

Opportunities in ICT Enabled Services Re-shoring

A Case of EE limited (EE, T-Mobile UK, Orange UK) Call Centres

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## EXECUTIVE SUMMARY

In last decade, offshoring of various components of the firm's supply chain became a popular trend and was seen an area of opportunity in response to the rising challenge of globalisation. Increasing competition and economic recession had forced also forced many UK businesses including EE to explore outsourcing as an option to drive down cost, improve operation efficiencies, and increase competitive advantage. This was also largely due to the emergence of countries such as China, India, Philippines and some EU countries with highly flexible labour market than the UK, with lower average wage and higher labour cost benefits.

Gains from offshoring is declining largely been driven by growing middle class population in the offshore countries, increasing labour cost and demand for better working conditions, and finally diminishing quality of service and quality management issues. EE particularly felt these impacts prior to the joint venture; Orange and T-Mobile both had records of being poor with customer service. A recent report by Ofcom, found EE to be the worst phone company of 2013 due to the problem inherited from its parent company.

This thesis, aims to explore re-shoring as an alternative to the major offshoring trend in the UK manufacturing and service sector, taking the mobile operator EE Limited as a case company to identify the challenges and opportunities of re-shoring previously offshored operations, especially its contact centres.

1. In order to achieve the main purpose, the following research questions are set:
2. What led factors to the original decision to offshore?
3. What are major factors driving reversal of the offshoring decision?'
4. How the problems arising even after offshoring can be resolved?

5. How reshoring helps in human resource management for a service firm?

6. What is the effect on supply chain from reshoring?

The study used the qualitative approach in order to develop a complex and holistic picture of the topic under consideration. Also, over secondary qualitative research method, the research is focused towards understanding the meaning of a condition by the opinions and beliefs of the actors in circumstances. The scope was limited to review of relevant material and recent material the last 10 years. The review was also confined to materials written in English language only. The following are the reasons that indicate need of reshoring and can be categorised into three groups which are:

Risks:

- Opportunism
- Loss of quality, flexibility and control
- Increase in complexity
- Language and communication barriers
- Internal knowledge and IP protection

Home Country Factors:

- UK competitiveness
- Political situation
- Government support

Motives:

- Focus on core competencies

- Gaining competitive advantage for sustainability
- Gaining economies of scale
- Closeness to market
- Improving profitability
- Closeness to customers

There are three major motives of sourcing that are:

- Transaction costs
- Location specific advantages
- Resource based view

As in the case of EE Limited, higher focus lies on the human resource therefore concerns can arise about lose of knowledge from suppliers switch and employee turnover due to the fact that the human resource in the company does not has a positive perception about the sharing of asset of information as the threat of raising risk for competitiveness of the company. The location-specific competitiveness of UK is low due to the absence of support from government and high taxation and duties rates that have made offshoring the feasible option when evaluating low cost countries. Even when this factor is not pointed out as the determining factor in offshoring, Casson (2013) stated that this can make the industry opt for moving out from UK due to this factor.

Thus, it is found that there are already reshoring trends prevailing in UK service industry due to the fact the offshoring or outsourcing decisions are not fulfilling the desired purpose and thus for long term benefit of the business, activities are re-located to domestic markets. However, a number of companies such as EE Limited are not sure about reshoring due to the comparable

size of domestic market of UK that is much smaller than that of the developing countries' market. Also due to social and political factors and influence of these, there is lack of competitive alternatives that make the decision to reshore doubtful.

The study is significant as it has both managerial and theoretical implications. The managers who wish to understand the reshore process and factors that serve as basis of the decision can use the study and they can also plan the reshoring process in light of the generated results. The theory also serves to enhance theoretical understanding about the model that can be used for reshoring planning.

## RESEARCH PROGRAMME

### Qualitative Secondary Approach

The study used the qualitative approach in order to develop a complex and holistic picture of the topic under consideration. Qualitative approach allows the production of understanding of the problems that are based on the factors in multiple contexts that makes the method most suitable for the study. This project drew on existing secondary sources to gather data and publications on the growing trend of reshoring and reshoring experiences, why it happened, what was particular to their experience. A review of the studies has been chosen as the approach for performing a secondary qualitative study. The secondary qualitative design enabled the researcher to assemble the outcomes of several studies and deduce them to have a brief overview of the topic (Barbour, 2010). This dissertation integrated secondary research method and it was grounded on the base of qualitative study. The dependable and good libraries qualitative data was incorporated by the researcher in this study with the intention of containing reliable and honest information. Burge (2012) also found that the qualitative research, secondary takes construction and explanatory list in view and accepts that interpretation is the key to knowledge. Moreover, it can be claimed that over secondary qualitative research method, the research is focused towards understanding the meaning of a condition by the opinions and beliefs of the actors in a circumstances. The researcher can then play a more vital role in the process of research as the outcomes and findings generate through the clarification of the views of actors and circumstances that are being studied. Scrutinising the existing literature has become possible through this research design, as the researcher was able to collect significant information. This

has assisted in the development of several themes for providing information that is essential for performing the review.

The sources included Company websites as a starting point general understanding of the gathering company information, profile, its products and services range, mode of operation, its values proposition and major objectives. Company annual report provided insight to the key strategies adopted by the organisation; its major competitor in the sector can provide important information for the whole company, the current number of retail shops and coverage, information about financial fitness and metrics of the company, information about major supplier and contractors, existing projects and partnerships and general information on industry. Mintel, EBSCO business complete and other industry and market research database were used to obtain reports and parameters that can provide insight into issues in the market, consumer trends, and strategies adopted by in the industry.

Textbooks, peer reviewed journals were extensively used in this work. Online resources, publications from sources such as BBC News, Financial Times, Trade magazines, amongst other freely available sources were used enhance market understanding and current development in on reshoring of manufacturing and operations. Other material resources would include government websites, regulatory bodies, association and other official sources

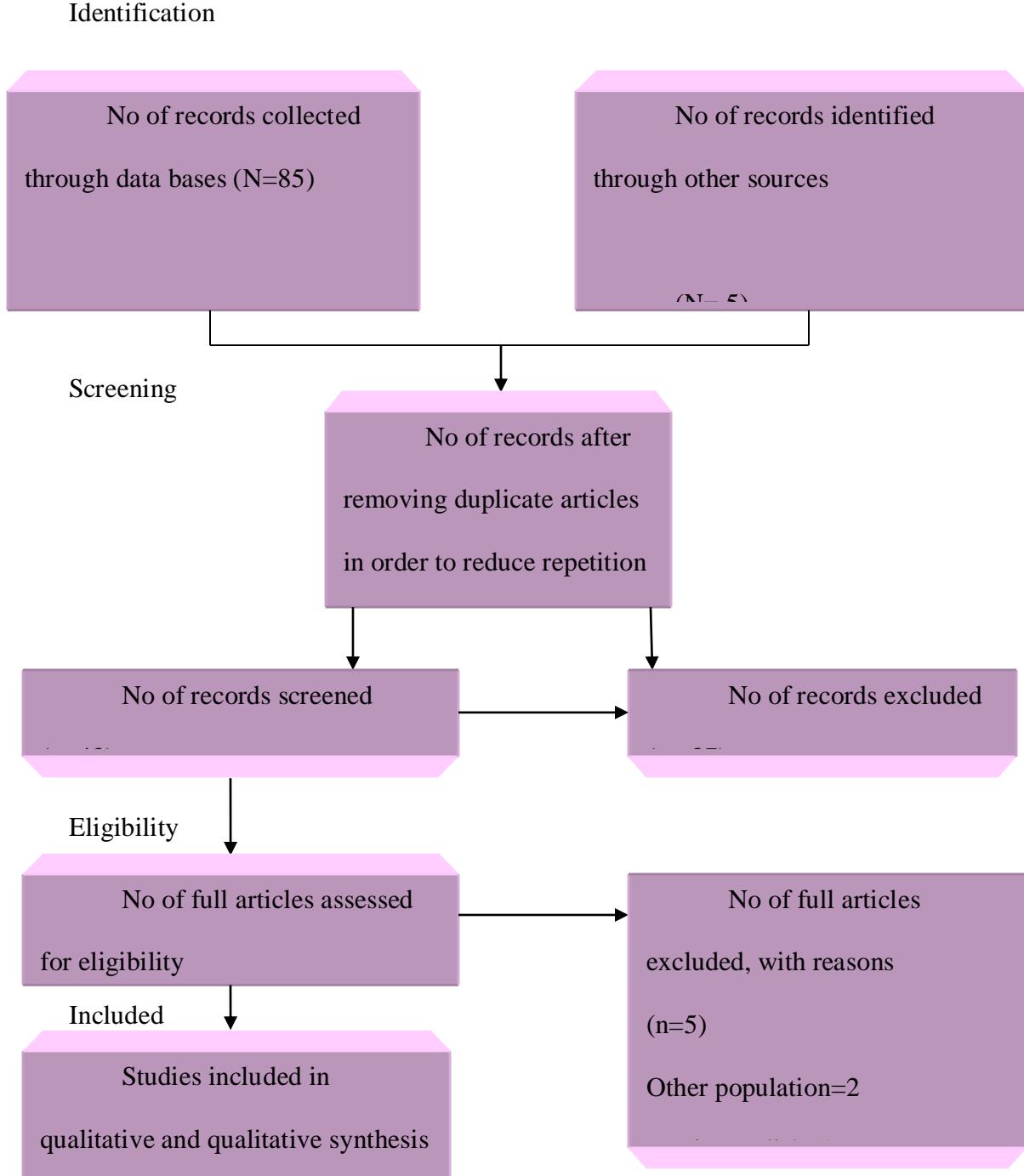
### **Inclusion and Exclusion Criteria**

The review covered development on outsourcing and reshoring. The scope was limited to review of relevant material and recent material the last 10 years. Focus was on theoretical issues on supply chain and operations management by making use of secondary material and publishes works. However, the scope was broadened to seek literature in related resources in management.

The review was also confined to materials written in English language only. Finally, this project focused on theoretic study due to lack of access to detailed company information that could only be obtained directly from the company.

### **Studies Included in Review of Literature**

Considering the inclusion and exclusion criteria of this study, only those studies have been included in the review that provided high quality results. The initial search of the electronic databases and grey literature had resulted in retrieval of 90 studies that were considered relevant. These studies were further screened to exclude those studies that did not meet the inclusion criteria. Consequently, 37 studies were excluded from the review resulting in 35 studies that were included based on their eligibility.



**Figure 1: Schematic representation of the selection of studies for the review of literature**

### **Source criticism**

According to Bryman (2012), use of secondary sources means that the material of other researchers is used intentionally by the researcher. This makes the validity and reliability of the study to be difficult to ensure. For this purpose, all the studies used in this research were accounted for source criticism. The following criteria were met in the study:

- Authenticity requirement in which the sources should be what these are pretending to be
- Criterion of independent in which the value of source is determined by point of origin of data and derivation of facts, which means that the criterion prefers using the primary sources more than secondary one
- Freshness requirement in which the current source is preferred over an older one and thus author uses source with caution and care.
- Final criterion in which there is requirement for concurrency meaning the used source is credible by being relevant to the specific event in closer time frame

### **Data Processing**

The aim of our qualitative analysis is to create a comprehensive understanding of the motives and difficulties behind offshoring and outsourcing, in order to analyse and get a deeper understanding of a possible reshoring trend. However, there is no standard way for how the data processing and analysis of qualitative data should be conducted; there are several different variants in the methodological research according to Patel and Davidson (2011, p. 119-120). There are two approaches when it comes to processing and analysis of qualitative data according to Bryman (2008). The first is to use a coding technique, and the other is to create themes of the

material and do a thematic analysis (Bryman, 2008, p. 550-555). The later is also the method we used in this study.

### **Ethical Considerations**

Prior to the commencement of any research it is imperative for the researcher to outline the ethical considerations that must be followed by him in the entire course of the research. Defining of ethical limits is central to the research process. The concept of ethical consideration in relation to research studies indicates the moral, rationale and speculative aspects of the utilization of the data. The researcher is aware of the fact that integrity and honesty is essential not only to allow direct acquaintance but to allow the authenticity and reliability of the study. The key principles of the study are often widespread and incorporate various aspects such as sincerity, respect and individual rights. Therefore, the researcher has made certain that the end results and findings of this study are the facts stated in the previous literature and not relied upon demonstration of the same statements and outcomes of previous research again. Any fake claim or information has not been mentioned by the researcher in this dissertation. Considering the fact that researcher has reassessed the work of other researchers, it has been ensured that all the information and data has been cited and referenced accurately. It has been noted by various researchers that ethics should not be overlooked while carrying out a literature review as it is directly related to the reliability of the information. Throughout the study, the researcher was aware of the fact that authenticity is imperative not only to permit direct knowledge but to foster elevated levels on consistency in the end results and reliance on the findings. Plagiarism is considered as the chief facet of a research that can eradicate the authenticity of the research, for this reason, taking into consideration the fact that literature review is radically prone to prospect

of review of the information in a conduct that can be considered as plagiarised, it has been ensured that all the information has been accurately cited and referenced.

## **Problem/Opportunity Quantification**

This section comprises an overview of relevant literature on Offshoring, Reshoring, and SCM in Mobile telecommunications industry. First, the terminology is clarified by introducing and explaining appropriate definitions for the areas SCM and value based management (VBM), from which the area value-based SCM is derived. Twelve papers on value-based SCM are reviewed to illustrate the variety of research directions in this area. The selected manuscripts also provide a basis for the positioning of this chapter to current research, which is discussed in Sect. 6.5. Fourteen different papers on SCM in FMCG industry, which adumbrate the status of current research on this topic, are briefly discussed to outline structural and process related

## **Offshoring**

There are varieties of ways to perform off-shoring, but it depends on company whether it wants to perform work using in-house human resources or hire an external vendor to perform the particular service. According to Kehal and Singh (2006), there are varieties of off-shoring options available to the vendor. These options can be used in multiple scenarios. Global-insourcing and offshore-insourcing means that the organisation performs the activities itself, but these activities are performed in the organisation's subsidiary firm which is located in another country that is geographically distant from the parent organisation (Kehal and Singh, 2006). There are many organisations that have adopted offshoring strategies in order to reduce their costs, gain strategic/competitive advantage and become more efficient. However, the outcomes of offshoring strategy have been mixed. The expected ROI has not been achieved, customers

have face dissatisfaction with the outcome and companies have faced resistance from the employees.

The Boston Consulting Group (BCG) and Gartner (2013) highlights that around 50 percent of the offshoring contracts made between the year 2001 and year 2004 are expected to fail in meeting the expectations of the customers. They further add that in order to become successful in utilising this strategy, the company should make a comprehensive analysis of the risks involved in adopting offshoring strategy and compare its feasibility with the feasibility of keeping the work in-house. A larger share of this comparison is to evaluate the processes involved in offshoring and which of these processes can be given to the external partner on a long term basis. Since the selection of partner in offshoring is a strategic choice, the risks involved are also of strategic nature.

If the offshoring partner is external, then the partner should be able to fulfil the needs of the buyer company and should be able to make this commitment on a long term basis. According to Kennedy and Sharma (2009), the buyer should be able to provide details about all the requirements that the selected offshore vendor can fulfil. These details can be presented through the model called ‘Three C’s’, in which the C’s refer to as culture, capabilities and commitment. The culture defines how well the partner fits the culture of buyer’s company. Capabilities define the technical expertise that the partner possesses. The last C, i.e. commitment, is defined as the resources that the partner will provide to the buyer.

As the introduction of the background study, offshoring developed very rapidly in recent years as a result of globalisation in the US and UK. Many companies joined the offshoring wave in the late 1970s to take advantage of cost saving opportunities in emerging economies such as China, India, Philippines. This was largely fuelled by improvements in global trade, rapid

development in communication, e-commerce and an increasing population of internet consumers. The global economy, political climates in foreign countries, security concerns, and the influential rise of social media as and information distribution source have caused some companies to rethink their strategies. As a result, the offshoring trend – which began in earnest in the late 1970s – may see a reversal.

### **Problems in Offshoring**

It is known that outsourcing or offshoring can result in cost savings and make work more efficient by taking advantage of the experience and expertise possessed by the vendor/partner. In addition, freeing up additional company resources also saves large number of cost and helps the firm carry on with the strategic work. Nonetheless, at times many expected benefits are not achieved and additional problems evolve that lead to new and unexpected costs. Rouse (2005) conducted a study on large IT outsourcing projects that were initiated by the Australian Federal Government. The study found that many aspects of these projects did not go as planned and caused severe problems to the government. They identified the following problems: (a) the failure to achieve expected efficiency in terms of costs, (b) the best practices (Seddon 2005) from the industry did not work out in their projects, and (c) the complexity and difficulty in reversing the outsources functions, for instance because of lost competence (Kehal and Singh, 2006).

The projects were expected to achieve up to 1 billion \$AUD in savings, which equalled 28%. However, the projects were only able to achieve a cost saving of 12%. The savings excluded the cost incurred in planning and preparation, for example related to vendor searching and selection. Rouse (2005) also conducted a wider study by taking a sample of 1000 large IT

organisations and found that only 7% of these firms have reportedly achieved substantial savings due to IT outsourcing.

To overcome the challenges related to the offshoring or outsourcing of work, a good option is to reshore work with or without insourcing. The term onshoring/reshoring/backshoring is defined as bringing the manufacturing of products back to the place where they will be assembled or sold (Moser and Kelly, 2013). However, the challenges involved are quite substantial. An important finding by Rouse (2005) was that large-scale outsourcing is highly difficult to reverse.

A major problem recognised in reversing the processes back to the parent organisation includes the complexity and difficulty in regaining the lost competences. Finding new human resource that is skilled and suitable would require a lot of time as well as effort, and the new worker would require a salary premium due to the company's deteriorated reputation as a reliable and long term employer. As a consequence, the costs of completing the work in-house will increase as compared to the cost incurred in outsourcing. The respondents in Rouse's study highlighted that the main issue is that the organisation knowledge is lost that will be impossible to retrieve back once it is lost. Therefore, making attempts to regain the competences can create business disruption and sometimes these disruptions are hard to overcome (Kehal and Singh, 2006). In the course of time, however, several issues emerged.

- Quality decreased,
- Costs increased,
- Lead times increased,
- Shipping costs increased,
- Cash flow decreased

- Communication and language barriers (problem of accents).
- Overall, supply chain become elongated made and coordination tricky.

### **The Re-shoring initiative**

Reshoring is a growing trend in recent times. Many organisations in the US and UK have embarked on reshoring of their manufacturing and operations from overseas. Customer facing services will be the first in line for reshoring, with an emphasis on work that has a high strategic value to the organization. EE's reshoring initiative was attributed to decline and changes in the opportunities that led the organisations to reshore its customer service operation to UK. These problems are fundamental and made EE to rethink its offered operations. Some of the opportunities and factors that made the domestic alternative more attractive are:

### **Opportunity of Re-shoring**

- Improve quality of service and have greater control of quality management.
- Improve speed of delivery to achieve a responsive operation through Domestic Lean or other business process improvement techniques.
- Increase opportunity to build customer relationship, gain trust, and confidence.
- Minimise the risk of operations chain disruption.
- Improve brand image and competitiveness.
- Technological innovation minimises economic loss and improve customer retention.
- Improving margins, but above all, providing a consistent and unbeatable service for customers.

	Manufacturing	service
Economic	Rising costs in formerly low-cost countries and need for jobs developed countries	Rising costs in formerly low-cost countries need for jobs developed countries
Transportation	Significantly higher Transport costs make shipping from Asia disadvantageous.	
Quality	issues with product quality	issues with service quality due to language barrier and
Management issues	Intellectual property rights.	Intellectual property rights.
Others	labour discontent	Customer disconnect (language & accent)
	the need for jobs	

### **Re-shoring for SMEs**

Manufacturing is now starting to see a trend in re-shoring and near-shoring where companies are bringing their operations back or closer to home, for quicker lead times and lower transportation costs. In the UK an example of re-shoring can be seen in companies such as Dyson, who are expanding their premises in Malmesbury, creating 3000 jobs to the UK and Hornby, the train model manufacturer, bringing back some of its manufacturing to the UK. In the US along with the noticeable rise in re-shoring, there has also been a rise in near-shoring, where manufacturers have moved their operations from China to Mexico and other Latin American countries, where labour is cheap and transportation costs low.

Small and medium sized businesses (SMEs) account for 99.9% of private sector businesses, with 4.9 million SMEs in the UK in 2013 employing 59.3% of the private sector workforce. But exactly what will this growing trend in re-shoring and near-shoring mean to them? Let us start with re-shoring.

With government funding available for businesses wishing to re-shore their productions back to the UK, the benefits to SMEs re-shoring will be numerous, with shorter lead times, more visibility and control of the supply chain and cheaper transportation costs to name a few. With manufacturers re-shoring their operations to the UK, it gives SMEs already manufacturing in the UK the chance to be competitive in the UK supply chain. Small businesses that were once losing out to cheaper alternatives in Asia will once again be able to compete successfully for contracts. This in turn will allow SMEs to grow and expand, benefitting both them and the country, due to new jobs being created and a boost in exports.

With a reasonable percentage of the world's manufacturing moving production to Mexico, it will give a bigger push for SMEs to export to this previously neglected market. While the UK is behind its European competitors when it comes to trade with Latin America, it is not too late to catch up or even surpass them.

Deputy Prime Minister Nick Clegg accompanied by more than 40 business leaders recently embarked on a trip to build bridges and cement relations in Mexico and other Latin American countries. Deputy prime Minister Nick Clegg remarked:

“Mexico and Colombia are two economies where the British presence has been too small, too reticent, and too modest for far too long. There is so much we can do to catch up and we’re making progress.”

Investing in export divisions is essential if SMEs are to benefit from the new growth in the world's economy and grow, with support and advice available for SMEs wishing to expand into international exports.

### **Study Aim and Objectives**

There have been recent changes in the way the businesses serve customers. This is because of advent of internet and communication technologies that the telecommunication companies are using call reduction strategy in which they use cheaper options for providing communication services. EE Limited will undoubtedly be one of the beneficiaries of the call reduction strategy.

This thesis, aims to explore re-shoring as an alternative to the major offshoring trend in the UK manufacturing and service sector, taking the mobile operator EE Limited as a case company to identify the challenges and opportunities of re-shoring previously offshored operations, especially its contact centres.

In order to understand the factors leading to re-shoring, there is a need to be understood what led to the initial decision to offshore processes. Offshoring as a supply chain activity would be explored and explained in this chapter.

- In order to achieve the main purpose, the following research questions are set:
- What led factors to the original decision to offshore?
- What are major factors driving reversal of the offshoring decision?
- How the problems arising even after offshoring can be resolved?
- How reshoring helps in human resource management for a service firm?
- What is the effect on supply chain from reshoring?

### **Problem/Opportunity Resolution**

Reshoring is a growing trend in recent times. Many organisations in the US and UK have embarked on reshoring of their manufacturing and operations from overseas. In recent time, changes in the Opportunities in reshoring the customer service element of the operation to UK. These problems are fundamental made EE to rethink how it reconfigure it operations.

1. Improve quality of service and have greater control of quality management.
2. Improve speed of delivery to build agile and responsive operation.
3. Increase opportunity to build customer relationship, gain trust, and confidence.
4. Minimise the risk of operations chain disruption.
5. Improve brand image and competition.

The review of Boston Consulting Group (2011) discussed the increase in wages by 15-20 % per year in eastern countries which brought the cost level of labour closer to the western countries level. Correspondingly the Archstone Consulting review stated that 60% were utilized in only rudimentary cost modelling and 20% of the hidden cost ignorance from the original equipment manufacturer (OEM). Often some companies base their decision of offshoring on the free on board cost or labour cost that means it is the responsibility of sender for transportation and loading cost. It is acute to comprehend the cost hidden that comprises of altogether total cost of ownership (TCO) (Moser and Beyer 2011). Besides this, it is essential to describe the total profiling risk in sourcing which describes the shifting risk of production overseas. Also it is partially essential to measure the cost hidden in context to the decision sourcing and strategy

sourcing (Moser and Beyer 2011). The benefit of cost has reduced chiefly because of the inflation and work force competition trend setting in the eastern countries with low labour.

Moreover in the IT Enable Services (ITES), the work force attrition in such countries is high up to 30-40% annually and its importance is due to the delay production and extra cost for instance causing requirement to new employees training (Kehal et al. 2006). Challenges regarding the quality exist since starting of offshoring that is severely declining the advantages of predictable offshoring. The control of sufficient lacking in the unapproved changes in processes or materials and subcontractors are apt to enhance the low quantity amount or even faulty products. Furthermore in the counterfeit products many industries are hard to control because of the poor local and legal resourcing in such countries (Moser and Beyer 2011).

As it is obvious from the past years experiences that the same productivity and quality levels are not attainable by offshoring, also it has been obvious that the pure comparing unit prices in the cost of labours are insufficient measurement for the assessment for offshoring and developing the production locally near to the company. On the account of quality and hidden cost issues regarding the production to offshore it is clarified by that during many circumstances the overall reasonable probability in terms of successful economic and quality of production bringing back nearer to the parent company. The ownership total cost model provides the resource to account several hidden cost regarding the offshore. Thus it enables the assessment among the reshoring and offshoring. In this research, the measurement available regarding the decision making are discovered and purpose is to give the insight on the determination whether reshoring is actually the reasonable alternative for EE Limited.

The resolution of problem for EE Limited lies in the resource- based theory that is used to assess the study feasibility. In the light of this theory, core competences are highlighted that are

present in the company. Kennedy and Sharma (2009) stated that outsourcing is beneficial in case when the company lacks the resources and capabilities that they cannot develop internally within the firm. Also, through outsourcing, the company is able to focus on other key tasks that result in strengthening and protecting the core competencies of the company. This is the key to provide superior and unique services to the customers that lead to competitive advantage. These advantages of outsourcing are discovered irrespective of the industry as the results have been assessed in electronics, personal computer, manufacturing and heavy machinery industry also. However, there is another group of studies that relate a number of risks from outsourcing and also proposed the resolutions. According to Roza et al. (2011), the major issue that is also seen in case of EE Limited is the absence of desired quality. Also, the performance of company is endangered from relationship management and issues in coordination due to difference in the organisational and industrial culture and environment. Thus, the major focus of the EE Limited management lies in the retaining of core competencies as Mohiuddin and Zhan (2013) suggested that the loss of core competencies endangers the company if wrong tasks are outsourced and this makes significant impact on the competitiveness. Keeping in view the case company, the suggestion by Kinkel (2012) shows that flexibility in decisions and quality problems are the most important reasons for reshoring. This was suggested after assessing 1484 German companies.

As the problem resolution, it can be said that the company might choose for outsourcing based on wrong reasons. Such rush to decisions creates tension and also fails in delivering the intended results. When the values of different activities on the firm value chain are measured, there might be the case that the evaluation is not done easily. This can affect the competitive advantage showing that the parts that make up the core competency of the company should not be outsourced.

It is not easy to reshore the operations and activities as Kinkel (2012) suggested that reversing the processes back to the home country is very difficult as it requires multiple competencies. This has been explained by Tate (2014) that finding new workers is complicated and complex and to train these new employees requires great amount of time as well as money. Also the company has to pay premium salaries to the employees in order to save the image and reputation of the company. Based on exiting studies on the reshoring plans and issues from offshoring in service sector companies, it is clear that the service quality issue is not at its peak when the services are done in-house and by the local partners. The problem of offshoring can be resolved by addressing following aspects:

### **Competence**

This is the most common issue in offshoring as Boston Consulting Group (BCG, 2013) said that the attrition is higher in the offshore countries as compared to the western ones. Also, these countries are unable to retain the sufficient competency base. If EE Limited is re-shored, then there can be a decrease in the attrition rate and thus level of competency can lift up.

### **Quality**

The second major challenge that has been identified from extensive search is the lower than expected quality of services and products. This can be because of lower competency level and higher attrition. Other obvious issues that relate to problems in quality are the problems in product testing and unreliability of test results. Casson (2013) declared that such reasons are because of low competency that results in causing additional costs to the company. By reshoring

the EE operations, reliability as well as quality of product testing can be retained and improved. This not only increases the quality but also decreases the number of faults.

## **Productivity**

This arises as third challenge in offshoring the services and products. This explained by Kennedy and Sharma (2009) that the work load estimation at the offshored location can be multiple as compared to the work load estimation in the parent company. This prevents the competency level to be accumulating at the other side of offshored location.

In case of EE Limited, when the offshoring started then the productivity was at the sufficient level. However, at the offshored location there was wage inflation and also the expected productivity was lesser. This difference has also been highlighted by Ellram et al. (2013) that in offshore countries the wage increase was 15 to 20% while in UK wages were stable with only 1 to 3% increase. It can be inferred that the productivity in offshore locations did not match the rate of wage increase and made offshoring lesser beneficial. Through reshoring the service quality can be improved with lesser workforce and more milestones.

## **Cost**

The fourth but critical challenge to EE limited from offshoring is of costs that are revealed from calculation of total costs. This is mainly because of indirect costs incurred as well as high attrition at the time where there is no productivity. However, the costs related to lower quality cannot be calculated but the costs from additional testing efforts and fault investigations are included. As with reshoring, the quality related problems will decease then the indirect costs can also be reduced.



## **Feasibility Study**

### **Solution feasibility**

The theoretical model is developed for the case company and then feasibility of solutions is checked on that basis. Using theoretical model as the tool for analysis results in deeper understanding as well as better results of the possible decision related to reshoring. The motives in this model allow understanding of the foreign activities while risks allow assessment of outcomes. Home country factors also allow assessing the possible results of reshoring the operations of case company to UK. Combination of these factors allows in exploring the visible as well as non-visible reasons of reshoring for EE Limited.

The following are the reasons that indicate need of reshoring as suggested by Poppo & Zenger (2008). These are categorized in three ways for the case company.

Risks:

- Opportunism
- Loss of quality, flexibility and control
- Increase in complexity
- Language and communication barriers
- Internal knowledge and IP protection

Home Country Factors:

- UK competitiveness
- Political situation

- Government support

Motives:

- Focus on core competencies
- Gaining competitive advantage for sustainability
- Gaining economies of scale
- Closeness to market
- Improving profitability
- Closeness to customers

There are three major motives of sourcing that are:

- Transaction costs
- Location specific advantages
- Resource based view

### **Transaction costs**

Broedner et al. (2009) have explained transactional costs (TC) as the theory for investigation of the efficiency in the structure of governance. The focus of this theory is if the economic activities within the firm are integrated vertically in-house and the factors that are required to evaluate the advantage of this action on basis of costs and advantages. According to this theory, if the transaction costs are high then vertical integration should be done. It is also suggested by España (2013) that governance structure should be chosen by the managers on the

basis of performance maximisation that is possible through economies of scale as it leads to minimisation in the transaction and production costs.

TC theory supports the reshoring initiatives when the theory is viewed from the perspective of offshoring and outsourcing. It is said that uncontrollable or unexpected costs can be incurred in the process of outsourcing and offshoring and failure to manage such costs results in the decision of re-strategising through reshoring. According to Popo & Zenger (2008), the transaction costs when added to the cost of buying processes for offshore outsourcing must not exceed the cost of making the component or service delivery in-house. This is crucial as in case of ignorance of TC or under-estimation of the same in the strategic decision making, the strategy to offshore outsourcing can lead to risks of profit reduction and failure of the business.

For the case company, the transaction costs can be estimated as suggested by España (2013) as the costs that are related to opportunity costs of managers travel fare, difficulties in language and communication, negotiation time and margin and navigation of business, legal, foreign and political system. España (2013) claims that these costs are ubiquitous and pervasive. The strategic decision to reshore can also be related to the indirect and hidden costs. It is said by Gupta et al. (2010) that for a company to successfully pursue the actions of outsourcing, much expertise are required so that the failures can be avoided. There is greater role of managerial valuation in this regard as said by Gray et al. (2013) in finding the real costs from offshoring activities. This includes the estimation of changes in costs as local and foreign components in the form of currency or wages.

In the case company, language and cultural differences can be important elements that motivate the management for reshoring. It is also suggested by Svenskt Näringsliv (2013) that these are not only transactional but indirect costs incurred. This fact is supported further by

Ellram et al. (2013) from the qualitative study carried out by them by including eight organisations in it. The study evaluated the ways in which managers address risks and costs issues occurring in the offshore outsourced professional services. The study was done from US perspective in which the transaction costs grounding were used. The significance of this study is that it represented different industries including services and manufacturing services. Study revealed that the outsourcing of activities affects the competitive situation of the company from long term perspective. The case company resolution for outsourcing problem can be achieved in line to argument by Tate (2014) that the companies most of the time focus lesser on those factors that can potentially affect the business performance in long term. In this regard, the suggestion of Ellram et al. (2008) is valuable that the long term costs must be considered by the company as these are critical for the perceived costs savings evaluated from the decision of outsourcing.

### **Location-specific Advantages**

According to Mucchielli and Yu (2011), the location specific advantages are also linked to the transaction costs as the choice of geographical location affects the critical factors such energy prices, access to raw material and market capacity when viewed in relation to the manufacturing industry. A survey was conducted by Doh (2009) who explored the motives of the companies for offshoring on the basis of geographical locations. 595 parent companies from US as well as UK were tested by gathering data and all these were dealing in export oriented service projects. The data collected was from 2002 to 2005 and was taken from both developed and developing countries as well as in different languages. The results revealed that the determining factors for offshoring for the companies were education, language, wages and risks. The

significance of this study is that it included the respondents from IT services, call contact centres and shared service centres.

In the light of this theory, the results found are consistent to that which the transaction cost theory that the service industry relies primarily on the human resource. In case of EE Limited, the human resource is responsible for supplying services to the call centre. When considered in light of manufacturing sector, these motives for offshoring are political risks and cost factor in wages. Thus, for the case company, results from manufacturing sector are also important. This is because the significant variables that are studied in relation to choice of geographical location represent the service industry mainly and only few are manufacturing one. However, even in manufacturing companies, the offshored outsourced IT services and call centres are important part of customer services department.

It is disclosed by Broedner et al. (2009) that there is direct and significant relationship of the location advantage with the political, social and institutional factors as these also reveal the reshoring trend. The managerial differences that occur around the world are related to the institutional theory as suggested by Mucchielli and Yu (2011) that the actions of companies as well as employees are formed on the basis of institutions in general and culture in particular. This is also the case in EE Limited when looked closely that the institutional environment of countries where the services are offshored is different as compared to UK business environment. This has created the complications for the case company.

Another study by Brecher et al. (2013) carried out an exploratory research in which 26 interviews were carried out with 16 venture capital companies that had outsourced their operations in Eastern countries mainly China and India. Interviews were conducted from 1998 to 2000 on the basis of the coherence with grounded theory research design. The results revealed that

governments in these countries that provide cheaper labour have influential control on business entities. This means that goals of company are also directed by the government. It is reported by Casson (2013) that in such cases, there is conflict of interest between the local government and parent company management as government wants to maximise employment while the management wishes to make maximum profits. Many other institutional problems occur in this regard such as the due diligence, accounting and auditing practices, monitoring and exit from investment and structuring of relationships. Thus, the political as well as institutional factors are found to be influencing on outsourcing offshoring and can give rise to unexpected costs.

The strategic issue in this regard of political and social factors is also discussed by Tate (2014) in terms of a report published by White House. It is found in this report that the American government is encouraging Americans to work insource indicating that the phenomenon of reshoring is not only of interest for the parent company but also for economies worldwide due to its impact on nations around the globe. These results are also comparable to the report by with Boston Consulting Group (BCG, 2013) on the job losses and impact of political factors that reshoring will create from 2.5 to 5 million jobs in US only until the end of decade. This means that UK market can also gain benefits from relocation of EE Limited to domestic market.

### **Resource-based View**

Sustainable competitive advantage can be gained by understanding the sources of strategic management that is also the basic element for resource- based perspective or resource-based view (RBV). This is explained by Poppo & Zenger (2008) that resource based view is what makes one company perform better than other one. Resource based view allows the understanding of not only internal but external environment. Thus, the external threats can be

offset and internal weaknesses can be avoided if the company exploits the internal strengths and also responds to the opportunities present in the business environment. According to McIvor (2009), most of the companies have to outsource or offshore in order to meet the increasing demand of stakeholders as both external and internal environments are changing. In his study, the link between sustainable competitive advantage and firm resources was analysed. Four empirical attributes were identified that resources must have in order to make the company competitive and sustainable. These are:

- Valuable
- Rareness
- Imitability
- Sustainability

A study by Roza et al. (2011) collected the sample from different countries including Germany, US, UK, Spain and Netherlands. The results from differences in these countries were assessed and it was found that the size of country and domestic market has determining effect on results. Thus, it is clear that when the domestic market is very large than the process of reshoring is easily facilitated given more resource base.

RBV is an effective theory in understanding reshoring as the relationship of the performance of firm at operational level with outsourcing can be understood in depth and clarity. It is extracted from the theory that those companies need to outsource the activities where there is lack of human capabilities and resources. Reshoring should be the option when the company is unable to gain any advantage from operating internally due to less or no resources. This is also favoured by McIvor (2009) that outsourcing is a good option when the complementary capabilities can be accessed through external providers. However, in case of EE Limited, the

lower quality of services shows that external providers have ineffective resources to meet the needs of EE operations. Thus, reshoring is preferred when there are no advantages of offshoring expect increase in costs. It is also found in case company that the suppliers are expected to deliver not only improved services but also reduced costs. However, it has been clearly suggested by Mohiuddin and Zhan (2013) that suppliers in the arrangement of outsourcing most of the times fail to meet the desired expectations of management that includes quality, cost and service. The same is suggested by Tate et al. (2014) that in case of reshoring, skilled labour is the most important factor and those companies turn to reshoring who are dissatisfied with the quality of outsourced activity that can be product or service so that better quality can be gained again. It is also suggested by Svenskt Näringsliv (2013) that another main factor is the increased quality made for reshoring the production. Thus, the feasibility of EE Limited suggests that the services were offshored mainly because there was lack of human capabilities and internal resources when the joint venture was done by Orange and T-Mobile in 2010. However, current assessment of the company shows that the activities at present are not meeting the expectations of the customers in terms of quality.

### **Solution Limitation**

The case company EE Limited is limited in resources as well as other factors that are related to the home country. It is reported by Mucchielli and Yu (2011) that the home country factors that are lacking in UK include the competitive alternatives, governmental support, cost effectiveness and efficiency in servicing processes. Thus, the company decision of reshoring can be influenced heavily by home country factors.

As in the case of EE Limited, higher focus lies on the human resource therefore concerns can arise about lose of knowledge from suppliers switch and employee turnover due to the fact that the human resource in the company does not has a positive perception about the sharing of asset of information as the threat of raising risk for competitiveness of the company. The primary purpose of offshoring here was the cost and not the risk of losing employees or giving trainings to new ones. However, these are also critical factors that incur cost. Thus, the company needs to realise high dependence on the knowledge based assets as suggested by Ellram et al. (2013). This is also discussed by Gupta et al. (2010) in relation to the factors of management that the competitiveness of company human resource is highly correlated with the sharing and transferring the knowledge between the individuals and within the groups. When there are risks in the company in terms of the capabilities of management in characterising the principles and organising the individuals and groups in a well manner, then the outsourcing offshoring is the not best possible option as seen in case of EE Limited.

Another limitation of reshoring is regarding the competitiveness of UK. This is because of high production and servicing costs in wages which is specifically country related variable. The location-specific competitiveness of UK is low due to the absence of support from government and high taxation and duties rates that have made offshoring the feasible option when evaluating low cost countries. Even when this factor is not pointed out as the determining factor in offshoring, Casson (2013) stated that this can make the industry opt for moving out from UK due to this factor.

## Discussion and Conclusion

The main objective of this research was to suggest the feasibility of option of reshoring for EE Limited and to assist in considering the various factors regarding the services transition and reshoring. This objective has been approached by discovering the current knowledge on the reshoring and offshoring and by assembling company's internal data and of overall service sector through secondary research. Moreover the information regarding the reshoring was attained by discovering the case instance of the external companies which have practised offshoring before. For the review, the current literature on offshoring, reshoring, outsourcing and transitional services was discovered.

In this study, case study methodology was approached as the method of research for the review. The main reason for choosing the case study methodology is the reshoring. The key analysis regarding the feasibility showed that the challenges regarding the offshoring are:

- Lower than expected productivity of the offshore partner
- Competence level of the partner did not reach satisfactory level
- Higher than expected total costs of the offshore production
- Quality of the work done by the offshore partner was not sufficient

Based on the reviews of existing literature related to offshoring in telecommunication sector call centres and problems encountered of poor quality services and products in EE Limited, it is suggested that the company reconsiders and reevaluates critically the decision to reshore its operations. This solution has already been implemented by a number of companies as suggested by in order to get a better control on quality and production and to eliminate any issues that make the products and services quality unsatisfactory. In order to make solution feasible, it

is important that sourcing decisions are based on theoretical models. The study also looked at the reasons of offshoring the EE Limited services and it also considered the problems that can lead to reshoring. Brecher et al. (2013) said that the transaction cost theory is crucial in evaluating the drivers that affect the offshore outsourced process of re-localisation of activities. The unique aspect of TC in this study is that the TC has been done mainly in analysis of manufacturing industry and not service industry. The TC in this case indicated the indirect costs in service sector that include the political and environmental factors, management issues and cultural differences all of which are the indication of possible reshoring decision. Gray et al. (2013) also found that the consideration of location based advantages is important as it reveals the motives that originally compelled for offshoring outsourcing. The use of location based advantage in this study serves as the basis of the decisions in current and future times regarding the reshoring of services. Using the political, institutional and social factors for the study also helps further in developing the deeper understanding and identifying the influences that social and political factors have on the firm in correlation to the re-shifting of services back to UK.

It is also suggested by McIvor (2009) that the agreements of offshoring outsourcing are very complex in nature and these also require very clear channels of communication along with strong leadership, project scheduling, suitable allocation of resources, clear objectives and control mechanisms. For all these issues, resource based view is of importance for the reshoring activity that helps in identifying the reasons of choosing for outsourcing or offshoring of the activities through foreign resources. It is rightly stated by Gupta et al. (2010) that resource based view RBV is a critical factor of explanation for the outsourcing and offshoring of activities but it also includes possible hazards such as the difficulty in knowing the elements of resources such as non-substitutability, rare, valuable and imitability. Other elements can be critical are the hidden

costs in strategic outsourcing, utilisation of outsources resources in right manner, loss in service and quality, lack of clear objectives, physical distance and poor communication skills. On the basis of these reasons the company can think of decision to reshoring and relocating the activities that were previously outsourced through reshoring.

Thus, it is found that there are already reshoring trends prevailing in UK service industry due to the fact the offshoring or outsourcing decisions are not fulfilling the desired purpose and thus for long term benefit of the business, activities are re-located to domestic markets. However, a number of companies such as EE Limited are not sure about reshoring due to the comparable size of domestic market of UK that is much smaller than that of the developing countries' market. Also due to social and political factors and influence of these, there is lack of competitive alternatives that make the decision to reshore doubtful.

### **Managerial Implications**

The reshoring option assessment in the light of given resources acts as the tool and guidance for the managers who want to consider the efforts for reshoring to be worthy. Based on the current assessment in this study, the reshoring plan and alternative plans can be developed even further. The study also suggests the managers how to use the phases and elements during transition for reshoring and also enables them to take advantage of the results. In the case of EE Limited, reshoring can be practiced by relocating the work from the outsourcing offshore partners to the partners outsourcing locally. To make sure the successful reshoring of operation of company requires to pay the attention specifically to the phase of planning while sourcing choice are created to enable the smooth service transition. It is valuable to indicate the main problem areas analysed in the determination of this study and it requires to be enclosed in the

plan of offshoring so that the sufficient availability and resource capability needed for managing such challenges can be ensured in advance. From the aspect of competency level, the case of EE Limited requires to make sure the capability and sufficiency of dedication of resources are taken place with the care of transferring knowledge to the latest partner in the planned and systematic way as suggested by Mohiuddin & Zhan (2013). On basis of the present research, the transferred knowledge is determined as the most typical factor in the successful transition services with the governance of transition. Therefore requirement are to be the designated and responsible individuals are selected for every related area of competency in the case of EE Limited for the transfer of competency to the partner in their area of expertise.

The information of actions transferred requires to be scheduled and planned as they require having the follow up properly in the practice place. Relating the aspect of quality on the basis of study outcomes the SW quality products and SW quality testing can be observed as they were having typical issues in the production of offshore. The requirement of management to propose the opportunities for the development of EE Limited competency of the latest partners and to give the governance and tools for making sure the quality of production and testing of SW is at the high level and their outcomes are reliable. Actually this means that the reliable and efficient SW quality shows the requirement of the development and utilization to evaluate the SW production quality and the SW quality of testing although in the case of EE Limited the employees are needed with the expertise and require to exist at the service delivered until the SW production and quality and the testing SW are in the content level.

In the aspect of productivity, it was observed that there are currently connections with the aspect of competence as the level of competence constantly increases in the services provided along with the productivity enhancement Kinkel (2012). Therefore through the point of view of

management, emphasis is on the competences of developing of partner that also increases the productivity inevitably. Another significant factor for impacting the productivity is to regulate the attrition so as to remain within the competence of organization. For enabling the productivity, monitoring is required with the performance indicator for productivity measurement.

Lastly the aspect of cost needs the production of total cost evaluated as well as possible. There were enormous costs indirectly related to the specific production of offshore that requires to be take in the context of different sourcing substitutes in comparison. On the basis of current knowledge, in the case of EE Limited, it is distinctive to evaluate the real total cost of production offshore which surpasses the estimations originally by more than 25%. Total cost of servicing offshore has been enhanced because of the problems of qualities that incurred more than the predictable efforts required calculated from the case of other companies in the context of extra testing and work on managing the faults founded by the customers and troubleshooting. Also in the case of EE Limited, it requires the transfer of competence more than predicted because of the high abrasion that is due to the additional cost.

### **Practical Implications**

The existing state determination in the company case has revealed that the predictable advantages were not attained through the provision of servicing by offshoring and the target was unreachable. Such targets were regarding the level of competence, productivity, complete production cost and quality. While involving in reshoring operations, special attention will be required for the planning of transition for making sure that every area gets at the least level that they utilized to the originality priory beginning the services offshoring.

For proper governance for project reshoring, it has been recommended that the responsibilities and role of the involved persons are precisely described in the start of project. The designated persons for the transitional planning at their self-responsibility area require to be included in the previous project from the beginning and they require to enable the contribution on continuous planning within the project period. Regular meetings must be held where the existing issues are discussed to the project team completely as also said by Mucchielli & Yu (2011). At the time of completion of transition, it is very significant to pre nominate the team of governance in order to place for it continues observing project based on the performance predefinition, cost measures and quality measures.

### **Research Limitations**

This research was conducted among online customers who have purchasing experiences at EE. Due to the limitation of time, resources and non-existence of reliable statistical data on the phenomenon of offshoring, re-shoring of ICT services and other ICT enabled services, this report provided an overview of information and data currently available, analysing it and putting it in perspective. It therefore lacks the opinions and information from the companies currently reshoring.

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