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**1. Maria Rosario Alves Moreira**
PhD in Management Science
Faculty of Economics
Universidade do Porto
(Portugal)
[mrosario@fep.up.pt]

**2. Sofia R.S. Andrade**
MSc in International Business
Faculty of Economics
Universidade do Porto
(Portugal)
[sofia_andd@hotmail.com]

**3. Paulo S.A. Sousa**
PhD in Interdisciplinary Mathematics
University of Warwick
(United Kingdom)
[paulus@fep.up.pt]

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# International Outsourcing: a process approach to the apparel industry

**Maria Rosario Alves Moreira**
**Sofia R.S. Andrade**
**Paulo S.A. Sousa**
*Faculty of Economics, Universidade do Porto, Porto, Portugal*

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## ABSTRACT

**Objective** – The purpose of this paper is to build a framework for an international outsourcing process in the apparel industry that can serve to support managerial decisions and actions regarding outsourcing choices and implementation.

**Design/methodology/approach** – We developed of a straightforward and flexible framework describing the main stages of the international outsourcing process and its main activities with application in the context of the apparel industry. A case study approach was adopted with primary data collected through in-depth interviews and secondary data aggregated from company reports and documents.

**Theoretical foundation** – Some research gaps in the outsourcing literature and most specifically on the matter of international outsourcing were identified by Hatonen and Eriksson (2009) and Kakabadse and Kakabadse (2000), among others. Specifically, these authors claim that there is not enough research on developing and offering decision models, tools or guidelines to support managerial decisions with the appropriate empirical evidence. This study aims to address this gap.

**Findings** – We found that the international outsourcing process can be described using the proposed framework. Apparel companies can use this framework to support and supervise international outsourcing processes.

**Practical implications** – This study provides a simple model that can help companies in the apparel industry to enhance their outsourcing activities and operations, and also contributes to a broader academic understanding of the matter.

**Keywords** – International Outsourcing. Apparel Industry. Frameworks. Decision Making.

## 1 INTRODUCTION

Outsourcing is increasing among international companies, a business level strategy that is becoming more corporate, since outsourcing decisions have evolved from being an operational matter to a strategic one (Schniederjans & Zuckweiler, 2004; Zhu, Hsu, & Lillie, 2001). The idea of outsourcing an activity represents a fundamental dilemma which many managers have to face (Dabhilkar, 2011; Momme, 2002). Companies have limited resources and cannot always meet the expenses of having all their technologies in-house. This question – whether or not to outsource certain activities – has been an important issue for many decades and in several developed countries. Over the last decades, for instance, various authors have developed a number of strategies and approaches to address outsourcing (e.g. Åkesson, Jonsson, & Edanius-Hällås, 2007; Gibbon, 2001; Mitchell, 2015; Raman, & Ahmad, 2013; Schniederjans & Zuckweiler, 2004).

Empirical research is primarily concentrated on the USA (e.g., Elmuti & Kathawala, 2000; Kremic, Tukel, & Rom, 2006; Schniederjans & Zuckweiler, 2004; Su, Dyer, & Gargeya, 2009), on some European countries (e.g., Åkesson et al., 2007; Belso-Martinez, 2008; Bolisani & Scarso, 1996; Efstathiades, Rousis, Boustras, & Bratskas, 2009; Gianelle & Tattara, 2007; Graziani, 1998; Mol, Tulder, & Beije, 2005; Nassimbeni, 2006), and on other developed countries (e.g., Abramovsky, Griffith, & Sako, 2004; Beaumont & Sohal, 2004; Johanson & Vahlne, 1977; Kyöstilä & Cardwell, 2005; MoosaviRad, Kara, & Ibbotson, 2014; Mitchell, 2015; Raman, & Ahmad, 2013). Nevertheless, there are some studies in developing countries (e.g., Barbosa, & Minciotti, 2007; Oliveira, Boehe, & Borini, 2009) as well as with a global focus (Hoecht & Trott, 2006; Schaaf, 2004). Although these approaches have been helpful in determining outsourcing strategies, they seem too excessively aggregated to prove helpful to a particular field of activity, the apparel industry, when taking managerial decisions and actions regarding outsourcing choices and implementation.

Some research gaps in outsourcing literature and, specifically, on the matter of international outsourcing were identified by Hatonen and Eriksson (2009) and Kakabadse and Kakabadse (2000), among others. Specifically, these authors claim that there is not enough research on developing and offering decision models, tools or guidelines to support managerial decisions with appropriate empirical evidence. This study aims to address this gap by building a framework for an international outsourcing process in the apparel industry. It can help support managerial decisions and actions regarding outsourcing choices and implementation. This paper reports on the development of a framework, describing the main stages of the international outsourcing process and its main activities to address decision-making in apparel companies. A case study approach was adopted with primary data collected through in-depth interviews and secondary data added from company reports and documents. A similar single-case company study was made in New Zealand to analyze how small companies manage institutional differences to enhance their international outsourcing success (Sharma, Lindsay, & Everton, 2015).

To this end, a review of the literature on outsourcing, on which the conceptual model is built, is carried out in Section 1. This first section also summarizes empirical evidence on outsourcing in the apparel industry. Next, the development of the outsourcing framework is described, as well as data collection methods and other methodological aspects. Description of the proposed framework and its illustration using a case study is then provided. The paper concludes with a discussion about its contribution to industrial practices, highlighting paths for future research.

## 2 THE OUTSOURCING PROCESS IN THE LITERATURE

Outsourcing has been an important issue for many decades. Initially studied as a business-level strategy, it evolved to a corporate-level one. Outsourcing has increasingly been identified as a management strategy, given that companies transfer major non-core activities to efficient and specialized providers (Elmuti & Kathawala, 2000) in order to sustain and enhance competitive advantages.

Outsourcing is defined as moving activities that were previously developed in-house to external organizations (Parkhe, 2007). If sourcing is done outside the home country's borders, two distinct concepts can be identified: international outsourcing and offshoring. International outsourcing (IS) involves moving activities traditionally developed in-house to external companies in foreign countries (Schniederjans & Zuckweiler, 2004), whereas offshoring is moving production activities outside the home country's borders to foreign affiliates (activities are thus kept in-house). According to Lewin, Massini, and Peeters (2008), there is an evolution of offshoring strategies, from home-base augmenting to home-base replacing innovation capabilities. International outsourcing can also be seen as part of the offshoring global concept (United Nations Conference on Trade and Development [UNCTAD], 2004). Due to globalization, a new concept has been developed: global outsourcing, which consists of managing integrated outsourcing activities located inside and/or outside the home country's borders (Elmuti & Kathawala, 2000). In this paper, we focus on international outsourcing activities, since international outsourcing represents a higher risk to buyer companies than other sourcing options, thus requiring more support concerning management decisions (Harland, Knight, Lamming, & Walker, 2005).

Lonsdale's research (Lonsdale, 1999) revealed that managers were disappointed with the results of their management decision capacity. This frustration resulted both from weak management decision capacity and the lack of outsourcing methodologies. Indeed, the absence of methodologies, tools and guidelines to support outsourcing decisions is often referred to in literature – since the 1990s, several efforts have been made to provide outsourcing guidelines and frameworks to support the outsourcing process in companies (e.g., Bolumole, Frankel, & Naslund, 2007; Cánez, Platts, & Probert, 2000; Fill & Visser, 2000; Franceschini, Galetto, Pignatelli, & Varetto, 2003; Jennings, 1997; Marshall, Lamming, Fynnes, & Búrca, 2005; McIvor, 2000; Tate & Ellman, 2009; Vining & Globerman, 1999).

### 2.1 Stages of the outsourcing process

To analyze differences and common aspects among the existing frameworks, we have established a common frame. We assumed that outsourcing processes can be divided into four major stages, as proposed by Zhu et al. (2001): 1) planning, 2) developing, 3) implementing, and 4) evaluating. There is a stage zero (before a company considers outsourcing) that is not considered by Zhu et al. (2001). Stage zero is when a company examines its motivations towards outsourcing, its expected benefits and risks, and decides to consider it as one of the available strategies (e.g., Cánez et al., 2000; Herath & Kishore, 2009; Holcomb & Hitt, 2007; Lin & Ma, 2012; Probert, 1996; Tayles & Drury, 2001). Thus, in Stage 1, we assumed that companies have accomplished this examination and are considering outsourcing. During the development stage, the companies have defined which activities are to be outsourced, which supply markets they intend to access, and have selected potential providers. The development stage ends when contract negotiations are concluded. Stage 3 is the implementation of the contract on both sides (involving the transference of the outsourced activity from the buyer to the vendor). Stage 4, surviving, covers two main aspects: a post-review of the outsourcing process and managing the outsourcing relationship.

Considering these four stages, only four frameworks seemed appropriate: Embleton and Wright (1998), Marshall et al. (2005), and Tate and Ellman (2009), Zhu et al. (2001), since they are the only ones which refer to the implementation stage. Table 1 presents an overview of these frameworks according to the main frame we are using.

**TABLE 1** – Approaches to the outsourcing process

| Authors | Stage 1 Planning | Stage 2 Developing | Stage 3 Implementing | Stage 4 Surviving |
|---|---|---|---|---|
| Jennings, 1997 | | | | |
| Embleton and Wright, 1998 | | | | |
| Lonsdale, 1999 | | | | |
| Vining and Globerman, 1999 | | | | |
| Fill and Visser, 2000 | ★ | | | |
| McIvor, 2000 | ★ | ★ | | |
| Incognito, 2001 | | ★ | | |
| Zhu et al., 2001 | ★ | ★ | ★ | ★ |
| Franceschini et al., 2003 | | | | |
| Marshall et al., 2005 | ★ | ★ | ★ | ★ |
| Bolumole et al., 2007 | ★ | ★ | ★ | |
| Tate and Ellman, 2009 | ★ | ★ | ★ | ★ |
| Gulla and Gupta, 2011 | ★ | ★ | | |

***Stage 1: Planning***

When companies consider outsourcing, they need to engage in certain activities in order to make outsourcing decisions. Franceschini et al. (2003) suggest that companies should conduct an internal benchmarking exercise which includes the identification of core competences and the processes that could be outsourced. Core competences are those that give companies a sustainable competitive advantage (Quinn & Hilmer, 1994). Some authors (eg., Lonsdale, 1999) argue that core activities should remain in-house and "non-core competencies" should be outsourced, in order to enhance focus on core competencies. Others (eg., McIvor, 2000; Quinn & Hilmer, 1994) defend that companies can also consider outsourcing core activities: in this case, we talk of strategic outsourcing. This strategic idea about outsourcing is also defended by Gião, Oliveira, & Vasconcellos (2008), who showed the strategic effect of services offshoring on value chains.

After identifying the activities that can be outsourced, companies should engage in an internal cost analysis. Outsourcing is expected to reduce production costs. However, companies should conduct a cost analysis, so as to determine whether the expected cost from outsourcing is lower than the cost associated to performing the activity in-house. The transaction cost theory plays an important role in many of the models mentioned above (Kim & Rucker, 2005) and has its first roots in Coase (1937).

To obtain an accurate cost analysis, Jennigs (1997) and Zhu et al. (2001) stress the importance of recognizing and measuring explicit and implicit costs (hidden costs). Based on the revival of the transaction cost theory (from Williamson, 1979), Vining and Globerman (1999) propose a cost analysis centered on balancing the product complexity, on asset specificity, and on transactions frequency. In the same line of thought, Fill and Visser (2000) indicate the costs of outsourcing coordination (governance costs) that depend on asset specificity (the transaction's degree of customization) and transaction frequency. In extreme cases, if transaction frequency is low and asset specificity is high, the transaction cost theory foresees that activities should be governed by hierarchies (internal sourcing or offshoring), whereas if the asset specificity is low and transactions are frequent, these transactions should be handled through markets (outsourcing or international outsourcing).

Other relevant assessments required when taking outsourcing decisions are the business environment and the organizational structure (Park & Lennon, 2006) and capacity (Fill & Visser, 2000; Jennings, 1997). Outsourcing as a strategy may be a way of reacting to changes in the business environment. The more uncertain the market and competition is, the greater the effects on outsourcing decisions (Jiang, Frazier, & Prater, 2006). Looking inside the company, organizational structure and corporate strategy also impact on outsourcing decisions and outsourcing may impact on corporate culture as well. The idea that outsourcing is an issue that goes beyond cost factors is not new: in 1915, Ford and Porter (1915) emphasized the importance of strategic factors for make-or-buy decisions.

***Stage 2: Developing***

During this stage, companies need to identify supply markets and search for potential providers (e.g. Embleton & Wright, 1998; McIvor, 2000, 2008). According to Gulla and Gupta (2011), Jennings (1997) and Lonsdale (1999), with regard to supply markets, companies should avoid entering monopolistic markets due to the risk of dependency on the supplier. If there are few (or only one) suitable suppliers in that market, their potential power is raised. If the supplier proves disappointing, the costumer company has two choices: to face high switching costs in contracting a worse supplier (assuming that the first choice was the best one at the time) or, if there is no other suitable provider, the company may have to re-conduct the activity in-house.

In searching for potential providers, companies should undertake an external benchmarking with two objectives: costs and capability analysis. Regarding costs, companies should clarify if outsourcing selected activities will result in cost savings by comparing internal production costs with the providers'. Regarding capabilities, companies should examine if there are suppliers with the necessary capabilities to perform appropriately (Jennings, 1997; McIvor, 2000). This includes not only infrastructure but also technology and know-how (Jennings, 1997). If providers do not have sufficient capacity, companies should consider keeping activities in-house or establishing cooperative alliances in order to transfer technology or know-how.

In this stage, business relationships with potential providers must be developed. This includes defining the type of provider and outsourcing strategy and also negotiation of the supply contract. Incognito (2001) indicates four categories of providers: supplier, preferred supplier, alliance partner and strategic alliance. Negotiating the supply contract must pursue a win-win solution for both costumer and supplier.

***Stage 3: Implementing***

Implementation of outsourcing begins after the supply contract is concluded. This stage is characterized by transferring the outsourced activity from buyer to vendor. Assuming that the outsourced activity is not new, the implementation of the outsourcing contract has impacts on the buyer company in terms of managing human resources and company morale (Embleton & Wright, 1998). Once the company has decided to outsource, it has three personnel options: leave the company (downsizing), join the outsourcing company or stay in the company. Outsourcing processes impact a company's morale, mainly when this implies labor downsizing. To avoid human costs and low morale, Embleton and Wright (1998) argue that companies should provide their employees with information on their outsourcing decisions, processes and impacts on the company.

Zhu et al. (2001) have a project management perspective of the outsourcing process. They argue that the outsourcing transition plan must include all the tasks to be accomplished, even the smallest or most common ones. This includes a communication plan and also an outsourcing transition timeline, scope definition, both human and physical. Note that the implementation stage is not consensual to the framework authors studied, as they do not mention this stage, as shown in Table 1.

***Stage 4: Surviving***

This stage is characterized by two main aspects: a post-outsourcing review (Embleton & Wright, 1998; Jennings, 1997; Zhu et al., 2001) and the management of outsourced-outsourcer relationship (Embleton & Wright, 1998; Franceschini et al., 2003; Lonsdale, 1999; Tate & Ellman, 2009). In this stage, a post-outsourcing review should be conducted. First, the cost analysis should be re-done and compared with the results previously obtained during the contract negotiation. If costs reveal to be higher than expected, the company should try to identify the activities/processes which are causing deviations (Franceschini et al., 2003; Zhu et al., 2001). In an extreme case, the company may consider abandoning the outsourcing relationship. Besides costs, the objective of the post-review is to determine if the outsourcing process has run as planned and to target activities or processes that should be changed or improved (Freytag, Clarke, & Evald, 2012). This is also the moment to examine effective impacts of outsourcing on the buyers' organizational culture and structure.

Also in this stage, the company should monitor and evaluate the outsourcing relationship. This includes monitoring compliance with the supply contract (Incognito, 2001; Lonsdale, 1999) and evaluating the supplier's performance (Franceschini et al., 2003). Service levels and other evaluation criteria should have been defined during the contract negotiation. By conducting monitoring and evaluation, the company can prevent supplier opportunism and control the supplier's bargaining power (Lonsdale, 1999). To monitor and evaluate outsourcing contracts and suppliers, the buyer company should ensure an in-house outsourcing management structure. According to Marshall et al. (2005), previous attempts to develop outsourcing process frameworks (e.g., Zhu et al., 2001) had several gaps: a static perspective of the outsourcing process, which ignored organizational and environmental factors and did not detail activities in each stage. Tate and Ellman (2009) highlighted that there are few theoretical insights to guide managers in the purchase of services. In this study, we intend to overcome the abovementioned gaps, by proposing a dynamic outsourcing process framework and exploring each phase individually, identifying the activities in each stage.

## 2.2 Outsourcing in the apparel industry: summarizing the empirical evidence

International trade liberalization, strengthened by the end of the Multi Fiber Agreement in 2005, caused an increase in competition in the apparel industry (Gibbon, 2001): low labor-cost countries such as China and India were able to export their products and compete with traditional manufactures in Europe and North America (Strange, 2006). In order to survive and compete, European and North American manufactures developed international outsourcing activities as shown by the increase of apparel imports in both continents (Gereffi & Frederick, 2010). The conceptual framework justifying outsourcing in the apparel industry goes beyond simply "make or buy" decisions (Strange, 2006) and steps into theories related with global commodity chains. It explains international outsourcing as a functional upgrading in the apparel global value chain: companies in developed countries (lead companies) focus on their most valued activities which are basically design and marketing and moved other functions, mainly production, to suppliers in developing countries. Outsourced activities are usually labor intensive, where developed countries cannot be competitive, while knowledge and technological activities are kept in-house (Gibbon, 2001).

The literature on outsourcing of apparel activities (e.g. Bolisani & Scarso, 1996; Gibbon, 2001; Graziani, 1998; Kam, Chen, & Wilding, 2011; Kumar & Arbi, 2008; Qudrat-Ullah, 2010; Strange, 2006; Tam, Moon, Ng, & Hui, 2006; Teng & Jaramillo, 2005; Yu & Lindsay, 2011) aims to address these questions: *why*, the motives for outsourcing; *where*, in which geographical region and/or market; and *how*, which outsourcing strategies to undertake. Another question mentioned less often but that can be made is *what* to outsource and refers to which activities should be kept in-house and which should be outsourced. Table 2 presents a summary of the reviewed papers on outsourcing in the apparel industry.

**TABLE 2** – Outsourcing in the apparel industry: summary

| | Motives | Strategy | | Methodology | |
|---|---|---|---|---|---|
| | *Why* | *Where* | *How* | *Method* | *Country* |
| Divita and Cassill, 2002 | ● | | ● | Case study | USA |
| Teng and Jaramillo, 2005 | | | ● | | |
| Kumar and Arbi, 2008 | | ● | ● | | |
| Kam et al., 2011 | ● | | ● | Multi case study | China |
| Yu and Lindsay, 2011 | ● | | ● | | New Zealand |
| Bolisani and Scarso, 1996 | ● | ● | ● | | Italy |
| Graziani, 1998 | ● | ● | | International Trade data analysis | Italy |
| Gibbon, 2001 | ● | ● | ● | | UK |
| Tam et al., 2006 | | | ● | Survey | Hong Kong |
| Åkesson et al., 2007 | | ● | ● | | Sweden |
| Qudrat-Ullah, 2010 | ● | ● | | Empirical evidence from previous studies (literature review) | USA |
| Strange, 2009 | ● | | ● | Explanatory | --- |

According to Bolisani and Scarso (1996), international outsourcing can be undertaken with four motives: natural resources seekers, market seekers (also mentioned by Qudrat-Ullah, 2010), efficiency seekers, and strategic asset seekers. Other motives for outsourcing are: cost reduction (Strange, 2006), which includes labor costs (Qudrat-Ullah, 2010), flexibility and availability of capacities and production expertise (Gibbon, 2001).

Regarding location strategies, these depend on the nation-specific resources, such as labor and trade ability issues, including delivery times, tariff barriers, logistics and cultural issues (Bolisani & Scarso, 1996). Location strategies are mentioned by Åkesson et al. (2007), Gibbon (2001) and Graziani (1998) in their empirical studies. They highlight the tendency towards international outsourcing (mainly to Asia) but they also mention the "near-to-home" strategy, which justifies why apparel companies from north and central Europe seek to outsource to eastern European manufacturing companies, in order to give a quick response to markets.

Double sourcing (Åkesson et al., 2007) is when a company produces the same product in a long and a short distance supplier, the first justified by cost and the second because of a quick response. As for outsourcing strategies, there is no clear-cut consensus. Bolisani and Scarso (1996) define how to outsource taking into consideration supplier selection criteria and forms of investment. Thus, first, the company decides on the supplier depending on the number, size and specialization of the supplier plant, technology and coordination mechanisms. Gibbon (2001) also mentions expected capacities from suppliers as a determinant of the outsourcing strategy. Åkesson et al. (2007) present an alternative approach to outsourcing strategies. There are three supply channels: direct contact with suppliers, indirect (via agents) and own (direct investment or acquisition). The last one is not an outsourcing strategy (but rather offshoring).

These articles (see Table 1) can also be assembled into the four-stage main framework of the previous section. Bolisani and Scarso (1996) contribute to Stage 1 (planning) by considering which activity, from the production phase, should be outsourced. Stage 2, developing, gathers contributions from Åkesson et al. (2007), Bolisani and Scarso (1996) and Gibbon (2001), on how to access supply markets and select providers. Finally, Gibbon (2001) and Kumar and Arbi (2008) provide important contributions to the last stage, surviving specifically on managing buyer-supplier relationships.

## 3 FRAMEWORK DEVELOPMENT AND DATA COLLECTION METHODS

The aim of this study is to propose a new framework for an international outsourcing process in the apparel industry for decision-making and assessing the international outsourcing process choices and implementation. Such a tool aims to help apparel industry managers to operationalize their outsourcing strategies. The research procedure has been developed in accordance with the guidelines proposed by Pero, Abdelkafi, Sianesi, and Blecker (2010).

In order to build a comprehensive outsourcing framework that captures relevant factors to be taken into account in such decisions, input from theory and practice has been considered. First, a literature survey on outsourcing in general (operational and strategic aspects) and on the apparel industry in particular was carried out (previous section). From this review, key factors to be considered in outsourcing decisions were identified and grouped into four stages of the decision-making process. At each stage, based on the empirical evidence provided by several studies and previous frameworks proposed by Bolumole et al. (2007), Embleton and Wright (1998), Fill and Visser (2000), Franceschini et al. (2003), Gulla and Gupta (2011), Incognito (2001), Jennings (1997), Lonsdale (1999), Marshall et al. (2005), McIvor (2000), Tate and Ellman (2009), Vining and Globerman (1999) and Zhu et al. (2001), we identified and characterized the main activities and their sub-activities. These were captured in a preliminary framework, which was discussed and iteratively modified five times as a result of the input received from interviews with academics and an in-company case study (which includes several interviews with senior managers). As suggested by the research procedure presented in Pero et al. (2010), as information was being collected and knowledge on the domain of study became more robust and integrated, the framework was gradually modified by adding and subtracting information. Input from theory and empirical research proved to be key in building the framework. According to Voss, Tsikriktsis, & Frohlich (2002), theory and empirical research are helpful in identifying overlaps and contradictions between theory and practice. This process is now described in more detail.

In order to gain a better understanding of outsourcing and to discuss the preliminary framework built from theory, as well as to get new ideas for the development of the framework, we began by interviewing two academics from the field of supply chain management and industrial management (both from the University of Porto). All the data were collect during 2012 year. Semi-structured interviews were conducted and aimed to address 5 main topics, besides interviewee details: 1) fields related to outsourcing, 2) critical factors for outsourcing, 3) activities to be taken into consideration when outsourcing, 4) main advantages and problems related to outsourcing, and 5) discussion on the preliminary framework. Each interview lasted about 30 minutes and they were recorded by the interviewer. Then, they were individually analyzed in order to include the information obtained in the framework. The principal inputs from the interviews with academics were related to the level of detail that the framework should have, the need for it be easy to understand and to use by managers and the focus they should have in the activity being outsourced. (Which activities? Which phase of the production process? Design? Distribution?) These considerations were taken into account for the improvement of the framework that would be presented to the managers and then tested in the case-study company chosen from the apparel industry. Some factors were added and some relationships between phases and decision levels established.

As the aim of this study was to create a practical framework for decision-making and assessment of the international outsourcing process in buyer companies of the apparel industry, the interviews with managers were vital. To this end, a large company from the apparel industry was selected and two in-depth interviews with senior managers (director and operational manager) were conducted. The case-study company was chosen from the Portuguese apparel industry which ran outsourcing production processes in foreign suppliers (located outside Portugal). The case-study company was in the last stage of outsourcing (surviving), so it was possible to study the previous stages based on documented data. The company designs on its own label, and has been producing (outsourcing), distributing and selling women's and menswear (mainly trousers, knitwear, jackets and shirts) for over ten years.

Semi-structured interviews were conducted to help provide a more comprehensive view of the outsourcing process and they lasted about 60 minutes. The questionnaire questions aimed to address three main topics, besides company details: a) which activities had occurred since the beginning of the outsourcing process; b) the sequential order of activities, and c) what learning took place during the process (what would they have done differently). This was intended to help us to: a) identify activities not included in the model, b) confirm or discard the four-stage sequential logic, and c) analyze the process dynamics, among other findings. The sessions were audiotaped and transcribed. The interview transcriptions were analyzed to extract information on the issues of interest and incorporated into the framework.

The main inputs from the interviews with the managers were related to the boundaries of the four stages and the more detailed specification of the sub-activities involved in the each phase. The incorporation of additional factors and activities into the framework led to a reflection on the way in which they were grouped (in stages). Elements identified during the interviews were compared with those included in the preliminary framework and added, if they had not been considered, or slightly changed, if they had not been included in the required detail. Another concern we had when analyzing the information, was associated with avoiding overlaps and making sure that the heading of the various stages were representative of the decisions and activities comprised therein. During this process, the need to develop an approach that would be easy to use and understand was always kept in mind.

## 4 PROPOSED FRAMEWORK

Gathering the inputs from both theory (literature on the international outsourcing process, namely frameworks on the outsourcing process, and literature on outsourcing in the apparel industry) and practice (interviews with academics and managers) enabled the construction of an outsourcing framework for the apparel industry (Figure 1). In contrast with the existing approaches that are too excessively aggregated to prove helpful in this particular field of activity, the framework provides a tool to assist apparel industry managers in taking managerial decisions and actions regarding outsourcing and its implementation.

Considering the proposed framework, we present the activities in each stage. Although most of the activities were referred to in literature review, we will recall them and translate them to the context of the apparel industry.

***Stage 1: Planning***

The company is considering engagement in an international outsourcing process. An internal benchmarking analysis is conducted to find out which activity(ies) might be outsourced.

*Core Competences Evaluation.* Consists of evaluating the company's core competences that foster its competitive advantages. The most common core competences are design, branding and marketing. The most common competitive advantages of companies in the apparel industry are product differentiation and innovation, superior quality, high service, quick response and quality/price ratio (Bolisani & Scarso, 1996; Gereffi & Frederick, 2010).

*Identification of the activities to be outsourced.* After determining the company's core competences, there is now the need to identify which activities are core and which are not. In the apparel industry, it is common to outsource operational activities, namely the manufacturing process. It is possible to outsource the entire process or only some activities. Apparel manufacture includes: design, grade-mark, fabric cut or knitting, assembly, press-iron and inspection packaging. Given that knitting is a capital-intensive activity while assembly and press-iron are labor-intensive (Gereffi & Frederick, 2010), this impacts on the next stage regarding the selection of the market or country and supplier, since an assembly company will prefer low-wage countries and a knitting company will look for a supplier with the required technology.

*Stratification of activities.* If more than one activity is selected to outsource, the company must prioritize them. Usually the primary activity to outsource is assembly (known as cut-make-trim), because it is labor-intensive. Design is the activity that is usually kept in-house due to its importance to the company's competitive advantage (Gereffi & Frederick, 2010).

At the end of this stage, the company must be aware of which activity will be the first to enter an international outsourcing process.



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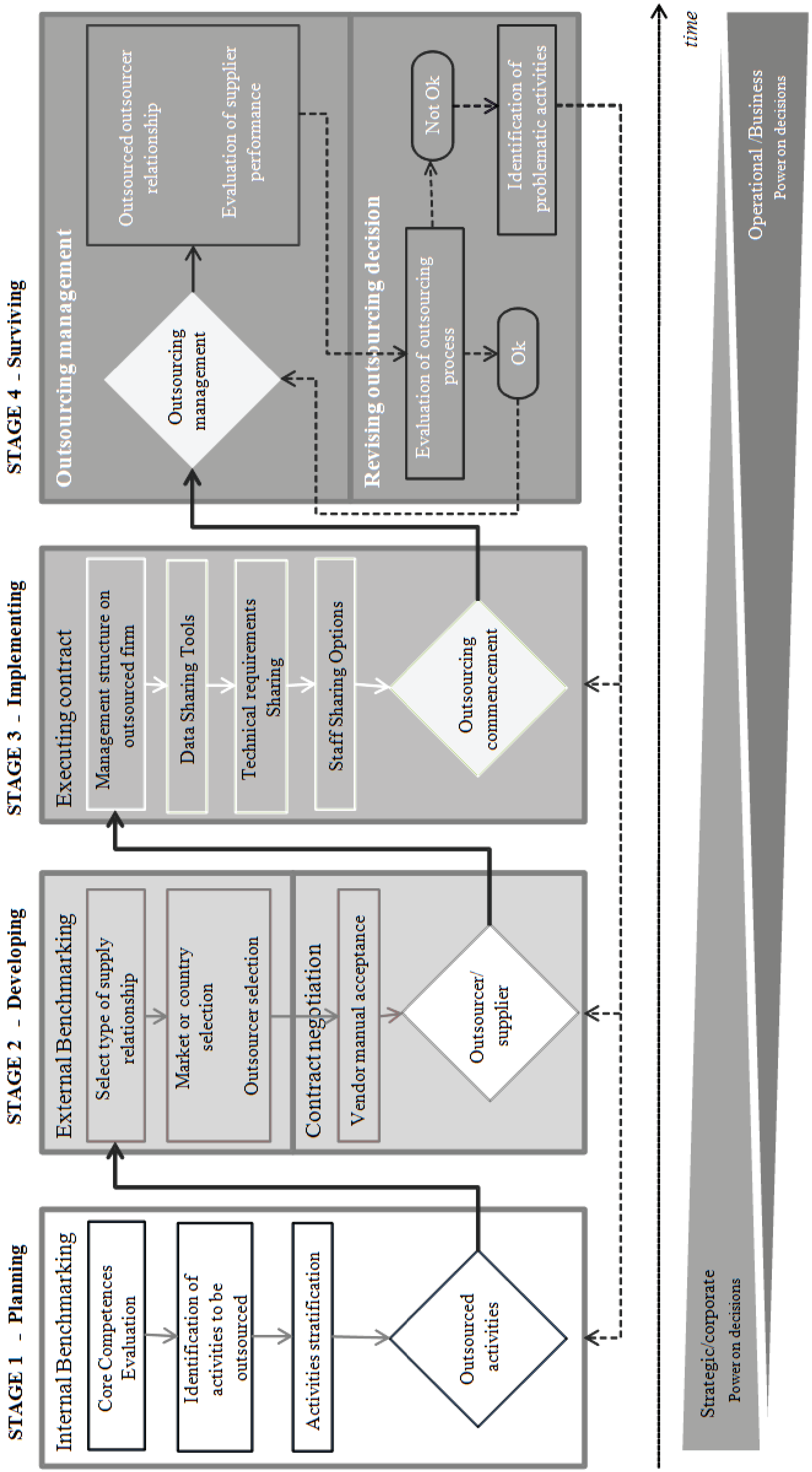


**FIGURE 1** – Proposed framework for apparel industry.

***Stage 2: Developing***

At this point, the company should conduct an external benchmarking analysis in order to select potential suppliers. After that, the company should select the suitable supplier and negotiate the contract terms.

*Select the type of supplier relationship.* The company should decide which type of supply relationship it wants to establish. According to the supplier's functional capabilities, there are three main types of suppliers in the apparel industry. Marginal suppliers are those that only cut, make and trim (CMT or assembly): they are paid a processing fee, but not a price per garment, since all fabrics and trims are sourced and owned by the buyer. Preferred suppliers produce according to buyer specifications and design and are capable of sourcing and financing the fabric and trims needed for production, as well as providing production services, such as finishing and packaging (also called Original Equipment Manufacturing – OEM – or Free on Board – FOB). Finally, the strategic supplier is the full package supplier or Original Design Manufacturing (ODM). This supplier carries all the production steps, and may sometimes also include design and product distribution (Gereffi & Frederick, 2010).

*Outsourcer selection.* Outsourcer selection may be preceded by market or country selection to outsource. Outsourcing near-home or in distant countries affects the orders' lead time (if quick response is one of the company's competitive advantages, it might be better to outsource internationally but in near-to-home countries). Other relevant factors in selecting the outsourcing country include trade tariffs, taxes and transportation facilities (which also affect delivery time); cultural factors may be important too (Gibbon, 2001; Graziani, 1998).

According to Embleton and Wright (1998), selecting a supplier implies determining the supplier's profile, that is, the desired characteristics of the supplier. This profile may result from previous benchmarking among suppliers in some particular market or product line. After that, the company should request information from the potential suppliers regarding their interest in the relationship, its capabilities, corporate culture and strategy. Once the suppliers' responses have been analyzed, the company should request a proposal so as to target suitable suppliers, in which the outsourced company provides general information about its organization and its outsourcing strategy, including outsourcing objectives and detailed outsourcing requirements (this may or may not be part of the contract). The outsourced company should also conduct site visits to confirm if the referred characteristics exist in reality, and check the outsourcer's capabilities, technologies and processes.

*Contract negotiation*. Contracts cover mandatory legal topics and specific commercial terms. Graham (1993) mentions some of the legal and specific terms of outsourcing contracts, including: description of the outsourcing scope, detailed service characteristics and requirements, how the contract can be changed either by the outsourced company or by the supplier, the responsibilities of each party and mechanisms to solve minor problems, the parties' rights to terminate the contract, establishment of supplier performance measures and the corresponding method to monitor and evaluate them, and also the rebates in case the supplier does not meet the defined goals. At the end of this stage, the company must have found and contracted at least one supplier for each outsourced activity.

***Stage 3: Implementing***

In this stage, the outsourced company must transfer all the information and materials needed by the outsourcer in order to comply with the contract.

*Personnel and physical requirements*. The outsourced company must ensure that the supplier has the human and physical requirements to execute the outsourcing contract (Zhu et al., 2001). In case the supplier has some deficit, such as human resources, the outsourced company may temporarily transfer its own personnel or provide training sessions. In some cases, human resources may be transferred permanently to the outsourcer.

*Technical requirements*. The outsourced company must ensure that the supplier has the technical requirements to execute the outsourcing contract (Zhu et al., 2001). This includes transferring all technical specifications and access to information on the outsourced company. This may imply access to information systems.

At the end of this stage, the outsourcer must be able to fulfill the contract and the outsourcing relationship is commenced.

***Stage 4: Surviving***

This last stage is compound by a surviving stage which includes management of the outsourcing relationship and a post-outsourcing analysis.

*Management structure of the outsourced company.* Regardless of whether the company starts outsourcing one or several activities, it needs to establish a management team, more specifically, an outsourcing management team, which is responsible for overseeing the entire outsourcing process (Giunipero & Monczka, 1997).

*Outsourcer-outsourced relationship*. The outsourcing management team is responsible for balancing this relationship. It is important for the outsourcer company to be aware of the desirable length and flexibility of the relationship: not too short or inflexible so as to be able to take full advantage of the partnership, and not too long or broad, such that it may boost the supplier's bargaining power. Authors such as Gibbon (2001) and Kumar and Arbi (2008) mention partnerships and long-term relationships as important factors for successful outsourcing in the apparel industry. They stress that the outsourcer-outsourced relationship should be based on transparency, trust and commitment.

*Evaluation of the supplier's performance.* The outsourcing management team is responsible for monitoring and evaluating the supplier's performance, as established in the contract. The most common performance items in apparel are delivery, quality, costs and reliability (Gibbon, 2001; Teng & Jaramillo, 2005). Teng and Jaramillo (2005) provide a detailed list of performance items which includes flexibility. The evaluation of the supplier's performance should be conducted with care, since there are studies that show that outsourcing leads to lower product quality (Lu, Ng, & Tao, 2012).

*Evaluation of the outsourcing process*. At this point, it is necessary to compare outsourcing outputs with the initial expectations and predicted benefits, so as to determine whether the outsourcing process has actually improved the company's performance (e.g., by increasing gross margins) and has contributed to the company's competitive advantages. If the evaluation of the outsourcing process is positive, the company may proceed with the outsourcing management. If not, the company must identify each problem and return to the earliest stage in which problems must be solved, for example by selecting a new supplier, by revising the existing contract, etc..

### 4.1 An illustration of the framework using a case study

This section shows how this framework and its content seem to match the considerations of the outsourcing decisions (in each stage) at an in-company case study. The case is described using the framework.

Regarding the planning stage, the company's core activities are not outsourced; they are kept in-house to protect the company's competitive advantages, as previewed in the literature. A cost analysis was conducted to select the outsourcing activities but it did not seem to be as accurate as recommended by Jennings (1997). They were also aware of the impact of product specificity and complexity on the outsourcing decision, which is in accordance with coordination cost theory of Fill and Visser (2000).

In the developing stage, they primarily make use of FOB as the supply relationship type but for the specific products, they use the 'semi-finished' products supply type. This is similar to FOB regarding supplier responsibilities with the exception that the last stage of production is performed internally by the buyer (because it is a core activity) – the buyer company pays for the semi-finished product at a unit price. Most of the company's suppliers are preferred suppliers, in line with Gereffi and Frederick (2010)'s recommendations.

The factors for selecting a certain market or country are in accordance with Graziani (1998) and Gibbon (2001), although they consider that proximity to the source of raw materials and components is a supplier responsibility, and they also assume that benchmarking is applied with other companies in the industry. For the supplier selection, the company's process is quite similar to the process described by Embleton and Wright (1998), including procurement, request for information, site visits and request for proposals, which, in this case, is a request for quotation probably followed by the first and experimental production order. The criteria referred to when selecting the supplier is cost, quality, production lead time and production capabilities, as some authors have mentioned (e.g. Jennings, 1997), but also minimum quantity order requested and also other clients of the supplier. The interviewees also mentioned that they sometimes have double sourcing situations, as argued by Åkesson et al. (2007), in order to respond to market minimizing lead time constrains (in one supplier, they benefit from a short lead time and in the other, they benefit from a lower unit cost). Still in the developing stage, the contract negotiation was a commonly mentioned step among our framework authors, although there is a lack of detailed information on this matter within the apparel industry in particular. This case study allowed us to better understand the apparel outsourcing contracts. First, a supply contract does not exist with the suppliers. When starting a relationship with the supplier, they must agree to and sign a *vendor manual*, the primary document governing the relationship between outsourcer and outsourced. This *vendor manual* includes topics such as: description of the ordering process, buyer and vendor responsibilities, propriety rights, confidentiality, quality requirements, definition of the supplier's key performance items, establishment of order quantities tolerance, establishment of delay or anticipation tolerance, rebates in case on nonfulfillment, incoterms rules, payment conditions, logistical specifications and ethical, social and environmental requirements. The secondary document guiding the relation is the production order document. This document contains the identification of the product(s) to be produced, quantity, unit price, delivery date, incoterms and payment conditions. This type of contract is fairly one-sided. Although it can and should be negotiated, the buyer company's self-interest tends to prevail, and a win-win solution is not pursued as defended by Incognito (2001).

The case study was also very helpful in reaching the implementation stage. The discordance stage among the outsourcing authors reviewed revealed to be important in the execution of the outsourcing contract. In order to execute the contract, the company establishes an outsourcing management team, gathering people with technical product and production know-how. In the proposed framework (Figure 1), the management team is constituted in the last stage, but as shown in the case study, the creation of an outsourcing management team should ideally be accomplished in the implementing stage, in order to help in the execution of the contract. The company then implemented tools for sharing data with the suppliers on an internet website and for each product they order, they need to send the supplier documents with technical information, such as: technical drawing, raw materials, color, assembly and sewing instructions and artworks. They can also send a prototype sample to exemplify. Furthermore, depending on the know-how and experience of the supplier, they may send technical support and/or quality control personnel for short- to medium-term periods to help the supplier at the start of production.

Considering the changes in the implementation stage, the outsourcing management will be composed of the outsourced-outsourcer relationship and the supplier's performance evaluation. The outsourcing management team is responsible for the follow-up of the outsourcer-outsourced relationship. This includes following-up on the production order by checking and making comments on validation samples sent by the supplier, monitoring production quality either internally (through the samples received) or locally on the supplier's manufacture, carrying out periodic visits to the supplier and monitoring delivery dates and other relevant data and, finally, assisting the supplier in their doubts, problems and difficulties. This implies a certain degree of commitment and partnership, as mentioned by Gibbon (2001) and Kumar and Arbi (2008). The outsourcing management team is also responsible for monitoring the supplier's performance. The key performance indicators are largely the same as those mentioned by Teng and Jaramillo (2005), even the most subjective indicators such as flexibility, easy communication and capacity for improvement. Except for the subjective ones, the indicators are defined in the *vendor manual*. This evaluation results in a ranked list of the suppliers where the preferred suppliers are identified. Improvement plans are also proposed and support is provided to suppliers that have had a bad performance, but with which the company wants to maintain the relationship for other reasons (this is also indicative of the partnership and commitment referred to above). In some cases, as a result of continued bad performances, the company may end the relationship.

The case-study company upholds that the outsourcing process is evaluated continuously, and conducts a formal evaluation at least once a year. This is in accordance with Jennings (1997) and Embleton and Wright (1998)'s proposal for the post-outsourcing review. The case-study company believes that by evaluating the outsourcing team's members, they can extend the results of their evaluation to the outsourcing process itself. The outsourcing team's members are evaluated by same indicators as the suppliers, namely cost target, quality standards achievement and accomplishment of expected lead times. With this, they try to identify potentially problematic activities. They examine the process so as to identify the causes for inefficiency and then seek to implement corrective actions. The following corrective actions have already been used at least once: changing the supplier (selecting a new one); revising or changing the contract terms; changing the supply market or country.

As a whole, the proposed framework (the four stages proposed for deciding on the outsourcing and controlling it, as well as the 12 activities included) is a novelty. Actually, as we explored in the literature review, only four frameworks included the same phases (Embleton and Wright, 1998; Marshall et al., 2005; Tate and Ellman, 2009; Zhu et al., 2001) but they didn't detail the several activities and relationships in each stage in a so deep way, and particularly to the apparel sector.

## 5 DISCUSSION AND CONCLUSIONS

The case study revealed that after the contract with the supplier has been concluded, there is a period of time when outsourced and outsourcer company must execute the contract. For the buyer company, this means the creation of a management structure (if it does not already exist) to manage the outsourcing contract (as mentioned by Embleton & Wright, 1998), it implies the development of data sharing tools (e.g., email, internet website, etc.), requires the transfer of technical specifications and, sometimes, personnel sharing options (such as technical personnel support from the buyer company). This configuration of the implementation stage is in line with Marshall et al. (2005), although these authors labeled it the management stage. In this study, we have opted to maintain the implementation stage since is a transitory stage to the management stage or assessment stage, as the said authors named it.

In the planning stage, we split the

outsourcer selection process into market or country selection and the outsourcer selection itself. Even though the market or country selection is not always made prior to the outsourcer selection, this is a particular sub-activity that must be discussed during any international outsourcing process. We also renamed a sub-activity regarding the contract negotiation: as seen in our case study, the contract in the apparel industry can take the form of a *vendor manual* agreement followed by production orders.

In the previous sections, we have presented an international outsourcing framework for the apparel industry that was tested and reviewed as per the case study results. We concluded that the proposed framework clearly illustrates the international outsourcing process in the apparel industry and it also captures the outsourcing framework literature review made at the beginning of the paper. We have detailed and explained the activities and sub-activities at each stage, enriching the framework and also adding some dynamic to the process.

Since it is a single case study research, we must take into account that the conclusions drawn from the case study results may not be very representative of the apparel industry. The single case study itself makes it difficult to generalize the results. Such limitation can be seen as a boost for the development of future research in the clothing industry, and especially in other sectors. In fact, when analyzing the differences and similarities in each sector, there is an increased possibility of generalizing the results and further validation of the outsourcing process framework presented here.

In order to confirm the framework's reliability, it should be applied to apparel industry companies in other countries, and perhaps not only the production activity should be studied, but also other activities within the apparel value chain.

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