



The relationship development aspect of production transfer



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ABSTRACT

Production transfers are a result of outsourcing and offshoring decisions. Because of the strategic focus of the outsourcing literature, the operational issues of relationship development between sender and receiver and its impact on the transfer progress have not been fully depicted. The purpose of the present paper is to explore relationship development during production transfer. To fulfil this purpose, we studied three different production transfers and derived four propositions for further testing. Our main conclusions included that dependence and power gradually shift between the sender and the receiver and that the relationship between them sets the arena for what types of relationships can be developed between the receiver and the suppliers. Furthermore, short social distances can bridge cultural and technological distances to some extent, because it motivates the actors to bring their relationship into a more developed state. Finally, we noticed that the headquarters' involvement can work both as an inhibitor as well as a converter.

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1. Introduction

The business environment grows less stable, and the ability of production networks to adapt to changes in the environment is becoming increasingly important (Christopher, 2010). Galbraith (1990) points to technology transfers, replications, and production relocations as strategic abilities that can help networks to achieve such adaptations. Production relocations such as outsourcing and offshoring involve carrying out production transfer, i.e., the actual physical relocation of the production of products or components between two production facilities. Production transfer is difficult because of the existing interdependency between processes at the operational level of the units (Boulaksil and Fransoo, 2010; Rehme et al., 2013; Jensen et al., 2013). A production transfer can essentially be divided into three major phases: (1) preparations before the transfer, (2) physical transfer of equipment (if applicable), and (3) production start-up at the new location (Madsen, 2009). The production transfer can also be seen as an organisational reconfiguration. Where phase 1 implies a disintegration at the original location (the sender), phase 2 is the relocation from sender to receiver (the new location) and phase 3 implies a reintegration between the sending and receiving units (Jensen et al., 2013). Because of the organisational reconfiguration following the physical transfer and start-up, a production transfer is not only a

question of relocating hardware, such as equipment, systems, or facilities. To utilise effectively the transferred hardware, the new location must also receive knowledge, explicit as well as tacit (Cheng et al., 2010; Salomon and Martin, 2008; McBeath and Ball, 2012). Furthermore, according to Fredriksson and Wänström (2014) a production transfer can be seen as consisting of four parts: physical, knowledge, administrative and supply chain. All these four parts need to be reintegrated before the transfer can be seen as completed. The supply chain part of the production transfer implies that new supply chains of raw material and components to be used in the production process are created (Fredriksson et al., 2014). New supply chains are in almost all cases afflicted with uncertainties regarding yield, process reliability and lead-times (Lee, 2002).

The suppliers in the new supply chain can be existing suppliers of the sending unit as well as new suppliers for the receiving unit specific of the transferred products or production processes. Even though a supplier can be part of both the old and the new supply chain, it is impossible to transfer a relationship from one actor to another (Anderson et al., 2001). When an existing supplier of the sender is to be used by the receiver, it follows upon the production transfer that the relationship between the supplier and the sending unit is ending and that a new relationship between the supplier and the receiving unit is beginning. A relationship can therefore not be regarded as part of the production transfer to the receiving party even though Martin et al. (1995) argue that the likelihood of being able to re-create a supplier relationship in a new location increases if the supplier relationship in the home country was long-term, i.e. the transfer of an existing supply chain.

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As transfer of relationships is not possible, it is necessary to establish new relationships to accomplish the supply chain part of the production transfer and therefore we need to include development of relationships as part of the production transfer process.

The initiation of the new relationship between the receiving unit and the supplier used by the sending unit (or a new supplier replacing the previous) is a temporal problem that needs to be passed as quickly as possible to decrease the uncertainties regarding yield, process reliability and lead-times of the new supply chain. It is believed that the initiation and ending processes involving the suppliers is very much connected to the relationship between the sending and receiving unit. Previous studies have reported that the sending unit sometimes do not trust the receiving unit initially. The responsibility for supply issues is then commonly kept within the sending unit and thereafter slowly transferred, step-by-step, to the receiving unit as the relationship develops (Fredriksson et al., 2014). Thus, the supplier has two customers during this time. Relationships can cause complex situations during production transfer and there are indications of that the production transfer progress is related to the relationship development (Fredriksson et al., 2014; Rehme et al., 2013). Baraldi et al. (2014) explain that the relational nature of outsourcing and offshoring is stressed in the business network literature where outsourcing decisions implies the building of a relationship with the receiver. In the business network literature the outsourcing decision also implies that activity links are changed with and between the actors and that the organizational boundaries between the actors become blurred. Baraldi et al. (2014) argue that even though there is a relational focus in the business network literature most previous studies tend to focus on the sender as an orchestrator of outsourcing relationships rather than the receiver or the relationship between them. However, as explained in the previous paragraphs the production transfer includes not only the relationship between the sender and receiver but also the relationships with suppliers that the sender needs to end and the receiver needs to initiate.

The issue of relationships during production transfer has traditionally not been the focus of outsourcing/offshoring literature. Previous studies (e.g. Wasner, 1999; Boulaksil and Fransoo, 2010; Fredriksson et al., 2014) acknowledge the interdependency between the sending and receiving unit as neglected within this area. In contrast, outsourcing/offshoring literature (e.g. McIvor, 2000; Franceschini et al., 2003; Greaver, 1999; Schniederjans and Zuckweiler, 2004) focuses on the strategic aspects of outsourcing/offshoring, such as identifying the core competencies of the sender, identifying possible relationships with receivers, and deciding on the governance structure of the relationship. Recent outsourcing literature covering supply chain issues (e.g., Arlbjörn and Mikkelsen, 2014; Eltantawy and Giunipero, 2013; Najafi et al., 2013) has dealt with strategic questions of supplier–receiver relationships such as whether to substitute suppliers that are within the proximity of the sender with suppliers within the proximity of the receiver (Baraldi et al., 2014; Kamann and van Nieulande, 2010; Trent and Monczka, 2003). It is important to note that outsourcing/offshoring literature focusing on strategic aspects takes for granted that the relationships between the involved parties follows the production transfer progress.

There is a fair amount of literature on transfer and replication within the knowledge management area (e.g. Jensen and Szulanski, 2004; Jonsson and Foss, 2011; Rivkin, 2001). One could argue that the transfer of relationships should be part of the transfer of tacit knowledge, which would make the use of literature about templates for the knowledge transfer very fruitful. However, relationships are not a question of *knowledge* of how to deal with suppliers and other actors. In contrast, it is about interpersonal relationships that cannot be transferred in an unchanged

state but have to be rebuilt after transfer. Even though knowledge transfer literature provides many interesting aspects, the focus of this literature stream is on the process by which one unit (e.g., group, department, division, or company) is affected by the experience of another. We also agree with Argote et al. (2003) that production transfers occur in a specific knowledge management context which may moderate the relationship between the transfer and its outcomes. The knowledge management context can be described as comprising three aspects, i.e., the properties of: (1) the two units between which an activity is transferred, (2) the inter-unit relationships, and (3) the transferred knowledge (Argote et al., 2003). Even though the inter-unit relationship is a part of the knowledge management context, the knowledge management literature to our knowledge does not focus on how this relationship impact on other relationships of the supply chain.

These other relationships are vital in order to accomplish a working supply chain that can support the transferred production with material necessary to produce. The link between the development of the focal relationship and these other relationships is the aim of this study and therefore our theoretical framework focus on relationship development, relationship initiation, relationship ending, and connected relationships. As explained above, production transfer causes complex situations on the operational level that may not develop at the same speed as the managers had envisioned during the strategic decision making. To manage production transfer better, and to fill an important gap in the outsourcing/offshoring literature, one must understand how the different relationships among the sender, receiver, and suppliers during production transfers develop over time and how the development in these relationships influences the production transfer progress.

1.1. The purpose of the present paper is to explore relationship development during production transfer

In order to fulfil this purpose, we study three production transfers using business network literature. These production transfers differ in regards to different offshoring business models and represent either offshore outsourcing or captive shared offshoring (captive offshoring) (Jahns et al., 2006). The production transfers were from Sweden to China (offshore outsourcing), Sweden to Romania (captive offshoring), and Sweden to Hungary (captive offshoring). The Chinese receiver is an established independent company, the Romanian receiver is a new company within the same corporation as the sender (i.e. Greenfield) and the Hungarian receiver is an established company within the same corporation as the sender. This spectrum of difference in the receivers, and consequently starting point of the relationship between sender and receiver is chosen on purpose in order to provide an exploration that takes different potential situations into account. Based on the discussion by Jahns et al. (2006) we suspect that the relationship development may differ between offshore outsourcing and captive offshoring since the starting point for the development processes is different. During offshore outsourcing the actors are independent of each other. During captive offshoring in contrast, the receiving unit is part of the same corporation as the sending unit (Jahns et al., 2006). The two units will then, at least on paper and structurally, have a relationship with each other at the starting point of the production transfer. However depending on if the receiver is a “Greenfield” or not the independence level will vary. Given that production transfers take place in the context of a network, relationship developments will also affect other relationships in the network; nevertheless, we include only the suppliers and the other actors that were mentioned during the interviews in order to remain relevant to the focal relationships in our cases.

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