mode choices: transaction complexity, transaction information codifiability, and "the capabilities in the supply-base" to meet the firm's transaction requirements. According to Gereffi et al. (2005, p. 85), the complexity of a transaction refers to the complexity of information and knowledge required to be transferred or communicated with the supplier(s) (i.e. product specifications, production process requirements, etc.), to sustain a particular transaction. The codifiability of a transaction refers to the firm’s ability to transform its’ transaction information and knowledge efficiently into clear instructions, blueprints, or diagrams “without transaction-specific investment between” the buying firm and the transaction’s supplier(s); and supplier capabilities refers to the transaction’s actual and potential suppliers’ abilities to fulfil a firm’s transaction requirements.

Based on TCE, Gereffi et al. (2005) investigate determinants of governance mode choices “in the context of recurrent transactions between firms in situations characterised by uncertainty and bounded rationality” (Dolan & Humphrey, 2004, p. 492). The work of Gereffi et al. (2005) is helpful in providing insights into the different variables that determine a firm’s governance mode choice, as well as showing how a firm could organise its value chain transactions, domestically and internationally (refer to The Task Element and the Determinants of Governance Mode Choice sub-section for further illustration of variables). However, it is insufficient in explaining different aspects regarding the external influences on a firm’s governance mode choice, such as regulatory provisions or labour relations. It also fails to consider the influence of institutional impacts on a firm’s offshore sourcing due to its weakness on predicting locational choice and has little to say about the possibility of mode switching as external conditions change. Ponte and Sturgeon (2014: 197) acknowledge the need

for "more ambitious analysis of how, overall, [global network] governance is mutually constituted by broader institutional, regulatory and societal processes".

Sako and Zylberberg (2017) state that GVC is not, actually, a value chain, rather it is a form of dyadic two-party relationship (e.g. buyer-supplier). They criticise the GVC framework for being too technical and failing to consider the strategic management side of the exchanging parties. Therefore, Sako and Zylberberg (2017) investigated buyer-supplier dyadic relationship focusing on the supplier side. They argue that the dyadic relationship governance mode is not simply determined by the buyer, but that the supplier may also influence this choice, which Gereffi et al. do not consider.

Aligning within Sako and Zylberberg (2017) study, the present study also considers the strategic management side of the business when investigating buyer-supplier dyadic relationships. It focuses on the other end of the supply chain or the dyadic relationship looking at the lead or buyer firm. It is hoped that the present study will extend the GVC theory by adding the management learning context to its framework and moving away from being too technically focused. This study makes a link between the management side and the technical side of the firm, and how this might affect mode switching among the studied firms.

Furthermore, and based on the above discussion, the GVC is too technically focused on the transaction's technical characteristics. Thus, the global value chain model does not allow further adaptation that the firm needs to do, if there is any change that might have happened within the firm's internal environment (e.g. management learning and experience) and (or) external environmental context (e.g. regulatory and societal processes), in which, the transaction occurs.

On the other hand, Williamson's point of view on how firms should manage their transactions, the TCE theory approach, is helpful and manages to capture the institutional aspects through highlighting different forms of contractual forms of governance mode, but he does not directly address international businesses. However, different studies have used the TCE approach within the international business context and found that Williamson's view of how firms manage their transactions could be applied to MNEs as well. Therefore, the present study will look at the network's governance mode-approach within the TCE theory by considering the governance

mode choices from the GVC and internationalisation process approaches through the lens of TCE theory.

According to theory, in the case of Australasian SMEs offshoring their activities to China where a market failure has emerged within intermediate goods, firms should utilise the internalisation strategy to overcome such distortions. For example, according to TCE these firms should choose the hierarchy mode, however, this mode choice may not be suitable for them due to the limited resources (financial, technological, skilled labour) possessed by these firms, which constrain their capabilities to internalise these markets no matter how much they wish and are willing to do so. On the other hand, if they consider offshore outsourcing their activities, the market governance mode choice may also not be the best option, due to market failure at the overseas location as predicted by TCE literature.

While the Uppsala model perceives offshore sourcing, particularly outsourcing, as a “process” of resource commitments to the host country, this process is based on the firms’ learning and market knowledge acquisition over time. This is true especially when entering high psychic distance markets, where firms should start with low commitment entry modes (e.g. market, modular, etc.) then gradually move towards higher level of commitment modes (e.g. hierarchy, captive, etc.). Therefore, the studied firms should choose low resource commitment modes (e.g. market exchange structure) when entering the China market and then move to higher resource commitments governance modes (e.g. hierarchy or captive exchange) at a later stage (Johanson & Vahlne, 2009; Morschett et al., 2015). Accordingly, they need to find some other ways or consider other options to manage these offshore outsourced transactions, such as contractual and relational governance modes, thus creating a buyer-supplier exchange relationship. Such a relationship has been investigated within different industry sectors (manufacturing and services) from different perspectives such as buyer satisfaction, supplier capabilities, the relationship control degree, characteristics of client-vendor relationship success, and many more (Rai et al., 2012; Gregory et al., 2013; Rai et al., 2009).

On the other hand, the Uppsala model also looks at a firm’s outsourcing as a “process” of expanding firm’s offshore sourcing activities over time. This makes it difficult to fully

apply the Uppsala model to the present study because, as noted earlier, this study only focuses on one host country for the firms' offshore sourcing, which is China. Therefore, this study utilises the Uppsala model as a starting point to do further investigation into the relationships between firm learning, and the firm's governance mode choice and mode switching progression over time within a single market.

Studies show such dyadic relations are dynamic and normally based on cooperation, trust, information sharing, and direct assistance, to maintain long-term contracts between the two parties (Rosell, Lakemond & Wasti, 2012; Meyer, 2019). In this way, GVC ~~network~~ theorists suggest that a firm can go from hierarchy or from market exchange to various contractual or relational structures. For example, Vitasek et al. (2011) perceive that outsourcing "governance frameworks are built into relational contracts, fostering long-term collaboration and innovation" (Rajvanshi, 2016, p.3; Ketokivi & Mahoney, 2017). On the other hand, and according to Williamson (1975) such relations are always associated with different costs such as "negotiating, implementing, coordinating, monitoring, adjusting, enforcing and terminating exchange agreements" (Carr & Penrose, 1999, p. 500). However, building good relationships with suppliers, especially offshored ones, could help firms to overcome some of the challenges they face during the process of internationalisation (Johanson & Vahlne 2009) as well as offshore outsourcing process.

In sum, in this study, governance mode is defined as "an organisational option used by" the firm to perform a transaction through coordinating its activities to minimise such transaction costs (Simon et al., 2016, p. 3; Williamson, 1975). Governance mode options include hierarchy, network - contracts, franchises, joint venture - or market. In relation to the three elements of offshore sourcing, in this study the task element is relatively fixed, and includes a range of parts or assembly in manufacturing that firms want to outsource. The location element is fixed to China, which is the world's largest workshop, so the location decision is determined by the locational key attractants; but at the same time, China has some institutional weaknesses that might influence the choice of governance mode. So, it is the governance element that varies depending on the outsourced task and location element decisions that these firms have already made. Accordingly, the following sections will cover the governance mode choice from the task and location perspectives.

The task element and determinants of governance mode choice

In relation to the task element, and as noted earlier, Gereffi et al.'s (2005) work on global value chains (GVC), suggests that the governance mode choice for a firm's transaction is determined by three factors: transaction complexity, codifiability, and capabilities of the supplier. These factors are, in part, determined by the transaction's characteristics and its process. Based on these three factors, firms could choose from or mix between the five governance mode structures: hierarchy, captive, relational, modular, and market (see Figure 2.3). Aligned with TCE, the GVC framework variables also recognise the asset specificity issue, which is related to any costs that might emerge from the involvement in coordinating the transaction activities of the firm and such costs rise when firms produce "non-standard products" (i.e. increased product differentiation) and(or) produce products with time-sensitive output (i.e. just-in-time supply) (Gereffi et al., 2005, p. 84; Baldwin & Clark, 2000).

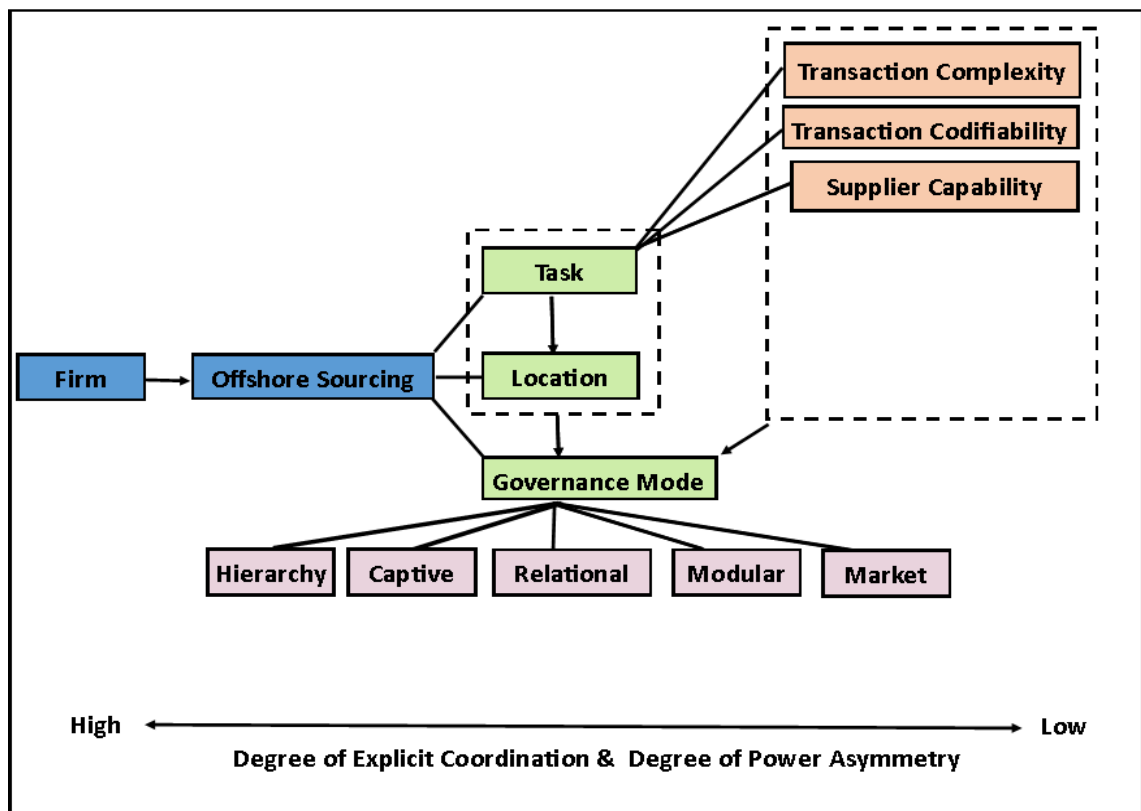


Figure 2.5 The task element and determinants of governance mode choice. Draws on Gereffi et al. (2005)

Transaction complexity refers to the complexity level of transferring the required information and knowledge to sustain or execute a particular transaction and a firm might standardise its products and processes that is easily codified to reduce the

complexity of its transactions (Gereffi et al., 2005, pp. 84-85). Very often the complexity of a transaction is used to explain why a firm should keep its transaction(s) performed within the firm's boundaries, which is known as the hierarchical governance mode choice, or should be outsourced to a third-party, which is known as the market governance mode choice. For example, in the case of standard products, transaction costs are very low because the required knowledge and process are easy to codify in the form of direct instructions or blueprints that the suppliers/ producers can easily follow in producing the products. Literature explains that standard goods produced by a variety of suppliers for different customers, reduce or eliminate the possibilities of emerging opportunism and asset specificity problems. The standard product, sometimes known as off-shelf or ready-made product, is an arm's-length market governance mode choice or relation, where the supplier/manufacturer is the decision-maker of what product should be produced. It also insists on its specifications and this is considered the only downfall of such product from the buyer perspective, because he/she is not involved in the decision-making process for the supplied goods/products (Dolan & Humphrey, 2004, p. 492). In the case of non-standardised or customised products that have been produced for specific customer(s)/buyer(s), the transaction costs might increase due to the high level of coordination required (i.e. communicating product's specifications with the suppliers. But monitoring the product quality and process to meet the required specifications) and thus increase the complexity of the transaction, make the buyer-supplier relationship more complicated (Dolan & Humphrey, 2004, p. 492).

Transaction codifiability has been defined as the firm's ability to "clearly structure" its transaction into explicit steps "in the form of simple directions" (Jodlbauer, Olhager & Schonberger, 2012, pp. 358-359), and it "measures the level of transferability of certain information in the form of texts and codes such as books, drawings, manuals, blueprints, and documentation" (Su & Contractor, 2011, p.1263; Flanagan, 2002; Wood, 2009; Zander & Kogut, 1995). Literature suggests that the higher the level of codifiability of a task, the easier it will be to offshore and outsource the task (Leamer & Storper, 2001; Becker & Muendler, 2015). A task's codifiability has been measured in various ways. For example, Blinder (2006, p.43) used codifiability in terms of job stability, and categorised jobs into two groups: jobs containing routinisable tasks or

not, and he argued that “the level to which [jobs that] can be broken down into simple, routinisable tasks are more outsourceable than jobs involving complex thinking” (Nedelkoska, 2010, p.5). Others have applied the same reasoning to explain product innovations and how firms could protect their innovations from imitation through elevated level of complexity and secrecy (Cohen, Nelson & Walsh, 2000).

As for the present study and due to the nature of the study as exploratory research using a qualitative approach, the codifiability of a transaction will not be measured in such precise terms, but it could be categorised for the time being until the participant perception is known. In other words, a transaction’s codifiability will not be measured precisely as the quantitative approach, instead it will be categorised or assessed according to the complexity level of the technological characteristics of products and processes because some transactions are inherently more complex and difficult to codify than others. In the case of the studied SMEs, and as noted earlier, they are high-tech companies, and for most of them the level of product differentiation for their offshored transactions/tasks/ activities is relatively high, so the expectation of a transaction’s codifiability level will be low for them. Accordingly, the higher level of product differentiation, as well as the application of the newer technology, the lesser the degree of codifiability.

Since the studied SMEs are high-tech manufacturers, the literature suggests that a firm's knowledge influences three of these transaction characteristics. Accordingly, the present study examines how knowledge might affect transaction costs. So, the studied firms should look at the complexity of their transaction, as well as the degree of their codifiability, both of which are going to affect transaction cost, because a codifiable transaction can be transferred at lower cost and vice versa. Accordingly, and in relation to the technological knowledge possessed by the firm, studies suggest that the more technological capability that a firm has, the more effective it becomes in governing the relationship with outside suppliers (Gereffi et al., 2005). For example, in the case of a third party undertaking a technological task for the studied SMEs in China, the more technological knowledge about the task, the more the lead firm can assess potential suppliers as well as assess the potential supplier’s performance.

While the Uppsala model suggests that the more experience a firm has about the host country, the more they might rely on their contacts and networks at that market to tap into other local firms' resources by choosing a relational or modular type of arrangement, to compensate for their own resources' shortages, especially the technical knowledge. This ability of the firm to exploit external knowledge combined with the firm's innovative capabilities, is termed the firm's "*absorptive capacity*" (Cohen & Levinthal, 1990). In this way, The Uppsala model highlights some aspects of management learning within the organisation, while the GVC's 3Cs focus on the technical learning side of the business and it does not highlight the management learning side of the business. Adding management learning to the technical learning of the firm will expand and broaden the GVC's knowledge perception, and is a contribution to the GVC framework.

On the other hand, and in relation to the firm's "technological characteristics of products and process" complexity, it could also impact and change these three variables or key factors, for example, if the technology becomes more standardised and modularised, firms might go to the market type of relationship that means less interaction between the two parties. Otherwise, firms might need to work closely with their suppliers and might use a different relational type of governance mode. This implies a use of captive or hierarchical governance (Gereffi et al., 2005, p. 98).

In relation to the third variable of the characteristics of the outsourced transaction, the degree of the supplier's capability, the literature suggests that the more capable the outside suppliers, in terms of knowledge and technology, the easier it is to expect them to perform to a certain quality standard (Gereffi et al., 2005). However, dealing with outside suppliers raises coordination issues between the firm and its suppliers in the form of contract enforcement, which is impacted by the local institutional (formal and informal) settings in which the transaction occurs (Sako & Zylberberg, 2017). This is supported by the work of Coe, Dicken and Hess (2008) that highlights the embeddedness of any transaction within the institutional context. They state that transactions cannot be investigated in isolation to their surrounding (external and internal) environments because the institutions of a country can affect the nature of the firm, which then affects transaction costs (see Figure 2.5). This suggests that location will impact the supplier capabilities variable, and in the case of offshore

outsourcing, a supplier's capability could be affected by geographical location and host country institutional (formal and informal) settings in the form of contract enforcement. Therefore, the following section will look at determinants of governance mode choice from the perspective of the locational element of offshore sourcing.

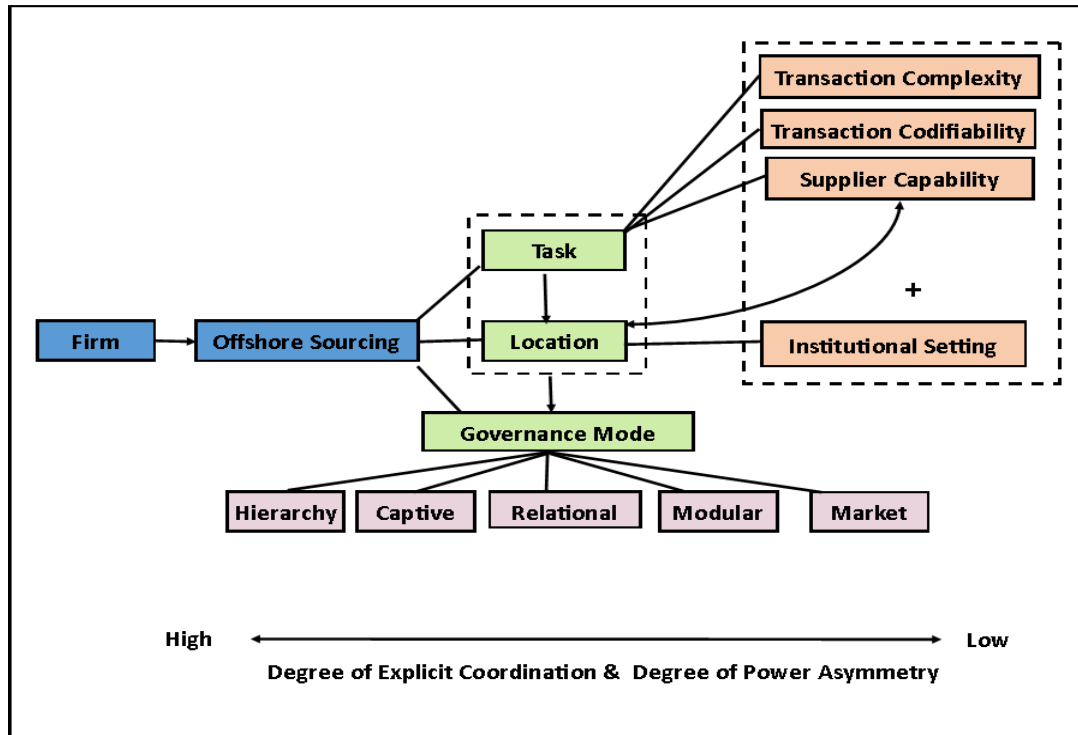


Figure 2.6 The locational element and the governance mode choice determinants

The location element and determinants of governance mode choice

Douglass North defined institutions as "the humanly devised constraints that structure political, economic and social interaction" (1991, p.97). They consist of formal and informal constraints, the former constraint is related to the governmental "legal framework, property rights, their enforcement, legal information systems and regulatory regimes" (Gooris & Peeters, 2014, p.76; Meyer et al., 2009). The latter informal constraints, are more related to the local market setting and to "a set of moral, ethical, behavioural norms" that "determine acceptable market behaviour, professional standards and codes of conduct, collective bargaining agreements that define the obligations of firms towards workers and other societal conventions" (Gereffi, 2006, p. 41).

The Uppsala model stresses that the imperfect knowledge about an offshore/foreign market's environment-related factors result from the psychic distance (e.g. language,

culture, political systems, level of education, level of industrial development, differences) between home and host countries and form one of the main barriers for expanding a firm's international operations (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). For example, in the case of large psychic distance between home and host country markets, firm's uncertainty level about the host country market might be raised due to the potential imperfections in information flow, creating a "barrier to making commitment decisions" (Johanson and Vahlne 1977, p. 30). In the case of offshore sourcing to China there could be institutional voids that affect the firm's establishment chain progression (Santangelo & Meyer, 2011).

As noted earlier, a supplier's capability could be influenced by locational institutional settings and in the case of offshore outsourcing the institutional context of a host country becomes relevant. The UNCTAD (2011) report shows three factors that could determine a firm's locational choice for its offshore sourcing, whether it is in the form of foreign direct investment (FDI) or non-equity mode investments (NEM): "a country's policies, business facilitation, and its general economic environment" (p. 144). These factors represent aspects of local institutions (North, 1991; Scott, 2008). In terms of a country's policies, literature states that the formal institutions provide a mechanism that helps reduce a firm's transaction costs, as well as "information costs by limiting agents' uncertainty and providing a stable environment that facilitates interactions" (Gooris & Peeters, 2014, p.77; Anderson & Gatignon, 1986; Hoskisson et al., 2000; Meyer, 2001). The informal institutions, in turn, play a major role in "which the rules and regulations are specified, and enforcement is carried out" (North, 1984, p. 8). However, Gereffi (2006) illustrates that any given market is always governed by a combination of both formal and informal institutions.

Within the international business context, the internationalisation process theory, Uppsala model, uses the 'psychic distance' term, which is related to home-host country institutional context differences, to explain how the institutional system of an offshore location differs from the home country's institutional system (Kostova, 1997; North, 1991). Sharma et al. (2015) describes home-host countries' institutional differences as very challenging and play "an important role in deciding the fate of the outsourcing venture" (p.6). In relation to the home-host country institutional differences and in the case of offshore outsourcing studies show mixed results. For

example, the work of Brouthers and Nakos (2004); Eden and Miller (2004); Nakos and Brouthers (2002) and Xu and Shenkar (2002) show that the greater the home to host country institutional differences, the more firms will prefer to be involved in low commitment – low control investment commitments (i.e. entry modes) at offshored locations. Others such as Dikova and Van Witteloostuijn (2007) found contrary results, whereas Burgel and Murray (2000), and Luo (2001) did not find any significant effects at all. This indicates a weakness, where offshore sourcing elements have been tested but the results were unclear, so it is hoped that the present study can offer some clarification. On the other hand, scholars like Peng, Wang, and Jiang (2008) as well as Slangen and Van Tulder (2009) point out that there is a lack of understanding and some confusion about institutions within the international business literature, and that markets' institutional characteristics impact on the international business context, indicating a theoretical gap or weakness. Eiche (2010, p. 2) points out the limited knowledge about SMEs especially “the role of the host country's institutional context on establishment mode, location choice of SMEs is rather limited or even missing”, again indicating a gap in the literature that the present study intend to explore.

As for the present study, studies suggest that there will be high psychic distance / institutional differences, formal and non-formal institutional environment context, between home and the host countries for these SMEs. Both Australia and New Zealand have stable institutional systems that support market activities. For example, in relation to the country's business environment context, The World Bank (2016) in their 'ease of doing business' reports, shows that New Zealand was in the first position among 190 economies, in both categories of ease of doing and starting business, while Australia was fifteenth and seventh position respectively. This means these countries managed to create a trustworthy business environment with a reliable labour system that gives firms incentives to use market exchange. On the other hand, China managed to secure the 78 and 127 positions respectively in both categories, meaning that the Chinese regulatory environment is less conducive. This raises a question: How are these SMEs going to manage the challenges they might face during their offshore sourcing in China, due to the institutional differences between their home countries and the host country?

Looking at links between location and a firm's governance mode choice, the TC literature suggests that high levels of home-host institutional differences or psychic distance raises the external uncertainties that make firms lean towards hierarchy, captive, or even relational governance modes, and away from modular and market types. TCE literature suggests in such situations, firms might be inclined to use contractual and low commitment governance modes for their investments "to mitigate the external uncertainty", as well as leveraging from the host "country-specific knowledge and capabilities of local outsourcing partners or international providers experienced in the host location" (Gooris & Peeters, 2014, p.77; Manning et al., 2011). In line with the TCE-literature, the GVC literature also suggests that in such a situation, firms might push their value chain activities "away from hierarchy and captive networks and toward the relational, modular and market types" (Gereffi et al., 2005, p.96). In other words, TC studies show a positive relationship between the uncertainty level of the host country that results from home-host institutional differences and the foreign firm's control levels (Arora & Fosfuri, 2000; Meyer, 2001; Eden & Miller, 2004; Xu & Shenkar, 2002). On the other hand, Uppsala model studies show a negative relationship between the uncertainty level of the host country that results from home-host psychic distance and the foreign firm's entry mode control levels. However, the three literature streams highlight that "the costs of a hierarchical model would outweigh the transaction costs of a market solution", due to the "liability of foreignness in managing relationships with local stakeholders" (Gooris & Peeters, 2014, p.74; Arora & Fosfuri, 2000; Meyer, 2001).

Like the location element, the task element also shows a positive relationship between the dimensions of institutional differences/psychic distance between a home-host country and the level or types of uncertainties that might create additional costs for each governance mode choice, which firms may choose to manage their offshored activities (Gooris & Peeters, 2014). Research shows that firms prefer the hierarchy and captive modes for their offshore activities due to the uncertainties that result from geographic and cultural difference, while in the case of institutional voids in the offshored market(s), firms favour contracting out their activities to minimise their "foreign commitment (to leverage) the resources and local experience of third party service providers" (Gooris & Peeters, 2014, p. 75). But sometimes, even with the high

level of external uncertainties in a host country, firms might still favour adopting the captive or wholly-owned subsidiaries governance mode, over their offshore activities, especially ones that can be considered as firm-specific assets such as R&D and know-how activities for their entry modes and(or) even their subsequent modes (Hikmet, 2015). Leiblein and Miller explain the rationale behind such decisions, illustrating that "specific resources [R&D, know how] and demand uncertainty increase exchange hazards and therefore reduce the likelihood of outsourcing activities" (2003, p. 854).

Accordingly, from the above discussion and as shown in Figure 2.5, the home-host country institutional context could have a moderating role on the relationship between offshore sourcing elements with institutional differences encouraging learning. Therefore, the present study adds another factor, institutional differences/psychic distance, to the three transactional factors of GVC -complexity, codifiability, and supplier capability- that determine the governance mode choice.

Literature also emphasises that a firm's previous knowledge and experience in doing business at the offshored location might impact the governance mode choice (Johanson & Vahlne, 2009; 1977). Benito and Welch (1994, p. 40) explained that "entry mode decisions are made on the basis of previous experience & knowledge, and reciprocally influence each other". For example, and as noted earlier, the internationalisation process literature emphasises the role of firms' experience, such as their managers' or the decision-makers' previous international experience, as well as their connections and networks at the offshored locations, to overcome the institutional constraints they might face during outsourcing at these overseas locations (Peng et al., 2009; Sharma et al., 2015). In the case of weak institutions in the host country, literature suggests that firms tend to use relational governance mode, especially when the formal institutions are weak, where informal institutions such as networks and personal links have a greater role and impact, in achieving desirable outcomes (Peng, Sun, Pinkham & Chen, 2009). This is supported by Khanna and Palepu (1997; 2004) and they clarify that firms' accumulated knowledge through previous international or offshoring experience will help to mitigate the offshoring issues at the host country (Gooris & Peeters, 2014, p. 77; Jensen, 2009). So, a firm's previous knowledge and experience in doing business at the offshored location could be added to the other factors that influence the governance mode choice. Accordingly, both

institutional differences and firm experience are simultaneously important because they affect the content of the decision-making of the locational choice, and that impacts the governance mode choice. Therefore, understanding the host country's institutional context and setting in the form of management learning, becomes highly relevant. It means that managers are learning about ways to do business.

From all the above and as shown in Figure 2.5, the decision-making process for choosing a governance mode or combination of modes could be impacted by the task variables -complexity, codifiability, and suppliers' capabilities-, a firm's experiences, and "by the attributes of the transaction and the institutional environment under which actors interact" (Simon et al., 2016, p.3). By bringing the three literature streams (TCE, GVC, and internationalisation process) together, the determinants of governance mode choice could be as shown in Figure 2.5; and any changes to any of these determinants could trigger or initiate mode switching.

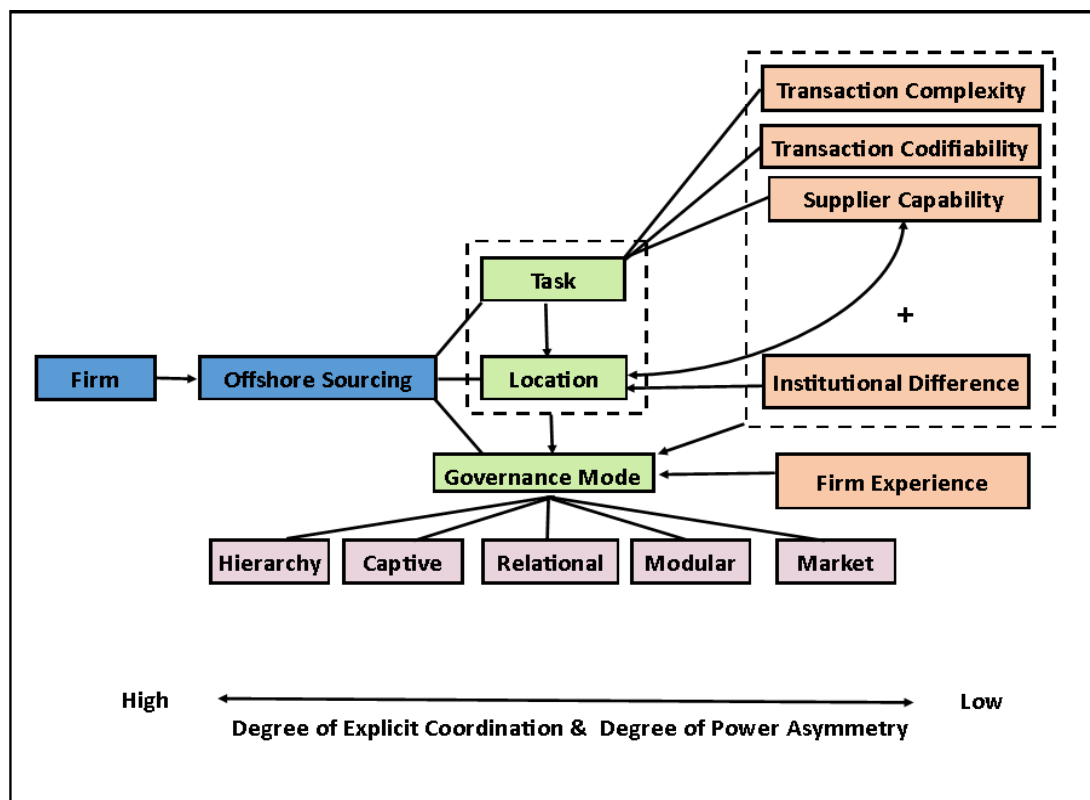


Figure 2.7 Determinants of governance mode choice and mode switching.

The studied firms have to decide not only on a location and task, but also on the mode of governance, control and coordination of international operations. Therefore, they should make three main decisions. They need to decide: What do they want to

outsource? Where is it going to? How are they going to manage it? So, the possibilities of the governance mode might vary according to the issue or the problem that a firm might face during any transaction. As noted earlier the studied firms are offshore outsourcing part of their production to China, so they are located in grid 4 of Figure 2.1. However, if something happened at the offshore location(s), in theory, firms could switch back to almost any of the other governance modes that are shown in the other grids of Figure 2.1(captive offshore, inshore insourcing and inshore outsourcing). But firms might not be in favor of changing or exiting the offshored location, so they might decide to change the firm's governance mode choice of the offshored activities/transactions, including changes in contracts, hybrid forms of ownership, without the need to change the offshored location for the firm's activities based on the locational environmental changes (e.g. new laws, tariff, taxes, etc.) at the host country, as well as the outsourced task (high/low-tech production task, etc.).

Determinants of governance mode switches

Governance mode switches occur when a firm decides to change "its institutional or organisational arrangement" between two governance modes by moving from one mode to another (Sachse, 2011, p. 15). Firms could switch their governance mode for national and international transactions for many reasons. However, due to the nature of the present study, governance mode switching is going to be discussed in an international business context.

Sachse explains that mode switching allows firms to develop "more intensive operations" in a host country by having a supporting "strategy of deeper market penetration. Alternatively, mode switching may be used to recover a problem situation in a foreign market associated with an existing mode use" (2011, p. 35). Studies have identified two types of governance mode switching: "inter-mode switches and intra-mode switches" (Welch, Benito & Petersen, 2007, pp.362-363; Sachse, 2011). The former type is related to the external environment settings that a firm is associated with at any given foreign market. In other words, it is more related to the host country institutional environment settings (e.g. change of local government policy). Huhtanen (2009, p, 1) states that the "inter-mode switches were mainly triggered by changes in the external environment of the studied case companies", while intra-mode switches are more related to the firm's internal reasons (e.g.

accumulation of market knowledge about the host country, network at host country, etc.) (Welch et al., 2007).

Literature highlights that the determining factors which trigger governance mode switching "are numerous and of very different character" and according to Huhtanen (2009), these determinants are "tied to motives-and reasons [that] represent a number of factors, in the area of environment, resources, attitude, perception, capability and organisation" (p. 42). However, Welch et al. identified three main determinants that could initiate a firm's governance mode switching, and they relate to changes in host country's market, local suppliers at the host country and/ or "the entrant company itself". (Welch et al. 2007: 364).

In sum, in this study governance mode switches are understood as a firm's decision to move from one governance mode to another and triggers that initiate mode switches could be related to the external environment that the firm associated with or related to the firm's internal environment.

The internal environmental factors are related to the factors that are within the firm's boundaries and are related to the firm's competitive advantages (FCA), which are associated with its resources and capabilities (e.g. firm's ability to codify and coordinate its transactions, level of technological knowledge and capabilities, etc.) as well as a firm's previous international experience. On the other hand, the external environmental factors constitute the locational environment such as the location institutional context and competitive advantages (LCA), including the availability of capable suppliers, low cost natural resources, labour, and technology.

Internal and external determinants of mode switches

Based on the internal and external determinants of mode switches, both the first and second of Welch and his co-author's factors, are more related to the external environment that the firms are associated with at the host country, while the third factor is more closely linked to the changes that occur from the firm's internal issues. The linkage between Welch et al. (2007) mode switching determinants classification, intra and inter-environment that the firm associated with, and the governance mode choice and mode switching determinants that are demonstrated in Figure 2.5 could be summarised in Table 2.3.

Table 2.3 Determinants of governance mode choice vs governance mode switching

Environment	Determinants of Mode Choice	Determinants of Mode Switching
Internal	<ul style="list-style-type: none"> • Transaction characteristics <ul style="list-style-type: none"> ○ Complexity ○ Codifiability • Firm's experience 	<ul style="list-style-type: none"> • Changes in the entrant company itself <ul style="list-style-type: none"> ○ Increased Firm's Experience ○ Correcting wrong decision • Changes in transaction characteristics <ul style="list-style-type: none"> ○ Complexity ○ Codifiability
External	<ul style="list-style-type: none"> • Suppliers capabilities • Host country institutional settings 	<ul style="list-style-type: none"> • Changes in the host country's market/policies • Changes in potential host country supply-base capability

As Table 2.3 illustrates, both groups of determinants -mode choice and mode switching- are similar and very closely related to each other, only the wording that has been used varies. Accordingly, and as for the present study, any changes in the firm's experience and knowledge could be aligned with the changes of "the entrant company itself", while the changes in the Chinese institutions in terms of regulations could fit with the changes in the host country's market. In the case of a firm's decision to switch its governance mode in the host country, by moving from a market governance mode to a more relational type such as a contractual arrangement due to supplier opportunism, this could fit with suppliers' capabilities factor. This could be by broadening the capability meaning beyond the GVC's suppliers' technical capability factor to include their ability to maintain quality, integrity and their ability to not indulge in opportunism, and this could fit with the changes in local suppliers at the host country. Accordingly, any changes in the determinants of mode choice demonstrated in Figure 2.5 may trigger mode switches.

For example, in relation to institutional factors that determine the location choice of offshore sourcing as shown in Figure 2.5, any changes in Chinese institutional regulations might then change the institutional differences or the psychic distance between the home and host countries. For example, according to the Heritage Foundation Index, report of economic freedom shows business freedom for the year of 2017, New Zealand, Australia, and China are 91.8%, 89.3%, and 53.9% respectively (Mille & Kim, 2017). According to many scholars, governmental intervention in the form of new or change of regulation or law, could initiate a structural market failure

that might encourage or put off inward foreign investment. Therefore, if China introduced further restrictions on controlling technology, this might change the host country's market setting and the difference in business freedom will change, triggering governance mode switching for activities that have already been offshored to China.

Studies show that China has been considered a favored location for offshore sourcing activities for many manufacturing firms (e.g., Matteo, 2003; Agarwal & Wu, 2004; Morrison, 2013; Hikmet, 2015), but at the same time it has many challenges that foreign firms face, which are summarised in Table 2.4 and Table 2.5.

Table 2.4 Major issues and challenges for MNEs caused by the Chinese government

Major issues	Challenges
<ul style="list-style-type: none"> Indirect favouritism (local and state-owned enterprises) vs (foreign MNEs) 	<ul style="list-style-type: none"> creation of regulatory barriers against foreign firms “discretionary implementation of vaguely composed laws and regulations” against foreign firms (Hikmet, 2015, p. 11) “lack of harmonisation of different officials” (Hikmet, 2015, p. 11) inadequate coordination or lack of harmonisation with global standards varied standards of local implementation of Chinese standards
<ul style="list-style-type: none"> Low level of IPR and protection Corruption Institutional transition 	<ul style="list-style-type: none"> Insufficient education and training for local officials about intellectual property Lack of awareness that copying or stealing others’ IP is an infringement and considered a crime Diverse law interpretations among the Chinese local authorities (Harris, 2009). The “local government protectionism attitude”, which weakened law implementation, and might encourage firms to take “advantages of such lack of government law enforcement to increase their profits” (Hikmet, 2015, p. 11; Priest, 2006; Morrison, 2013).
<ul style="list-style-type: none"> Contrasting priorities between the Chinese government and the local authorities 	<ul style="list-style-type: none"> due to the decentralised system in controlling such a big country

As illustrated in Table 2.4, there are other issues that might emerge due to governmental interventions such as the indirect favouritism treatment by the government toward local and state-owned enterprises over foreign firms, in spite of

the implementation of the intellectual property rights (IPR) law since 1982. However, currently, the level of IPR and protection is very low (United States Trade Representative, 2009). The decentralised system that China has in controlling such a big country, creates dissimilarities between the Chinese local authorities and the country's central government's priorities, raising uncertainties for foreign firms. For example, the central government focuses on the quality of FDI, while the local authority focuses on increasing its region's FDI inflows portfolio (Hikmet, 2015, Davies, 2013). In addition to the legal system's inconsistencies, as well as the difference between national and provincial/regional city-level regulations, different studies highlighted other issues like costs, quality, IP theft, flexibility, country of origin, time to market, that might hinder a firm's decision to offshore source to China (Hikmet, 2015). This demonstrates structural market failures due to government intervention in different forms.

In relation to the suppliers' capabilities as a determinant factor of the firm's governance mode choice as shown in Figure 2.3, studies highlighted that how the changes in this factor could trigger mode switching (Hikmet, 2015: Welch et al. 2007). For example, the changes of the host country local suppliers, in terms of "dissatisfaction with local intermediaries"/suppliers, urge foreign firms to keep changing their local suppliers (Welch et al. 2007, p. 364). According to the literature, such dissatisfaction raises another type of market failure, which could be known as intermediate market failure. Casson suggests that in the case of imperfections within intermediate product markets, internalisation could provide the firm with appropriate "efficiency gainsby bringing the relevant facilities under common ownership and control"-(Casson, 2015, pp. 62-64). With regard to the present study, the Frazer (2003) study (as cited in Jell-Ojobor & Windsperger, 2014) indicates "the expansion into China is involved with ... difficulties in finding reliable partners and monitoring geographically and culturally distant" market (Jell-Ojobor & Windsperger, 2014, p.158). Consistent with the resource scarcity theory, Lau and Zhang (2006) highlighted some challenges that firms might face during offshore outsourcing to China, especially with a third-party. These are summarised in Table 2.5.

For example, Hikmet (2015) showed that some firms switched their governance mode from joint venture to a wholly-owned subsidiary, to have more control over their final

products due to the unreliability of their suppliers sometimes compromising the quality of these foreign firms' products, in an attempt to reduce their own costs. This could be linked to the supplier's capability in a form of reliability variable that determines the task's governance mode choice as shown in Figure 2.3 (Verbeke, 2015), and as discussed earlier, will extend the general understanding about the capability beyond the supplier's technical capability.

Table 2.5 Major issues and challenges for offshore sourcing to China

Major issues	Challenges
Lack of capable service providers	<ul style="list-style-type: none"> • Less than expected service quality • Failure in realising expected cost reduction or capital investment reduction through strong investment by a supplier • Hindrance to further outsourcing of activities
Loss of control	<ul style="list-style-type: none"> • Inconsistent service quality • Inefficient communication
Poor transportation and IT infrastructure	<ul style="list-style-type: none"> • Higher logistics costs • Unreliability in pickup and delivery time • Higher rate of loss and damage of goods • Poor customer service
Local protection regulations	<ul style="list-style-type: none"> • Higher logistics cost and damage rate • Limitation in choices of suppliers
Lack of overall post-outsourcing review	<ul style="list-style-type: none"> • Failure in knowing if the outsourcing process is working as planned • Failure in identifying areas of improvements or changes

From (Lau & Zhang, 2006, p. 789)

As shown in Figure 2.3, firm's experience, as well as the firm's transaction-complexity, codifiability, and supplier's capabilities- are variables of the governance mode choice, although they might possibly determine switches in modes as well. Literature suggests that the more experience a firm has in the host country, the more likely it is to develop a relational trust base or to be able to use the market exchange. Similarly, in relation to the firm's ability in codifying its transactions, the greater ability it has to standardise and modularise these transactions, the greater the probability that it will use market and modular arrangements. However, the changes in the firm's knowledge and experience in doing business in the host country could be classified under the intra-firm changes that "may grow out of the firm itself", and such changes might trigger mode switching for a firm's activities at the host country (Welch et al., 2007, p. 363). For example, in

the case of increased knowledge about the host country's market by the firm, Welch et al. explain that mode switching under this factor occurs for two main reasons: "correction of managerial misjudgments" and/or a firm's incremental accumulation of market knowledge about the host country market (Welch et al., 2007, p. 363; Welch & Paavilainen, 2014). Generally, managers/decision-makers' valuations are related to the "costs, risks, and benefits of being involved in a market change as they learn more about that market" (Pedersen et al., 2002, p. 327; Sachse, 2011, p. 35). Where the existing governance mode choice generates negative outcomes, or is not as expected and planned, managers may "take steps to correct them by choosing an alternative mode" for that particular transaction (Calof 1993: 116). In the case of mode switches that emerge due to the firm's accumulated knowledge about the host country's market, this aspect has been captured very well within the internationalisation process literature, especially the stages theory (e.g. Uppsala model) and Mathews LLL framework. For example, Johanson and Vahlne (1977) perceive "that market knowledge and market commitment affect both commitment decisions and the way current activities are performed" (Sachse, 2011, p. 29). According to them, over a period of time being in a particular market, firms will gradually gain knowledge about the particular market they are associated with.

Mathews (2002; 2006) argues that firms, especially SMEs, could gain market knowledge through their linkage with host country local suppliers, and learn from them to leverage their market knowledge about the host country. Accordingly, the involvement with an overseas local market can increase information flows about host countries' markets, due to their interaction with local suppliers, visits to the local markets, personal contacts and networks. Thus, increased firm's knowledge about a host country such as "local business conditions, customers, networks, and so on", means firms may become more attracted to a higher control mode (Welch et al. 2007: p, 368; Barkema et al., 1996; Johanson & Vahlne, 1977). So, learning about host country markets, may evoke mode changes for its activities within that market.

A firm's mode choice in the host country could be affected by internal and external situational factors, but a firm's mode switching for its overseas operation(s) comes at costs, termed switching costs (Pedersen et al., 2002, p. 326). Switching costs refer "to difficulties – or costs – in changing the current behaviour of companies; for instance,

regarding their foreign operation modes" (Pedersen et al., 2002, p. 331; Benito, Pedersen & Petersen, 1999). Therefore, a firm's managers/decision-makers should consider switching costs in their calculations when choosing to change their firm's activities governance mode. Studies suggest that the higher-control mode of a firm's transaction, the higher the switching costs will be (Pedersen et al. 2002; Johanson & Vahlne, 1977).

In case of the present study and the determinants of mode switches that occur due to the changes within the firm itself, in form of accumulated knowledge about China market that is characterised by the institutional weaknesses, the three literature streams - TCE, GVC, and internationalisation process (Uppsala) streams- highlight that firms might switch their governance mode due to their accumulated knowledge about China market. This could occur due to the dyadic exchange relationship and their interactions with local suppliers, previous international experiences, networks and personal links within China market to achieve the desirable outcomes (Peng, Sun, Pinkham & Chen, 2009; Sharma et al., 2015). This could be linked to the knowledge factor that determines the transaction's three variables – transaction complexity, codification, and supplier's capabilities- as shown in Figure 2.5.

In relation to the present study, according to literature, the changes in China market (e.g. institutional void that is related to the lack of sufficient institutions to support its markets), as well as any other changes to mode choice determinants – transaction complexity, codifiability, and suppliers capabilities-, the studied SMEs might restructure their offshored activities' governance mode(s). They based their switches on their abilities in organise their transaction by considering different governance modes that could match the issue they are facing; and their capability to successfully implement the best option based on available resources, as well as the tools at their disposal to address the issue (Mair & Marti, 2009). Accordingly, within the international business context, any changes in determinants of a firm's governance mode choice that are highlighted by the three literature streams, could initiate mode switching.

A small number of studies show evidence of mode switching (Dow et al., 2018; Hikmet 2015; Welch et al. 2007; Calof 1993; 1991). They highlight the importance of

understanding how firms manage the governance process and give some insights into the triggers behind mode switching. Nevertheless, they do not fully explain the dynamics of governance mode switching over the offshore outsourcing cycle, the triggers that initiate mode switches, or the impact of alternative governance arrangements on the firm's activities from the manager's perspective. This then seems to indicate a literature weakness that constitutes a genuine research gap in terms of governance and changes in modes of governance, or as governance mode determination and switching, which is the focus of the present study and its potential contribution to academia, public understanding and policy, and management practice.

Focal theory of the research and the research gap

Liesch et al. state that most of the research in offshore sourcing has relied on the TCE and RBV theories (Liesch et al., 2012). TCE relates to economising the transaction costs of a firm through different governance structures, due to different types of uncertainty, risks or non-contractibility of assets, while RBV relates to the firm's make versus buy decisions, based on a firm's competitive advantages through exploring "firm-specific resources and organisational capabilities" (Jell-Ojobor & Windsperger, 2014, p. 154). According to Tate and his co-authors, in the case of offshore outsourcing in relation to the TCE and RBV perspectives, TCE is considered a good tool to analyse offshore outsourcing decisions and their drivers, while the RBV deals with decisions about the resources and capabilities of a firm that can be considered as a competitive advantage and should not be outsourced, though other resources could be (Ellram, Tate & Petersen, 2013). Therefore, scholars perceive governance modes as knowledge-creating mechanisms as well as cost-minimising mechanisms, as argued in the RBV and TCE theories respectively (Madhok, 1997; Pitelis & Teece, 2009).

Offshore sourcing drivers, benefits, and challenges are very well known, researched, and studied (Roza, Bosch, & Henk, 2011; Oshri, Kotlarsky, & Willcocks, 2015; Beverakis, Dick, & Cecez-Kecmanovic, 2009). But existing knowledge about the determinants of a firm's governance mode choice and governance mode switching, as well as the triggers that initiate mode switches, as noted earlier, are not fully understood (Hikmet, 2015; Liesch, Buckley, Simonin, & Knight, 2012). This is supported by the work of Hikmet (2015), which shows that SMEs may restructure their governance mode during their offshore outsourcing in China.

In relation to the link between the present study and the three elements of offshore sourcing - location, task, and governance - as noted earlier, the studied firms are high-tech manufacturing SMEs and their competitive advantages might take distinct forms such as firm-specific resources, organisational capabilities, or know-how. But their offshore sourced tasks are limited to parts and/or some activities of their production, so the task element is limited. Similarly, the location element is fixed to China, which is rich with various resources that are needed for the studied SMEs' production activities. At the same time, such markets have a high level of uncertainty and risks that these firms need to deal with, whereas the governance mode element for offshore tasks for the studied firms varies, based on the locational competitive advantages and disadvantages, as well as the offshored transactions' characteristics and firms' experiences. For example, both New Zealand and Australia have similar institutional systems, business practices, culture, and language, but they differ from countries like China. This increases the level of uncertainties among these firms, and they might prefer to internalise or externalise their activities depending on activity type's, and the level of uncertainty about the China market. So, it is clear that the present study is more aligned with the TCE perspective than with the RBV perspective, because the studied firms are trying to economise their transaction costs through different governance structures. This is due to different types of uncertainty risks or non-contractibility of assets, rather than their competitive advantages through exploring their specific resources and capabilities, because they already did that before moving their production to China. Therefore, the present study relies on Williamson's TCE theory and on subsequent developments that examine the choice of governance mode and of governance mode switching, including the triggers that initiate mode switches during offshore sourcing.

Liesch et al (2012, p.7) state that theorising a firm's governance structures and the "nature of contracting between organisations ... [and the] empirical studies using transaction cost frameworks" has been well-represented and reported within management and organisation literature. On the other hand, scholars point out that there is a lack of understanding and some confusion about institutions within the international business literature, and that institutional characteristics impact on the international business context (Williamson, 2000; Mudambi & Navarra, 2002; Meyer &

Peng, 2005). Eiche (2010) explains that “Institutions specify the cultural, political, financial, and legal setup of a country”, and in line with other work (Peng, Wang, & Jiang, 2008; Slangen & van Tulder, 2009) he states that “knowledge about the role of the host country's institutional context on establishment mode, location choice ... of SMEs is rather limited or even missing” (p. 2).

According to the firm's transaction characteristics, TCE predicts whether a firm's activity transaction cost is going to be low (e.g. market exchange) or high cost (e.g. hierarchy or captive exchange). The TCE theory “has been developed, assuming stable and well-developed market mechanisms” (Eiche, 2010, p. 7; Mukherjee et al., 2013). This assumption has been challenged to measure the relevant transaction costs when offshore sourcing to locations with weak or unstable institutional systems, or institutionally uncertain environments that may differ significantly from the developed and mature markets (Meyer and Peng, 2005). Accordingly, the term ‘institutional difference’ could be used as an indication of how much an offshore location, host country, or institution system is similar to, or differs from, the home country's institutional system (Kostova, 1997; North, 1991).

Despite the increasing amount of research on offshore sourcing, much remains to be understood at the theoretical level. Conceptually, governance alternatives appear straightforward, but the reality in emerging markets such as China, is quite different. Since many emerging economies are characterised by institutional weaknesses or ‘voids’, confidence in independent enforcement may be low and may need to be supplemented by other forms of trust building or assurance through personal networks and friendships. Different studies within the international business (IB) literature have combined country specific advantages (CSAs) and firm specific advantages (FSAs) when investigating the host country institutional context impacts on a firms’ internationalisation such as multinational enterprises (MNEs) from developed economies, as well as emerging market multinationals (EMMs) (Hennart, 1982; 1988; 2009; 2010; Rugman, 1981b; 2006; 2009). These studies showed varying results across industries and across host countries (Hennart, 2012). Hennart (2012) suggests more work is needed to verify how the host country's institutional environment context impacts on firms’ internationalisation and the present study explores these relationship dynamics. Nonetheless, a recent study about NZ SMEs within HTMs who

moved their production activities to China, has shown that the theoretical perspectives on the governance of offshoring do not seem to capture the reality of operating in a relationship-based economy such as China, where institutional weaknesses mean that greater reliance is placed on networks and relationships. It highlights that these firms have managed to reduce their transaction costs and still create a profit within such environments through their governance mode choices and modifying or switching between different governance modes. The extent of their cost savings is linked to their governance choices and networking, in essence, greater control over quality or intellectual property protection comes at the price of reduced cost savings (Hikmet, 2015; Hikmet & Enderwick, 2015).

Although the current offshore sourcing concept is broad and has developed generically, crossing many sectors, “most of the studies adopt a static perspective when examining the governance decisions” (Hernandez & Pedersen, 2017, p.141). As demonstrated earlier, different streams (e.g. TCE, GVC, Uppsala) focused on different elements of governance issues during offshore sourcing, but all of them have quite static outcomes and they do not deal with the dynamic side of governance mode choice and mode switching, the triggers that initiate mode switches, or the impact of alternative governance arrangements on the firm’s offshore activities (Norwood et al, 2006).

As noted earlier, while the Uppsala model considers organisational learning in general, it does not explicitly highlight the firm’s management learning role, and how the establishment chain shifts as management learning increases. It focuses on market learning through exporting goods or services. On the other hand, and concerning sourcing goods or services, both TCE and GVC theories focus on the technical learning highlighting different transactional structural impediments (e.g. opportunism, supplier’s capabilities, etc.) that might arise when externalising these transactions.

However, little consideration is given to how the managers learning could help to overcome these impediments. For example, TCE focuses on the economic and technical ways that the firm can use to overcome these barriers to the transaction without considering the management implications for these impediments. Similarly, the GVC theory highlight transaction’s 3Cs to overcome transactional impediments and

all of them are technical. The theory does not explain how does management learning impacts decisions on the 3Cs or how it encourage switching.

By taking up Williamson's (1996, p. 56) comment that "rather than describe firms as production functions, to which a profit maximisation purpose is reliably ascribed, firms are now also described as governance structures, in which mixed motives operate". This study addresses his proposition, highlighting that scholars interested in offshore sourcing, should address a firm's *governance mode* and *governance mode switching*. This could be achieved by using the concept of international involvement rather than simply international investment. Shenkar and his co-authors explain that "International investment occurs when the company invests resources [such as capital, technology and skills] in business activities outside its home country" (Shenkar, Luo & Chi, 2015, p11; Toyne & Nigh, 1997). This refers to the trade of investment, goods or services between countries where a firm has complete or partial control of these offshore activities (Toyne & Nigh, 1997, p. 52). The international involvement concept means participation with an overseas partner(s), by having the minimum or perhaps limited investment, along with other governance modes of a firm's activities. In other words, involvement means an investment plus other modes of governance. This concept has only recently been used, and it is very close to the non-equity investment type (Toyne & Nigh, 1997).

The aim of the study

The present study aims to extend the existing knowledge of firm's mode switching during offshore sourcing and the triggers that initiate mode switching. It does this by addressing the above-mentioned research deficiencies and studying the moderating influence of the firm's experience and the offshore location institutions on the relationship between SMEs' activities transaction costs, governance mode switching, triggers that initiate governance modes switching, and SMEs intellectual proprietary and know-how.

In other words, this study seeks to extend the existing Transaction Cost Economics (TCE) theory approach, which deals with the governance aspects of a firm's externalisation decisions. Therefore, the present study's contributions will not just be on TCE, but also managerial learning impacts on the firm's decision-making so it is

relevant to the other streams of theories such as GVC and internationalisation process (Uppsala) through answering the research question and its sub-questions.

The overarching research question is:

“What factors determine the governance mode choice of Australasian high-tech manufacturing SMEs when offshore sourcing to China and what triggers changes in mode choice?”

There are five sub-questions which seek to elaborate on the principal research question. These are:

“What factors determine SMEs' initial governance mode choice when offshore sourcing to China?”

“Why do companies change their governance modes?”

“What are the triggers that initiate mode switching?”

“How does mode switching contribute to business strategy and international competitiveness?”

“What kinds of adaptations are required for such mode switching?”

Rationale and significance of the study

As noted earlier, in the last few decades offshore sourcing has increased for many firms, particularly high-tech firms, facilitated by developments in communication technology and transport/logistics (Ministry of Business, Innovation & Employment [MBIE], 2013b). As new markets and production locations have developed, the locational choices available to firms have increased. For example, China is now a global manufacturing center and one of the favoured offshore locations for outsourcing different activities for many firms. It offers a wide range of advantages such as access to low-cost resources like land and labour, an “an increasingly sophisticated supply base and R&D capability” (Hikmet & Enderwick, 2015, p. 13).

Understanding of offshore sourcing is broad and has been developed generically but offers little detailed discussion of the precise nature of governance structures that firms use to manage offshore outsourcing. Furthermore, it does not explain the dynamics of governance mode switches and how governance processes change or evolve the triggers that initiate mode switches, or the impact of alternative

governance arrangements on the firm's offshore activities. However, previous work undertaken by Hikmet (2015) found that during offshore sourcing, some firms changed their offshore activities' governance mode to maintain their competitiveness. The study highlighted the importance of understanding how firms manage the governance process and gave some insights into the triggers behind mode switching.

Nevertheless, it did not fully explain the dynamics of governance mode switching over the offshore outsourcing cycle, the triggers that initiate mode switches, or the impact of alternative governance arrangements on the firm's activities. Accordingly, the contributions of the present study can be summarised as below:

Contribution to theory: this study explores the above-mentioned research deficiencies by studying the moderating influence of management learning processes about the host country market and its institutional settings, in terms of SMEs' know-how when offshore sourcing their production activities to China. It also investigates the influence of firms acquired knowledge about the host country and its institutions on the triggers initiating governance modes switching for SMEs. Accordingly, this study is not building or creating a new theory, rather it contributes to the existing Transaction Cost Economics (TCE) theory, which deals with the governance aspects of a firm's externalisation decisions, but at the same time TCE has not covered the firm's effective governance and governance switching within an international business context, and the triggers that initiate such governance mode switching during offshore sourcing. The contributions of the present study will not just be on TCE theory, but it looks at managerial details, making it relevant to other streams of theory – GVC, and internationalisation process (Uppsala model)- through answering the research overarching question and its sub-questions.

Contribution to wider community and public understanding: It will make a useful contribution to public understanding of offshore sourcing, which is often perceived negatively, and help make the wider community aware of the important role of high-tech manufacturing SMEs to the economy, which is under-researched.

Contributions to business strategy practice and management: Participants will share their experiences with the wider community, which might inspire other

entrepreneurs and help them to maintain their competitiveness through offshore sourcing, and it also will better enable managers to appraise their governance mode choice and mode switching strategies by providing them with insights about governance mode choice determinants, as well as the factors that trigger mode switching for their firm's offshore sourcing. This will help these decision-makers to improve their firms' strategic operations by ensuring high "quality and low cost in the [product or] service delivery and reduces complexity and associated risk to the organisation" (Tate & Ellram, 2009, p. 256) at the overseas locations.

This chapter presented a review of three main streams of literature related to the research question: internationalisation process (Uppsala), transaction cost economics, and global value chain literature in relation to governance mode choice and mode switching in offshore sourcing and their determinants. Finally, the main contribution this thesis intends to make was highlighted and the aim of the thesis was outlined.

Methods and Methodology

Introduction

As noted earlier, the focus of this study is not about testing what is already known, but about building knowledge and an understanding of the governance of offshore sourcing arrangements from the point of view of a firm's managers, within Australasian SMEs in the high-tech manufacturing industry, which means this is an exploratory study within the interpretive paradigm. The focus is on how the managers experienced it, why they chose China in particular as a destination for their venture, and how they decided to organise and govern their operations there. It also covers what challenges they faced and how they managed to overcome them (Flick, 2009, p. 15). The previous chapter highlighted the phenomenon of offshore sourcing, focusing on the governance aspect, and covering the relevant literature and theories. This chapter presents the methodology and the methods that will be used in the study, which are summarised in Figure 3.1. First, it explains the philosophical underpinnings of the research including the underlying epistemological and ontological positions and the research paradigm. This is followed by a discussion of the field of enquiry, strategy of enquiry and the method used in collecting and analysing the study data. The specifics of the data collection and data analysis will be addressed in more detail in the next chapter.

Research design

Research design has been described by different scholars as a 'road map' that guides the researcher in conducting a study, and it contains several sequential decisions that need to be made by the researcher at particular stages of the research process. These decisions assist the process of "clarifying the research plan that should be adopted to answer the research questions" (Creswell, 2013; Flick, 2009; Bryman & Bell, 2007; Ragin, 1994). Research design can be defined as "the logic that links the data to be collected (and the conclusion to be drawn) to the initial questions of (the) study" (Yin, 2014, p. 26). Academics consider that the philosophical position of the research, the strategies of inquiry and the methods of data collection and analysis, are the three most important and interwoven elements of the research design, and that a different

mix of these components will influence the type of research (qualitative, quantitative, or mixed methods) that will be conducted (Creswell, 2013; Bryman & Bell, 2007).

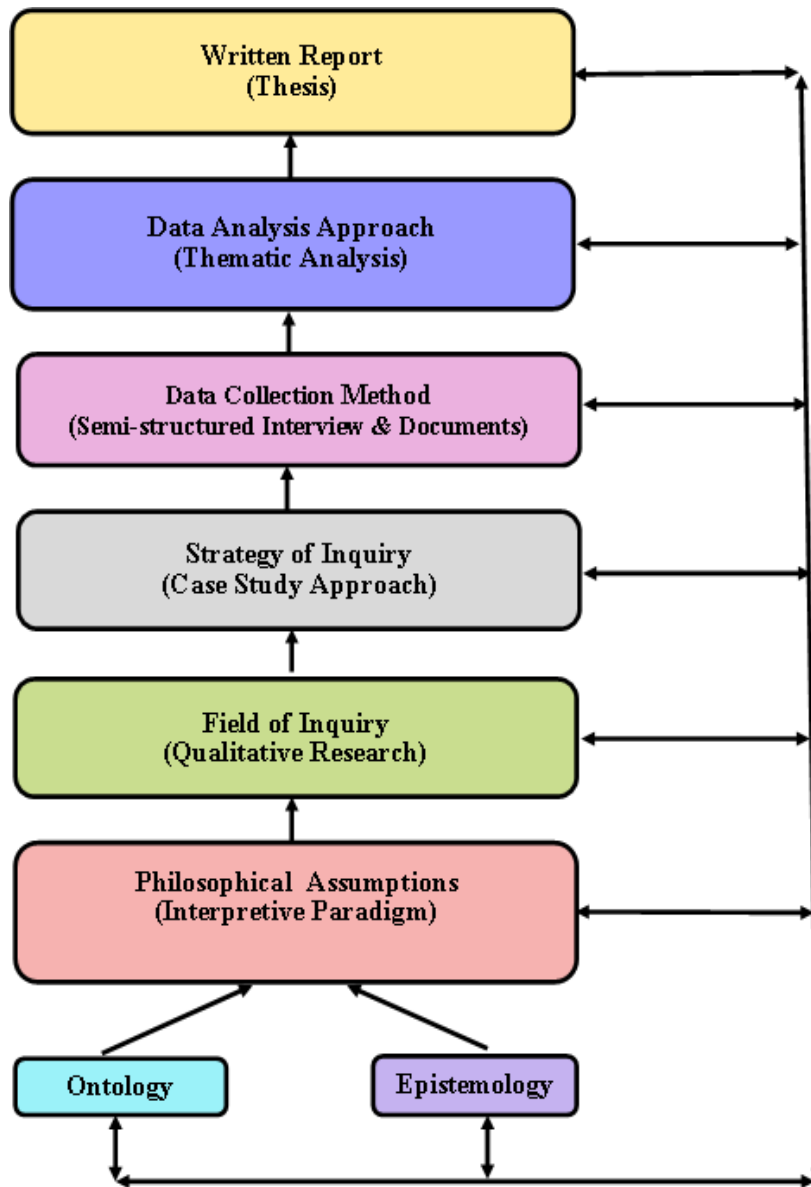


Figure 3.8 Elements of the research design of the current study.
Adapted from (Myers, 2013, p. 37).

For this study, there are three elements to the research design: the philosophical position of the research, the field and strategy of inquiry and the methods of data collection and analysis. The first element of the research design consists of the philosophical position of the research. The second element of the research design is related to the field and strategy of inquiry, which transfers the researcher from the philosophical underpinnings of the research to the research method stage, where the data will be collected and analysed (Denzin & Lincoln, 2003). This element of the research design involves a choice between qualitative, quantitative, or mixed methods.

Under each of these forms there are alternative options of strategies of inquiry, and Table 3.1 illustrates a few of them (Creswell, 2009, p.11).

Different labels have been given to this particular element, such as “approaches to inquiry” (Creswell, 2003, p.23), “research methodologies” (Mertens, 1998, as cited in Creswell, 2009, p.11), or research methods (Myers, 2013). As noted earlier, this study aims to understand a social phenomenon (the governance of offshore sourcing), from the individual’s (firm’s manager) point of view and the meaning that is attached to it by them. This makes the nature of the study more subjective and tends toward the interpretive paradigm as a philosophical position. Crotty (1998) states that subjectivist research study, in general, aligns with qualitative methods. Therefore, a qualitative approach has been adopted for inquiry, which will be discussed in the following section, and summarised in Figure 3.1. As shown in Table 3.1, the case study approach is one of several strategies of inquiry contained in qualitative research and it has been adopted as the strategy of inquiry for this study. It will be discussed in further detail under the “Case Study as a Strategy of Inquiry” heading. The final design element, the research method, covers the research data collection and analysis, which will be discussed in a separate chapter (Chapter 4).

Furthermore, literature explains that methodology is the rationale or a strategy that outlines the steps or the methods to undertake a research study, while research methods are considered as the tools describing the ways used for collecting the study data (Howell 2013).

The elements of research design

Philosophical position

Conducting research generally comes with a set of philosophical assumptions in terms of the state of the world and the state of knowledge and how the researcher can obtain knowledge about the world (Myers, 2013). These assumptions are usually "embedded in a researcher’s mind” (Hikmet, 2015, p.28; Myers, 2013), and are impacted by the researcher’s background and experiences (Creswell & Poth, 2018; Huff, 2009). It is important to understand the philosophical assumptions that underpin any research and how they might influence the direction, goals, outcomes, and

evaluation criteria of a study, as well as its targeted audience (Huff, 2009; Creswell & Poth, 2018).

Philosophical assumptions can be explained through two interrelated concepts: ontology, “the theory of being”, and epistemology, “the theory of knowledge” (Hassard & Cox, 2011, p.6; Campbell & Wasco, 2000; Solem, 2003). Ontology concerns “the nature of reality and its characteristics”, which is linked to the individual elementary philosophical beliefs about the nature of reality, and whether it is single or multiple (Creswell, 2013, p.20). Epistemology, again, refers to the theory of how one gains knowledge about the reality, which could be perceived from the perspective of (an) individual(s). This epistemological position makes epistemological assumptions become more subjective rather than objective evidence, because of its reliance on people points of views about the topic of interest from their own or others’ experiences (Hikmet, 2015; Creswell, 2013; Grant & Giddings, 200)

Combining ontology and epistemology creates a paradigm, which is defined by Guba (1990, p. 17) as a “basic set of beliefs that guides actions”. Similarly, Guba and Lincoln (1994) perceive the paradigm as a “*worldview*” that influences the researcher’s choices for the study (e.g. study methods) in fundamental ways (p.105). Therefore, literature highlights the need for researchers to be clear and well-defined in their philosophical assumptions, because these assumptions impact their methodological choices as well as the interpretation of the findings of their studies (Myers, 2013). The present study aligns with Denzin and Lincoln’s approach, who perceive the term paradigm as an interpretive framework that “contains the researcher’s ontology, epistemology, and the methodological premises” (2005, p.21).

Another useful model that can help explain the philosophical position that underpins this study, is Burrell and Morgan’s (2003) model. This is a two-dimensional matrix of the “alternative assumptions underlying social [subjective vs. objective dimension] and organizational theory [regulation vs. radical change dimension]”, (Hassard & Cox, 2011, p.2). The scheme results from combining these two dimensions and results in four paradigms: functionalist, interpretive, radical humanist, and radical structuralist (Burrell & Morgan 2003; Bryman & Bell, 2007; Hassard & Cox, 2011). The relationship

between these two dimensions and the resulting paradigms are illustrated in Figure 3.2.

This study aims to understand firms' governance mode choices and mode switching during offshore sourcing to China from their managers' points of view. As demonstrated in Chapter 2, there is no clear literature answering the research question and explaining firms' governance mode choices and mode switching during offshore sourcing. Therefore, the study relies on what the managers of the respondent companies explain about their experiences of the studied phenomenon.

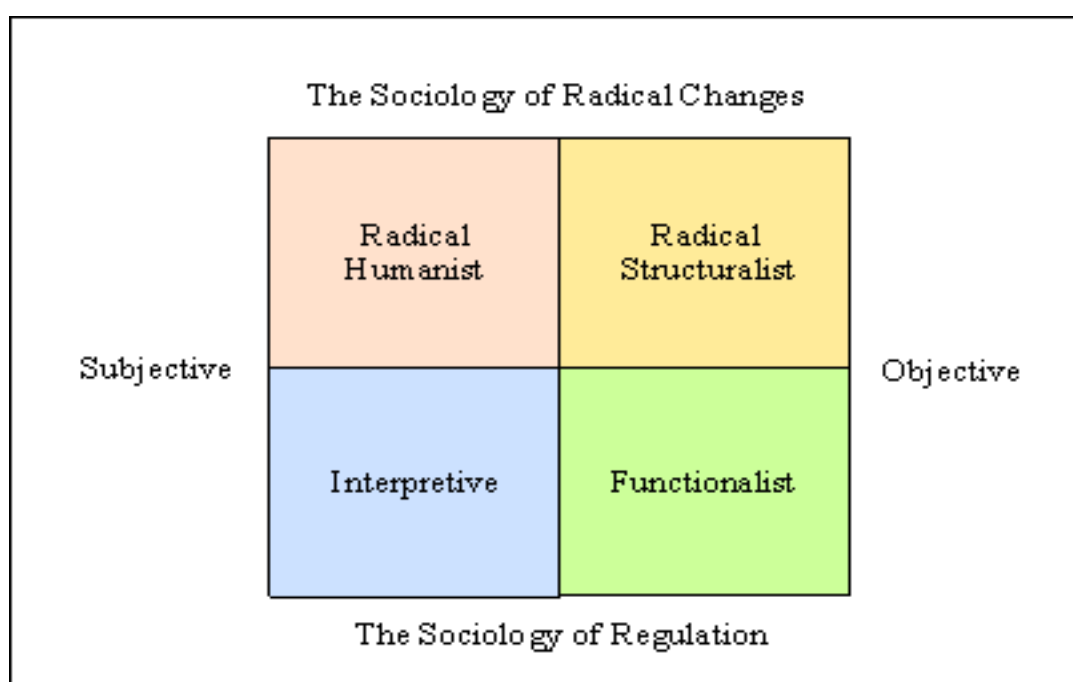


Figure 3.9 Four paradigms in the analysis of social phenomena.
From (Burrell & G. Morgan, 2003, p. 22)

Drawing on Burrell and Morgan's subjective vs. objective dimension, which explains how social actors see the social world, the researcher believes that the world does not just exist because it is there; people experience the world differently and that affects what they do, which leans more towards the subjective than objective dimension. Adopting this viewpoint gives the present study a constructionist character, subjective in nature, based on a multiple reality as an ontological position, because the studied social phenomenon is interpreted from the point of view of the firms' managers (Bryman, 2016).

In relation to the regulation vs. radical change dimension of Burrell and Morgan's model, the present study is not looking at big structural change but aims to understand

how people interpret the world. It thus focuses on the interpretation of managers' experiences of the studied phenomenon from the managers' perspectives. Such interpretation makes the epistemological assumption of subjective meanings, which is based on the acquired knowledge through learning because of personal experience, other individuals' experiences, and the social environment (e.g. customs and norms) that these managers experience.

The combined ontological and epistemological assumptions of the present study make it interpretive in nature. In other words, the present research investigates "culturally derived and historically situated interpretation(s) of the social life-world" (Crotty, 1998, p. 67) – that is, governance mode choices and mode switching – through a firm's decision-maker's point of view, which involves interpretations, and the attached meanings for such experiences. Gray states that these "meanings are not fixed or stable but are revised [based on] experience" (2014, p.24). Accordingly, this study is aligned with the interpretive framework of Burrell and Morgan's two-dimensional model.

However, Denzin and Lincoln explain that "every researcher speaks from within a distinct interpretive community that configures...the components of the research act" (2005, pp. 21-22). Therefore, any research could be perceived of as an interpretation and each "interpretive paradigm makes particular demands on the researcher, including the questions the researcher asks and the interpretations he or she brings to them" (Denzin & Lincoln, 2005, pp. 21-22). Furthermore, Crotty (1998) explains that one of the major confusions that face any researcher is not only the variety of perspectives and methodologies but also the fact that "the terminology applied to them is often inconsistent (or even contradictory)" (Gray, 2014, p.19). He also implies the existence of a relationship between the researcher's theoretical position, the methods and methodology of the study and the researcher's epistemological view. Similarly, Denzin and Lincoln recognise that ontology, epistemology and methodology are three interconnected "generic activities [that] define [the] qualitative research process" (2005, p.21), as well as informing the researcher's views and actions within his/her environment.

Bircham–Connolly (2007) and many others find Burrell and Morgan’s model an effective tool that helps clarify the critical parts of their studies, whether it be a “descriptive” or a “prescriptive” model, such as the study’s central assumptions or the researcher’s position within a specific study (pp. 67-68). Others have a contrasting point of view about Burrell and Morgan’s model, and perceive this scheme as obscuring and confusing that might “lead to poorly formed conflicts and discussions” (Deetz, 1996, p. 191). They argue that the field of organisational analysis has progressed considerably, while Burrell and Morgan’s “notion of paradigm has been relegated to a much-respected comparison point from which theory has now advanced” (Hassard & Cox, 2011, p. 1). For example, within the context of organisational theory, “a model for explaining the structure and content of these major analytical orders as new “paradigms” remains lacking” (Hassard & Cox, 2011, p. 2).

Although the value of Burrell and Morgan’s four paradigms is still debated among scholars, the application of the matrix in the present study gives the researcher a basic guide for exploration of the complex environment of the studied phenomenon within the international business context. It also provides a realistic description and justification of “the location of theory and research in two-dimensional space” (Hassard & Cox, 2011, p.2).

Interpretive paradigm

As indicated in the previous section, this study fits within the interpretive paradigm. Essentially, the interpretive viewpoint emphasises the importance of the social actors’ previous personal experience, knowledge and information in the interpretation process and in sense-making about their surroundings and actions, especially within cultural studies (Bryman & Bell, 2007). Nordqvist and his co-authors explain that interpretivism focuses on “understanding seeing something.... interpreting [the] seeing things in new ways, [or] assigning new meanings to them” (Nordqvist, Hall & Melin, 2009, p.298). Such interrelated relationships could be perceived as a “product of (the) mind” (Burrell & Morgan, 2003, p. 227). Moreover, within the domain of interpretivism, Myers (2013) clarifies that the best way to get the truth about something is by going back to “the things themselves” (Grant & Giddings, 2002, p. 16), which can be achieved through socially “constructed comprehensions such as language

and shared meanings” (Hikmet, 2015, p. 30). In this way, scholars such as Grant and Giddings (2002) and Nordqvist et al. (2009) explain that within the interpretive framework the researcher aims to understand the meanings attached to an individual’s specific “experience or action from different theoretical perspectives and from the individual’s point of view” (Hikmet, 2015, p.30).

As noted earlier in the literature review of this study, there is a lack of understanding about the issue of why companies might switch governance mode during offshore sourcing in China, about the triggers that initiate such switching and about how mode switching is managed. Therefore, the present study aims to investigate and understand governance issues during offshore sourcing. Accordingly, the study will rely primarily on the participants to explain what they think of these issues.

In this research, the interpretive paradigm has been applied to the idea that the managers of SMEs make sense of their experiences and act on the basis of the meanings attached to these experiences. The phenomenon of the offshore sourcing governance mode and the triggers that initiate mode switching are what the researcher is interested in understanding and explaining through the interpretations of managers who have experienced it. According to Yin (2014), previous literature can become a guide for defining the studied phenomenon. Therefore, this research has been informed by the existing literature when identifying specific reasons for considering offshore sourcing prior to collecting data. The researcher has also used these theoretical frameworks to develop interview questions and to analyze the data in order to present the findings.

Field of inquiry

This is the second element of the research design and it moves the research from describing the philosophical assumptions that underpin the study to the third stage that explains the methods that have been used in collecting and analysing the data to answer the research question. The research field of inquiry could be defined as a research design or model that directs the research procedures, which comes in different forms: qualitative, quantitative, or mixed methods. Within each of these forms there are different alternative strategies of inquiry (Creswell, 2009, p.11). Table 3.1 illustrates a number of these.

Table 3.6 Alternative fields and strategies of inquiry

Quantitative	Qualitative	Mixed Methods
<ul style="list-style-type: none"> • Experimental designs • Non-experimental designs, such as surveys 	<ul style="list-style-type: none"> • Narrative research • Phenomenology • Ethnographies • Grounded theory • Case study 	<ul style="list-style-type: none"> • Sequential • Concurrent • Transformative

From (Creswell, 2009, p. 12)

According to Myers (2013), the strategy of inquiry builds on “a set of philosophical assumptions, and the choice of the research method influences the way in which the researcher collects data”. He explains that each of these strategies requires different skills according to the research field and the practice. Action research, case study research, ethnography, and grounded theory are most “commonly used in business and management”, and each of these strategies of inquiry could be used with any of the philosophical perspectives, meaning a “case study could be positivist, interpretive, or critical” (p.25). For example, both Stake (1995) and Yin (2009; 2012) explain that case studies as a strategy of inquiry could be used when the researcher wants to explore an in-depth phenomenon that is bounded by time and activity (for example a programme, event, activity or process), where the researcher is able to collect the study data from various sources (Creswell, 2014, p. 14).

As previously noted, this study aims to understand and illustrate the dynamic aspects of governance mode choices and the triggers that initiate mode switching during offshore sourcing in China, among Australasian firms. Therefore, this study is set within the qualitative field of inquiry of which there are many strategies of inquiry. For example, Tesch (1990/2013) identified 28 approaches, Wolcott (2009) classified 19 types, whereas Creswell (2013) summarised them into five main approaches- narrative, phenomenological, grounded theory, ethnographic and case study research- that are the most popular approaches in social research. He states that researchers could choose any of these five approaches depending on the research focus (see Table 3.2), and thus, has been considered by this researcher to support her choice of the study’s approach for its strategy of inquiry (Creswell & Poth, 2018; Creswell, 2013).

Table 3.7 Qualitative field strategies of inquiry approaches

Inquiry Approach	Inquiry Approach Focus
Narrative Approach	<ul style="list-style-type: none"> • focuses on individual stories of a life experience told by individual(s)
Phenomenological Approach	<ul style="list-style-type: none"> • emphasises the common experiences of the studied phenomenon experienced by several individuals
Grounded Theory Approach	<ul style="list-style-type: none"> • aims to develop “a theory from examining many individuals who share the same process, action, or interaction” (Creswell & Poth, 2018, p. 90).
Ethnographic Approach	<ul style="list-style-type: none"> • “focuses on an entire culture-sharing group....to determine how the culture works” (Creswell & Poth, 2018, pp. 96-125)
Case Study Approach	<ul style="list-style-type: none"> • focuses on developing an in-depth understanding or exploring a real-life issue, counterparty context or setting, which is bounded by time (and) or place

Adapted from (Creswell & Poth, 2018, pp. 45-125).

Furthermore, as noted earlier, this study sits within the qualitative field of inquiry, so the following section will discuss the qualitative research as the field of inquiry in more detail.

Qualitative research

Denzin and Lincoln perceive qualitative research as a “field of inquiry” that suits different types of studies (2005, p. 2). Similarly, Myers (2013) explains that qualitative research is concerned with understanding “the *context* within which decisions and actions take place”, which relates to human decisions and actions that can only be explained and understood through the context of “talking to people” (p.5). Creswell considers qualitative research as a form of interpretive research with multi-layered interpretation where readers, researchers and participants are all making interpretations of the investigated issue(s). He explains that such interpretations “cannot be separated from their own background and prior understandings” (Creswell, 2009, p. 178).

The literature suggests that the main idea behind conducting a qualitative study is to learn about the studied problem from the perspective of the participants of the study, enabling the researcher to develop a holistic picture of the studied problem (Creswell & Poth, 2018). Accordingly, qualitative research is related to “the social sciences to study social and cultural phenomena” and the interpretation of the collected data can

help “to understand people, their motivations and actions, and the broader context within which they work and live” (Myers, 2013, p.8).

Scholars have different definitions of qualitative research and write from different points of view and practices, which means that agreeing a single unified definition, is a difficult and perhaps unachievable task (Creswell, 2013; Flick, 2009). Auerbach and Silverstein provide a general definition for qualitative research, perceiving it as the type of “research that involves analysing and interpreting texts and interviews in order to discover meaningful patterns descriptive of a particular phenomenon” (2003, p. 3). However, Creswell’s (2013) definition moves qualitative research from a general perspective to a more specific viewpoint and set of characteristics, and he states that:

Qualitative research today involves closer attention to the interpretive nature of enquiry and sustaining the study within the political, social, and cultural context of the researchers, and the reflexivity or “presence” of the researchers in the accounts they present (Creswell, 2013, p.45).

Accordingly, qualitative research is the best way of obtaining an in depth understanding about a specific subject, such as a firm, an individual or a phenomenon, and it is suitable for exploratory studies where the topic is new or “there is not much previously published research” about it (Myers, 2013, p.6). On the other hand, scholars also suggest that qualitative research should be utilised when the goal is to understand a phenomenon “and its particular social and institutional context” from the participants’ points of view, which could be” largely lost when textual data are quantified” (Myers, 2013, p.6; Kaplan and Maxwell, 2005).

At this stage, the present study is in line with 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). In this research, the researcher attempts to explain and explore the reasons behind firms’ governance mode choice and mode switching during their offshore sourcing to China, as such decisions are mostly taken by the business owners or managers. As noted earlier in the literature review section, this aspect of the offshore sourcing phenomenon has been under-researched or has not received much attention from scholars. As other scholars have found, qualitative research gives an insight into the phenomenon studied, for instance, the process, or

key decision-making. It is also “conducted through intense contact within a ‘field’ or real-life setting”, which provides the researcher with a ‘holistic’ or “integrated overview” of the studied phenomenon, as well as the perceptions of the study’s participants (Gray, 2014, p. 160). Therefore, the researcher perceives qualitative research as an appropriate strategy to understand or to gain insights into governance mode choice and switching during offshore sourcing, focusing on the SMEs’ decision makers’ “motivations, their reasons, their actions, and the context for their beliefs and actions in an in-depth way” (Myers, 2013, p.5).

Creswell summarises the commonly-shared interwoven characteristics of the qualitative researcher, emphasising the researcher’s reflexivity and how they “position themselves” in qualitative research. Accordingly, the researcher’s education, work experiences, cultural experience and background history can convey and shape the researcher’s choices, such as the research questions, the methods, the introduction, and data interpretation (Creswell, 2013, p.47). Similarly, Creswell highlights a “rigorous approach” to the research data collection, data analyses and report writing. Additionally, he describes the qualitative report as being multi-layered and containing three levels of interpretation, from participants, the researcher, and the readers of the research report. These emerging multi-layer interpretations provide diverse points of view that cover different and wider aspects of the researched problem. Finally, he describes good qualitative research as being when the researcher acknowledges and addresses the ethical issues that “thread through all phases of the research study” (Creswell, 2013, pp.54-55; Creswell & Poth, 2018).

Aligned with Creswell’s (2009; 2013) point of view about qualitative research and the characteristics that the qualitative researcher may have, this researcher collected the research data in person through face-to-face interaction within a natural setting by interviewing the participants in their office environment (Creswell & Poth, 2018). Second, the researcher has utilized several sources to collect the research data, including interviews and the publicly accessible company websites, to make sense of findings and to identify themes and developing them into broad patterns that could be compared with individual experiences or with existing literature on the topic (Creswell, 2009, p. 64). An inductive method was then used to analyze the collected data and to build the framework of the study from the bottom up, focusing on the participants’

interpretations and their own point of view of the studied phenomenon, rather than what has been written in the literature about the researched issue (Creswell & Poth, 2018; Grant & Giddings, 2002). Further, the researcher utilised different theoretical lenses (e.g. transaction cost economics, networks, and institutions) along with a flexible open-ended research process, which assisted in providing a holistic picture of the researched phenomenon that has been examined from different angles. In this way, a framework was constructed that explains the different aspects of the studied phenomenon and its processes. Accordingly, and in relation to Table 3.2, the present study is aligned with the case study approach as a strategy of inquiry because it is bounded by place and time. Therefore, the focus of the following section will be on a case study as a strategy of inquiry.

Case study as a strategy of inquiry

Case study, according to literature has been categorised under different labels, such as a strategy of inquiry, a methodology, or a comprehensive research strategy, but the central meaning remains the same (Denzin & Lincoln, 2005; Merriam, 2009; Merriam & Tisdell, 2015). According to Yin (2014), there are three main reasons why researchers are encouraged to favour the case study approach over other strategies. First, when the main research questions are “how or why questions”; second, when the “researcher has little or no control over behavioural events”, and finally when the focus of study is a current phenomenon or a “contemporary set of events” (pp. 2-14). Therefore, a case study offers a sound basis for exploratory study (Myers, 2013).

Many definitions have been presented across literature aiming to define and describe “what a case study is and how it can be differentiated from other types of qualitative research” (Merriam, 1998, p. xi). For example, Creswell defines a case study as “a qualitative approach in which (the) investigator explores a real-life, contemporary bounded system (case) or multiple bounded systems (cases) over time” (2013, p.97); and this is considered a useful tool that enhances understanding of specific events within normal settings (Stake, 1995). Creswell (2013) also states that a case study offers a wide range of approaches that the researcher can choose from, be it explanatory, exploratory, or descriptive.

Many scholars offer a detailed roadmap providing procedures in utilising a case study approach within qualitative research. However, Robert Yin, Sharan Merriam, and Robert Stake are considered the most prominent methodologists within qualitative case study (Yazan, 2015). Their studies are summarised in Appendix D (see page 257). As shown in Appendix D, Yin (2014) approaches the case study from a realist/ post-positivist perspective, while Merriam (1998, 2009) uses a pragmatic constructivist approach, and Stake (1995, 2006) adopts a relativist-constructivist or interpretive approach (Harrison et al., 2017). Hancock and Algozzine (2017) explain that each one of these three approaches design case study from different perspectives. For example, Merriam (1998) approach focuses on the disciplinary orientation of the case study (e.g. ethnographic, historical, psychological, or sociological). Stake's (1995) approach concentrates on the case study designs (e.g. intrinsic, instrumental, or collective), whereas Yin's (2003; 2013) approach focuses on the types of the case study (e.g. exploratory, explanatory, or descriptive).

These three well-known methodologists' approaches to case study have been considered in this study, which helped guide the researcher in designing, conceptualising, and constructing a reliable, justifiable, and defensible case study (Yazan, 2015).

Aligning with Merriam's point of view, the present study defines qualitative case study as "an intensive, holistic description and analysis of a bounded phenomenon such as a program, an institution, a person, a process, or a social unit" (Merriam, 1998, p. xiii). In relation to epistemological orientation, and as shown in Appendix D, the case study approach provides a good link between the *interpretivist*, such as Stake (1995; 2006) and Merriam (1998; 2009) approaches, and *realist* orientations (Yin, 2002; 2014). It meets the *realist* view by acknowledging the "multiple realities" that uncover several meanings in the findings, depending on the topic researched (Yin, 2014, p.17). Similarly, Myers (2013) explains that case study research is "philosophically neutral... [it] can be conducted according to positivist, interpretive, or critical tenets" (p.79); and he also argues that a case study allows the researcher to "retain a holistic and real-world perspective, such as...organisational and managerial processes [as well as] international relations" (p.4). A case study as the fundamental method or technique, could be used to understand a complicated phenomenon that cannot be distinguished

clearly from its surroundings within the social context. 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).

Considering these three seminal methodologists’ approaches to case study, the present study aligns with Merriam’s approach to the case study design because as noted earlier, this study is exploratory, aiming to understand and illustrate the governance issues during offshore sourcing from firms’ managers perspective, rather than discovering an “approximated knowledge about the case under study” as in Yin’s approach (Yazan, 2015, p. 146). Although the flexibility of Stake’s approach, in comparison to Yin’s high level of designing preparations, was a very attractive point to this researcher, she felt the lack of guidelines within Stake’s approach “would lead to [high level of] uncertainty and ambiguity” during designing the study case(s) (Yazan, 2015, p140). She sees the Merriam approach as middle ground providing and implementing elements from the other two approaches, Yin’s and Stake’s, such as providing a roadmap for designing case study, as in Yin’s, and keeping part of Stake’s flexible approach. Merriam's approach also guided the researcher in constructing the theoretical / conceptual framework that provides a visual model of the relationship between the elements of the studied phenomenon (Creswell, 2007). However, the literature suggests that theories and the study’s conceptual framework guide the researcher(s) in constructing the research questions as well as the design of the study (Hancock & Algozzine, 2017).

Based on the above, the cases studied in this research are bounded phenomena (cases), the offshore sourcing process, and the cases themselves are considered as a process, aligned with Merriam’s case study approach. Focusing on the firm’s governance mode issues among SMEs, the decision about offshore sourcing or outsourcing is made at the firm level and learning also occurs at that level. Therefore, the unit of analysis for this study is small-medium manufacturing firms, within the Australian and New Zealand medium-high tech industries that have been operating in China for more than two years investigating the firm’s governance mode choice and mode switching determinants during offshore sourcing. There are three main reasons behind the logic of choosing the firm as the unit of analysis rather than the transaction. First, this research is not aiming to interpret the studied phenomenon from the

economic perspective (TCE and GVC), seeing the firm as a black box. Instead, it provides an international business perspective interpretation that opens this box to say that a firms' managers build that knowledge and review decisions regarding their firms' transactions. Secondly, these SMEs have a narrow (or single) range of outsourced transactions. Transaction governance is a firm function, where the transaction does not exist in isolation, but is embedded within a firm and the decisions made by the firms' managers. Finally, although the studied SMEs may have more than one supplier in China, each supplier does one job/transaction for them reinforcing the argument about choosing the firm rather than the transaction as the unit of analysis.

One of the most influential factors in the case study approach, according to Yin (2014), is its ability to provide the researcher with the capability to deal with various resources to collect his/her study data, such as news clippings, mass media or community newspaper articles, documents, artifacts, interviews, and observation. Additionally, Stake (1995) underlines the fact that a case study "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" (Hikmet, 2015, p.34). Accordingly, case study within the present study context involves more data collection from various resources (e.g. mass media or newspaper articles, companies reports and websites, interviews, and observation) rather than simply based on an interview data only.

The main concern for case study researchers, however, is the number of cases per study that should be employed for the selected data collection and analysis. For example, in the situation of unclear case boundaries, especially in single case study research, there could be some confusion with the narrative inquiry due to the use of narratives as "key episodes or testimonies, represent(ing) happenings", when simple language and narratives have been employed to explain the case (Stake, 1995, p.40). Conversely, too large a number of cases may result in losing depth and diluting analysis. Therefore, scholars such as Yin (2009; 2014), Creswell (2013), and Stake (1995) explain that the number of cases needed is dependent on the nature of the research, though generally the optimal number is no more than four or five cases per study. Furthermore, within a business research context, especially with the case study approach, obtaining or having access to sensitive information about the participants of

the study (e.g. company, group, organisation) that is related to the researched topic, is the most critical issue for the study (Myers, 2013; Hikmet, 2015).

Case study approach tends to be focused on very few cases, but when the study focuses on a phenomenon as the case, rather the company itself, there are many studies that use more than the above recommended number of cases per study. For example, within the offshore sourcing context, Dutot, Bergeron, and Raymond (2014) use 13 cases studying the internationalisation phenomenon among Canadian SMEs, Goodrick uses 23 comparative cases investigating “how and why particular programmes or policies work or fail to work” (2014, p 1). Ketokivi, Turkulainen, Seppala, Rouvinen, and Ali-Yrkko utilise 35 cases, to understand the “location decision from a strategy and economic policy perspective” among manufacturing industries for their final assembly plant location (2017, p. 20).

As for this study, the researcher investigates the phenomenon of firms’ offshore sourcing as the case, focusing on governance issues in more details. Therefore, this researcher will employ 20 cases from Australia and New Zealand. One of the main reasons behind choosing 20 cases, was because the study investigates an area where existing knowledge about the studied phenomenon is limited and unclear. *A priori* it was not known how many of the sample firms had made a mode switch during the offshore sourcing cycle so 20 cases were taken in case there were very few cases of switching. Utilising Gereffi et al. (2005) framework that offers five different governance modes as a starting point, the researcher decided to persist with 20 cases because of the many variations that might be observed. For example, if there were three cases of each governance mode multiplied by the five different modes, the total would be fifteen cases.

This number was inspired by one of the major findings of Hikmet (2015) that shows that during offshore sourcing, firms tend to switch their governance mode for their offshored activities suggesting the need to widen the study sample. Therefore, the number of cases should increase until reaching saturation, when the data seem to indicate convergence and the respondents start saying the same thing. Also, the number of cases provide an indication or prediction of what will be the general patterns of the studied phenomena, as recommended by scholars who advocate that

collective case studies are helpful in generalising study findings (Yin, 2009; George & Bennett, 2004). Furthermore, the larger sample is needed to capture switching mode behaviour, which is not inevitable during offshore sourcing.

This study adopts the exploratory case study approach, using multiple cases and focusing on a firm's single activity – offshore sourcing – that involves the firm's decision-making manager/s, with the aim of investigating, understanding and illustrating governance mode choice and mode switching during offshore sourcing among Australasian SMEs within the high-tech manufacturing industry. The study contains 20 current cases of SMEs, that have offshore sourced their production to China, for more than two years. The selected case number helped to confirm and support emerging concepts from the analysis of the collected data while offering an acceptable depth of data collection, as well as a generalisation of the findings.

Case study boundaries, unit of analysis, and purposeful selection

Scholars argue that one of the most common difficulties facing case study research, is clarifying the boundaries of the case (Creswell, 2013) because research may try “to answer a question that is too broad or a topic that has too many objectives for one study” (Baxter & Jack, 2008, p. 546). Therefore, it has been suggested that it is useful to clarify the boundaries through “definition and context” of the cases studied (e.g. the number, their location, the time period, the industry). This could prevent such pitfalls among case study researchers and ensure the “study remain(s) reasonable in scope” (Baxter & Jack, 2008, p. 547; Yin, 2003; Stake, 1995; Creswell, 2003, 2013; Miles & Huberman, 2014). In relation to multiple case study research and during the cross-case analysis stage, Stake introduces the term “*quintain*”, which he describes as the “phenomenon to be studied” across the selected cases (2006, p. 4). According to him, it is very important to identify the studied phenomenon “upfront to guide case selection” (Creswell & Poth, 2018, p. 102).

The researcher investigated small-medium manufacturing firms within the Australian and New Zealand medium-high tech industries that have been operating in China for more than two years. These firms were interviewed between August 2017 and February 2018. Keeping in mind the buyer-supplier dyadic exchange relationship of the value chain concept, these SMEs are lead firms in these transactions and therefore

they are key in making the decisions not the suppliers. In many cases suppliers simply respond to these buying firms. Therefore, the unit of analysis was an Australian or a New Zealand SME within a medium-high technology manufacturing industry that has been operating in China for more than two years. As noted earlier, this research is investigating Australasian SMEs, that employ less than 50 employees (MBIE, 2015; 2014; 2012). Very often, the key decision-makers of small firms are the people who started the business and are used to making all the major decisions themselves, precluding others from the decision-making process. Only the people directly involved in the firm's offshore sourcing decision-making process were interviewed. These key personnel were asked to narrate their experiences of offshore sourcing to China. But, when there was a heavy reliance on the local operation's input into China with little input from the parent or ultimate owner, the decision-makers at both locations (the headquarters and the Chinese operation) were interviewed.

Baxter and Jack recommend that purposeful sampling strategies be applied to case study research in order to have complete exposure to the subject of the studied phenomenon (2008, p. 556; Creswell & Poth, 2018). In this research, the studied cases have been purposely selected through recommendation, referral, networking, government agencies and other relevant organisations, as well as publicly available websites. The firms needed to fit strict criteria, and to have aspects that the researcher is interested in studying. This is covered in more detail in the next chapter, which considers the data collection process of the study.

Validity and reliability in case studies

The literature on research design emphasises the importance of the quality of the design of the study (Myers, 2013; Creswell & Poth, 2018). Yin (2014) describes four tests that are commonly used in social science research to examine the quality of the design of a study: construct validity, internal validity, external validity, and reliability. He suggests that these tactics are very important in case study research, and several of them will be employed in this study, including those related to data collection, data analyses, findings, and discussions. Table 3.3 summarises the design tests, their tactics, and the phase of research when they should occur.

Table 3.8 Case study tactics for four design tests

Tests	Case Study Tactic	Phase of Research in Which Tactic Occurs
Construct Validity	use multiple sources of evidence	data collection
	establish chain of evidence	data collection
	have key informants review draft case study report	composition
Internal Validity	do pattern matching	data analyses
	do explanation building	data analyses
	address rival explanation	data analyses
	use logic model	data analyses
External Validity	use theory in single-case studies	research design
	use replication logic in multiple-case studies	research design
Reliability	use case study protocol	data collection
	develop case study database	data collection

From (Yin, 2014, p. 45).

According to Yin, construct validity is very useful in “identifying correct operational measures for the concepts being studied” (2014, pp. 46-47). Table 3.3 shows that the use of multiple sources of evidence, establishing a chain of evidence, and having “the draft case study report reviewed by key informants” are three tactics that can be used to increase the case study construct validity (Yin, 2014, pp. 46-47). In contrast, internal validity aims to establish a “causal relationship, whereby certain conditions are believed to lead to other conditions, as distinguish(ed) from spurious relationships” and it is more related to experimental types of research. Therefore, it can only be used in explanatory case studies and is not applicable to descriptive or exploratory studies (Yin, 2014, p. 46).

In relation to case study research, Yin highlights that achieving internal validity is very difficult, basically because “a case study involves an inference every time an event cannot be directly observed” and the researcher “will infer at that particular event ... based on interview and documentary evidence collected as part of the case study” (Yin, 2014, p. 47). Internal validity can be conducted during the study analysis stage through pattern matching, explanation building, addressing rival explanations, and using logic models.

Yin also describes external validity as part of the validation criteria used to evaluate the quality of the case study research, and its’ role lies in “defining the domain to

which a study's findings can be generalised". It also "adds a further insight about making analytic generalisations" (2014, pp. 42-46). In other words, regardless of the method of the study, this test is concerned with how study findings are generalisable beyond the immediate study. In terms of case studies, the main issue relates to analytical generalisation, which "consists of a carefully posed theoretical statement, theory, or theoretical proposition" (Yin, 2014, p. 68). Such "analytical generalisation is posed at a conceptual level higher than that of the specific case", and it can take any form, be it a lesson learned or a working hypothesis that could be applied to other situations (Yin, 2014, p. 68).

In relation to the role of reliability, according to literature, it lies in "demonstrating that the operations of a study - such as [interpretation of the] data can be repeated, with the same results" (Yin, 2014, p. 46). In other words, if a researcher repeats a piece of research (e.g. analysing and interpreting the same collected data) by following the same procedures described by the researcher who originally conducted the study, the findings and conclusions of both researchers should be very close. Table 3.3 demonstrates case study protocol for dealing with documentation issues and developing a case study data base, are the two tactics that can be used to overcome case study reliability issues. One of the main requirements for replicating or repeating the same case study "is the need to document the procedures followed in the earlier case". Yin suggests that a good guideline for doing case study research, is to follow the auditor's rationale, which means "doing the research so that an auditor could, in principle, repeat the procedures and hopefully arrive at the same results". This can be achieved by making "as many steps as operational as possible and ... conduct(ing) research as if someone were watching over your shoulder", which is the common way of dealing with the reliability issue (2014, p. 49).

However, Yin's reliability and validity tests have been criticised for having a quantitative rather than a qualitative approach because these tests are mainly "concerned with the adequacy of measures" (Bryman & Bell, 2015, p52; Lincoln & Guba, 1985). Therefore, different alternatives have been suggested to examine qualitative research validity and reliability and different terminology has been used to differentiate these tests from those of quantitative approaches (Guba, 1981; Lincoln & Guba, 1985; Lincoln, 1995; Shenton, 2004; Silverman, 2006). Credibility,

transferability, dependability, and confirmability are the main corresponding design tests that could be used for establishing validity and reliability within qualitative research studies, which parallel those of quantitative research criteria (Guba & Lincoln, 1982; 1989; Lincoln & Guba, 1985; Morse, Barrett, Olson & Spier, 2002; Seale, 2002; Riege, 2003; Shenton, 2004; Morrow, 2005; Bryman & Bell, 2015). For example, credibility is equivalent to internal validity, transferability is similar to external validity, while dependability is in line with reliability, and confirmability is equivalent to study objectivity (Bryman, 2016; Riege, 2003). Yin (1994) also referred to these corresponding tests, and how they could “be applied to the rigorous case study method” especially within qualitative research (Riege, 2003, p. 83). Table 3.4 demonstrates case study validity and reliability design tests as well as their corresponding design tests, and in which research phase(s) each of them might occur.

Table 3.9 Case study tests for establishing validity and reliability

Case Study Design Tests	Corresponding Design Tests	Phase of Research in which Tactic Occurs
Construct Validity		Data Collection
Internal Validity	Credibility	Data Analysis
External Validity	Transferability	Research Design Data Collection
Reliability	Dependability	Research Design Data Collection Data Analysis
	Confirmability	Data Collection
	(corresponding to the research objectivity)	Data Analysis

Adopted from (Riege, 2003, pp. 78-79)

Triangulation

Triangulation within research studies is based on the idea of looking at the same topic from different perspectives, allowing the researcher to have a fuller and broader picture about the studied topic. Moreover, according to Thurmond (2001), using different types of triangulation will “decrease, negate, or counterbalance the efficiency of a single strategy, thereby increasing the ability to interpret the findings”.

Accordingly, triangulation could be defined as “the combination of at least two or more theoretical perspectives, methodological approaches, data sources, investigators, or data analysis methods” (Thurmond, 2001, p 253).

Triangulation, therefore, can be done in various ways, such as using more than one research method, employing different data collection techniques, or mixing quantitative and qualitative research methods within the same study (Myers, 2013). For example, in the case of data collection triangulation, the collected data can be triangulated by using different techniques to collect it; such as from interviews, documents or other sources of data. In other words, the collected data from an interview for a case study can be triangulated with the data collected from published and private documents and reports. However, mixing qualitative and quantitative research methods in the same study is more difficult, challenging and time-consuming and it requires a high level of skill to master multiple research methods, due to differences in the underlying philosophical assumptions and approaches to these methods.

In the present study, the supporting triangulation is in line with the viewpoints of Meyers and Thurmond, meaning the researcher will employ different strategies to triangulate the collected data and the findings of the study. For example, the researcher will use interviews as the main source for the collected data, while the secondary sources of data such as the internet, business publications and company websites, companies' report and websites, publicly accessible data, etc. are mainly used for basic fact-checking about the studied firms, for example, a company's timeline and size. The researcher also actively seeks different perspectives on the topic of study to check interpretation and to reveal alternative meanings.

Furthermore, the researcher interprets the collected data from different theoretical perspectives (transaction cost, network, and institutional perspectives), providing a broader and deeper analysis of findings (Stake, 2003; Yin, 2003).

Having discussed the strategy of inquiry of the present study, Chapter 3 concludes. The philosophical position of the present study, the research design and the methods used to investigate the main research question and its sub-questions, were elucidated in this chapter. The following chapter will cover the third element of the research design, data collection and methods of analysis. The chapter also will highlight the ethical considerations present in the research, and the selection of participants.

Data Collection and Analysis

Chapter 3 discussed the philosophical position of the present study, the research design, and the methodology that have been used to investigate the overarching question and sub-questions. Accordingly, the main purpose of this chapter is to outline the procedures and techniques that were utilised during data collection and the selection of participants, the ethical considerations associated with the research, as well as the data analysis methods and techniques used for this research. Therefore, this chapter is divided into two main sections: data collection and data analysis.

Data Collection

Data collection could be defined as the process of gathering the relevant information about the topic under investigation in a systematic manner, that enables the researcher to answer the research question(s), as well as evaluating outcomes about the studied phenomenon (Sapsford & Jupp, 2006).

Different techniques can be used to collect the required data (e.g. interviews, surveys, focus groups, etc.), and choosing any method for gathering accurate and honest information will be based on the study's topic and discipline. As noted earlier the researcher utilises face-to-face interviews as a method for collecting the study data, therefore this section will focus on data collection within the case study approach.

Scholars suggest that within a case study there are different procedures for data collection, and in order to be able to provide an accurate and in-depth report the researcher has to make various decisions in relation to the sample size of the study, the data sources and forms, and participant selection (Creswell, 2013; Sapsford & Jupp, 2006).

In relation to the sample size, this has already been discussed and justified in the section headed 'Case study as a strategy of inquiry' (see page 76). The participant selection will be discussed in more detail later in this chapter. As for the data, the literature highlights that collected data can be classified into two types: primary data, and secondary data. Primary data can be collected directly from the study participants through interviews, direct observations, or field notes. On the other hand, secondary data can be gathered from any pre-collected data by others published in the form of a

report, article, or book. However, primary data is perceived as richer and can add more value to the study compared to secondary data (Myers, 2013; Yin, 2009).

For this study, the researcher utilised both data sources: collecting primary data through in-depth face-to-face interviews, as well as using company websites and reports, and publicly accessible media (i.e. government websites and local newspapers) as secondary sources of data. The secondary data could be utilised to triangulate the factual information that was collected from the primary data as well as filling the gaps that might emerge in the participants' narrated experiences.

The interview method

The research interview can be described as a professional conversation practice between the researcher(s)/interviewer(s) and the study participant(s)/interviewee(s) to obtain a body of knowledge that describes and interprets the studied phenomenon from the participant's point of view (Brinkmann, 2014; Kvale & Brinkmann, 2009).

Stake states that an interview could be considered as "the main road to multiple realities" (1995, p.64), and within a business context it can be perceived as a "*window*" into an organisation (Myers, 2013, p.81), which helps the researcher to comprehend the participants' insights and perceptions (Creswell, 2013).

Interviews, according to Myers (2013), can be categorised into two groups based on the format of the interview (i.e. structured, semi-structured, and unstructured interviews), and the types of questions used (i.e. open-ended or closed-ended questions, factual questions, or questions about attitudes, beliefs, normative standards and values, and knowledge). Different types of interview have different advantages and disadvantages, and researchers can choose to use any type or mix more than one type of interview based on their preferences and the research study requirements (Bryman & Bell, 2007).

As for the present study, the researcher utilizes an in-depth face- to-face semi-structured interview approach in collecting the primary data for the study and asking some open-ended questions focusing on participants' experiences of the firm's governance mode choice and mode switching during offshore sourcing.

The semi-structured interview

A semi-structured interview is mid-ground between structured and unstructured interviews. Like structured interviews, the semi-structured interview has pre-formulated questions that guide the conversation in the interview, but at the same time it has more flexibility in adding new questions and deleting and adjusting existing questions during the interview that might result from conversational improvisation and encouragement (Myers, 2013, p. 122).

The semi-structured interview method enables the researcher to get a comprehensive and valuable contextual insight of the studied phenomenon from the participant's point of view, without the constraints of limited answers, as in a structured interview. Having the pre-prepared questions is an excellent way to encourage the study's participants to concentrate on the studied topic rather than going through unnecessary details as in an unstructured interview, which might cause a loss of focus (Myers, 2013). To conduct a semi-structured interview, the researcher needs to craft or develop open-ended pre-prepared questions that focus on the studied topic (Flick, 2009), and to have consistency during the interviews by asking all participants the same set of questions.

In summary, the researcher employed a face- to-face semi-structured strategy, using open-ended questions to collect the primary data, and Table 4.1 shows the interview questions of the current study.

Table 4.10 Initial interview questions of the current study

- 1) Can you tell me about your company background, size, products, market position, and customers? How much does the business spend on R&D (per cent of revenue)?
 - a) What tasks or activities do you offshore or outsource? Are these activities central or peripheral to the business?
 - b) What percentage of total cost or value do these activities account for?
 - c) Do you or the company have experience of domestic outsourcing or of internalised offshoring? If so, what, how long etc? Do you employ, or have you brought into the business anyone with experience of outsourcing/offshoring?
- 2) When and why did you offshore your company's activities? Why did you choose China in particular?
- 3) What ownership style (governance mode choice) did you choose for your offshored activity(s) in the first case? What benefits and problems did you experience?
- 4) What was the nature of the offshored task(s) that you outsourced?
 - a) How complex is the technology involved in this outsourced task? Can it be easily codified? What were the difficulties in transferring it?
 - b) How do you find the local suppliers' capabilities in China? Did you help them upgrade their technological skills? Are you sharing values in the process? Were there competing potential suppliers? Are there distinct clusters of expertise?
 - c) Do you use single or multiple sourcing? What other locations, inhouse or externalised etc?
- 5) What kind of issues did you or your company face in this process?
 - a) Did you make any changes to your way of managing your offshore outsourcing activities? If so, when, why, and how often did you make these changes?
 - b) What were the decision stages? What were the key factors that you considered in this decision?
 - c) Who was involved in the decision-making process (the company, the outsourcer etc.)?
- 6) What have been the chief benefits that have resulted from offshoring these activities?
- 7) How has the change in the way you manage the outsourcing relationship affected the company? (effectiveness of percentage cost-saving, landed costs, quality, access new technology, access technical expertise, productivity, efficiency....)
- 8) What have been the main difficulties you have experienced, and how have you overcome these? (protecting IP, dealing with local government, unreliable suppliers....)
- 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 were based on the study's proposed framework and its underpinning literature as discussed in Chapter 2 to help answer the main research question and its sub-questions. Table 4.2 shows which area of literature will be expected to be covered by the participants' responses to each of the interview questions. For example, as shown in Table 4.2, the second question investigates offshore sourcing elements (task, location, and governance mode). Accordingly, these elements could relate to TCE or institutional literature in a form of internalizing or externalizing a firm's offshored task.

Table 4.11 The interview questions in relation to the literature review

Interview Question	Related literature
Q1	provides some knowledge about the company background and how much the business invests or spends on R&D (per cent of revenue)
Q2	covers offshore sourcing elements (task, location, and governance mode) <ul style="list-style-type: none"> • a, b, & c sub-questions covering the task element • d & e sub-questions covering the governance mode element in relation to governance mode choice determinant that is linked to a firm's experience
Q3	covers governance mode choice element, at the first instance, of offshore sourcing
Q4	covers the task element and the governance mode choice determinants <ul style="list-style-type: none"> • a sub-question covering the task technological complexity and codifiability • b & c sub-questions covering suppliers' capabilities in relation to the task elements
Q5	covers determinants of governance mode switches <ul style="list-style-type: none"> • a, b, & c sub-questions covering internal governance mode switches determinant (e.g. firm's knowledge) and external governance mode switches determinant (e.g. home-host country institutional differences, suppliers' capabilities) • d sub-question covering internal governance mode switches determinant (e.g. firm's knowledge, experience and capabilities)
Q6	covers governance mode choice element benefits at the offshored location
Q7	covers governance mode choice and mode switching during offshore sourcing, which relates to suppliers' capabilities
Q8	covers determinants of governance mode switches (e.g. task technological complexity and codifiability, suppliers' capabilities, and home-host country institutional differences)
Q9	covers offshore sourcing elements (task, location, and governance mode choice)

Table 4.3 links the research questions that underpin the development of the semi-structured interview questions with the proposed framework of the study as explained

in Chapter 2. It illustrates where the interview questions are derived from and which research questions they help answer.

During the interview and after asking a participant an interview question, the researcher actively listened to the participant's response to the question and then moved to the next one. However, sometimes the researcher asked additional open-ended questions, clarifying the participant's answers which are relevant to the topic under investigation but had not been adequately explained by the participant.

Table 4.12 Connections between the research framework elements, interview questions, and the research questions

	Framework Elements	Interview Questions	Research Questions
Offshore Sourcing Elements	Task	Q2, Q4, Q9	What factors determine SMEs' initial governance mode choice when offshore sourcing to China?
	Location	Q2, Q6, Q9	
	Governance Mode	Q2, Q3, Q4, Q7, Q9	
Governance Mode Choice & Mode Switching Determinants	Technology Complexity	Q2 (a, b, c), Q4 (a), Q5 (a, c), Q8	Why do companies change their governance modes?
	Codifiability	Q4 (a), Q5 (a, c), Q8	What are the triggers that initiate mode switching?
	Suppliers' Capability	Q4 (b, c), Q5 (a, c), Q8	How does mode switching contribute to business strategy and international competitiveness?
	Institutional Differences	Q5 (a, c), Q8	What kind of adaptations are required for such mode switching?
	Firm Experience	Q2 (d, e), Q5 (a, d), Q8	

Ethical considerations and behavioural guidelines

In conducting qualitative research, literature highlights that there are different ethical issues that may arise during various stages of the study (Lincoln, 2009; Mertens & Ginsberg, 2009). Therefore, the qualitative researcher has certain ethical responsibilities towards everyone who may be affected by the study's process and/or its results (Myers, 2013; Vaus, 2014). For example, during the interview, participants may provide some confidential and sensitive information that might, if made known, have damaging effects on them or other people's lives and reputations. Therefore, the researcher needs to ensure that the participants have not been victimized or mistreated at any stage during the interview process (Gubrium & Holstein, 2002; McCracken, 1988, p. 26).

In addressing any ethical issue that might emerge during this study, the researcher followed a specific procedure in order to eliminate such issues that could arise. Firstly, an ethics application was submitted to the Auckland University of Technology Ethics Committee (AUTEC) for ethical clearance for the proposed study. Secondly, upon approval (Ethics Application Number 17/221 dated 10 July 2017), firms of interest were approached and informed about the research via an invitation email for potential participants. Once a respondent agreed to participate in the research via email or phone, the researcher provided them with participation information sheets (PIS), which gave relevant information about the study. For example, the PIS provided information that related to the study aims, why participants were selected, and their rights to information that relate to the study before and during the interview that could help them with the decision-making process, and whether to take part in the study (Kent, 1996). Thirdly, consent forms (CF) were presented to interviewees before conducting an interview, which were considered formal contracts between the researcher and the participants, and this helped to protect the rights of both parties. It also helped in clarifying the participants' concerns in relation to voluntary participation and recognized that they could withdraw at any stage, without putting themselves under any risks or harm which may affect their lives and privacy (Creswell, 2013; Seidman, 2013; Neuman, 2014). It also informed participants that the interviews would be audio recorded and transcribed by a professional transcriber who signed a confidentiality agreement with the researcher (Creswell, 2013).

During the interview and due to the nature of the phenomenon studied, the participant might share some confidential and critical information about their business, (Taylor & Bogdan, 2003, p. 100). Therefore, specific guidelines were followed to ensure that the study endorsed openness, voluntarism, professionalism, privacy, and confidentiality, by showing respect and being a tentative listener, open-minded to the participants' opinions, not being judgmental, showing respect and maintaining eye contact (Creswell, 2013; Patton, 2009; Lincoln, 2009; Mertens & Ginsberg, 2009).

Furthermore, the participants were offered access to the final thesis once the research had been completed, highlighting that the research findings and conclusion would be

based on their inputs that have been analysed and interpreted by the researcher according to the relevant academic literature.

Selection of participants

Baxter and Jack (2008, p. 556) suggest that purposeful sampling strategies should be applied to the study to have complete “exposure to the phenomenon under study”. As noted earlier, the aim of this research is to investigate the dynamic aspects of governance mode choice and mode switching, the triggers that initiate mode switches, and the impact of alternative governance arrangements on the firm’s offshore activities and its competitiveness (Norwood et al, 2006). Therefore, in this research, the selected firms were purposely selected, based on the three principles proposed by Taylor and Bogdan (2003). According to them, the participant should be a key staff member (manager or owner) within his/her organisation, can spare time for participation and that he/she does not know the study researcher. The rationale behind these principles is that the selected participant should have the necessary “decision-making authority”, have had previous experience with, and can provide insightful information about the studied phenomenon (Myers, 2013, p. 81). In this study, the selected respondents were targeted through recommendation, referral, networking, government agencies and other relevant organisations, as well as companies’ publicly available websites.

The firms needed to fit strict criteria and to have aspects that the researcher was interested in studying. Thus, the selected firms had to be New Zealand and/or Australian SMEs, have 50 or fewer employees, be within the high-tech manufacturing industry, and have been offshore sourcing some of their activities to China for more than two years, allowing a reasonable timeframe for mode switches to occur. The interviewees were managers or owners heavily involved in the decision-making process of offshore sourcing strategy and its execution.

Fifty firms were identified as potential participants for this research, and invitation emails were sent to managers/owners in all these firms to participate in this research, followed by a phone call after 2-3 weeks for non-responding firms. Thirty-eight firms responded to the invitation email and this was shortlisted to 20 firms, according to the criteria outlined above. As noted earlier, the rationale behind a large sample size is to

increase the likelihood that mode switching could be observed and could be used for generalization purposes. The data were collected between August 2017 and March 2018. The interviews were conducted within the natural setting at the participants' offices utilising a face-to-face interview strategy, and each interview typically lasted for 40-60 minutes. Three interviews were conducted through Skype because the participants were overseas at the time of interview. All interviews were recorded, then transcribed and analysed.

Overall, all the respondents were quite willing to share the required information and freely expressed their views during the interview, but a couple of respondents explained that they could not personally answer one or two questions raised, for confidentiality reasons. Only three participants requested the interview questions in advance, to check if the interviews required any sensitive information about their organisations that they did not wish to share and that they were happy to participate without any changes required to the interview questions. Another two respondents asked to review the transcripts before analysis, while the majority of the participants did not wish to review their transcripts and were satisfied with the interviews. All participants requested a copy of the final findings and discussion sections when the study was completed.

In order to achieve an in-depth understanding of the primary data that had been collected about the respondents' firms through the face-to-face interviews, the researcher also used the secondary source of data public media articles that had been published about the studied firms, company websites and reports, governmental agencies' websites. These sources were used for basic fact-checking about the participating firms (e.g. timeframe, size and revenue), as were the researcher's observation notes collected during the interviews (Creswell, 2013; Yin, 2014).

Participant profiles

Twenty-one key personnel who were decision-makers in the respondent companies at the time of data collection, participated in this research and shared their organisations' experiences of offshore sourcing with China. All interviews involved only one interviewee per firm, except Firm S where two decision-makers participated in their firm's interview, the Managing Director and the Sourcing Manager.

The positions of the interview respondents were a mix of business owners, senior executives and operational managers. All firms and their representatives that participated in this study have been given a specific code (i.e. Firm A and its participant is PA), so none of the respondents or their firms is identified in this research to assure anonymity and fair analysis of the collected data. Table 4.4 summarizes the participants in this study, their industry sector and their position in the respective firms.

Table 4.13 Details of the participants of the study

Firm	Industry	Role of Participant
Firm A	Electronic industry	Director
Firm B	Logistics Industry	Owner / Manager
Firm C	Hydroponics industry	Production Manager
Firm D	Apparel industry	CEO / Co-founder
Firm E	Food & Hospitality Industry	Managing Director
Firm F	Electronic industry	Chairman / Founder
Firm G	Technology developing Manufacturing industry	Manager/ Co-founders / Shareholders
Firm H	Road infrastructure industry	Shareholder / Owner
Firm I	Electronics industry	Manager / Business Partner
Firm J	Film industry	Managing Director
Firm K	Electronic and telecommunications industry	Operations Manager
Firm L	Electronic manufacturing industry	Operations Manager
Firm M	Farming and Horticultural industries	Managing Director
Firm N	Electronic manufacturing industry	Managing Director
Firm O	Healthcare industry	General Manager
Firm P	Animal Health industry	Executive Chairman
Firm Q	Food & Hospitality Industry	Owner / Manager
Firm R	Building industry	Owner / Manager
Firm S	Pharmaceutical Industry	<ul style="list-style-type: none"> • Managing Director • Sourcing Manager
Firm T	Marine Industry	Chief Technology Officer

As shown in Table 4.4, offshore sourcing among the studied firms is spread over a wide range of high-tech sectors. The respondent firms have existed for a period ranging 2-19 years. At the time of data collection, two participants were based in China, four

participants in Australia (Sydney, Brisbane and Melbourne) and 15 in New Zealand (Auckland, Hamilton and Christchurch). At the time of data collection, the participants' ages ranged between the early 30s and early 70s. Only one of the participants was female. All of them had work experience and knowledge about their firm's products and services. Having explained the researcher's general approach to this study, the following section will explain the data analysis methods and techniques used for this research.

Data analysis

Data analysis in any research refers to the process of transforming various sorts of collected information into findings that make sense to the researcher and the targeted audience (Myers, 2013, p.166). However, Patton (2015) argues that there is no specific set of rules or guidelines that should direct researchers during this process. As a result, most researchers use the literature review as a foundation for understanding participants' experiences of the studied phenomenon. Creswell (2013) explains, for example, that in the case of the face-to-face interview, data analysis processes contain three inter-related stages. First, organising the collected data by transforming the data of the recorded interview into a contextual form via transcribing. Second, the coding stage where the researcher uses coding processes and code condensing to reduce the textual data into themes. Finally, the researcher then represents the data in the form of figures, tables, and(or) discussion.

In this study, the researcher uses the literature review as a starting point to understand the interviewees' experiences of governance mode choice and mode switching during offshore sourcing ventures into China, as well as utilising Creswell's data analysis process. The following sub-sections will discuss the present study's interpretation of the process, key decisions, and steps that have been followed by the researcher to transform the data into understandable form and presentable findings.

The iterative nature of the process

Creswell states that qualitative research data analysis is very often described as a sequential process, but in reality, it has an iterative nature that moves in "analytic circles" (2013, p.182). During this process, the researcher moves forward and backwards between various stages of the process of analysis, for example between

transcription of the collected data, formatting of themes, developing the theoretical constructs of the study, and writing up and presenting the findings of the study. Applying Creswell's data analysis spiral to the present study shows the iterative nature of the analytic circles in Figure 4.1 as the researcher moves back and forth between the stages of the process of analysis. During this process the researcher uses a variety of techniques in analysing the collected data. For example, Microsoft Word software is utilised for typing and printing the interview transcripts, highlighting and "memoing" down of the researcher's comments on the interview printouts, and using software programmes to generate tables and(or) diagrams to present the findings (Birks, Chapman & Francis, 2008, p.69). Furthermore, the researcher also utilised different strategies during this process by being open-minded when approaching and analysing the data to get a deeper understanding of the data while also permitting creativity during this process (Tesch, 1990/2013; Patton, 2015).

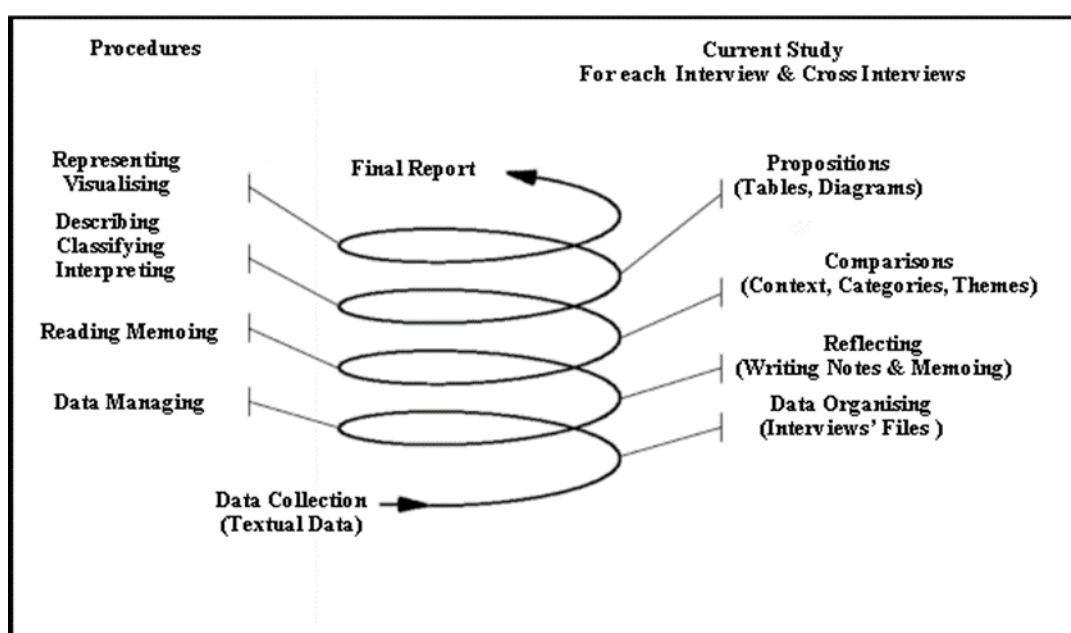


Figure 4.10 The data analysis spiral of the present study
Adapted from (Creswell, 2013, p. 183).

Presenting the findings: Balancing description and interpretation

After analysing the collected data and reaching the stage of presenting the findings, the researcher needs to make critical decisions, about the amount of description and interviewees' direct quotes that should be included and written up in the final report to support the findings. Patton (2014) highlights that the participants' direct quotes and descriptions are the backbone of the study and should be supplied in a moderate

or an adequate amount; not too much, nor too little. Similarly, Pratt (2009, p. 860) states that the participants' direct "power quotes" are considered the "most compelling bits of data" that the researcher has, helping to illustrate his/her points and build the foundation that provides the reader with a better understanding of the researcher's interpretation of the data.

In line with the above suggestions, this research utilizes the strategy of adding description and participants' direct quotes when presenting and discussing its findings. The study also presents a framework that shows correlations between the study's theoretical constructs.

Furthermore, a reference to the literature that was previously discussed in the literature review, helps to provide the basis that guides the dissection and the interpretation of the study's theoretical framework and propositions. This will be discussed in more detail in the following sections.

Steps of data analysis

Under this section, the researcher highlights the steps followed in transforming the different forms of the collected data into findings, whether collected from the interview transcripts' raw textual data, or (and) data from other sources. During this process, the researcher provides different forms of visual context (e.g. a table or diagrams) to support the discussion and offer a better understanding of the phenomenon of interest. Different terms have been used for this stage by different scholars. For example: open coding, selective coding, axial coding, theoretical codes, the researcher could choose from, in analysing and interpreting "the object of inquiry" (Silverman, 2013, p. 51; Creswell, 2002; Locke, 2001; Strauss & Corbin, 1998).

However, this researcher was inspired by the simplicity and clear steps laid out by Creswell (2002, p 266) and these steps have been integrated into the present study in the following sub-sections illustrated in Figure 4.2.

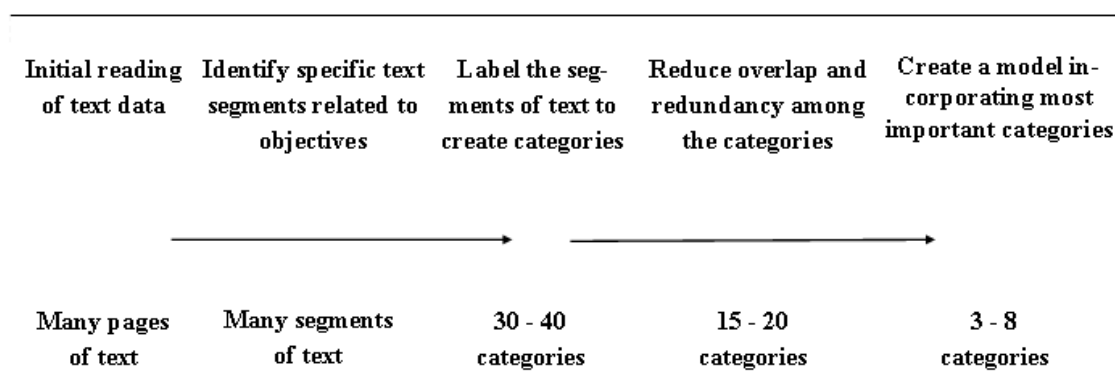


Figure 4.11 The coding process in inductive analysis
From (Creswell, 2002, p. 266).

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

After completing all the research interviews, a professional transcriber transcribed the recordings word-for-word. Then, the researcher reviewed all the transcriptions against their original recordings to correct any errors and prevent omissions that may have occurred during the transcription process of transforming the recordings into textual data.

At this stage, as illustrated in Figure 4.2, many pages are produced with a large amount of textual data, and therefore the researcher should consider how such a large amount of data could be reduced to a manageable size, to ease the analysing and sense-making process of the collected data. This procedure is known by some scholars as a content analysis process, which is where the researcher needs to decide which text segment(s) are related to the studied topic and should be considered, from the ones that should be ignored (Strauss & Corbin, 1990; Silverman, 2013). Therefore, the researcher decided to use the present study's overarching question and its sub-questions to guide the process of separating the relevant from irrelevant segments of the interview transcriptions.

Subsequently, as demonstrated in Figure 4.2, the researcher starts coding or labelling and separating the relevant segments into various categories that relate to the research questions and the theoretical concepts that have been used within the study; some academics acknowledge this procedure as an open coding process (Kane & Brún, 2001, p. 292; Strauss & Corbin, 1990). Further review of these emerged categories was undertaken to assess whether or not these clarified the study question and enhanced understanding of the topic of interest experienced by the study participants.

If so, then the segment could be considered as relevant for further analysis. This process was applied to the 20 transcripts and based on the interview questions and the theories that underpin this study, five main categories of data emerged: *benefits of offshore sourcing from China, offshore sourcing issues or challenges within the China market, offshore sourcing to China stages, governance mode choice determinants, and mode switching determinants*. These categories became the foundation for the subsequent steps of the data analysis process.

Furthermore, an extra segment of the text emerged in the interviews, which the researcher could not align with any of the previous five groups, known as the “orphan” segment (Auerbach & Silverstein, 2003, p. 58). This segment was revisited to reassign its text to the proper themes to provide better understanding and further explanation to the research question(s). For example, participant PN states:

you can't just go and knock on the door – Hello, we're here, can we work. No, you work with them for a period of time. There's a trust thing.

He talked about the way of doing business within the Chinese market, which requires a high level of trust between the buyer and the Chinese supplier over a long period of time. The researcher found this text segment to fit very well with the host country's business practice, which relates to the informal institutions of the host-country in the form of country-specific business practices.

Step 2: Immersion in the participants' points of view

At this stage, the researcher was more involved in examining the emergent categories from the previous stage, aiming to have a better understanding of the studied phenomenon from the participants' point of view, and as experienced by them through the interpretation of the attached meanings, from their comments made during the interviews process. During this stage, the researcher utilised text labelling and highlighting techniques to categorize similar ideas into groups, helping in signposting and identifying the main groups/categories of similar ideas and their sub-categories or minor groups according to their occurrence across the interviews. Throughout this stage, reasonable flexibility was employed in the highlighting and labelling strategy, so that the researcher was able to use one word or more in the form of short phrase(s), or even a whole paragraph to label the highlighted text, and these labels provided the closest meaning to the highlighted text segments (Flick, 2009).

The decision as to which part of the interview's data should be chosen and considered relevant to the study's focus of interest was based on the researcher's own judgments (Locke, 2001). For example, in increasing the company's efficiency, the *cost* term was used to label participant PF's comment text:

*I know that the production can be done in a much more efficient way.
And by efficient, I mean time and money. Both better.*

The participant explained his experience in cost savings during offshore sourcing, through shortening production lead time and production efficiency that impacted total cost. Accordingly, the *cost* term was used by the researcher as an attached label to such textual data. Furthermore, the researcher also labelled parts of the highlighted interview data by using short phrase(s) from the theories of the study. For example, and in relation to the firm's governance mode choices, the researcher followed the Gereffi et al., (2005) framework reasoning and used a subjective decision about which mode choice of Gereffi et al. (2005) work was the closest to what each firm chose during its offshore sourcing to China. The researcher explained to the participants the meaning of each transaction variable and how it could be interpreted accordingly, and how it forms part of each governance mode. For example, if the participant categorised their firm's transaction 3Cs as high, then the transaction was interpreted as modular. Consequently, participant PA commented about his firm's initial governance mode choice and said, "*I definitely started out bringing materials in from China.*"; which Gereffi et al. (2005) label as the "market" mode choice with this transaction's 3Cs-complexity, codifiability, and supplier capability classified as low, high, and high respectively .

Step 3: Within-interview analysis: Identifying similar ideas in the relevant text of each participant's transcript

The main aim of this stage is identifying the repeated ideas that have similar underlying meanings or concepts and putting them under one group. So, during this stage and by keeping in mind that the main focus of this study is answering the overarching research question and its sub-questions, the researcher focuses on analysing the highlighted and labelled text, that resulted from the previous stage. This was used as a foundation to classify different data into various categories, with each

one of them containing different ideas that have similar underlying meanings (Alvesson & Skoldberg, 2009).

Table 4.5 exhibits different instances of similar ideas that have been signposted within participant PD's transcript about the home-host country's institutional differences - the formal and informal institutions - in the form of suppliers' capabilities, business practice, and a firm's knowledge and experience.

Table 4.14 Examples of similar ideas of firm's knowledge in participant PD's transcript

Similar idea about home-host country institutional differences (the formal and informal institution)
<p><i>"We really struggled communicating conceptually the purpose and nature of the product. So that was one of our most significant barriers, actually... The understanding of the purpose of the product in order for them to meaningfully contribute to the improvement of the product."</i> = communication barriers / informal institution differences.</p> <p><i>"It's been the conceptualisation of the manufacturers to understand the purpose of the garment, and the way in which they need to be manufactured. So that's one key aspect."</i> = communication barriers (especially communicating the product concepts) / informal institution differences.</p>
Similar idea about suppliers' capabilities
<p><i>"And we looked at several markets where we should be going, or where we could be going, to find manufacturing and things like that. And ended up identifying China – specifically Southern China – as really a key kind of, I suppose, a hub for this type of activity.... Humen [city] is a massive garment centre."</i> = availability of the needed scale and manufacturing specialization.</p> <p><i>"We did have some experience of textile trade and textile development here in New Zealand, before going to China. So, for the scale that we were needing, and the specialisation of what was required, China was the obvious place to go."</i> = availability of the needed scale and manufacturing specialization.</p>
Similar idea firm's knowledge and experience
<p><i>"It gives you a more intimate understanding of the market... where either you're selling in there, or you're sourcing from there. The more time in that market, the better and stronger your understanding of it is. So that's key."</i> = Firm's knowledge / through accumulated locational knowledge over time.</p> <p><i>"I think because we had on-ground staff there, based and living in China, we managed to overcome those issues quite successfully, and managed to source what we needed to."</i> = Firm's knowledge / through firm's knowledge about the offshored task(s).</p>

Step 4: Cross-interviews analysis: Identifying similar ideas across participants' descriptions and assembling repeated ideas into themes

During this stage a similar iterative procedure that has been used in the previous stage has been applied across all transcripts in this study. However, constant deductive comparison of the labelled data with each other as well as with the theories that underpin this study have been used, enabling the researcher to define the dimensions of each category, where new subsequent categories have emerged and developed from the data analysis process. Four extra lists of similar idea group categories have been identified for this study: *transactional (complexity, codifiability, and supplier's capability) of the offshored task(s); home-host country institutional differences; firm's experience about the offshored location and the offshored task(s); and internal and external determinants of mode switching*. Table 4.6 shows an example of the repeated ideas that have similar underlying meaning and were found across the 20 participants' transcripts, about different forms of home-host country institutional ~~distance~~ differences.

Further checking has then been done to the list of emerging core categories and their sub-lists aiming to reduce overlapping and redundancy among the highlighted and labelled text of the respondent's transcript. During this process, the researcher tried to identify the "repeating idea" (Auerbach & Silverstein, 2003, p. 54) that appeared more than once, putting them under one theme. According to Auerbach and Silverstein (2003), 'theme' could be defined as a cluster of ideas that have similar underlying meanings or theoretical concepts. Such "cross-case interpretation" procedures (Nordqvist et al., 2009, p. 301) helped the researcher to unbundle and bundle themes, repeating ideas according to the point of the studied phenomenon. As noted earlier, the aim of this study is to investigate the dynamic aspect of a firm's governance mode choice and mode switching during offshore sourcing to China and the research question(s) guided the researcher during the process of analysis. Accordingly, the first three main categories identified (*offshore sourcing issues or challenges within China, benefits of offshore sourcing from China, and stages of offshore sourcing in China*), provided the researcher background about why and how firms went to China.

Table 4.15 Examples of repeated ideas about home-host institutional differences across the 20 transcripts

Similar idea about home-host country institutional differences
<p><i>"It's a tough one [protecting your design from been copied by others]. Like I said earlier, we do always worry about that, especially in China, which is one of the reasons that I don't ever send my software over there. I'd never get them to build something and programme it... If I do send any firmware over to them it'll be just a self-test firmware. It'll exercise a heartbeat, but it won't implement any of the functionality."</i> = participant PA / weak IP law / formal home-host institutional differences.</p>
<p><i>"Regulatory issues are always a problem.... That's an ongoing process...' Cos again it changes. What worked yesterday may not work tomorrow. What was a problem yesterday may not be a problem tomorrow?"</i> = participant PB / Regulations changes / formal home-host institutional differences.</p>
<p><i>"Pay them in advance, so then you build that relationship up, and then if you pay every bill on time, in a specified time, or you pay say... What they typically say is – We'll take your purchase order, thank you, we'll build a product, but we won't ship it until you pay us.... And that's pretty much most of them."</i> = participant PC / weak contract protection law in terms of protecting both parties' rights / formal (weak contract law protection) and informal (business practice differences) home-host country differences.</p>
<p><i>"We really struggled communicating conceptually the purpose and nature of the product. So that was one of our most significant barriers, actually... The understanding of the purpose of the product in order for them to meaningfully contribute to the improvement of the produc.t"</i> = participant PD / language and communication barriers / informal home-host institutional differences.</p>
<p><i>"Our IP is our brand.... We've got copyright on our branding [in China]..., but we can't protect it... But still anyone – any half-clever factory – they've got access to our catalogues off our website. They could copy our look and feel."</i> = participant PE / weak IP law / formal home-host institutional differences.</p>
<p><i>"Owning the factory is one.... [way of IP protection]. So... we moved from contracting others, to do our own product, to having our own factory, [and IP protection] was one of the main issues that we are [facing in China]."</i> = participant PF / weak IP law / formal home-host institutional differences.</p>
<p><i>"Problems – often around ensuring that concepts are communicated clearly with understanding on both sides."</i> = participant PG / communication barriers / informal home-host institutional differences.</p>

Similar idea about home-host country institutional differences

"So, what we did was, we took all of our intellectual property to Malaysia, to have it fabricated in Malaysia. One, to safeguard our intellectual property, I think..., I don't believe that you can protect your IP in China. Not for a small business like ours. I think it's extremely difficult for larger businesses to protect their interests. And for small businesses it's almost impossible." = **participant PH / weak IP law / formal home-host institutional differences.**

"The Chinese never say no, just never give you an answer. And then you suddenly realise – Ok, so the answer is no. Really, it was cultural communication things that we had to adjust to." = **participant PI / communication barriers / informal home-host institutional differences.**

"Protecting IP... Well, what we do is, we never ship anybody any complete drawings of our product, of our entire assemblies or anything like that.... [or] What the whole product is,... All of our suppliers we piecemeal things to. I think this is a mistake many companies make." = **participant PJ / weak IP law / formal home-host institutional differences.**

"The problems dealing with China? Number one is communication. Communication, and how they work – their culture. Their culture is very much one of they don't want to upset people. Even if it means covering up their tracks. If they commit to a deadline and then they're late, and you start chasing them up and trying to find out why they're late, then they will apologise profusely and rush around to get it out the door and ship it to you. But they might not have finished it properly... and cut corners to do it." = **participant PK / communication barriers, business practice and cultural differences / informal home-host institutional differences.**

"I've seen a company grow from a small company into a very large high-tech PCB and – I was just there recently – and this company has automated everything... And the reason they automated – because the labour is getting too expensive... Yeah, a lot of Chinese business now – the owners are talking to me – what they're saying to me now because the government – they must increase their wages every year... Now what some of the Chinese owners – they're moving to other countries." = **participant PL / Governmental intervention / formal home-host institutional differences.**

"The largest issues have been around requirements for how product is freighted, as opposed to having to come up against any regulatory issues... and it has influence where some of the componentry comes from in China." = **participant PM / freight regularity and restrictions / formal home-host institutional-differences.**

"As I said, we'd set up the company in Hong Kong. That was really back then, trying to set up a company direct from New Zealand to China was almost impossible." = **participant PN / Governmental restrictions and rules / formal home-host institutional differences**

Similar idea about home-host country institutional differences

"So, we've got some patents in China. We've got – the IP is such a hard thing... So, we try and have as much protection as we can. But I think IP is always a risk in China." = **participant PO / weak IP law / formal home-host institutional differences.**

"And we had to deal with a legal firm, 'cos there's a bit of a process in setting up a registered overseas office... I mean, New Zealand is very, very simple... and I would say that setting up in China is no more difficult than the typical country that you might want to establish a company in. Whereas in New Zealand, you know how we rank No.1 in terms of ease of doing business and all that, and you don't realise why until you start to go through the paperwork in different countries. It is so simple here and so streamlined." = **participant PP / ease of doing business / formal home-host institutional differences.**

"There's a few different total components in our system... we still at this point have never got even one whole component – like an assembly – made in China. We've deliberately only had certain parts made, so that that issue of.... getting copied and things like that." = **participant PQ / weak IP law / formal home-host institutional differences.**

"For example, I'd go away, and I'd say – Right, I want this room painted white. Alright? That's it, just white. And everybody's going – Yes, yes, yes. Come back in three hours and it's been painted red. So, the biggest thing is the people talk to the Chinese person and they say – Yes, yes, yes – they believe what they're saying is yes, but they're not. All they're saying is like – Mm hm mm mm. That's all it is. It's like – I'm hearing you, I'm in front of you. It's not whether they can do it or not. It's got nothing to do with it." = **participant PR / communication barriers and cultural differences / informal home-host institutional differences.**

"I'm anxious about sending anything to China, that's a built-up product... If you send something to China and they copy it, your business is destroyed." = **participant PS / weak IP law / formal home-host institutional differences.**

"But I think the key point was when a couple of the key account executives that we were dealing with, moved on to another role. And then the company changed hands. And at that point we were just – there was not a really strong relationship there, which doesn't always help when you're dealing with the Chinese." = **participant PT / business practice based on relationships and networks / informal home-host institutional differences.**

They also helped the researcher in setting up the discussion arena that offered a better understanding of the firm's governance mode dynamics during offshore sourcing, which has been covered by the other two main categories (*governance mode choice*, and *mode switching determinants*), the key research focus of this study. Each of these five main categories and their themes assisted the researcher in answering one or more of the research questions and propositions. At the same time, each one of the sub-list group became a sub-category under one or more of the identified main categories that guided the studied phenomena. So, all of the themes of these categories and their sub-themes provide a better understanding of the dynamic aspects of a firm's governance mode choice during offshore sourcing as experienced by the participants during their experience in China. The themes are arranged under one main and wider concept of "Governance of Offshore Sourcing".

Step 5: Organising and grouping of themes to form theoretical constructs

Throughout this stage, as displayed in Figure 4.2, the researcher was aiming to find the link(s) between the emerging themes and sub-themes and arranged them into larger and more "abstract ideas" that could be incorporated into a model suggested by (Auerbach & Silverstein, 2003, p. 39). The literature suggests that such a model could be also known as a theoretical construct, and it helps the researcher 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). These constructs help the researcher to transform the themes into interweaved "coherent" information that provided a better understanding of the studied phenomenon" (Pratt, 2009, p. 860). As for the present study, the researcher tried to represent these abstracted ideas as variables that have their own characteristics and attributes. For example, during the interviews, participants talked indirectly about their firms' governance dynamics, governance mode choice, and mode switching determinants during offshore sourcing in China, by outlining the stages of their sourcing journey within the China market, as well as opportunities and challenges that they faced during their offshore venture to China.

The researcher then reviewed and referenced these five categories and their themes in relation to the relevant literature in the literature review. This guided the researcher and assisted in unbundling and re-bundling these groups of repeated ideas to create

the theoretical construct(s) that illustrate the studied phenomenon. In other words, the researcher re-categorised the main repeated ideas from five categories that were identified during the first step of the data analyses process to two main categories (*governance mode choice determinants, and mode switching determinants*) and allocate the sub-themes that emerged in step 3 of the analyses process accordingly. Therefore, the former main category's sub-list categories are transactions (complexity, codifiability, and supplier's capability); home-host country institutional-differences; and a firm's experience. The latter main category's sub-lists are internal determinants and external determinants of mode switching. Throughout this process, the researcher was identifying the different content of the text of the transcripts that fit under these two 'main repeated ideas' categories or their 'subcategories' that are this study point of interest. This enabled the researcher to identify the emerging themes and patterns of the similarities and differences among the 20 participants' interview transcripts through organising the text content into themes, which will be discussed in more detail in the Findings and Discussion chapters.

Accordingly, this stage considered a very critical step of the analysis process, where the researcher's highest priority is discovering the correlation among the themes through utilising a theoretical construct, which is basically a model derived from the application of the theoretical framework in the literature review, to analyse each firm that has been interviewed to organise the collected data into themes and to understand the attached meaning to what participants stated during the interviews (Nordqvist et al., 2009).

Figure 4.3 shows Firm A, B, and C interviews' theoretical constructs as an example of the theoretical constructs created from each interview of this study. Furthermore, the researcher also needed to pay extra attention when choosing the theoretical constructs title because it showed the interrelationships among the themes and their underlying meaning.

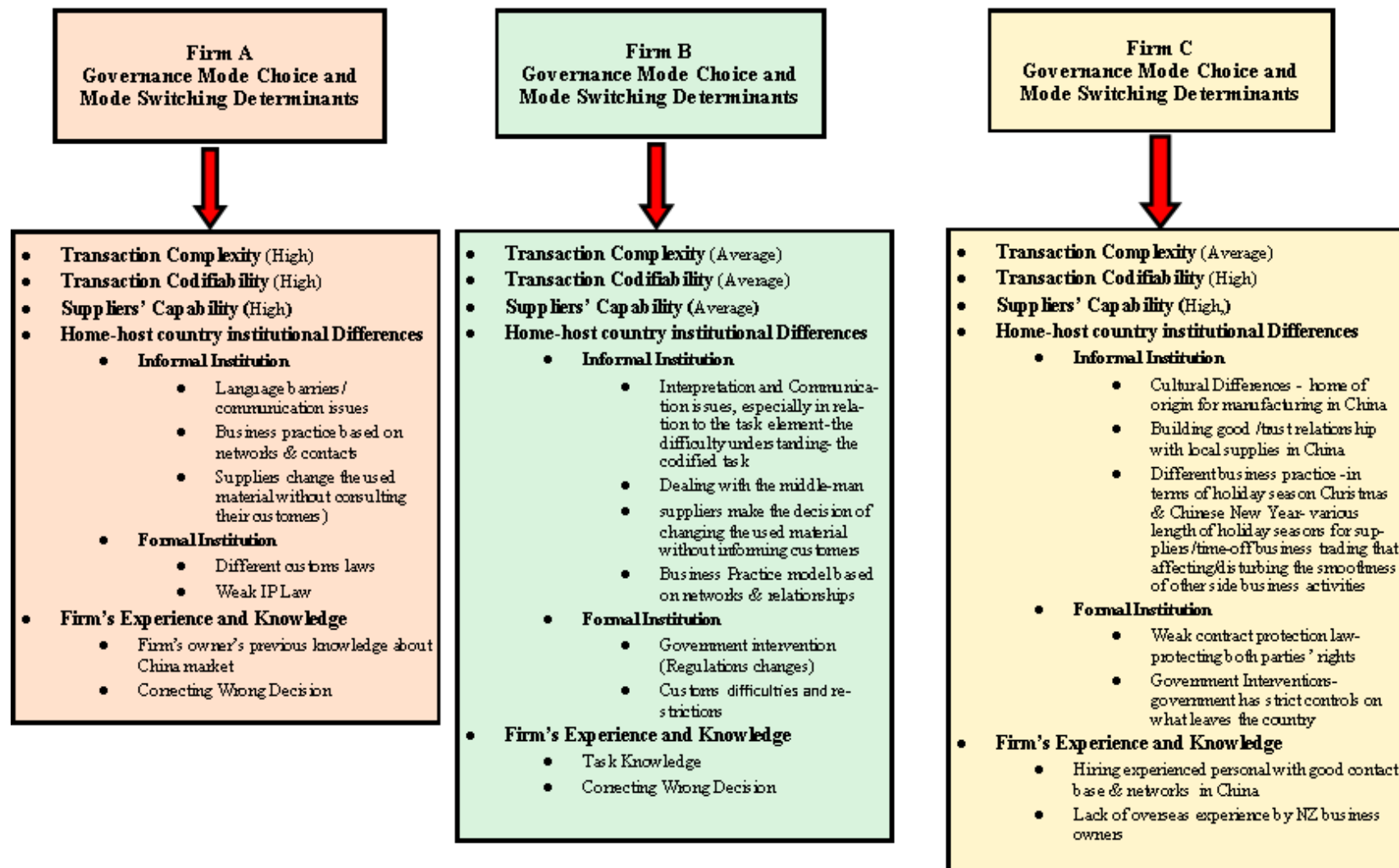


Figure 4.12 Repeated ideas in firm A, B, and C interviews in the present study

Step 6: Presenting theoretical constructs

In reaching this stage of data analysis, the researcher summarized the collected data into themes of similar idea groups that have been shaped into a theoretical construct within each interview transcript (see Figure 4.3). Accordingly, the researcher's main focus at this stage was how these cross-interview findings could be generalized "into a larger concept that fits coherently with the research theoretical framework" presented earlier in the literature review section (Hikmet, 2015, p 55; Auerbach & Silverstein, 2003).

For this study, 20 theoretical constructs, one for each interview transcript, have been created clarifying participants' experience of dealing with the China market, one within each of the research interviews, where an occasional reference to the relevant literature was utilised to consolidate the theoretical constructs' process argument (Charmaz, 2006, p. 166).

This enabled the researcher to visualize the emerging patterns and the relationships between these patterns, which helped the generalization process across all of the study's interviews. However, due to space limitations, it was difficult to present and fit all 20 theoretical constructs in one page for comparison. Therefore, the researcher decided to present one general theoretical construct that summarised all the variables that have emerged from each interview's theoretical construct during analysis of all of the study transcripts. Figure 4.4 shows the general theoretical construct of that data analysis that contains all themes/variables that emerged during analysis of the transcripts.

Framing and reconstructing the experience of offshore sourcing to China as experienced by the Australasian SMEs within high-medium technology manufacturers was very challenging, especially linking the findings and presenting them as "meaningful ideas and relationships" (Aita, McIlvain, Susman & Crabtree, 2003, p. 1424).

Therefore, the researcher utilised a focal "metonymic title" by exchanging "words by similarity and metonymy by association", to provide better understanding and interpretation of the emerging themes in the hope that this might result in novel knowledge and concepts while learning (Beaven, 2011, pp.3-4; Hikmet, 2015, p. 56).

Accordingly, “*Governance Mode and Mode Switching Determinants*” was employed as a metonymic title for the general theoretical construct which emerged as the focal point of organising the studied phenomenon as experienced by the study participants.

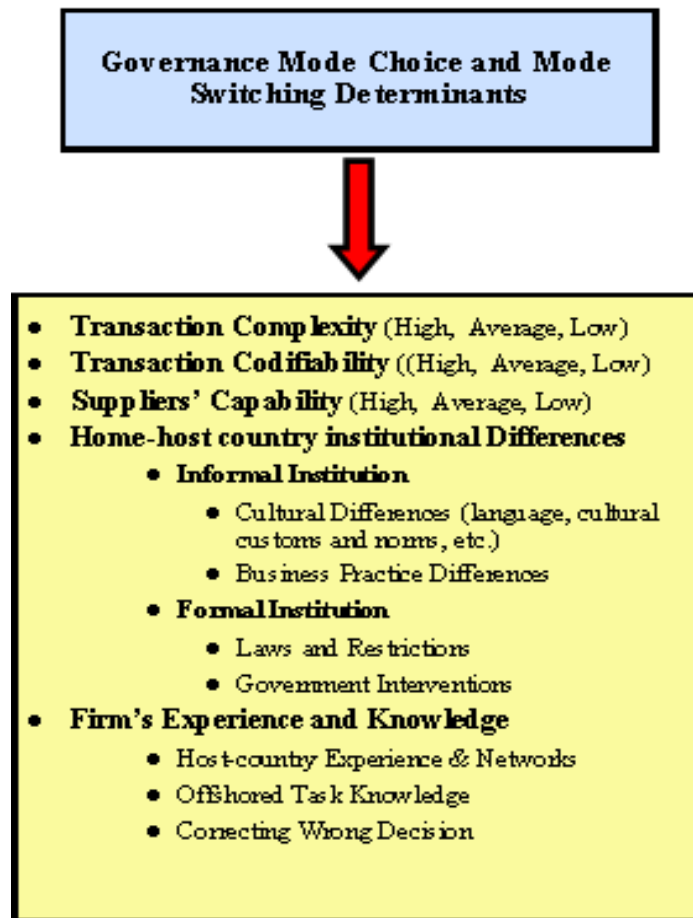


Figure 4.13 The general repeated ideas across the present study’s interviews

Having explained the researcher’s general approach to the study and discussed the presentation of the data analyses theoretical constructs, Chapter 4 concludes.

Throughout this chapter, the researcher illustrated the data analysis process that related to the interpretation of the process, key decisions, and steps that have been followed to transform the data into understandable forms and presentable findings.

The chapter started by highlighting how the collected data has been transformed from the recorded interview into a contextual form via transcribing. Then, moved to explain the data analysis process, where the researcher used the coding process and code condensing to reduce the textual data into themes. Finally, the chapter showed the steps that have been followed to form a theoretical construct for each interview by grouping the emerging themes within each interview, and then summarised all the

study interviews' theoretical constructs and presented them in one general theoretical construct.

However, presenting the findings of the study, which is the final stage of data analysis, will be covered in the next chapter. Accordingly, the following chapter, Chapter 5, will cover the present study findings and present these findings in the form of figures, tables, and discussions.

Findings

Introduction

As discussed in Chapter 2, task, location, and governance mode are the three main elements of a firm's offshore sourcing strategy. Within the task element, global value chain theory highlighted that a firm's decision-making process for choosing its governance mode or combination of modes could be impacted by the 3C variables: complexity of transaction, codifiability of transaction, and suppliers' capabilities. However, the present study brought the three literatures, TCE; network; and institutional theory, together to investigate the firms' governance mode choices and proposed two extra variables 1) a firm's knowledge, and 2) institutional differences between home and host countries that could play a moderating role in the firm's decision-making process for choosing its transaction governance mode(s). The present study also proposed a framework to summarise the firm's elements of offshore sourcing – task; location; and governance mode - that are presented in green coloured boxes in the framework; the governance mode choices – hierarchy; captive; relational; modular, and market - that are presented in pink coloured boxes; and determinants of governance mode choice and mode switching – transaction complexity; transaction codifiability; institutional differences; and firm experience - that are presented in orange coloured boxes in the framework (see Figure 5.1 below).

The aim of Chapter 5 is to present the findings of the study on the participants' experiences of offshore sourcing in China, and it will be structured around the proposed framework of determinants of mode choice and mode switching, shown in Figure 5.1. This chapter presents the findings that were generated as a result of the 20 interviews and is organised into three main sections. In the first section, findings are presented on offshore sourcing advantages and challenges. The second section presents the findings on the firms' changes in governance stages during their offshore sourcing in China. The third section shows the determinants of the firms' initial governance mode choice and mode switching. Furthermore, the discussion utilises participants' direct quotes, which are referred to in the main body of the text, to give a deeper explanation and understanding of the studied phenomenon as experienced by the participants.

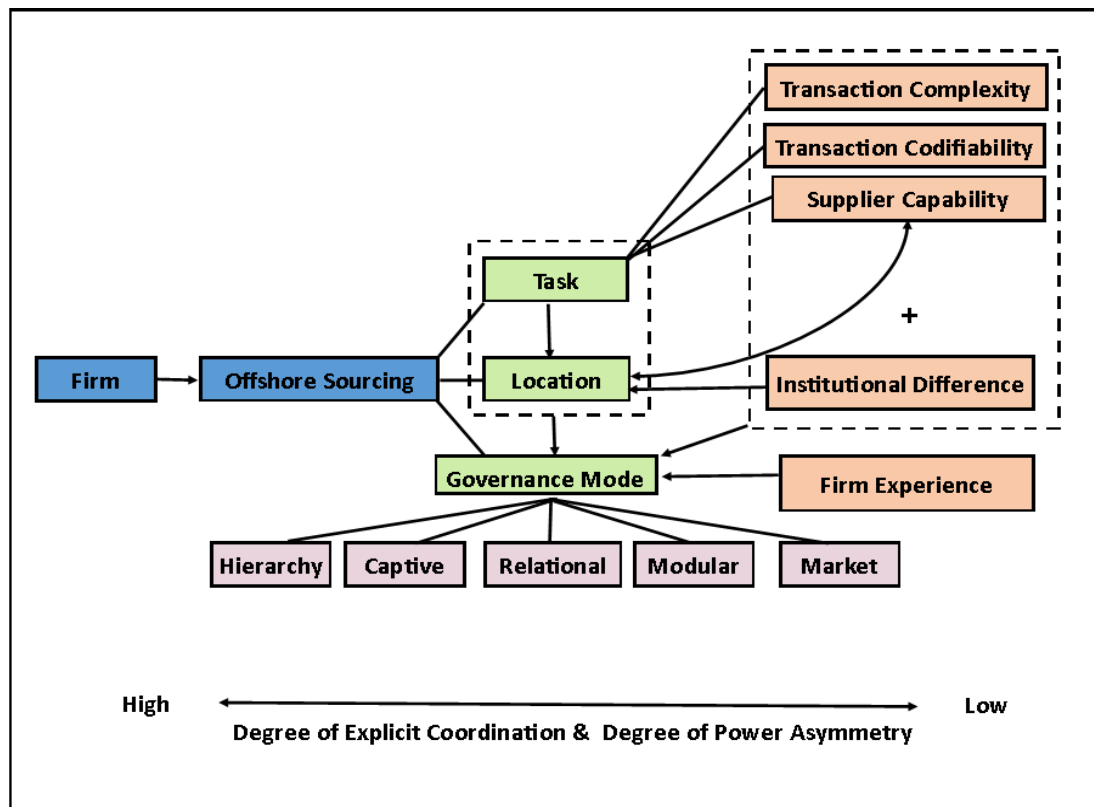


Figure 5.14 Determinants of governance mode choice and mode switching

Offshore Sourcing Benefits and Challenges

As noted earlier, the aim of this study is to investigate the dynamic aspect of a firm's governance mode choice and mode switching during offshore sourcing in China, and the research question(s) guided the researcher during the analysis process. The research suggests that there are a number of themes associated with outsourcing to China that are at the forefront of the minds of interviewees. Each interview features several themes. Each theme contains groups of repeated ideas that have similar underlying meanings or theoretical concepts (Auerbach & Silverstein, 2003), which are presented in Table 5.1. In Table 5.1, the left column highlights all the themes for all the interviews, whereas the right column collates the interviews that share certain theme.

Table 5.16 Repeated themes on sourcing from China

Repeated Themes	Interviews
Cost Savings (low cost materials and labour)	A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R, S, T
Access to suppliers, materials, recent technologies and skills	A, D, E, F, G, J, K, L, M, O, P, Q, S, T
Lead Time	A, C, E, F, G, K, M, Q, T
Offshored Task (Complexity and Codifiability)	A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R, S, T
Production Capacity and Volume of the Firm	A, C, E, L, M, Q, R
Location and Time Differences	A, C, D, E, F, G, I, K, O, P, S, T
Business Process, Standards and Efficiency of the Firm	A, B, C, D, E, F, H, I, J, K, L, M, N, Q, T
Firm's knowledge and experience about offshored task(s) and location	A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R, S, T
Firm's Contacts and Network through suppliers in China	A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R, S, T
Home-Host Country Cultural Differences (communication and customs and norms)	A, B, C, D, E, F, G, H, I, J, K, L, N, O, P, Q, R, S, T
Correcting Wrong Decision	B, D, F, I, K, L, M, N, O, Q, T
Institutional Differences - Chinese Official and Administration - formal institution differences (IP and contract protection laws, customs & freight restriction)	A, B, C, E, F, G, H, I, J, K, L, M, N, O, P, Q, S, T

Then these themes are arranged into larger and more abstract ideas or construct such as offshore sourcing benefits and challenges, offshore sourcing stages, and governance mode choice and mode switching determinants. Then within each construct different themes which appeared more than once will be clustered together under one wider concept or theme. Accordingly, Table 5.2 shows how these similar themes across interviews, were consolidated into wider constructs. For example, the present study found that the offshore sourcing experience comes with simultaneous benefits and challenges for all the interviewed companies. The emerging themes (i.e. cost, lead time, quality, etc.) could be positive, which were perceived as benefits, and(or) negative, which could be perceived as challenges or issues. But at the same time saving costs might impacted the firm's decision-making process for the governance mode choice and mode switching when sourcing from China, which is going to discussed in more details within this chapter as well as chapter 6 and 7. Accordingly,

the following section of presenting the study findings will be divided and presented into two sub-sections: 1) offshore sourcing benefits, and 2) offshore sourcing challenges.

Table 5.17 Repeated, themes, on sourcing from China within each construct

Repeated Themes	Construct
Cost Savings (low cost materials and labour)	offshore sourcing benefits and challenges, offshore sourcing stages, governance mode choice and mode switching determinants
Access to suppliers, materials, recent technologies and skills	offshore sourcing benefits and challenges, offshore sourcing stages, governance mode choice and mode switching determinants
Lead Time	offshore sourcing benefits and challenges
Offshored Task (Complexity and Codifiability)	governance mode choice and mode switching determinants
Production Capacity and Volume of the Firm	offshore sourcing benefits and challenges, offshore sourcing stages, governance mode choice and mode switching determinants
Location and Time Differences	offshore sourcing benefits and challenges,
Business Process, Standards and Efficiency of the Firm	offshore sourcing benefits and challenges,
Firm's knowledge and experience about offshored task(s) and location	offshore sourcing stages, governance mode choice and mode switching determinants
Firm's Contacts and Network through suppliers in China	offshore sourcing benefits and challenges, offshore sourcing stages, governance mode choice and mode switching determinants
Home-Host Country Cultural Differences (communication and customs and norms)	offshore sourcing benefits and challenges, offshore sourcing stages, governance mode choice and mode switching determinants
Correcting Wrong Decision	governance mode choice and mode switching determinants
Chinese Official and Administration - formal institution differences (IP and contract protection laws, customs & freight restriction)	offshore sourcing benefits and challenges, offshore sourcing stages, governance mode choice and mode switching determinants

Cross Interview Themes within Offshore Sourcing Benefits

The findings show that for all the studied firms, involvement in offshore sourcing was perceived as very important for their survival within their market. Participant PL explained:

We're still in business. If we continued to oppose offshore manufacturing, we would not be in business.

Figure 5.2 shows the themes of benefits that the studies firms experienced during offshore sourcing from China.

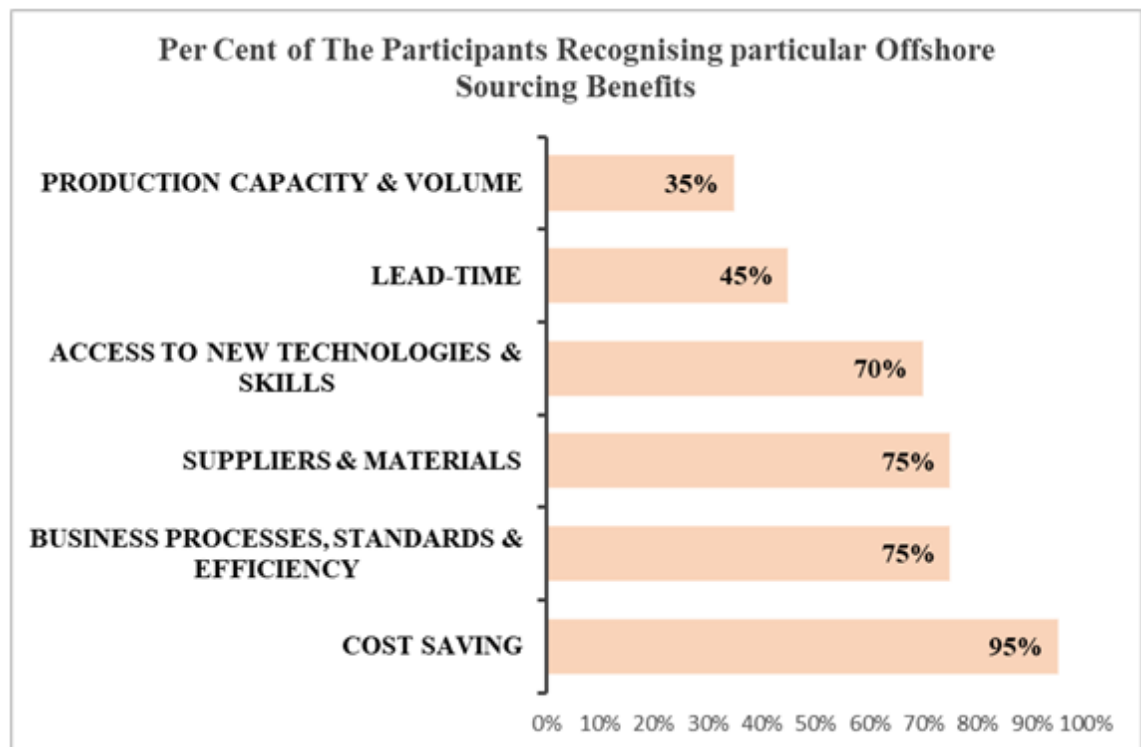


Figure 5.15 Offshore sourcing benefits themes across the present study's interviews

The findings show that all these firms have seen multiple benefits with all of them experiencing cost benefits. Nineteen firms of the 20 participating firms commenced with one main motive for choosing China as a location for their offshored activity(s), the cost-saving factor being essential for maintaining the company's survival and competitiveness within its niche market. This group represents 95% of the study participants. For example, participant PL mentioned that offshore sourcing their firm's activities to China, helped in reducing total costs by 10% whereas participant PA clarified that going to China helped their firm to reduce its costs by 60-70%, and reduced its landed costs by 50-60%. They stated that,

I probably am seeing about a 60-70% cost reduction by going to China ... The landed costs ... It's still 50-60% [less]. It's a lot cheaper.

Likewise, participant PM highlighted that offshoring their firm's activities to China reduced its production costs by around 90% compared to their firm's production costs in the home country, and they stated that,

In going up to China ... The difference in the manufactured price compared to the manufactured contract prices that we had in New Zealand was so significant. It was like we went from, for example, a production cost of \$70 down to a production cost of \$7.

Accessing new technology and technical skills is another reason to choose China as a location for offshored activities initially by the studied firms, a group which represents five per cent of the study participants. For example, participant PD stated that,

There's no alternative to not manufacturing in China, because that's where the textile development is. It is at the forefront, and that's where there's the manufacturing base to support it. So, there wasn't an option of not – at the time, and still now, there was no option to manufacture anywhere else other than China ... that's then led to cost savings over time.

In addition to cost savings and accessing the new technology and technical skills, the respondents concluded that other benefits have been gained from sourcing within the Chinese market, with the main themes of these benefits as: shorter lead time, accessing suppliers and materials, increasing a firm's production capacity and volumes, and improving business processes, standards, and efficiency. For 15 firms out of 20, (75%), their costs saving was in the form of accessing the needed suppliers and low-cost materials. Participant PF stated that,

there are many suppliers for us [in China] for the components. Many suppliers for the casings ... Number two, choice of varieties, we could have a lot of varieties ... So, when you look at China – we could go there and find many other options for our production design, that we will never be able to do it here in New Zealand. Because in New Zealand we are a small market.

Similarly, participant PS highlighted how large the available supplier base is in China, stating:

Oh yes, hundreds. A lot ... Yeah, I'd say there's numerous optical component manufacturers in China.

While, participant PK explained that just by dealing with highly skilled suppliers helped the firm in upskilling its capabilities, and they stated that,

I think anyone that's been involved with working with China has upskilled themselves by default as part of the process.

Both participants PA and PO talked about benefiting from accessing suppliers that can accept small production volume at lower costs and shorter lead time, for example, participant PA stated that,

I want to do a short run of say 200 pre-production type prototypes, or early production; if I was to get 200 done here it'll either cost me an insane amount of money or the manufacturers wouldn't even look at me for 200, they wouldn't bother. Whereas, if I do it in China ... cost is lower ... and typically, it's a bit faster as well.

And participant PO stated that,

we're still low-volume, so they don't do big batches. We get small batches made of things ... Yeah, so we get small batches made from China.

In contrast, participant PS talked about offshore sourcing benefits by accessing big volume manufacturers or mass production suppliers at lower cost and shorter lead time, and they stated that,

we were sourcing our windows from a guy in Australia. But he was quite a low-volume manufacturer and couldn't do it in the volumes we required. So, then we went over to China ... So, it's price, it's volume ... Just the cost reduction and the amount of volume you can get in a short period of time ... It's improved our volume in the sense that we're now able to collect a lot more data for our products in a lot shorter period of time.

On the other hand, participant PI highlighted their firm's cost savings in the form of accessing low costs material within the China market, which reduced its costs to one-tenth of the costs of producing the same item in New Zealand, stating that,

materials in China were relatively cheap ... they were really cheap. As compared to the international market ... And commercially it was very, very good. We were making tonnes of money, because we'd started

selling what we previously sold in New Zealand dollars at New Zealand cost, we sold at half the price at one-tenth of the cost. So, our margins were large. We were selling a lot more.

Similarly, 75% of the participants experienced improvements in their business process, standards and efficiency. For example, participants PA stated that,

I guess a lot of the changes that I've made over the years have been around how I specify a job, how I do the bill sheets, and also how I do the ordering.

Participant PF explained that the improvement of their company's efficiency was in terms of money and time:

I know that the production can be done in a much more efficient way. And by efficient, I mean time and money. Both better.

Nine firms out of the 20 participants, (45%), highlighted that the main benefit was shorter lead-times, which is considered as a form of cost saving. Participant PE stated that offshore sourcing from China reduced their firm's lead time by 50% and they stated that,

Obviously, cost was a huge one. Lead time – 'cos they just could manufacture so much quicker than we were able to make them ... [roughly it was reduced by] 50%.

Similarly, participant PM declared that sourcing from China shortened the lead time for the procurement of components by 87.5%, and they stated that,

The other thing that occurred was that at that time the procurement of components was – the cycle for procurement was so much shorter. We went from effectively 16 weeks down to two weeks.

However, there were some other aspects of costs savings experienced by the participants which have positive impacts on their firms' total savings. Table 5.3 demonstrates some of these aspects of cost savings through some of the participants' statements.

Table 5.18 Additional forms of cost saving across interviews

Cost Saving Type	Participants' Statements
Profitability-even for small production run/volume	<i>"if I want to do a short run of say 200 pre-production type prototypes, or early production, if I was to get 200 done here [in NZ] it'll either cost me an insane amount of money or the manufacturers wouldn't even look at me for 200, they wouldn't bother ... It's profitability ... that's what it comes down to. We can get much better value out of China, certainly in the volumes that I deal with at the moment, typically. I know if I was doing production of say 10,000 units, I probably could do it here and put a similar margin on it, but we're not at that level yet."</i> Participant PA
Gross profit margin	<i>"Yeah, cost-saving is a big one. So, we have been improving our gross profit margins because of obviously having to invest in tooling and things like that, but once you do that, obviously the long-term benefits are an increase in our gross profit margin. So that's a big benefit for a company like us, because we use all that ... Our overall gross profit margin on the product by the time we've finished some of these recent investments will have gone actually from around 50% gross profit up to 60% that's not a landed cost. Because it's all part-specific it's hard to give. But that's the overall product. And that's a \$14,000 sole price product. So, it represents a significant saving."</i> Participant PQ
Landed costs	<i>"Mainly number one is cost Cost goes down to 20-30% from the [landed] cost."</i> Participant PF <i>"It might've been like 30% [of landed costs reduction]"</i> Participant PE
Cheaper shipping costs	<i>"And shipping generally from New Zealand or from Asia/China to New Zealand is a lot cheaper than shipping from the US to New Zealand, in that sense."</i> Participant PC

For seven out of 20 firms, (35%), the main benefit of their offshore sourcing from China was to increase their firms' production capacity and volume. For example, participant PC stated that,

our focus ... is to go from, for example, 100 units a month to 500 units a month ... But our overall strategy is to outsource everything. So, we know that [supplier x] down the road can build maybe 500 units a month, and that's their maximum capacity. But when we start to sell 1,000 units a month, we need somebody else, and there's nobody in New Zealand that could probably do that volume for us.

Fourteen of the participating firms benefited from their offshore sourcing from China by accessing the recent technology and needed skills, for example, participant PD stated that,

the reason why [China] is because the skills base, in terms of textile technology and development, does not exist in New Zealand ... From the very beginning ... we realised ... when we were just starting out developing the technology, that the infrastructure and the skills and capability didn't exist in New Zealand.

However, participant PT, made a link between accessing recent technology and a firm's costs saving during offshore sourcing from China, even for SMEs that have limited financial resources like their company, and they stated that,

And there's a lot of technology that's readily available that probably normally wouldn't be at the price point that you can use ... A small company like us with small volumes – sometimes it's hard to access that kind of technology. But in Shenzhen it doesn't seem as hard being able to tap into technology at a price point that may not be available to you necessarily. So, it's both the cost plus the technology availability.

Subsidiary Themes Related to Offshore Sourcing Benefits

In addition to the above themes about offshore sourcing benefits, some of the participants highlighted some forms of benefits, such as home-host country time difference advantage, quality of products and suppliers, and firms' competitiveness. For example, both firms Q and F experienced positive impacts on their production lead times due to the home-host country time variances, and participant PF stated that,

We can go at 2am in the morning, give the part and get it done. It will be ready 7am in the morning.

Firms Q, K, I, and C experienced some positive aspects of improved quality, which included good quality of materials and products or(and) suppliers. For example, participant PQ talked about the Chinese suppliers' quality and they stated that,

we were able to access good quality, good communication, good price, all from China ... there's a lot of misconceptions, I think, about Chinese manufacture and it being low-quality and things like that ...It's absolutely not the case.

Participant PK compared New Zealand and Chinese goods quality and they stated that,

The truth is, even though there's a stigma that stuff that comes out of China is cheap and not very good quality, from my experience that's not an accurate blanket statement ... generally, the quality is good ... But even good quality stuff out of China is cheaper than the stuff we get here ... In New Zealand, the truth is the quality in China is generally better than the stuff we get locally.

And participant PI talked about the quality aspect in the form of accessing high-quality components from suppliers in China and they stated that,

They were excellent. They had been producing transformers for Toshiba, and three or four other Japanese companies for a number of years. And it was the Japanese who trained them. Their quality was excellent, their processes were good.

In relation to increasing a firm's competitiveness within its marketplace, three participants explained how offshore sourcing to China lowered costs, enabling them to maintain competitiveness and become market leaders within their niche market(s). For example, participant PT stated that,

in terms of benefits, the key one has just been being able to compete in the marketplace we're in. So that's primarily driven by cost.

And participant PI talked about how the offshore sourcing to China increased their firm's competitiveness as well as created new market opportunities, and they stated that,

And then obviously the sales inside China are all ... I mean, we're sitting in the biggest ... consumers in the world ... because that we're in China allowed us a costing structure that made us competitive ... probably 20 in the world ... [China] opened up a whole other world for us to play in. A whole new set of customers for us to look at, [and] chase.

Cross Interview Themes within Offshore Sourcing Challenges

The participating firms highlighted several issues that they faced when undertaking offshore sourcing in China. The findings show four main themes of challenges that the studied firms faced: 1) suppliers and business practice; 2) communication; 3) location and time-differences; and 4) legal and regulatory restrictions. Each one of these groups contains sub-groups of repeated ideas. The findings also show that a firm might face several challenges at the same time. Figure 5.3 shows the repeated ideas of challenges that the firms experienced.

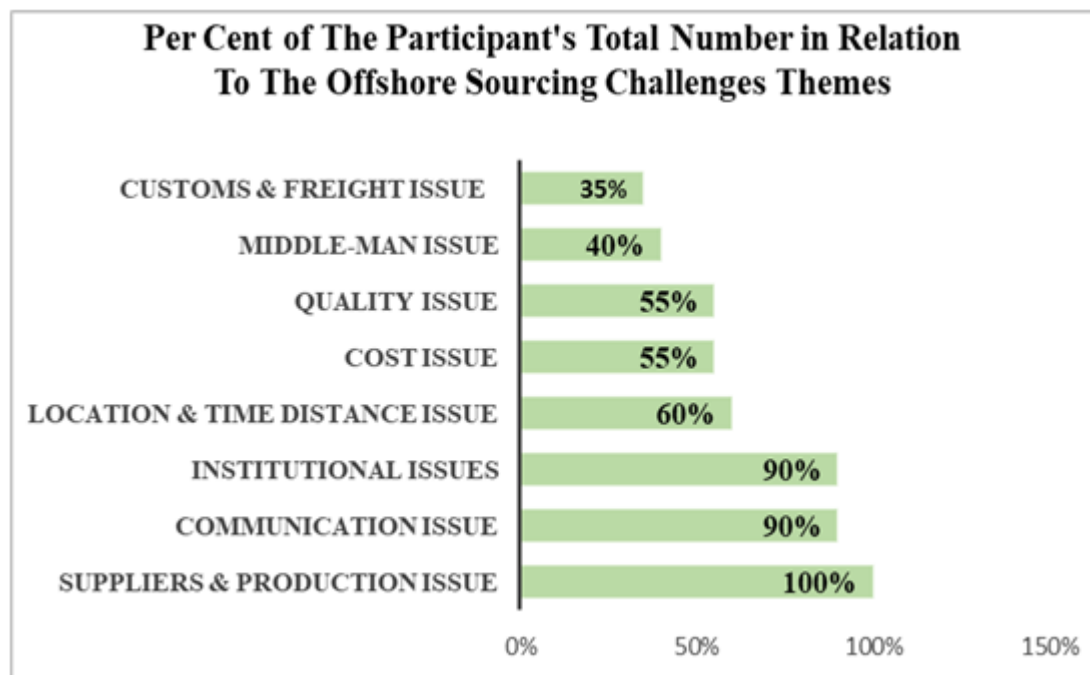


Figure 5.16 Offshore sourcing challenges across the interviews

As illustrated in Figure 5.3, all the firms faced different challenges that were related to Chinese business practice and suppliers and that impacted the firm's performance negatively in different forms. In relation to the host-country business practice challenges, 40% of the participants talked about the intermediation practice issue, which they label and call it the middle-man issue (i.e. extra costs/paying the middle-man, quality control, longer lead-times) in China. Gadde and Snehota (2001, p.2) explain that the "concept of a middle-man implies an actor [i.e. agent, company, organisation] in-between two other actors" such as a buying-firm and its suppliers (Gadde & Snehota, 2001, p.2). Therefore, the intermediary in this study is given the theme of middle-man by the participants' derived. For example, participant PK stated that,

we assume from this side of the world we're dealing directly with the factory. But in China there's a lot of shell companies ... claiming to be able to do tooling and injection moulding and machining. But then you find out that they are just the liaison ... they're going to the factories and getting them done for you ... so, you're paying them a cut to do that ... And that's why it takes a lot longer to get feedback from the factory. Because it has to go through a middle person.

The findings also illustrate that 70% of the participating firms faced quality fade and inconsistency issues (i.e. a supplier changed materials without informing the firm), and 55% addressed the cost issue due to government intervention (i.e. government increased wages, or material prices). In relation to the quality fade due to the lack of transparency in Chinese suppliers' business practices, most participants highlighted the main reason was because of the suppliers taking decisions on their customers' behalf without consultation with their customers. This required participants to create strict quality control (QC) systems to check the supplied goods, increasing production and landed costs. For example, participant PE stated that,

So, check the quality of what they're making ... We set up a very strict inwards goods area so that every single part was checked as it came in we'd have a beautiful [final product], and one tiny component was rusting. So now we have a very strict QC on every single piece.

Other participants talked about cost issues resulting from the limited number of capable manufacturers for their niche manufacturing market, which might have negative impacts on a firm's cost saving due to the lack of competition. For example, participant PD stated that,

in the three or four years we've been working in China – we've only been able to find one factory that's capable of manufacturing the technology which we need. So, it's very niche.

On the other hand, participant PI highlighted the suppliers' issue in the form of lack of their adaptation ability for any changes, even improvement changes, and they stated that,

Their problem is the problem of China, which is they're incapable of changing or improving on their own – it's very difficult for them to change and improve.

Participant PH talked about the Chinese suppliers' issues and how they failed to provide their firm with a consistent quality for the supplied products and reliability to supply on-time, which increased their firm's production costs in the form of extra checking and quality control expenses, and that pushed their firm to move its production outside China. They stated that,

We had lots of quality issues, and we took everything to Malaysia ... We had lots of issues with the quality from one batch to the next ... the initial deliveries were always good, but subsequent deliveries – once we had done inspections and made sure that everything was right, then once we left them alone just to continue with manufacturing, it was usually a disaster What we found over the next few years was we had problems in guaranteeing supply ... we couldn't get reliability of supply ... It was really their ability to supply on time that created problems for us.

Participant PP highlighted the tendency of the Chinese suppliers in cutting corners whenever possible, and they stated that,

And as a rule of thumb, if they can cheat, they will. If they can cut a corner, they'll try and do it.

Participant PE talked about the cost saving issue in the form of increasing the labour costs in China, year-on-year by 15%, and they stated that,

we've really noticed in China in the 10 years that we've been there is that it's gone from a very cheap labour focus to technology-based focus. 'Cos their wages have gone up 15% year-on-year ... China is getting very expensive.

Communication Issues

The second theme, of offshore sourcing challenges in China is the communication issue. The study findings revealed that 90% of the study sample faced communication challenges when dealing with Chinese suppliers. Most of the participants talked about the language barriers between them and their Chinese suppliers, that impacted their production quality and costs savings. Participants PK, PH, and PN explained that language differences create communication issues between firms and their overseas suppliers in the form of misunderstanding what is required to be done as meanings get lost in translation. For example, participant PN suggested the use of any written

communication, or to use people who can speak the other side's native language might help, and they stated that,

Yeah, it's lost in translation quite often, but I guess if we find that that's happening, quite often an email or some sort of written communication definitely clears those things up. Or, we'll call in one of the staff – that's their native language, get on the call and then suddenly it can be fixed.

Participant PD talked about the communication issue that might emerge due to the new technology of the products that the supplier struggled to understand, and they stated that,

It's been the conceptualisation of the manufacturers to understand the purpose of the [product], and the way in which they need to be manufactured. So that's one key aspect ... we really struggled communicating conceptually the purpose and nature of the product. So that was one of our most significant barriers, actually ... The understanding of the purpose of the product in order for them to meaningfully contribute to the improvement of the product.

Participant PD then highlighted the negative impact of such communication challenge on the firm's cost savings, through increasing the product landed costs due to the requirement of having a consistent appearance of New Zealand staff in China, to train and monitor the Chinese manufacturers, because of the uniqueness of the product. They stated that,

Yeah, it's certainly a high-tech [product]. It's certainly a lot more expensive to manufacture than regular [product] ... Lots of training and a very, very close relationship required in order to basically upskill them and teach them what we required ... [therefore] we had on-ground staff there, based and living in China.

Participants PQ, PI, and PJ explained that misunderstandings between firms and their Chinese suppliers might be related to cultural aspects of communication, for example, participant PI stated that,

The Chinese never say no, just never give you an answer. And then you suddenly realise – Ok, so the answer is no. Really, it was cultural communication things that we had to adjust to.

Participant PS explained how communication issues in the form of different languages might affect the suppliers' understandings of the given task's requirements such as a

job's drawings, design changes, and alterations. They suggested keeping the communication between the firm and its Chinese suppliers as simple as possible stating that,

There's a real communication issue ... some real language issues. And you find that if you go outside very simple communication, they are quickly confused ... So, you really have to be quite clear and concise when you communicate with them ... It's difficult to communicate the sort of stuff we do. 'Cos it's quite complicated and involves a lot of physics with them. So, I try to keep it as simple as possible.

Location and Distance

The third group of repeated ideas issues for this study, is home-host country geographical location, and time distance challenge; the study findings show that 60% of the participants struggled with their lead time due to difference in time and holiday seasons. For example, PA talked about how the home-host country time difference was frustrating for their firm in doing businesses with China, and they said that,

The time difference is always a challenge, 'cos you're sort of waiting a day to hear back, and anything, and that can be kind of frustrating.

On the other hand, participant PC talked about the holiday seasons, Christmas and Chinese New Year, time differences and length between home and host countries and how the various timing of holiday seasons impacted the firm's ordering process and lengthening production lead time, and they stated that,

The main problem ... is Chinese New Year where everything closes down. Depending on where the business is, it can be one week, two weeks, or a little bit longer. So, getting orders into the system and into their systems, to deliver before the end of January before they shut down for Chinese New Year. And it doesn't help that most New Zealand companies shut down over Christmas for two weeks as well. ... There's a week or two weeks where they don't get any reply. And then you come back and you're back ... and then they're only working for three weeks before they close down. If you miss this slot in ... then you miss that delivery time before Chinese New Year.

Participant PT highlighted how home-host country geographical locational distance impacted the firm's total cost savings negatively due to the extra travelling expenses (i.e. regular visits to suppliers in China to build and develop closer relations with them),

as well as affecting and slowing down the everyday business process, and they stated that,

It's just a distraction to everyday business. If I was to have to go over there for a couple of weeks to visit them, there's the travel expense, and distraction from getting other things done. I think that's the biggest. There's the proximity – far away, so it's hard to develop close relationships.

Laws and Regulation

The last group of offshore sourcing challenges in this study relates to Chinese local authorities and official governmental intervention (i.e., laws, regulation restrictions, etc.) issues. The findings showed 95% of the studied firms faced different forms of this issue (i.e. raising labour costs and raw material prices, currency fluctuations, weak IP protection, etc.) that negatively impacted the firms' cost savings. For example, participant PB highlighted that changes in regulations are an ongoing issue and they stated that,

Regulatory issues are always a problem ... That's an ongoing process ... Cos again it changes. What worked yesterday may not work tomorrow. What was a problem yesterday may not be a problem tomorrow!

Participant PF gave examples of regulation changes in the form of work time restrictions and how that affected production, stating that,

we have the cases and all the aluminium cases require powder-coating ... The government sometimes makes restrictions on those factories to work. So suddenly, for example, we could hear that for three weeks they are not able to provide us any cases, because the government is inspecting the area and ... Even us sometimes we are required – Saturday, for example – to shut down because of the power.

Participant PF also talked about the fluctuation of the Chinese currency and the raising of the price of required raw material sometimes up to 10-20%, and they stated that,

there's another factor which is the Chinese Yuan value, compared to the US dollar ... Other things would also be the prices of the raw materials ... we use the aluminium ... stainless steel ... plumb bob for making the batteries – these are all the raw materials. The prices and their change in China have a lot to do with us ... Raw material is a big issue. And sometimes everything goes to 10 or 20% more ... I don't know whether China could continue to be the place where we need to manufacture over there.

Participant PT explained how government intervention could adversely impact production costs savings through increasing the workers' wages every year, which pushed manufacturers either to automate their production or move it outside China, and they stated that,

I've seen a company grow from a small company into a very large high-tech PCB and ... and this company has automated everything And the reason they automated – because the labour is getting too expensive ... a lot of Chinese businesses now... because the government – they must increase their wages every year ... Now what some of the Chinese owners say – they're moving to other countries.

Seven firms talked about the local authorities' restrictions in the form of customs and freight issues that they faced in China. For example, participant PM highlighted the difficulties of getting production components that were purchased from outside China due to the regularity restrictions, and they stated that,

We have one production point ... and have on a number of occasions – actually purchased componentry outside of China. And we've actually tried to have the factory purchase outside of China because the methods of getting things into China can be very difficult.

Participant PO explained the Chinese customs restrictions made it very hard to send back the faulty products to the suppliers in China, and they stated that,

And another problem that we experience a bit in China now is sending stuff back is really hard ... it was [suppliers'] fault, they hadn't done it to an acceptable standard – and they said – That's fine, send it back and we'll re-do it. But to get it into the country takes weeks ... Sending anything to China is hard, for us ... It's Ok coming this way ... we have a lot of trouble sending things into China.

As noted earlier, China is well-known for having weak intellectual property (IP) protection laws that make protecting a firm's IP very difficult. Participant PH highlighted such difficulties in protecting the firm's IP in the case of small-sized firms when dealing with China due to the limited resources that were possessed by these firms, and they stated that,

One to safeguard our intellectual property, I think ... I don't believe that you can protect your IP in China. Not for a small business like ours. I think it's extremely difficult for larger businesses to protect their interests. And for small business, it's almost impossible.

Therefore, the studied firms protected their IP during their offshore sourcing from China in different ways. For example, firm F established its own participant wholly-owned factory in China as a way of protecting its IP; while both firm A and N protected their IP by keeping their software framework in their home country and participant PA stated that,

It's a tough one [protecting our IP]. Like I said earlier, we do always worry about that, especially in China, which is one of the reasons that I don't ever send my software over there. I'd never get them to build something and programme it ... If I do send any firmware over to them it'll be just a self-test firmware. It'll exercise a heartbeat, but it won't implement any of the functionality.

Participant PE explained how their firm protected its IP within the China market by moving ahead faster and providing a better product and(or) service than their partners and competitors and they said that,

our IP is our brand ... We've got copyright on our branding [in China], but we can't protect it. We've just got to keep moving forward and do a better job.

Furthermore, participant PJ and PQ talked about how they managed to protect their firms' IP in China by fine-slicing the outsourced tasks' production between suppliers in addition to never sharing the complete drawings of the product with any suppliers. Participant PS patented the company's IP in China as a way to protect the firm's IP from being copied by others in China.

Subsidiary Themes Related to Offshore Sourcing Challenges

Four other themes emerged within this category: 1) the trade agreement between home and host countries; 2) home-country customs and restrictions issues; 3) host-country trade protection issues for foreign companies; and 4) the lack of firms' general knowledge and offshore sourcing experience "understanding or experience offshore sourcing" among the Australasian firms, especially among SMEs. These challenges might have negative impacts on a firm's performance if they are not handled properly.

Both participants PQ and PA talked about their home countries' customs restrictions issues through the delaying of the processing and releasing of goods, especially ones that came from China, that frustrated meeting deadlines. For example, participant PA

highlighted the lack of knowledge of categorising and classifying their firm's imported parts, that delayed the process of releasing them and the firm's work progression, and they stated that,

I've had a few instances where I'm bringing stuff in and customs don't know what it is. Like they don't seem to know how to classify it ... sat in customs for two weeks ... In New Zealand, yeah. They couldn't decide how to clear them, or I'm not sure exactly what the issue was. Yeah, it's happened to me several times when I've brought high-tech parts in, it seems ... they don't know what to put them under.

Participant PQ talked about their home country customs' restrictions towards imported goods, especially the ones that came from China, and how their firm had to obtain special licences to import such goods, at extra costs. They stated that,

We were at one point importing air-conditioners. Certainly, no issue from the Chinese side. We had some issues with the Australian government where we needed certain licences to be able to import them... [and] there was a cost involved. There's always a cost.

As for the home-host country Free Trade Agreement (FTA), participant PB talked about the FTA between New Zealand and China and how this agreement mainly focused on large enterprises, and they stated that,

[it focuses on big guys like] Fonterras, Zespris [but] The little guys like technology suppliers like us, tend to fall below the cracks.

On the other hand, participant PE highlighted the general lack of SME's offshore sourcing knowledge and experience, especially about China, which might affect the overseas success rates for the offshoring business, and they stated that,

The biggest problem I found initially was just confidence in myself to actually be dealing with a different culture, and much bigger companies that are experienced manufacturers. And we were basically – we had some good ideas and had a good brand but [still not enough].

Finally, participant PA highlighted the unreliability of the Chinese trade protection. He talked about the bank account hacking issue that caused their firm to lose its project and ordered goods' deposit, which add unnecessary extra costs to the firm, and stated that,

I had one instance where we got an order that wasn't supplied, and the manufacturer said that their email accounts had been hacked or something. So, we lost about five grand in that deposit on that order ... They're supposed to have some kind of trade protection or something, but when it comes down to the crunch they didn't actually.

Changes in Offshore Sourcing Governance

The study findings show that all firms have experimented with different governance mode forms during their offshore sourcing in China. Developing a firm's timeline can provide an illustration of the development stages and the changes that the firm went through, highlighting the number and timing of mode switches. Accordingly, the present study offers a chronological map for each firm. The participating firm's timeline has been organised coherently, showing all the mode switching phases that each of the studied firms went through up to the point of data collection (see Table 5.4).

Based on the literature review chapter, the network literature stream, especially the work of Gereffi et al. (2005) goes a step further to the transaction cost stream and identifies five major governance mode choices based on the firm's transactions with three variables: transaction complexity; transaction codifiability; and supplier's capability. Therefore, the study employed the framework of Gereffi et al. (2005) and its terminologies for the governance mode choice as a way of looking at different mode choices form. Inspection of each interview's transcription enabled a subjective decision about which one of Gereffi et al. (2005) work's governance mode choices characteristics, was the closest to what each firm had adopted (see Table 6.2). For example, participant PA explained the process of their products' development that always began by sourcing materials from China, and their transaction's 3Cs-complexity, codifiability, and supplier capability- were low, high, high respectively. So, they categorised this transaction as a market governance mode according to the framework developed by Gereffi et al. (2005). They stated that,

I definitely started out bringing materials in from China. That's the process for most products that I develop.

On the other hand, participant PF comments on establishing a wholly-owned factory in China to manufacture the firm's products, which they interpreted as a hierarchical governance mode choice in managing the offshored manufacturing activities, after

categorising the transaction's 3Cs-complexity, codifiability, and supplier capability- as high, low, low respectively. They stated that,

Then later on we started to really do everything. We bought our own factory in China. We established our own factory ... Now we handle everything ourselves. So, we get a complete wrapped product from there ... Offshore. It comes from China.

Participant PG's statement about their company relationship with its agent in China, was classified as a captive governance mode choice, after categorising the transaction's 3Cs-complexity, codifiability, and supplier capability- as high, high, low respectively. They stated that,

Semi-internalised. We have an exclusive arrangement with our China office ... She works for us. But we don't own her company... She has her company. And she works for her company. She has one customer, and that's us.

The joint ventures for both firm L and firm I with their Chinese partners were considered as a type of relational governance mode because both firms are a minority partner in their relationship, with shares of 10% and 35% respectively. Both firms categorised their transactions' 3Cs-complexity, codifiability, and supplier capability- as high, low, low respectively. For example, participant PL stated that,

So now, we're at the stage now with some of our suppliers, we've bought into a printed circuit board company. So, we own 10% of one company in China ... We did that last year... 2017. We had an offer from a company that we've been dealing with, and we've got a very good relationship ... so, we've invested in that company.

Similarly, participant PF's statement about the non-contractual agreement with one of their Chinese contract manufacturers who produced their product for a long time, was consistent with the relational governance mode choice characteristics highlighted by Gereffi et al. (2005), after categorising the transaction's 3Cs as high, low, low respectively. They said that,

we started to contract manufacture others ... and then after that we've – I wouldn't call it joint venture because it wasn't really, but it was like a non-contractual agreement with factories – a specific factory that continued for more than seven years to do the same products for us.

Participant PQ talked about their firm's outsourced tasks for its new project through the contract manufacturing approach, and they categorised all the transactions' 3Cs as high, which they interpreted as modular governance mode choice according to Gerrefi et al.'s (2005) model and they stated that,

That's a project that's ongoing now ... some assembly work, working towards having some components fully assembled over there in a contract manufacturing style.

Based on Gerrefi et al.'s (2005) model and according to participants' comments and statements, Figure 5.4 provides a visual diagram for each of the participating firms' governance mode stages for their offshore sourcing in the China market. Similarly, Table 5.4 also summarises the offshore stages among the participating firms along with more information about a firm's establishing year, the initial mode of offshore sourcing, and the mode they switch from and to.

The findings show that the average period between the establishment and offshoring of the participating firms was around seven years. However, seven out of 20 firms (35%) were born global, which they internationalise and offshore sourcing from the beginning or at a very early stage of their establishment. The main reason for internationalisation at such early stage is because they are very specialised, and either they could not source the required technology domestically or the cost savings were substantial. The findings also show after an average of three years in China, all but one of the participating firms switched their governance mode for their offshored activities. Table 5.4 also shows that each of the firms used only one individual mode choice for its initial offshored activities in China, and the longer they stayed in the host country, the more likely they were to use more than one mode at the same time. For example, participant PR explained how he dealt directly with suppliers in order to do some product customisations and then at a later stage, their business grew and that required them to spend more time with their clients for training purposes. So, they decided to use a local agent to work for them only for following up with the supplier, when they were occupied with other aspects of the business. Based on Gereffi et al. (2005), the participant PR's relationship with their producers could be categorised as a modular relationship but with their Chinese agent as a captive relation.

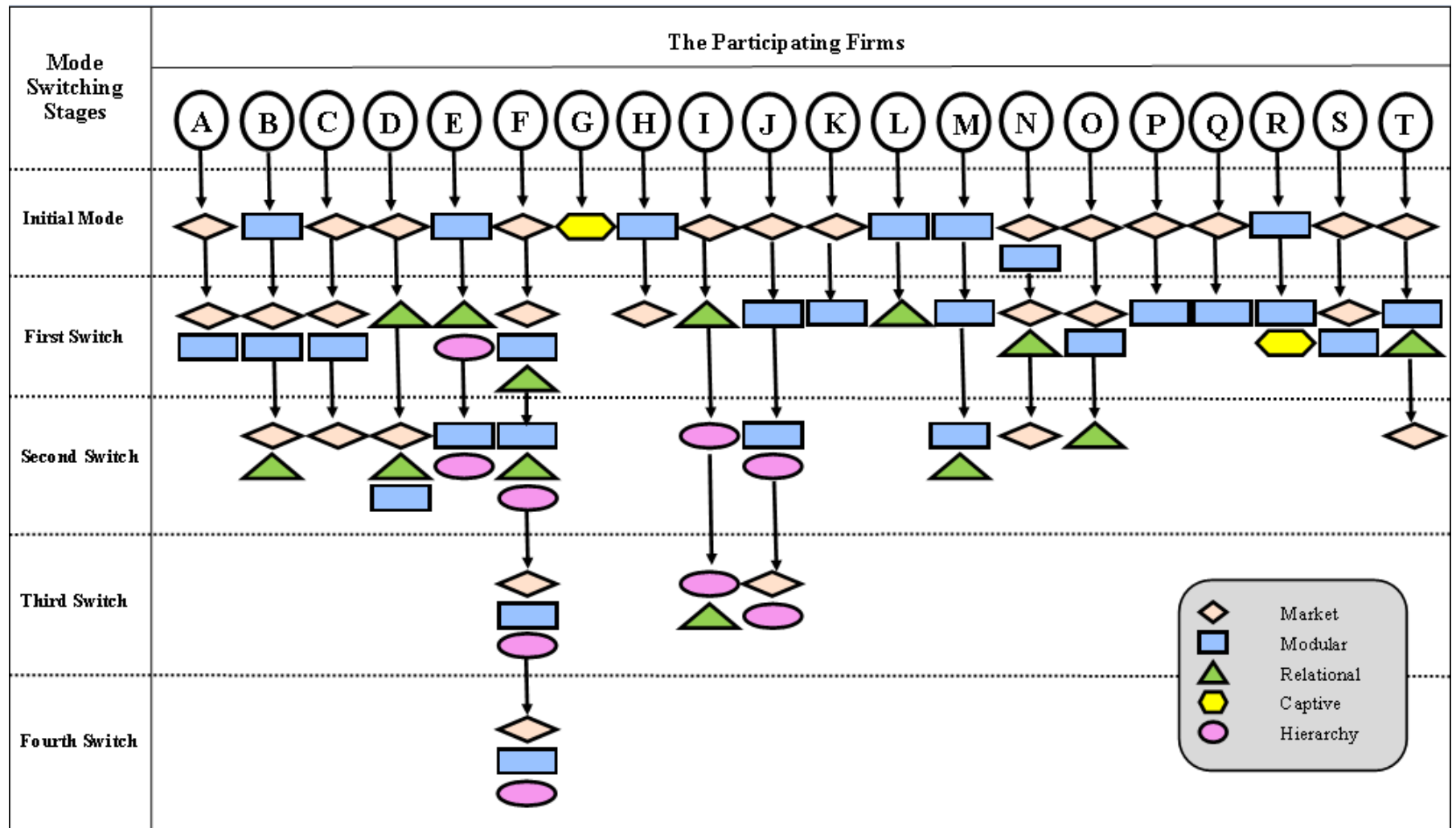


Figure 5.17 The dynamic stages of each firm's offshore sourcing governance for firms participating in the present study

Mode switching happens when a firm switches the mode of its transactions, but in addition to mode switching, firms may change the suppliers that they are contracting. In other words, a firm switches the way of managing its transaction or switching who the firm deals with for a specific transaction; it will sometimes be both. For example, a firm may keep using the same mode for its transaction (i.e. the market-based system), but they change supplier, that is the same mode but a different source of supply.

Participant PQ explained as they develop experience over time in the Chinese market, the more their firm became confident in dealing with different suppliers, or more than one at the same time, although they kept using the same mode, a modular mode, in the form of a contract manufacturing relationship. They stated that,

from 2012 to 2015 we only had a small percentage of our parts made in China. Particularly through one main supplier, and then from 2015 to say early 2017 we did increase the number of suppliers we were using ... the Chinese manufacturer ... that we were working with in China.

Firm F used the modular mode, in the form of a contract manufacturing relationship, during the third stage of its offshore sourcing for its own products by a contracting third-party. But, during the fourth stage, the firm also used the modular mode for becoming a manufacturing contractor for other clients. On the other hand, firm M used a modular mode during its initial stage of offshore sourcing for high volume production, and the firm continued with the modular mode during its first mode switch for small volume production as well.

The Determinants of Governance Mode Choice and Mode Switching

The participants reported a variety of reasons for the choice of governance mode (i.e. initial mode) and mode switching (i.e. first switch, second switch, etc.). Due to the interrelated relations among these determinants and for better understandings of the studied phenomenon, the findings of the determinants are discussed in two sub-sections: determinants of governance mode choice, and determinants of governance mode switching.

Table 5.19 Offshore sourcing stages for participating firms

Firm	Establish Year	Offshoring Year	Years between Establish and offshoring	Initial Mode	Years Between Initial and 1st Mode Switch	1st Mode Switch	Years Between 1st and 2nd Mode Switch	2nd Mode Switch	Years Between 2nd and 3rd Mode Switch	3rd Mode Switch	Years Between 3rd and 4th Mode Switch	4th Mode Switch
A	2011	2011	0	Market	6	Market & Modular						
B	1986	2000	14	Modular	1	Market & Modular	7	Relational & Market				
C	1993	2016	23	Market	1	Market & Modular	1	Market				
D	2012	2012	0	Market	0.5	Relational	0.5	Relational & Market				
E	1997	2007	10	Modular	5	Hierarchy & Relational	3	Hierarchy & Modular				
F	1997	2000	3	Market	2	Market, Modular, & Relational	7	Hierarchy, Modular & Relational	2	Hierarchy, Modular & Market	1	Hierarchy, Modular & Market
G	1997	2012	5	Captive								
H	2008	2008	0	Modular	2	Market						
I	1987	1999	12	Market	1	Relational	9	Hierarchy	1	Hierarchy & Relational		
J	2003	2008	5	Market	0	Modular	3	Modular & Hierarchy	3	Hierarchy & Market		

Firm	Establish Year	Offshoring Year	Years between Establish and offshoring	Initial Mode	Years Between Initial and 1st Mode Switch	1st Mode Switch	Years Between 1st and 2nd Mode Switch	2nd Mode Switch	Years Between 2nd and 3rd Mode Switch	3rd Mode Switch	Years Between 3rd and 4th Mode Switch	4th Mode Switch
K	2007	2007	0	Market	0.5	Modular						
L	1998	2006	8	Modular	2	Relational						
M	1988	2013	25	Modular	2	Modular						
N	1999	2007	8	Market & Modular	3	Market & Relational	2	Market				
O	2003	2010	7	Market	3	Market & Modular	5	Relational				
P	1992	2010	18	Market	4	Modular						
Q	2012	2012	0	Market	1	Modular						
R	2007	2007	0	Modular	1	Modular & Captive						
S	2002	2002	0	Market	14	Market & Modular						
T	2007	2008	1	Market	2	Modular & Relational	7	Market				

Determinants of Firms' Governance Mode Choice

Throughout the interviews, different groups of repeated ideas emerged, highlighting the determinants of the firms' initial governance mode choice among the studied firms during their offshore sourcing activities in China. The literature review and the proposed framework were used to guide the analysis of the determinants of governance mode choice. The findings show each of these repeated idea groups could be categorised, based on whether they relate to the element of offshore location, or to the offshored task. Therefore, the following two subsections present cross-interview themes of determinants of firms' governance mode choice. The first subsection presents determinants of mode choice in relation to the element of the offshored task, while the second one presents the determinants of mode choice in relation to the element of the offshored location.

Task Element Related Determinants (cross-interview themes)

Investigating the dynamic and overlapping nature of a firm's offshored tasks/transactions governance, Gereffi et al. (2005) suggest that the complexity of the transaction, the codifiability of the transaction, and the supplier's capability are three variables that determine how a relationship is governed and switches in mode choice are made. So, this study utilises the framework by Gereffi et al. (2005) and its variables as a guide to investigating and explaining governance patterns among the participating firms, especially for their offshore sourced transactions. Accordingly, these three variables were used to explain and highlight the overlapping dynamic nature of a firm's governance. As Gereffi et al. (2005), this research used two values – high or low – to measure firms' offshored transactions' factors. However, the participants were not comfortable with the two-values scale used to evaluate their firms' offshore transactions' variables, because it is not always high or low; it is sometimes all about what is happening in the middle. Therefore, the research divided the high-value measure into two values: high and average, and then each participant made a subjective decision as to which value provided the closest value to each factor of their firm's offshored transaction factors.

As noted earlier, Gereffi et al. (2005) predicts six shifts of the firm's governance mode choice in case of any changes to the variables of the 3Cs of the transactions –

complexity, codifiability, and capability of supplier- of the firm's governance mode choice determinants. As shown in Table 5.5, for example, the first prediction emerges when firms move from a market structure towards a hierarchical structure, such as in the case of increased complexity of a transaction, and vice versa in prediction two. In the case of increasing the firm's ability to codify its transaction(s) prediction 3 will occur and the firm's governance mode will move from the hierarchy towards the market structure. Finally, and in the case of increasing the supplier base capabilities, this will encourage the firm to shift its governance mode from hierarchy towards the market structure, as shown in prediction 5, and vice versa in prediction 6. So, the GVC theory is based on the idea that the firm replaces one governance mode with another, if any variables of the governance factors are changed.

Table 5.20 GVC predictions of governance mode choice

Governance Type	Transaction Complexity		Transaction Codifiability		Suppliers Capabilities	
Market	Low	High	High	Low	High	Low
Modular	1	High	2	High	5	High
Relational		High		Low		Low
Captive		High		High		Low
Hierarchy		High		Low		Low
				4		6

(Gereffi et al., 2005, p. 90)

In relation to the transaction complexity, the findings show that 45% of the participants perceived their offshore transactions have a high level of complexity, whereas 35% and 20% rated their firms' offshored transactions respectively as average and low level of complexity (see Figure 5.5).

For example, participant PG explained that the complexity of the transactions of their firm is across the entire range from low to high levels of complexity, and they stated that,

It would be across the range. We have some extremely complex stuff that we've been working on. Usually we deal with the complexity here, because that's a high-value design task.

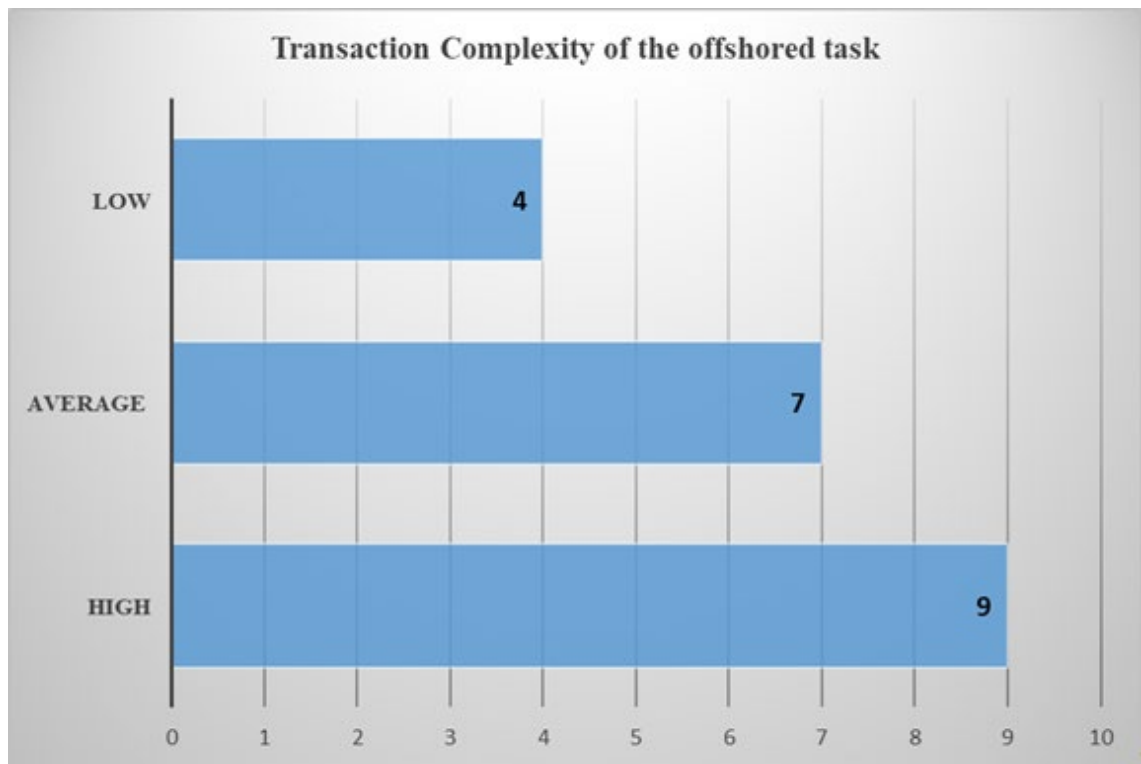


Figure 5.18 Transaction complexity of the offshored tasks

As for transaction's codifiability of the offshored tasks to China, as in Figure 5.6, half of the total number of participants highlighted that their firms' offshored transactions were highly codifiable. They explained that these transactions' knowledge and information could be easily transferred into blueprints or manuals, which could be transmitted and communicated with their offshored suppliers efficiently.

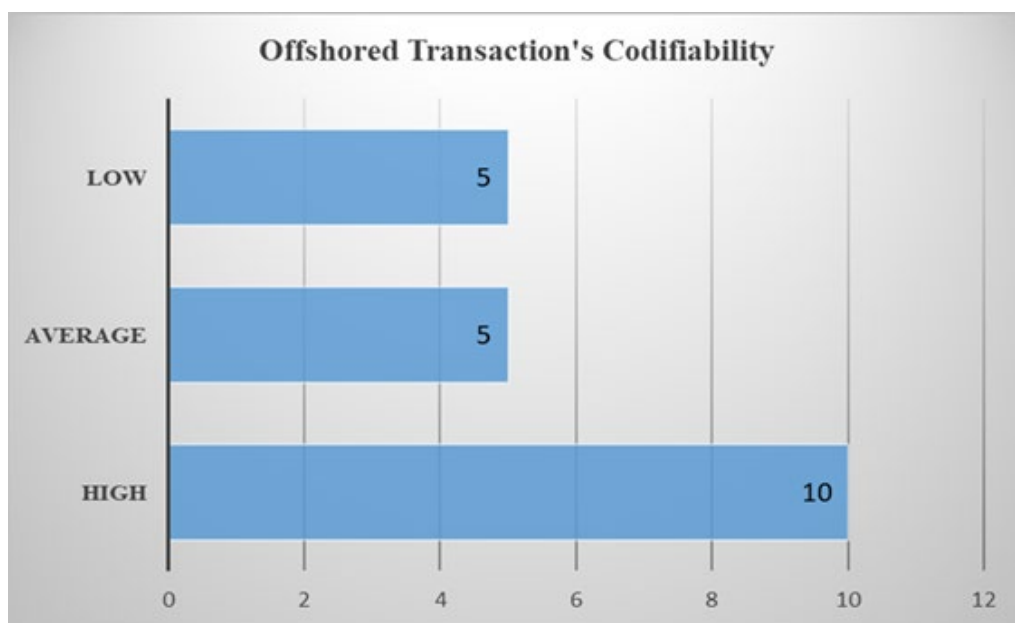


Figure 5.19 Transaction codifiability of the offshored tasks

For example, participant PI talked about how their firm's offshored transactions were easy to get codified and digitised, and they stated that,

Making [product X] is simple, in general. It's very basic processes ... it's very straightforward. And you can digitise, you can transmit the concepts and the process very easily.

In contrast only 25% of the participants saw their firms' offshored transactions as very complicated and hard to codify, and therefore they have been perceived as having a low level of codifiability. For example, participant PA stated that,

Yeah, well, as far as drafting the phonetic into a PCB, that's a pretty involved process. We do that here, and yeah, that's not easy.

Similarly, only five participants rated the codifiability of their offshored transactions as an average level, for example, participant PG explained that by saying,

Most of it then would be fairly average ... Tooling is not particularly complex, provided you understand about tooling. Electronics – not particularly complex, provided you understand about electronics.

In relation to the prediction made by Gereffi et al. (2005) and their framework about suppliers capabilities, this study found (see Figure 5.7), that 15 out of 20 firms perceived their suppliers in China to have a high level of capability.

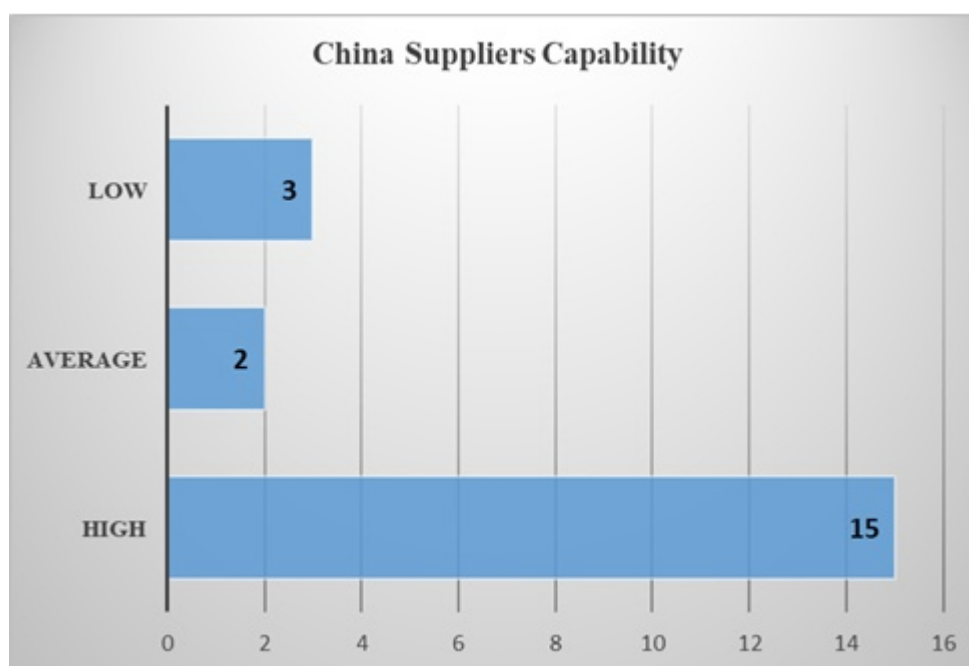


Figure 5.20 Transaction suppliers' capability in China

For example, participant PC explained how their suppliers in China are highly capable and more advanced than their own company, and they stated that,

Most Chinese suppliers, I think, pretty much all Chinese suppliers that I've dealt with, have better systems than the ones with the companies that I've been involved in. Most of the Chinese suppliers have ... everything is documented and controlled, and they understand exactly what they're doing ... if something goes wrong, they know exactly what you're talking about and they'll give you the correct things ... they will understand exactly what that is ... it's their competitive advantage to do that.

While, only 10% and 15% of participants consider their offshore suppliers as having an average and low level of capability respectively. For example, participant PD talked about their Chinese suppliers' limited capability being due to the new technology of the product, that impacted their ability to understand the product's nature, and thus required a lot of training to upskill them:

the problem is that the factories didn't understand why we were wanting them to make the [product] in a certain way. And that therefore was a big barrier ... Lots of training and a very, very close relationship required in order to basically upskill them and teach them what we required.

Accordingly, as shown by prediction 6 in Table 5.5 of the framework driven by Gereffi et al. (2005), Firm D should employ a captive or hierarchy governance mode structure for its offshore transaction(s). However, as shown in Table 5.4, Firm D chose the relational structure for its offshored activities to China after six months of entering the Chinese market, although it utilised a market structure as its initial mode. Furthermore, participant PF explained that China has a wide range of supplier capability level among its suppliers, and they stated that:

This is ironic. In China you see the whole spectrum, from low to high. This is part of it. You need to work around to see which one is going to be...

Locational Determinants

The findings of the study show different themes that relate to the location element. As illustrated in Figure 5.8 and Figure 5.9, all the participants highlighted various locational aspects of the host country that have positive and(or) negative impacts on their governance mode choice. However, five main themes emerged: 1) locational

knowledge; 2) business practice differences; 3) language and communication; 4) government and local authorities; and 5) cultural differences (i.e. norms, customs, etc.). In relation to the literature review, some of the findings illustrated in Figure 5.8 and Figure 5.9 (i.e. business practice differences, language and communication, government and local authorities, and cultural differences) demonstrate different forms of home-host, formal and informal, institutional differences. Therefore, the discussion of locational determinants will be divided into two sub-sections: 1) locational knowledge and experience, 2) home-host institutional differences.

I. Locational Knowledge and Experience

As noted earlier and in the case of offshore sourcing, the literature emphasises the relationship between a firm's previous knowledge (i.e. connections and networks) and experience (managers, staff, or the decision-makers) at the offshored location and its governance mode choice (Benito & Welch, 1994; Peng et al., 2009; Sharma et al., 2015). Expand knowledge and experience of the host-country encourages the firm away from the hierarchical mode towards the market structure.

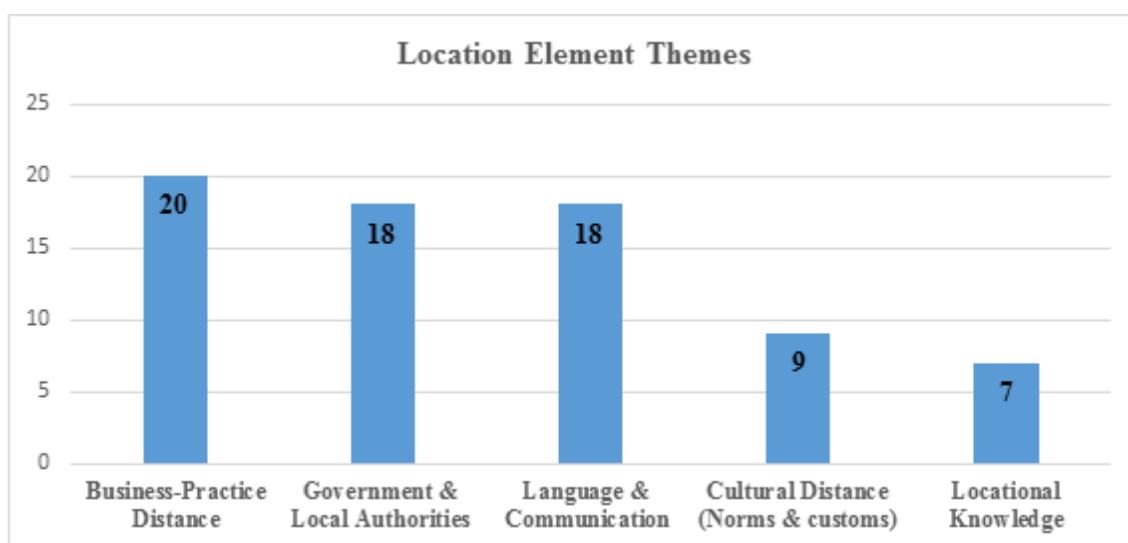


Figure 5.21 Repeated ideas relating to location across the interviews

As shown in Figure 5.9, the findings show that seven out of 20, (35%), of the participants emphasised the importance of locational knowledge about the host country in the form of having previous work experience and(or) having networks and connections, and how such knowledge could impact the firm's performance positively (i.e. cost saving, quality, lead time, etc.). For example, participant PQ highlighted the importance of the firm's knowledge about the offshored location in the form of

previous experience and having networks in the host country, and how previous experience and having networks within the host country suppliers, helped their company in getting a good price and quality services, and illustrated that by saying:

So, I always found – because we were lucky that we brought with us some good contacts from our previous roles, we were able to access good quality, good communication, good price, all from China.

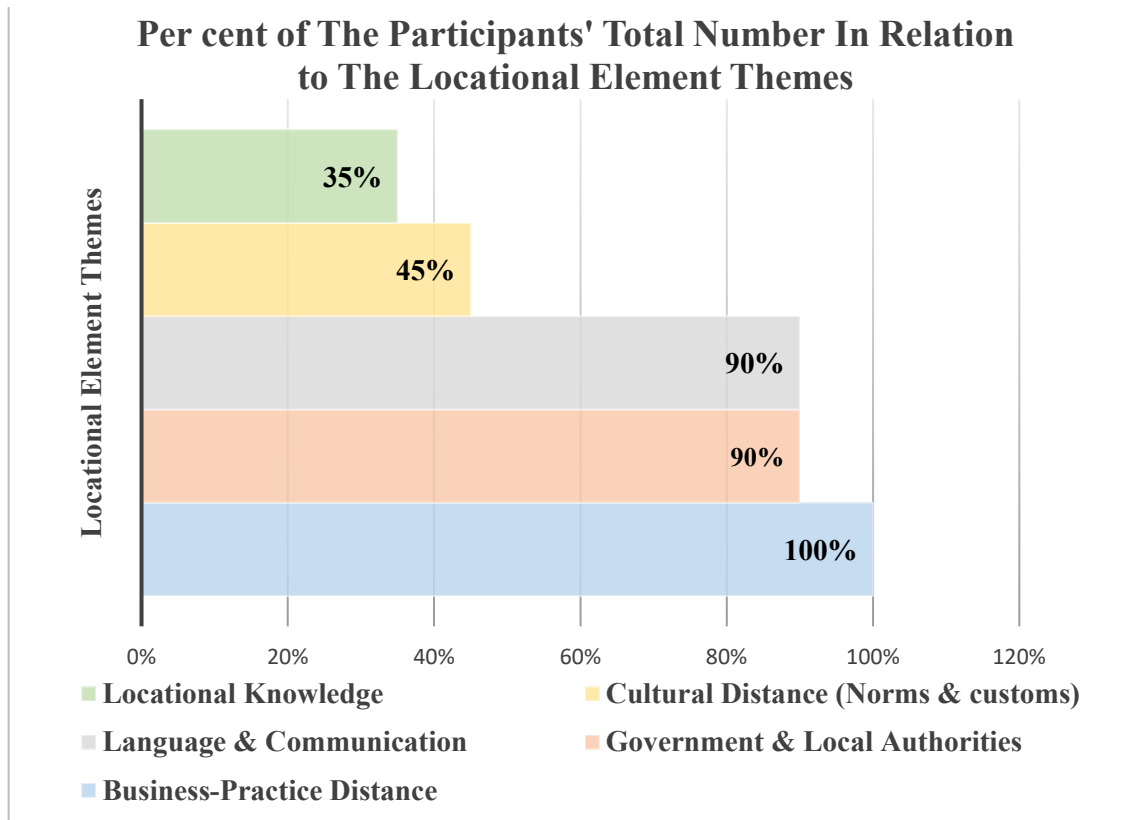


Figure 5.22 Repeated ideas relating to location across the interviews

The participants illustrated that the firm's knowledge and experience, especially about China, could be accrued through business owner/manager and team members who have previous experience in China or who were originally from China. For example, participant PB talked about the fact that their company experience with China is a collective of experiences; including their own, the company engineering manager and that of other team members. Participant PB stated that:

We have some people in the business who speak Chinese that – one of them in particular has been involved in sourcing and manufacturing from offshore for a number of years before he joined [Firm B]. But I think the most experience in that is still with myself and my Engineering Manager.

The participants highlighted different ways in getting over the lack of experiences and contacts within the host country, by hiring locals in the host country. For example, participant PN explain that by saying:

the China office ... based in Shenzhen ... the procurement team in China definitely helped finding parts ... they definitely help when we have problems with the main supply chain. They then go to the market in China, the suppliers in China, and can quite often get parts that we may not be able to get because we're not in that realm. So, in that respect it definitely helps.

II. Home-Host Institutional Differences

As explained in Chapter 2, scholars highlight the embeddedness of any transaction within the institutional context, and that a transaction cannot be investigated in isolation of its external environment, as the institutions of a country can affect the nature of the firm, which then affects transaction costs (Dicken & Hess, 2008). This suggests that location will impact the supplier capabilities variable, which is the third variable of Gereffi et al.'s (2005) framework, and in the case of offshore outsourcing, a supplier's capability could be affected by geographical location and host country institutional (formal and informal) settings in the form of the contract enforcement. According to the predictions of Gereffi et al. (2005), the more capable outside suppliers are, in terms of knowledge and technology, the easier it is to expect them to perform to a certain quality standard. This in turn encourages the buying firms to move away from the hierarchy structure towards the market structure, (prediction 5) in Table 5.5, and vice versa as in prediction 6.

Based on the literature review there are high institutional differences between home and host countries of the participating firms as illustrated in Figures 5.8 and 5.9. The repeated ideas that have emerged from the participants' comments and statements enable a division into two sub-sections: 1) informal institutional-differences (i.e. business practice-differences, cultural differences, and language and communication differences), and 2) formal institutional differences (i.e. government and local authorities).

Informal Institutional Differences

The main groups of themes within the informal institutional difference were in the form of business practice differences, language and communication differences, and cultural differences.

Business Practice Differences

In relation to home-host country institutional differences in the form of business practice differences, as shown in Figure 5.8 and Figure 5.9, all the participants highlighted that their firms experienced different forms business' practices which differ from their home-country practices. Network, transparency, and intermediary (middle-man) practice were the themes that emerged within the business practice, and this might impact the firms' performance positively and(or) negatively, as highlighted earlier throughout "offshore sourcing benefits" and "challenges" sections.

The findings show different types of networks (i.e. with suppliers, government officials, and foreign companies) that the participants were involved with. For example, participant PQ highlighted how their networks with Chinese suppliers had a positive impact on the firm's products' cost and quality, and they stated that:

I had good contacts ... with the Chinese manufacturer, that meant ... we were able to access good quality, good communication, good price, all from China.

Participants also stressed the importance of building a good relationship or having contact with some of the local government officials. For example, participant PI described how their business partner's personal networks, especially with the government officials, eased doing business in China and resolved any issues that the company might encounter; and they explained how important it was to maintain such a relationship, and stated that:

And I must say, [X] has some pretty powerful friends in Beijing from his time in university. So, if we were to encounter any sort of governmental issue we can have, we have some pretty good clout up on top of ... We have our network here. But if this, for any reason, is a problem, we can go to the Beijing boys to come down on them. So, we're relatively comfortable in that area. ... You don't want to go [to them] when there's a crisis. But you need to keep the relationship warm.

Participant PJ, in turn, highlighted the importance of connecting with other foreign companies introduced and connected him with the local officials in China, and stated that,

[dealing with local authorities] can be challenging.... we have made some relationships with some parts of the government that help us. Also, our network has helped us. So, we've found other foreign companies working here. And they've also helped introduce us to parts of the government.

Contrarily, participant PG highlighted the downside of the network style of business practice in the host-country, especially the favouritism relationship among the Chinese suppliers at the cost of their client's product requirements and quality, and they said that:

This is for one of our other projects. This is carbon granules [we use] ... So, they [our China supplier] get the other one [the less rated granules for our product] ... they get the one from their friend.

In relation to the transparency of the host-country's business practice, most of the participants talked about the lack of transparency in the relationship between them and their suppliers in China. They explained how the lack of transparency of their Chinese suppliers' practices might have negative impacts on a firm's offshored tasks in the form of cost, quality, and lead-time. For example, they talked about how their suppliers made decisions on their behalf (i.e. design modifications, replacing components, or changing the required materials) due to the unavailability or the high costs, without communicating such changes with them, and thus could result in product quality fade or inconsistency of the product quality issues. Participant PO highlighted this issue by saying that:

We had an example recently from a Chinese manufacturer who makes the cases ... in China. And they have a little handle on them. And we didn't realise, but they had started making it in two pieces instead of one. And so, the handles started breaking off. It took a very long time for us to work that through, to figure that out ... that change.

While participant PP highlighted how quality fade or price-quality trade-off could be resulting from cutting corners by the suppliers due to the lack of transparency of the Chinese supplier's business practice, and stated that:

So, everything's a little bit opaque, it's not transparent at all when you're dealing with people ... If they can cut a corner they'll try and do it ... sometimes they cut a lot of corners and it gives you a lot of product problems down the track. So, instead of spending \$1million, you buy \$200,000 on tooling, but you create more than \$1million worth of problems down the road.

Furthermore, participants also highlighted that there are a lot of shell companies in China which act as the middle-man between the foreign clients and the Chinese suppliers. Sometimes, these shell companies are not transparent enough and they are afraid of losing the job if they inform their client that they are not the actual manufacturer and they are only the middle-man. Participant PT highlighted the possibility of product's quality fade because of the middle-man practice, who has no control over the quality of the outsourced job, and they stated that:

That's happened to us too, in the past, where you think you're actually doing business with a supplier, but they're actually sending it down to their mate down the road to do that part of the job for them. And then their mate down the road cuts a corner, or he goes, and they have to replace him out with someone else. And so, you get the part, and it looks completely different to last time, because of that reason. That's caught us out before too.

Language and Communication

The findings show that 18 of 20, (90%), of the participants underlined the language and communication challenges and how hard it was when dealing with the Chinese suppliers. Using a different language between home and host countries creates communication barriers, especially in the case of new innovative product concepts, between the Chinese suppliers and their foreign client in relation to the required jobs' specifications (i.e. quality, lead-time). Most of the participants mention employing people who can speak both home and host countries' languages to get over such a communication barrier. For example, participant PO stated that:

We now have a Chinese speaker on staff ... that will help, that will make all of this so much easier ... They can pretty much make anything, I reckon ... I think they're capable. I think you've just got to be able to communicate properly, and make sure you know what you're asking for ... Yeah, 'cos it makes a big difference.

Cultural Differences

The findings show only nine out of 20, (45%), of the participants talked about the challenges of cultural-differences (i.e. norms, customs) that their firms faced when dealing with the Chinese suppliers. Participants highlighted that the Chinese people, in the context of business partners and the intermediators that they are dealing with, take a very conservative approach and are not comfortable in saying no as they do not want to upset people. For example, participant PR explained that home-host country cultural differences could create misunderstanding and sending the wrong message, and they illustrated that:

So, the biggest thing is the people talk to the Chinese person and they say – Yes, yes, yes – they believe what they're saying is yes, but they're not. All they're saying is like – Mm hm mm mm. That's all it is. It's like – I'm hearing you, I'm in front of you. It's not whether they can do it or not. It's got nothing to do with it ... They're not allowed to say – No. They cannot say – No.

Formal Institutional Differences

The main group of repeated themes within the formal institutional differences related to the government and local authorities. The findings show that 18 out of 20, (90%), of the participants talked about the host country government and local authorities in the form of laws and restrictions that their firms faced and dealt with during their sourcing from China. Most of the participants talked about the Chinese intellectual protection law weaknesses (i.e. IP, contract, etc.). For example, participant PO stated that:

we try and have as much protection as we can. But I think IP is always a risk in China.

The participants also talked about the government intervention through the continuing changes in regulation, raising the raw material price, increased labour wages. For example, participant PF states that:

There are some external. For example, the Chinese government – sometimes makes restrictions on those factories to work. So suddenly, for example, we could hear that for three weeks they are not able to provide us any cases ... [due] to shut down because of the power ... Other things would also be the prices of the raw materials ... Raw material is a big issue. And sometimes everything goes to 10 or 20% more ... and then next year it goes up, next year it goes up.

As highlighted throughout the Offshore Sourcing Challenges section, the participants also highlighted the governmental restrictions in the form of customs and regularity, and restrictions to control goods and materials that go in or out of the country (see offshore sourcing challenges section 5.2.2).

Determinants of Firms' Governance Mode Switching

As noted earlier, the participating firms experienced a number of benefits and challenges that might encourage mode switching among these firms, and as illustrated throughout the firms' offshore sourcing stages section, almost all the participating firms went through various stages, employing different governance modes in order to manage their activities. Throughout the interviews, participants highlighted several reasons that motivated their firms to alter their governance mode choices.

Accordingly, different groups of repeated ideas have emerged that highlighted determinants of firms' governance mode switching (see Figure 5.10).

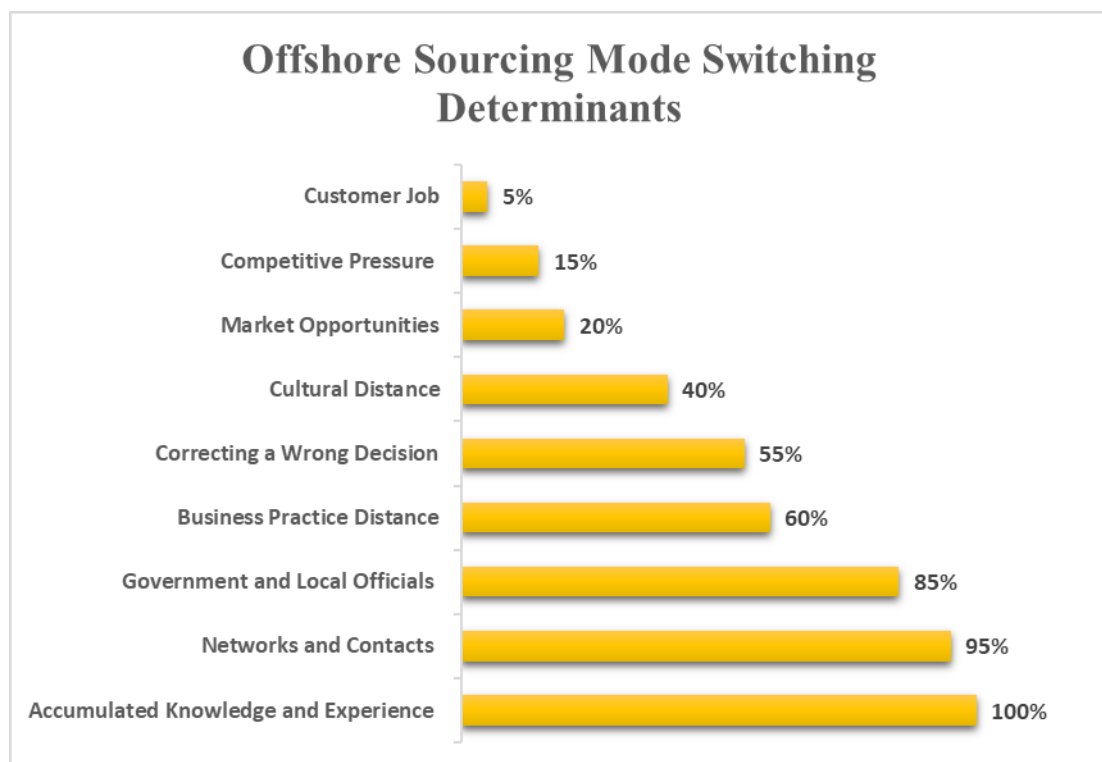


Figure 5.23 Governance mode switching determinants across the interviews

Following Welch et al. (2007) to get a better understanding about the triggers that initiate these mode switches among the studied firms, the researcher categorised the repeated ideas groups of mode switching determinants into two groups, depending on whether they related to the firm's internal or external environment. Therefore, the

findings of mode switching determinants will be presented in the following two sub-sections: 1) internal determinants, and 2) external determinants.

Internal Determinants

The findings show that the participants highlighted several reasons for their firm's mode switching that were related to their firm's internal environment, and the main themes that emerged throughout the interviews were a firm's accumulated knowledge and experience in China; a firm's contacts and networks in China and correcting wrong decisions (see Figure 5.11).

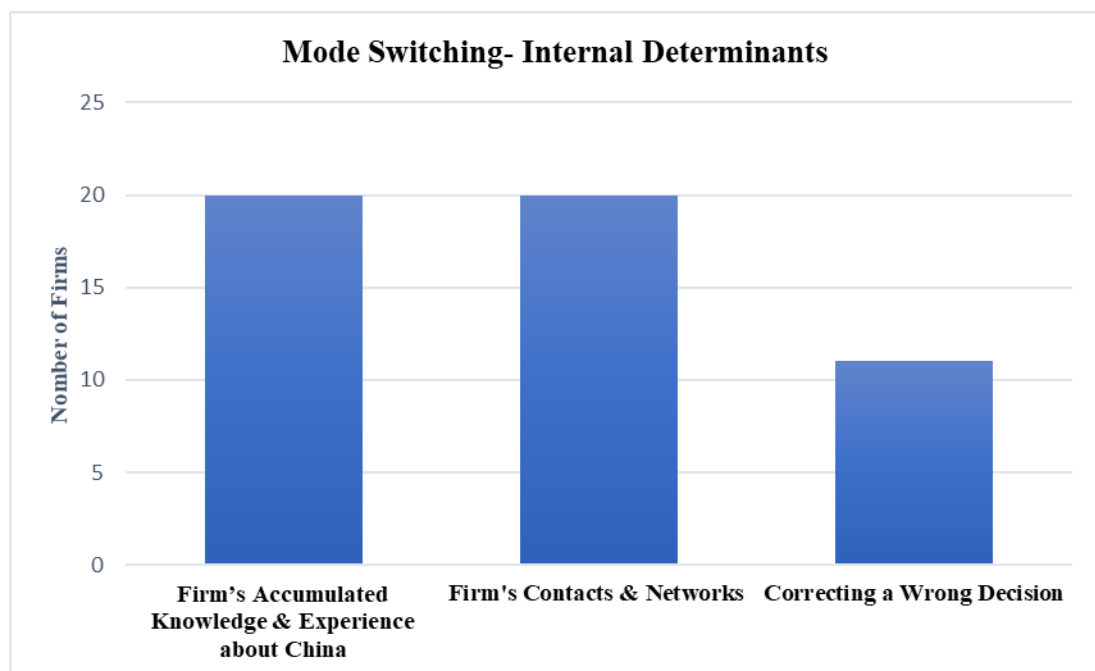


Figure 5.24 Internal determinants for governance mode switching

According to Gereffi et al. (2005), mode switches happen only when any change happens to the 3Cs transactional determinants. However, the findings highlighted other factors that trigger mode switching. As shown in Figure 5.11, all the participants emphasised that building up knowledge of the Chinese market in the form of accumulated knowledge and experience, as well as growing networks and contacts in China over time, enabled mode switching for their firm. For example, participant PD talked about how spending more time in the host country helped in building better and stronger networks and understanding of its market, and they stated that:

It gives you a more intimate understanding of the market ... where either you're selling in there, or you're sourcing from there. The more

time in that market, the better and stronger your understanding of it is. So that's key ... And then the longer we have spent in the market, that's led to better supply arrangements and better suppliers, which have led to cost improvements.

Similarly, after building up knowledge of the Chinese market over time, the firm has the possibility of a more autonomous way of operating. For example, participant PI summarised how the incremental accumulated knowledge about the Chinese operating environment makes a firm's mode switching possible for its activities in China from market mode to hierarchy mode through relating the experience of doing business in China to the outsourced transactions' costs management. They stated that:

I think the transition – the steps that we took – ... allowed us to incrementally get to know the country we were operating in. From just importing – where you don't know anything – to a joint venture, where you start to feel what it's like to deal with China ... To then going to being full-on, on your own. It was a good incremental way of doing it. I highly recommend it – it's good. Because I think it would've been extremely difficult for us to successfully do what we've done, by jumping from commercial supply to our own operation.

As for building networks and contacts over time in China, participant PC talked about building a good relationship with Chinese suppliers which helped to improve his firm's cost-saving and lead time, and they stated that:

And you build that relationship and maybe you get a good price, you get better delivery ... And I think that's what suppliers want anyway. They want to know that you're happy with their product, and they want to have a good relationship, and they want to be locked in with you because if they see that you're growing, then they say – Ok, we know that you're growing, grow with us.

Participant PF highlighted how their good and long-term relationship with their suppliers in China, generated business for their wholly- owned factory in China. So, these suppliers contracted firm F as a contract manufacturer in China by using the modular mode, while producing its own products considered as a hierarchy mode, and they stated that:

we've established the factory over there, and suddenly we had capacity that exceeds our requirements as a company ... So, at some stage I've looked for some local businesses and started to do, for example, SMT machines. We started to do some SMT work for them ... There is a kind

of partnership with a supplier there that distributes our products, we develop the products for them.

Similarly, participant PI talked about how their relationship with their suppliers ended up forming JV between them, moving from market mode to relational mode, and they stated that:

we used to import a lot of stuff ... Everything came offshore ... At that time, raw materials in China were relatively cheap ... in 2000 they approached us and said ... Let's form a joint venture to do this ... we thought it would probably be a good idea ... In 2001 we signed the deal and off we went.

Participant PN explained how their relationship with suppliers over time helped their firm to reduce its cost by reducing the required support staff, and they stated that:

When we first set up we hired a full-blown engineer, component engineer, and they worked for 18 months up there, and it was ok initially but then as the relationships got better and it became stable, the requirement diminished quite a bit. So suddenly they really weren't doing component engineering anymore because we didn't need that support as much, because the relationship was such that it was being looked after by the suppliers quite often. So that changed. So, it depended on what we needed and the situation.

As for correcting the wrong decision, 11 out of 20, (more than 50%), of the participants highlighted that correcting a wrong decision was behind some of their firms' mode switching. For example, participant PA talked about how they moved from modular mode by developing products for their client, as a consultant, to market mode by importing ready-made electronic products from China. They then found out that their business cannot survive due to the low margin that they made from selling this product, which pushed them to stop importing that product, market mode, and go back to, modular mode, as a consulting business. They stated that:

We couldn't make enough margin out of it to keep it going. So, I went back to consulting here, and I've been consulting for a little over a year ... Now, I'm consulting full-time.

Participant PB explained that a firm's mode switch to correct a wrong decision always happened after a disaster or something went wrong, and they stated that:

sometimes you have a big disaster somewhere, we've failed in something. Either on delivery or on quality. Normally, something's changed which forces us to do it.

For example, participant PD talked about how their firm corrected a previous decision about its offshore production mode choice. The firm switched the production mode from modular to relational mode. They explained how such mode switching helped in improving the firm's product quality and R&D progress rate, and they stated that:

Initially, our staff weren't living there. And we're going in for four or five weeks at a time, and then coming back to New Zealand. And we've now transitioned to them living there full-time. And that's significantly improved our rate of progress and development. It's also been very successful in terms of reducing quality control issues. And really helping to gain a lot more intimate understanding of the market, and the whole sourcing of product from there.

External Determinants

This group of mode switching is related to the external environment that a firm operates in at any given foreign market, and it is more related to the host country institutional environment (e.g. change of local government policy). The findings show the main themes under this group which are: 1) Market opportunity, 2) competitive pressure, 3) government and local officials, 4) business practice differences, 5) cultural differences (see Figure 5.12).

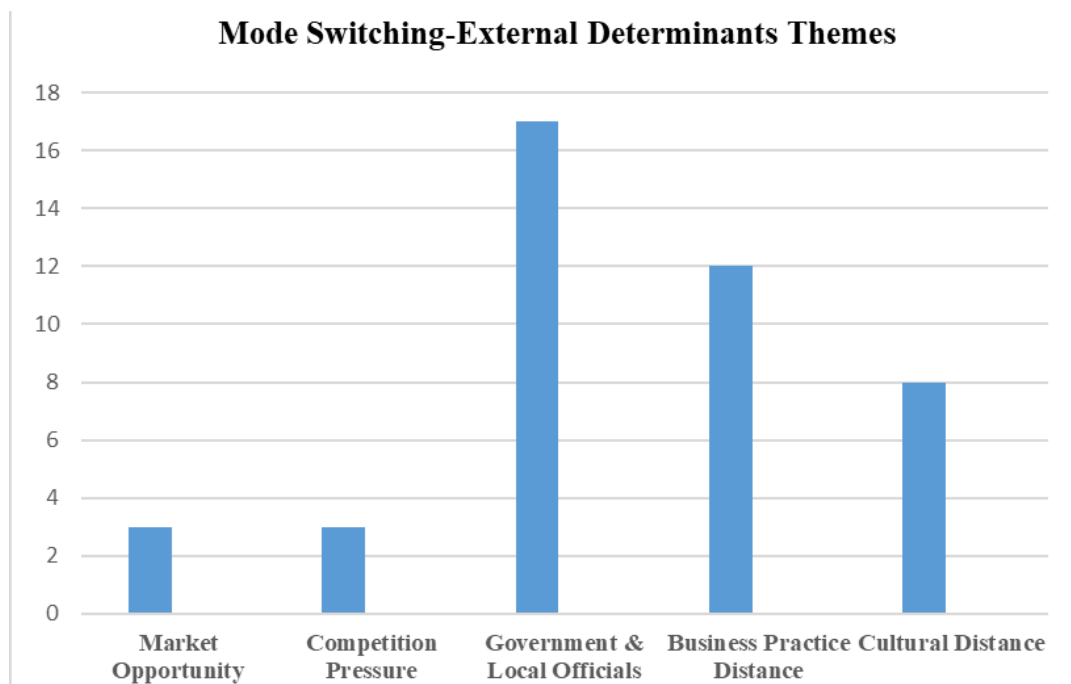


Figure 5.25 External determinants for governance mode switching

The findings also show that 15% of participants pointed out that their firms switched their mode due to the competition pressure that they went through, such as price competition, as explained by participant PB:

we've had to lower price. We've been under pricing pressure.

Participant PA talked about how they noticed a market opportunity in importing specific off-the-shelf electric product from the China through the market mode. Then due to the competition pressure from the larger market players, firm A exited this niche market because the firm was struggling to make a profit. Then the firm moved to the consulting business of developing clients' products through contracting manufacturers in China, which means that the firm switched its mode from market to modular mode due to the competition pressure, and participant PA stated that:

I sort of saw an opportunity for the electric [product x], and I could get all the parts I needed at a reasonable price out of China. So, I went ahead and did that ... it was a pretty reasonable prospect ... towards the end of 2016 there was a lot more competition around and we were sort of struggling to make a profit ... We couldn't make enough margin out of it to keep it going. So, ... Now, I'm consulting full-time ... what you see now is a lot of the bigger [product x] companies ... it's very hard to compete with them. But in the early days none of them were doing it ... it was a pretty reasonable prospect.

As for government and local officials' restrictions and intervention, 17 participants out of 20 highlighted this reason was behind their firms' mode switching, during offshore sourcing within the China market, which means that 85% of the participating firms switched their activities governance mode in China. For example, participant PT highlighted that during the early stages of offshore sourcing from China their firm switched its mode from market mode to modular mode:

So, our first housing was actually tooled in China. So that would've been probably 2008 ... Yeah. As you pointed out, we started with componentry ... until 2010, 2011 ... We did some contract manufacturing in the pure sense of having PCB assemblies loaded in China ... We went through to basic assembly ... and key components ... coming out of China for that.

They then explained how government intervened by increasing the labour wages which made their firm move its production activities to Thailand and keep only componentry procurement from China through a local agent. In other words, the firm

switched its mode from modular mode to a combination of market mode with China suppliers and captive mode with the agent. Participant PT illustrated this with the following example:

We pulled out of China and we moved that to Thailand and Bangkok ... And that's all been driven by the cost of labour going up ... [then] we got ... someone on the ground in China representing us which was kind of a proxy ... So, he wasn't a direct employee of us. He was acting on our behalf. He'd charge us a fee for that service.

As for business practice differences, 12 out of 20 participants, (60%), explained how home-host country business-practice differences initiated mode switching among their firms at some stage. For example, participant PN talked about how their firm switched its mode from hierarchy mode to relational and modular mode. They described how the host country business practice was based on relationships and how their firm survived through its good relationship with the Chinese suppliers. They stated that:

we set China up ... set up manufacturing in China ... After the first 12 months we realised that we weren't ready, we weren't big enough, we wouldn't have the business ready to set that up, so we pulled back on that and set up a relationship with obviously some of the manufacturers up there ... We were lucky in the supplier of our SMT equipment had very good relationships with ... obviously they sell into China and they introduced us to people, which was fantastic. So that's again, that relationship. Again, if you're introduced, you're in the door. You can't knock on the door and say – Hello, we're here to do business.

Similarly, participant PQ explained how host country business practice that is based on networks and relationships, helped their firm to move from the market mode by buying the off-the-shelf products towards modular mode through contract manufacturing relationship, starting with partial assembly and working towards the full assembly of the product in China. They also talked about how their firm increased the number of suppliers in China that the company was dealing with, through the firm's existing relationship, and they stated that:

So obviously some of the parts were off-the-shelf and sourced from there ... from 2012 to 2015 we only had a small percentage of our parts made in China. Particularly through one main supplier ... And they were someone I had an existing relationship with ... And then from 2015 to say early 2017 we did increase the number of suppliers we were using ... in China ... only recently starting some minor partial assembly ... That

would be in the last year ... working towards having some components fully assembled over there in a contract manufacturing style.

Regarding home-host country cultural differences as a mode switching determinant, eight out of 20 of the study participants, highlighted that cultural differences (i.e. language, custom, norm) was the main reason for their firms' mode switching, either switching the governance mode for their offshored activities, or keep the mode but change the suppliers in the host country. For example, participant PM explained how the language barrier made their firm drop its local Chinese contract manufacturers in China but kept the modular mode for its production activities. Then the firm decided to contract a European background manufacturer in China, and thus helped the company to shift not only the long run productions to China, but also the short runs as well. They stated that:

The benefit that the factory that we operate with, is because of the European, I guess – for want of a better description – ownership, the ability to communicate in English is very high, which had made [it] ... Very much easier ... the products that we manufactured in short runs previously through local contract manufacturers, we've now moved all of that up to the factory [in China]. So, it is doing both short runs and the longer runs for us.

Participant PR, again, explained how host country cultural traditions and norms sometimes could be misinterpreted by foreigners. In the beginning, they decided to deal directly with China suppliers using modular mode in the form of contract manufacturing, and stated that:

I wanted to move away from having staff. I wanted to just trade ... For me, I like contractors ... Subcontract everything ... I don't want to buy an employee.

Then after dealing with these suppliers and facing the communication difficulties, they hired a local agent who could speak both languages, English and Chinese, to follow up with China suppliers (i.e. coordinate production and shipping). So, they carried on using the modular relationship with the suppliers and with the agent, and they stated that,

I get a local person ... I am very lucky that my agent over there has lived ... and worked in New Zealand for eight years ... Without her, I wouldn't be doing it ... That's how important she is.

Finally, participant PE explained gaining control over the firm's supply was the main reason behind the decision of mode switching from modular mode, by contracting third-party to hierarchy mode by having their wholly- owned company in China, and stated that:

We felt very vulnerable. Because one day they were closing the plant and moving it to another plant. And one day they were getting out of making our kind of gear. There was just real uncertainty ... we moved because we were worried about the future of our supply. So that was the main reason we moved from there. And that we wanted more control over our own products ... So, we all decided that we wanted to do our own thing ... Then we got a trading company in China.

This chapter discussed the determinants of governance mode choice and mode switching during offshore sourcing to China among the studied Australasian SMEs. The participants talked about the benefits they obtained and challenges that their firms faced in offshore sourcing, which impacted these firms' governance mode choice and triggered mode switches, as illustrated in Figure 5.3. They also talked about their firms' timelines, highlighting the governance mode stages, focusing on offshore sourcing stages.

The next chapter will discuss the presented findings in relation to theories and the propositions of the study, and the proposed framework of Gereffi et al. (2005) will be tested based on the findings of the analysed data.

Analysis of Findings

Introduction

Following the presentation of findings in Chapter 5, this chapter provides analysis of the findings following the study's proposed framework that was developed in Chapter 2 (see Figure 2.5), highlighting the determinants of the firm's governance mode choice and mode switching during offshore sourcing.

This chapter starts with the offshore sourcing motives among the studied Australasian high-tech manufacturers and then discusses the initial governance mode choice as well as subsequent shifts. The discussion also highlights mode choice and mode switch determinants with a synthesis of Gereffi et al's. (2005) model of governance mode choice and mode switching determinants. The analysis also attempts to discover the additional factors for the switching behavior, in which, extend or expanding Gereffi and his coauthors' framework.

Offshore Sourcing Motives of Firms

Aligning with the offshore sourcing literature, the findings show that for most of the participant firms, the main reasons for utilising an offshore sourcing strategy were cost savings or accessing specialised resources that were not available at home. For example, 95% of the participants highlighted that lower cost was the primary motive behind their offshore sourcing from China; while others highlighted how their home country did not offer the required technology and technical skills for their production forcing them to outsource their activities offshore. In these cases, they chose China as an offshore location for production. This finding supports the argument that SMEs are constrained due to the limited resources they possess, especially the financial and technical capabilities available to them in the home market. The data shows that the low-cost motive for sourcing from China ascribed by 95% of the participating firms as a way to compensate for their limited resources especially the financial constraints through access to lower cost labour and raw materials, shorter lead-times, high-quality products, increased production capacity and volumes, and improved businesses (process, standards, and efficiency) helping them to maintain their competitiveness within niche markets. The participants highlighted that offshoring from China, helped them to reduce their total production costs by up to 90% and landed costs by between

50%-60%. Accordingly, the main motive behind internationalisation among the participating firms was resource seeking rather than market seeking.

On the other hand, in relation to accessing the technical capabilities unavailable in the firm's home market, 35% of the studied firms sourced from China because they could not outsource the required technology and technical skills within their home country, so they had to go overseas.

As noted earlier from the studied firms' timelines summarised in Table 5.4, all the participating firms were offshore sourcing from China. They started dealing with the Chinese market after an average of 6.95 years from their establishment, ranging from day zero to 23 years, and each of the participating firms changed their offshore governance mode at least once. Table 5.4 also shows the time periods, in years, of mode switching(s) during offshore sourcing among the participating firms. Therefore, the following two sub-sections will discuss the firms' choice of initial offshore sourcing mode and pattern of mode switching, as this provides insights into the dynamic aspects of the governance process.

Governance Mode Choice

GVC theory suggests a firm's transaction governance mode choice is determined by 3Cs - transaction complexity, codifiability, and capabilities of the supplier. The theory identifies five major governance modes - hierarchy, captive, relational, modular, and market - ranging from "high to low levels of explicit coordination and power asymmetry", with each one of these governance modes displaying distinct characteristics (Gereffi et al., 2005, p. 78; Bhalla, 2013). As shown in Table 5.5, this framework predicts six shifts of the firm's governance mode choice in the event of a change in the 3C variables.

In the case of offshore sourcing, literature assumes that the more technological knowledge and capability that a firm has about its offshored transactions, the more effective it will be in both selecting a supplier and governing the supply relationship, because such knowledge helps to reduce the complexity of transactions and increases the degree of codifiability. Both of these affect transaction cost, because a codifiable transaction is easier to transfer in different forms (i.e. plans, code, diagrams, blueprints) and are more easily communicated to potential suppliers at lower cost.

Furthermore, the more technological knowledge that is possessed by the firm about their tasks, the more effectively they can assess potential suppliers' ex ante performance (Gereffi et al., 2005).

Initial Mode

As noted earlier, the GVC theory goes further in identifying different forms of governance modes than TCE and Uppsala theories and so it will be used as the foundation for discussing and analysing the study findings, with the TCE and Uppsala theories incorporated when appropriate. Based on the firm's perception of its transactions and processes, GVC theory predicts that the choice of initial offshored transaction mode will be based on the 3C variables; generating six possible outcomes (see Table 5.5).

Given the transaction characteristics reported by participants, Table 6.1 compares the initial offshore sourcing mode, as predicted by Gereffi et al. (2005) against the actual initial governance mode chosen by the firm. The findings show results that are often inconsistent with the predictions of GVC theory. For example, participant PD stated that their firm's offshored transactions to China, as shown in Table 6.1, are high in complexity, low in codifiability, and there is a low capability of suppliers. Based on GVC model predictions that driven by Gereffi et al. (2005), Firm D should employ either hierarchy or a relational governance structure as shown in predictions (1) and (5) in Table 5.5. However, Firm D chose neither of these for its initial mode and instead chose a market mode (see Table 6.1). While Firm A's offshored transactions were high in complexity, low in codifiability, and high supplier capability; as illustrated in Table 6.1, Firm A's mode choice should be aligned with predictions (3) and (5) of Gereffi et al.'s (2005) model, (see Table 5.5), choosing either hierarchy or a relational governance structure. But the firm chose a market mode due to the high level of its suppliers' capabilities, which is prediction (5) of the GVC framework (see Table 5.5).

Based on the transaction's variables and as shown in Table 6.1, for only three out of 20 firms (Firms E, I, and P) was the initial mode choice consistent with the model predictions that driven by Gereffi et al. (2005). There is a high level of inconsistency between the findings reported here and the predictive outcomes proposed by the GVC framework. The findings also show that all the participating firms used non-equity modes (NEMs) for their initial mode, regardless of the predictions of the GVC

framework, with 12 out of 20 firms choosing a market mode, six firms using a modular structure, and one firm using two NEMs structures such as market and modular. Only one of the 20 firms used a captive structure as the initial mode choice for their offshore outsourcing transactions.

Table 6.21 Initial mode of offshore sourcing as predicted by Gereffi et al. (2005) and the actual initial mode based on the transaction factors of participating firms

Firm	Transaction Factors			Initial Mode Predicted by Gereffi et al. (2005)	Initial Mode in Present Study	Correct Prediction Y or N
	Complexity	Codifiability	Supplier's Capability			
A	High	Low	High	Hierarchy or Relational	Market	N
B	Average	Low	Average	Relational	Modular	N
C	Average	High	High	Modular	Market	N
D	High	Low	Low	Hierarchy	Market	N
E	Average	Average	Average	Modular	Modular	Y
F	High	High	High	Modular	Market	N
G	High	Average	High	Modular	Captive	N
H	Average	High	Low	Hierarchy or Relational	Modular	N
I	Low	High	High	Market	Market	Y
J	High	Low	High	Relational	Market	N
K	Average	Average	High	Modular	Market	N
L	Average	Low	High	Relational	Modular	N
M	Low	High	High	Market	Modular	N
N	High	High	High	Modular	Market & Modular	Y
O	High	Average	High	Modular	Market	N
P	Low	High	High	Market	Market	Y
Q	Average	Average	High	Modular	Market	N
R	Low	High	Low	No Relation *	Modular	N
S	High	High	High	Modular	Market	N
T	High	High	High	Modular	Market	N

* "if the complexity of the transaction is low and the ability to codify is high, then low supplier capability would lead to exclusion from the value chain. While this is an important outcome, it does not generate a governance type *per se*" (Gereffi et al., 2005, p. 87)

Initial Mode Determinants

The findings chapter highlighted a variety of determinants that impacted the initial mode choice among the studied firms and following the study's proposed model, these determinants were categorised based on whether they were related to the offshored task element, or the offshore location element. Therefore, the participant's determinants of initial mode choice will be presented and discussed in the following two sub-sections, in relation to the task and location elements.

Task Related Determinants

As noted earlier, all the participating firms are high-tech manufacturers and the data shows that each one of them invested six percent or more of total revenue in R&D activities. This indicates that the studied firms are not typical SMEs because they are R&D focused manufacturers, and more likely to be technologically knowledgeable with a good understanding of their transactions. This facilitates the codification of outsourced transactions in the form of codes, plans and drawings, diagrams, or blueprints, which encourages communication and understanding by their suppliers. This knowledge impacted the firms' transactions positively, which was evident from the data of the study. For example, and as illustrated in Table 6.2, only five of the 20 firms believe they have a low capability to codify their outsourced transactions, suggesting that most of the studied firms seem to have above average technological knowledge.

Based on GVC theory, which assumes firms are knowledgeable about their transactions in the early stages, this will impact the firms' governance mode choice based on their transactions' 3Cs variables. This highlights that within GVC theory a firm's knowledge is task oriented (Gereffi et al., 2005). Accordingly, the participating firms' technological knowledge enabled them to use market transactions because of their ability to codify their transactions as well as effectively select suppliers with the necessary skills. On the other hand, the adoption of market exchange due to the firms' technological knowledge, reduces transaction costs enabling the firms to have multiple suppliers at the same time and investments in training suppliers and building their capability, is lower than required by the buying firms.

However, and as shown in Table 6.1, all the participating firms used non-equity modes in the form of market and(or) modular exchange as their initial mode for offshore sourcing by seeking ready-made or off-the-shelf products, “without investing [significant] resources, intent, and time” (Jiang, 2009, p. 79). According to the participants' comments, the uncertainty level due to the lack of market knowledge and experience in doing business in the host country, as well as their firms' constrained resources, were behind their choice of NEM structures at the early stages of their firms' offshore sourcing to China. An NEM such as a market or modular mode initially contradicts the GVC assumption that firms are very knowledgeable about their transactions in the early stages and this knowledge will impact the firm's governance mode choice, and this study findings show, that is not how they operate when choosing the initial mode choice for offshore sourcing to China. This finding supports the literature that suggests SMEs have limited resources (i.e. technical, financial, human, and(or) tangible resources). This is especially true when there is a lack of organisational and managerial resources/experience to manage equity investments, resulting in a limited capability to make and manage equity investments at an early stage of their offshore sourcing to China (Knight & Cavusgil, 2004). It is also consistent with both offshoring and outsourcing literature streams, that imply a preference for NEMs investments due to the lack of experience in doing business in the host country and/or the level of uncertainty that might result from high institutional differences between the firm's home and host countries, as highlighted by the study participants' comments noted in the findings chapter.

Hence, it can be stated that there is no relation between the participant firms' technological knowledge about the offshored tasks, and their initial mode choice for their offshored transactions.

The study findings show a high number of born-global firms among the participating firms that use offshore sourcing from their inception. Born-global firms could be defined as “technology-oriented” SMEs (Griffin & Pustay, 2010, p. 78) that internationalise, or operate within international markets, at an early stage of their establishment through “the process of increasing [their] involvement in international operations” (Welch & Luostarinen, 1988, p. 36). The data shows that more than a third of the participating firms, seven out of 20, could be considered born-global (firms

A, D, K, H, Q, R, and S) and they try to leverage their “innovativeness, knowledge and capabilities” through early internationalisation by utilising offshore sourcing, right from the beginning, to cover a scarcity of resources by tapping into other offshored firms’ capabilities (Knight & Cavusgil, 2004, p. 124).

However, this finding is slightly different from the argument in the literature, that assumes that most born-global firms go global for market reasons, for example, in order to sell something (Knight & Cavusgil, 2004). This study found that all the participant firms went offshore for resource reasons. At a later stage, and partly because of being in a large emerging market like China, 15% of the participant firms later began targeting the Chinese market, selling their products locally.

Locational Related Determinants

The findings show a number of locational aspects of the host country that impacted a firms’ initial governance mode choice. These can be categorised into two main groups: locational knowledge and experience, and home-host institutional differences (see Figures 5.7 and 5.8). Concerning the firm’s experience in the host country, the Uppsala literature suggests that having no experience in doing business within the host country market or similar markets increases the firm reliance on market exchange. It also argues that the more experience a firm has about the host country, the greater the commitment the firm is willing to make, perhaps choosing to form a JV or establish a wholly owned facility in the host country. The firm might also tap into other local firms’ resources by selecting a relational or modular type of arrangement to compensate for its resource shortages, especially technical knowledge. Participants highlighted that their firms had a lack of previous experience and market knowledge about doing business in China. This was supported by the findings that only 20 percent of the participants had previous experience of dealing with Chinese suppliers in their previous jobs before starting their own businesses or being hired by one of the participating firms. However, the data shows that 50 percent of the participants had previous overseas experience before starting offshore sourcing from China. Nevertheless, apart from the born-global firms, participants PC, PE, PI, and PP pointed out that their firms started offshore sourcing from China when they acquired a new manager/owner or a decision-maker with overseas experience, many years after their establishment. Others like Firm B, who used to deal with a Western contract

manufacturer that shifted its manufacturing activities to China including Firm B's jobs, and this was how Firm B started sourcing from China. This finding indicates that having previous overseas experience and dealing with different cultures and business practices, made the decision-makers of the studied firms more willing to do business, or more open-minded in dealing with a different culture and business practices, such as China, and they were prepared to undertake market type transactions as an initial mode.

Having previous experience in dealing with the China market, encouraged the participating firms to choose China as a location for their offshored transactions rather than experimenting with other countries. However, and as noted earlier, the actual motive for the studied companies, as commented by the participants, was cost saving for their production, which gives an insight into why they chose China as an offshore location whether they had previous experience in dealing with the China market or not; and its ability to provide low cost labour as well as high-technology manufacturing including R&D activities (Hikmet & Enderwick, 2015; Brown, 2005; Matteo, 2003).

However, the findings show that all the participating firms chose NEM as an initial mode for their offshored transactions, whether or not they had previous experience in China. Previous experience could become rapidly obsolete in a transitional economy such as China. The literature defines a transitional economy, as an economy that has moved from being planned to a more open "market-based" or mixed economy environment (Hart-Landsberg & Burkett, 2005, p. 598; Fan & Wei, 2006). On the other hand, the choice of low level of involvement implied by market governance could reduce the role of experience, due to the paramount importance of cost considerations by most of firms when offshoring their activities. However, the data shows that firms with experience with China might have a shorter investigational time period between company establishment and entry into China or may have experienced a critical incident such as a new owner or manager with previous experience of China reducing the necessary learning period. The findings suggest no relation between the studied firms' experience in the host country, and their initial mode choice for their offshored transactions.

Accordingly, and from the above discussion, it can be inferred that there is no relation between the studied firms' technological knowledge about the offshored tasks, as well as a firm's experience factor in the host country, and their initial mode choice for their offshored transactions to China. This suggests at early stages of firms' offshore sourcing, they may increase their transactions'/products' standardisation and codifiability as a way of reducing overseas risk.

As noted earlier, there is high institutional-differences between the studied firms' home countries, New Zealand and Australia and the host country, China. Literature (e.g. TCE) suggests a positive relationship between a firm's equity base investment in the host country and high institutional differences between the home and host countries. Similarly, internationalisation process literature (e.g. Uppsala) suggests that the more experience a firm has in the host country, the more it tends to lean towards having an equity base investment in the host country (Schwens, Eiche & Kabst, 2011).

Scholars highlight two forms of market failure within China: structural imperfections (e.g. governmental regulations, tariffs, lack of information or knowledge) and transactional market imperfections such as contractual difficulties (Dunning, 1981; Dunning & Rugman, 1985). Accordingly, Buckley and Casson (1976) suggest that when a firm offshores transactions, the best way of controlling them would be through hierarchy, by moving away from market exchange due to likely market failures in intermediate markets. By doing so, the firm will have more control over its transactions at the offshored locations, especially in the case of R&D and marketing transactions (Buckley & Casson, 2010). In the case of the sample firms, having no experience in doing business in the Chinese market, could raise the level of uncertainty that they face when sourcing from China. Similarly, previous experience could become obsolete very quickly in a transitional economy like China. For example, in the case of dealing with an outside supplier or third party, buyer-supplier transactions could be impacted by different elements of the institutional system of the host-country (i.e. laws, regulations, business practice, cultural tradition and norms). Understanding such settings could be acquired over time, as well as through building good and trust-based buyer-supplier relationships and networks with host-country suppliers. On the other hand, and as commented by the participants, they have limited resources (i.e.

financial, managerial, skilled labour, etc.), which constrains their ability to internalise offshored activities, no matter how much they might wish to do so.

During the initial mode selection, the buying firms have either no, or a low perception of the host-country suppliers' capabilities, as well as the formal institutional context. This gives an insight into why 19 out of 20, (95%), of the studied firms chose non-equity modes (NEM), such as market or modular structure as an initial mode for their offshored transactions to China. This finding suggests that in the early stages of offshore sourcing, companies do not have enough information to make that verified distinction about the best governance structure for the offshored transaction, which raises uncertainty as predicted by TCE theory, and becomes the main determinant of a firm's initial mode choice. The above points answer the first sub-question of the study, that states: *What factors determine SMEs initial governance mode choice when offshore sourcing to China?*

The data suggests that a firm might choose to offshore source tasks such as standardised and off-the-shelf products that have low levels of asset specificity through market transactions as their initial mode, minimising the need for risky offshore investments or further augmentation of managerial resources.

Mode Switching

As noted earlier this study defines a firm's governance mode choice as an institutional or organisational arrangement that a firm adopts to undertake a particular business function/transaction (Welch et al. 2007; Benito et al., 2009). Mode switching occurs in a situation when a firm changes its operating mode from one institutional arrangement to another, for the same transaction (Williamson, 1979; 1975; 2010; Gereffi et al., 2005; Huhtanen, 2009).

Scholars such as Benito, Dovgan, Petersen and Welch (2013) and Petersen and Welch (2002) highlighted that existing knowledge about the nature of a firm's governance mode change and mode combination, is relatively basic. Therefore, governance mode "needs to be approached in a more explicit way" especially during internationalisation (Petersen & Welch, 2002, p. 162). Benito et al. (2009, p. 1455) stated that, within the international context, "observation of business practice reveals a 'messier' reality: in particular, mode packages, mode changes and mode role changes, seem quite

common” and this questions the view of mode switches from the singular entity as a *pure mode change/switch* by shifting from one mode to another (Welch et al., 2007; Pedersen et al., 2002; Benito & Welch, 1994). For example, GVC theory suggests that a firm should use one mode structure at a time. Such a singular perspective means that if environmental conditions remain unchanged, a firm can perform one task using one governance mode at a time. If the firm starts to undertake other transactions, then it may make a different governance mode choice or may wish to combine modes. As exhibited in Table 5.4 and Figure 5.3, the data shows that 95% of participating firms started with one governance mode as the initial mode, apart from Firm N which used two modes - market and modular - for its outsourced activities. This finding suggests that the GVC’s single governance mode perspective could be applied to the initial mode choice among the participating firms. However, the present study found that during the course of offshore sourcing, changes occurred to both transactions and the governance mode, with mode switching becoming broader and more complex.

The findings of this study support Benito et al. (2013; 2009), who challenge the simplistic and static perspective of the firm’s mode switching that previous research emphasised, and the reality of mode switching is messier than any model would predict. For example, Gereffi et al. (2005) assume mode switching happens when a firm’s transaction remains the same, but the governance mode changes. At the same time, most of the existing literature about the firm’s mode, focuses on foreign operating modes such as entry modes rather than governance modes (see Benito et al., 2009; Welch et al., 2007; Pedersen et al., 2002; Petersen & Welch, 2002; Benito & Welch, 1994), which is the point of interest in this study. The data shows that very few of the sample companies source from China and continue with exactly the same transactions. The study observed that over time, when there is a mode change for these offshored transactions, there is often also a task/transaction change happening at the same time.

In line with the Uppsala model perspective, transactions might change as firms become more familiar with the host-country market environment, suppliers’ capabilities, and understanding of the host-country laws and rules that allow them to expand the range of things that they do. As the nature of these transactions’ changes, so does the ways they are governed. It is rare for a mode switch to be a pure mode

switch, when a firm's transactions remain the same, but the mode changes. Much more likely is mode hybridisation or mode modification because of a simultaneous change in both transaction and governance arrangement. As Table 6.2 shows, firms' modes do not stay the same, and they are not always compatible with the predictions of Gereffi et al. (2005), because these predictions fail to consider that the transaction is changing as well. The findings show that transactions change as company decision-makers gain greater experience in China becoming more confident and more willing to assume risk; they have greater knowledge about suppliers, and greater ability to deal with problems of opportunism or poor quality. They are willing to expand the range of what they do because, compared with their home markets, China continues to offer a high quality, low-cost supply base. In addition, rapid growth of the Chinese consumer market has encouraged some firms to market their products in the local market, expanding the range and type of transactions they wish to undertake.

For example, participant PQ explained that their firm started offshore sourcing from China by buying a ready-made product utilising market exchange. After dealing with the same supplier for a while, and creating a trust-based relationship between them, during the first mode switch stage the supplier started to undertake some customising of the product according to the firm's needs, by utilising modular exchange. Although it was the same product, the transaction was not the same because of the product customisation and modification, which changed the product from a commodity type transaction to a more customised transaction. This highlights that the more experience that firms have in the market, the better their understanding of suppliers within that market, and the more likely they are to work more closely to customise. Customised products require closer trust-based buyer-supplier relationships and are likely to be more profitable than a commodity type product/transaction for a supplier. In such a case, mode switching by shifting between market and modular exchange is not a pure switch in the sense of Gereffi et al. (2005), because the nature of the underlying transaction appears to be changing.

Participant PM highlighted how their firm used modular exchange for its large production volume during the initial mode stage. They then explained how after being in China for a while, their firm continued to use modular exchange after its first mode switch, but this time for small run high-tech manufacturing. Accordingly, Firm M used

the same governance mode, modular exchange, for two different production transactions, small and large run production. Mode switching by both Firms Q and M occurred by expanding the use of the same modular exchange mode to multiple transactions, which again, is not a pure mode switch.

Firm F started offshore sourcing using market exchange, by sourcing components and then during the first mode switch the firm continued buying the components but added another transaction using modular exchange in the form of contract manufacturing for producing printed circuit boards (PCBs). However, during the second mode switch stage, the firm internalised its PCBs production, utilising hierarchal exchange, and during the fourth stage the firm became a contract manufacturer producing PCBs for other clients governed through modular exchange. Firm F shows that a firm's mode and transaction switches can occur simultaneously. For example, internalising the outsourced PCBs production was a clear example of pure mode switching as highlighted by TCE and GVC theories, where the transaction remains the same, but the mode changes. While adding other transactions during different stages of its offshore sourcing, like buying components, becoming a contract manufacturer for others and contracting other suppliers to produce other parts of its final product, are examples of transaction switches in the form of mode extensions through extending the number of modes because of the transactions. This highlights a weakness in the Gereffi et al. (2005) model with its assumption that the firm's transactions remain constant, and only the governance mode changes.

As highlighted by the participants' comments throughout the interviews, the reality is quite different from these assumptions, and when they gain experience of offshoring, they may change both their firms' transactions and governance modes. The data shows few cases of pure mode switching (i.e. Firms E, F, I, and J), where the transactions remain the same but the mode changes, with most of the cases showing mode hybridisation or mode modification because of a transaction modification. Accordingly, these findings do not fit well with the Gereffi et al. (2005) model, and this is evident from the inability of the GVC's model to predict mode switches as shown in Table 6.1, Table 6.2, and Table 6.3.

Aligning with the "messier reality" perspective of Benito et al. (2009), regarding the firm's governance mode switch, this study found that mode switches tend to reflect a messier or more complex reality than any model. The data shows the firms during different stages of their offshore sourcing, with some of them moving closer to the predictions of Gereffi et al. (2005) model for their initial mode choice. This perhaps indicates corrective behaviour, while others moved away from these predictions suggesting adaptive learning types of behaviour occurring. Therefore, it is very hard to predict that there is pure corrective behaviour going on at a later stage of the firm's offshore sourcing, because there is also learning occurring at the same time and this could be contributing to such messiness.

Based on the findings, the present study suggests a need to enlarge or broadening the mode switching definition perspective. It perceives mode switching as not only a pure switch, as predicted by GVC and TCE theories, but also includes mode hybridisation or modification because transactions are modified, which occurs when a firm expands or extends its transaction modes (see Table 6.2). Accordingly, the present study defines a *pure mode switch* as a situation when a firm changes its governance mode from one institutional arrangement to another, or from one mode of exchange to another one, with no change in the underlying transaction. *Mode expansion* could be defined as a situation where a firm uses the same governance mode for more than one transaction at the same time. *Mode extension* could apply to a situation when a firm adds new or more transactions utilising different governance structures. For example, a firm might start offshoring a particular transaction using market exchange and then undertake one or more activities with different governance modes managing these transactions simultaneously.

Table 6.22 Offshore sourcing mode choice as predicted by Gereffi et al. (2005), transaction factors for participating firms and the actual mode choice stages for participants' firms

Firm	Transaction Factors			Mode Choice as Predicted by Gereffi et al. (2005)	Initial Mode	Mode Switches			
	Complexity	Codifiability	Supplier's Capability			1st Switch	2nd Switch	3rd Switch	4th Switch
A	High	Low	High	Hierarchy or Relational	Market	Market & Modular			
B	Average	Low	Average	Relational	Modular	Market & Modular	Relational & Market		
C	Average	High	High	Modular	Market	Market & Modular	Market		
D	High	Low	Low	Hierarchy	Market	Relational	Relational & Market		
E	Average	Average	Average	Modular	Modular	Hierarchy & Relational	Hierarchy & Modular		
F	High	High	High	Modular	Market	Market, Modular & Relational	Hierarchy, Modular & Relational	Hierarchy, Modular & Market	Hierarchy, Modular & Market
G	High	Average	High	Modular	Captive				
H	Average	High	Low	Hierarchy or Relational	Modular	Market			
I	Low	high	High	Market	Market	Relational	Hierarchy	Hierarchy & Relational	
J	High	Low	High	Relational	Market	Modular	Modular & Hierarchy	Hierarchy & Market	

Firm	Transaction Factors			Mode Choice as Predicted by Gereffi et al. (2005)	Initial Mode	Mode Switches			
	Complexity	Codifiability	Supplier's Capability			1st Switch	2nd Switch	3rd Switch	4th Switch
K	Average	Average	High	Modular	Market	Modular			
L	Average	Low	High	Relational	Modular	Relational			
M	Low	High	High	Market	Modular	Modular	Modular		
N	High	High	High	Modular	Market & Modular	Market & Relational	Market		
O	High	Average	High	Modular	Market	Market & Modular	Relational		
P	Low	High	High	Market	Market	Modular			
Q	Average	Average	High	Modular	Market	Modular			
R	Low	High	Low	No Relation	Modular	Modular & Captive			
S	High	High	High	Modular	Market	Market & Modular			
T	High	High	High	Modular	Market	Modular & Relational	Market		

As illustrated in the previous chapter, almost all the participating firms changed their offshore sourcing governance mode at least once (see Table 6.2). The data shows that 19 out of 20, (95%), of the participating firms switched their governance modes, whether a mode or transaction switch, between one and four times. But only one firm, Firm G, did not change mode since entering the Chinese market, but is considering a JV with one of their suppliers, which might occur in the near future. The participants highlighted different reasons for triggering mode switches for their firms' offshored transactions such as "changing market, industry, regularity, and competitive conditions" (Buckley, Enderwick & Cross, 2018, p. 328). Therefore, the following sub-sections will discuss mode switching stages and their determinants in more detail in relation to the literature to get a better understanding of the dynamic aspects of the firm's governance mode choice and mode switching during offshore sourcing.

First Switch

As noted earlier from the timeline of the studied firms, which is summarized in Table 5.4, the participating firms switched their initial mode after an average of 2.7 years following entry into the Chinese market, (with a range of 6 months-14 years).

Based on the transaction variables of Gereffi et al.'s (2005) framework predictions and as exhibited in Table 6.3, the evidence shows that eight firms out of 20, (40%), moved closer to the original prediction switching with an average of 3.6 years from their initial mode, which is a longer period of time than the 10 firms who switched away within an average of 2.86 years from their initial mode stage. The evidence shows that during the first mode switch, around nine out 20 firms, (44%), of the participating firms moved closer to the initial mode choice predictions of the model by Gereffi et al. (2005), (indicated by a Y in column 8), suggesting evidence of corrective behaviour. On the other hand, 10 out of 20, (50%), of the participating firms moved away from the model predictions, (indicated by N), suggesting adaptive behaviour where the mode switch occurs as a result of learning over time.

As illustrated in Table 5.4 and Table 6.3, the evidence shows that the No's changed in the shorter time period than the Yes's; suggesting that adaptive behaviour dominates corrective behaviour and what appears as 'corrective adjustments' may be, in large part, the result of greater market knowledge through learning.

Table 6.23 Offshore sourcing first switch for participating firms in relation to mode choice as predicted by Gereffi et al. (2005)

Firm	Transaction Factors			Mode Choice as Predicted by Gereffi et al. (2005)	Initial Mode	1st Mode Switch	Convergence of the First Switch towards the initial predicted mode Yes or No
	Complexity	Codifiability	Supplier's Capability				
A	High	Low	High	Hierarchy or Relational	Market	Market & Modular	N
B	Average	Low	Average	Relational	Modular	Market & Modular	N
C	Average	High	High	Modular	Market	Market & Modular	Y
D	High	Low	Low	Hierarchy	Market	Relational	N
E	Average	Average	Average	Modular	Modular	Hierarchy & Relational	N
F	High	High	High	Modular	Market	Market, Modular & Relational	Y
G	High	Average	High	Modular	Captive		
H	Average	High	Low	Hierarchy or Relational	Modular	Market	N
I	Low	high	High	Market	Market	Relational	N
J	High	Low	High	Relational	Market	Modular	N
K	Average	Average	High	Modular	Market	Modular	Y
L	Average	Low	High	Relational	Modular	Relational	Y
M	Low	High	High	Market	Modular	Modular	N
N	High	High	High	Modular	Market & Modular	Market & Relational	N

Firm	Transaction Factors			Mode Choice as Predicted by Gereffi et al. (2005)	Initial Mode	1st Mode Switch	Convergence of the First Switch towards the initial predicted mode Yes or No
	Complexity	Codifiability	Supplier's Capability				
O	High	Average	High	Modular	Market	Market & Modular	Y
P	Low	High	High	Market	Market	Modular	N
Q	Average	Average	High	Modular	Market	Modular	Y
R	Low	High	Low	No Relation	Modular	Modular & Captive	
S	High	High	High	Modular	Market	Market & Modular	Y
T	High	High	High	Modular	Market	Modular & Relational	Y

For example, participant PD stated that their firm's offshore transaction(s) to China (see Table 6.3), are high in complexity, low in codifiability and there is a low capability of suppliers. Based on GVC's predictions, Firm D mode choice should align with prediction (1), (see Table 5.5), by choosing a hierarchical governance structure. However, Firm D chose a relational mode for its first mode switch (see Table 6.3). Participant PD highlighted two main reasons behind the choice. First, Firm D was constrained by its limited financial, human, and tangible resources from establishing its own manufacturing facility in China. Second, Firm D's product was unique and conceptually new, making it hard for the supplier to understand, no matter how experienced that supplier was. Therefore, the supplier required a lot of training and close supervision by the buyer. Accordingly, after dealing with the supplier and getting to know this supplier's capabilities, the above two reasons encouraged Firm D to utilise a relational governance mode for producing its product, an example of the adaptive behaviour where the firm's mode switch occurred due to learning behaviour over time.

However, after doing business in China for a while, as illustrated in Table 6.4, the evidence shows that the studied firms either kept their initial mode but added other mode(s), or switched the initial mode to one or more other mode(s) within an average period of 2.7 years (6 months to 14 years), see Table 5.4; apart from Firm G which had not changed its initial mode up to the time of data collection. Table 6.4 highlights that 50% of the participating firms (i.e. Firm D, E, H, I, J, K, L, P, Q, and T) experienced a pure mode switch during the first mode changes, by adopting a higher level "of explicit coordination and power asymmetry" (i.e. modular, relational, or hierarchy mode structure) apart from Firm H (Gereffi et al., 2005, p. 78).

Firm H switched its initial mode from modular to market structure. It used the modular exchange as an initial mode in the form of contract manufacturing for sourcing its fabrication activities from China. At a later stage the firm switched to market exchange for procurement of off-the-shelf products and moved its fabrication activities to Malaysia. Participant PH highlighted the main reasons for their firm's first mode switch, explaining that there are lower costs (i.e. of labour and raw materials) and quality fluctuations within the Malaysian market in comparison to the Chinese market. This emphasises that firms switch their mode as a result of adaptive behaviour when

managers are accumulating market knowledge and experience of doing business in the host country. They learn about the host country's institutional context (e.g. laws, customs, work practice).

During the first mode switch, the sample firms could be divided into two groups: 1) those who kept their initial mode; 2) those who switched it to another exchange structure. The first group, as shown in Table 6.4 represents eight out of 20, (40%) , of the studied firms kept their initial mode, and all of them kept their initial mode but at the same time added an additional mode or more (i.e. Firms A, B, C, F, N, O, R, and S). For example, seven firms out of the eight kept their initial mode and added only one additional exchange structure for the firm's new offshored transaction (i.e. Firm A, B, C, M, O, R, and S), apart from Firm F who added two different modes each one for a different transaction. However, Firm N started with two transactions with different modes as initial mode, and during the first switch the firm kept one mode but switched the other one. While, in the case of Firm M, the firm kept its initial mode as a modular structure for the high-volume production, during the first mode switch stage, the firm experienced mode expansion by extending its governance mode to include other transactions, such as small-volume production for high-tech transactions.

The second group represents firms that switched their initial mode to another governance structure, and this group accounted for 10 out of 20, (50%), of the sample group. The data shows that eight firms switched from one governance mode to another (Firms D, H, I, J, K, L, P, and Q), while Firms E and T both switched their initial mode and added an additional mode.

Accordingly, during the first mode switch, nine out of 20, (45%), firms used two governance modes to manage their outsourced transactions. One firm used three modes, and a quarter of the firms (five out of 20) retained a single mode but one that differed from their initial mode choice. This suggests that firms may run two different modes simultaneously on different activities or might experiment with another mode, and that at a later date this mode might possibly replace the initial one.

Table 6.24 Offshore sourcing first switch for participating firms in relation to actual initial mode choice

Firm	Initial Mode	1st Mode Switch	Firm's actual mode choice in relation to the actual initial mode			
			Keep the initial mode Y or N	Initial mode + 1 new mode	initial mode + 2 new modes	Initial mode + change the other mode
A	Market	Market & Modular	Y	✓		
B	Modular	Market & Modular	Y	✓		
C	Market	Market & Modular	Y	✓		
D	Market	Relational	N			
E	Modular	Hierarchy & Relational	N			
F	Market	Market, Modular & Relational	Y		✓	
G	Captive	No Switch				
H	Modular	Market	N			
I	Market	Relational	N			
J	Market	Modular	N			
K	Market	Modular	N			
L	Modular	Relational	N			
M	Modular	Modular	Y			
N	Market & Modular	Market & Relational	Y			✓
O	Market	Market & Modular	Y	✓		
P	Market	Modular	N			
Q	Market	Modular	N			
R	Modular	Modular & Captive	Y	✓		
S	Market	Market & Modular	Y	✓		
T	Market	Modular & Relational	N			

For example, participant PA explains how their firm started using a market mode as an initial mode for importing materials from China for producing the prototype for its product and generating the design plan and bill of material. Then during the first mode switch, Firm A kept its initial mode and added another governance mode using the modular mode in the form of contract manufacturing for producing the final product. In other words, Firm A experienced mode extension, which started with market exchange and then when expanding the range of activities, utilised different governance modes simultaneously (see Table 6.4). Firm M, however showed evidence of mode expansion during the first switch by keeping its initial governance mode choice, which was the modular structure for its high run production volume, and also used it for producing the low run of production volumes that were previously sourced in Firm M's home country

Second Switch

As illustrated in Table 5.4, more than half, (55%), of the participant firms experienced a second mode switch within an average of four years (range six months to eight years) from their first mode switch. Like the initial and the first mode switch stages, the second switch stage showed different forms of mode switching such as pure mode switch, mode expansion, and mode extension. The data shows during this stage, mode convergence tends to have a messier reality (Benito et al., 2009) than expected and it is messier than model predictions. Again, it is very hard to argue that there is (delayed) corrective behaviour going on because there is likely to also be adaptive learning happening at the same time. This is supported by the evidence that shows only three firms (i.e. Firms B, E, and F), moved closer to the predicted direction of Gereffi et al. (2005) model for the participating firms' initial mode stage, while the other eight firms moved away from the predicted direction of the initial mode (i.e. Firms C, D, I, J, M, N, O, and T).

Table 6.2 shows during this stage only six firms kept their initial mode (i.e. Firm C, D, E, M, N, and T), and some of them reduced the number of their offshored transactions (i.e. Firms C, N, O, and T) while others increased the number of their offshored transactions (i.e. Firms D, J and M). During this stage, some firms kept one or more of their transactions' mode and switched one or more modes, moving towards Gereffi et al.'s (2005) model predictions for the initial mode, such as the cases of Firms B, E, and

F. Others, like Firms C and T switched back to their initial, or kept the other modes such as Firm D, E, and M. Other firms from the sample firms like Firm B, D, E, F, J, and M kept one or more of their 1st switch and switch the other mode(s) to different mode structure. For example, during mode switching, participant PD stated that their firm's offshored transaction(s) to China, as shown in Table 6.2, is high in complexity, low in codifiability, and there was a low capability of suppliers. Accordingly, and based of GVC's predictions, Firm D should go with predictions (1) and (6), (see Table 5.5), by choosing either hierarchy or captive governance structure. However, Firm D chose to move away from the original prediction of Gereffi et al.'s (2005) model for its initial mode, first or second mode switches. Instead, it chose market mode as initial mode, relational mode for its first mode switch, and used relational and market modes simultaneously for its second mode switch (see Table 6.2). This highlights the likelihood that a firm's mode switch will occur as a result of adaptive behaviour in the form of accumulated market knowledge and experience in doing business in the host country, which partially aligns with the firm's knowledge acquisition over time, that is suggested by the internationalisation process theory suggesting such knowledge comes from experience in a succession of markets rather than within a single market.

Subsequent Switches

As illustrated in Table 5.4, three firms experienced a third mode switch, after an average of 2 years following their second mode switch, while only one of the participant firms undertook a fourth mode switch, one year after the third mode switch. In relation to the subsequent switches, the findings show varying results to the original predictions of GVC theory for the firm's initial mode, the actual initial mode, first mode switch, and second mode switch choices. For example, participant PI stated that their firm's offshored transaction to China, as shown in Table 6.2, is low in complexity, high in codifiability, and there is a high capability of suppliers. Accordingly, and based on GVC's predictions for the firm's initial mode, Firm I should go with prediction (1), (see Table 5.5), by choosing a market governance structure. Firm I chose market exchange as its initial mode. However, it moved away from the predicted direction of its initial mode by choosing a relational mode for its first mode switch, hierarchy for its second mode switch, and used relational and hierarchy modes simultaneously for its third (see Table 6.2).

Like the first and second mode switching stages, the data shows evidence of pure mode switching, mode deletion, mode expansion and mode extension during the subsequent switches for the studied firms. The data shows that during the third mode switch stage, two firms (Firms I and J) used two governance modes simultaneously, and a third firm (Firm F) utilised three modes at the same time. The data shows that only one firm (Firm F) went through a fourth mode switch showing evidence of mode expansion utilising the same governance modes but adding new transactions.

As noted earlier, GVC theory has a single perspective that suggests at any stage a firm might replace one mode with another. As illustrated in Table 6.2 the data shows that most of the studied firms used different transactions at the same time, with each transaction utilizing a different governance mode choice. For example, participant PF stated that their firm started with the modular mode for making the products' cases during the third and fourth mode switches, and at the same time their firm has its own factory in China for producing PCBs. However, during the fourth mode switch, Firm F became a contract manufacturer for producing PCBs for other customers by using the modular governance structure. So, Firm F used the modular mode for outsourcing cases, but at the same time used a modular mode for producing PCBs for others, while using the hierarchy mode for producing its own products. Firm F made a pure switch at the second mode switch stage when it internalised PCB manufacturing. Then the firm took one part of its business and switched again by moving toward mode extension at the third switch when it became a contract manufacturer producing PCBs for others. As shown in Table 6.2, Firm F added and deleted transactions according to its R&D, testing, and production needs. For example, during offshore sourcing, Firm F used market exchange for buying the needed electronic components during its initial, first, third, and fourth mode switch stages. Participant PF highlighted that their firm used market exchange for buying electronic components for producing its own PCBs through its initial, first, and third mode switch stages, while during the fourth mode switch the firm used market exchange for componentry outsourcing to produce PCBs for both itself and clients.

The above discussion suggests that even if the firm makes a 'corrective' mode switch at a later stage, such a switch cannot be considered as purely corrective because it is subject to past learning and additional transactions and governance modes are likely

to occur. This highlights the messiness of governance mode choice and mode switching during offshore sourcing, making it very hard to say that pure corrective behaviour is occurring.

The studied cases highlight that mode switching is a lot more complicated and that the term switching has been imperfectly defined. Pure switching is rare and is concealed by mode bundling as the range of activities and transactions increases. For example, Firm M is an example of mode expansion, where it used the same mode, modular exchange, but for a broader range of transactions (i.e. small run and large volume production run). Alternatively, Firm F did make a pure switch from externalising to internalising its PCBs production. On the other hand, and as shown in Table 6.2, most of the participating firms went from single to multiple transactions with different governance modes. It appears that using different modes at the same time means they are complements and not substitutes, and this is difficult to reconcile with the GVC and TCE solitary governance mode perspective. For example, the Gereffi model predicts that mode switching is determined by changes in the 3Cs (see Table 5.5); while TCE suggests that asset specificity, uncertainty and frequency of the transaction determines mode switching.

In contrast, the data shows that multiple modes are the norm, creating a complex situation with alternative modes used more as complements than substitutes. This is a significant finding and it adds to the complexity of how to perceive a firm's mode switching during offshore sourcing, but at the same time, it adds to the validity of what is really happening during offshore sourcing. This finding suggests that mode stability is low, and that mode switching is the norm; therefore, how firms enter the market appears less critical because mode changes appear to be easy and frequently adopted. These findings highlight how Gereffi et al.'s (2005) model focuses on the 3Cs technical learning and ignores the management learning processes within the organisation that invariably occur, adversely affecting predictions, as illustrated in Table 6.1 and Table 6.3. This finding aligns with Sako and Zylberberg (2017) but focuses on the buying/leading firm side within the buyer-supplier dyadic relationship, instead of the supplier side. Similar to GVC, TCE also does not offer a dynamic framework, and has little to say about management learning within the organisation. For example, it suggests that structural impediments like opportunism will arise when offshore

sourcing. It also highlights how learning can help firms deal with these issues; for instance, through trust-building with suppliers. The more firms learn about their suppliers, the more uncertainty levels are reduced. Accordingly, both theories fail to consider how management learning might affect mode choice or shifts in mode choice, and in particular the establishment chain during the firm's offshoring cycle. This, is the primary contribution of this study.

Mode Switching Determinants

As noted earlier and as summarised in Table 5.4, the participating firms went through various stages during their offshore sourcing from China, employing different governance mode choices in order to manage their activities. For example, on average, they switched their initial mode 2.7 years after entering the China market, (range 6 months-14 years). The data shows 19 out of 20 of the participating firms switched their offshore sourcing governance mode, while only one firm, Firm G, did not change since entering the Chinese market, but is considering a JV with one of its suppliers. The data also shows that 11 out of 20 (55%), three out of 20 (15%), and one out of 20 (five per cent) of the studied firms went through second, third, and fourth stage mode switches (i.e. mode addition, deletion, extension, and(or) expansion) after an average time period of 4.35 years, two years, and one year, respectively. Throughout the interviews, the participants highlighted that their firms experienced a number of benefits and challenges that triggered switches in governance modes (see Figure 5.9). This shows that governance mode choice, especially within an international business context, is dynamic in nature and mode switches could emerge as a result of a variety of changes that firms might experience.

The literature suggests mode switching may occur for proactive reasons (i.e. market opportunity) or for reactive reasons such as correcting a wrong decision (Buckley, Enderwick & Cross, 2018). Following Welch et al. (2007), the discussion of mode switching determinants will be discussed as it relates to changes in the firm's internal or external environmental condition(s). Accordingly, the study findings of mode switching determinants could be classified according to their connections to the firm's internal or external environmental changes. For example, a firm's accumulated knowledge and experience in China, its contacts and networks in China, and any correction of previous decisions, are related to changes in internal environmental

conditions. Market opportunity, competitive pressure, government and local officials' actions, business practice-differences, and cultural differences are linked to changes in external environmental conditions. Therefore, mode switching determinants will be discussed in the following two sub-sections: internal determinants, and external determinants.

Internal Determinants

The participants identified several reasons for their mode switching that were related to their firm's internal environments, such as accumulated knowledge and experience in China, building contacts and networks in China, and correcting previous decisions (see Figure 5.10).

I. Firm's Knowledge and Experience

As noted earlier, the studied firms were not market seeking, as suggested by internationalisation process literature, rather they were resource and knowledge or asset seeking. Therefore, the market knowledge term refers to the firm's knowledge of how to do business in China and having the confidence to do business in such a market.

GVC theory suggests that a transaction's complexity, codifiability, and a supplier's capability should determine the mode choice based on a firm's technical knowledge about its outsourced transaction and its processes. It assumes firms have enough technological knowledge about their transactions to know how to switch from mode A to mode B. This suggests that a firm's knowledge within GVC theory is task oriented (Gereffi et al., 2005). However, the data shows that the studied firms, for example, are using mode A and maybe they are going to use mode B, but they may experiment with both modes, A and B, and then decide which one is going to be used, B or A, or use A and B, or even might even decide to use another mode such as C. The findings show that after dealing with China market for a while, 19 out of 20, (95%), of the participating firms changed modes at least once for different reasons. This suggests that market knowledge acquisition in the form of management learning within the firm is occurring, extending the knowledge component of GVC theory that assumes firms have enough technical knowledge about their transaction to know how to switch from mode A to mode B. This study provides insights into mode switching that suggest the

importance of other aspects of the firm's knowledge in the form of learning that might impact mode switching, particularly market knowledge. Therefore, this study refers to the *firm's knowledge* as a combination of task/transaction technical knowledge, as suggested by the 3Cs variables of GVC theory, and of learning about host market conditions, the firm's market learning knowledge and experience. There may be an indirect link between market knowledge and the 3Cs through supplier capability. Increased market experience may contribute to firm awareness of supplier capability, facilitating the selection of more capable suppliers for a given level of search. It also reduces the level of uncertainty when dealing with these suppliers through building a buyer-supplier trust-based dyadic relationship, as suggested by TCE theory.

While technical knowledge is a determinant of mode switching within GVC theory, the findings reported here show that increasing the firm's market knowledge in the form of learning through the experience of doing businesses at the host country, is also a key driver of mode changes. This was supported by the study participants' comments that emphasised the importance of acquiring market knowledge and experience in doing business in China, with all of them highlighting that drawing on accumulated market knowledge and experiences in doing business in China was one of the main reasons behind their mode switching.

As firms go from one mode switch stage to another, they are able to more effectively evaluate alternatives, but the mechanisms of such knowledge are indirect. This highlights a limitation of the 3Cs model and how it fails to capture the key variable of increasing firms' learning through acquiring market knowledge and experience. For example, participant PD talked about different aspects of their firm's knowledge by highlighting how their firm's technological knowledge and capabilities, that the firm already possessed before entering China, helped in assessing the potential supplier's capabilities and the level of supervision and training required to upskill this supplier.

Participant PD also explained how acquiring market knowledge over time about the Chinese market, combined with firm's transaction knowledge, led to cost improvements and helped their firm to get the required outcomes for its final product as well as better arrangements with the Chinese suppliers.

Accordingly, the greater a firm's technological knowledge and capability combined with its previous experience in the host country, the more effective the firm in evaluating potential suppliers, training suppliers, and governing the exchange relationship. It is the combination of different aspects of the firm's knowledge, technological knowledge and market knowledge, that facilitate governance rather than simply the level of the firm's technical knowledge and capability as predicted by GVC theory.

The data shows widespread use of market modes throughout different stages, especially during the initial mode, and for purchasing standardised and off-the-shelf products. By doing this, firms try to reduce the uncertainties and transaction costs by lowering their complexity, by, for example, sourcing ready-made parts and components. At a later stage, many suppliers begin to customize ~~to~~ products according to the buying firm's specification, or firms start sourcing other transactions/activities that are more complex than off-the-shelf ready-made products (i.e. parts' assemblies, product customisations, etc.). Buyers may also use different suppliers with different technical skills, through utilising one or more modes with a higher level "of explicit coordination and power asymmetry" such as modular, relational, and hierarchy mode choice (Gereffi et al., 2005, p. 78). This highlights that after operating in China for a while, firms are becoming more knowledgeable and familiar with the host-country's business context and building a better understanding of suppliers' behaviours and capabilities. In addition, a number of the sample firms imported such experience through recruiting managers with previous work experience, knowledge, contacts and networks in China, and which helped to skip some stages of gradual learning and commitment, shortening the learning time (Carneiro et al., 2008, p. 96). This suggests that as firms become more knowledgeable, they are able to assume higher levels of risk and resource commitments, consistent with the Uppsala viewpoint, but knowledge acquired within a single market.

Hence it can be stated that there is a relation between the studied firms' experience in the host country, and their mode switching choices for their offshored transactions.

For example, participant PC talked about their firm's offshore sourcing mode choices and mode switching. They explained how their firm broadened the scope of what they

were sourcing by starting to source electronic components and ready-made pumps from Chinese in early 2016. Then, at a later stage, when the firm became more familiar with the China market, Firm C started making some modifications and customising the outsourced parts to meet its job requirements. Firm C also started outsourcing more products, products assemblies and cabling jobs, utilising modular and market governance structures rather than market exchange only (see Table 6.2). By doing so, the firm showed mode extension through outsourcing more transactions and some of them were more complex in nature.

The data also shows that out of all the participating firms, only four firms out of 20 (Firms E, F, I, and J) used a hierarchal structure for their production activities, establishing their own manufacturing facilities in China (see Table 6.2). The low number of the firms that established their own facility in China highlights the resource limitations (financial, managerial, skilled labour, etc.) of these firms, which constrains their ability to internalise these transactions. Therefore, they tended to use other ways and options to manage their offshore outsourced transactions, such as contractual and relational governance modes, creating a dyadic buyer-supplier exchange relationship based on cooperation, trust, information sharing, and direct assistance, to maintain long-term contracts between the parties (Rosell, Lakemond & Wasti, 2012) (see Table 6.2). This finding aligns with the GVC and TCE literature streams that suggest a firm can go from hierarchy or from market exchange to various contractual or relational structures.

The data also shows that over time there was a decline in the number of firms that experienced mode switching. For example, during the first stage of offshore sourcing, 95% of the participating firms experienced mode switch. During the second, third, and fourth stages only 50%, 15%, and five percent of the participating firms undertook mode switching respectively. This suggests that management learning in the host-country might mitigate external uncertainties and increase mode stability (Gooris & Peeters, 2014; Manning et al., 2011; Meyer, 2001).

Such mode switching and mode(s) additions (i.e. mode expansion or mode extension) increased the complexity of managing transactions and some of these transactions are likely to be complex and difficult to codify. For example, in the case of using new

concepts for the product, participant PD highlighted how their firm needed to train and work with its suppliers because their capability to understand this new product concept was limited, no matter how capable they were. This encouraged the firm to switch from market to a relational structure during Firm D's first mode switch.

This highlights the relationship between the studied firms' technological knowledge about their offshored tasks, as well as learning about suppliers through experience in the host country, and their mode switching choices. The findings show in the case of the high complexity of the offshored transaction that is too difficult to codify, greater buyer technological knowledge and capability makes it more effective in evaluating potential suppliers and training them to the required levels. However, having market knowledge in the form of experience and doing business as well as building trust-based relationships with the local suppliers makes the firm aware of the host country's business practices, which makes the firm more effective in governing the exchange relationship in the host country. The findings of the present study show that the combination of a firm's technological knowledge about its offshored transactions combined with learning through experience in the host country, has a positive association with greater reliance on relational and equity involvement mode structures such as a hierarchal mode rather than on market exchange structures.

Furthermore, according to literature, greater levels of market knowledge mean that firms make fewer incorrect choices so that adopted modes are more stable and fewer changes are necessary. Greater experience in the host country enables the firm to operate independently meaning that, an arm's length type market exchange can be utilised by the firm for its offshore outsourced transaction(s) (Buckley & Casson, 1991). However, the study findings show that acquiring market knowledge and experience in China help firms to make decisions about choosing the right potential supplier more effectively, with less time spent in searching in comparison to when they entered Chinese market, and thus interwoven with the firm's technical knowledge enabling the firm to better assess supplier quality and therefore they should have a fewer mode changes.

This was supported by the study data that shows greater mode stability among these firms as their market knowledge increases through learning with the number of firms

within each stage making a switch, declining. For example, Table 6.2 shows 95% of the participating firms undertook a first switch, while only 50%, 15%, and one per cent of them undertook second, third and fourth mode switches respectively. However, the table also shows that during the first mode switch 10 out of 19 firms have more than one transaction with different governance arrangements, six out of 11 firms during the second mode switch, three firms at the third switch, while only one firm undertook a fourth switch. This suggests mode stability increases as market knowledge develops.

To accelerate the firm's learning process, participants highlighted that their firms were able to buy in up-to-date experience by recruiting people with good connections and recent experience in China. This suggests that firms could reduce their learning costs and the experimental learning time at the host country by having people with recent knowledge and experience.

In summary, within the offshore sourcing context, a firm's knowledge refers to a combination of technical knowledge about its offshored transaction, as well as learning knowledge about the host country. Throughout the interviews the participants highlighted different aspects of market knowledge that a firm can acquire, during its experience in dealing with the host-country market (i.e. host-country business practice, laws, contacts and networks, etc.).

The aspects of host country market knowledge will be discussed in relation to the firms' internal and external environments.

II. Firm's Contacts and Networks

With regards to firms' management learning and market knowledge acquisition in the form of building contacts and networks, the data shows that 95 percent of the participants highlighted the importance of building contacts and networks in a host country, such as China and how building good trust-based relationships with suppliers enabled them to assume higher levels of risk such as using equity modes, dealing with more than one supplier at the same time, and managing different transactions with different governance structures simultaneously. They pointed out that building good relationships with suppliers is the key to surviving within such a market because Chinese business practices are based on relationships and networks. This highlights the weakness of the Chinese formal institutional system, in the form of contractual

law, where the dyadic supplier-buyer relationship is based on personal networks and relations rather than governed by contractual agreements. This finding is consistent with the three literature streams – TCE, GVC, and Uppsala - that suggest in the case of a host country with weak formal institutions, that firms might orient their value chain activities "away from hierarchy and captive networks and toward the relational, modular, and market types" (Gereffi et al., 2005, p.96). As highlighted, in the case of the initial mode, the sample firms tended to use market exchange due to the lack of market knowledge within the host-country market and the uncertainty level that might result from high institutional differences. They tended to source ready-made products as a way of establishing their networks and contacts as well as building market knowledge. But at a later stage they start using the market exchange for components and parts procurement combined with relational and modular exchange for their production. As explained by the participants, the main reasons for such choices were first, due to the limited resources that the firms possessed, and which constrained their use of hierarchical exchange. Because of this they tap into other local supplying firms' resources by choosing a relational or modular type of arrangement to compensate for their own resource shortages. Second, due to the weaknesses of formal host country institutions, particularly in contract law, they used non-equity modes (i.e. modular and relational modes) as a way of reducing their investment risks at the host country, through sharing the production risks and building trust with their Chinese suppliers.

Accordingly, experience and market knowledge about doing business in China and building networks increases the acceptance of risk among the participating firms and increases the degree of involvement and use of contracts within trust-based relationships with their suppliers. A transaction is not just about going from internalising to externalising, as suggested by transaction cost economics, it is also about intermediate trust-based relations as explained by GVC theory. This is supported by the study data and as exhibited in Table 6.2. For example, during the first switch, the findings show that 18 out of 19 firms either switched their market mode to another relational form of mode structure (i.e. relational and modular) or kept the initial mode and added a relational mode. Similarly, during the switching process, firms moved toward more complex transactions, increasing the number and the scope

of transactions by increasing their degree of commitment or involvement, and going from contracts to trust-based relationships with their suppliers. The data shows that management learning through acquiring market knowledge and building networks enables firms to offshore more activities to China. For example, 70% of the participating firms used different governance arrangements simultaneously at later stages of offshore sourcing.

As illustrated in Table 6.2, all the participating firms used non-equity modes as initial mode choice, as they learn more and become more experienced and knowledgeable in doing business within the Chinese market, they start increasing the degree of their resource commitment and involvement for their offshored transactions. They switched their initial mode to more commitment and risk-taking type of transactions, such as contractual and higher commitment governance modes such as modular, relational, captive, or hierarchy governance structure. Or they kept the same mode but added other transactions with different modes for their investments at the same time and these modes complement, rather than substitute for each other (see Table 6.2). For example, they might start with a written contractual agreement and then move to an alliance-type relationship or take an ownership stake. Participant PI highlighted that their firm's accumulated market knowledge was behind the firm's sequential mode switches.

Participant PD explains that after doing business in the Chinese market for a while, their firm's contacts and networks in China grew rapidly. They stated that their firm became more confident in dealing with the local suppliers in China and Firm D went from dealing with a single supplier to multiple suppliers at the same time.

On the other hand, participants also highlighted that building good relationships not only with the local suppliers but also with the local officials directly, helped their firms to overcome most of the challenges that related to the host country formal institutional context.

This suggests mode stability is low and that switching is the norm and is related to a firm's accumulated learning, building contacts and networks in the host country which was highlighted by all the study's participants (see Figure 5.10). As firms get more market knowledge, they are able to tolerate greater risk, enabling them to move from

contractual exchange to more committed modes based on trust and this suggests some evidence of adaptive type behaviour over time is occurring.

It also suggests that the firm has the possibility of developing more autonomous ways of operating and becomes better able to undertake more transactions and govern them itself. Accordingly, market knowledge acquisition in the form of learning over time about the host-country local operating environment, was a key factor behind mode switching stages, providing insights into the second sub-question: *Why do companies change their governance modes?*

III. Correcting Wrong Decisions

The findings show that firms changed their governance modes because of the increased market knowledge that they acquired through learning over time and which enabled them to consider more options. This enabled them to correct wrong decisions that they may have made earlier (i.e. Firm B, D, F, I, K, L, M, N, O, Q, and T), (see Figure 5.9 and 5.10). For example, participant PD explained how building market knowledge after being in China for a while, was behind their firm's decision to switch its offshore production task mode choice from modular to relational governance, highlighting how such a decision had positive impacts on its final product's quality, cost and products development.

While, participant PR talked about their experience in doing business where they sourced from China for costs saving and they decided to move away from recruiting local staff in China and sub-contracting everything. However, after doing business for some time, they found that communication with suppliers was challenging due to language and cultural differences.

Therefore, to overcome the communication challenges as a result of learning they decided to hire a local agent who could speak both Chinese and English - to coordinate production and shipping, in other words externalising what it used to be done internally.

Participant PR governed their relationship with the Chinese agent by utilising the captive governance structure while continuing to use a modular structure in the form of contract manufacturing with the manufacturers. So, Firm R did two types of mode

switch: pure mode switch, and mode extension. The pure mode switch happened when Firm R externalised its suppliers' management job by hiring an outside agent utilising captive exchange, and this switch reflects learning and adjustment to their firm's initial mode decision that was based on knowledge he had at the time. The mode extension occurred when Firm R added another transaction, by recruiting the local Chinese agent to its previous transaction and producing its product by utilising a modular structure in the form of contract manufacturing. Furthermore, participant PB highlighted different triggers that initiated mode switching for correcting wrong decisions about the previous governance mode.

External Determinants

External mode switching determinants, according to Welch et al. (2007), refers to any change to the firm's external environmental conditions that might trigger or initiate a mode switch for the firm's transaction(s) (see Table 2.3 Chapter 2).

Throughout the interviews the study participants highlighted several reasons that triggered governance mode changes that related to the external environment of the host country, such as the actions of national and local officials, business practices, cultural differences, market opportunities and competitive pressure (see Figure 5.11).

The data highlighted different forms of learning and acquired knowledge that the participants and their firms developed while dealing with China. For example, and as noted in Chapter 5, the data shows that 85% of the participating firms switched their offshored transaction mode when officials issued new legislation (i.e. laws, policies, and regulations) or changed the existing ones. The data shows 60% of the participant firms switched their offshored transactions mode due to the host country's business practice differences, while home-host country cultural differences triggered mode switches for 40% of the firms (see Figure 5.11). Accordingly, these external determinants of mode switching will be discussed in more detail below.

I. Home-Host Country Institutional Differences

In relation to the GVC theory the third variable of the firm transaction's characteristics, the degree of the supplier's capability, the literature suggests that the more capable are outside suppliers, in terms of knowledge and technology, the easier it is to expect them to perform to a certain quality standard (Gereffi et al., 2005). However,

according to TCE dealing with outside suppliers raises coordination issues between the buying firm and its suppliers in the form of contract enforcement, which then affects transaction costs (see Figure 2.4). This suggests that location will impact the supplier capabilities variable, and in the case of offshore outsourcing, a supplier's capability could be affected by geographical location and host country institutional (formal and informal) settings affecting contract enforcement (Coe et al., 2008).

As noted earlier, there is high institutional difference between the studied firms' home-countries, Australia and New Zealand, and the host-country, China. Dealing with outside suppliers, raises coordination issues between the firm and its suppliers in the form of contract enforcement, which is impacted by the local formal institutional settings of the host-country in the form of the legal system. This raises questions about how these Australasian SMEs are going to manage the challenges they might face during their offshore sourcing in China, due to the institutional differences between their home countries and the host country.

Studies show mixed results about the impact of home-host country institutional differences on a firms' governance mode choice for their offshored activities, and in the case of SMEs, there is a limited knowledge about such relationships. For example, in regard to the studied firms, the transaction cost literature suggests that high levels of home-host institutional differences between home countries (New Zealand and Australia) and the host country (China), raise external uncertainties. These encourage the adoption of hierarchy, captive, or even relational governance modes, and moving away from modular, and market types. The internationalisation process literature suggests in such situations, that firms might be inclined to use contractual and low resource commitment governance modes for their investments "to mitigate the external uncertainty", as well as leveraging from the host "country-specific knowledge and capabilities of local outsourcing partners or international providers experienced in the host location" (Gooris & Peeters, 2014, p.77; Manning et al., 2011). Similarly, the GVC literature also suggests firms might push their value chain activities "away from hierarchy and captive networks and toward the relational, modular, and market types" (Gereffi et al., 2005, p.96).

As noted earlier, acquiring knowledge about the market environment context is an internal factor, whereas changes in the actual environment can be considered an external factor. In the present study, market knowledge about the host country's institutional context resulting from management learning and experience of doing business in China, showed mixed results on firm's mode switching during different stages. Accordingly, to get a better understanding about how the host country institutional context impacts of the firm's mode choice and switching, will be discussed in the following two sub-sections: formal institutional differences, and informal institutional differences.

Formal institutional differences

According to literature, formal institutions refer to a country's "written laws, regulations, legal agreements, statutes, contracts and constitution, which are enforced by third parties" (Leftwich & Sen, 2011, p. 322). The data shows that the studied firms faced different challenges that related to the Chinese government and local authorities (e.g. weak IP protection and contractual laws, government intervention with market prices and law changes, government restrictions, etc.). As noted earlier in Chapter 5, the data shows that 90 percent of the participating firms switched their offshored transaction mode due to government intervention when officials issued new legislation (i.e. laws, policies, and regulations) and(or) changed the existing ones.

The participants highlighted the continual changes in the government pricing regulation for labour and the raw materials initiated mode switching for their firms. For example, participant PT explained that their firm used modular and relational mode structures for seven years for manufacturing their PCBs in China and then switched to market mode for procurement activities only. They then moved the firm's production activities outside China, because of the cost increases by 30% due to the governmental regulation changes and interventions in the form of increasing raw material and labour prices/costs. The firm moved its production to Thailand, managing to save up to 50% off its landed costs.

Similarly, and as a result of formal institutions, firm H also exited its production activities from the China to Malaysia and switched its mode from modular structure in the form of contract manufacturing to market mode for procurement activities due to

the fluctuation and lack of consistency in the price of labour and raw materials, in comparison to the Malaysian market. Participants PH and PI gave more details about such cost increases, highlighting that both labour and raw material costs had gone up by 30% and 10-20% respectively and how such price rises had negative impacts on their profit and production costs. On the other hand, participant PB commented that the frequent changes in the Chinese regulation and customs system were a continuing issue.

In regard to the Intellectual Property (IP), and as noted earlier, China has weak IP protection laws and this view was supported by most of the participants' comments (firms F, G, L, Q, K, N, O, and S). Therefore, the participating firms adopted strategies to overcome such issues to protect their IP, such as utilising the *Granulation* strategy of fine slicing of the stages for each offshored transaction within China, where each slice was given to a different supplier. Other firms went for further protection by keeping their last stage of assembly or uploading their product final framework in the home country, filed patents in China, or established their own manufacturing plants in China (Firms F, I, and J).

Participants also highlighted the difficulties for foreign companies registering in China, due to government restrictions. For example, participant PI highlighted the difficulties that their firm faced in company registration and renting a building in China, and how having good contacts in the host country was the key to overcoming the official issue in China. Participant PI also highlighted the discriminatory treatment that foreign firms face in the host country by local Chinese officials charging them extra for getting things done compared to local companies due to the liability of foreignness.

Eden and Miller (2004) explain that liability of foreignness as a cost occurred when doing business offshore, due to the home-host country institutional differences in the form of regulatory context, where foreign firms face discretionary treatment by local officials when compared to local firms. Other participants highlighted another way to overcome the difficulties of establishing and registering their companies in China, by establishing an office in Hong Kong, that eases the process in registering or establishing the company in China. They explained the rationale behind such a decision that Hong Kong is more open than China, and its market has traded with

Western companies for a long time; therefore, registering a foreign company in Hong Kong is easier than in mainland China. Furthermore, as Hong Kong is part of China it is easier to register a company from Hong Kong than as a foreign company in China. Although both of Hong Kong and China mainland have the same central government, the above discussion shows that they have a different interpretation of the government legislation, resulting in a variation of the regulation implementation by these local officials. This suggests that a firm's mode switch might be triggered by the host country's legislation due to the variations of its interpretation and implementation by the local officials that the firm dealt with at the offshored location.

However, changes in host country legislation or rules will not always have negative impacts on foreign companies. For example, in 2005 the Chinese government adopted a new company law that eased business regulations and made starting a business less expensive, especially for SMEs such as “waiving a series of administrative fees for small businesses” (PWC, 2013, p. 15). This helped 15 percent of the participating firms establish their own factories in China, which was an impossible task before that date due to the high establishment fees for foreign companies in China. The data shows that firms F, I, and J started sourcing from China in 2000, 1999, 2008 respectively but they established their wholly- owned factories in 2009 (for Firm F and I), and 2011 for Firm J. Accordingly, the new ownership legislation in China that allowed foreign companies to wholly- own their manufacturing facility in China and encouraged these firms to switch their governance mode from modular and relational structures and move toward hierarchy.

Furthermore, the study participants also highlighted that building good relationships not only with local suppliers but also with local officials directly, through suppliers and personal contacts, or through employing people who have good networks or connections with officials and authorities, helped them overcome many of the challenges that related to the host country formal institution context. For example, participant PI talked about (Mr. X), who is the manager of Firm I's factory in China, and (Mr. Y), who is one of the company owners in New Zealand and originally from China. They referred to their networks and contacts in China with some powerful friends in Beijing from their time at university and how these relationships eased doing business in China for Firm I.

The above points support the argument that trust-based relationships could substitute for a formal contract within markets such as China where business practice is based on networks and relationships due to the weak system of contract law.

Informal institutional differences

Leftwich and Sen (2011, p. 322) explain that informal institution refers to the country's cultural "norms, customary practices, standard operating procedures, routines, conventions and traditions ... which are often deeply embedded in culture and its associated ideology". The findings show that after doing business in China for a while, all of the participants emphasised the importance of their learning in the form of firms' accumulated market knowledge and experience in China, and that it was one of the main reasons behind their transaction mode switching. For example, 65% of the studied firms, switched their mode because they had developed better understanding of the Chinese informal institutional context (i.e. business practice differences and cultural differences).

In relation to the business practice differences, all the study participants talked about how through learning and market knowledge acquisition, they become more aware of the host country's business practices which helped their firm's decision-making process in choosing the right governance structure(s) for their offshored activities, including some "corrective" switching that occurred. For example, participants highlighted how dealing within the Chinese suppliers improved their firm's system processes and standards. Participant PB highlighted how dealing with China suppliers improved their firm's system process and standards through getting better documentation processes, which helped the firm find the needed documents together quickly. This improved the quality of production by having better documentation systems inside the company, from sourcing to ordering, to drawings, to drawing management and push that back down to the supplier. Such system improvement increased efficiency and productivity reflected in bottom-line prices and the ability to cope with project volatility.

However, throughout the interviews the participants highlighted some of the host country business practice aspects that could have negative impacts on the firm's cost-saving and its product's quality, which initiated mode switching for their firms'

offshored transactions (i.e. quality-fade, the reliability of supply on time, etc.). The data shows that all participants faced supplier and production issues (i.e. cutting corners during production, suppliers making decisions on behalf of the client without communicating these changes to the buyer, reliability of supplying on time, etc.). The data shows that 70% of the studied firms, experienced quality-fade issues, which impacted negatively on a firm's total costs saving for 55% of participants, because suppliers sometimes accepted jobs below the actual cost and then after getting the job, they start trying to reduce their costs through various ways such as cutting-corners during production or making decisions on behalf of the client by replacing some components, which are often cheaper and of lower quality than the ones that agreed on initially, without communicating these changes with the buying firms.

The data also shows four of the 20 firms having a wholly- owned manufacturing plant in China and using a hierarchical mode due, to the lack of control by the buying firm over the quality of the supplied goods, which aligns with the TCE prediction of opportunistic behaviour by Chinese suppliers. For example, during the second, third, and fourth switches, Firms F and I started increasing their degree of equity involvement and(or) going from contracts to trust relationships with their suppliers, then moved towards a hierarchical structure by establishing their wholly- owned manufacturing plants in China. Participant PF explained that their firm exited the relational mode in the form of a JV to internal governance due to the lack of control on product quality because the Chinese partner made decisions on behalf of the NZ partner regarding their product without consulting them, resulting in quality-fade or inconsistency of product quality, which is damaging to the firm's brand and reputation. In other words, the firm changed its mode and changed supplier, internalising what was formerly externalised. While both Firms H and T switched their mode from modular and relational in the form of contract manufacturing to market governance by exiting their production from China, they kept procurement activities and components sourcing from China. For example, participant PH explained the main reasons for moving their firm's production from China to Malaysia were inconsistencies of quality, price, and supply reliability of Chinese suppliers.

In relation to host-country business practices, the data shows that 40% of the participating firms experienced quality-fade and/or a reduction in cost savings due to

middle-man practices (i.e. extra costs/paying the middle-man, quality control, longer lead-times). As explained earlier that the “concept of a middleman implies an actor [i.e. agent, company, organisation] in-between two other actors” such as a buying-firm and its suppliers (Gadde & Snehota, 2001, p.2). The findings show that in China there are a lot of shell-companies pretending to be suppliers, but in reality, these companies are acting as middle-men between the foreign buying firm(s) and local Chinese suppliers. For example, participant PK summarised their firm’s experience with middle-man practice in China, and how dealing with the middle-man had negative impacts on Firm K’s costs savings and its communication with the suppliers, which took longer because the communication went through the middle-man.

Visiting Chinese suppliers before starting to deal with them helped the participating firms to find out whether the supplier was a genuine supplier, or just a shell-company acting as a middle-man for other suppliers. This strategy helped them reduce the undesirable effects of the middle-man practice. Participant PK highlighted the middle-man or the shell-company issue and how visiting suppliers could determine the nature of the supplier. The participants highlighted that building a strict quality control system for inspecting the supplied goods helped in maintaining the quality of their final products. For example, participant PC talked about how their firm created a QC system that inspected the received goods from the Chinese suppliers, as a way to maintain the quality of their firm’s final products.

Building buyer-supplier trust-based relationships helped the firms in various ways. For example, participant PC commented that after dealing with the same supplier over time, the supplier became more flexible on the payment terms because they know each other and have been doing business together for over four years. Other firms explained that having a trust-based relationship with their suppliers helped their firms to get good prices, better delivery, and find suppliers with the necessary skills.

In relation to the communication challenges in the form of language barriers, as well as the cultural differences between home and host countries, especially in dealing with the Chinese suppliers and workers in China, the data also shows that 90% of the studied firms experienced communication issues when dealing with local Chinese suppliers and 45% of them faced cultural-difference challenges (i.e. norms and

customs). For example, participant PI highlighted that because of Chinese culture, communications could send wrong messages or be interpreted the wrong way by the foreign buying firms/ clients.

To overcome the language and communication barriers, participants explained that their firms recruited people who can speak both Chinese and English, as well as being aware of the host country's traditions, customs and norms, and these employee(s) could communicate with the Chinese suppliers on the firm's behalf to make sure that both sides - buying firms and suppliers - understand what the other side is communicating. Following this, the studied firms started offshore sourcing more complex tasks and/or running more than one transaction simultaneously. For example, participant PF explained how important it was to have personal experience in doing business in China, as well as recruiting Chinese-speaking staff who were exposed to the New Zealand and Australian cultures. They also still have their Chinese relations with the China market.

Aligning with Ketokivi and Mahoney (2017) and Coe et al. (2008), the above discussion highlights the embeddedness of any transaction within the host country social structure and institutional context, and that transactions cannot be investigated in isolation from their surrounding environment because the institutions of a country affect the nature of the firm, which then affects transaction costs (see Figure 2.4).

The above points suggest that host country formal and informal institutional factors play an important role in determining the firm's governance mode choice and mode switching. As illustrated in Table 6.2 there is widespread use of low commitment and control exchange such as market and modular structures among the sample firms, and this finding shows firms' mode choice is consistent with the Uppsala model's psychic distance. Still, it is contrary to TCE's perspective concerning the mode choice and the transaction's institutional uncertainties.

However, the findings show that as learning occurs over time, there is a greater willingness and ability to take on higher commitment modes by the firms through offshoring more transactions, and the more likely it is that firms will lean toward higher commitment and higher control investments at offshored locations (i.e. relational, captive, or hierarchy). The participant firms were inclined to use

contractual and higher commitment governance mode choices for their first, second, third, and any fourth mode switches (see Table 6.2).

These findings highlight the significant effects of both home-host country institutional differences and the firm's learning in the form of experience in the host country. Both are important because they affect the context of the decision-making that impacts the governance mode choice and offers clarification, by addressing the research gap about the governance choice element of offshore outsourcing among SMEs highlighted by critics such as Eiche (2010). These findings also provide a better understanding of how host country institutional characteristics, impact on SMEs within the international business context, which has been pointed out by various scholars (Ojala & Tyrvainen, 2009; Slangen & Van Tulder, 2009; Peng et al., 2008).

II. Market Opportunity and Competition

The study findings show only two firms (10% of the participating firms) switched their mode as a result of growing market opportunities. Such a small number supports the low-cost motive for utilising an offshore sourcing strategy as a way to compensate for resource constraints. For example, participant PI explained how manufacturing in China reduced their costs and the final product selling price, making the firm very competitive and a global industry leader.

However, acquiring market knowledge after doing business in China means that awareness of new market opportunities to sell might arise. However, the data shows only two firms saw an opportunity within the local market, which triggered a mode switch for their offshore transaction (Firms I and O). For example, participant PI explained how acquiring knowledge about the Chinese market through utilising the relational structure in the form of a JV with one of its suppliers, opened up a new market opportunity to sell to the Chinese market.

However, Firm I's Chinese partner had a different opinion about serving the local Chinese market and wanted to continue targeting foreign markets only. Therefore, Firm I established a wholly- owned factory in China to produce its product and at the same time selling to the Chinese market. In this case Firm I undertook a pure mode switch by switching its' offshored transaction from relational exchange, in the form of a JV, to hierarchical exchange by establishing a wholly- owned factory in China.

In the case of Firm O, participant PO explained how after dealing with the China market for a while, their firm started targeting China, utilising a mode switching strategy in the form of mode extension by adding another transaction to the previous one, using the relational structure and running both transactions simultaneously. They stated that,

we buy some components from China...Yes, we do source from China... at the moment, it's potential market... a large potential market... China is obviously a big market as well... so in China, we're working solely through a distributor and partners there, so we don't have our own people in China.... one of our investors is Chinese, and they're also our distributor, so we're going through them for your regulatory approval, and they will do the local manufacture there... they will end up probably sourcing the local Chinese parts there and sending them to us. And they will act then as our main contact... there

In relation to the firm's mode switching as a result of market competition, the participants talked about how their niche markets were very competitive and they were always under pressure to keep prices low but also maintain quality. Participant PI gave more details about why their firm's products needed to be price competitive, explaining that their firm produced some components for demanding international companies. They explained that the main reason for offshore sourcing from China was to maintain their firm's price competitiveness (i.e. low-cost raw materials and labour). Accordingly, Firm I changed its business model from internalising inshore to externalising offshore, employing relational exchange through a JV and finally internalising its offshore manufacturing transaction, utilising a hierarchal structure by establishing a wholly- owned manufacturing plant in China.

From all of the above, the study found that change to the host country institutional environment conditions (formal and informal institutional context) as well as a firm's knowledge in the form of host country market knowledge and experience acquired through management learning, can also initiate mode switching as well as expansion in the range of activities undertaken. This reinforces the argument that the Gereffi et al. (2005) framework is incomplete, and that these two factors – the firm's market knowledge and home-host country institutional differences – could have a moderating role in the relationship between task, location, and governance mode. These results appear consistent with the suggested framework about a firm's governance mode

choice determinants shown in Figure 2.5. Accordingly, this study makes a contribution by adding two factors, institutional differences and a firm's knowledge in the form of experience of doing business at the host country, to the three factors – complexity, codifiability, and supplier capability – that have been previously identified by GVC theory. These results suggest that firms might change their mode choices when changes occur to the firms' 3Cs, firm's knowledge and experience in the host-country and institutional difference. Thus, is answered the third sub-question of this study: *What are the triggers that initiate mode switching?*

The findings support the GVC prediction that a firm's offshored transaction's complexity, codifiability, and suppliers' capabilities determine a firm's mode choice, and any changes to these variables could initiate or trigger mode switching among the sample firms. However, the findings also highlight that a firm's learning in the form of market knowledge and home-host country institutional differences can influence mode choice, and changes within these two factors could also initiate mode switching in the firm's offshored transaction(s). Hence it can be stated that the offshored transaction's complexity, codifiability, suppliers' capabilities, firm's market knowledge and home-host country institutional differences are the main determinants for a firm's governance mode choice, and any changes to these variables could trigger or initiate mode switching.

With regards to the impact of mode switching on a firm's international competitiveness, the data shows that all the participating firms faced different challenges related to their internal and external environmental conditions that initiate mode switching. For example, management learning and acquiring market knowledge or experience over time, which is related to the internal determinants for mode switching (see Table 2.3), as highlighted by Welch et al. (2007), participant PD talked about how their accumulated learning about the host country market and cultural knowledge, helped the company in diverse ways, i.e. reducing QC costs, better suppliers, cost improvement.

This suggests that China is a complex and difficult market to foreign firms to make a correct offshore sourcing decision, in the first place. The participant also highlighted that getting high-quality products at a low cost was the most important variable for

their firm's competitiveness within its market, which influenced mode choice and mode switching. Similarly, participants PI and PT explained how mode switching of their transactions lowered their production costs enabling them to maintain their competitiveness and become the market leader within their niche market(s).

These examples highlight how mode switching helped the studied firms to survive and maintain competitive advantages of the China market, and this helps answer the research's fourth sub-question: *How does mode switching contribute to business strategy and international competitiveness?*

The findings of this study suggest mode stability is low and that switching is the norm and is related to a firm's accumulated learning. As firms get more market knowledge, they are able to accept greater risk and move from contracts to more relationship or equity-based governance.

In relation to the adaptations that firms need to make during different mode switching, the findings show that all the participating firms faced different challenges related to the formal and informal institutional context of the host country, which forced them to adopt different strategies to maintain their competitiveness within their niche market. The participants highlighted different kinds adaptations including a *Granulation* strategy, recruiting staff who are familiar with both countries' languages and cultures, creating strict quality control (QC) systems, building good networks and relationships based on trust with suppliers and officials in China, as well as regular visits to suppliers in China.

Some participants utilised a *Granulation* strategy to overcome the weak IP protection law. They explained how to overcome the suppliers and production issues, by establishing strict quality control systems for checking all the received goods from China suppliers and onsite spot checking, as ways to minimise the quality-fade issue and maintain product quality. They also emphasised the importance of building good relationships with suppliers, as well as having regular visits to the suppliers' facilities.

The data shows that all participants also highlighted that regular site visits to China suppliers' factories helped their firms build good relationships and networking with the local suppliers in China, based on trust, and helped them to get good prices, better

delivery, easier payment terms, and to find suppliers with the necessary skills. This suggests that trust-based relationships could substitute for formal contracts in economies such as China, and thus aligns with the institutional literature stream that argues in the case of a weak institutional system. For example, participant PQ talked about how building good relationships with a China supplier based on trust that was crucial to their firm's survival as a small-sized firm, and such relationships helped their firm attract other suppliers with necessary skills.

Participants also highlighted the importance of having employee(s) who are familiar with both home and host countries and how such a strategy helped them to overcome the language and cultural barriers when dealing with Chinese suppliers. Accordingly, the highlighted adaptation of the above strategies among the studied firms during different stages of their mode switching helps answer the research's fifth sub-question that states: *What kinds of adaptations are required for such mode switching?*

From this discussion it can be stated that the 3Cs factors – complexity, codifiability, suppliers' capabilities – as well as a firm's learning and home-host country institutional difference are the main determinants for a firm's governance mode choice, and any changes to these variables could trigger mode switching. This answers the study's primary question, that investigates the governance mode choice determinants among the Australasian high-tech manufacturing SMEs when offshore sourcing to China, which states: *What factors determine the governance mode choice of Australasian high-tech manufacturing SMEs when offshore sourcing to China, and what triggers changes in mode choice?*

Having answered the primary research question and its sub-questions, Chapter 6 concludes. This chapter analysed the data findings, interpreted within the light of the study's proposed framework introduced in Chapter 2. The chapter also compared and synthesised GVC theory framework of a firm's transaction's governance mode choice and mode switching determinants based on the findings. The discussion highlighted that the GVC theory, and in particular, Gereffi et al. (2005) framework, is useful but appears simplistic in assuming a single transaction with a single mode. The study findings show that firms often expand the range of what they do in China as a result of learning processes driven by increasing market knowledge. Accordingly, the study

findings enrich and extend GVC theory by identifying two more variables that could initiate mode switching during offshore sourcing: firm's host country market knowledge and home-host institutional differences. The following chapter, Chapter 7, will discuss the present study's implications, recommendations, limitations, and conclusions.

Conclusions

Overview of the Study

In the last few decades, offshore sourcing has become widespread among firms of various sizes and from different industries, facilitated by developments in communication technology and transport/logistics (Ministry of Business, Innovation & Employment [MBIE], 2013b). China is considered a favoured location for offshore sourcing activities by many manufacturing firms (Matteo, 2003), particularly for its ability to offer low-cost resources: labour, raw materials, land, R&D capabilities, as well as high-technology manufacturing (Hikmet & Enderwick, 2015; Brown, 2005).

While knowledge of offshore sourcing is extensive, it offers limited insights into the nature of governance structures that firms use to manage their offshored transactions (Hikmet 2015). Furthermore, it does not explain the dynamics of governance mode switches and how governance processes change or evolve over time, the triggers that initiate mode switches, or the impact of alternative governance arrangements on the firm's offshore activities.

This research focused on a foreign firm's choice of governance mode, while also contributing to a deeper understanding of how governance mode switching impacts the offshored activities using a sample of small and medium-sized technology-based enterprises (SMEs) within high-tech manufacturing industries. The study investigated the triggers that initiate mode switches and the impact of alternative governance arrangements on the firm's offshored activities in emerging markets. The overarching research question for the study was: *"What factors determine the governance mode choice of Australasian high-tech manufacturing SMEs when offshore sourcing to China and what triggers changes in mode choice?"* and its five supporting sub-questions:

1. "What factors determine SMEs' initial governance mode choice when offshore sourcing to China?"
"Why do companies change their governance modes?"
"What are the triggers that initiate mode switching?"
"How does mode switching contribute to business strategy and international competitiveness?"

“What kinds of adaptations are required for such mode switching?”

The thesis contains eight chapters. Chapter one provided an introduction and background to the studied phenomenon mode choices and mode switching within the context of offshore sourcing – and its definition, as well as an outline of the thesis. Chapter 2 reviewed three streams of literature relevant to the overarching research question and its five sub-questions: transaction cost economics (TCE), institutional, and network (e.g. GVC) literature streams in offshore sourcing. The review confirmed that theoretical understanding and research on SMEs within the high-tech manufacturing sector and their governance mode choice and mode switching during offshore sourcing to China, are limited. The chapter also proposed a framework based on the three literature streams, highlighting the governance mode choice and mode switching determinants during offshore sourcing. Chapter 3 described the methodology and method utilised to collect the study data. It also clarified that the interpretive paradigm was the philosophical position that was guiding this research. The chapter elucidated that the study employed the qualitative research design approach and used a multiple case study approach as a strategy of inquiry. Chapter 4 described the data collection process, illustrating that the data were collected via semi-structured face-to-face interviews with 20 Australasian SME managers who were involved in the decision-making process for their firms’ offshore sourcing strategy. It also described the steps taken to transcribe and analyse the collected data. Chapter 5 presented the findings of the study supported by quotes from the participants. Chapter 6 discussed the findings in relation to the literature and the proposed model to answer the questions and propositions of the study. The chapter also applied the study data to the GVC theory model propositions, providing a test of the GVC model, as well as to the proposed framework, based on the three literature streams.

This final chapter presents concluding comments on the research and is organized into four main sections: conclusions, implications and contributions, limitations, and recommendations for future research. The first section provides a summary of the study. The second section discusses the main findings of the study. The third section highlights the study contributions and implications for theory, policy, and business practice. The final section covers the limitations of the study and highlights future research suggestions.

The Main Findings

As noted earlier, the Uppsala model highlights three primary types of operational governance mode choices that firms can choose from, for their offshored transactions when entering a new market: market modes (e.g. direct and indirect export), cooperation or contractual modes (e.g. franchising, licensing, contract manufacturing) and hierarchy modes (e.g. captive and wholly-owned subsidiaries) (Morschett et al., 2015; Welch et al., 2007). While TCE goes beyond a firms' entry mode and identifies three governance mode choices that a firm could use to manage its transactions: hierarchy, network, and market. The GVC literature goes a step further, and identifies five major governance mode choices: hierarchy, captive, relational, modular, and market (Gereffi et al., 2005). Therefore, this study uses GVC's governance modes as the base for analysing and discussing the study's data.

Global value chain theory suggests that firms engaged in outsourcing are likely to change their governance mode when changes occur to the firms' 3Cs (transaction complexity, codifiability, and supplier capability). Transaction cost economics highlights that firms are more likely to change their governance mode when changes occur to the characteristics of their transactions such as asset specificity, uncertainty (e.g. opportunism & bounded rationality), and frequency of transactions. The Uppsala theory suggests that any changes to the firms' learning variables- experiential market knowledge and psychic distance- are likely to influence a firms' governance mode switch, focusing on selling (i.e. firm's product or service) rather than sourcing. The data reported in this study shows every participant firm has changed at least once whilst offshoring in China and that there is a pattern of mode switching among the studied firms.

Experience of operating in the Chinese market enabled the sample firms to accept higher levels of risk, allowing them to assume higher commitment governance modes based more on trust than market exchange. The findings show that the triggers that initiate mode switching among the studied firms are likely to be cost based driver as new opportunities, or as they acquire market knowledge of the host country.

The points discussed throughout chapters 5 and 6 of this thesis offer several conclusions. First, the findings highlight that all the Australasian high-tech SMEs

interviewed were resource seekers that internationalised through offshore sourcing to compensate for home country resource constraints by tapping into the resources of other firms in the offshored location instead of the market seeking to sell/export the firm's product or service as suggested by the Uppsala theory. However, the findings showed that a small percentage of the participating firms also saw an opportunity in the local market for their products after being in China for a while.

Second, the study shows that the participating firms benefited from offshore sourcing to China and maintained or improved their competitiveness in various ways. The key points include cost reduction by having access to low-cost raw material and labour, shorter lead-time, improved product quality by having access to latest technology, access to the needed technology and technical skills. There are also secondary or subsidiary benefits include: significant are improved efficiency and productivity (i.e. improved documentation system), and access to new markets and customers. On the other hand, doing business in the China market also comes with challenges that could impact cost savings negatively (i.e. cost-quality trade-off, quality fade, IP, etc.). Therefore, firms needed to balance the challenges at the offshored location against the considerable advantages of that location, which could be very challenging, but which could offer these firms a stronger market position within their niche markets.

Third, the study shows that after being in the Chinese market for a while, various adaptations and strategies were utilised by the participating firms, including a granulation strategy, recruiting bilingual staff who are familiar with both countries' languages and cultures, creating strict quality control QC system, building good networks and relationships based on trust with suppliers and officials in China, and regular visits to China suppliers. This suggests that over time there could be adjustments as learning occurs or greater familiarity with the market in the form of market knowledge, is accumulated.

Fourth, the study shows all the sample firms went through different stages of mode switching during their offshore sourcing in China. For example, all the participating firms chose non-equity modes as an initial mode for their offshored transactions, whether having previous experience in China or not. This suggests that in the early stages of offshore sourcing, companies may not have enough information or well

informed about the host country local market condition and the appropriate local partners to make the most efficient decision about the best governance structure for the offshored transaction within a transitional economy due to the home-host country psychic distance, as highlighted by the Uppsala theory, and to the host country's market failure, as emphasized by the transaction costs literature. Having limited knowledge about the host country market, raises the level of uncertainty, as predicted by TCE and Uppsala theories, and becomes one of the determinants that could influence initial mode choices. However, the findings show that experience with the Chinese market, as firms become more familiar with the formal and informal institutional context of the host-country, have a better understanding of its conditions and start adjusting their governance modes to better suit their needs and requirements.

The findings highlight that there is a relationship between the firms' learning, in the form of management learning in acquiring market knowledge and their mode switching behaviour or the firm's governance mode establishment chain. As managers become more knowledgeable, they can assume higher levels of risk and are willing to commit higher level of resources to building trust-based relationships. This finding contributes to strengthening GVC and TCE theories suggesting that it is not only changes in the variables suggested by each theory (i.e. 3Cs, etc.) that trigger mode switching, but also learning in the form acquiring knowledge and experience in doing business at the host country, which enables both corrections and moves towards more optimal modes that suit the firm's needs. The present study finds a better explanation about the firm's governance mode dynamics, is provided when elements of each theory of the three theories – Uppsala, TCE, GVC- are combined. This finding augments the three theories' frameworks through extending Uppsala's firm's knowledge perspective, to include the management learning within the organisation in the form of market knowledge acquired through experience. This provides an insight into the firm's governance mode dynamics and also moves TCE and GVC framework away from being too technically focused.

On the other hand, although Uppsala theory highlights the firm's learning process through progressing from low psychic distance market to higher psychic distance markets over time, this does not apply to the study's participants. The difference is

that when the studied firms start outsourcing from China, they do not have the opportunity to learn from other similar or closer psychic distance markets to the Chinese market first and then go to China. Instead, they go straight to China because of its cost advantage. So, they have to learn to deal with what Uppsala sees as a high level of risk and uncertainty due to the high psychic distance between home and host countries' markets and the possible existence of institutional void in China. Accordingly, the linear approach of Uppsala is not always appropriate, and the learning does not always happen prior to going to China. Instead, the learning occurs after entry into China, a major contrast between Uppsala and this study.

Figure 7.1 summarises the findings of the study in relation to mode switching during offshore sourcing to China, where grid (1) represents the starting point for the sample firms' offshore sourcing, that is, their initial mode choice. After being in China for a while, firms start switching their transaction modes in various ways: i.e. pure switch, mode expansion, or mode extension. According to the discussion in chapter 6, the findings show that some firms might move from grid (1) to grid (2) in Figure 7.1 and go through a pure mode switch, which is a situation when a firm changes its governance mode from one institutional arrangement to another or from one mode exchange to another one, with no change in the underlying transaction; i.e. internalising vs externalising. This situation is aligned with the mode switching highlighted in TCE and GVC theories, where the transaction remains the same but the mode changes. Other firms might move from grid (1) to grid (3) of Figure 7.1 and experience mode expansion, where a firm uses the same governance mode for more than one transaction at the same time. Yet others engage in mode extension, grid (1) to grid (4) of Figure 7.1, which occurs when a firm adds one or more transactions utilising different governance structures. For example, a firm might start offshoring a particular transaction using market exchange, grid (1) of Figure 7.1, and then undertake one or more activities with different governance modes managing these transactions simultaneously, grid (4) of Figure 7.1. Accordingly, both mode expansion and mode extension switches are not pure mode switches in the sense of Gereffi et al. (2005), because the nature of the underlying transaction appears to be changing due to the learning factor in the form of acquired market knowledge, through experience in doing business and contacts and networks in the host country. The study shows that a firm's

mode and transaction switches could occur simultaneously, which extends understanding of the dynamic aspects of firms' governance mode choices and mode switching during offshore sourcing and provides insights into the determinants that trigger and initiate mode switching.

The study shows few cases of pure mode switching where transactions remain the same but the mode changes, with most of the cases showing mode hybridisation or mode modification because of a simultaneous change in the nature or number of transactions undertaken. Accordingly, and at a later stage of firms' offshore sourcing, firms might also move between grid (2), grid (3), and grid (4) of Figure 7.1 according to their needs.

		Mode	
		Initial Mode	Switched Mode
Transaction	Initial Transaction	X <div>1</div>	Pure Switch <div>2</div>
	New Transaction	Mode Expansion <div>3</div>	Mode Extension <div>4</div>

Figure 7.26 Firm's mode switching during offshore sourcing.

Based on the above, this thesis offers three key findings. First, it is clear that there are shortcomings in the GVC theory and in particular the Gereffi et al. (2005) model which omits important determinants of both initial mode choice and mode switches. Second, following from the first, it is not only the 3Cs variables that determine mode switching, this study finds that other factors that could trigger mode switching, such as home-host country institutional differences and market knowledge acquired through experience in overcoming such institutional differences. Third, the GVC model too

static and lacks dynamism which the results of this study reveal in the form of ongoing learning and which is important in initiating different forms of mode switching (i.e. pure switch, mode expansion, and mode extension).

Contributions and Implications

This thesis contributes to both theory and practice of business and policymaking, and to wider community understanding of the chosen phenomenon of study. These are discussed in more detail in the following sub-sections.

Contribution to Theory

This study makes a number of contributions to theory. First, it extends the current knowledge and the understanding of the offshore sourcing phenomenon. The existing literature does not satisfactorily explain the dynamics of governance mode switches and how governance processes change or evolve, the triggers that initiate mode switches, or the impact of alternative governance arrangements on the firm's offshore activities. A contribution of this research is in providing insights into the dynamic aspects of the firm's governance mode choice and mode switching, during offshore sourcing through investigating their determinants. Examining the firm's mode choice and mode switching in the context of offshore sourcing, this study expands the primary view of the firm's governance dynamic within the three literature streams. The findings show that all the participating firms switched their governance mode at least once during their offshore sourcing from China.

Second, as outlined in chapter 2, in the three literature streams— transaction cost economies, global value chain, and Uppsala theory – that investigate mode choice and mode switching, “most of the studies adopt a static [and leaner] perspective” with comparatively static outcomes (Hernandez & Pedersen, 2017, p.141). They ignore the dyadic buyer-supplier relationship dynamic side of governance mode choice and mode switching, the triggers that initiate mode switches, and the impact of alternative governance arrangements on the firm's offshore activities (Norwood et al. 2006). By utilising Uppsala learning perspective as a starting point, this study is not building or creating a new theory. Rather, it contributes primarily to the existing Transaction Cost Economics (TCE) and GVC theory, which deal with the governance aspects of a firm's

externalisation decisions but do not cover the firm's effective governance and governance switching, within an international business context.

The discussion in chapter 6 draws attention to the role of a firm's market knowledge in the host country and home-host country institutional differences in the firm's governance mode choice and mode switching during offshore sourcing. Accordingly, as illustrated in the proposed framework of this study (see Figure 2.5), the findings here refine and extend the GVC theory model by adding two new variables - firm learning in the form of acquiring host-country market knowledge, and home-host country institutional differences. These need to be added to the 3Cs of GVC thinking as determinants of mode choice and mode switching.

The findings also show that firms often operate more than one transaction simultaneously utilising different governance modes, which challenges the single governance mode perspective, that has not been explained or discussed either by the GVC nor TCE theory literature. The study shows that all the participating firms switched their offshore transaction(s) mode at least once during their offshore sourcing cycle from China and shows few cases of pure mode switching where the transactions remain the same but the mode changes (i.e. pure switch). Most of the cases showed mode hybridisation or mode modification because of transaction modification such as mode expansion and mode extension, which is very important concepts of the dynamic aspects of firm's mode switching. In other words, the study shows that firm's mode and transaction switches can occur simultaneously, which extends understanding of the dynamic aspects of firms' governance mode choice and mode switching during offshore sourcing and provides an insight into the determinants that trigger mode switching (see Figure 7.1). This finding broadens the definition of a firm's mode switch, to also include changes in transactions. This makes the discussion of a firm's mode switching a lot more complex than the GVC framework portrays, and a lot messier, which aligns with Benito et al. (2013), but at the same time adds a richness to the current understanding of the firm's dyadic exchange and its governance dynamic aspects.

The findings of this study make important contributions to the extant international business literature. It examined and synthesised the GVC theory framework by

applying its 3Cs variables to the studied firms. However, the findings of the importance of firm's market knowledge and home-host institutional ~~distance~~ differences suggest that the focal or buying firms may be driving the upgrading by doing more complex and different transactions, which is a key finding and is contrary to what many GVC scholars believe (Gereffi et al., 2005). Where they argue that GVCs are the result of power asymmetries and upgrading of suppliers requires other interventions (e.g. Non-Government Organisations, Governments etc.), otherwise, the value chain suppliers' standards might deteriorate and worsening the conditions of the supply chain, and therefore the buying-firms might switch both suppliers and governance modes. The findings reported here, suggest that these lead firms expand what they are doing as a result of learning and any decision is overlaid by the firm's management learning processes and(or) the change to the environmental conditions that the firm perceives. This suggests a more positive environment for supplier upgrading where policy makers understand the key drivers.

Contribution to Business Practice

The present study has important implications for business managers by highlighting the importance of the learning side of offshore sourcing, and that offshoring strategy is not a static decision, but actually, it is a continuous learning process. As firms learn, they become more effective in their offshore sourcing decision-making process. The study findings have various practical implications to business strategy and practice, highlighting the importance of the learning process in the form of market knowledge and experience in the host-country. For instance, building networks and contacts with local suppliers and officials as well as foreign companies, is very important for firms in countries like China.

The findings and the proposed framework (see Figure 2.5) could be a valuable reference tool for businesses and their decision-makers when they are considering utilising an offshore sourcing strategy. Chapter 6 highlighted different strategies and adaptations that the participating firms used during their offshore sourcing from China that helped them to maintain their competitiveness within their markets that might inspire other entrepreneurs. It is hoped that the framework enables managers to appraise their governance mode choice and mode switching strategies by providing

them with insights about governance mode choice determinants, as well as the factors that trigger mode switching for their firm's offshore sourcing.

Contribution to Policymaking

The findings of this study have relevance to the home countries' policymakers as well as the ones in the host country. The home countries in this study, New Zealand and Australia, are quite exceptional in that they are very small and lack the scale of manufacturing industry that America, Japan or Europe has. To overcome these restrictions of the business environment that are holding back both countries' growth, this study found that the sample firms became more competitive within their niche markets because they went overseas utilising an offshore sourcing strategy to access the needed technology as well as the talented and skilled workforce that they need (Callaghan Innovation, 2016, pp. 8-9).

China is considered a global manufacturing centre and one of the favoured offshore locations for outsourcing different activities for many firms. It offers a wide range of advantages, such as access to low-cost resources like land and labour and "an increasingly sophisticated supply base and R&D capability" (Hikmet & Enderwick, p. 13). This study underlines the apparent benefits of offshore sourcing to China among the studied SMEs (i.e. gaining larger scale of production, accessing the needed skills and resources at a lower cost or that are not present in the home country market, etc.), which compensate for the limited resources, especially financial resources, possessed by the sample firms. However, as highlighted in chapter 2, doing business in a transition economy such as China, brings challenges and issues, as supported by the findings of this research. The study highlights different challenges that faced foreign companies when dealing with the China market that related to the policy implementation issues (i.e. favoritism, weak IP protection and contract laws, etc.). This might put off some foreign MNEs from dealing with such an attractive market, especially SMEs that face a scarcity of financial resources or international experience.

Furthermore, there is a debate within the outsourcing literature about whether the suppliers going to be upgraded by developing their own capabilities to perform high value-adding activities (e.g. product design, development, assembly,) within their value chain as a result of power asymmetries, or through NGOs and governments

interventions (Gereffi et al., 2005; Sako & Zylberberg, 2017). However, this study found that the lead firms may contribute more to supplier upgrading than is widely believed because these SMEs are lead firms in these buyer-supplier dyadic transactions. Therefore, they make the decisions, not the suppliers, and in many cases, their suppliers simply respond. It would be in the interests of Australia and New Zealand for policy makers to consider facilitating offshore sourcing and to see it as a complement, not a substitute, for producing at home. It is hoped that this study shows policy-makers the importance of understanding how these SMEs are faring within such constraints when offshore sourcing. In response to the present study findings, it is hoped that the New Zealand and Australian governments should consider in their future plan how they could provide these firms with the support needed for their growth through their agencies (i.e. NZTE, Callaghan Innovation, Commonwealth Science Council, etc.) by creating the “right economic and regulatory framework at the international level” (Hikmet, 2015, p. 4).

As for policymakers in the host country, it is interesting to note that China required JVs in the early years of opening to maximise the transfer of knowledge to build its supply base. They have been able, in recent years, to relax this requirement in part because of the extension of offshore sourcing activities within a capable supply base. However, this study shows that there is a need for local officials and authorities to understand the upgrading process of the central government policies and what drives mode switches among MNEs when offshore sourcing from China. It is hoped that this study and its findings could contribute to the Chinese policy-makers developing its policy implementation process, which could help attract more investment to the country by providing the more stable and supportive business environment.

Contribution to the Wider Community

The findings also have further practical implications to the wider community and public understanding. The public perception of offshore sourcing is often negative because the public tends to believe that moving production offshore to emerging markets such as China downgrades the home country products, as well as meaning job losses within the home country. However, the study found the sample firms were more competitive because they went overseas. It is hoped that this study contributes to the wider community and public understanding by raising awareness of the important role of

high-tech manufacturing SMEs to the home economy, which is under-researched, and how important the offshore sourcing strategy is for the survival and competitiveness of high-tech SME manufacturers' within their niche markets.

Limitations and Future Research

Although the present study presents an in-depth analysis of the dynamic aspects of firms' governance and the proposed model highlights the governance mode choice and mode switching determinants during offshore sourcing from China, it has a number of limitations that restrict generalization of the findings. These limitations are due to the focus (i.e. industry, country), data selection (i.e. the sample size, firm size), and the applied methodology. These are discussed in more detail below.

First, the study data is limited to 20 Australasian high-tech manufacturing firms. As highlighted in chapter 3, the benefit of a large sample provides an indication or prediction of the general patterns of the studied phenomena, as recommended by scholars who advocate collective case studies as helpful for generalizing study findings (Yin, 2009; George & Bennett, 2004), as well as, capturing firms' mode switching behaviour during offshore sourcing in such markets. Therefore, future research needs to consider a larger sample whether it is from the same and(or) other home countries that source from China.

The second limitation of this study is that its findings are limited to the participating firms' home countries, New Zealand and Australia, and the host country, China. Therefore, future research needs to consider firms from other home countries that source from China. A similar study also needs to be applied to the Australasian high-tech manufacturing SMEs that source from countries other than China, and that could also offer low-cost resources (i.e. labour, raw material and land, technology and technical skills, etc.) such as Mexico, the Philippines, or India to test the findings and propositions outlined by this thesis.

The third limitation is the study has focused on Australian and New Zealand manufacturing SMEs within the high-technology sector and as noted earlier that the Australian SMEs are smaller than many SME definition, which suggests that the findings are limited to that type and the size of firm. In other words, the findings for other types of companies might be different. Therefore, the findings of the present

study confidently apply to the studied firms and similar type of firms such as born-global type firms. The study shows several of the participating firms are born-globals that internationalised from day one of their establishment, which is worthy of further research. Therefore, follow-up research for other types of firms (i.e. bigger firms or more complex or multiproduct firms or maybe more standardised or lower technology commodity type of products), or industries would be valuable, in showing similarities and differences in mode switching determinants during offshore sourcing.

Fourth, regarding the limitation of the findings that relates to the research methodology, as noted earlier in chapter 3 and 4, this thesis aims to explain and explore the reasons behind firms' governance mode choice and switching during their offshore sourcing to China from the point of view of the firm's managers as such decisions are mostly taken by the business owners or managers. This means that this study has an explorative nature that seeks further understanding of the studied phenomenon. The thesis adopted an exploratory case study approach, using multiple case studies (Myers, 2013, p.6; Kaplan and Maxwell, 2005). Therefore, the empirical discussion and findings of this study cannot be generalized in a statistical sense. As an alternative, the collective case study approach was utilised as a strategy of inquiry to provide deeper understanding and analysis of the main determinants that initiate mode switching. In this way, further research is needed, utilising a large-scale quantitative survey for producing generalisable findings. Furthermore, follow-up research to investigate the firms' governance mode choice and mode switching determinants from other stakeholders' perspectives (i.e. suppliers, employees, etc.), would be useful.

Overall, it is hoped that this thesis contributes to the general understanding about the important role of a firm's governance mode choice and mode switching in maintaining its survival and competitiveness during different stages of the firm's offshore sourcing activity. It is hoped that this thesis's findings provide new insights about the dynamics of firms' governance mode choice and mode switching during offshore sourcing to China and provide a stimulus to further research about the studied phenomenon.

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Appendices

Appendix A: Ethics Approval



AUTEC Secretariat

Auckland University of Technology
D-88, WU406 Level 4 WU Building City Campus
T: +64 9 921 9999 ext. 8316
E: ethics@aut.ac.nz
www.aut.ac.nz/researchethics

AUT

12 July 2017]

Peter Enderwick
Faculty of Business Economics and Law

Dear Peter

Ethics Application: 17/221 Governance of offshore sourcing: Australasian high-tech SMEs

I wish to advise you that the Auckland University of Technology Ethics Committee (AUTEC) has **approved** your ethics application at its meeting of 10 July 2017.

This approval is for three years, expiring 10 July 2020.

Standard Conditions of Approval

1. A progress report is due annually on the anniversary of the approval date, using form EA2, which is available online through <http://www.aut.ac.nz/researchethics>.
2. A final report is due at the expiration of the approval period, or, upon completion of project, using form EA3, which is available online through <http://www.aut.ac.nz/researchethics>.
3. Any amendments to the project must be approved by AUTEC prior to being implemented. Amendments can be requested using the EA2 form: <http://www.aut.ac.nz/researchethics>.
4. Any serious or unexpected adverse events must be reported to AUTEC Secretariat as a matter of priority.
5. Any unforeseen events that might affect continued ethical acceptability of the project should also be reported to the AUTEC Secretariat as a matter of priority.

Non-Standard Conditions of Approval

1. Amendment of the Information Sheet by:
 - a. Removing the offer of counselling;
 - b. Removing the words 'with you' in relation to the Confidentiality Agreements from the section on privacy;
 - c. Revision of the section about the purpose of the research, making it more reflective of what is actually happening.

Please quote the application number and title on all future correspondence related to this project.

AUTEC grants ethical approval only. If you require management approval for access for your research from another institution or organisation then you are responsible for obtaining it. If the research is undertaken outside New Zealand, you need to meet all locality legal and ethical obligations and requirements. You are reminded that it is your responsibility to ensure that the spelling and grammar of documents being provided to participants or external organisations is of a high standard.

For any enquiries, please contact ethics@aut.ac.nz

Yours sincerely,

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

Cc: thikmet@nznet.gen.nz; Simon Mowatt; Anna-Maria Murtola

a) Interviews, focus group, observation guide



Interview Questions

1. Can you tell me about your company background, size, products, market position, customers, etc.? how much dose the business on R&D (% spending)?
2. When and why did you offshore your production activities? Why you chose China in particular?
3. What ownership style (governance mode choice) did you choose for your offshored activity(s)at the first place? When did you made the first changes?
4. What were the transaction stages? What were the key factors that you considered in this decision?
5. What was the nature of the offshored task(s) that you outsourced?
 - a. How complex the technology that needed for this outsourced task? Can be codified? What were the difficulties to transfer it?
 - b. How did you find the local suppliers' capabilities in China?
6. What kind of issues you and your company face in this process?
7. What have been the chief benefits that have resulted from offshoring these activities? How mode switching benefitting the company? (effectiveness of % cost saving, landed costs, quality, access new technology, access technical expertise, productivity, efficiency....)
8. What have been the main difficulties you have experienced and how have you overcome these? (Protecting IP, dealing with local government, unreliable suppliers....)
9. Will you repeat this experience again in the future? If so, how are you going to do it this time? Are you going to do anything differently? How and why?

b) Participant Information Sheet



Participant Information Sheet

Date Information Sheet Produced:

dd mmmm yyyy

Project Title

Governance of Offshore Sourcing: Australasian High-Tech SMEs

An Invitation

Good Afternoon Mr. xxxxxxxx

My name is Taghreed Hikmet; and I would like to invite you to participate in my research for my Ph.D. 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 Ph.D. theses; and it is covering Australasian (NZ and Australia) Small to Medium Size Enterprises (SMEs) which are considered a vital part of their economies; and they make up around 97 % of all enterprises in both countries with substantial contributions to the national employment, production of goods and services, and innovation (MBIE, 2012). In this sector both countries have 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 Australasian 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

The present study contributes:

- **Academically:** to explore the moderating influence of the host country institutional settings, in term of SMEs' intellectual property and know-how when offshore outsourcing their production activities to China, on the relationship between an SME's activities transaction costs and its governance mode choice and mode switching. It also investigates influences of the host country institutions on the triggers initiating governance modes switching for these SMEs. Accordingly, this study is not building or creating a new theory. Rather, it contributes to the knowledge of the existing Transaction Cost Economics (TCE) theory, which deals with the governance aspects of a firm's externalisation decisions, but at the same time TCE has not covered the firm's effective governance and governance switching within an international business context, and the triggers that initiate such governance mode switching during offshore sourcing. The contributions of the present study will not just be on TCE theory, but it looks at managerial details, making it relevant to other streams of theory - network, internationalisation, and institutions - through answering the research overarching question and its sub-questions.

- **Wider community and Public understanding:** It will make a useful contribution to public understanding of offshore outsourcing which is often perceived negatively, and it will make the wider community aware of the important role of high-tech manufacturing SMEs to the economy, which is under-researched.
- **Participants and management practice** will share their experiences with the wider community which might inspire other entrepreneurs and help them to maintain their competitiveness through offshore outsourcing, and it also will better enable managers to appraise their governance mode choice and mode switching strategies by providing them with insights about governance mode choice determinants, as well as the factors that trigger mode switching for their firm's offshore outsourcing. This will help these decision-makers to improve their firms' strategic operations by ensuring high "quality and low cost in the [product or] service delivery, and reduces complexity and associated risk to the organisation" (Tate & Ellram, 2009, p. 256) at the overseas locations.
- **Researcher,** this research will be part of the researcher's thesis, which is one of the requirements to achieve a Ph.D. Degree in International Business, as well as upskilling the researcher professionally through the enrichment of her industrial and managerial decision-making knowledge through conducting this research.

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

You were identified as a manager, CEO, or Founder of your company through your company 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 2 years and less than 5 years); and your company fits within the research company size and industry criteria's.

How do I agree to participate in this research?

Your participation in this research is voluntary (it is your choice) and whether or not you choose to participate will neither advantage nor disadvantage you. You are able to withdraw from the study at any time. If you choose to withdraw from the study, then you will be offered the choice between having any data that is identifiable as belonging to you removed or allowing it to continue to be used. However, once the findings have been produced, removal of your data may not be possible.

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.

How will these discomforts and risks be alleviated?

AUT Health Counselling and Wellbeing is able to offer three free sessions of confidential counselling support for adult participants in an AUT research project. These sessions are only

available for issues that have arisen directly as a result of participation in the research, and are not for other general counselling needs. To access these services, you will need to:

- drop into our centres at WB219 or AS104 or phone 921 9992 City Campus or 921 9998 North Shore campus to make an appointment. Appointments for South Campus can be made by calling 921 9992
- let the receptionist know that you are a research participant, and provide the title of my research and my name and contact details as given in this Information Sheet

You can find out more information about AUT counsellors and counselling on <http://www.aut.ac.nz/being-a-student/current-postgraduates/your-health-and-wellbeing/counselling>.

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 Ph.D. Degree in Business
- 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

What compensation is available for injury or negligence?

In the unlikely event of a physical injury as a result of your participation in this study, rehabilitation and compensation for injury by accident may be available from the Accident Compensation Corporation, providing the incident details satisfy the requirements of the law and the Corporation's regulations.

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 not respond the invitation email.

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, *Professor Peter Enderwick*, email address peter.enderwick@aut.ac.nz , and a work phone number: 64 9 921 9999 ext.: 5748.

Whom do I contact for further information about this research?

Please keep this Information Sheet and a copy of the Consent Form for your future reference. You are also able to contact the research team as follows:

Researcher Contact Details:

Research name: Taghreed Hikmet
Email address: taghreed.hikmet@aut.ac.nz

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 type the date final ethics approval was granted, AUTEK Reference number type the reference number.

c) Consent form



Consent Form

Project title: Governance of Offshore Sourcing: Australasian High-Tech SMEs

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 taking part in this study is voluntary (my choice) and that I may withdraw from the study at any time without being disadvantaged in any way.
- ☐ I understand that if I withdraw from the study then I will be offered the choice between having any data that is identifiable as belonging to me removed or allowing it to continue to be used. However, once the findings have been produced, removal of my data may not be possible.
- ☐ I agree to take part in this research.
- ☐ I wish to receive a summary of the research findings (please tick one): Yes ☐ No ☐

Participant's signature:

Participant's name :

Participant's Contact Details (if appropriate) :

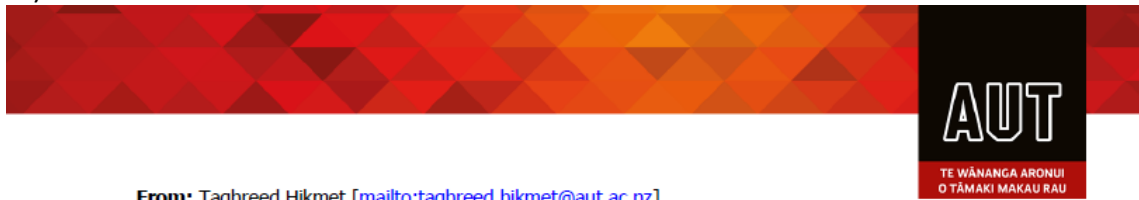
Date :

Approved by the Auckland University of Technology Ethics Committee on 10 July 2017

AUTEC Reference number 17/221

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

d) Email of invitation



From: Taghreed Hikmet [<mailto:taghreed.hikmet@aut.ac.nz>]
Sent:
To:
Subject: Research Invitation

Dear Mr. xxxx,

My name is Taghreed Hikmet, I am developing research for my Ph.D. theses in International Business at Auckland University of Technology titled "*Governance of Offshore Sourcing: Australasian High-Tech SMEs*". I am conducting interviews as part of a research study to increase understanding of how offshore sourcing is perceived and experienced by high-tech manufacturing firms from Australia and New Zealand. As a firm manager/ owner and a decision maker, you are in an ideal position to give me valuable first-hand experience from your own perspective.

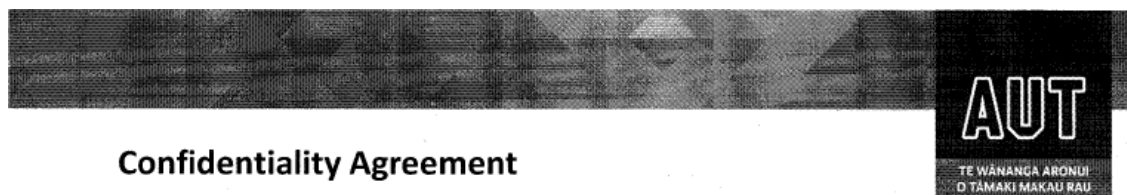
I am inviting you to participate in my study and your participation will be valuable to the research and findings and could lead to greater public understanding the effective governance mode to maintain international competitiveness within Australasian (Aus. And NZ) manufacturing industry. The interview will take approximately 30-45 minutes.

If you are willing to participate please suggest a day and time that suits you and I will do my best to be available. If you have any questions, please do not hesitate to ask. I would welcome the opportunity to discuss this with you if you seek further clarification. In addition, I would be happy to provide any further information you may require in order to make a decision.

Thank you for your time and, I hope, participation.

Sincerely,

Taghreed Hikmet



Confidentiality Agreement

For someone transcribing data, e.g. audio-tapes of interviews.

Project title: *Governance of Offshore Sourcing: Australasian High-Tech SMEs*

Project Supervisor: *Professor Peter Enderwick*

Researcher: *Taghreed Hikmet*

- ☒ I understand that all the material I will be asked to transcribe is confidential.
- ☒ I understand that the contents of the tapes or recordings can only be discussed with the researchers.
- ☒ I will not keep any copies of the transcripts nor allow third parties access to them.

Transcriber's signature: *[Signature]*

Transcriber's name: *Vicky Powell*

Transcriber's Contact Details (if appropriate):

ABC Secretarial

20 Danden Crescent

Half Moon Bay

Auckland 2012

Date: 20/09/2017

Ph - 027 2780177

Project Supervisor's Contact Details (if appropriate):

... Professor Peter Enderwick.

...Faculty of Business and Law, Professor of International Business

...Email address: peter.enderwick@aut.ac.nz.

...Phone: + 64 9 921 9999 ext.: 5748

Approved by the Auckland University of Technology Ethics Committee on 10/07/2017

AUTEC Reference number 17/221

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

Appendix D: The fundamental elements of case study design in Yin, Stake, and Merriam

Dimension of Interest	Robert Yin (2002) Approach	Robert Stake (1995) Approach	Sharan Merriam (1998) Approach
Epistemological Assumptions	Realist / Positivism & Post-positivism	Constructivism and existentialism (none-determinism)/ Relativist-constructivist/ Interpretivist	Constructivism (Pragmatic constructivist)/ Interpretivist
Defining Case and Case Stud	Case is “a contemporary phenomenon within its real-life context, especially when the boundaries between a phenomenon and context are not clear and the researcher has little control over the phenomenon and context” (p. 13).	Case is “a specific, a complex, functioning thing,” more specifically “an integrated system” which “has a boundary and working parts” and purposive (in social sciences and human services) (p. 2).	Case is “a thing, a single entity, a unit around which there are boundaries” (p. 27) and it can be a person, a program, a group, a specific policy and so on.
	Case study is an empirical inquiry that investigates the case or cases conforming to the abovementioned definition by addressing the “how” or “why” questions concerning the phenomenon of interest.	Qualitative case study is a “study of the particularity and complexity of a single case, coming to understand its activity within important circumstances” (p. xi).	Qualitative case study is “an intensive, holistic description and analysis of a bounded phenomenon such as a program, an institution, a person, a process, or a social unit” (p. xiii).
		Defining characteristics: Holistic (considering the interrelationship between the phenomenon and its contexts); Empirical (basing the study on their observations in the field); Interpretive (resting upon their intuition and see research basically as a researcher-subject interaction); Emphatic (reflecting the vicarious experiences of the subjects in an emic perspective).	Defining characteristics: Particularistic (focusing on particular situation, event, program, or phenomenon); Descriptive (yielding a rich, thick description of the phenomenon under study); Heuristic (illuminating the reader’s understanding of phenomenon under study).

Designing Case Study	Design refers to “the logical sequence that connects the empirical data to a study's initial research questions and, ultimately, to its conclusions” (p. 20). Four types of case study design include single holistic design, single embedded design, multiple holistic design, and multiple embedded design	Flexible design which allows researchers to make major changes even after they proceed from design to research. Researchers need a set of two or three sharpened issue questions (research questions) that will “help structure the observation, interviews, and document review” (p. 20). He relies on Parlett and Hamilton’s (1972) notion of “progressive focusing” which builds upon the assumption that “the course of the study cannot be charted in advance” (cited in Stake, 1998, p. 22).	Literature review is an essential phase contributing to theory development and research design. Theoretical framework emerging from literature review helps mold research questions and points of emphasis.
	Case study design has five components: a study’s questions; its propositions, if any; its unit(s) of analysis; the logic linking the data to the propositions; and the criteria for interpreting the findings.		Five steps of research design: conducting literature review, constructing a theoretical framework, identifying a research problem, crafting and sharpening research questions, and selecting the sample (purposive sampling).
Gathering Data	Quantitative and qualitative evidentiary sources should be combined.	Exclusive use of qualitative data sources.	Exclusive use of qualitative data sources.
	Data gathering is influenced by case study investigator’s skills, training for a specific case study, the development of a protocol for the investigation, the screening of the case study nominations (making the final decision regarding the selection of the case), and the conduct of a pilot study.	Being a qualitative case study researcher requires “Knowing what leads to significant understanding, recognizing good sources of data, and consciously and unconsciously testing out the veracity of their eyes and robustness of their interpretations. It requires sensitivity and skepticism” (Stake, 1995, p. 50).	Qualitative case study researcher needs to acquire the necessary skills and follow certain procedures to conduct effective interviews and careful observations and mine data from documents

	Case study researchers make use of six data gathering tools: documentation, archival records, interviews, direct observations, participant observation and physical artifacts.	Qualitative case study researchers exploit observation, interview and document review as data gathering tools.	Qualitative case study researchers utilize three data collection techniques conducting interviews, observing, and analysing documents.
Analysing Data	Data analysis “consists of examining, categorizing, tabulating, testing, or otherwise recombining both quantitative and qualitative evidence to address the initial propositions of a study” (p. 109).	Data analysis is “a matter of giving meaning to first impressions as well as to final compilations” (p. 71).	Data analysis is “the process of making sense out of the data... [which] involves consolidating, reducing, and interpreting what people have said and what the researcher has seen and read – it is the process of making meaning” (p. 178).
		Simultaneity of data collection and analysis.	Simultaneity of data collection and analysis.
	Five dominant techniques for data analysis: pattern matching, explanation building, time-series analysis, program logic models, and cross-case synthesis.	Two strategic ways to analyze data: Categorical Aggregation and Direct Interpretation. “Each researcher needs, through experience and reflection, to find the forms of analysis that work for him or her” (p. 77).	Six analytic strategies: ethnographic analysis, narrative analysis, phenomenological analysis, constant comparative method, content analysis, and analytic induction

Validating Data	Case study researchers need to guarantee construct validity (through the triangulation of multiple sources of evidence, chains of evidence, and member checking), internal validity (through the use of established analytic techniques such as pattern matching), external validity (through analytic generalization) reliability (through case study protocols and databases). Issues	Issues of data validation are involved in the notion of triangulation	Qualitative methodology approaches differently to validity and reliability of the knowledge produced in research.
		Four strategies for triangulation: data source triangulation investigator triangulation theory triangulation methodological triangulation.	Six strategies to enhance internal validity: triangulation, member checks, long-term observation, peer examination, participatory research, and disclosure of researcher bias
			Three techniques to ensure reliability: explanation of investigator's position with regards to the study, triangulation, and use of an audit trail.
			Three techniques to enhance external validity: use of thick description, typicality or modal categories, and multi-site designs.

Adapted from (Yazan, 2015, p 148).