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Onshore? Offshore? How About Firm Coherency?

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Abstract

Investments in offshore or onshore can be directly linked to improvements in firm performance, whether the measure is costs, sales revenues, profits, or stock market returns. However, what allows firm improvement is the combination of leadership, human capital, corporate strategy, resources, capabilities, and an offering of products or services that create value and a coherent system. This coherence is the basic principle that allows to generate growth opportunities, respond flexibly and capture the opportunities quickly, and creating value for the customers profitably. A survey can be used to check firm coherency assessment and its fitness for offshore or onshore investments. There is no one-size-fits-all approach to choose where to invest, and the management practices that have the biggest impact on performance will depending on geography, culture and local resources. Thus, an evaluation of firm coherency is essential. Managers can use the survey in this chapter to quickly assess their firm' coherent strengths and weaknesses for offshore and onshore investments.

Keywords: coherence, resources, capabilities

1. Introduction

The demand for a more economical supply chain, the search for a higher profit margin, the dissemination of knowledge and technology, the focus on the core operations and business are factors that promote business models based on "onshore" or "offshore".

Begins to be buzzwords to mention that the pace of change in today's business environment is greater than it has ever been and/or the business change is no longer a choice. The change happens since forever and it was never a choice, however, its dynamism and consequently speed is what has changed. Now, it's not just the disruption that's influencing business models, the pace is imposed essentially by the access to technology.

Technology is at the heart of change because it is rooted in all elements of business. It drives business models, value creation, shapes the development and manufacture of products/services, influences communication and the sales process, basically define how the firm interact with its customers. But having the best technology only benefits the firm when it is aligned with strategic intentions. Otherwise, it's a waste of resources.

Regardless of the influence of technology, the prosperity of the firm depends of its coherency. What makes the firm survive and thrive is the combination of leadership, human capital, corporate strategy, resources, capabilities, and an

offering of products or services that create value and a coherent system. This coherence is the basic principle that allows to generate growth opportunities, respond flexibly and capture the opportunities quickly, and creating value for the customers profitably.

In this chapter we will discuss how the decision factors for a firm to choose to be on onshore or offshore is the result of its coherency. Next section develops a conceptual framework about onshore and offshore. After we will consider some factors when choosing On or Out, to immediately introduce the firm coherency survey for onshore or offshore choice. Each section discusses their major implications for coherency as a decision factor. We end with a final note.

2. Onshore and offshore: the meaning

Most businesses, including startups, small and medium companies, and multinational companies, they seek to know how a decision about to be in onshore or offshore can benefit their business. Before we go deeper into discussing the decision factor about how to choose it, let us take a look into what these terms actually mean.

2.1 Onshore

An onshore business is the firm that sets up operations in the jurisdiction where it will operate its business or in its home country.

2.2 Offshore

Offshoring can be defined, in a broad sense, as a firm strategy of moving a business process to a different geographical location where it carry out most of its operations to take benefit of another country's conditions that are more advantageous for its business, under the firm's management. That could include research and innovation, manufacture & production, corporate or back-office services, sales and communication, logistics, etc.

Offshoring is no longer promoted solely by cost-cutting considerations or looser regulations but by involving multiple factors, such as: refocusing the head firm on core business activities, a search for and availability of human talent and technologies, speed to market enhancement, increasing strategic flexibility and location-specific factors.

Offshoring takes advantage of these factors by relocating activities from costly economies to the cheaper ones in order to sell the goods or services at a competitive price with a bigger profit margin. Alongside technological improvements, it has been the offshoring manufacturing and production that has lowered the costs of consumer goods and services such as clothing, electronics, computers and digital services.

2.3 Outsource

At its most basic, outsourcing¹ is the business practice of hiring a third-party to perform services or job functions and/or manufactured goods that usually were

¹ Although it is not our intention to address the theme of outsourcing, and due to the fact that there is a lot of confusion of concepts, it is important to know the difference between offshoring and outsourcing terms when engaged in debate on business strategies.

performed in-house by the firm's own employees and staff. The basic philosophy of outsourcing is to move activities to a third-party as a cost-cutting measure and in order to focus the firm on its core business. Companies may choose to outsource services or goods onshore—within their own country—, nearshore—to a neighboring country or one in the same time zone—, or offshore—to a more distant country.

This way to promote cost reduction, increased competitiveness or increased profits can generate or create a serious problem for the firm: the loss of capabilities. Once the firm moves its service or production to a third-party, it also outsource all the knowledge and expertise. This means that the firm lose its know-how and its manufacturing capabilities. Such capabilities may have long time to create. Once lost, they are hard to return.

Before we dive into the factors to choose were to be, it's important to look at the key benefits and risks between these three concepts (**Table 1**). Here are a few of the main ones:

3. Factors to consider when choosing on or out

The Austrian biologist Ludwig von Bertalanffy (1901–1972) in his studies noted himself for contradicting the Cartesian² view of the universe by advocating an organic approach where the organism is a whole greater than the sum of its parts. His studies allowed us to understand the firm as a whole in which all its interdependencies when they are gathered constitute a larger functional unit, thus developing qualities that are not found in the individuality of its components.

Following Bertalanffy's prism, the firm is a complex adaptative system characterized by the interdependence, rather than independence, of its set of logically structured functions, with the purpose of responding effectively to certain objectives ensuring that each part of the firm is a contributor for value creation.

In practical terms the firm as a complex adaptative system with a dynamic relationship with its market, seeks resources—materials— in the external environment, processes them with the help of internal resources—human and technological—and returns them to the market in the form of products or services. The dynamism of the market and the internal relations in the firm cause a deterioration of the system—entropy—, which are contradicted by the development of forces contrary to entropy—syntropia—, and by the ability of the system to maintain stability through change—allostasis.

Being the firm a complex adaptative system and if it looks for maintain its stability through change, to create, deliver, capture value, to make profits and thrive, thus, the firm needs coherency.

3.1 Firm coherency

Coherency is defined by Cambridge Dictionary [1] as coherence, and coherence according the same dictionary is defined as “a situation when the parts of something fit together in a natural or reasonable way”.

Coherence is a logical, orderly, and consistent relation of parts to the whole [2]. Thus, firm coherence refers to an integrated logic and basis for an effective and efficient, and well understood operation and execution [2, 3].

² The Cartesian's vision is analytical, consists of decomputting thoughts and problems into their component parts and placing them in a logical order; it is based on fragmentation of thought to facilitate problem solving by dividing them into parts.

Key Benefits	Onshore	Offshore	Outsource
Ownership	✓	✓	
Focus on Core Business	✓		
Non-core functions		✓	✓
Cost-effectiveness		✓	✓
Cost Stability	✓	✓	✓
Flexibility		✓	✓
Scalability	✓	✓	✓
Human Capital	✓	✓	✓
Government and Tax Policies		✓	✓
The need for innovation	✓	✓	✓
Globalization		✓	✓
Risks			
Cultural differences		✓	✓
Intellectual property protection		✓	✓
Loss of control			✓
Hidden costs		✓	✓
Lack of customer focus			✓
Lack of synchronization			✓
Reasons for a Strategy			
Growth strategy		✓	✓
Competitive pressure		✓	✓
Access to qualified personnel	✓	✓	✓
Industry practice	✓	✓	✓
Improved levels of service	✓	✓	✓
Business process redesign	✓	✓	✓
Increased speed to market		✓	✓
Access to new markets	✓	✓	✓

Table 1. *Key benefits, risks and reasons for a strategy.*

Coherency creates value in four ways [4]: (i) it contributes to greater effectiveness, because, the firm can focus on their distinctive capabilities and continually improve what truly matters, (ii) it produces efficiencies of scale, because, the firm can deploy the same resources and capabilities across a larger array of products, services or business units; (iii) it focuses strategic investment on what matters, because, the firm will just research and develop projects that enhance its position and make a difference to customers; and (iv) it creates alignment between corporate strategic intent and operations decision making, and because of that, the workforce understand what is important, thereby executing better and faster.

The concept of firm coherence refers to an integrated logic and basis for action within a firm [3], a focused logic in what it does better than any competitor [4].

According to Teece [5] coherence can be explained as a complex interaction between three classes of variables: (i) enterprise learning, which the authors suggest

as a 'local' phenomena; (ii) evolutionary paths, which it's shaped on the past in terms of their scope and activities, and where they are now in terms of competences and complementary assets, and the opportunities which lie ahead; and (iii) the selection environment, which is a rough measure of the external and internal competition facing the various products the firm produces.

Almost twenty years late Leiwand and Mainardi [4] propose a different approach that derives from the aligning of: (i) firm human resources and leadership, and how they understand the way the firm creates values for customers; (ii) a capabilities system that allow the firm to deliver its value proposition; and (iii) a product and service fit where all products and services leverage the same capabilities system.

These authors have a different understanding of firm coherence variables, but at the same time complementary (that is, mutually supportive or reinforcing) because they follow the same approach: the process/capability approach which is centered on distinctive capabilities that can produce a competitive advantage and superior performance [6–9]. This advantage depends on how specific resources, regarding four main attributes - value, rareness, inimitability and organization (features that resource-based view call VRIO) - are used within the firm in an orchestration to accomplish tasks and to develop capabilities [10–12]. Resources can be divided into tangible, intangible and personnel-based [10]. Regardless of their nature, resources are not productive on their own, but rather must be assembled, integrated, and managed so as to form organizational capabilities to address external environments and meet changing market demands [13]. In other words, capabilities serve to bind different resources, so that they can be identified and organized effectively and efficiently [14]. For an activity to be a capability, it must reach some threshold level of routine or practice and work in a reliable manner [15]. Firms can achieve a competitive advantage by constantly reconfiguring or recombining different types of resources that can alter existing capabilities or generate new ones [13].

This approach is complemented by addressing the importance of an effective leadership that monitors, the human capital, the market, the strategy and the environment to better identify opportunities and threats and adjusting the firm's use of capabilities [16, 17].

Within a firm, coherency prompts sense-making [18] and permits development of competitive advantage, due a shared understanding across employees will make them more engaged positively with the goals and strategies, they understand what is important and that facilitate "to do the right thing", they are more skilled, the systems and processes grow more effective, enabling the firm to out-execute their competitors [4, 19] and striving for achieve that improvement.

Furthermore, at the strategic level, if the firm works in a coherent way, the investments are more likely to further create coherence toward organizational goals, as these investments are consistent with the firm's capabilities [4].

This coherence can then facilitate consistent synergies since it deploys the same capabilities across a larger array of products and services [4].

Lastly, coherency will encourage processes which are essential, providing consistency around firm efforts to achieve improvement goals and performance [19]. Combined, these different aspects will increase performance.

We may conclude that the concept of firm coherence refers both to an integrated logic and basis for action within a firm [3], and a focused logic in what it does better than any competitor [20], i.e., simultaneously and internal and an external perspective for business, translated into what we may consider to be the four building blocks of firm coherence: (i) human capital and leadership; crucial to promote (ii) capabilities; oriented by an adequate (iii) corporate strategy; that is usually supported on (iv) a sound value proposition. These four building blocks together

contribute to “coherence” within a firm and are crucial to promote its performance. In the end, firms’ performance is the result of how management is capable to provide coherence to the way a firm operates and is able to manage adequately the interactions that establish between these factors (**Figure 1**).

We believe that firm coherence is the consequence of a framework, able to create a transient advantage, whose lighthouse are the strategic targets of the firm and the highest desideratum the customer satisfaction and firm performance. We next provide detail about how we characterize these building blocks on the basis of conceptual discussions.

Leadership and **Human Capital** are keys to support the firm to achieve high performance. Value comes through a focus on human capital, teamwork and other strategic related activities [21]. According to the literature of Strategic Management, human capital can be represented by the human resources or “workforce talent” in a firm, which includes the extent to which the employees have the knowledge, skills, competence, attitudes, values, intellectual agility and motivation needed to do the work effectively and simultaneous to support a firm to achieve its goals [22, 23]. Barney [24] suggests that human capital is grounded in individual talents, training, and experience. What makes this qualified workforce a VRIO resource and an important source of competitive advantage especially those who work in dynamic environments where the ability to integrate, build, and reconfigure internal and external competences is crucial to keep advantage and firm performance over competitors [9, 25]. In a situation of resources scarcity, human capital may be the key to a firm’s ability to compete [26].

Good leaders are valuable human capital as they lead the firm toward the achievement of the corporate goals by applying effective leadership [27]. Leadership is a primary mechanism by which groups resolve coordination and motivation problems [28, 29], enhance performance [30], and the leader or leaders is/are individual(s) who have differential influence within a group over the establishment of goals, logistics of coordination, monitoring of effort, and reward or punishment strategies [31]. A leader can range from passive influence to active motivation of followers [32], and he/she integrity (the correspondence between their words and deeds) and decisions influence firm performance by increasing employee commitment and productivity [33, 34].

Corporate strategy is crucial to promote the creation of added value, maintain or renewing the competitive advantage for the actual and next cycle behavior, and to create shareholder value [35–37]. Strategy as the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and allocation of resources necessary to achieve the goals [38], being concerned with operations of the entire firm which determines the playing field of competitive strategy at the business level [39, 40].

Corporate strategy in nature has two elements [36]: (i) the industry sector and target customer were the firm should be in, and (ii) the management array of products, services or business units. In other words, corporate strategy is

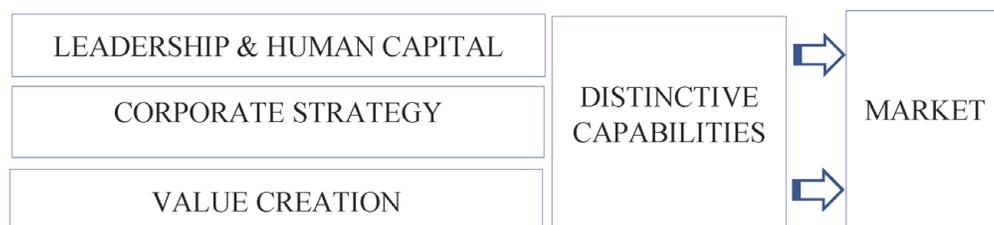


Figure 1.
Framework for firm coherence.

intertwined with value creation and capabilities; it is also what makes the firm whole add up to more than the sum of its parts and the best defense against challengers.

The *Value Creation* is derived from Corporate Strategy and describes how a firm's offer differs from those of its competitors and explains why target customers buy from the firm [41]. Value is created when product or service characteristics and benefits match specific customer needs [26]. A value creation defines the way the firm work by focusing its activities on best solving customer's problem while doing so profitably [42, 43], and when properly constructed and delivered, make a significant contribution to business strategy and firm performance [44]. However, the value creation depends not only on the central role of customer-related factors but also on several interrelated capabilities [20]. In other words, if the firm wants to achieve superior performance must possess the Capabilities (Cap) ability to develop a competitive value proposition, and to convince both the customer and its stakeholders that the firm is committed to the offering.

The critical strategic feature of resources and capabilities is that they represent action potential. Taken together, they represent a firm's capacity to respond to threats and opportunities that may be perceived in the environment, to allow the achievement of firm's goals and the way the firm will exploit as the basis for its strategy [45, 46].

The literature drawing on the resource-based view encompasses various definitions of capabilities. According to Grant [12] capabilities are organizational routines and entail patterns of coordination between people and between people and other resources. Capabilities are developed in the context of organizational resource allocation which is embedded in idiosyncratic structures ([47], p.913), and they represent past experiences and organizational learning [48]. Leiwand and Mainardi [20] mention that *distinctive capabilities* are something the firm does well that customers value and competitors cannot beat, they are the interconnection of people, knowledge, technology, tools, and processes that enable a firm to out execute rivals on some important measure.

Capabilities are the cement that keep resources together and deploys them advantageously [49], they are not observable, are difficult to quantify, and cannot be given a monetary value [14]. They are so deeply embedded in a system that they cannot be traded or imitated [4]. Furthermore, they address complex processes across the firm such as product development, customer relationship, or supply chain management [47]. Thus, they are a source of competitive advantage.

However, for a firm that intends to sustain how much it cans a competitive advantage or to be ready for the next cycle it is vital to deploy VRIO resources through capabilities that match, integrate, create, adjust or modify both in order to be in line with its strategy and value proposition to capture value [11, 45].

Our model departs from the idea of "organizational effectiveness" [5], updated with the approach of "transient advantage" [35] to assess the way "Coherence" affects firms' performance. So, we understand that a coherent firm is structured to take advantage of the social networks and processes' complexity, allowing information to flow as freely as possible, collaboration (working for a common objective) and cooperation (sharing freely) flow both ways, promoting and encouraging coherent actions and affording collaborators the space to make sense of it, and share their experiences and knowledge [50].

A coherent firm build deep, scalable knowledge and expertise in just a few areas and arenas; it aligns and quickly moves its strategy and day-to-day decision making to take advantage of them [20, 35]. It becomes coherent only when its capabilities are deliberately chosen and implemented to support the corporate strategy and value proposition [20].

Coherency creates value in four ways [4]: (i) it contributes to greater effectiveness, because, the firm can focus on their distinctive capabilities and continually improve what truly matters, (ii) it produces efficiencies of scale, because, the firm can deploy the same resources and capabilities across a larger array of products, services or business units; (iii) it focuses strategic investment on what matters, because, the firm will just research and develop projects that enhance its position and make a difference to customers; and (iv) it creates alignment between corporate strategic intent and operations decision making, and because of that, the workforce understand what is important, thereby executing better and faster.

According to our framework the way a firm can achieve corporate coherence is through the relationship among human capital, a real top management team, corporate strategy and capabilities. In fact, a firm's strategy is a journey that needs a continuous knowledge, talent and leadership, where all leaders must accept and own strategy as the heart of their responsibilities [3, 51] and the capabilities are an arsenal that the firm has to play with in the serious game of business [46].

4. Firm coherency survey for onshore or offshore choice

A survey is frequently the best and reliable way to discover and to get information about what people think, want and compare. Which drives us to learn more about something. In case the reader is undecided about the best alternative for your firm, we suggest that you respond to our survey proposal and meditate on the result, perhaps have its usefulness in the decision-making process.

Rate your firm coherency on each statement, using a 1-to-5 scale —strongly disagree (1); disagree (2); neutral (3); agree (4); strongly agree (5). Offer your best guess for any item that you are uncertain about, and make sure to check the “Not Sure/Don't Know” box that corresponds to it. Then, follow the instructions at the end of the survey to estimate which is your best option —onshore or offshore.

Just as any survey or framework involves continuous refinement based on feedback, the firm coherency survey for onshore or offshore choice factors that drive decision makers may shift. Thus, it's important to regularly adjust the survey and correlate it with firm's goals.

So, what your firm choose? Did the five blocks score in the 100 to 125 range? Did the coherency block score in the 20 to 25 range Did the respondent mark three items “Not Sure/Don't Know”? If the answer is an authentic “yes” to these questions, the firm is well positioned to choose and compete by using its coherent framework advantage. But if the answer to one or more of those questions is “no,” then the firm must think and meditate about the score.

5. Research implications

The coherency survey proposed (**Table 2**) interrelates the dimensions of a decision for an Onshore or Offshore business model. It is proposed that a range of coherent organizational factors will facilitate the decision and that the coherency theoretically achieved has consequences for business performance.

A key contribution to the literature is that the coherency survey provides a conceptual basis for understanding coherent dimensions, and also launches the discussion about this important domain. As such the main aims of this conceptual survey should be exploratory: to gain further insight into the research, and to refine and measure the dimensions proposed by the survey.

(i) Leadership	Onshore Score (1 to 5)	Offshore Score (1 to 5)	Not Sure/ Don't Know
Rate the probability, in each of the options, of the senior management team to adapt to the culture of the native workforce.			
Rate the probability, in each of the options, of the mid-range management team to adapt to the native workforce.			
Rate the probability, in each of the options, of meeting locally people with leadership skills and a spirit to act as a team.			
Rate the likelihood, in each of the options, of meeting locally people with leadership skills and the spirit of coaches or mentors.			
Classify the probability, in each of the options, of meeting locally people with leadership skills and development of interpersonal relationship.			
Subtotal			
(ii) Human Capital			
Rate the probability, in each of the options, of finding the right people to execute our strategy.			
Rate the probability, in each of the options, of finding people with great ability to engage with the firm.			
Rate the probability, in each of the options, of access to qualified training programs.			
Classify the probability, in each of the options, of finding people with knowledge and adaptability.			
Classify the probability, in each of the options, of finding people with the same core values we have.			
Subtotal			
(iii) Corporate Strategy			
Classify the probability, in each of the options, of to develop a strategy clear enough about how to create value for customers.			
Classify the probability, in each of the options, of firm's strategy meaningfully differentiated from firm's competitors.			
Classify the probability, in each of the options, of the local people's culture do not support firm's strategy.			
Classify the probability, in each of the options, of the firm's strategy execution creates relatives' advantages over competitors.			
Classify the probability, in each of the options, of the firm's strategy take more markets opportunities.			
Subtotal			

(iv) Value Creation

Classify the probability, in each of the options, of finding a partner(s) that in case our business grows, can supplier scale to our needs?			
Classify the probability, in each of the options, of finding a partner that has quality management processes who ensure consistency of quality and meeting deadlines			
Classify the probability, in each of the options, of finding a partner with the same core values we have.			
Classify the probability, in each of the options, of finding a partner that have experience with a business like ours and understand our needs.			
Classify the probability, in each of the options, of finding a partner that adapt to new technologies that make a higher quality product or save money that is passed onto us.			
Subtotal			

(v) Distinctive capabilities system

Classify the probability, in each of the options, of finding the best practices in the market.			
Classify the probability, in each of the options, of finding the resources we need for our value creation.			
Classify the probability, in each of the options, of developing the capabilities we need for our value creation.			
Classify the probability, in each of the options, of developing the 3 to 6 distinctive capabilities we need for our value creation. This mean, to do 3 to 6 things very well that customers value and competitors can't beat.			
Classify the probability, in each of the options, the firm distinctive capabilities to work together as a system.			
TOTAL (Sum of five blocks subtotals above)			

(vi) Coherency

Classify the probability, in each of the options, of everyone in the firm articulate our distinctive capabilities.			
Classify the probability, in each of the options, the firm's leadership reinforcing these capabilities.			
Classify the probability, in each of the options, that all leadership decisions add coherence to firm.			
Classify the probability, in each of the options, all firm businesses draw on a superior distinctive capabilities system.			
Classify the probability, in each of the options, that most of the products and services the firm's sell fits with the capabilities system.			
TOTAL			

<i>Scoring</i>		
Take the sum of the five subtotals from the building blocks above, then compare with the coherency block and interpret. The interpretation will be accurate only (i) if the participants have a knowledge of the strategic and operational procedural level of the firm; (ii) if they have an adequate knowledge of the level of performance of the firm, both internally and in relation to firm's competitors; (iii) if the participants have a knowledge about the external environment in both scenarios; and (vi) if the answers are sincerely and honest.		
	The building blocks	Coherency
Total score Onshore		
Total score Offshore		

Count how many times you checked the "Not Sure/Don't Know" box, and consult the chart below.	
Number of times checked "Not Sure/Don't Know"	Your onshore or offshore coherency measurement system is:
0 to 3	Good. The respondent has a clear opinion about the firm and the survey could help the decisions makers.
4 to 5	Adequate. There are likely to be some critical holes in respondent's opinion.
6 or more	Poor. The respondent does not have the basic information he/she needs to support the decision makers.

Table 2.
Coherency assessment for onshore or offshore investments.

We suggest that firms that want to start a global activity will be the ideal to test the survey. As coherency is central to this study, a key part will be to secure a sound understanding of what is meant empirically by any dimensions associated with coherency.

6. Managerial implications

The value of the survey to practitioners lies in the potential future findings from empirical research based on organizational coherent decisions. To the extent that business performance outcomes could be affected by the decision of choice between Onshore and Offshore, any findings which reveal the dimensions and coherency relations will be relevant to those managers involved in the organizational design and management of a coherent firm.

More specifically the managerial implications relate to the range of organizational dimensions included in the coherency survey. Thus, our survey provides guidance to those responsible for decide where to be: inshore or offshore. Finally,

the survey's proposal that coherency will positively impact the achievement of firm objectives underlines its key relevance for managers as a critical link to performance outcomes.

7. Limitations and future research

This research has limitations common to a conceptual study, a future study therefore may extend the body of knowledge by empirically testing the survey, which may contribute additional insights to this study.

About methodological issues, there is a clear need to test the survey scales. While coherency and further development of existing scales is a good starting point, particular attention needs to be paid to ensuring that the scales are indeed applicable in a decision context. To this end, in-depth interviews with decision makers should help generate an appropriate pool of survey scales with a high level of content validity. Subsequently, rigorous psychometric analysis should be undertaken to assess the dimensionality, reliability, and validity of the derived scales, using survey data from a large sample of decision makers. It is also particularly important to establish convergent and discriminant validity among the dimensions.

8. Final note

Our intention in this work is to present firm coherence approach that privileges the interconnection and coherence between its building blocks. Our approach is dynamic and can be updated on the basis of feedback, experience from actions and new evidences.

It is evident that globalization has left only one true path to profitability: to base firm's competitive advantage on extraordinary coherency. Any returns/paybacks/profits that, historically, have been associated with superior technology and/or access to others kind of resources and capabilities are now too transient to provide competitive advantage. As transients' advantages become less relevant, managing the firm without coherency becomes not only inadequate but reckless, so, a relevant and practical firm coherent approach that searches for value creation it yields better investments and returns.

We hope that our approach will be the genesis of value-creating for customers, employees and shareholders.

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