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Offshore outsourcing as a business strategy: a qualitative study of the adoption of offshoring by the Portuguese footwear industry

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Abstract

This paper analyzes the adoption of offshore outsourcing as a business strategy in the Portuguese footwear industry. Based on a review of the current literature, data was collected through interviews conducted with key Portuguese footwear players and shoe company managers. The main findings suggest that offshoring is more appreciated by managers who attribute their success and growth to the adoption of this strategy. However, these managers admit that they are confronted with local domestic limitations that motivate them to seek out foreign suppliers and to focus on their core activities which contribute to greater profitability. The main benefits they identified are operational flexibility, savings, new knowledge acquisition, risk reduction, and the possibility for growth. The strategy also has some risks such as loss of quality, and management of control over freight lead times.

Keywords: Offshoring, Outsourcing, Footwear Industry, Portugal.

1 Introduction

Very often both academic and corporate worlds discuss an entirely competitive environment for businesses, where globalization is usually mentioned as the main player responsible for pushing changes. “Globalization has given rise to a new era of international competition that is reshaping global production and trade and thereby altering the organization of industries” (Gereffi, 2011, as cited in Gereffi and Lee, 2012, p.25). Frequently, companies need to engage with new technologies, new consumer behaviors, new trade agreements, economic and politic policies, new companies emerging with new strategies; among other issues, that intensively challenge the corporate surroundings.

To overcome market challenges, companies are increasingly focusing on their core capabilities, looking for external partners to add value and increase their internal knowledge and competences. “The current highly competitive environment can also be referred to as an outsourcing economy” (Hätönen and Eriksson, 2009, p. 143). An examination of the literature defines outsourcing as the process of purchasing or subcontracting goods, services or manufacturing processes from an external source, commonly known as supplier (Vaz, Soares, Pinho, Silva, 2019). For the sake of clarity, it is good to distinguish outsourcing from offshoring. So, whereas the first has to do with the recurring use of an external source, the second is a more complex decision that concerns the practice of moving - partially or totally- production processes, employees, activities, or certain manufacturing functions to foreign countries, normally a country considered “low cost”. This is understood to lead to lower production costs. Both concepts are important for this study: outsourcing, as an initial approach, and offshoring as a more complex decision involving more risks.

Hätönen and Eriksson (2009, p. 143) indicate that “by leveraging capabilities and knowledge, as well as increasing flexibility and adaptability, through outsourcing, a firm can increase the level, variety, and quality of its services”. Therefore, outsourcing presents itself as a strategy that helps managers to reduce operational costs; to focus onenvie-me the company’s core business; to open their doors to new knowledge, and to be able to differentiate themselves in the competitive market. This strategy is generally applied to non-core operations, in services or industrial markets (Johnson and Graman, 2015) and is commonly accepted among all industries. As for offshoring, the decision requires more variables to be taken into consideration, as it involves entering into different markets which imply dealing with local idiosyncrasies and complexities (Silva, Meneses & Pinho, 2018).

Portugal is a small open economy that has always presented a relatively high degree of transparency (Silva, Bradley & Sousa, 2012). Portuguese industry is heavily invested in export activity and, similarly, its industries tend to resort to foreign resources for their supply chains. According to World Market for Apparel and Footwear 2019, a report from Euromonitor, both sectors account for the second-largest consumer goods industry globally. Based on the World Footwear Yearbook 2019, published by APICCAPS (Portuguese Footwear, Components, Leather Goods Manufacturers' Association), since 2010, the worldwide footwear production has increased by 20,5% and Portugal is a relevant player in the European market. The same report brings the information that the footwear global market has increasing its numbers in a context of a highly successful industry. In 2018, the global exports reached a record of 142 billion dollars, an increase of 80% in value and 30.8% in volume. Regarding manufacturing global distribution, approximately 86% of the worldwide shoes are produced in Asia, followed by South America with 5%, Africa with 3.6% and Europe with 3.3%. According to the 2019 Statista forecast, the global footwear market will grow by 30% from 2017 until 2023.

The Portuguese footwear has been facing a positive business growth, mainly focus on exports: "the Portuguese footwear only has a future if the strong exports orientation is maintained" (Facts and Numbers report, APICCAPS, 2019, p.7). Based on the same report, in 2018, the Portuguese Footwear exported 84 million pairs of shoes, the highest number in the past 15 years. Regarding exports value, it was "around the two billion euros, a number close to the historic maximum." (Facts and Numbers report, APICCAPS, 2019). According to the report, due to cultural and geographical proximity, as well as the higher consumer purchase power, the Portuguese industry target is mainly the European markets (France, Germany, Netherlands, Spain, United Kingdom represent the five highest total values of Portuguese footwear exports). The sector considers the growth to continue based on an ambitious development plan regarding their image within the international market. "By 2020, the Portuguese footwear industry aims to be a key point of reference for the industry worldwide." (Facts and Numbers, APICCAPS, 2018). The international footprint of the Portuguese shoe sector is not confined to the exports of the final product. It also extends to inward internationalization; components, raw materials and stages of production are international in their origin. Consequently, the sector is international throughout its entire value chain.

Based on this information, the main objective of this study is to assess the application of offshore outsourcing by Portuguese footwear companies. Another aim of this research is to uncover evidence of what motivates Portuguese footwear companies to resort to offshore outsourcing and why it is considered an important and strategic tool for improving competitiveness in the sector, and what are the perceived benefits and associated risks. Previous research was already conducted on this topic (Rahman et al, 2020; Forte and Ribeiro, 2020; Bettiol et al, 2019; Eldenburg et al, 2019; Harland, Knight and Walker, 2005; Quélin and Duhamel, 2003; Quinn, 2000; Fratocchi & Silva, 2018) but - with the exception of Boffelli, Fratocchi, Kalchschmidt & Silva (in press); Vaz, Soares, Pinho & Silva (2018), and Fratocchi & Silva (2018) - few researchers dealt specifically with the aspects identified in the Portuguese context. Moreover, according to Lilien (2015), there is a lack of academic research in the business-to-business context. In comparison to the attention scholars have been given to the “business-to-consumer” model.

This study will be a relevant contribution to both academics and practitioners. In theoretical terms, it will contribute to a deeper understanding of one of the most relevant topics in international business strategy and provide insights regarding the use of outsourced services by other countries and industries. From a managerial standpoint this study will provide managers some hints on the issues that require prior assessment before making decisions which consider offshoring, and re-shoring. Although this study is developed in Portugal, we understand that relevant take-ways can be drawn for other exporting countries for whom footwear and apparel represent an important source of value creation.

2. Literature review - Outsourcing risks, benefits and the alternative of offshoring

Hätönen and Eriksson (2009) introduce the subject of outsourcing origins explaining that "In 1776 Adam Smith (taken from 1933) argued that a company operates more efficiently if production tasks are distributed among individuals, who specialize in manufacturing certain parts of the production process." (Hätönen and Eriksson, 2009, p.142). Two centuries later Williamson (1975) complemented Smith by stating that tasks could not only be executed by different employees, but also by different companies that offered lower costs. According to the "transaction costs economics" theory (Williamson, 1975) the ideal form of governance is one that minimizes transactions costs. This approach can be applied in discussions that concern the level of control that may be deemed acceptable to concede to offshore outsourced suppliers and how control or oversight must be kept in the hands of the company. A few years later, in the 1990s, companies realized that outsourcing could also bring additional benefits. External partners were no longer considered only to reduce costs, but also to add deeper knowledge in a specific part of the process. This outcome could help enterprises to increase the quality of their final product or service. In fact, achieving cost efficiency was no longer the sole motive of outsourcing, since companies could also acquire external skills, competences, and knowledge to provide value to more complex and strategically important organizational processes. (Hätönen and Eriksson, 2009). At this moment, the business environment recognized that outsourcing should be considered in a more holistic view, looking into cost reduction, but also at additional competences that could be essential to grow in the market and to build strong differentiation.

Outsourcing can bring numerous benefits to companies. Firstly, according to Hendry (1995), cost and efficiency savings are positive rewards to be considered by firms. "Labor arbitrage, economies of scale, and standardization enable a specialized service provider to realize cost advantages" (Raassens et al., 2014, as cited in Eggert, Böhm and Cramer, 2017, p.481). Usually, when a company evaluates whether to buy or to produce, this decision naturally leads to outsourcing if there are fewer costs and higher efficiency. For instance, based on Gartner (2005), companies that outsource their customer-support service can achieve a reduction of 25 to 30%. Secondly, the savings of money and effort can be used to manage only core activities, which allows focusing on a small number of competencies, increasing productivity and quality. Thirdly, Hendry (1995) also considers operational flexibility as a benefit because instead of having employees on a fix-term, the firm has the option to do short-term or long-term contracts. Moreover, based on Tate, Ellram, and Brown (2009), outsourcing may also provide the chance to work with a highly educated and skilled workforce which can lead to potential innovations. Finally, end customers may increase their satisfaction level due to all the mentioned factors.

However, there are also risks associated with an outsourcing decision that should be considered. Firstly, there is the risk of loss of control, as firms might lose control over decision making, resource usage, and information security (Eggert, Böhm and Cramer, 2017). This has been reported in some cases such as in Fratocchi & Silva (2018) and Boffelli et al. (in press). To minimize these risks, companies may have to increase their expenses and effort on additional supervision, which is connected with the second risk of hidden costs. Secondly, there is the risk of strong cultural differences, political issues or new commercial trade regulations that can cause conflicts and affect the business (Fratocchi & Silva, 2018). Even within a multinational enterprise, their subsidiaries might encounter specific local needs (Duarte, Yamasaki, Rocha and Silva, 2019) that need to be addressed. This seems to be truer in outsourcing decisions, especially in the cases where mimetic approaches are followed with the aim of benefiting from second-hand knowledge (Silva, Pacheco, Meneses, Brito, 2012; Silva, Meneses, Radomska, 2018) without previous first-hand experience conducted by the interested firms. For economic or other reasons, the outsourcing decisions may be driven by a herding behaviour without a PRIOR "hands-on-approach" or without substantial investment having been made FOR rigorous market research. This attitude may result in inaccurate decisions or overestimations (Fratocchi & Silva, 2018). Furthermore, outsourcing can lead to a loss of know-how because the firm ceases working to improve their capacity in certain activities which may lead to a lack of innovation and, eventually, market competitiveness.

In a study of a technological product (core components), Viswanathan, Mukherji, Narasimhan (2021) found that outsourcing core-components decreases a firm's ability to reach a technological frontier. However, it decreases production costs significantly. Therefore, the firm needs to address this trade-off when making its outsourcing decision.
In addition, without knowledge transfer from the provider to the outsourcing firm, outsourcing firms seem to lose touch and erode critical knowledge-based capabilities (Raassens, Wuyts, Geyskens, 2012). So, in a case such as this, it may be suggested that any knowledge that is developed is transferred back to the outsourcing company, as the balance of the pros and cons does not favor external production.

The development of a global value chain through the offshoring adoption is, in many cases, initially motivated by an economic benefit of a trade agreement. According to Maskeel et. al (2007), offshore outsourcing is known as a research field since 1960, when American tax-free and duty-free re-entry policies induced companies to search for low-cost production zones to process or assembly US-made components. Since then, global value chains became a highly considered way of conducting the business of all sectors and industries. According to Humphrey and Schmitz (2002), buyers of all sectors are progressively considering a global pool of purchase opportunities. "Contemporary studies recognize the importance of external relationships, especially where these clusters are export-oriented" (Humphrey and Schmitz, 2002, p. 1018). When a company is export-oriented, it is expected that it already manages with an international environment and all its opportunities and challenges, which is a strong strength in the development of a global value chain development. It is also important to highlight that this is exactly the profile of the Portuguese footwear industry, which is very much focused in the international market, throughout its whole value chain.

However, on the other hand, a local pool of partners may represent a positive aspect to be considered. A domestic outsourcing network can be easier to develop and to control due to cultural, linguistics, politics, economics and commercial trade aspects. Vale and Caldeira (2007) reinforce that local networks have the benefit of the "face-to-face contact and the co-location of companies and people (…) [that can provide access] to critical information on technology products and markets by "just being there". (Gertler, 2003; Bathelt et al., 2004, as cited in Vale and Caldeira, 2007, p. 534). Whether domestically or internationally network, the most important is that managers should be open to external opportunities and combine the best choices for their companies. They also should consider that each one of the options has risks and benefits.

Hence, either for outsourcing decisions, as well as for back-shoring ones, resolutions could be driven by the higher control and coordination costs of globally extended supply chains (Kinkel and Maloca, 2009; Martínez-Mora and Merino, 2014). So, companies can expatriate or repatriate production activities to better connect R&D, engineering and manufacturing units (Di Mauro, Fratocchi, Orzes & Sartor, 2018).

3. Methodology

A case study method based on qualitative research was chosen for this theme because it is a relatively unknown and complex phenomenon that takes place in an inter-organizational setting across different countries and cultural contexts (Ghauri & Gronhaug, 2005). According to Yin (1989), the use of multiple data sources in the research is recommended, configuring converging lines of investigation The present article combines a collection of data results obtained through exploratory research with Portuguese footwear experts and results from analysis of case study data. This multiple approach has made it possible to identify different points of view with regards to our research topic.

In the initial phase of this research, exploratory investigation was conducted, through interviews with footwear experts. The purpose of the interviews was to provide and clarify and provide useful insights for proceeding to the case studies. Two interviews were conducted. It is important to highlight that both interviewees were highly experienced and well recognized in the Portuguese footwear market. Their profiles are described in Table 1 (see Table 1).

Identification	E1	E2
Organization name	APICCAPS	CEGEA – Research Centre in Management and Applied Economics
Location	Porto	Porto
Position at the organization	Studies Department	Executive Director
Nationality	Portuguese	Portuguese
Age	31	51
Relevant professional experience	8 years at this position	24 years in this position; several publications as footwear consultant; books and papers published in high-impact journals

Table 1: Relevant players of the sector's profiles

Based on Williams and Moser (2019), this study adopted the hybrid approach (inductive and deductive) due to the identification of new important variables during the interviews that we found relevant for improving the depth of the case. Two shoe companies were selected, and their managers responded to in-depth interviews. The two companies were selected as representative of the sector in Portugal which is organized IN two main regional clusters: one in the Felgueiras region (the first company) and another in the region of S. João da Madeira (the second). In addition, they are also representative in terms of size (the first much smaller than the second). Both companies are focused on export, which is the case of almost all Portuguese footwear companies, since Portugal produces much more footwear than can be absorbed by their domestic needs. The interviews were conducted with companies that have already experienced outsourcing and offshoring as a business strategy. The first interviewed company was named C1 and had headquarters in Guimarães, north of Portugal. This is a European company specialized in the development, manufacturing, and marketing of high-quality technical footwear, developed for foot protection. Their main brand "To Work For" is one of the largest European safety footwear brands with a global presence in 35 markets. They work mainly in the B2B market, but they also operate B2C with an e-commerce sales channel. This company offers high-level products for both men and women, working in close collaboration with its researchers. The company has a strong focus on developing distinctive techniques, and advanced and innovative materials. The second company studied was named C2 and it is a multinational company that owns several factories around the world. C2 offshores part of their activities. In Portugal they have 1.250 employees, representing 15% of their global production: the equivalent of 3 million pairs. It is important to point out that the present research focuses on the Portuguese factory of this multinational firm. It is located in São João de Ver, included in one of the main clusters of this sector in Portugal.

The primary data collected were analyzed in order to determine the main variables responsible for the adoption or avoidance of the offshoring strategy by the companies and its benefits and risks. We aim at understanding the offshoring phenomenon in the context of the Portuguese shoe industry by providing deep insights and new knowledge on the topic. So, in order to establish a clear correlation between the literature review and the research questions proposed, an analysis framework was developed to guide the research methodology and data analysis. The proposed analysis framework provides a synthesis of the variables highlighted in the literature reviewed, that helped to find the most relevant results. The tables below (see Tables 2 and 3) are organized in four main columns. The main building blocks, identified in the first column, are based in the proposed research questions. In the second column, each building block has its corresponding variables, that are mentioned in the literature reviewed and that will be further investigated. The last two columns are established by the justification presented in the literature reviewed for each variable and the author's reference for the citation. As seen below, the initial codebook was created through the four variables/codes raised in the framework of analysis.

In the first question, the researcher focused on investigating two building blocks: benefits and risks, in order to analyze the motivations to adopt it or not. The main building block "Offshore Benefits" indicates the following variables/codes: "Savings"", Operational Flexibility", "Innovation", "Knowledge Acquisition", "Risk Reduction", "Growth Strategy". Based on the building block "Offshore Risks", the codebook resulted in seven variables/codes: "Costs", "Know-how", "External Factors", "Control", "Quality", "Freight lead time" and "Commitment". In the second question, to understand the way that companies approach the offshoring as a business strategy, two building blocks were identified: adoption or avoidance. Based on the building block "Offshore Adoption" and on the proposed framework of analysis, the codebook was created with five variables or codes: "Core competences", "Global Supply Chain", "Competitiveness", "Internal culture" and "Local outsourcing". Furthermore, based on the building block "Offshore Avoidance", the codebook resulted in three codes: "Difficulty Level", "Management Skill", "Family-Owned Firm". It is important to notice that the exploratory research had given important information, used to improve the case studies. So, after undertaking the key agents' interviews, the inductive method was used to guarantee complete and reliable research results. There were two extra relevant variables identified that were very much connected to the building block “Offshore Avoidance”: ‘Management skills’ and ‘Family-owned firm’.

MAIN BUILDING BLOCKS	VARIABLES	JUSTIFICATION BASED ON THE LITERATURE REVIEW	AUTHOR
OFFSHORE BENEFITS	Savings	"Labor arbitrage, economies of scale, and standardization". "…savings can be used to manage only core activities, which allows focusing on a small number of competences, increasing productivity and quality"	Raassens et al., 2014
		“Tasks could not only be executed by different employees, but also by different companies that offered lower costs to buy than to make it internally”	Hätönen and Eriksson, 2009
	Knowledge acquisition	"...companies started to seek external skills, competences and knowledge to provide value to more complex and strategically important organizational processes...” Help enterprises to add extra quality in their final product or service. Add deeper knowledge in a specific part of the process that was not in their internal expertise.	Hätönen and Eriksson, 2009
	Operational flexibility	"Instead of having employees on a fix-term, the firm has the option to do short-term or long-term contracts"	Hendry, 1995
	Innovation	Provide the chance to work with highly educated and skilled workforce which can lead to potential innovations due to suppliers ideas and techniques	Tate, Ellram and Brown, 2009
OFFSHORE RISKS	Control	"firms might lose control over decision making, resource usage, and information security."	Eggert, Böhm and Cramer, 2017
	Costs	"increase their expenses and effort with additional supervision"	
	External factors	"cultural differences, political issues or new commercial trade regulations"	
	Know-how	"firm stops to work and to improve their ability in certain activities"	Eloranta and Turunen, 2015

Table 2: Offshore analysis: benefits and risks

<table>
<tr><th>MAIN BUILDING BLOCKS</th><th>VARIABLES</th><th>LITERATURE REFERENCE</th><th>AUTHOR</th></tr>
<tr><td rowspan="5">OFFSHORE ADOPTION</td><td>Core competences</td><td>[7-Eleven] ...used to own all their supply chain, but now their core activity has been to control its consumer’s purchasing data and to mange the merchandising in stores. All other tasks are performed by joint-ventures or outsourced partners.</td><td>Gottfredson et al., 2005</td></tr>
<tr><td rowspan="3">Global supply chain</td><td>“In the 1990s and 2000s, the industries and activities encompassed by global supply chains grew exponentially.”</td><td>Engardio et al.,2003; Engardio and Einhorn, 2005; Wadhwa et al., 2008</td></tr>
<tr><td>Buyers of all sectors are progressively considering a global pool of purchases opportunities.</td><td>Humphrey and Schmitz, 2002.</td></tr>
<tr><td>“To deal with an international environment and all its opportunities and challenges, which is a strong strength in direction of a global value chain development.”</td><td>Humphrey and Schmitz, 2002.</td></tr>
<tr><td>Competitiveness</td><td>“The current highly competitive environment can also be referred to as an outsourcing economy.”

“…by level capabilities and knowledge, as well as increasing flexibility and adaptability, through outsourcing, a firm can increase the level, variety and quality of its services.”</td><td>Hätönen and Eriksson, 2009.</td></tr>
<tr><td rowspan="4">OFFSHORE AVOIDANCE</td><td rowspan="2">Difficulty level</td><td>“…face-to-face contact and the co-location of companies and people (…) [that can provide access] to critical information on technology products and markets by ‘just being there’”.</td><td>Bathelt et al., 2004.</td></tr>
<tr><td>“It´s easier and safer to outsource from your neighboor company than to think about offshoring that can offer higher risk to the business.”</td><td>E1, personal communication, November, 26, 2019.</td></tr>
<tr><td>Management skill</td><td>The footwear industry expert affirms that usually the company’s managers are very Much specialized in the sector technical operation but there is a lack of management skills to support them in na offshoring strategy.</td><td>E2, personal communication, November, 26, 2019.</td></tr>
<tr><td>Family owned firm</td><td>E2 also sustains that the industry is mainly formed by Family enterprises and the new Generation may be more prepared and more engaged to international activities.</td><td>E2, personal communication, November, 26, 2019.</td></tr>
</table>

Table 3: Offshore analysis*:* adoption or avoidance

Yin (1989) alerts for the necessity of a reliability test, with careful preparation of the case study protocol to correctly guide the investigation. To guarantee it's reliability, the protocol was previously tested with a business executive and all the questions have been validated. The protocol was divided into two parts: it starts with few questions regarding the interviewee and company profile and the second part is based on the proposed framework of analysis, aiming to provide a clear understanding of both research questions and its building blocks (See Table 4).

<table>
<tr><th colspan="2">OBJECTIVE</th><th colspan="2">INTERVIEW QUESTIONS - PART 01</th></tr>
<tr><td colspan="2" rowspan="3">INTERVIEWEE PROFILE</td><td>1</td><td>What is your position in the company?</td></tr>
<tr><td>2</td><td>For how long have you been working there?</td></tr>
<tr><td>3</td><td>For how long have you been working in the Portuguese footwear industry?</td></tr>
<tr><td colspan="2" rowspan="4">COMPANY PROFILE</td><td>4</td><td>When was the company established?</td></tr>
<tr><td>5</td><td>How many employees?</td></tr>
<tr><td>6</td><td>What is the main type of footwear produced?</td></tr>
<tr><td>7</td><td>What are your main internal resources?</td></tr>
<tr><th>RESEARCH QUESTION</th><th>BUILDING BLOCKS</th><th colspan="2">INTERVIEW QUESTIONS - PART 02</th></tr>
<tr><td rowspan="3">R.Q.1 OFFSHORING MOTIVATION</td><td rowspan="3">BENEFITS AND RISKS</td><td>1</td><td>Based on your experience, what are the main benefits of offshoring?</td></tr>
<tr><td>2</td><td>Based on your experience, what are the main risks of offshoring?</td></tr>
<tr><td>3</td><td>What are the strategies to minimize risks?</td></tr>
<tr><td rowspan="7">R.Q.2 OFFSHORING APPROACH</td><td rowspan="7">ADOPTION OR AVOIDANCE</td><td>4</td><td>What activity was / is offshored?</td></tr>
<tr><td>5</td><td>To what country did you offshore?</td></tr>
<tr><td>6</td><td>When did you make it?</td></tr>
<tr><td>7</td><td>Why did you make this decision?</td></tr>
<tr><td>8</td><td>Governance mode adopted - Was it done through outsourcing to a foreign company or did you make an investment?</td></tr>
<tr><td>9</td><td>How do you evaluate the local outsourcing?</td></tr>
<tr><td>10</td><td>Do you plan to backshore or to maintain/increase your offshore operations?</td></tr>
</table>

Table 4: Case Study Protocol

Based on the techniques of qualitative content analysis, it was used the software “QCAmap” (www.qcamap.org), developed by Mayring (2014). Following the software procedures, the context unit was the whole content of the case studies. Each sentence of the interview transcriptions was analyzed, and the ones that most matches with the codes were selected and quantified. Moreover, we also adopted the hybrid approach, considering new variables or codes that were mentioned during the case studies interviews. According to Mayring (2014), the inductive categorization allows a true description without bias of the research when it concerns the inclusion of new codes that were observed in the data that can also influence the main research findings.

All the analyses and findings were based on the proposed framework of analysis. To analyze each research question, the main building blocks were examined in two complementary ways: answers to the case study interview questions; and quantitative results for the building blocks based on the software “QCAmap”.

4. Results

4.1 Footwear Experts’ Perspective of Offshoring

The footwear players' interviews were conducted at the initial phase of this research, as an exploratory stage, in order to clarify and provide useful insights to proceed to the case studies. It is important to highlight that both interviewees were highly experienced and well recognized in the Portuguese footwear market.

According to E1, responsible for the Studies Department of APICCAPS, the Portuguese footwear sector has an important characteristic: it is mainly formed by small and medium-sized enterprises that are 90% concentrated in the north part of the country namely Felgueiras and Guimarães, on the one hand, and São João da Madeira, on the other. By virtue of being included in a footwear district, the industry is self-sustainable in terms of local outsourcing, and for that reason, their needs to offshore are minimal. The larger companies (the ones that handle all the process of designing, producing, selling, and marketing) usually outsource from smaller companies that support them with components or a specific part of the manufacturing process. The district context also contributes to enterprise managers who trust that outsourcing from a neighbor company is easier and safer than offshoring, as the latter can offer a higher risk to the business. Moreover, the district business approach provides greater flexibility to the customer, due to the opportunity to solve all order issues in one single place. (E1, personal communication, November 26, 2019).

Regarding past offshoring experiences, E2, Executive Director of the Centre of Management and Applied Economics Studies, added that about fifteen years ago the industry tried to establish an offshore activity by manufacturing in Cabo Verde, Morocco, India, and Tunisia, but all of them did not succeed, which actually was corroborated in the studies we referred to in the literature review chapter. The footwear industry expert claims that usually the company's managers are very much specialized in the sector technical operations but there is a lack of management skills to support them in an offshoring strategy. However, E2 also sustains that the industry is mainly formed by family-owned firms and that the new generation may be more prepared and more engaged to international activities, which may lead to a new stage in the business strategies. (E2, personal communication, 02 December 2019).

Both footwear players suggested that in the actual industry context, there is almost no room for offshoring. According to E1, the footwear district in the North part of Portugal is self-sustainable, which means that local outsourcing is the strategy most adopted by Portuguese footwear companies. Moreover, E2 supports the same idea by suggesting that some companies already tried to work with offshoring but did not succeed mainly due to a lack of management skills.

4.2 Footwear Companies' Perspective of Offshoring: Offshore Benefits

"Operational flexibility" is perceived as the most relevant offshore benefit, with higher absolute and relative frequency. According to Hendry (1995), the offshoring allows the company to work on short-term or long-term contracts. And there was a similar issue raised by C1: *"It is easier to replace another industrial sewing and cutting unit, it reduces our risk. If the market reverses, our risk is more controlled." (C1, personal communication, January 17, 2020).* C1 acknowledges that they can cease a contract when the market is pointing to a different direction or if they are not satisfied with the supplier results. It would be extremally complex to manage it with an internal structure with higher investment. In fact, even with a local supplier it can be hard to find another one to substitute in the short run, due to the high employability rate in this sector in those clusters.

Furthermore, this variable is also exemplified by issues as higher production scale, agility, and flexibility, as confirmed by C2. In this interviewee's opinion, offshore suppliers have more agility and volume production capacity: *"Benefits: response and agility capacity, higher production volume." (C2, personal communication, January 22, 2020).* C1 also reinforces it: *"Competitive capacity is what we achieve by subcontracting or sourcing in other geographies." (C1, personal communication, January 17, 2020).* The same company also refers that India is more flexible than Portugal because they can receive any size of order at any time, and they rapidly manufacture and deliver the products.

"*We are more flexible in India at the moment than in Portugal. If a client of mine orders 50 pairs, I call, send an email or a WhatsApp message to India asking for the production of 50 pairs and a few days later they put the order on an airplane." (C1, personal communication, January 17, 2020).*

After "Operational Flexibility", there are other four variables that are equally relevant: "Savings", "Growth strategy", "Knowledge acquisition" and "Risk reduction". Regarding "Savings", based on the literature review, cost savings has been a strong benefit for companies since the initial offshore adoption. According to Hätönen and Eriksson (2009), in 1975, Williamson referred to tasks that could not only be executed by different employees, but also by different companies at lower costs than the company would incur if they had to produce internally. The cost reduction is still a fundamental aspect while opting for offshore. It is confirmed by both companies studied. For C1, the interviewee clearly affirms that they have a substantial gain by offshoring to India, comparing to local outsourcing in Portugal:

"It was not possible to sell technical footwear at the cost to produce it totally in Portugal. An upper in Portugal costs four or five euros more and those four euros are, in essence, which allows us to be competitive in the European market. It was really a question of survival. Either I made this decision, or I would probably have to close the company." (C1, personal communication, January 17, 2020)

Therefore, the offshoring strategy provides the price differentiation that helps the company to stay competitive in the market. Moreover, C2 also added "lower-cost" as a highlighted benefit that motivates the business approach. However, according to Hätönen and Eriksson (2009), since the 1990s, cost-saving is not the only relevant benefit anymore and this was confirmed in the case studies analysed. As an example, the "Knowledge acquisition" variable was pretty much mentioned by C1 that mentioned that it is costlier, not only related to financial efforts but also with time effort, to manage and provide training to their employees to develop a knowledge that can be easily found in other countries. India provides the complete know-how to work on the leather shoe collections and C1 only needs to stay close and to coach their teams.

"China is focused on synthetic product and India is focused on natural products. Since 2005 we work a lot with leather products, so for me, it was obvious that India should be considered because they have the leather skins and the people with good know-how to work on it."(C1, personal communication, January 17, 2020)

This is undeniably aligned with the literature review. According to Hätönen and Eriksson (2009), offshoring adds a deeper knowledge in a specific part of the process that was out of their internal expertise. "...companies started to seek external skills, competences, and knowledge to provide value to more complex and strategically important organizational processes..." (Hätönen and Eriksson, 2009, p.144). Also, this was confirmed by DiMauro et al. (2018), Ancarani, Di Mauro & Mascali (2019) and Bonfelli et al. (in press).

The next variable, "Growth Strategy", was not raised by the literature reviewed but by the companies interviewed. All the previous discussions support this variable within the context that the offshore provides savings, new knowledge, and higher production capacity. These three variables are intrinsically connected to the growth possibility. *"Portugal is not enough for our growth plan, we always need to have other countries supporting the operation" (C2, personal communication, January 22, 2020).* Both interviewees argue that they would face limited production capacity, higher costs, limited knowledge, and less raw material variety. All these factors will not facilitate a growth strategy. "Risk reduction" was also a variable raised by the companies interviewed as an important offshoring benefit. It was mentioned twice by the company C1 since they offshore activities such as sewing and cutting that are easy to be replaced, if necessary.

"We are very much focused on increasing outsourcing to reduce our risk and to focus on the most profitable business. Increasing production also increases our daily concerns about people management." (C1, personal communication, January 17, 2020)

Instead of offshoring, if they expanded their internal resources, they would need to deal and spend more time with activities as people management, so it could have a negative impact on their business.

Finally, the variable "Innovation" was not mentioned in the interviews although it was raised in the literature review. According to Tate, Ellram and Brown (2009) offshoring provides a chance to work with highly skilled workforce which can lead to potential innovations due to suppliers' ideas and techniques. It was probably not mentioned due to the lower complexity and very operational activities being outsourced, being a challenge to generate perceived innovations.

4.3 Footwear Companies' Perspective of Offshoring: Offshore Risks

The offshore risks were mentioned in the literature review and in the primary data collected. Some disagreement has been found o this subject which will be discussed below. According to the results, the most relevant variable considered by the companies is "Quality", which was not raised in the literature review, but during the interviews. The companies are most afraid of the workforce and its production quality because they are unable to follow the production or to provide as much training as needed. "Offshore risks - lack of quality workforce" (C2, personal communication, January 22, 2020). This is probably the most natural perceived risk when outsourcing, either locally or abroad. Local outsourcing is likely to enable a closer follow up to check an order but when the supplier is in another country it becomes challenging to access the same quality of tracking. Nevertheless, companies work on the risk reduction to stay as closer as possible to the suppliers. C1, for example, mentioned that they go to India or receive the Indian team in Portugal monthly, besides they are in close contact in the day-by-day routine. By doing this, they can not only provide more training but also, to have a better control of the products' delivery. So, communication, regardless of how it occurs is a fundamental element for creating trust and ultimately for the success of the relationship (Silva, Bradley & Sousa, 2012).

Moreover, "Freight lead time" and "Control" are the second most substantial risk to the offshoring business, and it was mentioned by both interviewees. Regarding "Freight lead time", as the studied companies mainly outsource to Asian countries, there is a necessity to better manage the transport issues. This might interfere on the modal logistics and deadlines as each modal (sea or air) has a different lead time and cost. C1 mentioned that they already have some problems with sea freight, so they must be constantly aware of this issue: *"There are risks of transportation, especially in such distant geographies, it is a high risk. We already had a few problems with shipping and containers that were delayed." (C1, personal communication, January 17, 2020).* Nevertheless, there are also the non-controllable external matters, such as weather, wars, strikes or even health epidemics that can also impact on the delivery time that must be taken into consideration as well.

It is interesting to note that both variables already mentioned "Freight lead time" and "Quality" were not discussed in the literature review as issues to consider while analyzing the offshoring risk. However, the variables were observed by the companies as the two most relevant. It is important to highlight the importance of both on literature and in the case studies' results. One complements the other and provides a wider perspective on the studied topic.

On the other hand, the variable "Control" represents a concordance between the literature review and the case study, as an important risk to be aware of. "Firms might lose control over decision making, resource usage, and information security" (Eggert, Böhm and Cramer, 2017, p.481). The author points to the direction that different types of control can be affected in an offshoring process. Although the companies raised other types of control loss, the variable context is still aligned with the literature. According to the results, both companies affirmed that they must maintain close management and adopt ways to reduce control loss. The examples of control loss were connected to the manufacturing control, which is pretty much linked to the "Quality" variable: *"On the other hand, there are risks of productive control" (C1, personal communication, January 17, 2020).* Companies are afraid of losing control and, therefore, lose quality. As mentioned during the interviews, basically both risks require similar activities to be avoided: a closer relationship with the supplier.

Based on the data, "Costs" is the third more relevant variable. It was highlighted by C2 mainly due to transportation costs. He mentioned that due to the geographical position of Portugal, freight usually is more expensive, so it is something that the company is always aware. Additionally, the literature also conveys into the same idea, that offshoring may add some extra cost to the company operations as it increases their expenses and efforts with additional supervision (Eggert, Böhm and Cramer, 2017). Transportation costs are not explicitly suggested as as aspect which necessitates a need for extra oversight and expense with regards to supervising offshored activities. This view was also observed in the interviews.

On the other hand, "Commitment" was mentioned only in the case study, by C1.

According to the results, it represents a low risk. Due to the lack of control, the company feels unsure that the supplier is extremely committed to their partnership. As they are not following the day-by-day activities, it is hard to trust in their commitment. However, as already mentioned, there are also some strategies to avoid or minimize this risk by building a closer relationship and be present as much as possible. This strategy might be favorable for both sides: the company will have a closer eye on the manufacturing steps and the supplier will also receive better instructions and feel more confident about the partnership. So, again, communication seems to be relevant for building a successful relationship. (Silva, Bradley & Sousa, 2012)

Furthermore, although the variables “Know-how” and “External factors” were raised in the literature, these were not mentioned by the interviewees. so, we believe that in our case, neither represents an important risk for the studied companies, whereas it may be relevant for other companies.

4.4 Footwear Companies’ Perspective of Offshoring: Offshore Adoption

After analyzing the results for the building block “Offshore Adoption”, it is undeniable that the “Local outsourcing” is the most relevant fact that leads to a positive approach towards the adoption of offshoring as a business strategy for the companies. This variable was raised during the interviews probably for a reason: Portugal is a small country with limited internal resources to support the national production. The interviewees highlighted several local issues, for instance, the lack of workforce and limited raw material variety.

“Local outsourcing - lack of technical capacity, high operating cost when comparing to Asia, raw material limitation.” (C2, personal communication, January 22, 2020)

"For the operations, we need to do in Portugal, we no longer finding Portuguese people to work. We are getting worried. We are also considering ‘importing people’, or creating special conditions for people, such as from Brazil, together with an association between Braga and Vila do Conde that integrates Brazilians to work in Portugal." (C1, personal communication, January 17, 2020)

If they do not find these resources internally, the only alternative is to search them abroad. Moreover, it is interesting to note that the lack of local competitive resources is certainly linked to the necessity to search for more operational flexibility, as the main motivation for companies to offshore. This goes is in line with Fratocchi & Silva (2018) who already mentioned the difficulties of finding qualified labour force in these two clusters.

Regarding “Core competences”, it is indeed an important variable. It is the second most relevant, along with another variable that will be also discussed below. “Core competences” was mentioned three times by the interviewees as an opportunity to focus on their core competences.

"What adds value is done internally. What does not add value is outsourced. Core competencies are done internally (70% is done internally and 30% in external factories - shoe components, packaging materials, insoles)." (C2, personal communication, January 22, 2020)

“Our core business is to invest where the added value exists, which is in the creation, development and commercial area. I don't want to invest to sell minutes. I want to invest in areas of the company where we can profit effectively and better control the investment risk." (C1, personal communication, January 17, 2020)

The companies display no preference for managing the whole value chain, including every single part of the production. Instead, they prefer to control the most relevant activities that surely add value to the business, as creation, developments and commercial areas. They prefer to outsource activities that do not add value to the company. By stating this, it is clear that both companies do not focus on stronger vertical integration, but they need to outsource to be able to manage what is essential for their business and what will bring extra value to the company. This is aligned with similar issue raised in the literature review. Gottfredson et al. (2005) mentioned the example of the 7-Eleven brand that used to own all their supply chain, but which eventually decided to conduct internal restructuring. They decided to outsource many activities and focus only on their core competences. This change was essential for 7-Eleven growth and to reach their goals.

Furthermore, both companies appreciate the “Global supply chain”. It is also the second most important variable, based on the statistics results. Once more, there is a concordance with the literature review. Based on Humphrey and Schmitz (2002), buyers of all sectors are progressively considering a global pool of purchase opportunities. In line with this idea, the interviewees are aware that they can find better offerings in terms of raw material and knowledge. The example pointed by C1 is notable interesting and makes it clear that in India they are well supported for leather shoes then they could be in Portugal or any other country.

Additionally, C2 also points out the necessity of building a global supply chain. For them, it was a natural strategy to look for global partners to be part of their supply chain and support their operations.

"Portugal is not enough for our growth plan, we always need to have other countries supporting the operation." (C2, personal communication, January 22, 2020)

“Competitiveness” is the third most important variable along with “Internal Culture”. Regarding “Competitiveness”, C1 commented that Asian shoe companies are the most relevant competitors for them due to price issues. As they sell mainly in a B2B model, their clients usually have a limited budget to buy safety shoes and therefore they are price sensitive customers. This is a hard challenge for C1 to be able to provide high-quality products with competitive prices. Nevertheless, offshoring to India helps them to deal with this challenge by giving the opportunity to better manage their product inventory. This is because the company only buys from the supplier according to their client's order. They do not buy it, if the product is not according to their needs. Hence, to reduce stocks and decrease losses these are important aspects to be considered. Moreover, the interviewee also mentioned that competitors that take care of the whole production process internally may be highly stocked with raw materials that they do not sell.

"We have another advantage over other shoe companies. We buy uppers, we don't buy parts to turn into uppers. Most factories buy parts, linings, work on it and sell shoes, and a lot is left over. I don't have any left. Our inventory management is much more efficient

compared to someone who turns raw materials into uppers and then makes shoes." (C1, personal communication, January 17, 2020)

This matter is also in accordance with some researchers. According to Hätönen and Eriksson (2009), the current extremely competitive environment can also be referred to as an outsourcing economy. Based on the authors, outsourcing and competitiveness concepts are linked due to the global pool of options, and this is also in line with the C1's strategy in India. Therefore, offshoring is also perceived as an essential way to build a competitive advantage in the market, which is mentioned by the literature review and reinforced by the case studies.

The "Internal Culture" variable is also the third most important one that pushes the positive approach towards offshoring. This variable was mainly roused by C2. The interviewee made it clear that the company is a corporation based on international relations with an strong business culture. Since they started their activity, their efforts were all focused on building external partnerships to grow and to increase their results: *"…we do want to maintain our offshore operations because it is part of our culture and DNA. Since the company's earlier years, they had the strategy to offshore." (C2, personal communication, January 22, 2020).* C2 has always needed to explore the world possibilities to come up with innovative offerings and to be able to grow.

4.5 Footwear Companies' Perspective of Offshoring: Offshore Avoidance

"Difficulty level" was the only variable mentioned once by the C1 company in this category. This variable was reinforced by the footwear authority interview with E1 as well as in the literature review. According to Gertler (2003) and Bathelt et al (2004), local outsourcing may be easier to manage due to the face-to-face contact and the co-location of companies and people. Somehow, this is related to the C1 comments:

"By knowing to what extent they are in business with us in terms of responsibility, quality, service, delivery time (…)." (C1, personal communication, January 17, 2020)

C1 argues that offshoring is indeed a difficult strategy because it leads to several risks. The most relevant issue raised in the above sentence was the lack of confidence in the external supplier. As previous mentioned, it can be hard for the company to be sure about the supplier's commitment level.

On the other hand, "Management skill" and "Family-owned firms" were variables included based on the primary data collected in the footwear relevant players' interviews. None was, however, mentioned during the company's interviews. Therefore, the lack of relevance of these variables indicates a positive approach towards offshoring as a business strategy followed by firms, even though considered important by external experts that have a wider view of the situation in the industry. This incoherent vision may point to the different lens used to examine the phenomenon of offshoring in this business sector in Portugal. Managers are probably more concerned with the short-term, more likely to take risks and espouse a broader vision. But while this may payoff in the short term, it may be too risky if there is little flexibility in the implementation of the decisions to offshore and re-shore.

5. Conclusions

Our aim was to assess the application of offshore outsourcing by companies, focusing on the Portuguese footwear industry. Another aim of this research was to uncover evidence demonstrating why offshore outsourcing is considered an important tool for improving competitiveness in the Portuguese footwear sector. Our research also adds to the understanding OF what motivates companies to use this strategy and the benefits and risks associated with it. This study provided some relevant managerial implications regarding the concept and application of offshoring as a business strategy. It discussed the main outsourcing concepts that a manager should be aware of. Besides that, it examined relevant data collected from Portuguese footwear companies that currently apply the offshoring in their business with successful results. The main findings present variables that can be very helpful for managers that are thinking about offshoring but have not made their decision yet, or even managers who have already adopted it and want to revisit their strategies.

The analysis of our study found that offshoring is regarded by footwear companies as a positive strategy. Data has shown us that engaging with new suppliers abroad is a necessity for survival Operational flexibility seems to be the most relevant motivation for companies deciding to offshore. Moreover, the possibility of reducing costs and internal risks, and acquiring new knowledge seems to be the perfect combination for the company's growth strategy. Hence, low added value activities would seem to be good candidates for offshoring because they represent highcost operational activities if produced at home. Further, their labour risk profile is not an impediment to their execution abroad.

There is a divergence between the data from the footwear experts' interviews and the data obtained from the interviewees. The experts claimed that there are no strong benefits that realistically motivate Portuguese footwear companies to adopt offshoring as a business strategy. On the other hand, the companies' managers claim that there are many benefits which strongly motivate them to look for foreign suppliers. Offshoring seems to be viewed positively as a strategic option by the Portuguese companies WE studied. Interviewees agreed on the fact that looking for new suppliers abroad is a survival necessity.

Regarding the motivations to offshore or not, the results obtained from the data analysis, converge in both: the benefits and the risks that the companies must be aware of. Operational Flexibility is the most relevant motivation for companies to decide to offshore. Moreover, the possibility to reduce costs and internal risks, and to acquire new knowledge is the perfect combination for the company's growth strategy. All these topics were equally relevant as reasons for the offshore decision. On the other hand, risks as the freight lead time, loss of control and quality were also widely mentioned, and it must be efficiently managed to avoid impacting the benefits.

Taking into consideration the "Offshore adoption", there is also a divergence between the two sources of primary data. The footwear experts claimed that there is a lack of offshoring adoption in the Portuguese shoe industry. They argue that the local districts are self-sustainable with companies that work closely together to satisfy the market needs, one cluster supporting the other and there is no clear necessity to offshore. However, according to the interviewees' answers, it is undeniable that both companies are used to offshore and they have been doing it for long time, which has served to reinforce their decision. C1 has been offshoring for fifteen years and C2 since the beginning of the Portuguese factory, in 1984. C2 has already worked with different countries while C1 is considering a possible increase of its offshoring activities, this time to China and Vietnam, besides India. Both respondents to our questions refer to some difficulties in the local outsourcing that forced them to search for foreign suppliers, but both also refer to their intention to continue and to increase their offshoring operations.

Moreover, the data for the building block "Offshore Avoidance" also reinforce this scenario due to the lack of importance of each variable. This context leads to a very positive approach to offshoring as a business strategy in terms of adoption and not avoidance. And this means that Portuguese managers in this industry are becoming more aware of the advantages of spreading out the value chain throughout the globe, this becoming real global players.

Furthermore, according to the analysis model, there is no impact from one main building block on the other. Offshoring avoidance is not representative to influence its adoption. Additionally, in accordance with the literature review on the risks to be considered when offshoring, this is considered to be a crucial strategy for companies that want to grow and consider a global pool of options in order to maintain their competitiveness. C1 works with offshore strategy since 2010, mainly to India, to focus on the activity of cutting and sewing uppers for leather shoes. Nowadays, the shoes coming from India represent 95% of their business production. The CEO refers that if they had not adopted this strategy, the company probably would not have survived or would be needing to change their business model. Besides India, they are also looking for new suppliers for sports shoes in China and Vietnam, which they intend to start cooperating with in the next months. The C2 Portuguese factory also offshore from external suppliers. This is a case of a company that was born within an offshoring culture; it is in their “DNA”, mainly due to their growth strategy. If they had considered only the local resources, it would not be enough in terms of production capacity, workforce know-how and availability of raw material.

We also achieved our secondary objective which was to uncover evidence that players in the footwear sector in Portugal believe offshore outsourcing improves their competitiveness although it was recognized that the strategy includes risks companies were still motivated to outsource in these. A significant conclusion is that both companies highlighted problems with local outsourcing as the main factor that pulls them towards searching for new suppliers abroad. For them, in the local footwear district, there is a lack of workforce; lack of raw material; and higher costs. In the literature we reviewed and in the sample we studied, there seems to be evidence that companies want to concentrate their efforts on their core competences, and not being dependent on the local pressures of the labour market. So, they believe that the low added value activities should be offshored, as these are operational activities with relatively high costs and risks that they do not need to manage directly.

On the other hand, there is no evidence for a negative offshoring approach, which is the main divergence towards the footwear experts' opinion. It was acknowledged that there is a certain level of difficulty in managing such a strategy, but that was not considered enough to discourage the companies to adopt the offshoring business approach. Probably this has to do with the risk profile of the companies studied and pressure for improving addeed value in the short run. Although there are several risks in an offshoring operation, the sample studied agreed that this is the strategy that makes them grow and to be competitive in the global market. Risks are found in any business strategy and must be carefully managed to be minimized. Both companies are satisfied with their decision to offshore and additionally, they consider expanding it.

Besides that, the companies approach the offshore strategy in a positive way due to several facts. One is the possibility to focus on their core competences – the offshoring adoption helps with risk reduction and lower investments since there is no need to have a larger internal structure. This strategy allows the companies' managers to focus on their core activities and the ones that will help to increase their profitability and to add value to the business. Deficient local outsourcing is another relevant fact – the companies identify several issues as lack of workforce, low know-how in a specific manufacturing process and poor raw material diversity. These facts also make the companies decide for the offshoring approach.

Although the research has followed a systematic research design procedure, it is possible to have any bias or even inaccuracies from a small sample. Besides that, the data is related to footwear industry, so its results cannot be extended to other sectors, without another data check (for example, it seems clear the streaming services in the world are adopting the verticalization strategy as a way to protect the content produced to stream, as it is part of their core business). None the less, our research has an implication on the footwear sector, since it presents relevant theoretical, secondary and primary data on different topics around the offshore strategy. It can be also useful for the sector institutions and companies that work in this field or similar environment or any other countries, besides Portugal, due to international agenda followed by most shoe manufacturers in the world.

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