Characteristics of SME Outsourcing
A Quantitative Study of Manufacturing SMEs in Småland

Bachelor thesis within Business Administration, Marketing

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We also want to thank each other. It has been a long and exciting journey.

Thank You All
Abstract

In today’s society, the use of outsourcing is a way to compete. The larger firms are the ones that are mentioned in the newspapers when it comes to outsourcing and the small and medium-sized enterprises (SMEs) are forgotten. Nevertheless, the SMEs make up a majority of all businesses according to NUTEK (Verket för Näringslivsutveckling, 2006). A total of 99% of the firms in Sweden today have less than 50 employees. It is therefore important to also see how SMEs outsource. The purpose of this thesis is to investigate and identify characteristics of SME outsourcing. The focus is on Småland, a province in the south of Sweden.

In the 20th century, Småland became famous for its high level of entrepreneurship and low unemployment rate. When it comes to the region of Jönköping, they have the highest share of companies with 5-49 employees. The investigation is a quantitative study in combination with a survey method. A questionnaire was sent out to 173 manufacturing SMEs. The questions were closed questions concerning what kind of functions, why and what the result were by outsourcing these functions. The questionnaire also included questions about how the companies choose partners, contracts and if they have encountered any drawbacks with their decisions.

The result of this study is that there are characteristics of manufacturing SMEs that outsource. SMEs outsource functions mainly because of lack of competence, and not because of cost savings as proposed by theory. Nevertheless, companies experienced certain drawbacks about their outsourcing decision, such as lower quality, increased lead-times and costs. These are all results of loss of control. When it came to choosing a vendor, the relationship was the main reason even though reliability and price is important. When choosing contracts the SMEs also preferred short but not necessarily flexible contracts.
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1 Outsourcing Today

The introduction will present the importance of outsourcing in our contemporary society. It will also outline why it is important to do research in this field regarding SMEs. In a world dominated by large corporations, smaller firms are often overlooked even though they vastly outnumber the previous. Four fields of interest will guide the work towards fulfilling the purpose.

In our contemporary fast-moving business world, companies struggle hard to find ways to differentiate themselves. There is a constant pressure from the environment to improve and maximize efficiency in order to deliver results and to stay competitive in a market.

Outsourcing has become the solution for many companies. Duening & Click (2005) defines outsourcing as the movement of business processes from inside the company to an external provider. Simply put, instead of producing it yourself, you let others do it for you. Outsourcing enables companies to focus on a few key areas in their businesses and let other organizations handle the other activities (McIvor, 2005, Reuvid & Hinks, 2001). Reuvid & Hinks (2001) explains that outsourcing started when companies felt that secondary-level activities started to consume more and more scarce resources, taking time and investment from their core activities. Outsourcing was thus a way to decrease the load and risk of secondary-level activities so that the company could concentrate on their core business.

Other researchers propose that outsourcing was a result of innovation (Quinn, 2000, Corbitt & Al-Qirim, 2004). New technology, changing market demands and shorter product life cycles are some of the factors that have changed dramatically in recent years, and thus outsourcing was derived from this changed environment. There are many similarities between the two theories of how outsourcing was born, but most noticeable the increased focus on core business.

Today, outsourcing is a widely discussed subject in the business world. Most large companies use it, and it seems to be ever increasing. The hype is now about the offshore possibilities; with major markets as China and India catching up with the West, companies see to the East for both market opportunities as well as labor opportunities (Baldo, 2004). However, offshore outsourcing is still in its starting phase with many problems, e.g. human rights, equal wages and safety regulations. According to Forrester Research Inc (Outsourcing Essentials, vol. 2, no.1, 2004) only 60 % of the Fortune 1000 firms have started with offshore outsourcing. The author also said that only 5 % of the Fortune 1000 firms have exploited offshore outsourcing fully.

However, in the discussion of outsourcing, there are often things that are left out. Newspapers and journals frequently write about the large companies that invest in outsourcing and about the new trends in Asia and how cheap labor is over there. What about the facts and stories about the small- and medium-sized enterprises (SMEs) that operate in our society? How do they do? Do they even know what outsourcing is? According to NUTEK (Verket för Näringslivsutveckling, 2006), 99 % of all firms in Sweden have less than 50 employees. Since outsourcing is a vital and widespread component for many large firms, it also is important to see if there is the same belief
1.1 Why it is Important

Even though the majority of literature on outsourcing deals with large companies, the majority of companies are rather small. This is not only a phenomenon that applies to Sweden; even in the United States the majority of companies have less than 100 employees (Gould, 2002). It is therefore also important to see how these SMEs deal with the outsourcing. Is outsourcing really that important and effective as research proposes? If so, are there any drawbacks and limitations that are specific to SMEs? An SME has several limitations: scarce resources, knowledge and size (in terms of employees and turnover). It is likely that SMEs experience outsourcing differently than described in literature, and therefore may have certain characteristics.

The reason why this thesis is based on the province of Småland is that there is a great deal of SMEs in this region (Linder, 2005). Småland also has a long tradition of manufacturing industry (Gullers, 1989) which is also the most commonly researched business in outsourcing literature. Outsourcing is highly relevant for this industry because production and assembly are easily outsourced. Småland is, however, not representative of the rest of Sweden. The study is limited to Småland for several reasons. Firstly, it would take considerable time to conduct an investigation of the entire Sweden. Second, the concentration of SMEs in this area will facilitate the search and reach for SMEs. Finally, the investigation is conducted at Jönköping International Business School, which is located in the heart of Småland. Consequently, this study can be replicated in other areas of Sweden to see if there are regional similarities of differences.

1.2 Finding Areas of Interest

The problem at hand is how SMEs in Småland deal with outsourcing. More narrowly defined, the authors believe that SMEs interpret and use outsourcing differently because of the constraints and environments they face. The reasons and results of outsourcing may vary because of these different circumstances SMEs face, compared to large corporations. Therefore, SMEs may have their own distinct characteristics. As a result, four areas are of interest to investigate:

1. What functions are outsourced?

According to Brown & Wilson (2005), the most common process that is outsourced is IT (Information Technology). This function usually consists of technical support, LAN (Local Area Network) setup and support, internet provision, and professional IT services. Other processes that are also frequently outsourced are manufacturing, assembly, payroll and HR (Human Resources) functions. The list of processes that can be outsourced is endless.

2. Why did the company choose to outsource?

There are many reasons for outsourcing: costs, competence and quality, among others. It is of great interest for the study to see if there are any special reasons for SMEs’ outsourcing decisions.

3. What kind of contract is used with the partner?
Many large companies dedicate employees or even whole departments to handle a certain function of a company. Most certainly, an SME does not have these resources. By knowing what kind of contract an SME uses, it is possible to find out how much effort, time and importance is put into the outsourcing relationship.

4. What are the results of the outsourcing decision?

The most mentioned result is that the company saves money by outsourcing. Is this true for all companies? Do most company even achieve this goal? It is important to investigate if there are any specific drawbacks that are characteristic for SMEs.

1.3 The Purpose of this Thesis

The purpose of this thesis is to investigate and identify characteristics of SME outsourcing. More specifically, SMEs within the manufacturing industry.

1.4 Layout of Thesis

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<tr>
<td>Briefly introduce the subject and the importance of it.</td>
<td>Presentation of relevant theory for later use in analysis.</td>
<td>Step-by-step presentation of research and data collecting process.</td>
<td>Deeper study of the data, relating back to relevant theory and methodology.</td>
<td>Conclusions will be presented, and suggestions for further research will be brought</td>
</tr>
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</table>
2 Frame of Reference

The frame of reference will present the theory that is relevant for this study. Outsourcing will be defined as well as SMEs. The most relevant aspects of the theory available will be presented. The theory will be applied later in the analysis section.

2.1 Outsourcing Defined

According to Nationalencyklopedin (2006), the concept of outsourcing refers to the process of letting subcontractors handle entire or parts of business functions that originally were in-house. Activities that were not handled by the company originally and that were later purchased, is not defined as outsourcing. Very often, outsourcing is called a make-or-buy decision (McIvor, 2005). Companies are often faced with this decision when the choice is between continuing producing something themselves, or to buy it from an external supplier.

The history of outsourcing is not exactly clear, but some researchers trace the concept back to the 1830s in England (Kelly, 2004). Due to England’s highly efficient textile industry at the time, many American firms outsourced their textile production there. However, it was not until the 1970s that outsourcing experienced a surge in popularity, especially in American computer firms. At the time, outsourcing only encompassed payrolls and administrative tasks. It was not until the 1980s and 1990s that outsourcing really increased in popularity, now ranging from payroll and administration to manufacturing and R&D (research and development).

Today, outsourcing is truly a global phenomenon, generating global revenues of $298.5bn in 2003 (Kelly, 2004). Increased globalization has brought with a stronger need to differentiate, fiercer competition and consumers that are more demanding. The creation of more value for customers has become critical for survival.

2.1.1 The Value Creation Process

Many researchers propose that outsourcing is a value creation process (Reuvid & Hinks, 2001, Bates, Kerpezski & Yurt, 2004, Globerman & Vining, 2004). Cost-savings, quality-improvements and cutting lead-time are some of the drivers of outsourcing decisions, but in the end, it all results in creating more value for the customers (Reuvid & Hinks, 2001). Bates et al (2004) motivates outsourcing as a process by describing the relationship between a buyer and a supplier (usually called vendor in an outsourcing relationship). In their research about outsourcing SMEs in Turkey, they point out the fact that outsourcing is not only “company A buying company B’s products and using it in A’s products”. This is a much-simplified form of outsourcing and leaves out many vital parts in the relationship between the buyer and supplier.

More importantly, Bates et al (2004) argue that companies in cooperation with one another create systematic and strategic coordination. A result of this relationship is synergy (simply explained as 1+1>2) benefiting all the players in the supply chain. Quinn (2000) describes four drivers for outsourcing that fits Bates et al’s (2004) process very well:
1. **Demand** – The world demand of goods and services has increased to a point where even the smallest niche has a sufficient market to satisfy.

2. **Supply** – The supply of highly skilled labor has skyrocketed. The emergence of different advanced technologies has minimized risk and lowered costs, which in turn has enabled smaller enterprises to compete more efficiently.

3. **Interaction capabilities** – Different interaction capabilities have increased and are increasingly border-crossing.

4. **New incentives** – Lower tax rates, privatizations and relaxation of trade barriers.

Increased globalization is the main cause for the four drivers described by Quinn (2000). It is thus not enough to outsource a certain function just because “to cut costs” – sometimes it is necessary to consider the larger strategic goals as well. Bates et al (2004) also found that SMEs thought of outsourcing as a smart way to compete with larger firms, who thanks to increased globalization settled down much easier and faster in Turkey.

In any good relationship, it is important that a mutual agreement is set. This does not only include the contract telling prices and quantities, but also a mutual understanding of each party’s strategic goals. This deeper understanding of each other’s businesses also minimizes the risk (Bates et al, 2004, Globerman & Vining, 2004). According to Bates et al (2004), the risk in an outsourcing process is often overlooked. Even though outsourcing is supposed to create more value, it could end up being detrimental to both supplier and vendor. For eagerness to create a good relationship and a flexible and strong contract, many companies do not realize that they give up a great deal of control. Bates et al (2004) observed several risks that the SMEs in Turkey faced: loss of control, lowered quality, longer lead times and increased costs. Seeley, Smith & Lanham (2001) names several risks that are even more serious: copied products, loss of core competence, theft of technology and high exit barriers. Seeley et al’s (2001) risks are often associated with offshore outsourcing (explained more in detail later).

A final finding of Bates et al (2004) is that the contract is often of less importance than the personal relationship between buyer and vendor. A majority of the companies in their study responded that they base their choice of vendor mainly on reliability, and a majority of the SMEs used “open-ended” contracts, i.e. contracts with loosely defined terms and high flexibility. One reason could be that all vendors are located in the local business community. A survey conducted by the Outsourcing Institute in 1998, revealed these top ten factors that decide vendor selection:

1. Commitment to quality       6. Additional value-added capability
2. Price                      7. Cultural match
3. References/reputation      8. Existing relationship
4. Flexible contract terms    9. Location
5. Scope of resources            10. Other

Bates et al (2004) findings are quite in line with the survey results, although it is not mentioned if price was a big factor for the Turkish SMEs.
2.1.2 Different Kinds of Outsourcing

Outsourcing is divided into three categories, depending on the nature and the aim of the decision: tactical, strategic, and transformational. These categories can further be grouped depending on where they are taken place: onshore, nearshore, and offshore.

Tactical outsourcing means that the firm will get a better service for less investment and time spent from a manager's point of view (Wright, 2004). When it comes to tactical outsourcing the business continues to play with the existing rules. Often a firm is experiencing a specific problem and therefore chooses to outsource. The reasons for outsourcing in a tactical way are that it may generate immediate cost savings and eliminate the need for further investments in the near future. Constructing the right contract and being able to make the vendors keep to that contract is the focus for tactical outsourcing. Tactical outsourcing is most common when the task outsourced is relatively simple and of secondary priority in the business (Bates et al, 2004).

When it comes to strategic outsourcing, the company chooses to outsource certain functions so that it can focus on its core business (Wright, 2004, Brown & Wilson, 2005). This is sometimes referred to as “redefining co-operations” since it requires that the relationship between vendor and firm is strong and secure. Strategic outsourcing often creates deep relations between companies, forging strategic partnerships instead of pure “vendor-buyer”-relations (Brown & Wilson, 2005). Companies often search for vendors that are “best-in-class” since they work with fewer vendors than tactical outsourcing. This kind of outsourcing is what Bates et al’s (2004) work is mainly about, and it is in these processes that most value is created.

The last level of outsourcing is the transformational way, and can best be explained by a company totally redefining its business (Wright, 2004). Transformational outsourcing is a quite new phenomenon, born from the increased competition in today’s business world. Transformed companies use new business models and great innovations, in combination with forging deep partnerships with vendors, to reposition themselves completely. This is a very risky endeavour and Outsource Essentials (vol. 1, nr. 5, 2006) describes it as a decision to outsource everything the company does not do well – including core businesses. This is questionable for many strategic reasons, since the core business is usually the most important part of a company. Outsourcing such a vital component would mean that the company exposes itself to the risks described by Seeley et al (2001.)

Since outsourcing is a global phenomenon, companies that outsource can consider the whole world as their vendor. It is not necessary anymore to stay close to one’s own business. Although it is still most common to outsource to a vendor in one’s own country, nearshore and offshore outsourcing is increasing in popularity.

1. Onshore outsourcing

Onshore outsourcing means that the contract will be granted to a company in the same country, i.e. a Swedish company outsources a function to another Swedish company. This is the most common type of outsourcing since it does not entail large risks and it is easy to evaluate and choose your partner (Brown & Wilson, 2005).

2. Nearshore outsourcing

Nearshore outsourcing refers to contracting a company in a nearby country. It is most likely that the countries share borders, such as Sweden-Denmark/Finland/Norway.
Nearshore outsourcing has become more popular in recent years, mainly because of improved relations between neighboring countries and especially the expansion of the EU.

3. Offshore outsourcing

Offshore outsourcing refers to outsourcing a function of a company to a distant country. Popular offshore countries include India, China and Pakistan – India mainly because of its relatively cheap skilled labor, and China and Pakistan because of their low production labor costs. According to Casale (2006), offshore outsourcing is increasing the fastest because of larger markets opening up in Asia and rising competition in the home countries. This is mainly relevant for large firms who compete internationally.

2.1.3 Reasons for Outsourcing

There are several reasons for outsourcing decisions, but they all have on thing in common: the need to create more value. The Outsourcing Institute conducted a survey among its members in 1998, and created a Top-10 list of reasons for outsourcing:

1. Reduce and control operating costs
2. Improve company focus
3. Gain access to world-class capabilities
4. Free internal resources for other purposes
5. Resources are not available internally
6. Accelerate reengineering benefits
7. Function difficult to manage/out of control
8. Make capital funds available
9. Share risks
10. Cash infusion

The top reason of the survey is also the most cited reason for outsourcing (Duening & Click, 2005, Outsourcing Institute Top Ten Survey, 2006, Globerman & Vining, 2004). Cost savings are especially relevant for production companies with standard processes. These processes are easily outsourced in low-cost countries, and there is no need for a large investment. Much of the literature concern production companies because raw materials and production/assembly costs savings can be very high (Seeley et al, 2001). Recent trends show that production outsourcing in offshore locations are increasing the fastest because of the larger markets opening up in Asia, preferably India, Pakistan and China (Baldo, 2004).

Duening & Click (2005) name quality and shorten lead times as two other main reasons for outsourcing (comparable to reasons number 3 and 4 in the survey). These are also very important criteria for production companies since shorter lead times will result in products reaching the market faster and quality is another way to differentiate oneself further (Duening & Click, 2005). However, these two criteria are losing ground in importance since companies started to outsource much “softer” sides of their business. These include specialist services, R&D and product development, which all is much more difficult to measure in terms of quality and time (Duening & Click, 2005).

Brown & Wilson (2005) argue that the need for knowledge and skill is the main reason for outsourcing. Their research shows that companies outsource because they simply do not
know how to do it better themselves. Usually, the in-house skill in the firm does not stand up to the standards for a given function, or the company lacks efficiency in it. Outsourcing this task to a vendor that is specialized will increase efficiency and thus create more value. Globerman & Vining (2004) also argue that this need for knowledge and skill will be the leading reason in the near future. In their research about R&D outsourcing, they have seen that the focus has moved from being cost-controlled to knowledge-controlled.

2.1.4 Results of Outsourcing

A great deal of the outsourcing literature view outsourcing as something that is always positive and advantageous. New ways of doing business, improved IT, and globalization has made outsourcing seem as the answer to most questions. Positive results of outsourcing include cost savings, higher quality, shorter lead times, and the ability to meet increased customer needs by buying in more knowledge and skills (Brown & Wilson, 2005).

However, it is difficult to measure success since that is a very individual experience. In a study conducted by Jiang and Qureshi (2005), they point out that even if there is a growing emphasis concerning outsourcing, it is hard to find any information about its impact on firms. In most of the studies concerning outsourcing and its results, one can only find information about “soft-data”, i.e. personal interpretations. Jiang and Qureshi believe that research literature is too dominated by self-reports and perceptual data and that there is a need for “hard-data”, such as information from audited financial reports. This is confirmed by Bates et al’s (2004) study; a majority of their respondents said they are very happy with the outsourcing decision, although there has not been any formal evaluations of the outcomes. This phenomenon is not exclusive to SMEs. Larsson and Malmqvist (2002) did a study on multinational firms such as Volvo, ABB and SAAB, and even in these corporations, there existed no formal evaluation tools. The reasons for this were that it is difficult to evaluate something that is outsourced, because you have given up the knowledge about it and it is difficult to separate what is an effect of the decision per se, or other changes in the organization (Larsson & Malmqvist, 2002).

Brown & Wilson (2005) points out other drawbacks of outsourcing. The disadvantage of outsourcing certain business areas is that the firm loses the knowledge, skills and information about it, something also mentioned by Bates et al (2004) and Seeley et al (2001). A company may also experience problems if they want to bring the business process back in-house. Duening & Click (2004) says that a common underlying reason for most of these disadvantages is the failure to plan and formulate good agreements between vendor and purchaser, something that Bates et al’s (2004) discussion relates to.

2.2 Small- and Medium-Sized Enterprises (SMEs)

An SME is according to official EU-standards a company that has between 10 and 249 employees. In terms of turnover the limit is between 7 million euros and 40 million euros (approximately 65,5m and 375m SEK, FOREX 2006-03-08) (see table 1). These are definitions set by the EU, but most countries have their own definitions as well. However, it is important to note that definitions always should be viewed on arbitrarily, since there are companies that can be very successful (e.g. high turnover, high profits) but still remain small in terms of employees (Wiklund, 1997). Vice versa, there are companies that have
many employees but have a small turnover. For the investigation at hand, it has been decided that it is not necessary to alter the definitions. Therefore, the EU definitions will be used when selecting a sample.

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Max. number of employees</td>
<td>9</td>
<td>49</td>
<td>249</td>
</tr>
<tr>
<td>Max. annual turnover</td>
<td>-</td>
<td>7 million euros</td>
<td>40 million euros</td>
</tr>
<tr>
<td>Max. annual balance sheet total</td>
<td>-</td>
<td>5 million euros</td>
<td>27 million euros</td>
</tr>
<tr>
<td>Max. % owned by one, or jointly by several, enterprise(s) not satisfying the same criteria</td>
<td>-</td>
<td>25%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Table 1 - Official EU SME definitions adapted from Corbitt & Al-Qirim, 2004

2.2.1 Does Size Matter?

There is a common misconception that SMEs are not as important as larger companies are (Carter & Jones-Evans, 2000). The reason may be that the larger companies (249+ employees) are more visible than the smaller ones. They conduct business internationally, employ thousands of people, and their turnovers are astronomical compared to SMEs. Despite the size of large corporations, they are not that many. Approximately 99% of all companies in Sweden have less than 50 employees (Linder, 2005, NUTEK, 2006). Even though large companies account for the larger shares of Swedish export and import (90% and 75% respectively), SMEs still employ 1/3 of the total workforce. The European Commission even said, “SMEs [in Europe] play a decisive role in job creation and exports and act as a factor of social stability and economic drive…” (Hibbert, 2000, p.1). In the 1970s, when a severe oil crisis hit the world economy, research found that SMEs managed to be much more flexible than large companies were in times of crisis.

There are more differences between a large firm and an SME besides sheer size. Carter & Jones-Evans (2000) and NUTEK (2005) list three characteristics that are in common for an SME: independence, limited resources, and limited knowledge. These characteristics are closely related to each other, but the main distinct feature is the independence factor.

An SME is always independent and it implies that the company is not a subsidiary of a larger company (NUTEK, 2005). If there is a parent company present, the SME will most likely have access to the parent’s resources and knowledge (Carter & Jones-Evans, 2000). It lies in any parent’s wish to keep its subsidiaries alive and healthy. According to Carter & Jones-Evans (2000), there are other reasons behind the limited resources and limited knowledge of SMEs. Resources are limited because many SMEs simply do not have the same economies of scale as larger companies. SMEs purchase much smaller quantities, leading to worse terms from suppliers, and therefore resulting in increasing the costs of production.

As for the limited knowledge, it is almost the same reasons as for the previous. Skilled and highly educated labor is more difficult for SMEs to acquire, since wages are usually higher in larger firms. Quite often, it is not necessary to hire a skilled person for a high-skilled job if it is only for a short period of time (Howells, 1997). A large firm may choose to acquire this skill because it will see it more as an investment and the future ability to distribute this
knowledge to subsidiaries as well. Very often, employees in SMEs take on several roles (Howells, 1997), such as a CEO that also takes care of the marketing or production. One interesting finding from Linder (2005) shows that SME-leaders generally have a lower level of education than large firm leaders have. Carter & Jones-Evans (2000) also discusses this topic, and suggest that a leader’s qualifications may have a pervasive effect in a small company. However, there are other studies that say the education level of the leader is only comparable when comparing between single-person companies and the level of technology they use (Carter & Jones-Evans, 2000).

2.2.2 Manufacturing SMEs

During the last twenty years, the competitiveness of manufacturing firm has increased. The amount of world-class manufacturing firms have increased, nevertheless the focus still remains on the large firms. World-class is defined as “a company that reaches a certain standard of both practice and performance, equalling or surpassing the very best of its international competitors in every area of its business.” (Voss, Blackmon, Cagliano, Hanson and Wilson, 1998, p. 2). In larger parts of Europe, SMEs are the ones that employ people and produce most manufacturing output. As mentioned before already, SMEs play a vital role in Europe’s economy.

In 1998, Voss et al studied a sample of 297 small manufacturing sites in Italy, the UK and some Northern countries (which also included Sweden and Denmark). About half of the sample (47%) said that they exported their products to other countries. The same amount of respondents said that they also do part of the manufacture themselves, and that the rest is done at other sites of the company or by customers, outsourcing and suppliers. The majority of SMEs answered that they were highly competitive. Most of these companies claimed that they competed in quality and delivery aspects, but not so much in price (Voss et al., 1998).

Voss et al’s (1998) study showed that these SMEs are more customer oriented compared to larger firms. Larger firms were considered more distant from customers and lacked a good relationship with them. Many SMEs claimed that their strong side is responsiveness. If a customer needed a smaller than usual batch size, an SME would somehow work that out, while a large company most likely would skip that order. Voss et al (1998) found that SMEs’ lack of knowledge and resources was a reason for neglecting recruiting, education and training. While many large companies spend a great deal of time and money on these aspects, SMEs tend to ignore it all together. This finding is in line with Linder’s (2005) proposal that leaders of SMEs usually have a lower level of education, which may have a pervasive effect in the company. This neglect can lead to employees lacking motivation and unwillingness to be involved in the process of development of the company. The overall pattern of SMEs is that they compete with larger firms concerning speed and responsiveness, features that large firms quite often lack (Voss et al., 1998).

2.3 Overlaps between Outsourcing and SMEs

A few findings are highly relevant for the investigation at hand. After scrutinizing the outsourcing and SME literature, several overlaps between the two have been discovered. There are some points that may be of further interest:
The large part of SMEs has a vendor that is in the local business community. When choosing a vendor, reliability is preferred over cost savings. This is because responsiveness and flexibility is increased if the vendor is close to one’s own business.

The SMEs that deal with outsourcing do it to gain competitive advantage – their vendor usually has specialist knowledge or skills. This is one way of creating more value, something that is shown from the increasing number of “world-class” SMEs. The focus today is more on skills and competence than pure costs.

Many companies use “open-ended” short outsourcing contracts, i.e. short time-horizons and high flexibility. This increases the reliability and flexibility of the SME, in combination with having a vendor close by.

Since SMEs lack resources to undertake large investments, outsourcing may be a way for them to compete with larger firms. Since globalization is spreading fast, large firms may quickly erase SME market share unless the SMEs come up with ways to compete efficiently.

The most common outsourced function is IT – this function exists in any business, and is very important. It is part of all business operations, yet it is too advanced even for large firms, to manage themselves.

Based on these overlaps, four hypotheses have been formulated:

_Hypothesis 1: SMEs in Småland outsource IT the most._

IT is not limited to one type of business; it is the common denominator for all businesses, whether large or small. Still, it is a very advanced function and many companies do not have their own IT staff.

_Hypothesis 2: The reasons for outsourcing are skill and costs_

The main reasons for SMEs to outsource are skill and costs. This is because SMEs have both limited knowledge and resources.

_Hypothesis 3: SMEs prefer short and flexible contracts._

Short and flexible contracts are most preferred by SMEs because they are also the ones that take the least effort to maintain. Because of limited resources, a short contract will enable the SME to make use of its contract only when it is needed. This may be the result of SMEs developing stronger relationships with their vendors.
Hypothesis 4: Many companies experience a loss of control when they engage in outsourcing.

This is a main drawback of outsourcing that many companies experience. Even though the general response may be, “We are happy with the outsourcing decision”, most companies may not have fully evaluated the results of their decision. The loss of control may cost more than the company believes it does.
3 Methodology

The methodology chapter is divided into two parts. Part one deals with the theory behind methods, and a motivation will be made for the chosen quantitative method. The process, validity and reliability of the method will be shortly discussed as well. Part two deals with the actual process. A step-by-step description will be made so that the reader can easily follow the procedures. The questions for the survey have been motivated with a short discussion that refers back to the frame of reference and introduction chapter.

3.1 Theory

3.1.1 Quantitative and Qualitative Approaches

The difference between a quantitative study and a qualitative study depends on how information is gathered, and how to use and analyze it. A quantitative study aims at measuring the extent to which something is present. A qualitative study, on the other hand, aims to identify the presence or absence of a special phenomenon (Kirk & Miller, 1986).

When a quantitative study is conducted, the focus is more on statistical methods in contrast to qualitative studies where verbal analyzing methods are used. When the problem is to understand people and answer questions about underlying patterns, a qualitative method is preferred (Patel & Davidsson, 1994). Through discussions and interviews, the researcher can gain a great deal of in-depth information. The drawback is of course that it is very time-consuming and expensive to apply such methods. Conversely, a quantitative method enables the researcher to gather a great deal of information, although not as deep and extensive as with a qualitative method.

The reason for choosing a quantitative method is connected to the hypotheses and the purpose. Since the authors wish to investigate how SMEs in Småland deal with outsourcing by testing the hypotheses, the optimum way would be to ask as many SMEs as possible. A quantitative study will allow the researcher to analyze a sample that can later be used to draw inferences of the population (Aczel & Sounderpandian, 2002). Because it is impossible to analyze all SMEs in Småland, a quantitative study can let the sample represent the population. A qualitative method, which is very difficult to generalize in the same way, would imply an interview with every company in Småland. This would be both time-consuming and unnecessary. With a quantitative method, information is gathered much easier, faster, and cost-efficient. It is also easier to present the data in such a way that it will give a good overview, instead of reading in-depth interviews and “stories” from interviewees.

3.1.2 The Deductive Approach

There are two approaches when doing research: inductive and deductive. To keep it simple, the difference between them is that the deductive approach has a theory that leads to observations/findings, while the inductive is the opposite. With the inductive approach, one starts with findings/observations, and then applies these on theory (Bryman & Bell, 2003).
The chosen approach for this investigation is the deductive approach, which is also the most common one. This means that one starts out with a theory. A hypothesis is derived from the theory that will guide the work. After the hypothesis has been formulated, a research design should be chosen. For this investigation, a survey will serve the purpose of acquiring the data needed.

The empirical information can be acquired through either interviews or surveys (or both). It is important that the sample fits the research, and that the respondents will be able to give satisfying answers. After collecting the data, the analysis will take part. In the analysis, the hypothesis will be accepted/rejected. The concluding steps are to find conclusions and to be able to find other areas that can be worth studying within the same subject (Bryman & Bell, 2003). The last step of the process is a revision of theory, which involves induction. This means that the findings are fed back into the theory.

![Figure 2 - The Deductive Approach](image)

### 3.1.3 Reliability

Bryman and Bell (2003) define reliability as the degree to which a measure of a concept is stable. Furthermore, Kirk and Miller (1986) write that reliability is the extent to how often the same result appears when carrying out the same research several times.

An important aspect of reliability is whether the study is stable. For a study to be stable it is required that it is constant over time, which means that the measurement of the respondents will not fluctuate if the study is conducted again after some time (Bryman & Bell, 2003). Stability in the case of this investigation would imply that the answers received from the respondents would not change, even if the study was done again at a later time. However, since the data is from active companies, it is impossible to assume that they will never change. All the companies will continue to increase/decrease their number of employees and increase/decrease their turnovers etc. The reliability will also be questionable if the research is done again but with another sort of approach. Since a quantitative approach was used, this only gives a momentary picture of the current situation of the respondents. It is very difficult to see what their plans are for the future.

Internal reliability is another important part of the reliability of a study. The most important issue here is if the respondents’ answer on one indicator tends to have any relationship with answers on another indicator. This is an important issue to deal with so
that the indicators that make up the scale are consistent in order not to lose coherence (Bryman & Bell, 2003). In order to sustain internal reliability, the questions treat the subject of outsourcing only, in order to receive answers that are of interest for this particular study.

A third factor that is involved in the reliability of a study is inter-observer consistency. This is a problem if more than one observer is present when data is to be translated into categories or observations is to be recorded. It is a risk of inconsistency in the judgement of the observers (Bryman & Bell, 2003). One way to avoid this is to use closed questions, because it only enables straight answers that can be interpreted in only one way.

The largest problem to the reliability of this investigation is the response rate. If the response rate is too low it will be difficult to generalize the data collected about the outsourcing behaviour of SMEs in the Småland region. It may also become quite difficult to see any visible patterns or trends among the respondents.

### 3.1.4 Validity

According to Bryman and Bell (2003) validity has to do with if a measure of a concept really measures what it is supposed to. The first thing for a researcher to do is to establish face validity. This means that the research should reflect the subject in question. A good way to do this is to let experienced people within the field see the study. To confirm the validity of the research method, there has therefore been regular meetings with tutors. They also confirmed that the questionnaire constructed would produce relevant information. The tutors also provided feedback to further broaden the investigation.

Concurrent validity is an attempt to investigate whether some factors depends on others (Bryman & Bell, 2003). For this investigation, a function of concurrent validity could be to investigate if the extent of outsourcing is dependent on satisfaction with the outcome of outsourced functions. If these two measures have nothing to do with each other, then it can be assumed that the degree of outsourcing has to do with other factors than satisfaction of the outsourced function.

The last type of validity is convergent validity where something is required to be measured by comparing it to other measures of the same concept derived from other methods. As an example, if a survey is conducted, its validity can be increased by testing if the answers are correct, by investigating if companies actually do as they answered in the survey (Bryman & Bell, 2003). This validity is probably the most important one in this thesis. After the analysis, a select number of representatives of the SME companies will review the assumptions. This will ensure that the assumptions are correct and based on experience and theory.
3.2 The Procedures

3.2.1 Småland

Småland is a province in southern Sweden. Covering 31,760 square kilometres, it is one of the largest provinces in Sweden. About 750,000 people live in Småland and the three largest cities are Jönköping, Växjö and Kalmar. Småland is divided into three counties: Jönköping, Kronoberg and Kalmar. The three biggest cities are the capitals for each of these counties. However, most of the inhabitants of Småland live in smaller cities or villages. The characteristics of the nature of the province are the endless forests and the many lakes (about 5,000). The main industries of Småland are wood, metal, and glass. (History of Småland, 2006)

Due to the nature of Småland, the main industries have historically been the wood industry and the iron industry. The iron industry dates back to the Vikings, who were the ones that started to produce iron, which was found in the lakes. Later, in the 19th century, the wood and the glass industry took over, and became the main industries of Småland. The wood industry in Småland is very important for the Swedish economy. When the industrialization began, many people in Småland started their own factories. This was especially common in the area around a small village called Gnosjö, which is located in Jönköping county. Today, this phenomenon is called the “Gnosjö spirit”. There are more than 220 SMEs in the municipality of Gnosjö, which only has about 10,000 inhabitants (History of Småland, 2006).

In the 20th century, Småland has become famous for its high level of entrepreneurship and low unemployment rate, and this especially in the Gnosjö region. It is very probable that the spirit in Gnosjö has affected the entire province of Småland when it comes to the entrepreneurial spirit of the region. It has been suggested that Småland’s people have such inventive and co-operative behaviour because of the historically harsh conditions in this area (Småland, 2006).

According to Linder (2005) the Jönköping region also has the lowest share of companies with 0-4 employees in Sweden. This group of companies makes up 86.1% of all companies in Sweden. On the other hand, the Jönköping region has the highest share of companies with 5-19 (10.3%) and 20-49 (2.4%) employees. The average percentage for the rest of Sweden is 7.3% and 1.5% respectively.

3.2.2 Choosing the Sample

When it came to collecting the empirical data, a website called AffärsData was used (http://www.ad.se). AffärsData is a comprehensive database with listings of Swedish firms. On the website, one can obtain public financial information such as balance sheets, business ratios and ratings, but also addresses and general business information of all the listed companies. With the help of AffärsData, one can even find information about the structure of the companies, board members and public notices.

For this study, a list of companies was extracted. By inputting different values into AffärsData, one can sort out companies that do not fit into the desired sample (see table 2 for the selected criteria). Therefore, most of the information on AffärsData was not necessary.

<p>| Employees: 10 – 249 |</p>
<table>
<thead>
<tr>
<th>Turnover: 0 – 400 mSEK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry: Manufacturing</td>
</tr>
<tr>
<td>Only active companies (i.e. currently operating)</td>
</tr>
<tr>
<td>The firm must be situated in the province of Småland</td>
</tr>
<tr>
<td>Have a <strong>phone number</strong> so that they can be reached</td>
</tr>
</tbody>
</table>

Table 2 - Criteria for selected sample

The criteria were based on the theory. The number of employees and turnover are the EU standards of an SME. The companies chosen were solely manufacturing firms because this is what outsourcing literature mainly deals with. If other business sectors were included as well, the responses would be too heterogeneous since there is absolutely no relation between the different businesses. It would then become much more difficult to analyze such data.

The company search yielded 566 firms that were appropriate. However, it was later discovered that a large number of these firms were subsidiary companies, which were not part of the description of an SME (see section 2.2.1). After removing these companies, the final sample list ended at 248 companies.

### 3.3 Descriptive Statistics

The word statistics originally meant the collection of facts that is useful for a person who is interested in something’s state. This way of looking at statistics was developed in the 16th century, but today the meaning of the word has changed. Now, it is simply used to describe pretty much anything in our surroundings. Statistical activities involve data collecting, summarizing, attempts to show the information in meaningful ways, and analyze it. It is very common that statistical analysis involves attempts to generalize the data collected. Descriptive statistics can be defined as quantities that are calculated from the data collected, which means that it is a form of generalization (Aczel & Sounderpandian, 2002).

A tool that can be used in order to analyze collected data is SPSS. SPSS is a piece of computer software that helps calculating and compiling the collected data in various ways in order to make some sense of all information (www.SPSS.com). With SPSS the observer gets a clear overview of the data and the program can even create charts, correlations and cross-tabs.

### 3.4 The Survey Method

According to Sterne & Priore (2000), the response rates for an email survey is between 5 and 15%. With a pessimistic assumption that only 5% of the sample will answer, then this survey will end up with only 12 respondents. To increase the response rate, Sterne & Priore (2000) suggest that it is important to show that the survey is legitimate, honest and confidential. People also have limited time to answer large and complex surveys, so keeping it short and simple to understand should help increase the response rate. In order to show them commitment and honesty, all companies were called in advance so the cause of the report could be presented. Hopefully, this method will increase the response rate.

The main reason for sending out a questionnaire instead of conducting face-to-face interviews is that there are too many companies to interview personally. The activity of
sending out an email questionnaire is also less time consuming. It is also considerably more cost effective compared to an interview. Another positive aspect of using a questionnaire is that it gives the respondent more time to think and reflect over the questions, which leads to more accurate answers (Groves et al. 2004).

There are some disadvantages by using the survey method as well. Other than the response rate turns being very low, it is also possible that some aspects will be missed out. These aspects could be immediately covered after discovery with an interview method, something that was already discussed in the validity section. Another disadvantage is that the respondent will not be able to explain his/her answer as accurate and much as he/she could have done in an interview. Also, if the respondent do not understand the question, there is no interviewer around to explain it (Groves et al. 2004). In order to avoid such problems, the questionnaire was written in Swedish, in simple and easy language. External people have also read the questions before they were sent out, in order to make sure that they were very clear and easy to understand.

Furthermore, closed questions were used as much as possible. Closed questions are questions where the respondents cannot write an answer of their own, but instead have to answer according to a scale or select predefined alternatives. Open questions are questions in which the respondents have to give an answer in their own words. This type of questions are usually more time demanding, and it is also more difficult to analyze the answers since they may not be clear and there are so many of them (Groves et al, 2004).

Of course, the answers of the respondents are completely confidential. This is to ensure the respondent full anonymity (Bryman & Bell, 2003). When presenting the data further in the process, no names of either company or person will be visible.

### 3.4.1 Constructing the Questionnaire

For this research, the decision was to use a questionnaire in order to acquire the data required. As argued before, interviews would be too costly and time-consuming for the purpose, and that much information is not necessary. The questionnaire can be viewed in its final form in appendix C. The alternatives that could be selected in the questions were all chosen from relevant theory. These are the motivations for the questions:

**Questionnaire**

4a, 5a, 6a, 7a, 8a, 9a – Different functions that are outsourced

These questions relate to the first hypothesis. These are the functions, which according to Brown and Wilson (2005), are most commonly outsourced. They are human resources, production, logistics, consulting services (specialist services), accounting services, and administrative tasks (back office tasks). If the respondents answer *yes* on any of these questions, the following questions has to be answered as well (otherwise skipped).

4b – 9b - *Why did you choose to outsource this function?*

Also relating back to one of the hypotheses, the b-questions bring up the reasons for outsourcing. The options used are *cost, knowledge, quality, reduced lead-time, and other* (this one the respondent could fill in by himself/herself). The four options are the most common ones for outsourcing (Brown & Wilson, 2005, *Outsourcing Institute*, 1998, Duening & Click, 2005). The respondents were asked to rank these options, from 1 (most important) to 5
This question will test the last hypothesis. Here, four alternatives were provided for the respondents: Everything is very good, all went according as planned (goals were achieved) | Everything is good, but did not go according as planned (not all goals achieved) | It is the same as before, nothing has changed | Not good, we are not satisfied with our decision. According to Brown & Wilson (2005), the most common result of outsourcing is that it is good for the company, but many have trouble with the process and the planning. This is also a good base for testing Jiang & Qureshi’s (2005) argument that SMEs do not really know their results of the decision.

This question will confirm if SMEs use short contracts the most, and see where their vendors are. According to Bates et al (2004) and Duening & Click (2004), mutual understanding, mutual goals, and a good contract characterize a healthy relationship between companies. These relationships are often long, i.e. they are not re-negotiated very often. Other sorts of relationships are short contracts (re-negotiate more often) and spot-basis (contact and negotiate only when needed). The question regarding the location of the partner(s) is to test if there is any validity to the claim that offshore outsourcing is increasing in popularity (as suggested by Casale, 2006). The options for this question were in Småland, in Sweden (excl. Småland), in Europe (excl. Sweden), outside of Europe.

10. What are the most important reasons when the firm chooses a supplier?

According to Duening and Click (2005), “softer” issues such as flexibility of contracts, matching company culture, the closeness of vendor, reliability and reputation can be more important for some companies than just price alone. This question will show what is most important for the sample group chosen.

11. Have you ever experienced any problems concerning outsourcing?

Wright (2004), Duening and Click (2004) and Jiang and Qureshi (2005) mention several issues with outsourcing. The most common were less control, lower quality, increased costs, increased lead-time, and organizational conflicts. These five were the options to choose between in order to investigate whether any companies of the sample have experienced such difficulties.

3.4.2 Calling the Companies and Sending out the Questionnaires

Now that the company list and the questionnaire are finished, it was time to send it out. In order to increase the response rate, Sterne & Priore’s (2000) advice has been followed:

1. Call the companies and ask them for their permission to send them the questionnaire – if they approve, collect their email addresses.

2. Send the questionnaire to the email addresses gathered.

3. After a few days of waiting, send out another email to thank the responses received, but also a small reminder to companies that have not yet answered.
When calling the companies, many numbers on the list from AffärsData were inaccurate and out of order. Some of the numbers also reached wrong companies that did not belong to the desired sample. From an original 248 companies on the list, 221 belonged to the desired sample. Out of these 221 companies, 173 were willing to help with the questionnaire. After acquiring their email addresses and sending out 173 emails from a Gmail-account (that was created specifically for this purpose) there came in only 46 responses. This number includes the responses after the reminders. It remains a mystery why so many companies were helpful through telephone, but still did not take time to answer the questionnaire.

![Pie chart showing 175 respondents (79%) and 46 non-respondents (21%)](image)

Figure 3 - Respondents of total sample 221

### 3.4.3 Data Analysis

For the analysis, SPSS (v. 11) will be used. Firstly, all the responses from the questionnaire can be directly put into SPSS. By doing this, a clear overview of the respondents answers can be achieved, instead of just reading the responses and interpret it loosely afterwards. Secondly, with SPSS it is possible to compute frequency tables and cross-tabs to link different variables together. This will save a great deal of manual work, since SPSS will also create charts, histogram and diagrams.

### 3.4.4 Increasing Validity and Reliability

After conducting the analysis, one way of increasing the validity and reliability of the study is to let experienced people verify the assumptions that have been taken (Bryman & Bell, 2005, Groves et al, 2004). The questions asked were based on the assumptions that were made in the analysis (see appendix D). The interviewed people were:

*Mr. Black* - Entrepreneur and CEO of a manufacturing SME.

  Founded own company and is still running today.

*Mr. White* - Personnel and production manager of a manufacturing SME.

  Has worked in various manufacturing companies for 30 years.
Mr. Pink - Production manager of a manufacturing SME.

Has 15 years of experience in manufacturing industry.

Mr. Yellow – Works in an SME in southern Sweden.

7 years of production and assembly experience in SME company.

Mr. Purple – Works in an SME in southern Sweden.

8 years of production and assembly experience in SME company.
4 Analysis of Data

For the analysis, the authors have put all respondents’ answers into SPSS. After doing that, SPSS can be used to create tables, pie charts and bar charts to present the information more clearly. The hypotheses will then be tested with the help of the findings. Of course, the authors will present own conclusions in order not to rely on the theory alone. In the end, SME representatives will help confirm/reject the assumptions taken to strengthen the validity of the thesis.

4.1 Testing the Hypotheses

4.1.1 Forewords

When the respondents answered the questionnaire, it seems there were some misunderstandings. This is one of the drawbacks about a survey method; there is nobody around to answer the questions and explain (as mentioned in the methodology section). For the questions where the respondents were to rank the options, most of them just ticked or wrote an X to the options that applied. Only a handful or respondents understood the ranking system. This resulted in a different approach of analyzing the data. Instead of ranking the variables, the three most important criteria were selected and inputted into the datasheet. For some of the respondents who have chosen only one, two or four criteria, the corresponding number was registered. The reason to choose three criteria was that it was the most common way the respondents have answered. Additionally, it is still enough criteria to give a clear overview of the variables that were most important.

4.1.2 IT Outsourcing

According to most researchers, the IT function is the most commonly outsourced function (Brown & Wilson, 2005, Duening & Click, 2004). However, from an SME perspective, every function that requires special skills and knowledge may potentially be outsourced. Since knowledge is low in SMEs, the need to outsource these functions may be relevant for them as well. To try this assumption, it was decided that IT be included in “Consulting Services” among other tasks such as marketing, reparations and electrical services. All of these are common processes that usually require specialist knowledge, and fall outside the SME’s core business. Table 3 shows that consulting services is indeed the most outsourced function for all respondents.
Table 3 - Summary of functions outsourced

<table>
<thead>
<tr>
<th>Human Resources</th>
<th>Yes</th>
<th>No</th>
<th>Sum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>26</td>
<td>20</td>
<td>46</td>
</tr>
<tr>
<td>Logistics</td>
<td>10</td>
<td>36</td>
<td>46</td>
</tr>
<tr>
<td>Consulting services</td>
<td>28</td>
<td>18</td>
<td>46</td>
</tr>
<tr>
<td>Accounting Services</td>
<td>7</td>
<td>39</td>
<td>46</td>
</tr>
<tr>
<td>Administrative tasks</td>
<td>0</td>
<td>46</td>
<td>46</td>
</tr>
</tbody>
</table>

The second most outsourced function is production. This is not surprising since the majority of companies state this as their core business. However, it cannot be assumed that this mean that they all outsource their core competence, but instead the outsourcing decision involves more routine work or different steps of a process.

As for the other functions – HR, logistics, accounting services and administrative tasks – there is no clear evidence of why they are relatively less outsourced than production and consulting services. If referring back to the assumption that consulting services is more outsourced than production because it is outside a company’s core business, then these functions also fulfil this criterion. There are, however, other assumptions that fit these functions well.

Human resources was defined in the questionnaire as “staffing, recruiting and further education”. These tasks are inherently not considered day-to-day-activities in a company unless there is an abnormal employee turnover. This may further be complicated by the fact that employees in SMEs often have several roles (Howell, 1997). Therefore, it is probably the case that the respondents do not outsource this function because they do not consider this a very important function. This could also be the result of the neglect of recruiting, education and training that Voss et al (1997) and Linder (2005) found was very characteristic of SMEs.

Logistics is one of the functions in a company that is important in its day-to-day activities. Defined in the questionnaire as “warehousing and shipping”, one can assume that even though it is not part of a company’s core business, it is not such a difficult task that it requires special skills and knowledge. More importantly, the size of the respondents have not required that logistics be outsourced. An SME that owns its own fleet of trucks seems highly implausible; shipping is most commonly a service that is bought in from shipping agents. Warehousing is another factor that is determined by mainly size, but also business area of the company. A small company does not need a large warehouse, let alone a vendor who needs to be in charge of this function alone. Usually, all employees or a few people tend to the warehouse. Like in the human resources case, these employees may take on several roles.

Accounting has in the questionnaire been defined as “current recording of records”. This might have resulted in few respondents answering, since it leaves out all other tasks that are connect to accounting services. However, many SMEs have a separate accounting function that also deals with finance and calculations of production, and therefore it is not necessary to outsource this since it would mean they lose control of that competence as well.

Administrative work, defined as “sales tasks and customer handling”, was one function that
no respondent outsourced. Clearly, these tasks are only relevant for larger companies as discussed by Brown and Wilson (2005). There is no need to outsource such functions since they do not require that much time and effort in an SME as opposed to large companies. One important reason why these tasks have been kept in-house, is perhaps the stronger relationships that SMEs have with their customers and suppliers (Bates et al, 2004, Voss et al, 1997). Outsourcing these particular tasks may worsen these relationships, which can be considered as competitive advantages (Voss et al, 1997).

4.1.3 The Main Reasons

A large deal of the literature state that outsourcing is a decision based on cost-savings (Brown & Wilson, 2005, Duening & Click, 2004, Globerman & Vining, 2004). For an SME, costs are important since they lack resources, but it is not a determinant factor for being successful (Voss et al, 1998). Voss et al (1998) found that speed and responsiveness were more important for an SME to be able to compete with larger firms. Table 4 shows that for all functions except production, the main reason for outsourcing was special competence (note: the numbers do not add up because respondents could choose several options). This is strongly in favour of the ideas put forward by Linder (2005) and Voss et al (1998) that SMEs lack knowledge, therefore creating a higher need to outsource the functions that they do not have the ability to be efficient in. The fact that production was outsourced mainly for cost reasons further strengthens that belief, since production is part of the core competence of the respondents, and thus do not require as much competence and skill to be outsourced.

Several of the respondents have written down a short description of their reasons, especially when they have marked other reasons:

“Too small production” – company Prodapples

A company in the production group wrote this. There was no further description, so one can assume that they lacked the resources or/and scales of economy to be able to produce a certain product. Carter & Jones-Evans (2000) mentioned that scales of economy sometimes are more difficult for an SME to achieve because of small productions.

“We don’t have the required machines” – company Prodbananas

Company Prodbananas talks about a well-known fact about SMEs, the lack of resources. This is one main characteristic mentioned by NUTEK (2005) and Carter & Jones-Evans (2000).

“Because the customer wanted it” – company Humancucumbers

This one was quite difficult to analyze. Since there was no additional information provided, one can only assume that it was part of a decision between the buyer and seller. At least, this shows that the company was very responsive towards its customer. A following assumption may be that this responsiveness is a result of a very good and close relationship between the buyer and seller. As Bates et al (2004) proposed relationships are far more important for SMEs than formal contracts.

Here are a few other reasons:

“In times of fast-growth situations” – company Manumangos
“Improve flexibility” – company Proddurian

“To handle overflow situations” – company Prodorange

<table>
<thead>
<tr>
<th></th>
<th>Cut cost</th>
<th>Special Competence</th>
<th>Quality</th>
<th>Cut lead times</th>
<th>Other reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources</td>
<td></td>
<td>2</td>
<td>10</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Production</td>
<td></td>
<td>18</td>
<td>16</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Logistics</td>
<td></td>
<td>9</td>
<td>10</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Consulting Services</td>
<td></td>
<td>12</td>
<td>28</td>
<td>17</td>
<td>7</td>
</tr>
<tr>
<td>Accounting Services</td>
<td></td>
<td>2</td>
<td>7</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Administrative Tasks</td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Table 4 - Main reasons for outsourcing

4.1.3.1 Reject or Accept Hypotheses 1 and 2

Hypothesis 1: SMEs in Småland outsource IT the most

Hypothesis 2: The reasons for outsourcing are skill and costs

The two hypotheses were formulated separately, but after analyzing the data and scouring through the theory, it was found that they are much more intertwined than was previously believed. Indeed, IT belonged to the most outsourced group of functions, but the outsourcing of production was not far away. A larger sample may have altered the findings, but it is too difficult to assume in what direction. The assumption was that IT is outsourced the most because this is a common denominator for all companies, small or large, something that is also confirmed by our interviewees Mr. Purple and Mr. Yellow. Later in the analysis, it was decided that IT should be grouped together with other functions - marketing, electrical services and reparations - into a broader group named consulting services. These functions have one thing in common: they are not very close to the core business of the SMEs that were part in the survey. Therefore, in the analysis, it was found that the relationship lie in the reasons behind the decision instead of the previous denominator (that IT exists in both large and small companies). The findings for hypothesis 2 points this out: the lack of knowledge and resources in SMEs leads to functions not close to the core business to be more outsourced.

The costs for the company to have special competence in-house have also been confirmed
to be a reason for outsourcing the consulting service. Mr. White said that one of the reasons for not keeping a service in-house is that it is not used on a regular basis. He also said that the lack of resources is also something that is a problem for SMEs since the benefits are not high enough and the companies are not willing to tie up their capital.

The respondents mostly outsource tactically or strategically. It is not likely that they outsource transformationally, since it is very risky and costly. The tactical decisions are easily identified because several respondents wrote down that they outsourced to solve a specific problem, something that is characteristic of tactical outsourcing. Strategic outsourcing, however, is more linked with creating a strong relationship with the vendors and focusing on the core business, something that will be investigated later on in the analysis.

To conclude, hypothesis 1 will be accepted, even though the hypothesis formulation could be altered to include all functions that SMEs are not very skilled at. Hypothesis 2 will also be accepted, since there is enough evidence that SMEs prioritize skills before costs when reasoning for an outsourcing decision.

4.1.4 The Shorter the Better

Short contracts that are flexible were highly ranked in Bates et al’s (2004) study. Shorter contracts require less maintenance and are usually more flexible. The other characteristic of short contracts is that it is only exerted when needed, i.e. the service is only used now and then. Bates et al’s (2004) respondents even said that they sometimes do not need formal contracts, simply because the relationship exceeded that of a pure buyer/vendor relationship. The reasons for this may be that the majority of respondents were already established businesses, and that the vendors were usually located in the same business community. This emphasis on short contracts and flexibility may be explained by Voss et al’s (1997) belief that SMEs are very responsive.

Two overlapping areas of outsourcing and SME theory support why SMEs prefer short contracts: most vendors are usually in the local business community and reliability is the key factor when choosing these vendors. Some of the responses from the previous section also showed that they are very flexible and responsive.
Table 5 - Vendor locations

Table 5 shows that offshore outsourcing is not very relevant for the respondents. Only two production companies outsourced offshore (one country was Vietnam). The main reason for this decision, as mentioned by Casale (2006), might have been the increased cost savings. However, it may not always be profitable for an SME to outsource offshore, since it would entail larger risks that may not always offset the benefits (Seeley et al, 2001).

The majority of respondents’ vendors are located in Småland. One can assume that this is because it is easier to maintain a good relationship with a vendor that is relatively close to one’s business, but also of cultural reasons that it is easier to deal with somebody from one’s own country. The numbers show that for all functions except production, all the tasks fall within nearshore outsourcing. This is probably because production is the only function that does not involve interaction with people in the same way as with the other functions. Production functions are also the most easily outsourced function, compared to the other functions, since the processes are easy to standardize and does not require special skills (Brown & Wilson, 2005).

Table 6 - Contracts used for different functions

<table>
<thead>
<tr>
<th>Human Resources</th>
<th>Production</th>
<th>Logistics</th>
<th>Consulting services</th>
<th>Accounting services</th>
<th>Administrative tasks</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Småland</td>
<td>7</td>
<td>7</td>
<td>8</td>
<td>24</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Sweden</td>
<td>3</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Europe</td>
<td>0</td>
<td>8</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>World</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10</strong></td>
<td><strong>22</strong></td>
<td><strong>10</strong></td>
<td><strong>27</strong></td>
<td><strong>7</strong></td>
<td><strong>0</strong></td>
</tr>
</tbody>
</table>

Table 6 - Contracts used for different functions
As seen in table 6, most respondents used short contracts, although not in much larger proportions that long contracts (33 vs. 26). For human resources, a short contract would imply that the service is only needed occasionally, which fits the assumption that (hopefully) a company does not need to hire or train new personnel everyday. Logistics contracts tended to be longer, and one can assume that this is because it is a vital part of the daily routines (i.e. delivering goods to customers and housing inventories). Accounting services also falls in this group, requiring longer contracts than the other types. When it comes to production and consulting services, production have more short contracts than the other type. One explanation to this may be that the company do not wish to commit itself too long, and that the company wishes to do as much as possible itself. This could be a sign of defence against losing control (hypothesis 4) as proposed by Jiang and Qureshi (2005). Short contracts would therefore mean using a service only when it is needed. Consulting services, on the other hand, have a very even spread for the contracts. One explanation could be because several tasks were included in the description. Some of them are more normal in the routine working day and others are not. One assumption can be that price has an effect on this function. Since consulting services are very expensive, a long contract would lower costs (since the buyer can get a lower price per occasion) while a short contract would mean the costs are higher. To decide whether price is a deciding factor, see table 7.

<table>
<thead>
<tr>
<th>Flexible contracts</th>
<th>Closeness to company</th>
<th>Price</th>
<th>Reputation</th>
<th>Reliability</th>
<th>Matching company culture</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Production</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long</td>
<td>1</td>
<td>-</td>
<td>5</td>
<td>-</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Medium</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>Short</td>
<td>2</td>
<td>5</td>
<td>7</td>
<td>6</td>
<td>9</td>
<td>-</td>
</tr>
<tr>
<td><strong>Consulting services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long</td>
<td>1</td>
<td>3</td>
<td>7</td>
<td>5</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Medium</td>
<td>1</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>Short</td>
<td>3</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>9</td>
<td>-</td>
</tr>
</tbody>
</table>

Table 7 - Production and consulting services / vendor selection criteria

For consulting services, price was the most common factor when deciding on long contracts (7 long, 5 medium and 5 short) while reliability was prioritized when choosing a short contract (7 long, 6 medium and 9 short). The majority of the respondents use short contracts, even though this group is not very much larger than that of long contracts (see table 7). Surprisingly, not many respondents answered that they prioritize flexible contracts when choosing a vendor. This is enough evidence to reject the belief that SMEs prefer flexibility when choosing a contract type. To test the belief whether SMEs prefer short...
contracts, there may not be enough information to draw a conclusion. To further obstruct, it was also discovered that there are a few responses missing. The total number of respondents that outsourced production was 26 (see table 3), but only 22 filled in what contracts they used. For consulting services, one response is missing.

4.1.4.1 Reject or Accept Hypothesis 3

Hypothesis 3: SMEs prefer short and flexible contracts.

The process of choosing a suitable contract is decided not only by the function that is outsourced, but also by the relationship that the buyer has with its vendor as well as the vendor’s location. Depending on function that is outsourced, there are different reasons and any one of these reasons may require a certain contract. It was clear that the respondents chose their vendors mainly on price and reliability (reliability being the factor that Bates et al (2004) believed was most influent). However, this was questioned by Mr. White, who believes many companies choose their vendors on recommendations instead of price. This option was not included in the questionnaire, and could be included in future studies.

Mr. Yellow believes that short contracts are most common in SMEs simply because they do not want to tie up either time or money in a decision. This is because of SMEs’ lack of resources. However, it is also dependent on what function is outsourced. If it is a vital part of production, a longer contract would save costs and time that is invested into the decision, while a short contract would suffice for consulting functions. Mr. White agrees, but highlights that it also depends on the relationship with the vendor. A good relationship could result in low costs even with short contracts, while the opposite could as happen as well.

Mr. Yellow also suggests a reason for why theory and empirical findings are not matching (in terms of preference for flexibility). Since Bates et al’s (2004) study was done with Turkish SMEs, their culture may have played a role in the priorities that differ from that of Swedish SMEs.

The conclusion is that SMEs prefer short contracts (in light of empirical findings) but there is not enough evidence to conclude that they prefer flexibility to reliability and price that were of much greater importance.

4.1.5 Losing Control of Your Business

According to Jiang and Qureshi (2005), the most common flaw with any outsourcing decision is the loss of control for the buyer. Brown and Wilson (2005) define loss of control as losing knowledge, skill and information. In any outsourcing decision, the buyer will give up the function in their business, and will therefore lose control over it (i.e. lose the knowledge, skill and information). One solution for mitigate this loss is through a good relationship with the vendor. Maybe that is why the respondents in Bates et al’s (2004) study preferred having a good relationship with their vendors, since this could result in losing less skills and competence. With a good relationship, the buyer will not be totally left out, but also given information about how the function is working out and the results of it.

Jiang and Qureshi (2005) argue that most buyers lose control because they do not follow up their outsourcing decisions. They also add that outsourcing, in reality, may not add much to a company’s value, simply because it is too difficult to measure the outcomes.
Bates et al’s (2004) respondents answered that they usually experience the decision as “Good” or “Satisfying” even though there are no formal evaluations. Therefore, the results can be questionable. A study by Larsson and Malmqvist (2002), showed that even for multinational corporations such as Volvo, ABB, and Ericsson and SAAB, there are no formal evaluation tools! The results of outsourcing are therefore very ambiguous. Table 8 shows what the SME respondents answered (for this investigation):

<table>
<thead>
<tr>
<th></th>
<th>Very happy, all went according to plan</th>
<th>Happy, but not everything went according to plan</th>
<th>Okay, no changes at all</th>
<th>Not satisfied, goals have not been achieved</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Production</td>
<td>8</td>
<td>13</td>
<td>1</td>
<td>0</td>
<td>22</td>
</tr>
<tr>
<td>Logistics</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Consulting services</td>
<td>13</td>
<td>14</td>
<td>0</td>
<td>0</td>
<td>27</td>
</tr>
<tr>
<td>Accounting services</td>
<td>6</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Administrative tasks</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>32</strong></td>
<td><strong>3</strong></td>
<td><strong>0</strong></td>
<td></td>
</tr>
</tbody>
</table>

Table 8 - Results of outsourcing decisions

Table 8 shows that all respondents are quite happy with their decisions. 32 respondents said they have had some problems with the decision, and 3 respondents did not feel any changes at all. For now, this result is very much alike Bates et al’s (2004); almost all respondents say everything is good, but is that really the truth? Table 9 shows the different negative sides that the respondents have experienced.

<table>
<thead>
<tr>
<th></th>
<th>Loss of control</th>
<th>Lower quality</th>
<th>Increased costs</th>
<th>Increased lead times</th>
<th>Organizational conflicts</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>Production</td>
<td>7</td>
<td>13</td>
<td>8</td>
<td>9</td>
<td>5</td>
<td>42</td>
</tr>
<tr>
<td>Logistics</td>
<td>1</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>18</td>
</tr>
<tr>
<td>Consulting services</td>
<td>5</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>6</td>
<td>38</td>
</tr>
<tr>
<td>Accounting services</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>---------------------</td>
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<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>----</td>
</tr>
<tr>
<td>Administrative tasks</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>18</td>
<td>35</td>
<td>28</td>
<td>29</td>
<td>17</td>
<td>127</td>
</tr>
</tbody>
</table>

Table 9 - Problems with outsourcing

Lower quality and increased lead times, tightly followed by increased costs, are the most common backsides of the respondents’ decisions. Not surprisingly, respondents that outsource production and consulting services are the largest groups with negative experience, since they are also the most outsourced functions (note: numbers do not add up because respondents may choose several drawbacks). Loss of control was actually not something that the companies experienced very much.

As in the case with Larsson and Malmqvist’s (2002) study, these drawbacks are often estimations since no evaluation has been done. It is surprising to see this lack of follow-up among the companies (and even in Larsson and Malmqvist’s study). Even though vendors are chosen because of price and reliability (see table 7), there seems to be a gap between what is expected and what is achieved. If price was that important, why do so many respondents experience increased costs with their decision? The vendor is supposed to save the SME money by taking over a function. Reliability is also an obvious problem if the vendors deliver lower quality and increase lead-time! Larsson and Malmqvist’s (2002) study is alarming: if even multinational firms such as Volvo and SAAB do not use formal evaluation tools, how can an SME with its limited resources and skills be expected to perform any better? The main reasons for outsourcing (see table 4), according to the respondents, are the lack of competence and costs. If a vendor delivers lower quality, this could be a sign that the SME might have done it better if it did not outsource (i.e. keep it in-house).

4.1.5.1 Reject or Accept Hypothesis 4

Hypothesis 4: Many companies experience a loss of control when they engage in outsourcing.

According to table 9, only a few respondents stated that they felt a loss of control. This is very contradicting since they experience the other drawbacks quite often: lower quality, increased costs, and increased lead times. Following Larsson and Malmqvist’s (2002) study, it is assumed that SMEs do not implement any formal evaluations of their outsourcing decisions. If not even multinational corporations have real evaluation tools, despite resources and skills, an SME will most likely not bother about these things. Mr. Purple agrees with the belief that the main reason why SMEs do not implement any evaluation is that it is time-consuming and expensive.

The presence of evaluation controls is lacking in all companies interviewed except for Mr. Black’s company. Mr. Black uses simple pre- and after- cost estimations to see if his decisions has paid off or not. He said that he did not experience any loss of control, probably because he has a good relationship with his vendors. Mr. Yellow agrees that loss of control is very difficult to measure, mainly because it is not quantifiable in the same ways as the other options. Mr. Pink mentions that loss of control could be different
communication problems between parties that very often are overlooked.

It is therefore concluded that it is because of loss of control that quality is lowered, costs are increased and lead times are increased. Taking a similar approach as with hypothesis 2, loss of control is not a result, but instead it leads to the drawbacks experienced by the respondents. Even though the respondents state they do not experience loss of control, a strong reason may be that it is (with organizational conflicts) not easily quantifiable and measured. Since the responses are all estimates, the difficulty of estimating and quantifying “loss of control” has probably made it a weaker reason. However, the main strength of this conclusion is the lack of formal evaluation tools, causing the results of outsourcing to be very ambiguous (as proposed by Larsson and Malmqvist (2002) and Jiang and Qureshi (2005)).
5  Final Conclusions

This section shows the final findings of the investigation, and also the conclusions that have been reached. The conclusions were made through analysis of the data, but also through the interviews that were conducted. The final part will discuss some findings that are interesting, but may not be very relevant for this study, and also give some suggestions for further studies.

The analysis showed that the hypotheses created for this thesis has been quite narrow and maybe too specific. They have done a good job of fulfilling the purpose, however, they were often intertwined and not easily distinguishable, and it has been a hard time figuring out what belonged where.

A few findings correspond to the areas of interest that were found in the frame of reference (section 2.4). The beliefs that SMEs prefer short contracts, choose vendors based on reliability and have a lack of resources are very clear in the empirical findings, just as mentioned in theory. However, the interest lies not in the similarities, but in the differences that were discovered. This will result in the characteristics that will be presented in this section.

For large corporations, IT is the most outsourced function, while for SMEs, the conclusion from the findings is that everything that is not closely related to the core business can be outsourced. This was evident in light of the reasons that were behind these outsourcing decisions. As said earlier, many of the hypotheses are so closely related that it is difficult to see what is the cause and what is the effect. The findings conclude this is a characteristic of SMEs that outsource; they do it because of lack of competence, and not because of costs reasons as proposed by outsourcing theory. This is a strong sign of strategic outsourcing, in combination with building a strong relationship with the vendor.

As for other characteristics, contracts did not seem to play as large a role as believed. The relationship between buyer and vendor plays a vital role in keeping the business alive, something that is irreplaceable with a contract. When choosing a vendor and contract, the respondents did not prioritize flexibility, something that was argued by outsourcing and SME literature. Still, the majority of respondents preferred short contracts, but emphasized reliability and costs as main reasons for choosing their vendors. The characteristic here is that SMEs use short contracts and emphasizes reliability and costs when choosing their vendor.

The most confusing part of the analysis was to decide whether SMEs actually experience a loss of control. It is probably the first time empirical findings have been of less importance than experience and analysis: even though most of the respondents said they did not experience a loss of control, it was concluded that the other drawbacks were a result of loss of control. Maybe it was a problem of sequencing and not interpretation (on the respondents’ part). This is a main characteristic of SMEs, reinforced by the lack of evaluation processes that actually answers whether outsourcing is paying off or not. The lack of controls is a very interesting topic for future research.
5.1 Discussion and Future Studies

When writing a project as extensive as a thesis, it is very easy to lose oneself and stray outside the subject outlined. Even though it would be very interesting to include and discuss every little finding, one must keep in mind to adhere to the scope of the project.

One such area of interest is the apparent evidence that nobody outsource “Administrative tasks” although this is a very common function to outsource in the US. This is probably because most of the studies made in the US are based on large companies, and it is simply not necessary for an SME to employ a large administrative staff. Other possible reasons may be because of the several roles employees have in a company and the relationships that are created by being close to customers.

Another finding concerned the sample of the study. Even though the 21% response rate resulted in 46 respondents, it would of course been more valuable and extensive if more companies participated. Sometimes it was difficult to rely only on empirical data. A larger sample would have resulted in more data, making it easier to see trends. The scope of the project may be the most evident limitation. However, considerable care, in combination with interview information and experience, has been taken to make the assumptions.

For the future, it would be interesting if similar studies (with hopefully larger samples) were made in other parts of Sweden. Since this study only represents Småland, it can be replicated to represent other provinces and therefore creating a larger study of Sweden as a whole. It would be of great importance to see an increase in outsourcing literature regarding SMEs, since the majority still involve large corporations. Even though it is a fact that large corporations may need outsourcing more than SMEs, it cannot be said that SMEs are not important and not worth studying.

The most interesting finding of this study, and definitely a topic for future studies, is the lack of evaluation processes. Even for large corporations, there is a lack of these evaluations. One would believe it is an important process – since the company can then decide whether outsourcing really saves money for the company – but the lack of these controls indicates that there can be large improvements in this field. Because of the growing interest in this field, as more and more companies engage in it, this can spark a discussion whether outsourcing really delivers what it promises.
References

Printed resources


**Internet Resources**


Appendices

A. Research methodology by Bryman & Bell (2003)

- Have you clearly specified your research questions? ✓
- Have you clearly indicated how the literature you have read relates to your research questions? ✓
- Is your discussion of the literature critical and organized so that it is not just a summary of what you have read? ✓
- Have you clearly outlined your research design and your research methods, including:
  - Why you chose a particular research design? ✓
  - Why you chose a particular research method? ✓
  - How you selected your research participants? ✓
  - Whether there were any issues to do with cooperation (e.g. response rates)? ✓
  - Why you implemented your research in a particular way (e.g. how the interview questions relate to your research questions, why you observed participants in particular situations, why your focus group asked the questions in a particular way and order)? ✓
  - If your research required access to an organization, how and on what basis was agreement for access forthcoming? ×
  - Steps you took to ensure that your research was ethically responsible? ✓
  - Any difficulties you encountered in the implementation of your research approach? ×
- Have you presented your data in a manner that relates to your research questions? ✓
- Does your discussion of your findings show how they relate to your research questions? ✓
- Does your discussion of your findings show how they shed light on the literature that you presented? ✓
- Are the interpretations of your data that you offer fully supported with tables, figures, or segments from transcripts? ✓
- If you have presented tables and/or figures, are they commented upon in your discussion? ✓
- Do your conclusions clearly allow the reader to establish what your research contributes to the literature? ✓
- Have you explained the limitations of your study? ✓
- Do your conclusions consist solely of a summary of your findings? If they do rewrite them! ✓
- Do your conclusions make clear the answers to your research questions? ✓
- Does your presentation of the findings and the discussion allow a clear argument and narrative to be presented to the reader? ✓
- Have you broken up the text in each chapter with appropriate subheadings? ✓
- Does your writing avoid sexist, racist, and disable language? ✓
- Have you included all appendices that you might need to provide (e.g. interview schedule, letters requesting access, communications with research participants)? ✓
Have you checked that your list of references includes all the items referred to in your text? ✓
Have you checked that your list of references follows precisely the style that your institution requires? ✓
Have you followed your supervisor’s suggestions when he or she has commented on your draft chapters? ✓
Have you got people other than your supervisor to read your draft chapters for you? ✓
Have you checked to ensure that there is not excessive use of jargon? ✓
Do you provide clear signposts in the course of writing, so that readers are clear about what to expect next and why it is there? ✓
Have you ensured that your institution’s requirements for submitting projects are fully met in terms of such issues as word length (so that it is neither too long nor too short) and whether an abstract and table of contents are required? ✓
Have you ensured that you do not quote excessively when presenting the literature? ✓
Have you fully acknowledged the work of others so that you cannot be accused of plagiarism? ✓
Is there a good correspondence between the title of your project and its contents? ✓
Have you acknowledged the help of others where this is appropriate (e.g. your supervisor, people who may have helped with interviews, people who read your drafts)? ✓
### B. Company List

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C. Questionnaire
Frågeformulär om outsourcing

Hej,


Eftersom vi skickar ut frågeformuläret via email kan det vara problematiskt att skriva och markera svarsalternativ. Vi har därför utformat formuläret så att ni kan svara i Microsoft Word. Skriv som vanligt (antingen text eller siffror) i de grå fälten och kryssa i rutorna. När ni är klar med formuläret, var vänlig bifoga det i ett mail och skicka tillbaka det till: ihh.outsourcing@gmail.com

Vi uppskattar ert samarbete oerhört mycket och hoppas att vårt frågeformulär är klart och tydligt så att ni kan svara så gott det går. Självklart kommer vi att dela med oss av våra resultat när vi sammanställt rapporten.

Med vänliga hälsningar,

David Do
Jens Karlsson
Caroline Svedberg

BBA-Programmet, Internationella Handelshögskolan i Jönköping
Allmänna frågor

1. Vem är det som besvarar frågorna? __________
2. Vad är er kärnverksamhet? __________
3a. Hur gammalt är företag (uppskattningsvis)? _____ år
3b. Hur många anställda har ni? _______ st

Outsourcing

Vilka funktioner i ert företag outsourcar ni? Markera alla som stämmer, och svara på alla följdfrågor om ni svarar JA på funktionen.

4a. Human Resources (bemanning, rekrytering, vidareutbildning) □ Ja □ Nej

4b. Av vilka skäl valde ni att outsourca den här funktionen? Rangordna från 1 (högst prioritet) till 5 (lägst prioritet).
   - Kostnadsskäl
   - Specialistkompetens som vi själva inte har
   - Kvalitetskäl
   - Minska ledtider
   - Andra skäl, ange: ______

4c. Vad är ert resultat av outsourcingen?
   □ Vi är mycket nöjda, allting har fungerat som planerat (d.v.s. alla skäl/mål har uppfyllts)
   □ Vi är nöjda, trots att allt inte har fungerat problemfritt
   □ Allt är som förr, vi märker ingen förbättring
   □ Vi är missnöjda, våra mål har inte uppfyllts

4d. Vad för sorts kontrakt har ni med er partner(s)? □ Långa kontrakt (mer än 1 år)
   □ Kort kontrakt (mindre än 1 år)
   □ Spot-basis (vid behov)

4e. Vart befinner sig er partner(s)? □ Småland
   □ Sverige
   □ Utanför Sverige, innanför Europa
   □ Utanför Europa, ange: ______

5a. Produktion (tillverknings, förädlings) □ Ja □ Nej
5b. Av vilka skäl valde ni att outsourca den här funktionen? Rangordna från 1 (högst prioritet) till 5 (lägst prioritet).

- Kostnadsskäl
- Specialistkompetens som vi själva inte har
- Kvalitetsskäl
- Minska ledtider
- Andra skäl, ange: ______

5c. Vad är ert resultat av outsourcingen?

- [ ] Vi är mycket nöjda, allting har fungerat som planerat (d.v.s. alla skäl/mål har uppfyllts)
- [ ] Vi är nöjda, trots att allt inte har fungerat problemfritt
- [ ] Allt är som förr, vi märker ingen förbättring
- [ ] Vi är missnöjda, våra mål har inte uppfyllts

5d. Vad för sorts kontrakt har ni med er partner(s)?

- [ ] Långa kontrakt (mer än 1 år)
- [ ] Kort kontrakt (mindre än 1 år)
- [ ] Spot-basis (vid behov)

5e. Vart befinner sig er partner(s)?

- [ ] Småland
- [ ] Sverige
- [ ] Utanför Sverige, innanför Europa
- [ ] Utanför Europa, ange: ______

6a. **Logistik (lagerhantering, frakt)** [ ] Ja  [ ] Nej

6b. Av vilka skäl valde ni att outsourca den här funktionen? Rangordna från 1 (högst prioritet) till 5 (lägst prioritet).

- Kostnadsskäl
- Specialistkompetens som vi själva inte har
- Kvalitetsskäl
- Minska ledtider
- Andra skäl, ange: ______

6c. Vad är ert resultat av outsourcingen?

- [ ] Vi är mycket nöjda, allting har fungerat som planerat (d.v.s. alla skäl/mål har uppfyllts)
- [ ] Vi är nöjda, trots att allt inte har fungerat problemfritt
☐ Allt är som förr, vi märker ingen förbättring
☐ Vi är missnöjda, våra mål har inte uppfyllts

6d. Vad för sorts kontrakt har ni med er partner(s)?
☐ Långa kontrakt (mer än 1 år)
☐ Kort kontrakt (mindre än 1 år)
☐ Spot-basis (vid behov)

6e. Vart befinner sig er partner(s)?
☐ Småland
☐ Sverige
☐ Utanför Sverige, innanför Europa
☐ Utanför Europa, ange: _____

7a. Specialisttjänster (IT, reparationer, elektriker, marknadsföring) ☐ Ja ☐ Nej

7b. Av vilka skäl valde ni att outsourca den här funktionen? Rangordna från 1 (högst prioritet) till 5 (lägst prioritet).

☐ Kostnadsskäl
☐ Specialistkompetens som vi själva inte har
☐ Kvalitetsskäl
☐ Minska ledtider
☐ Andra skäl, ange: ______

7c. Vad är ert resultat av outsourcingen?
☐ Vi är mycket nöjda, allt ingenting har fungerat som planerat (d.v.s. alla skäl/mål har uppfyllts)
☐ Vi är nöjda, trots att allt inte har fungerat problemfritt
☐ Allt är som förr, vi märker ingen förbättring
☐ Vi är missnöjda, våra mål har inte uppfyllts

7d. Vad för sorts kontrakt har ni med er partner(s)?
☐ Långa kontrakt (mer än 1 år)
☐ Kort kontrakt (mindre än 1 år)
☐ Spot-basis (vid behov)

7e. Vart befinner sig er partner(s)?
☐ Småland
☐ Sverige
☐ Utanför Sverige, innanför Europa
☐ Utanför Europa, ange: _____
8a. **Redovisning (löpande bokföring)** [ ] Ja  [ ] Nej

8b. Av vilka skäl valde ni att outsourca den här funktionen? Rangordna från 1 (högst prioritet) till 5 (lägst prioritet).

- Kostnadsskäl
- Specialistkompetens som vi själva inte har
- Kvalitetsskäl
- Minska ledtider
- Andra skäl, ange: _____

8c. Vad är ert resultat av outsourcingen?

- [ ] Vi är mycket nöjda, allting har fungerat som planerat (d.v.s. alla skäl/mål har uppfyllts)
- [ ] Vi är nöjda, trots att allt inte har fungerat problemfritt
- [ ] Allt är som förr, vi märker ingen förbättring
- [ ] Vi är missnöjda, våra mål har inte uppfyllts

8d. Vad för sorts kontrakt har ni med er partner(s)?

- [ ] Långa kontrakt (mer än 1 år)
- [ ] Kort kontrakt (mindre än 1 år)
- [ ] Spot-basis (vid behov)

8e. Vart befinner sig er partner(s)?

- [ ] Småland
- [ ] Sverige
- [ ] Utanför Sverige, innanför Europa
- [ ] Utanför Europa, ange: _____

9a. **Administrativa uppgifter** (försäljning, kundhantering)  [ ] Ja  [ ] Nej

9b. Av vilka skäl valde ni att outsourca den här funktionen? Rangordna från 1 (högst prioritet) till 5 (lägst prioritet).

- Kostnadsskäl
- Specialistkompetens som vi själva inte har
- Kvalitetsskäl
- Minska ledtider
- Andra skäl, ange: _____

9c. Vad är ert resultat av outsourcingen?

- [ ] Vi är mycket nöjda, allting har fungerat som planerat (d.v.s.alla skäl/mål har uppfyllts)
☐ Vi är nöjda, trots att allt inte har fungerat problemfritt
☐ Allt är som förr, vi märker ingen förbättring
☐ Vi är missnöjda, våra mål har inte uppfyllts

9d. Vad för sorts kontrakt har ni med er partner(s)?
☐ Långa kontrakt (mer än 1 år)
☐ Kort kontrakt (mindre än 1 år)
☐ Spot-basis (vid behov)

9e. Vart befinner sig er partner(s)?
☐ Småland
☐ Sverige
☐ Utanför Sverige, innanför Europa
☐ Utanför Europa, ange: ________

10. Vilka är de viktigaste anledningarna när ni väljer en partner(s)? Rangordna från 1 (högst prioritering) till 6 (lägst prioritering).

   - Flexibla kontrakt
   - Närhet till företag
   - Pris
   - Rykte
   - Pärlighet
   - Matchande företagskultur

11. Har ni någonsin upplevt några problem med outsourcing?
☐ Sämre kontroll av egen verksamhet
☐ Lägre kvalitet
☐ Ökade kostnader
☐ Längre ledtider
☐ Organisationskonflikter (annorlunda kultur, arbetssätt, strategier)

   Tack så mycket för er medverkan!
Translated Questionnaire about outsourcing

Hello,

We are three students from the International Business School in Jönköping that are writing our bachelor thesis in Business Administration. Our bachelor thesis is about how small and medium-sized enterprises (SMEs) in the province of Småland use outsourcing in their daily business. We intend to conduct a quantitative study of our responses to conclude what functions are outsourced the most, why you outsource, and what positive and negative sides outsourcing brings with. The reason why we chose SMEs is because it is the biggest group of companies in Sweden (according to NUTEK, 99 % of all companies).

Because we are sending out the questionnaire by e-mail, one problem may be to fill in and mark the different alternatives. We have therefore designed the questionnaire so that you are able to respond in Microsoft Word. Write as usual (either with text or numbers) in the grey area and put a mark in the box. When you are done answering the questionnaire please attach it to an e-mail and send it back to: ihh.outsourcing@gmail.com

We appreciate your help to a great extent and hope that our questionnaire is as simple and clear as it could possibly be, so that you are able to answer easily. We will of course share with you the result of this study.

Best regards,

David Do
Jens Karlsson
Caroline Svedberg

The BBA-Program, Jönköping International Business School
General questions
1. Who answers the questions? __________
2. What is your core business? __________
3a. How old is the company? _____ years
3b. How many employees does the company have? ______

Outsourcing
What functions do you outsource? Tick all the correct functions, and answer the following questions if you answer YES on a certain function.

4a. Human Resources (staffing, recruiting, education) □ Yes □ No
4b. For which reasons did you choose to outsource this function? Rank from 1 (highest priority) to 5 (lowest priority).
   Cost
   Special competence
   Quality
   Shorter lead times
   Other reasons, state: __________
4c. What is the result from your outsourcing decision?
   □ We are very satisfied, everything went according to plan (i.e. all goals are reached)
   □ We are satisfied, even though we have had minor complications
   □ Everything is like before, no improvements
   □ We are not satisfied, our goals have not been fulfilled
4d. What types of contracts do you and your partners have?
   □ Long contracts (more than 1 year)
   □ Short contracts (less than 1 year)
   □ Spot-basis (when needed)
4e. Where are your partners located?
   □ Småland
   □ Sweden
   □ Outside Sweden, within Europe
   □ Outside Europe, state: ______
5a. **Production (manufacturing, refinement)** □ Yes □ No

5b. For which reasons did you choose to outsource this function? Rank from 1 (highest priority) to 5 (lowest priority).

- Cost
- Special competence
- Quality
- Shorter lead times
- Other reasons, state: __________

5c. What is the result from your outsourcing decision?

□ We are very satisfied, everything went according to plan (i.e. all goals are reached)
□ We are satisfied, even though we have had minor complications
□ Everything is like before, no improvements
□ We are not satisfied, our goals have not been fulfilled

5d. What types of contracts do you and your partners have?

□ Long contracts (more than 1 year)
□ Short contracts (less than 1 year)
□ Spot-basis (when needed)

5e. Where are your partners located?

□ Småland
□ Sweden
□ Outside Sweden, within Europe
□ Outside Europe, state: _____

6a. **Logistics (warehousing, shipping)** □ Yes □ No

6b. For which reasons did you choose to outsource this function? Rank from 1 (highest priority) to 5 (lowest priority).

- Cost
- Special competence
- Quality
- Shorter lead times
- Other reasons, state: __________
6c. What is the result from your outsourcing decision?

☐ We are very satisfied, everything went according to plan (i.e. all goals are reached)
☐ We are satisfied, even though we have had minor complications
☐ Everything is like before, no improvements
☐ We are not satisfied, our goals have not been fulfilled

6d. What types of contracts do you and your partners have?

☐ Long contracts (more than 1 year)
☐ Short contracts (less than 1 year)
☐ Spot-basis (when needed)

6e. Where are your partners located?

☐ Småland
☐ Sweden
☐ Outside Sweden, within Europe
☐ Outside Europe, state: ____

7a. Consulting services (IT, repair, electricians, marketing) ☐ Yes ☐ No

7b. For which reasons did you choose to outsource this function? Rank from 1 (highest priority) to 5 (lowest priority).

Cost
Special competence
Quality
Shorter lead times
Other reasons, state: __________

7c. What is the result from your outsourcing decision?

☐ We are very satisfied, everything went according to plan (i.e. all goals are reached)
☐ We are satisfied, even though we have had minor complications
☐ Everything is like before, no improvements
☐ We are not satisfied, our goals have not been fulfilled

7d. What types of contracts do you and your partners have?

☐ Long contracts (more than 1 year)
☐ Short contracts (less than 1 year)
7e. Where are your partners located?

- Småland
- Sweden
- Outside Sweden, within Europe
- Outside Europe, state: _____

8a. **Accounting (current recording of records)**

- Yes
- No

8b. For which reasons did you choose to outsource this function? Rank from 1 (highest priority) to 5 (lowest priority).

- Cost
- Special competence
- Quality
- Shorter lead times
- Other reasons, state: __________

8c. What is the result from your outsourcing decision?

- We are very satisfied, everything went according to plan (i.e. all goals are reached)
- We are satisfied, even though we have had minor complications
- Everything is like before, no improvements
- We are not satisfied, our goals have not been fulfilled

8d. What types of contracts do you and your partners have?

- Long contracts (more than 1 year)
- Short contracts (less than 1 year)
- Spot-basis (when needed)

8e. Where are your partners located?

- Småland
- Sweden
- Outside Sweden, within Europe
- Outside Europe, state: _____
9a. **Administrative tasks** (sales, customer handling) □ Yes □ No

9b. For which reasons did you choose to outsource this function? Rank from 1 (highest priority) to 5 (lowest priority).

- Cost
- Special competence
- Quality
- Shorter lead times
- Other reasons, state: ____________

9c. What is the result from your outsourcing decision?

- □ We are very satisfied, everything went according to plan (i.e. all goals are reached)
- □ We are satisfied, even though we have had minor complications
- □ Everything is like before, no improvements
- □ We are not satisfied, our goals have not been fulfilled

9d. What types of contracts do you and your partners have?

- □ Long contracts (more than 1 year)
- □ Short contracts (less than 1 year)
- □ Spot-basis (when needed)

9e. Where are your partners located?

- □ Småland
- □ Sweden
- □ Outside Sweden, within Europe
- □ Outside Europe, state: _______

10. Which are the most important reasons when choosing a partner? Rank from 1 (high priority) to 6 (low priority).

- Flexible contracts
- Closeness to the company
- Price
- Reputation
- Reliability
- Matching business culture

11. Have you experienced any problems with outsourcing?
☐ Lack of control
☐ Lower quality
☐ Increased costs
☐ Longer lead-times
☐ Organizational conflicts (another culture, way of working, strategy)

Thank you for your participation!
D. Questionnaire for Increased Validity

*Most common outsourced function is IT*

What functions do companies outsource?

If not outsourcing a certain function, why do they keep it in-house?

Would you agree that everything that is not core competence can be outsourced?

If not, why can it not be outsourced?

Do you take on several roles in your company?

*Main reasons for outsourcing are lack of competence and costs*

Why do you think companies outsource (the functions that are answered in the first question)

Is competence the main issue, or cost?

If competence, why don’t they acquire it themselves?

If cost, why don’t they try to save themselves?

*SMEs prefer short and flexible contracts*

What kind of contracts do SME commonly use? Why?

How does a typical contract look like (criteria, period, and scope?)

What criteria are important when choosing a vendor?

Is it more difficult to deal with vendors that are not Swedish?

*Many companies experience a loss of control when they engage in outsourcing*

Do you believe companies experience a loss of control in their outsourcing decisions?

Do SMEs evaluate their outsourcing results? How?

If not, why do they not evaluate?