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Offshoring and Coordination

- *A case study at Nordea*

Abstract

The number of firms choosing to offshore activities is increasing, and service offshoring is predicted to change the way firms choose to compete. Yet, there are several challenges that firms tend to encounter when offshoring and due to the mismanagement of these, many offshoring projects fail to deliver results according to plan. This thesis aims to investigate how the use of coordination mechanisms affect the outcome of offshoring in an organization engaging in captive offshoring. To accomplish this, a qualitative case study has been performed at the Nordic bank Nordea and a theoretical framework has been created against which the empirical findings have been tested. This thesis has concluded that the two categories of coordination mechanisms, common ground and ongoing communication, have a positive effect on the outcome of offshoring. Also, leadership and culture have been found to influence the outcome of coordination mechanisms. Coordination has been found to derive from both formal and informal grounds where formal coordination springs from the actions of managers implementing coordination mechanisms. Informal coordination on the other hand is the result of trust and cooperation originating from the use of coordination mechanisms. With both types of coordination present the negative effects of offshoring challenges are mitigated, resulting in a positive contribution to the offshoring outcome.

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1. Introduction

"It's not a matter of stopping offshoring;

the question is how to manage it."

- Ron Hira, Public Policy Professor at the New York Institute

of Technology from Ferrante, Hira (2005, p. 47)

The emergence of globalization has changed the dynamics of markets and how companies operate. Markets are becoming increasingly global which makes it possible for companies to reach a larger number of potential customers and suppliers. Thereby, globalization carries with it increasing competition. Companies choosing to internationalize their operations face new competitors in new markets, and those who choose to stay domestically face new competitors entering the home market (Iijima 2007, p. 25). This increased competition has brought with it a vast pressure to keep costs down, and in order to maintain a competitive edge companies are increasingly adopting international sourcing as a business model. Organizational activities that were previously performed in-house in the home country are increasingly being located to foreign countries (Burger, Jaklic & Cirjakovic 2010, p. 1063). The relocation of activities to other countries is called offshoring.

The views on offshoring and its effect on developed and developing countries differ (Paus 2007). Some regard offshoring as an opportunity, others as a threat. Regardless, the range of business processes being offshored is increasing (Tas, Sunder 2004) and findings suggest that the offshoring of services is likely to change the way companies in developed countries choose to compete (Lewin, Peeters 2006). Today, a wide range of business processes that do not have immediate contact with the ultimate customer are being offshored (Iijima 2007, p. 26) and the number of offshoring organizations is expected to grow (Lewin, Peeters 2006, p. 226).

2. The Purpose of the Study

With many organizations choosing to offshore it is remarkable to note that findings show that 50 percent of all offshored projects fail to deliver the hoped for savings. In most cases when offshoring fails, there is nothing wrong with the actual product or service. Rather it is the mismanagement of employees, processes, or operations that fail (Koch 2005, p. 16).

There are many challenges that offshoring organizations face, and these need to be properly managed in order to avoid failure (Matloff 2005). A preliminary literature review of previous offshoring research indicated that there are several challenges that organizations typically encounter when offshoring activities. Some examples of these challenges are language barriers, differing norms and ways of working and difficulties in achieving coordination between onshore and offshore teams.

An analysis of the literature led us to conjecture that a partial solution to these challenges may be found in a correct use of coordination mechanisms. We found that this conjecture is shared by Srikanth and Puranam (2010) who proposes three coordination categories; modularization, common ground and ongoing communication; to improve post offshoring process performance. Furthermore, the literature review led us to conjecture that leadership and culture affect the outcome of coordination mechanisms. When performing the literature review we were able to conclude that few case studies exist that give a qualitative view on offshoring challenges and coordination mechanisms.[1]

This thesis aims to contribute to filling this knowledge gap by performing a qualitative case study of an organization offshoring a service activity. The organization studied is the Nordic bank Nordea that is currently offshoring several back-office activities to Poland. We posed the research question:

"How does the use of coordination mechanisms affect
the outcome of captive offshoring?"

In order to answer the research question a theoretical framework has been created and an empirical study of Nordea's offshoring has been conducted.

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[1] See Section 3.1 for information about how we arrived at this conclusion.

3. Methodological Approach

In this section, the overall methodological approach of the study will be presented. The section consists of five parts. First, the project process will be described. This part includes a description of the development of the project together with a presentation of the methodological choices that we have made. Second, the data collection approach will be presented. Third, the research quality of the study is discussed and forth, the delimitations of the study are accounted for. Finally, definitions of central and reoccurring concepts of the thesis are presented.

3.1 The Project Process

We are both interested in international business and strategic management and we wanted to conduct a study that could be of both academic and practical use. The research conducted can be adequately described as action science in its design. In action science, the study has a user oriented approach and it is informative regarding how things can be changed. Action science seeks to promote learning within the studied organization as well as contributing to general knowledge (Argyris, Putnam & Smith 1985, p. 36).

Nordea is in the midst of offshoring several back-office activities to Poland, a process that we found of interest given our academic and professional ambitions. We conducted a preliminary literature review and realized that there is plenty of offshoring research, yet the research focusing on the specific type of offshoring that Nordea engages in is less developed. Thereby, making Nordea a prime candidate for this study. After an initial meeting with Nordea, we were given the permission to conduct the study.

After conducting the literature review we realized that there is a lack of qualitative studies aimed at identifying what types of challenges an offshoring organization typically encounters and how these can be managed. Therefore, we decided to use an overall qualitative research approach which is appropriate when an investigator wants to gain insights into a phenomenon (Malhotra 2010, p. 171). An alternative would have been to use a quantitative research approach. However, given that a quantitative approach is more useful when quantifying data for a large number of representative cases, and as we were interested in gaining an in-depth understanding of a single case the qualitative research approach was deemed the most appropriate for answering the research question of this thesis.

For the empirical work, we decided to use a case study research approach. According to Yin (1994, p. 9) a case study has a distinct advantage over other research strategies when "*a 'how' or 'why' question is being asked about a contemporary set of events over which the investigator has little or no control*". Thus, a case study approach corresponds well with our research question. More specifically, we decided to use an embedded single-case research design (Yin 1994, p. 39). The rationale for using a single-case study being that the phenomenon of captive offshoring of services has not, to the best of our knowledge, been the subject of in-depth studies before. This was confirmed by us searching the databases of ABI Inform Global and Business Source Premier for different combinations of the keywords "captive", "offshoring", "case study" and "case".

An alternative to using the single-case study approach was to use a multiple-case study, which is often considered as a more compelling and robust type of research design (Yin 1994, p. 45). However, the use of a multiple-case design requires that every single case is carefully selected to serve a specific purpose in the overall study, and this can require extensive resources and time (Yin 1994, pp. 45-46). Hence, we estimated that we could contribute to research in a more productive way by achieving an in-depth understanding of a single case, rather than a shallow understanding of multiple cases. Thus, a single-case study research approach was chosen for this thesis.

Given the research question, our case study can be categorized as having an exploratory research approach (Malhotra 2010, p. 102). In order to respond to our research question we needed to gain insights into, and an understanding of, the offshoring practices of Nordea, and initially the information needed was rather unclear. Therefore, a flexible research approach needed to be adopted and for such a study the exploratory research approach is appropriate (Malhotra 2010, p. 103).

Offshoring of services is a complex phenomenon with many interesting aspects and what we were going to focus on in our thesis was not clear from the beginning. However, after having conducted several qualitative interviews with personnel at Nordea, which had been or were involved in the offshoring process, we soon achieved a better understanding of the specific offshoring that Nordea conducts. Furthermore, as we deepened our theoretical knowledge

we began to understand what types of challenges an offshoring organization typically encounters and how these can be managed.

Throughout this study, we have used neither a purely inductive nor a purely deductive approach. Instead, we have used an iterative process where we have gradually reinterpreted theoretical knowledge with empirical knowledge, and vice versa. This type of research process is called abduction and it is useful for single-case studies were the depth of a phenomenon is being studied (Alvesson, Sköldberg 2008, pp. 56-57). Abduction is also applicable to our way of analyzing our findings where we combined our theoretical findings with our empirical findings. With the use of this research technique patterns and important aspects of the empirical findings were discovered which resulted in a deeper understanding of Nordea's offshoring practices. The theoretical findings, against which the empirical findings were tested, consist of a collection of research that has a normative approach to how offshoring could be managed. In the next section the method used for gathering empirical findings will be described.

To summarize the overall research approach can be described as a qualitative approach where empirical knowledge is gained through an embedded case study with an exploratory research approach.

3.2 Data Collection

In order to reach an understanding of the offshoring of Nordea, we have conducted six interviews, with a total of five persons. Additionally, we have carried out one focus group meeting with six stakeholders from Nordea Sweden. The sample of interviewees was selected to generate maximum insights, and the interviews were conducted with managers and employees at Nordea, mainly with Swedish personnel but we were also given the opportunity to interview a Polish manager[2]. The aim was to achieve as broad of a perspective as possible and thereby minimize the risk of getting a biased understanding of the process.

The interviews were conducted individually with managers and employees. At all times, both of us participated in the interviews. Thereby gaining two perspectives on each interview

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[2] See Appendix for a presentation of who we interviewed and who were present at the focus group meeting.

which gave us the opportunity to discuss not only the separate interviews and what had been said, but also what were the implications of this to our study. We perceived this opportunity as rewarding as we believe that our two perspectives and the resulting interpretations and discussions gave a more objective view of Nordea's offshoring. Furthermore, all the interviews were recorded and transcribed. Thereby, if we disagreed on the meaning of something that had been said during an interview, we were able to go back to the record and listen to a specific part of it. The transcript of each interview was sent to the interviewee so that each person could comment, change or add things to our written transcript. This opportunity was made use of by most interviewees. Thereby reducing the risk for misunderstandings and subjective interpretations on unclear sections, comments and answers.

When we had two individual interviews left we conducted a focus group meeting with six managers at Nordea. The purpose of this meeting was to make sure that we had gained a correct understanding of Nordea's offshoring process as well as to straighten out some unclear points. We also took the opportunity to discuss the implications of our research and control their validity. The managers came from different departments within Nordea, both from departments from where activities are being offshored and from departments that have contact with the offshored departments. Through this meeting we were able to achieve an understanding of how departments not directly affected by offshoring perceive the process.

We have conducted partly structured interviews (Andersen 1998, p. 162). Before each interview, we made a list of several questions and topics that we wanted to cover. At the interview we adjusted the order of the questions depending on its development as well as adding attendant questions when needed. Our theoretical and empirical knowledge developed with the interviews, and therefore the questions also developed from interview to interview. However, several questions remained the same in order to capture different perspectives of the process. For the focus group meeting a presentation was prepared around which an open discussion developed where we acted as moderators. The presentation centered on the topics that we wished to cover, and the participants were able to give their views on each topic. The resulting discussion gave us an opportunity to get a

more nuanced understanding of the offshoring process than that which we received from the interviews.

3.3 Quality of the Research

In this study, we have made an extensive literature review in order to find an appropriate theoretical ground to guide our research. This ground has presented us with information regarding what offshoring is, what types of challenges that typically occur and how these can be managed. Moreover, the theoretical ground has presented us with ideas regarding the creation of an appropriate research design. As mentioned, we have used an exploratory single-case research approach, and according to Yin (1994, p. 33) three tests are useful for judging the quality of such a study; internal validity, external validity and reliability.

Case studies are often criticized for being subjective, and we are aware of the fact that it is problematic for an investigator to be objective when performing such a study. Therefore, we have made an effort to increase the validity of our study by following Yin's recommendations (1994, pp. 34-35):

- In the empirical study, we have used multiple-sources of evidence. Additionally, we have only used evidence that was supported by two or more sources.
- We have used a chain of evidence, ensuring that an explicit link exists between the question being asked, the data that has been collected, and the conclusions that have been drawn.
- A draft of the report was reviewed by our key informant. Also, as previously mentioned, a transcript of each interview has been offered for approval to the interviewee.

Reliability concerns the possibility for someone else to conduct the same case study and arrive at the same findings (Yin 1994, p. 35). With this in mind, we have extensively and thoroughly documented all of our procedures. As mentioned above, we have also discussed key findings in a focus group.

A common criticism of single-case studies is that their results offer a poor basis for generalizing. However, Yin (1994, p. 36) finds this criticism incorrect. He states that case studies rely on analytical generalization, not statistical ones. In analytical generalization, the

investigator is striving to add to generalizability by testing theory against the empirical findings of the case study. However, generalization is not automatic and in order to expand and generalize theories, further case studies are needed of other empirical circumstances. Equally, the results of a study conducted with an abduction approach should be tested through replications of the findings in more studies. (Alvesson, Sköldberg 2008, p. 57). Thus, the results of this thesis will need to be tested in further case studies as to be generally applicable.

3.4 Delimitations

The delimitations which we have decided to make have been based on the research question of the thesis, the available resources, and the current theoretical field. This has led us to establish the following delimitations:

- In our empirical study of Nordea, we will study the offshoring of some back-office departments from Sweden to Poland. However, Nordea is currently centralizing several back-office activities from all Nordic countries, but these are not included in this thesis.

- The main focus of the thesis will be on the department called Nostro. However, we will also look into the upcoming offshoring of the department International Payments, which will be conducted during 2011.

- In this thesis, legal and IT challenges will not be taken into account.

3.5 Definitions

In this section, some important and reoccurring concepts are defined. These are:

- **Coordination** is, in the context of this thesis, defined as *"the act of managing interdependencies between activities performed to achieve a goal"* (Rapaso, Fuks 2002). This definition was chosen because it illustrates coordination's importance in managing interdependencies.

- **Coordination mechanisms** are administrative tools required by the coordination process (Martinez, Jarillo 1991, p. 431). These can be divided into formal and subtle mechanism. Formal coordination mechanisms include; centralization, formalization, planning, output control and behavior control. Subtle coordination mechanisms include; lateral relations, informal communication and organizational culture (Martinez, Jarillo 1991, pp. 431-432). This definition of coordination mechanisms

was chosen since it provides a good description of how the concept of coordination mechanisms will be used throughout this thesis.

- **_Globally distributed teams_** are defined as *"projects that consist of two or more teams working together from different geographical locations to accomplish project goals"* (Oshri, Kotlarsky & Willcocks 2009, p. 124). This definition was deemed appropriate for this thesis since it acknowledges the fact that the teams work together from different locations, as is the case in offshoring.

- **_Interdependencies_** arise from the product architecture and refers to the intensity and direction of a workflow relationship between two teams (Gerwin, Moffat 1997, p.301).

- **_Offshoring_** is defined as *"the relocation of organizational activities to a wholly owned subsidiary or an independent service provider in another country"* (Oshri, Kotlarsky & Willcocks 2009, p. 4). When the offshored activities are owned by the same organization, it is referred to as *captive offshoring*. When the activities are performed by an independent service provider, it is referred to as *offshore outsourcing*.

Additionally, since the terms effective and efficient are often misused we have chosen to define these.

- **_Effective_** is defined as "*adequate to accomplish a purpose; producing the intended or expected result*" (Collins English Dictionary 2011b).

- **_Efficient_** is defined as "*performing or functioning in the best possible manner with the least waste of time and effort; having and using requisite knowledge, skill, and industry*" (Collins English Dictionary 2011c).

4. Theoretical Framework

In this section, we aim to provide readers with an understanding of both offshoring and the theories needed to respond to our research question. We will begin by describing what offshoring is and why organizations choose to offshore. In order to respond to our research question we will then map the different challenges that an offshoring organization typically faces. This is followed by a description of how these can be managed. In the conclusion, a short summary of the key findings of the theoretical framework will be presented.

4.1 Previous Offshoring Research

In this section, an overview of previous offshoring research will be presented. Not all areas relating to offshoring have received an equal amount of attention, and as a result the knowledge base differs between different areas. Table 1 below illustrates the main areas of focus of previous research, some comments about these and some examples of literature relating to each area.

Table 1 - Examples of Previous Offshoring Research

Focus of literature	Comments	Examples of literature
The drivers of offshoring	Why organizations offshore and how the decision is taken	Oshri, Kotlarsky & Willcocks 2009, Feenstra 2010, and Antràs, Helpman 2004
The "make-or-buy" decision	How organizations decide whether to keep production in-house or outsource	Williamson 1979, Grossman, Hart 1986, and Hart, Moore 1990
Challenges of offshoring	Provides examples of the type of challenges an offshoring organization may encounter	Matloff 2005, Koch 2005 and Lee-Kelley, Sankey 2008
Managing offshoring	Some literature specifies how organizations may manage offshoring	Oshri, Kotlarsky & Willcocks 2009, Koch 2005, and Srikanth, Puranam 2010

How the decision of whether to offshore or not is taken has received a great deal of research (Lacity, Willcocks 2009, pp. 16-22). Additionally, there is some research regarding how offshoring can be managed. However, most offshoring literature concern offshore

outsourcing and captive offshoring has received less attention, according to our broad literature review. The same trend can be observed in the literature concerning service offshoring. A broad range of services are being offshored, but it is mostly the offshoring of IT-services that has been discussed (Lewin, Peeters 2006), (Jahns, Hartmann & Bals 2006). Regarding the research approaches that have been used, there are examples of both quantitative and qualitative studies. However, we have been unable to find any case studies concerning captive offshoring of back-office services. Thus, there is a knowledge gap regarding qualitative studies performed at an organization engaging in captive offshoring of services.

4.2 What is Offshoring?

Markets are becoming increasingly global and organizations need to think globally when deciding the sourcing of an activity, or any part of it (Iijima 2007, p. 26). This leaves an organization with two decisions. The organization first needs to decide where the activity should be executed, either within the home country, also called onshore, or in a foreign country, also called offshore. The second decision the organization needs to make is who should execute the activity. This choice represents the classical make-or-buy decision, either the organization continues to perform the activity, or it outsources the activity to another organization (Feenstra 2010, p. 5). The two decisions result in four different sourcing strategies, which are illustrated in Figure 1 below. The figure is based on the work of Feenstra (2010) adapted with terms from Oshri et al. (2009).

Figure 1 – Sourcing Strategies

Source: Adaption from Feenstra (2010, p. 5)

Neither in research nor in business practice can a universally agreed upon definition of the term offshoring be identified (Feenstra 2010, p. 5), (Trefler, Rodrik & Antràs 2005, p. 37). As

a result, there has been a general confusion regarding the terminology of offshoring (Ferrante, Hira 2005, p. 47).

However, there are two commonly used definitions of offshoring, one narrow and one broad (Feenstra 2010, p. 6). The narrow definition is in Figure 1 represented by the upper right-hand cell and it is often referred to as captive offshoring. It encompasses organizations that choose to locate an activity to a foreign country, but keeps it in-house. The broad definition of offshoring is represented by both cells in the right-hand column of Figure 1 and thus it includes both those organizations that in the foreign country choose to keep the process in-house and those that choose to outsource it (Feenstra 2010, p. 6).

As mentioned in Section 3.5, offshoring is in this thesis defined as *"the relocation of organizational activities to a wholly owned subsidiary or an independent service provider in another country"* (Oshri, Kotlarsky & Willcocks 2009, p. 4). This corresponds to the above broad definition since it includes both captive offshoring and offshore outsourcing. This definition was chosen because it recognizes that offshoring organizations may continue to perform the activity in-house in the foreign country or it may choose to outsource the activity to an independent service provider.

The distinction between captive offshoring and offshore outsourcing is important since some studies indicate that the two sourcing strategies are typically used for different types of product characteristics and industry structures (Burger, Jaklic & Cirjakovic 2010). Furthermore, different offshoring motives result in distinct choices and relate to different barriers to offshoring (Van Gorp, Jagersma & Livshits 2007). Additionally captive offshoring and offshore outsourcing may result in different levels of successful outcomes for a given aspect of offshoring (Nieto, Rodríguez 2011).

Srikanth and Puranam (2010) divide offshore services into two categories based on its purpose. These are called content development and service provisioning. In content development, some type of content, a product or a service, is delivered on a one-time basis. The output is pre-specified, but the process is not and therefore the provider may use any desired method to produce it. On the other hand, service provisioning indicates that a service is delivered on a continuous basis from another country. Due to these circumstances, the interdependence across locations is higher for service provisioning than for content

development. It is therefore important to specify not only the output but also the process by which it is made (Srikanth, Puranam 2010).

4.3 Why Organizations Offshore
Below, Table 2 lists the most common strategic drivers behind the decision to offshore.

Table 2 – Strategic Drivers of Offshoring

Strategic drivers	% of respondents citing driver as important
Cut down costs	93%
Competitive pressure	69%
Improving service levels	56%
Assessing qualified personnel	55%
Changing rules of the game	41%
Industry practice	37%
Business process redesign	35%
Access to new markets	33%
Enhancing system redundancy	27%

Source: Lewin and Peeters (2006, p. 226)

Traditionally, offshoring has been seen as a strategy to reduce labor costs (Ellis 2004, p. 21). Wage reductions are one cost benefit that makes offshoring attractive (Koch 2005, p. 6). However, cost reductions are not the only strategic driver behind the decision to offshore. As shown above in Table 2, competitive pressure and increased quality are other important factors that lead organizations to offshore. Also, offshoring is increasingly being used by organizations to acquire a foothold in emerging markets and to gain access to qualified and innovative personnel (Ellis 2004, p. 21).

An important offshoring driver, not included in Table 2, is the need for trust, control and accountability. Corporate Governance Acts have increased the legal and financial requirements posed on companies. The resulting need for efficient control and accountability systems provides companies with an incentive to centralize back-office functions to one specific location. Although this has the potential to achieve cost savings through economies of scale, the primary objective is often to gain a higher degree of control,

accountability and transparency, than would have been possible with a decentralized structure (Iijima 2007, p.27).

4.4 Offshoring Challenges

After defining offshoring and presenting why organizations choose to offshore we will now describe the different challenges that an organization may face. Table 3 below lists the most commonly perceived risks with offshoring.

Table 3 – Perceived Risks with Offshoring

Risks Perceived	% of respondents citing risk as important
Poor service quality	61%
Lack of cultural fit	54%
Loss of control	51%
Lack of client acceptance	49%
Lack of data security	46%
Weakening employee morale	45%
Employee turnover in offshore service center	44%
Operational inefficiency	41%
Infrastructure instability in host country	40%

Source: Lewin and Peeters (2006, p. 227)

As mentioned in Section 2, findings suggest that 50 percent of all offshored projects fail to deliver the hoped for savings. Moreover, in most cases when offshoring fails, there is nothing wrong with the actual product or service. Rather it is the mismanagement of employees, processes, or operations that fail (Koch 2005, p. 16). The exact reasons for failure vary, but all the reasons as to why internal projects fail apply to offshored operations as well. However, internal flaws are magnified by geographic distance and cultural disparities when an organization has offshored an activity (Koch 2005, p. 16).

Due to the geographical dispersal of work, globally distributed teams face different types of challenges. To create this theoretical framework we have divided these challenges into three main categories; coordination challenges, leadership challenges, and cultural challenges. These categories were chosen since we found that the challenges identified in the literature review were easily sorted into the three categories.

4.4.1 Coordination Challenges

Research suggests that people who are physically distant communicate less than people who are physically close. For globally distributed teams, the reduced richness in communication affects coordination and results in less diffusion of task-related information (Cramton, Webber 2005, p. 759). Additionally, communication is most effective when it takes place face-to-face. In technology-mediated communication the risk for misunderstandings increases as it is hard to fully grasp the nuances of human communication. This has a negative impact on the establishment of mutual understanding. What is more, without a periodic face-to-face interaction communication tends to deteriorate over time (Cramton, Webber 2005, p. 759).

For globally distributed teams, the reliance on technology-mediated communication place significant constraints on the functioning of a team's social system. This is a result of the lack of opportunities for informal and interpersonal communication in this type of communication (Cramton, Webber 2005, p. 759). Moreover, a lack of communication norms in coordinating globally distributed teams has a negative impact on the establishment of mutual understanding (Oshri, Kotlarsky & Willcocks 2009, p. 125).

Interdependence is another factor that creates challenges when offshoring an activity. The nature of interdependence between the activity and other activities within the organization creates a need for coordination (Iansiti 1998). When offshoring an activity, the organization needs to adapt the activity and the new context to each other so that coordination occurs. However, this type of adaptation is often difficult to achieve since knowledge of the activity and how it relates to the old context is likely to be held by the onshore personnel, and knowledge of the new context is held by the offshore personnel. Thereby, interdependence works as a significant barrier to offshoring (Srikanth, Puranam 2010).

4.4.2 Leadership Challenges

The second category of challenges includes challenges that we have found to pertain to leadership. These are:

- In managing globally distributed teams, traditional coordination and control mechanisms tend to be less effective (Oshri, Kotlarsky & Willcocks 2009, p. 125).

- An asymmetry in the distribution of information often arises between onsite and offsite teams (Carmel 1999).
- Difficulties may arise in developing and retaining good onsite managers. When the larger part of a process is located offshore, the base from which to recruit talented managers onshore decreases (Matloff 2005, p. 44). This may become an issue since many organizations recruit managers internally.

4.4.3 Cultural Challenges

In the third category of challenges we have placed those that originate from differences in values, norms and attitudes between cultures and countries. These challenges are:

- The norms and ways of working may collide with each other. One common problem is that the hierarchical structure differs between the countries. Authority may be very important in one country, and informality in the other (Matloff 2005).
- Misunderstandings may arise as a result of different conversational styles and subjective interpretations (Lee-Kelley, Sankey 2008). This results in a lack of understanding of the other part's context (Oshri, Kotlarsky & Willcocks 2009).
- Different languages may cause difficulties if the employees onshore and offshore do not fully understand each other. Spending some extra time on communication may not be enough, sometimes the language difficulties work its way into the product or the service (Matloff 2005).

Another potential challenge is that in some countries the educational system is believed to stifle creativity and innovative thinking. This is common in many East Asian countries. However, this is believed not only to be a problem in education, but also a widespread cultural problem. Authority is important in these countries and students find it difficult to question their teachers, and at workplaces the same pattern is repeated. Questioning the knowledge or experience of managers is not encouraged and therefore free thinking and innovation suffer (Matloff 2005, p. 43).

4.5 Managing Offshoring Challenges

In this section, a normative approach to managing offshoring will be presented. This is based on existing research that describes what can be done in order to make offshoring successful,

what areas need to be considered, and what actions can be taken in order to efficiently manage the challenges of offshoring.

This section, like the previous, divides existing theory into three categories; coordination, leadership and culture. Leadership and culture will be described as we have found that they affect the outcome of coordination mechanism, the reasoning behind this will be presented in Section 6.3. Coordination is further divided into; modularization, common ground and ongoing communication; which represents three ways of managing coordination (Srikanth, Puranam 2010). The structure of the section is illustrated in Figure 2 below.

Figure 2 – Areas to Consider when Offshoring

4.5.1 Coordination

In the offshore production of a service, the offshore activity typically interacts with several onshore activities. The resulting interdependencies between the locations make offshoring difficult. The stronger the interdependence, the stronger is the need for coordination. Furthermore, the higher the interdependence, the more likely failure is and lowered performance in the offshore activity. Managing coordination thereby becomes a critical factor for the success of offshoring (Srikanth, Puranam 2010).

In order for coordination to be of importance, the activities need to be interdependent. Otherwise, there is nothing to coordinate (Rapaso, Fuks 2002). Coordination failure typically occurs when each actor is unable to predict and adjust to the actions of others (Gulati, Lawrence & Puranam 2005).

To improve coordination between locations and employees, and avoid coordination failure, three categories of coordination mechanisms are recommended. These are modularization, common ground and ongoing communication, and each of these will be described below. The description of the three categories of coordination is based on the work of Srikanth and Puranam (2010).

4.5.3.1 Modularization

The aim of modularization is to minimize interdependencies between activities and locations. This is achieved by reconstructing activities into different components. Within these components, or modules, processes are highly dependent of each other, but between the components the interdependencies are fewer. Coordination by modularization works best when interactions between modules are constant. In those cases, the activities may be standardized by rules and procedures so that actors know what to do, as well as what others are doing. Through this, coordination is achieved.

A high degree of standardization reduces the need for coordination between different activities. However, modularization is an expensive way to reach coordination. The start-up cost is generally high as the nature of an activity and its interdependencies with other activities needs to be thoroughly understood before it can accurately be reconstructed into different modules.

Nonetheless, in offshoring, modularization is often a feasible way to reduce failures due to interdependencies between offshore and onshore activities. However, due to factors such as bounded rationality of the individuals designing the structure, uncertainty and changing circumstances, it might be difficult to specify the correct modular structure. In those cases the cost of creating the modular structure are likely to increase sharply with interdependencies.

4.5.3.2 Common Ground

Common ground, also called tacit knowledge, springs from recent research which suggests that coordination between interdependent actors may be achieved by creating a common ground between them. The common ground is shared by the actors and it enables them to predict the actions of interdependent others. Coordination achieved by common ground is informal as it relies on the individuals' knowledge of others, not on routines or procedures.

Common ground can arise from belonging to a common category such as nationality, gender, culture, profession, religion etc. It can also follow from personal common ground consisting of prior interactions and shared experiences. Common ground is important for coordination both when it takes place within the same location as well as when it takes place between different locations, as is the case in offshoring.

4.5.3.3 Ongoing Communication

In ongoing communication, opportunities are created for an extensive communication between interdependent actors. Thereby, a mutual and predictable way of working can be achieved.

In offshoring the possibility of face-to-face interaction among interdependent actors is limited and therefore communication occurs mostly via mediums such as chat, e-mail, other internet applications, telephone and videoconferences. According to several sources, these types of mediums are particularly important in managing globally distributed teams and in avoiding misunderstandings between them (Oshri, Kotlarsky & Willcocks 2009, p. 133). However, only investing in technology is not enough, the personnel needs to be thoroughly educated in how to use it effectively.

Extensive research on what patterns of communication that can affect coordination and cooperation between globally distributed teams exists. Summarizing this research, the following practices have been found to potentially lead to successful coordination (Oshri, Kotlarsky & Willcocks 2009, pp. 132-133):

- Investing in language and cultural training.
- The scheduling of systematic phone-/video-conference meetings. These should include managers and team members from all sites.
- The provision of appropriate training and access to collaborative tools and communication technologies.
- The establishment of communication protocols. These should cover the ground rules and expectations concerning communications.

4.5.3.4 Connections between the Three Methods

According to the qualitative study of Srikanth and Puranam 2010, interdependencies have a negative effect on post offshoring performance. Modularization, common ground and ongoing communication have all been found to mitigate the negative performance consequences of interdependencies. Thus, investment in any of the three categories of coordination improves post offshoring performance. Another finding of the study was that organizations tend to overinvest in ongoing communication channels at the expense of common ground.

Different mechanisms from the three categories of coordination can be used on the same object, and this is often appropriate as they typically complement each other. For example, even after a successful division of activities into modules, residual interdependence often remains. In order to make coordination successful these remaining interdependencies require handling and ongoing communication may be a good solution (Srikanth, Puranam 2010).

4.5.2 Leadership

Since traditional coordination and control mechanisms tend to be less effective over geographical distances they are less appropriate for offshoring organizations. Instead, a new type of management is needed in offshoring situations, and this is especially true for captive offshoring. In this new type of management, more emphasis is placed on providing the right resources and fostering cooperation, individual initiative and personal responsibility (Koch 2005, p. 18). For successful offshoring, managers need to possess a wide range of skills. The most important skills and their application are presented in Table 4 below.

Table 4 – The most Important Skills of an Offshoring Manager

Management skill	Application
Empathy	- Useful in a cross-cultural context and in serving a broad range of stakeholders
Social skills	- Create change - Leading teams - Foster trust
Expertise in conflict management	- Integration between locations - Inspiring cooperation

Source: Adaption from (Koch 2005, p. 18).

Other skills, not included in Table 4 above, such as interpersonal, networking and persuasive skills, are also important. By possessing these skills, managers will be in a better position to make the offshoring of an activity successful (Koch 2005, p. 18).

4.5.2.1 The Importance of Middle Managers

Antras et al. (Helpman, Marin & Verdier 2008, chapter 10) has developed a theory that describes how offshoring is only profitable if there are two hierarchical layers in the offshore country; one layer of workers who are specialized in production, and one layer of middle managers who are in charge of supervision. According to this theory, the presence of middle managers in the offshore country helps shield top managers in the home country from routine problems occurring in the offshore country.

4.5.2.2 Managing Onshore Employees

As mentioned in Section 4.3, the most common strategic driver behind the decision to offshore is the need to reduce costs. Since this need generally results in onshore employees losing their jobs, managers must handle this properly in order to secure the credibility of the organization. The manner in which an organization lays off employees sets the tone for how the process will be understood. It is recommended that managers give advance notice to the affected employees and offer them training and support. It is important that managers communicate broadly within the organization. Through this, management sends a positive

message and avoids employees fearing that they will be next losing their jobs to offshoring. Moreover, a transparent process fosters trust (Koch 2005, p. 19-20).

4.5.2.3 Ongoing Monitoring of Performance

By monitoring the quality of the product or service, managers are provided with useful information that serves as a guide for what actions need to be taken in order to improve or maintain performance. Thereby, it is important for the success of offshoring. In order to guarantee that processes are being performed accurately, they need to be thoroughly documented as well (Koch 2005, p. 17).

It is also recommended to monitor employee performance and satisfaction. Human capital metrics on turnover, recruitment, training, and employment engagement should be developed. Through this, the organization can better understand what needs to be improved and retention plans for offshore workers may be developed as to secure that employees do not leave to other offshoring companies that provide better working conditions (Koch 2005, p. 17).

4.5.3 Culture

Differences in culture need to be bridged in order to avoid the difficulties and misunderstandings mentioned in Section 4.4.3. Organizations that remain considerate to the nuances of cultures enjoy greater cooperation and efficiency. Conflicts that are a common result of differing norms and values, and that can form disrespect among employees, are thereby avoided (Koch 2005, p. 20-22). According to Koch (2005, pp. 21-22), cultural barriers can be diminished by:

- Introducing shared goals and creating group contact through, for example, committees and teams.
- Creating win-win situations between locations. This is of particular importance when the organization tries to establish a long-term relationship between locations.
- Organizations need to be aware of local holidays in the foreign country. This is important from a practical point of view, but also from a matter of sensitivity.

4.5.3.1 Building Trust

Trust is the foundation of an organization's social order and internal stability. Moreover, trust is critical for cooperation (Koch 2005, p. 19). Cooperation can be defined as "*an act or*

instance of working or acting together for a common purpose or benefit" (Collins English Dictionary 2011a). While cooperation is a part of coordination, they are not the same thing. In order to achieve a better understanding of cooperation Table 5 presents the differences between cooperation and coordination.

Table 5 - Differences between Coordination and Cooperation

Basis	Coordination	Cooperation
Meaning	Is an orderly arrangement of group efforts in pursuit of common goals	Is emotional in nature because it depends on the willingness of people working together
Scope	Is broader than cooperation since it includes as well as it harmonizes the group efforts	Is termed as a part of coordination
Process	The function of coordination is performed by top management	The functions of cooperation are prepared by persons at any level
Relationship	Establishes formal and informal relationships	Establishes informal relationships

Source: Adaption from Juneja (2011)

In an offshoring situation, an organization can take the following actions in order to build cooperation and trust (Koch 2005, p. 19):

- *Involving managers at all levels in important decisions*. This may be enabled by forums that allow for managers to meet on a regular basis. Senior managers may also request input from managers in different locations.

- *Promoting a culture in which people believe in their peers' competence*. An employee's belief in the professionalism and dedication of their colleagues and managers is important for the employee's confidence in the organization.

- *Fostering openness and creating a sense of fairness*. Teams, councils, and forums should be open for the airing of disagreements and the resolving of conflicts. Senior managers may, by their words and deeds, show their commitment to transparency and fairness.

4.6 Key Points of the Theoretical Framework

In this study offshoring is defined as "*the relocation of organizational activities to a wholly owned subsidiary or an independent service provider in another country*". The most common driver behind an organization's decision to offshore is the need to reduce costs. However, there are many challenges that an offshoring organization faces and these can be categorized into three overall categories; coordination challenges, leadership challenges and cultural challenges. If these challenges are not managed correctly, the risk that the planned for cost savings do not occur increases.

A summary of theories that has a normative approach to how offshoring and its challenges may be managed has been made. This summary has, like the challenges of offshoring, been divided into three categories; coordination, leadership and culture. The latter category has further been divided into three categories of coordination, namely modularization, common ground and ongoing communication. The strengths and weaknesses of the respective category of coordination are illustrated in Table 6 below.

Table 6 - Strengths and Weaknesses of the three Categories of Coordination

	Modularization	Common Ground	Ongoing Communication
Strengths	- Minimizes interdependencies between modules and thereby the need for coordination	- Enables actors to predict the actions of interdependent others	- A mutual and predictable way of working is achieved
Weaknesses	- Interactions should preferably be stable - High start-up cost - Might be difficult to specify the correct modular structure	- Requires previous interactions, shared experiences or a belonging to a common category	- Technology mediated communication is not as effective as face-to-face communication - Expensive way to achieve coordination

In our theoretical framework, trust has been found to be of vital importance for the establishment of cooperation. Additionally, cooperation has been found to be a part of coordination which shows its relevance to our research question.

We will, in Section 6, use this theoretical framework as a base for interpreting the empirical findings of this study in order to respond to the research question posed in the beginning of this thesis.

5. Empirical Findings

In this section, the empirical findings of the study will be described. It is based on individual interviews and a focus group meeting with employees and managers involved in Nordea's offshoring of back-office activities[3]. We will provide a background of Nordea and its departments Nostro and International Payments. In addition, we will describe its Polish leadership and the cultural differences that Nordea has encountered with this offshoring process.

5.1 Background

Nordea is a Nordic bank with approximately 11 million customers and it is the largest financial services group in Northern Europe. As of December 2010 the bank had approximately 34 000 full time equivalent employees. They describe their vision as *"to be a Great European bank, acknowledged for its people, creating superior value for customers and shareholders"* (Nordea 2011).
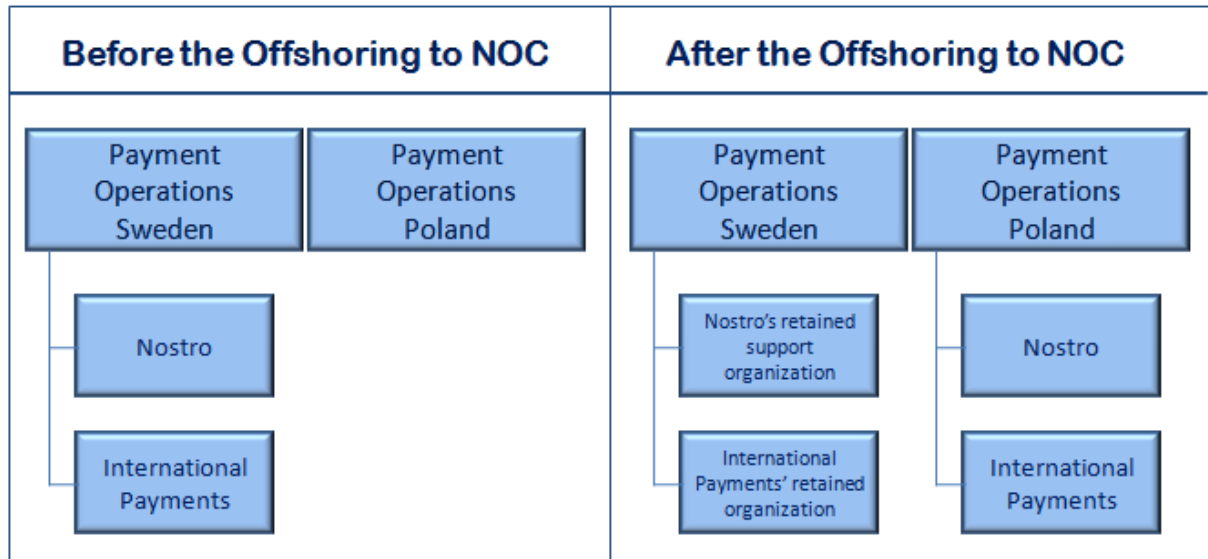
Nordea is currently centralizing some back-office activities to a fully owned facility outside Warsaw in Poland. The facility is called Nordea Operations Centre (NOC). This study focuses on the Swedish section Payment Operations that is offshoring several of its departments and activities to NOC, but other countries and sections within Nordea are also offshoring, or are planning to offshore, activities to NOC.

In Figure 3 below, an illustration is given of the organizational schema of Payment Operations in Sweden and NOC respectively[4]. The illustration shows what the sections looked like before the offshoring of Nostro to NOC had begun and what it will look like after the offshoring of International Payments.

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[3] For more information regarding the methodological approach used in collecting the data, see Section 3.2.
[4] In Figure 3 only the departments of Payment Operations Sweden and Poland that are relevant to this thesis have been included. Thus, the organizational schema is a simplification of reality.

In the following, a short description is provided for each department within Nordea that is relevant for this study. The departments are:

- **Nostro –** Nostro's activities are connected to Nordea's core activity, that of lending and borrowing money. This department ensures that the funds in all of Nordea's foreign currency accounts are correct. Nordea needs to have enough funds in each account. However, if the funds level is unnecessarily high an opportunity cost arises since the accounts are interest bearing. Should Nostro not perform its activities correctly, this would ultimately affect the client. If, for example, the funds level is too low in a certain account when a Nordea client wishes to make a transfer the transaction will be stopped. Previously, the tasks of Nostro were decentralized and conducted in each Nordic country, but in 2004 Nostro was centralized to Payment Operations in Sweden. Nostro was offshored to Poland in the autumn of 2010, but a small retained support organization is maintained in Sweden.

- **Nostro's retained support organization –** Nostro's retained organization acts as support for Nostro in NOC. The Polish personnel may pose questions to it or ask for advice in different situations. After the offshoring of Nostro, scheduled and regular meeting were held between NOC and Nostor's retained organization, but the need for these has decreased with time.

- **International Payments –** This department is in charge of managing different types of activities relating to international payments. Some of these are complex and time sensitive, and others have a direct contact with clients. International Payments is

currently in the process of being offshored to Poland. The first steps in relocating the department were taken in April 2011 when the education program for the polish personnel began. As with Nostro, a retained organization will be kept in Sweden.

- **International Payments' retained organization** – Due to practical reasons, some of International Payments' activities will be kept in Sweden in a retained organization. This team will perform some activities that were not possible or suitable to offshore. Furthermore, it will also act as a support for NOC.

Another department that is of relevance to our study, but that does not belong to the section Payment Operations is **International Service Desk and Investigations (ISDI)**. This department consists of International Service Desk, which is an advisor to Nordea's Swedish banking offices and a link between the banking offices and NOC, and Investigations that handles complaints, inquiries and changes of international payments. The department does not belong to Payment Operations, but as many other departments within Nordea, it has a connection to Nostro and International Payments.

5.2 The Offshoring of Nostro

When the decision had been taken that Nostro was to be offshored to Poland a preliminary study was conducted. The aim of the study was to describe Nostro as it was at the time, what it looked like and how it operated. After the preliminary study, the project entered a "to be" phase where the aim was to plan how Nostro should be organized in NOC.

The objective when offshoring Nostro was to move it from Sweden to NOC without reconstructing its processes. However, some changes were made. Firstly, the ways of working with the same task were harmonized. Previously, the same tasks had been performed in different ways by the Swedish personnel, but when educating the new Polish personnel a standardized way of working was taught. This was achieved by providing the Polish employees with the same set of training material, and the processes of Nostro were mapped so that everyone in NOC would get used to working in a specific and unified way. The results of this work are perceived as positive by our interviewees. Another change was that a small retained support organization was left in Sweden to act as NOC's support. After the offshoring of Nostro, the Swedish support personnel received many questions from their Polish colleagues, but the number of questions has decreased with time. Instead, they have

become more complex as the Polish employees gain more and more experience. Nostro and its retained support organization are in contact on a daily basis and the communication occurs mostly via e-mail. However, other mediums such as chat, telephone and videoconferences have been, and are, occasionally used.

The shift of responsibilities from Sweden to NOC was done gradually. After the first training phase, the Swedish personnel returned to Sweden leaving NOC to handle the simpler tasks, but with support from Sweden and the retained support organization. This support was conducted through a one point of entry system where the Polish employees contacted the Swedish employee that had handled their training in Poland. During the second phase of training, more difficult tasks where taught. Accounts were gradually moved according to the level of difficulty. NOC handled this so well that the tasks were offshored faster than planned.

When offshoring Nostro, the management of Nordea worked at creating communication, contacts and relationships between the locations. In the following, some examples of this are presented:

- Before the actual training of the Polish personnel began, Swedish and Polish personnel participated in two introduction weeks. This allowed for the personnel to get to know each other and build contacts and networks. After the introduction, Swedish employees stayed in Poland to educate their new colleagues.
- The Polish employees were educated in what Nordea is, what its organizational structure looks like and what its core values are. The aim of this training was that the Polish employees would get a better understanding of Nordea.
- Continuous monthly meetings were arranged between NOC and its retained support organization in Sweden.
- A contact list was created that named the employees at different departments. These were handed out not only to the new personnel in NOC, but to all departments directly connected to NOC and Nostro. The contact lists were meant to render communication more efficient.
- Reference group meetings were held during the transition period for departments like ISDI that has a less direct and frequent communication with Nostro than Nostro's

retained support organization. At these meetings the departments received information regarding how the offshoring of Nostro was proceeding. This information was provided on a general level, and when Nostro was finally offshored ISDI and other departments with connections to Nostro received the contact list mentioned above. However, employees at ISDI felt that they lacked an opportunity to get to know their new colleagues. Also, they lacked an opportunity for establishing new routines and ways of working.

According to our interviews, the offshoring of Nostro to NOC is perceived as successful. It was well structured and organized, and the time frame set for the offshoring process was generous. According to Nordea, the successful offshoring of Nostro is a result of the effort put on training and support from Sweden in addition to the Swedish team leader of Nostro spending three months in Poland during the transition. The relationship between Nostro and its retained organization is described as well functioning, with a high level of mutual trust and cooperation.

However, some challenges arose in the offshoring of Nostro, and these are described shortly in the following:

- After the offshoring of Nostro to NOC there was some evidence of departments and employees onshore that did not have the same trust in the Polish employees as they had had for their Swedish predecessors. This concerns other departments than Nostro's retained support organization, for example ISDI. A mistake committed by a Polish employee could by some employees be generalized to represent the work of all Polish employees.
- Nostro needs to be updated on what happens in the bank and therefore it is important that Nostro is kept in the loop even though it is now located in Poland. However, including NOC in this type of general communication has proved to be a learning process. The ways of communication are not so formal within Nordea and therefore it has been a challenge to make sure that NOC is included in the right channels.

5.3 The Offshoring of International Payments

Like in the case of Nostro, the offshoring of International Payments began with a preliminary study that aimed to describe International Payments as it was at the time. After the preliminary study, an assessment was made regarding what processes could be offshored to NOC and what processes needed to be retained in Sweden. As the tasks of International Payments are more varied and dependent of other factors and departments than the tasks of Nostro, a decision was taken to keep part of the activities onshore in a retained organization. The retained organization will consist of four Swedish employees, and eight employees will be working for International Payments in NOC. The retained organization will mainly perform tasks that cannot be offshored, but they will also act as a support to NOC. The retained tasks include tasks that require a direct customer contact, close collaboration with other departments in Sweden or more experience than the Polish personnel currently possess.

As in the case of Nostro, the tasks at International Payments were previously performed in many different ways, but they will be standardized after the move. The Polish employees will all receive the same training and the personnel that are left in the Swedish retained organization will adapt to this new standardized way of working. The training is divided into seven parts, beginning with simpler tasks and thereafter increasing in complexity. This far into the process, the results are positive. The Polish employees have exceeded the expectations and are learning fast.

Nordea and Payment Operations learnt some lessons from the offshoring of Nostro, and they are hoping that these lessons will help in making the move of International Payments even more successful. The importance of developing a mutual understanding between locations was understood from the offshoring of Nostro. Therefore, the two introduction weeks will be extended. During these weeks of training the employees will be educated in the basic terms and mechanisms related to banking. Also, employees with the right set of experiences have been "head-hunted". NOC wants the employees to have the same set of experiences as their Swedish colleagues.

5.4 Leadership

Nordea has focused on recruiting talented managers to NOC. The bank is looking for managers that are skilled in the actual tasks being performed in NOC, however the main focus is to recruit managers skilled in leadership. The perception that we have received from our interviews is that the general opinion within the organization is that the bank has succeeded in recruiting capable and skilled managers, and that the level of trust is high for the Polish management.

The teams in Poland are an extension of what happens in Sweden, and therefore, Swedish managers have an interest in and a need to know what is going on in Poland. At the same time the Polish employees have a need for independence. Thus, there is a need to understand and respect the comfort zones of different stakeholders and according to our interviews this is not always clear. However, this is not perceived to be causing any serious difficulties, rather it is regarded as a learning process.

5.5 Cultural Differences

Poland and Sweden are similar in many ways, and the general impression received in our interviews is that cultural differences between the two countries do not impose a challenge. Equally, they do not consider managing cultural differences to be a success criterion to the offshoring process. However, according to our interviews some differences that have an impact on the ways of working are:

- *Differences in hierarchical structure* – Poland is generally perceived as being more hierarchical than Sweden and also as being more instruction guided.
- *Differences in norms and values* – Another reoccurring opinion is that Polish employees are more risk adverse than their Swedish colleagues. This results in Polish employees preferring to call Sweden and double check if they are unsure about something. The Polish culture puts a stronger emphasis on making everything right, being precise and finding structure.
- *Different native languages* – due to differences in official language between the two countries all communication has been conducted in English. This has worked well considering that English is the second language of both the countries involved. In

recruiting employees to NOC, one requirement is that the applicants are able to speak English.

NOC has been created in a Nordic manner which has influenced the culture of NOC. For example managers and employees address each other on a first name basis. However, the needs of the Polish personnel have been considered and NOC has introduced career paths with five or six positions in a process unlike the Swedish model with only two positions. The additional steps were established due to the different significance the Polish and Swedish employees place on titles and the feeling of achievement brought on by a promotion to a higher step in the hierarchy.

However, it is not only the cultural belongingness that differ between the Polish and Swedish employees. The demographics of the employees also vary. The Polish personnel are young and have university degrees, while the Swedish personnel have a higher average age and most have not obtained a university degree. These differences are believed to be a contributing factor to the faster learning period described earlier.

The Polish employees are also perceived as more ambitious than their Swedish counterparts. According to our interviews, it is noticeable that the Polish personnel are more ambitious and that they are aiming to make a career. Nordea is therefore facing a challenge in making its new Polish employees feel content to remain in the organization. Nordea is conscious of this challenge and have attempted to overcome it by, after a certain time, giving employees the possibility to transfer to a different department.

6. Analysis

In this section an analysis of this study's empirical and theoretical findings will be performed with the aim of responding to the research question posed in the beginning of the thesis. The research question was formulated as:

"How does the use of coordination mechanisms affect
the outcome of captive offshoring?"

We will begin with a general analysis of the nature of Nordea's offshoring. In this analysis we will determine whether or not there are interdependencies present, and hence if coordination mechanisms are needed in order to manage the offshoring process. This will allow us to continue with a more thorough analysis of Nordea's use of coordination mechanisms, including modularization, common ground and ongoing communication, and how they affect the outcome of offshoring. Some factors, specifically leadership and culture, have been found to affect the outcome of coordination mechanisms and will therefore be discussed.

6.1 The Nature of Nordea's Offshoring and Interdependencies

To begin the general analysis, we will define what type of offshoring Nordea is engaging in. As illustrated in Figure 1 (p. 11) there are several types of sourcing. Nordea has kept control over its activities by performing them in-house in Poland, which indicates that they are engaging in captive offshoring. Also, since the purpose of Nordea's offshoring is for NOC to deliver a service to Sweden on a continuous basis, Nordea is engaging in service provisioning. Therefore, the interdependencies between Sweden and NOC will typically be high and as a result the need for coordination will be significant.

In order to ascertain that there are indeed interdependencies present in Nordea's offshoring, and subsequently that there is a need for coordination; we will in the following analyze the nature of the interdependencies between Nostro and the rest of Nordea's organization. The same analysis will also be conducted for the case of International Payments and a comparison between the departments will be presented.

Nostro's activities are connected to the bank's core activity of lending and borrowing money. This shows that Nostros actions affect other departments and activities in the bank and thus interdependencies are present. One such example of where interdependencies are present is between Nostro and ISDI.

In the case of International Payments, some of the activities performed are complex and time sensitive. Furthermore, certain activities involve a direct contact with the client. When compared to the case of Nostro, we have identified two main differences. These are:

- The activities performed in NOC for International Payments are more tightly connected to the activities performed by other departments in Sweden than was the case for Nostro.
- International Payments' retained organization differs from that of Nostro's. Nostro has a small retained organization that mainly acts as their support while International Payments' retained organization is larger and is, in addition, tasked with other activities than acting as NOC's support.

We conclude that interdependencies with the retained organization and with other departments are present for both Nostro and International Payments, and in accordance with Rapaso and Fuks (2002), coordination is needed to manage these. However, the need for coordination is greatest in the offshoring of International Payments since its interdependencies with onshore departments are higher than in the case of Nostro.

6.2 Nordea's Use of Coordination Mechanisms

Since there are interdependencies present in the case of both Nostro and International Payments, we will now proceed by analyzing whether Nordea's use of coordination mechanisms appears to have affected the outcome of their offshoring.

As mentioned in our empirical findings, in the offshoring of Nostro several actions were taken in order to create communication, contacts and relationships between NOC and Sweden. These actions create coordination between the countries.

However, empirical findings suggest that some coordination issues arose despite these efforts. The most important of these were:

- Difficulties in achieving trust and cooperation between NOC and some departments onshore.
- Difficulties in including NOC in general communication.

In order to determine why these difficulties arose, and with the aim of responding to our research question, we will analyze two scenarios. We will begin with Nordea's use of modularization, common ground and ongoing communication between Nostro and its retained support organization. We will thereafter analyze Nordea's use of the three categories of coordination between Nostro and other departments. As the extents to which coordination mechanisms have been used differ in the two cases, we will be able to explore what effect coordination mechanisms have on the outcome of offshoring.

6.2.1 Coordination between Nostro and its Retained Organization

In the offshoring of Nostro, Nordea used mechanisms from all three categories of coordination to achieve coordination between NOC and Nostro's retained support organization in Sweden. However, the three categories of coordination mechanisms were used in varying degrees, with a strong emphasis placed on a more expensive form of coordination, ongoing communication, closely followed by common ground. Below we have given the most significant and illustrative examples of how each coordination category were used:

- ***Modularization*** – Nordea aimed at offshoring Nostro without reconstructing the processes, but some standardization was implemented. For example, where before one task could be performed in several different ways, these have now been standardized and all Polish employees have been taught the same procedures. Thus, coordination is achieved as the actions of colleagues become predictable.
- ***Common ground*** – In order to develop a functioning common ground between Nostros globally distributed teams, the Polish employees have received training in what Nordea is, how its organization is structured and what its core values are. Furthermore, opportunities for the personnel to interact and share experiences have been created since the common ground resulting from belonging to a common

category is limited between Sweden and Poland due to the two countries having different nationalities, cultures, language etc.

- **Ongoing communication** – Under the transition phase regular meetings were held between NOC and Sweden, but the need for this has declined. However, NOC is in contact with the Swedish support organization on a daily basis, enabling a continuous dialogue where discussions and problem solving can take place.

The results of these coordination activities are encouraging. The coordination between NOC and the retained support organization in Sweden works well and the level of mutual trust and cooperation is high. Therefore, Nordea considers the offshoring of Nostro to be a success. These results indicate that an efficient management of common ground and ongoing communication has a positive effect on the outcome of offshoring.

Nordea's investment in modularization has not been as extensive as the investments in the other two categories of coordination mechanisms. Therefore, we do not have enough empirical support to conclude that investment in modularization has a positive effect on the outcome of offshoring.

6.2.2 Coordination between Nostro and Other Departments

Nordea made less use of the three categories of coordination mechanisms in the activities aiming to achieve coordination between NOC and other departments. The department ISDI is one such example. In the following, some illustrative examples of how the three categories of coordination were used and where they were lacking are described:

- **Modularization** – Nordea did not reconstruct the processes or the interactions between NOC and ISDI.
- **Common ground** – No opportunities were created in order to establish a personal common ground via interactions and shared experiences between the departments. Nonetheless, a contact list including names of the employees at the other location was provided. Moreover, the Polish employees received training in what Nordea is, how its organization is structured and what its core values are. This resulted in the Polish personnel having some understanding of the different departments, including ISDI, but ISDI did not have sufficient information about their Polish colleagues. Thus, the common ground created was inadequate.

- ***Ongoing communication*** –No meetings were scheduled between NOC and ISDI. Thereby, ISDI was not given the same opportunity to continuously discuss and solve problems with NOC as Nostro's retained support organization.

In the case of Nostro and ISDI, a lower level of trust and cooperation is noticeable compared to the case of Nostro and its retained support organization. In addition, according to our empirical findings, the level of communication is lower.

6.2.3 Conclusions from the Nostro Case

Our analysis shows that when Nordea, as in the first case, has invested in common ground and ongoing communication, the outcome of the offshoring process is considered to be a success. A high level of trust and cooperation can be identified. This is not the case when common ground and ongoing communication have been implemented less extensively. In this case, some issues have arisen in the offshoring process. As mentioned in the introduction of Section 6.2, these are:

- Difficulties in achieving trust and cooperation between NOC and some departments onshore, for example ISDI.
- Difficulties in including NOC in general communication.

These two issues are examples of coordination failures between onshore and offshore teams, and both issues spring from an inadequate management of offshoring challenges. A reduced richness in communication and a reliance on technology-mediated communication are examples of offshoring challenges that globally distributed teams encounter (Cramton, Webber 2005). If these are not effectively managed, they typically result in a lack of mutual understanding. In Nordea's case, these effects are expressed in the first issue. The relation between NOC and ISDI is characterized by a lower level of trust and this affects cooperation. An example of this is that, especially in the beginning, there were some cases where Swedish employees seemed to hold the belief that the outcome of the work performed in NOC is worse than the outcome when the same work was performed in Sweden. It appears as if the lack of a common ground and a reliance on technology mediated communication has made the teams function less effective socially. According to Cramton and Webber (2005) the lack of informal and interpersonal communication between globally distributed teams often results in these types of difficulties.

The second issue is an example of what Carmel (1999) refers to as asymmetric distribution of information between onshore and offshore locations. Since NOC is not always included in general communication, difficulties in achieving coordination results.

These two issues, in addition to the above mentioned lower level of trust, cooperation and communication, led us to conclude that the level of coordination between Nostro and ISDI is insufficient. Comparing to the first case, the offshoring process is less successful in this area. Thus, empirical findings support that when common ground and ongoing communication are invested in, the negative effects of offshoring challenges are mitigated. However, when modularization, common ground and ongoing communication have been used less extensively, Nordea has failed to manage some offshoring challenges and their effects on the offshoring outcome have become apparent.

The first conclusion of this thesis is therefore that an efficient management of common ground and ongoing communication has a positive effect on the outcome of offshoring, as they mitigate the negative effects of offshoring challenges. Since Nordea has not used modularization to the same extent as the other two categories of coordination, we do not have enough empirical support to make any conclusions for modularization's affect on the outcome of offshoring.

The lessons learned above from the Nostro move have implications for the upcoming offshoring of International Payments. Specifically, it illustrates the importance of investing in both common ground and ongoing communication. Another lesson is that it is important to create opportunities not only for International Payments' retained organization to establish coordination with NOC, other departments also need to receive the same opportunities for coordination.

6.3 The Effect of Leadership and Culture on Coordination

According to Oshri, Kotlarsky and Willcocks (2009), traditional coordination mechanisms tend to be less effective over geographical distances and therefore a stronger emphasis needs to be placed on leadership. Additionally, the type of leadership skills required for managing an offshored activity are somewhat different to those required for managing in an onshore setting (Koch 2005). This indicates that to achieve the desired results in using coordination mechanisms, leadership issues also need to be considered. Furthermore, it is

important to consider cultural differences. If these differences are not understood and managed, difficulties and inefficiencies will prevail according to Matloff (2005) and Oshri, Kotlarsky, and Willcocks (2009) among others. One example of such challenges is an employee's inability to predict and adjust to colleagues with whom they have no mutual understanding with. Thus, in order to coordinate globally distributed teams, it is important that actions to bridge cultural differences are taken.

Consequently, both leadership and culture affect the outcome of coordination mechanisms and in order to thoroughly respond to our research question, these must be taken into account.

6.3.1 Leadership

As mentioned above, a new type of leadership is required in order to manage offshoring as traditional coordination and control mechanisms tend to be less effective over geographical distances. Nordea has taken this into account and have focused on recruiting talented managers to NOC. Previously, as in many other organizations, the focus was on skills in performing a specific task and employees were often placed in a management position as a reward for their skills. Today, especially in NOC, Nordea has consciously sought managers who are skilled in leadership. This is in accordance with the recommendation of Koch (2005) where, due to the special circumstances in captive offshoring, providing the right resources, fostering cooperation, individual initiative and personal responsibility are the main issues for a manager. Nordea's effective management of leadership in NOC has had good results, and our empirical findings suggest that there is generally a high level of trust within the organization regarding the management of NOC. This provides a good basis for the implementation of coordination mechanisms.

6.3.2 Culture

Values, norms, attitudes and ways of working tend to differ between countries. This is also the case between Sweden and Poland, even though both countries are relatively close geographically. However, these cultural differences are not always readily apparent and it is therefore easy to overlook many of these differences and their implications. In the following, we will present the importance of bridging cultural differences by using an example from Nordea regarding hierarchical structure. We will also briefly discuss the potential effects of differing employee demographics and employee retention.

6.3.2.1 Differences in Hierarchical Structure

From the empirical results of this study, it is noticeable that Nordea has dedicated time and effort to bridging cultural differences. According to Matloff (2005), a common example of when norms and ways of working tend to collide is when different hierarchical structures are present. Nordea has been conscious of this potential problem and aims to implement a Scandinavian view on hierarchy in NOC, for example managers are called by their first name. At the same time they are respectful of the Polish culture and its differing norms and values. This is illustrated in their addition of more steps to their career ladder. These were added since the Polish employees place a higher significance on titles and promotion, and the additional steps give them a sense of achievement. At the time of the conclusion of this study, this has worked well and challenges resulting from hierarchical differences have not been significant.

6.3.2.2 Differences in Employee Demographics and Retention

The above mentioned differences in the significance that Polish and Swedish employees place on titles and the feeling of achievement that these may inspire are a result of differing national cultures, yet the differences observed may be influenced by the differing demographics of the employees in the two countries. The Polish personnel is young and have university degrees, while the Swedish personnel have a higher average age and most have not obtained a university degree. This provides an example of the importance of not only considering the effect of different national cultures when offshoring, but also the culture and social categories created by the demographics of the employees at each location. In Nordea's case, the demographical differences result in the Polish employees being more ambitious and career driven than their Swedish counterparts. This has another effect which does not concern hierarchy, but rather employee retention. The Polish employees want to feel that they are achieving something and that they are advancing in their careers. The management of Nordea is conscious of this challenge and it is taking actions in order to make the Polish employees feel that they are moving on in their careers.

When new employees are recruited it is important that they receive the same training in, for example, cultural differences as their predecessors. This has not always been done in Nordea's case and therefore new employees do not receive the same amount of common

ground as their predecessors. This brings with it a risk that coordination may deteriorate over time.

6.3.3 Conclusions from Leadership and Culture

An organization engaging in offshoring face challenges which are not faced to the same extent by non-offshoring organizations. Therefore, a new type of leadership is required and it is important to manage cultural differences. Nordea's efficient management of leadership and cultural differences in NOC has had good results, and this provides a good basis for the implementation of coordination mechanisms. Furthermore, this efficient management has resulted in trust between the employees and in the offshoring process.

The second conclusion of this thesis is therefore that leadership and culture are two factors that affect the results of coordination mechanisms, and thus the outcome of offshoring.

6.4 Trust and Coordination

In the analysis in Section 6.2, an efficient management of common ground and ongoing communication has been found to result in coordination. We have found that this coordination springs from two grounds, one formal, derived from the actions of management, and the other informal, deriving from the trust created through the efficient management of common ground and ongoing communication.

Formal coordination derives from the efficient use of coordination mechanisms to manage interdependencies which creates a well flowing process between onshore and offshore locations. These opportunities are the result of management activities and therefore, this type of coordination springs from the formal activities performed by the management.

Informal coordination also derives from the efficient management of coordination mechanisms. More specifically, this type of coordination is created through the opportunities provided for onshore and offshore personnel to meet, share experiences and build networks and ways of working. This leads to employees at both locations trusting not only the offshoring process but also their colleagues at the other location.

In addition to trust our empirical findings have indicated that where there is trust there is also cooperation. However, we have not been able to conclude the causality between the two, but according to Koch (2005), trust is of vital importance for cooperation. Thus,

combining the conclusions from the theoretical framework with our empirical findings, trust leads to cooperation.

Cooperation refers to departments' and employees' collective and voluntary effort to work together (Juneja 2011). Thereby, cooperation depends on their willingness to help each other and work for a common goal. This willingness to work together improves coordination between the locations. Cooperation can therefore be said to be part of coordination, which is also supported by our theoretical findings.

To summarize the above findings, coordination derives from both formal and informal grounds. Formal coordination springs from the actions of managers implementing coordination mechanisms. Informal coordination on the other hand is the result of trust and cooperation originating from the effects of coordination mechanisms. With both forms of coordination present the interdependencies will be managed efficiently and the effects of offshoring challenges will be mitigated, resulting in a positive contribution to the outcome of offshoring.

7. Conclusion

As our analysis has shown, Nordea engages in captive service offshoring with a high interdependence between onshore and offshore activities. This high level of interdependence between onshore and offshore activities has led us to conclude that it is of significant importance that coordination mechanisms are used appropriately. The aim of this thesis was to answer the research question:

"How does the use of coordination mechanisms affect

the outcome of captive offshoring?"

In order to answer the research question, a theoretical framework and an empirical case study were performed. An analysis of the information resulting from this has led us to draw the following conclusions.

This study has determined that two factors, leadership and culture, affect the result of coordination mechanisms. This effect is due to the specific circumstances and challenges that an offshoring organization face. A new type of leadership is required in order to manage these offshoring challenges. Equally, the cultural differences between the onshore and offshore locations need to be bridged in order to achieve an efficient implementation of coordination mechanisms.

Having taken into consideration both leadership and cultural differences, this study has shown that a further efficient management of common ground and ongoing communication has a positive effect on the outcome of offshoring. The positive effect is mainly due to the coordination mechanisms, common ground and ongoing communication, which mitigate the negative effects of offshoring challenges through coordination. However, we have not been able to draw the same conclusion for the third category of coordination mechanisms, modularization, since modularization has not been used to the same extent in the case of Nordea.

We have chosen to call the above formal coordination, which springs from the actions of managers implementing the coordination mechanisms. This study has also found that an efficient management of common ground and ongoing communication gives rise to another type of coordination, namely informal coordination. Informal coordination is the result of

trust and cooperation originating from the coordination mechanisms. Thus, when trust and cooperation are present, the actions of onshore and offshore employees are coordinated not only by the arrangements of management but also from a willingness to work together.

To answer our research question, we have concluded that the coordination mechanisms common ground and ongoing communication, positively affect the outcome of captive offshoring through increased coordination. Coordination derives from both formal and informal grounds and with both forms of coordination present interdependencies will be managed efficiently. Furthermore, the negative effects from the offshoring challenges are mitigated by these coordination mechanisms, resulting in a positive contribution to the outcome of offshoring.

8. Discussion

In this thesis, we have made contributions to existing research. In our analysis of the case study of Nordea, we have found support for Srikanth and Puranam's (2010) theory which states that an efficient management of common ground and ongoing communication has a positive effect on the outcome of offshoring when interdependencies are present between onshore and offshore activities. Moreover, we have found a connection between the positive outcome of the use of coordination mechanism and a correct management of leadership and cultural differences. Additionally, we theorize that coordination can be divided into formal and informal coordination.

In this study, we have aimed to achieve a thorough understanding of coordination mechanisms and their effect on the offshoring outcome in the specific case of Nordea. We are aware that, even with the best intent, it is problematic to be objective when performing a case study. Therefore, we have taken a number of actions that we believe have increased the validity of our study.[5] We have delimited our study to focus on two departments within Nordea. This was done in order to gain a more in depth understanding of the offshoring process, hence developing our qualitative knowledge of captive offshoring to an extent which would not have been possible, given the time and resources available, if the focus would have been placed on more cases.

We were able to obtain first hand knowledge from managers and employees that have been deeply involved in the offshoring process. However, a limitation to our study is that we were not able to conduct interviews in Poland. This would have been helpful in achieving a greater objectivity and points of information comparison. Nonetheless, we believe that the internal validity of our case study is high. However, we have derived our conclusions from one case study and therefore we believe that the external validity of our study is not as high as the internal validity. We are aware that our results will have to be replicated for other empirical circumstances in order for them to be able to withstand a larger generalized context. Nonetheless, we believe that our results have implications for other organizations as well as the one studied.

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[5] See Section 3 for more information.

Some of our results support previous theories and research. Therefore, we feel comfortable giving general implications based on the positive effects observed regarding common ground and ongoing communication and their effect on the outcome of offshoring. However, as mentioned above, we have not found support for modularization and its effect on the outcome of offshoring in this case study.

Our conclusion that leadership and culture are two factors that affect the outcome of coordination mechanisms also have theoretical support. Although we believe that no one before us has proposed the same theory, we find that there is enough ground for us to comfortably provide general implications based on our findings.

While we believe that our theory of informal coordination resulting from trust and cooperation is generally valid, we find that before generalizations are made there should be more research confirming our findings.

9. Future Research

We have not been able to find support for part of Srikanth and Puranam's theory, namely the part which concerns the third category of coordination mechanisms, modularization. Therefore, more qualitative studies aiming to identify the effect of modularization on the offshoring outcome are needed. Furthermore, qualitative studies focusing on other empirical circumstances compared to this study are needed in order to generalize the conclusions reached in this thesis.

Our conclusion that coordination may be divided into formal and informal coordination, where informal coordination results from trust and cooperation, will have to be replicated for other empirical circumstances in order for them to be able to withstand a larger generalized context. Equally, this is true for our theory about leadership and culture's effect on the outcome of coordination mechanisms.

Furthermore, future research should be made to investigate to what extent investments in common ground and ongoing communication are necessary to achieve coordination and trust in an offshoring organization. Perhaps there is an optimal level of investment in coordination mechanisms, over which the marginal cost of investing exceeds the benefits obtained. It is also of interest for future research to further investigate to what extent it is efficient to invest in each respective category of coordination mechanisms.

10. Managerial Implications

This section consists of two parts. First, some general implications of our study for other offshoring organizations will be provided. Second, the implications and recommendations of our study for Nordea and its future offshoring practices will be presented.

10.1 General Implications for Offshoring Organizations

When an organization plans to offshore an activity it is important that coordination is considered. This study has found support for two categories of coordination mechanisms, common ground and ongoing communication, as having a noticeable positive effect on the outcome of offshoring. This positive effect is achieved through the coordination mechanisms mitigating the effects of the challenges brought on by offshoring. We recommend that offshoring organizations thoroughly plan and review the implementation of communication channels routines and equal effort be displayed for the creation of a common ground between the employees of onshore and offshore locations. An example of what could be done in order to achieve a common ground is giving information about the personnel of the other country, their background and culture, and by giving the employees involved an opportunity to create personal networks. Moreover, these categories should be considered cumulatively since they often complement each other and have different strengths and weaknesses.

The offshoring organization also needs to consider two other factors when planning their offshoring process. These are leadership and culture. More specifically, leadership needs to be adapted to the specific circumstances of the location where the offshored process resides and the personnel involved in order to provide a good basis for implementing the coordination mechanisms. This has implications for every organization wanting to offshore, as it is necessary to realize and prioritize what specific skills are necessary for managing the offshore situation in order for the coordination between the different locations to be efficient. Hence making the outcome of the offshoring project have a greater opportunity of success.

Not only leadership affects the outcome of the use of coordination mechanisms. For a positive outcome it is also required that the organization bridge cultural differences in order for mutual understanding, trust and cooperation to develop between the globally

distributed teams. For coordination and its mechanisms to function efficiently it is necessary for both onshore and offshore locations to have a good understanding of the other's culture. Finally, our findings have implications for the long-term management of an offshoring process. When new employees are hired, it is important that they are given the same opportunities to establish a common ground and an ongoing communication with the remote team as their predecessors were given. Through this the coordination and its positive effect on the outcome of offshoring will be retained.

10.2 Implications for Nordea

In the analysis, we have shown that the level of interdependencies between onshore and offshore departments will be higher for International Payments then they were in the case of Nostro. This has implications for the use of coordination mechanisms in regards to the offshoring of International Payments. Since the level of interdependencies are higher for International Payments, investments in common ground and ongoing communication are even more important than with Nostro. Additionally, as mentioned in previous sections, the coordination mechanisms have different strengths and weaknesses and Nordea should consider them cumulatively.

A lesson learnt from the Nostro move is that it is important for Nordea to make sure that opportunities for the establishment of coordination are present for all departments in contact with NOC. Thus, opportunities for establishing coordination with NOC need to be present not only for International Payments' retained organization, but also for other departments with ties to NOC. In the case of Nostro, other departments than its retained organization were not given these opportunities and this had a negative effect on their offshoring performance. Therefore, it would also be desirable for the management of Nordea to take actions in order to increase the level of coordination between Nostro and departments onshore.

According to our empirical findings, Nordea has effectively managed leadership challenges. However, two issues relating to leadership have been identified and these are connected to what effect the efficiency of implemented coordination mechanisms will have. These are:

- *The boundaries regarding what managers should and should not inform its remote counterparts of need to be more clearly defined*. The clarification of what information

managers should inform their colleagues of, as well as to whom and when they should do it, should be prioritized. If this is not clarified, inefficiencies will arise since managers are not able to filter the flow of information to shield their remote counterparts' from irrelevant day-to-day issues in the operations.

- *Monitoring of ongoing performance needs to be more extensively performed*. Data needs to be thoroughly gathered and analyzed. Thereby, making the implications of the data more easily understood as well as facilitating the decision of what actions should be taken in order to improve performance. By performing this gathering and analysis of data, the effect of different coordination mechanisms may be understood as well as the circumstances under which they are appropriate. As a result, the coordination mechanisms used may be adapted to best fit the needs of each activity and the employees performing it.

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Appendix

Interviews

Each interview was conducted with the interviewee and the two authors of this thesis present. The interviews were conducted with the following representatives:

- Head of Payment Operations Sweden (2011-01-21 and 2011-03-04)
- Member of Nostro's Retained Support Organization Sweden (2011-04-28)
- Team leader International Payments Sweden (2011-04-18)
- Team leader Nostro Sweden (2011-03-11)
- Service Delivery Manager Payment Operations Poland (2011-04-05)

Focus Group Meeting

The focus group meeting was conducted 2011-04-08, with the following representatives present:

- Business Support Corporate Merchant Banking Sweden
- Head of International Service Desk Sweden
- Head of Payment Operations Sweden
- Team leader Cash Management Sales Sweden
- Team leader Nostro Sweden
- Senior Product Manager CM Products & Channels Sweden