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# The Crucial Role of Boundary Spanners — Longitudinal Sourcing Capability Development in Two Danish Offshoring Enterprises

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**Abstract:** Discourses on dynamic capabilities of organisations tend to rest in an unclear field of tension between structural and individual explanations. Most contributions submit to the structural features of the concept, yet some allow for explanations of a more individual character, such as top management leadership. This paper conceptualises and analyses the individual contribution of boundary spanners (including both top management and key individuals) to macro-level capability development of organisations. We show how two Danish SMEs' resources and capabilities transform during an offshoring process of more than five years, where individual capabilities contribute to the struggle to implement changes over time when capabilities are ruptured. We thereby further add to the literature and the understanding of how dynamic capabilities evolve over time in organisations. Specifically the use of key boundary spanners emerges as a key capability in both cases for managing more complex constellations. The boundary spanners were not only the usual external middlemen but also internal employees (mainly expats) and top management succeeding in coping with the new challenges of dealing with sensing, seizing and acting (reconfiguration) over time. The chosen study setting is the longitudinal, strategic sourcing processes of manufacturing enterprises in low-value captive offshoring circumstances. Although each case represents important and potentially unique learning about strategic offshore sourcing, it is assumed that the variations between the cases studied will provide insights that will pave the way for examining the complexity of the strategic offshore sourcing process in low-value offshoring circumstances. We therefore allow ourselves to compare the cases.

**Key words:** dynamic capabilities; organisational processes; boundary spanners; longitudinal studies

**JEL codes:** L1, L2

## 1. Introduction

A dominant understanding of dynamic capabilities of organisations tends to portray them as structural and

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stable. One reason for the lack of appreciation of an individual element and even a tension between structural and individual contributions to dynamic capabilities might be the lack of longitudinal processual scrutiny of the capabilities, i.e., a paucity of studies on how the context of a company changed over time, how companies strategise over time and how these combined elements of inside out, outside in impact on the dynamic capabilities of the firm over time. Following the call by Pezeshkan et al. (2015) for more longitudinal studies within the dynamic capabilities literature, this paper's aim is to study how companies' capabilities develop during a long-term offshoring process. Our aim in this paper is to investigate how the behavioural patterns of individual actors change the organisational capabilities through practices during the process of sourcing in SMEs. The empirical material encompasses two (SME) case companies from Denmark belonging to the low-value captive offshoring category as opposed to the high-value captive offshoring more often discussed in the offshoring literature (Parida et al., 2013).

The contribution of the paper is to add to the understanding of agency contributions conceptualising agency as a part of the development of dynamic capabilities, especially individual enablers [micro-level] impact on dynamic capabilities (Parida et al., 2013; Tallott & Hilliard, 2016). By adopting a longitudinal research design, it is revealed how the social actors, the boundary spanners, add to dynamic capabilities which help to better understand the detailed processes and activities that encompass value-creating capabilities, adding to previous studies of the internal actors' role by a specific focus upon the boundary spanner role. Individual capabilities contribute to the struggle to implement changes over time when sourcing is done in a manner where capabilities are ruptured, i.e., offshoring functions in the core company, which happened in both cases during the period of study.

The paper takes as its starting point the development of an analytical, organisational capability framework, combining one of the four relational capability variables with four individual facets of dynamic capabilities. After having developed our framework in the next section, we describe our methodological approach; then we present our findings followed by a discussion and a conclusion.

## **2. Theory**

Barney and several other scholars have argued that sustainable competitive advantage is achievable if firms have valuable, rare, inimitable and non-substitutable (VRIN) resources implemented into their value-creating strategies (Barney, 1991; Eisenhardt & Martin, 2000). Uncovering these sources to sustained competitive advantage is to find "the Holy Grail" in management research (Helfat & Peteraf, 2009), and the discourses on this issue contain a host of overlapping and contradictory concepts introduced in this quest. In trying to explain how adaptive competitive behaviour develops in organisations, the concept of dynamic capabilities is developed. The concept was developed by Teece et al. (1997), where dynamic refers to the capacity to renew competences to obtain a fit with a changing business environment. Capabilities refers to the ability of the management to adapt, integrate and reconfigure organisational skills, resources and functional competences matching what is required by a change in the environment, and in an often-quoted definition, dynamic capabilities are described as "the firm's processes that use resources, specifically the processes to integrate, reconfigure, gain and release resources, to match and even create market change. Dynamic capabilities thus are the organisational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die" (Eisenhardt & Martin, 2000, p. 1107).

The organisation's ability to create a combination of organisational and individual activities will define the organisational capability for renewal (Sprafke et al., 2012). Still, this is mainly explained at an abstract level, neglecting the detailed processes and activities that encompass the dynamic capabilities (Regnér, 2008). These activities will always take place in the organisation as interactions between individual actors. Typically, several actors will be part of such processes. Thus, there will be a permanent interaction between the individual actor and the organisational levels. Furthermore, this indicates that the concept of dynamic capability can be extended to a possible individual dynamic capability based on, for instance, individual absorptive capacity or learning capability (Lin & Wu, 2013). From this perspective, developing dynamic capabilities will be dependent on the available individual dynamic capabilities present within the specific organisation. Several variables have been identified in the literature to describe individual capabilities, such as leadership or top management behaviour (Hermano & Martín-Cruz, 2016), trust, support, commitment, etc. In addition, and of particular interest for this paper, Wilkens et al. (2006) have identified four facets of competence which are: dealing with complexity, self-reflection, combination and cooperation. The organisations' ability to create new solutions for example, depends on a combination of the present organisational and strategic routines and the individual actors making the choice to activate their competences in accordance with the routines. The interest here is to study how dynamic capabilities (Teece et al., 1997) are connected to the change of the present organisational and strategic routines by the individual actors' (new) choice in activating their competences and thus the modification of organisational assets. Teece (2014) identified processes, positions/resources and path/strategy as the three core building blocks of dynamic capabilities that build, integrate and reconfigure competencies (internal and external) in order to adapt to rapid changes in the environment. The first core building block, organisational processes, embeds the strategy and business model into the everyday work of the employees in the organisation. The second building block, resources, refers to the positioning of different assets (Teece, 2014) in the organisation and can be enhanced by meeting the VRIN criteria (Barney, 1991). The final building block, strategy, must guide and inform the organisation to enhance its processes and exploit its position. Strategy is shaped by the past (path dependency), but must also help shape the future.

This indicates that an organisation in its strategy work should and can strive for competitive advantage by altering the resource base through its organisational practices (based on individual choices of action) related to sensing, seizing and transforming routines (Teece, 2007). These practices help develop routines for continuous change (Eisenhardt & Brown, 1999), support the market needs and gain competitive advantage over rivals, "while recognising market and technological opportunities and any constraints imposed by the firm's historical path of evolution" (Teece, 2014, p. 17). To see how dynamic capabilities evolve over time, changing the organisational processes in an organisation, and, more specifically, how individual capabilities might enable organisational development, a framework is developed in the next section.

### **3. Framework**

As offshoring enterprises develop their organisations and supplier base, the strategic challenges become more complex due to the rupture in initial manufacturing set-up, forcing the companies into recurrent changes. Firms with dynamic capabilities routinise at the strategic level and not at the operational level (Wohlgemuth & Wenzel, 2016), however, the ability to continue to be highly dynamic is to overcome core rigidities, and here the skills of individuals are crucial drivers (Leonard-Barton, 1995). A change in the environment is (hopefully) recognised by

individuals who react by making changes within the organisation. Thus, renewal of the organisational resource base is a matter of individual actors choosing to amend organisational processes within the organisation (Sprafke et al., 2012). When the resource base within an organisation is partly ruptured due to strategic sourcing decisions, it eventually leads to a stronger emphasis on relations between elements of the organisation (Cheung et al., 2010). Pagano's (2009) review of relational capabilities sets out to link internal organisational mechanisms with external relations. The aim is to disentangle specific components of relational routines at the micro level, moving beyond the setting up of organisational units. We therefore define organisational routines as: *The capability of social actors to develop and run practices and processes in a firm that can manage and develop its external performance over time*. We agree with Pentland et al. (2012) that it is useful to bring action, as we term practices and processes, to the foreground. However, we suggest that the social actor has to be considered as well to understand the dynamics over time, and not only routines and processes as proposed by Pentland et al. (2012).

At the micro level, the organisational routines can be found in functions, tools, management and control procedures (Pagano, 2009) and enacted by social actors (Balkow, 2012; Regnér, 2003; Friis, 2012; Sprafke et al., 2012). *Functions* pool both necessary equipment, expertise and functions for external linking, such as an alliance department in charge of alliance-related tasks. Tools involve human resource management and information systems to support knowledge management flows. *Management and control* procedures include coordination mechanisms between multinational corporations' (MNCs) internal units. These organisational routines are enacted by social actors like managers, employees, expats and other human intermediaries (Balkow, 2012) who provide knowledge resources related to the management of both internal and external partnerships, and therefore we conceptualise this as boundary spanners.

We combine the capability of boundary spanners with the facets of dynamic capabilities suggested by Sprafke et al. (2012): *dealing with complexity* (social actors' ability to absorb and structure environmental change), *self-reflection* (how social actors develop their own development process and initiate change), *combination* (social actors' ability to apply their knowledge to various problematic situations) and *cooperation* (social actors' ability to build and maintain relationships). Introducing the term "dynamic managerial capabilities", Adner and Helfat (2003) indicate that the managerial actors are all important when addressing individual capabilities. However, the actors involved in the strategy process come from other organisational levels too (Regnér, 2003, 2008; Friis, 2012, Sprafke et al., 2012), leading us to extend the term "social actors" to also refer to employees with no formal managerial responsibilities. The organisational routines are shaped and changed by social actors who are able to think outside the box, demonstrate new ways of thinking and acting and, furthermore, acquire, secure, integrate and/or recombine the relevant resources (and practices) necessary to implement the strategic (sourcing) decisions. Teece (2007) argues that dynamic capabilities are enacted through the systems' and individuals' ability to sense, seize and act (reconfigure). We combine the relational capabilities by Pagano (2009) and the dynamic capability view by Teece (2007) with a specific focus upon the social actors and their individual facets (Sprafke et al., 2012) to investigate how the behavioural patterns of individual actors change the organisational routines through practices during the process of sourcing in SMEs.

Our analytical framework is summarised in Table 1 and will be used to mainly study how the individual facets of social actors' (boundary spanners) potentially create the ability to sense, seize and reconfigure the strategic sourcing process within the case companies. We acknowledge the complexity caused by the interaction of systems and social actors and therefore we accept the role of the other three relational capabilities: tools, managerial and control procedures as well as functions. We focus on the individuals in line with Pezeshkan et al.

(2015) to avoid conceptualising the dynamic capabilities as higher-order generic competences. We extend Andreeva and Ritala's (2016) question of how managers can develop organizational change capability in their organization by contributing with a focus on the development of more specific (sourcing) capabilities over time.

**Table 1 Individuals' Ability to Sense, Seize and Reconfigure**

| <b>Individual facets</b>                                   | Dealing with complexity   | Self-reflection   | Combination   | Cooperation   |
|--|---|---|---|---|
| <b>Internal and external boundary spanner role actions</b> | Gathering and filtering information.<br>Organizing and prioritizing information.<br>Developing action plans (feasibility, time).<br>Controlling progress and staying goal focused.<br>Making high-quality decisions faced with complex information. | Providing and actively asking for feedback.<br>Evaluating one's own performance and behaviour.<br>Using feedback for improvement. | Using new, creative ways to solve problems.<br>Integrating others' knowledge and strategies into solutions.<br>Applying experiences and knowledge to new situations.<br>Customizing and establishing methods. | Establishing lasting relationships.<br>Dealing constructively with conflicts.<br>Being prepared to defer one's own needs for the sake of the group.<br>Shifting perspectives and adapting to others.<br>Showing reliability and demanding it from others. |
| <b>Organizational routines</b>                             | Management and control procedures, tools, functions   |   |   |   |
| <b>Potentially enable</b>                                  | <b>Individuals' ability to sense and seize change in the environment and act on (reconfigure) these opportunities and threats</b>   |   |   |   |

#### 4. Method

At the outset, four case companies were selected on the basis of being globally operating SMEs in the textile and furniture industry with considerable experience in offshore sourcing (Jørgensen, 2012). The cases represent the less-studied field of low-value captive offshoring contributing with a potential to see if they diverge significantly from the more often studied segment of the high-value captive offshoring field. The number of case companies was reduced for this article in order to only include the two cases where one of the authors had visited and conducted interviews at the offshore activities, thereby opening up a more dyadic perspective on the two case companies. The theoretical and analytical perspective adopted here is interpretive (Walsham, 1995), and the analysis is based on empirical material gathered between 2007 and 2012. The paper's analysis focusing upon boundary spanners' individual facets relies on the topical and theoretical similarity as well as accessibility of one of the author's previous works focusing on strategic offshore sourcing decisions. The analytical design is a further iteration of the abductive approach of the original study (Jørgensen, 2012). The interviews and data collection were influenced by a broad and open-minded understanding of strategic sourcing through offshoring, which is used here to analyse sensing, seizing and acting processes of social actors. The empirical investigation took the form of qualitative case studies with a longitudinal orientation (Pettigrew, 1990). The choice of a longitudinal case study is suitable for gaining in-depth and contextual insights (Stake, 2005) into, for example, dynamic capabilities similar to existing empirical findings and theoretical contributions in the business process outsourcing/IT outsourcing/offshoring literature (Lacity et al., 2010; Lacity et al., 2011; Lacity & Willcocks, 2014; Su & Gargeya, 2012).

The method applied entailed zooming in on a few events in the two cases as a process research design (Van de Ven, 2007). The field methods were onsite observations, semi structured and unstructured interviews, and a review of secondary materials. Respondents from each company were involved in commenting on case summaries, including revisions. Secondary materials used from the companies included annual reports, press releases, customer presentation material and stakeholder and media material. These and the secondary materials were used

as the basis for the case descriptions presented here. Table 2 below depicts the number of formal interviews conducted in each company and the year in which they took place. Interviews were partly transcribed. When visiting both the domestic and offshore activities, a significant number of informal, non-recorded conversations took place as well, and these have been included as background material in the following descriptions and analysis of the two case companies.

**Table 2 Interviews Conducted in the Case Companies (Jørgensen, 2012)**

|               | Case (textile) | Case B (textile) |
|---------------|----------------|------------------|
| 2007/2008     | 1              | 1                |
| 2008/2009     | 3              | 2                |
| 2009/2010     | 2              | 1                |
| 2010/2011     | 2              | 2                |
| Offshore 2011 | 5 (Ukraine)    | 3 (Vietnam)      |
| Total         | 13             | 9                |

Due to their small size and fairly simple organisational structures, the case companies are seen as single entities indicating a single case category. As the process research design, we use a comparative method based on few cases and few events (strategic change), and we mainly use summary case studies as the typology of process research design (Van de Ven, 2007). The analytical work performed, while writing the article can be characterised as less structured and more in accordance with Walsham’s description of doing interpretive research. We try to learn from the data itself, subscribing to the belief that the researcher’s best tool for analysis is his or her own mind, supplemented by the minds of others when work and ideas are exposed to them (2006xx). We did not use the original method of building and rebuilding axial coding structures; instead, we focused on the above-mentioned dyadic case material trying, as Walsham describes, to learn from the collected data itself, including the non-recorded data. Although each case represents important and potentially unique learning about strategic offshore sourcing (Stake, 2005), it is assumed that the variations between the cases studied will provide insights that will pave the way for examining the complexity of the strategic offshore sourcing process. We therefore allow ourselves to compare the cases.

## **5. The Research Context**

The following briefly presents the two case companies, which both can be categorised as belonging to the category of low-value captive offshoring opposed to high-value captive offshoring as stated in Parida et al. (2013).

### **5.1 Case A**

The company was one of the first in the Central Jutland textile cluster to offshore its sewing activities to Eastern Europe. After outsourcing to various Eastern European countries for some time, the company established its own production capabilities in Ukraine. In 2008, it had about 300 employees in Ukraine and 30 employees in Denmark. Initially, the company kept all other operations (procurement, sourcing, administration, sales, product development, warehouse and management) in Denmark and used its production managers as boundary spanners for the offshored production. The company then decided to establish its own production activities in Ukraine because of rising supplier costs and a lack of local Ukrainian suppliers with resource complementarities at the time the company decided to move its sewing activities. It tried to move one of its more complex activities, design,

to the Ukrainian site as well, but after a short period of time (less than two years), it chose to backshore the activity to its headquarters in Denmark. The main reason was a lack of understanding of the company's business to business (BtB) customers' demands at the Ukrainian site, which created frustration among both the sales people at the headquarters as well as their BtB contacts. The company has, however, moved procurement and sourcing activities to the Ukrainian site during the period of study, which places the Ukrainian site as a strategically very important part of the company's supply network, encompassing cloth and accessories suppliers, sewing units and raw material storage in Ukraine as well as storage of finished materials in Denmark.

### **5.2 Case B**

As an early mover in the Central Jutland textile cluster, this company outsourced its sewing activities in the late 1980s to Eastern Europe. It kept all other activities in Denmark and shifted its outsourcing activities among suppliers in Eastern Europe as well as India, China and Vietnam. More recently, Company B began to move its Eastern European activities to its own newly established production facilities in Vietnam, while retaining outsourced sewing activities in China, India and Vietnam. In mid-2009, it employed around 1,100 workers in Europe and Vietnam and had about 2,500 workers in the Far East engaged in outsourcing. The focal company is part of a supply network that encompasses cloth suppliers, dyeing facilities, garment production, sewing units and raw material storage as well as storage of finished materials. Initially, the focal company in Denmark had no production facilities except a small sewing department to support product development. However, the company carried out the activities of procurement, sourcing, administration, sales, product development, test laboratory, warehouses and management. The establishment of production facilities in Vietnam reflected a wish to reduce costs as well as the time to market of the manufactured goods. For these reasons, the physical location of the raw material stock was moved from Denmark to Vietnam as well. The captive arrangement in Vietnam manufactures the more complex products as well as new products, whereas the standardised products are mainly outsourced to local manufacturers in Vietnam.

## **6. Findings**

Both case companies, having survived the financial crisis turmoil, considered themselves to be successful at the end of the study period. At the end of the study period, Case B again picked up speed with regard to growth in sales and financial results. In comparison, Case A reached a milestone regarding its new downstream brand, passing the break-even point, whereas its captive upstream offshore activities suffered a slight decrease. Case A and B both interpret this development as a successful one, simply because they are still here; "the choice to do something [offshore manufacturing] was based on the fact that we were forced to do something. Either close up shop and say, 'hey, we had a good run', or we would have to develop ourselves [the company]" (key employee covering cross-functional and cross-national roles, Case A).

Both case companies demonstrate various ways of using expats (boundary spanners), combining the organisational routines of functions, management/control procedures and tools to run the captive and non-captive domestic and offshore activities. Their capabilities are challenged due to the structural rupture of the activities in time and space causing social actor challenges regarding their capability to sense, seize and act. Examples of this development in both cases are shown in Table 3.

Below are some of the more significant incidents during the study period involving both internal and external boundary spanners. How the social actors in the two case companies have tried to cope with these incidents will



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be further analysed below based upon the identified four individual facets (Sprafke et al., 2012); *dealing with complexity; collaboration; self-reflection and combination*.

**Table 3 Case Capability Development**

|   | Social actors' ability to...  |   |  |
|---|---|---|--|
|   | sense   | seize   | act (reconfigure)  |
| Case A, captured opportunities (examples) | <ul style="list-style-type: none"> <li>• Opportunity for local business based on surplus material</li> <li>• Developing local staff into merchandisers</li> </ul>                 | <ul style="list-style-type: none"> <li>• Local captive unit establishing local domestic outlets</li> <li>• Training of both local and Danish employees in communication skills and more</li> </ul>          | <ul style="list-style-type: none"> <li>• Developing offshored downstream skills as well as upstream skills (merchandisers and quality controllers)</li> </ul>  |
| Case A, experienced failure (examples)    | <ul style="list-style-type: none"> <li>• Employing offshore local designer to design both local and offshore designs</li> </ul>   | <ul style="list-style-type: none"> <li>• Designer only capable of delivering promising local designs</li> </ul>   | <ul style="list-style-type: none"> <li>• Laying off designer and reshoring design activities</li> </ul>  |
| Case B, captured opportunities (examples) | <ul style="list-style-type: none"> <li>• Developing offshore manufacturing capabilities</li> <li>• Development in market demands towards more custom-designed products</li> </ul> | <ul style="list-style-type: none"> <li>• Establishing own offshore manufacturing facilities with expats in management</li> <li>• Building on local expat manager's capabilities within diplomacy</li> </ul> | <ul style="list-style-type: none"> <li>• Developing large-scale offshore manufacturing capabilities</li> <li>• Increasing captive offshore manufacturing facilities and moving activities to Laos</li> </ul> |
| Case B, experienced failure (examples)    | <ul style="list-style-type: none"> <li>• Opportunity to source dye activities closer to captive manufacturing sites</li> </ul>  | <ul style="list-style-type: none"> <li>• Hiring German dye expert to help possible Vietnamese supplier</li> </ul>   | <ul style="list-style-type: none"> <li>• Failure of transferring expert knowledge and subsequent relocation of dye activities</li> </ul>   |

### 6.1 Individual Facets of Boundary Spanners

Sourcing processes were made explicit to increase the capability to deal with the increased complexity (caused by the functional choice of establishing offshore captive manufacturing activities) through the use of both standardisation and IT tools by which processes were teased out of the current domestic organisational configuration. This is most apparent in Case A, which continuously worked on creating its own domestic IT system. "These were the things we had to help them with building some tools so they could control things and building some competences so they had someone who could control these things" (key employee covering cross-functional and cross-national roles, Case A). "We have become better at holding shorter meetings and at efficiency in general. It is preferable for everyone that when we communicate, it is a precise form of communication ... I still find myself thinking that we are a manufacturing company and that we produce. It is a communications company, and it is difficult culturally, as we have changed from being a producer to becoming a management and communications unit"(CEO, Case A).

The above quotes indicate that company A tries to increase its capability to cooperate through a *self-reflection* process regarding their communication abilities and mainly tries to increase the individual capabilities of the employees in their offshore subsidiary.

In Case B, the company used off-the-shelf IT products like ERP systems (SAP) partly adapted to the specifications of the company. But the company was still challenged as to the integration of its organisational processes and communication: "We have some [Danish] logistics employees who are regularly over there for the same reason [communication challenges]. That is also why I continue to travel [to Vietnam] to make sure that they understand [employees in Vietnam] what this is all about and our culture, how to behave. If someone steals [they are fired]. All these things that seem basic management arguments at home, but might not be the case over there" (CEO, Case B).

Apparently, as the CEO has continued to visit the offshore activities frequently during the study period, the IT tools are not enough to handle and improve the necessary capabilities, indicating that the cooperation capabilities of the employees seem to be evolving very slowly at both ends (domestic and offshore employees) and that the capability gap of *dealing with complexity* is not simply fulfilled through the adaption of a standard IT system.

Case A chose to backsource its design activities due to significant coordination and translation challenges between its BtB customers, the company's Danish sales team and a local designer positioned at the Ukrainian site. "We did let her try, but it [the design] missed the mark completely, and it was really expensive to produce ... In the end, it was decided to fire her, because she wanted the same pay level as Danish employees, and [she] wanted to work independently. This led to us hiring one more [designer], meaning that we have Maria, and the new [designer] is in the private label [department]" (key employee covering cross-functional and cross-national roles, Case A).

Company B also kept all production development activities in Denmark during the study period to maintain the combination capability, which was also the outcome of the developments in Case A with the choice of backourcing the design activities to once again improve the combination capability. Whether or not Case A improved the *self-reflection* capability at all through this experience is another matter due to the fact that they also tried to establish manufacturing activities in Egypt, activities that were completely abandoned during the study period.

The management in both cases were continuously involved in both creating and implementing new organisational processes as well as often in deciding the direction of day-to-day operational matters, including the continuous work with building the content of the roles of the boundary spanners in the development of the organisational routines.

Intermediaries of various kinds were used extensively in both cases to mainly increase *cooperation* and *deal with complexity* capabilities. Case B used collaboration partners from Eastern Europe as flying controllers in Asia; the CEO frequently flew back and forth and expats were hired to run the offshore activities. However, in one case even the involvement of an external boundary spanner was not sufficient to help change the crucial dye supplier from a European to a Vietnamese supplier, indicating at least a potential lack of internal combination and probably *collaboration* as well as *dealing with complexity* capabilities. In Case A, the CEO and quality manager flew back and forth to Ukraine, an expat was hired to run the offshore activities and, in both cases, an external consultant was placed at the offshore premises during the study period. "We are privileged because we produce at many different factories in many different countries. If one gets an idea in India about how things can be done more efficiently, we have some controllers who move around between the factories, and when they come to the next factory in China, they can say, 'have a look here, do it like this, and it will be done faster'. In this way, we optimise the production of the factories. There is an efficiency gain, which we share. There is money in transferring knowledge that we might have picked up at another factory, and in this way, we manage knowledge" (CEO, Case B). In Case B, it seems like these flying controllers actually also help the company to increase its *combination* capability, both at the internal site and in cooperation with its non-captive suppliers.

Both cases placed an external consultant at the offshore unit to develop knowledge and competences at the local offshored premises in terms of the challenges of *dealing with complexity* and especially *cooperation* according to the local general managers (off-the-record comments during visits at the local subsidiaries). In Case B, the local general manager was a Dane with no previous managerial experience (diplomat), and in Case A, the

CEO from the Baltics had managerial and working experience from Scandinavia and the Baltics. “Right now, we have a Danish director and a Hungarian production manager, and he has two assistant production managers, one of whom is a Dane. She was the one who should have been the production manager, but she did not think she could manage the job. [She has since left the factory and been replaced by another Dane, the Hungarian production manager is still employed]. We have a Korean employee who previously worked for one of our suppliers as a factory manager, and she is also assistant production manager. On the logistics side, we have a logistics manager from Yemen, who was trained in the west, but has lived in Vietnam since 1984 and speaks Vietnamese” (CEO, Case B).

The role of the expats, apart from managing the day-to-day business activities, is often to translate the tacit knowledge about processes, organisational culture and values between the entities dispersed in time and space, and they are thus crucial in the development of the *cooperation* capability within the company. They are considered very valuable to the case companies, reflected in the fact that although both case companies initially offshored their manufacturing activities to reduce costs, both companies accept that the expats receive significantly better salary packages compared to the local employees. However, especially Case A is now trying to reduce the importance of expats as well as travel expenses by training and enhancing the capabilities of the local Ukrainians, upgrading them to new boundary spanners through the role of ‘merchandisers’ who bridge the sales activities in Denmark and the sewing and sourcing activities in Ukraine. This development gained speed after the failure of offshoring the design activities to Ukraine and involved further training of the domestic sales employees with respect to *cooperation* capabilities, indicating that Case A is also trying to increase its capability for *self-reflection*, including evaluation and feedback from both entities (domestic and offshore). “Our travel budget, if you go back six years when it was our old manager who travelled four times a year, and only when he had to go abroad and give lectures [meaning hardly any travel budget at all]; [compared with] today, our travel budget is DKK one million” (CEO, Case A). “We have merchandisers who sit and communicate with purchasing, construction [and] production; the sales staff can talk with the constructors and vice versa, but it is always through one of these merchandisers ... Sales can also speak with purchasing if they have developed new fabric types. However, it is constantly through the merchandisers. They are actually involved in everything. [...] I would not say 50%, but 25% [local Ukrainian staff’s reduced efficiency compared to their Danish counterparts]. But wages are 1/10 of Danish wages. A merchandiser down there is paid something like DKK 2,500 [per month]” (key employee covering cross-functional and cross-national roles, Case A).

The cases commenced their offshoring development, mostly in production, focusing on sourcing final merchandise from external suppliers. To some extent, the structural routines varied between the cases in terms of the division and geographical position of production, product development, sales, management and administration. Management consisted of different profiles regarding the capability to handle distribution, sourcing and production. Not surprisingly, the individual capabilities develop in various ways and in importance in the two cases during the period of study, in which the individual capabilities to deal with the facets of complexity, cooperation and, to a lesser degree, self-reflection are especially challenged at the managerial level. Such capability gaps are mainly met through the use of expats as local managers (and in other key positions) as well as through the placement of external Danish consultants for longer periods of time (causing significant frustration among local subsidiary management) (off-the-record comments during visits at the subsidiaries). The individual capabilities to deal with changes in the environment in the two cases are shown in Table 4.

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**Table 4 Individuals' Capability to Deal with Changes in the Environment**

| Individuals' (employees and/or management) ability to... |  |       |                   |
|--|--|-------|-------------------|
|  | sense  | seize | act (reconfigure) |
| Case A   | <ul style="list-style-type: none"> <li>• through the facets of: <b>dealing with complexity</b> is of greatest importance, followed by <b>collaboration</b> and, to a lesser degree, <b>self-reflection</b> (training of merchandisers).</li> <li>• achieved by moving employees back and forth and the training of employees at both ends to better sense and seize.</li> <li>• lack of <b>combination</b> makes the company withdraw design activities from the subsidiary and reconfiguration ability is partly reversed.</li> <li>• the facets <b>dealing with complexity</b> and <b>collaboration</b> at the managerial level enable the potential to sense and seize through continuous, frequent movement of top management, placement of a consultant at the subsidiary and the continuous employment of an expat as local subsidiary manager. The capability to reconfigure is indicated at the subsidiary level through the act of establishing local outlets.</li> </ul>   |       |                   |
| Case B   | <ul style="list-style-type: none"> <li>• through the facets of: <b>collaboration</b> is of greatest importance, followed by <b>dealing with complexity</b> and, to a lesser degree, <b>self-reflection</b> (flying controllers and onshore product development).</li> <li>• achieved by hiring of expats and training of offshore employees to better sense and seize.</li> <li>• lack of <b>combination</b> makes the company withdraw involvement in offshore dye activities and reconfiguration ability is not achieved at the local level.</li> <li>• the facets <b>dealing with complexity</b> and <b>collaboration</b> and, to some extent, <b>combination</b> at the managerial level enable the potential to sense and seize through continuous, frequent movement of the CEO, placement of a consultant at the subsidiary and the continuous employment of expats in managerial/key positions at the subsidiary. The ability to reconfigure is slowly being built at the local subsidiary level through the manufacturing activities of more complex products. However, the design and innovation activities stay onshore at headquarters.</li> </ul> |       |                   |

## 7. Discussion

In the following we use our combined organisational routine and individual facet framework as the domain for the discussion pointing to particular parts of the framework that became important. The strategic decision of the SMEs was initially to disrupt and offshore manufacturing capabilities which then had to be rebuilt because of the remote physical repositioning. Both cases show evolvement of differentiated organising routines. They develop relational sourcing competences, transactional contract competences and competences in running an offshored manufacturing subsidiary with integrated international supply and distribution. In this sense, the cases can be considered a progression of organising routines to develop dynamic capabilities specifically through the boundary spanners. The cases followed distinctive trajectories enlarging their practices of combining activities. In both cases, the initial disruption in organisational functions, which was moving manufacturing activities offshore, was followed by processes of implementation of new tools first and foremost IT (the “tool” dimension). Also, the period exhibits continuous, significant top management activities (the managerial dimension) confirming the findings of Hermano and Martín-Cruz (2016). However, the use of key boundary spanners specifically emerges as a key capability in both cases for managing the more complex constellations and new required organisational routines, moving the attention to the individual facets in the framework, and supporting the micro-foundational perspective as well as the findings of Wohlgemuth and Wenzel (2015). The boundary spanners were key internal employees (mainly expats) and the more “usual” external middlemen but also were top management, thus confirming the argument by Sprafke et al. (2012) of the need to enrich the individual dimension with more social actors than top management. The individual contributions of the social actors involve the capability to deal with the facets of complexity, cooperation and, to a smaller degree, self-reflection. Slightly surprising, the last identified enabler, combination, is less apparent in the two cases. In the companies these early actions later led to further activities, including the retaining or backshoring of product development, highlighting a need for special competences among the social actors to arrive at mastering the more advanced challenges of self-reflection and

combination, and subsequently to maintain and develop the ability to sense, seize and act within the companies.

It is thus fruitful to think of the organisational routines and the individual facets as being of equal importance to establish and run profitable global organisational configurations with new shapes of sensing, seizing and reconfiguration capabilities.

The domestic key social actors' experience regarding the growing challenges with the facets of mainly cooperation and dealing with complexity led to a similar development of the cases' organisational routines, which shifted from relying on external offshored units of production to relying on offshored internal social actors regarding production activities. Offshoring production created quality challenges in both cases, and the companies were forced to start developing alternative quality configurations, such as the heavy use of boundary spanners, initially in the form of mainly expats in both cases. The path developments differed, however; Case A tried to train local merchandisers, as opposed to Case B which increased its number of expats employed offshore over time. Furthermore, on the sourcing side, staff in Case A increasingly moved back and forth between Denmark and the offshore location, whereas the travel activity in Case B did not slow down as expected by the CEO. In both cases, the interaction became increasingly complex and started involving activities other than production, such as logistics, innovation and procurement, and the case companies kept struggling to rebuild individual capabilities between the domestic and offshore entities to maintain and possibly increase the companies' capability to mainly sense and seize environmental opportunities and threats. We support Lin and Wu's (2014) findings that internal learning is crucial, but here we can also add that boundary spanners become important key actors to achieve organisational learning. In both cases, expats were used to act as boundary spanners and to continuously help the offshored local captive units and/or local suppliers build their capabilities, including manufacturing and quality understanding. This indicates that internal learning is not always sufficient and that external players are needed to improve organisational routines. Both cases even placed Danish external consultants at their captive offshore units to increase the manufacturing capability of the offshore units due to environmental demands and requests from present and future customers. Both case companies show similar developments regarding the individual micro-level contribution to macro-level capability development as also stated by Parida et al. (2013). However, we show a more specific development of the individual facets and how they have influenced the capability development to both sense, seize and act (Teece, 2014; our overall dimension in the framework) on a micro level, thereby enhancing the understanding of how dynamic capabilities evolve in organisations. In terms of sensing we find both capture of opportunities and failures. Seizing occurred in prolongation of these, for example, when realising the limitations of the local designer, and in some remarkable acts of the boundary spanners such as developing large scale offshore manufacturing capabilities, which in essence completely change the mother company's strategy and capabilities. Sensing, seizing and acting thus did indeed occur as strings of events.

In the specific occasions of offshoring manufacturing activities in low-value captive offshoring circumstances we further illustrate that mainly three out of the four individual facets suggested by Sprafke et al. (2012) are at play, partly eliminating the fourth individual facet of combination. This might be due to the specific circumstance of low-value captive offshoring thereby inviting further studies of how the individual facets might facilitate the capability to sense, seize and act in high-value captive offshoring circumstances.

Both companies end up having their design and product development activities placed in the domestic set-up, thus indicating a failure (at least in Case A), a retreat from the functional rupture and a move towards redeveloping the social actors' development capability facet in a combined domestic/offshore set-up (see Table 3). This underlines the long-term emergent element of dynamic capabilities; both in their structural and agency

dressings, they are in principle built and rebuilt over and over again.

## **8. Conclusion**

The aim of this paper is to investigate how the behavioural patterns of individual actors change the organisational routines through practices during the process of sourcing in SMEs. A conceptual framework was developed merging organisational routines with facets of actors' behavioural patterns to see how this enables individuals' ability to sense, seize and act in a sourcing process.

Two Danish SMEs' resources and capabilities' transformation during an offshoring process of more than five years serve as the case context. The strategic decision involved the choice to offshore 'ruptured' capabilities, which then had to be rebuilt. Both cases followed distinctive trajectories amending their capabilities/practices to combine activities. In both cases, the initial rupture in organisational functions was followed by oft-mentioned initiatives regarding implementing new tools (mainly IT) as well as continuous, significant top management activities. Adding to this, the use of key boundary spanners emerges as a key capability in both cases for managing the more complex constellations, thus supporting the micro-foundational perspective. The boundary spanners were not only the usual external middlemen, but also key internal employees (mainly expats) and (again) top management. This confirms the need to extend the individual dimension to include more social actors than top management. The individual contributions of the social actors are mainly enabled through the capability to deal with the facets of complexity, cooperation and, to a lesser degree, self-reflection, whereas the last identified enabler, combination, is less apparent in the two cases. In the journey of the companies, this led to further activities including the retaining or backshoring of product development in both cases, indicating a need for special abilities among the social actors to achieve the seemingly more advanced challenges of self-reflection and combination to maintain and develop the ability to sense, seize and act (reconfigure) within the companies.

The implications for management point especially to the use of key boundary spanners. They emerge as a key capability in both cases for managing the more complex constellations. The boundary spanners were not only the usual external middlemen but also internal employees, especially expats and top management. Their success in coping with the new challenges of sensing, seizing and acting (reconfiguration) over time and even in building new capabilities becomes crucial in the continuous struggle to develop the dynamic capabilities in an increasingly internationalised SME environment.

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