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Master Degree in International Business and Trade

**The Interplay between Disseminative and Absorptive
Capacity in Offshoring**

A case study on a Swedish financial firm and its offshoring in the Baltics.

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Abstract

Prior research has investigated into the implications of offshoring and how the configuration complexity arising from offshoring effects the organizational set up. Moreover, research in offshoring has to a large extent emphasized the challenges that arises when relocating activities across borders, without specifically study how knowledge transfer is impacted. In addition, research on knowledge transfer between the headquarter and the subsidiary (offshored unit) has been presented by either investigating the disseminative capacity of the sender or the absorptive capacity of the receiver, and not the interplay between the two. This study seeks to address this by investigating how the configuration complexity arising from offshoring influence the transfer of knowledge, and more specifically the interplay between the disseminative and absorptive capacity. This have been completed by analyzing a Swedish firm within the financial industry and its offshored unit in the Baltics. The result shows that the configuration complexity arising from the relocation and reintegration of activities has a major influence on the transfer of knowledge. We find evidence that the sender's disseminative capacity plays a crucial role, in terms of conquering configuration complexity but also in order to ensure that the receiving unit reaches a desired level of absorptive capacity. We also find evidence for the importance of including physical interaction between representatives from the headquarter and the offshored unit, as a measure to improve the knowledge transfer. This study contributes to the existing literature by shedding light on *how* configuration complexity impacts the knowledge transfer within the firm.

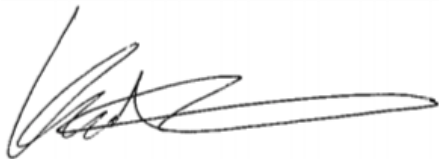
Key words: Offshoring, Knowledge transfer, Configuration complexity, Disseminative capacity, Absorptive capacity.

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1. Introduction

1.1 Background

Offshoring has for a significant period of time been a strategy that MNCs (Multi-national corporation) have utilized in order to increase efficiency or tap into pools of talented workers. Motivated by lower labor costs as well as utilization of specialized expertise, firms constantly push themselves outside their comfort zone in order to reach a competitive advantage (Manning et al., 2008). While the offshoring of manufactured goods and services has existed for a long time, the offshoring of financial services specifically has developed surprisingly slow (Grote & Täube, 2007). The rise of digital services and the consecutive solutions that allows users to perform banking related activities through an app are replacing services that previously required a visit at a local branch (Swedish Bankers, 2016). This increased accessibility has not only decreased the demand for manual labor, but also increased the competition within the financial industry. For instance, Deutsche bank forecasts to lay off 7000 workers in the near future (Arons, 2018), DnB (Den norske Bank) forecasts that only 50% of their labor force will remain in 2027, and many other banks are expecting similar trends (Söderlind, 2017). As future profits are mainly expected to be derived from digital services and cost efficiency measures, banks are continuously pressured to reduce costs where it is possible in order to remain competitive (Olanrewaju, 2014).

The financial industry is characterized by heavy regulations in terms of bank secrecy, and more recently stricter regulations in regard to anti money laundering (AML). Significant resources must be adhered in order to remain compliant and the consequences of not adhering to the regulations could even result in a withdrawal of the financial institute's banking licenses (Finansinspektionen, n.d). This makes offshoring the preferred strategy for financial firms as it allows the headquarter to exercise more control as it is on an intra-firm level (Grote & Täube, 2007). This is compared to the concept of outsourcing which implies a relatively quick and flexible way to expand operations internationally. In contrast to offshoring, outsourcing also entails that the headquarter loses control over its operations as it per definition is an inter-firm relationship (Quinn & Hilmer, 1994).

The use of offshoring is part of the never-ending search for efficiency and cost reduction in large firms. The trend is particularly prevalent in back-office or support activities where

officers have no interaction with customers and therefore are open to being located to lower cost destinations (Evision et al., 2004). While the decision to offshore certain activities indeed can generate significant benefits for the firm, it will also raise several challenges that would not occur otherwise.

1.2 Problem discussion

How firms should configure offshored operations has been featured in many studies and researchers seem to agree that the complexity and vulnerability of the activity will determine the optimal configuration (Eg; Barney,1991; Quinn & Hilmer, 1994; Trent & Monczka, 2005; Mudambi, 2008; March,1991). Whatever the offshoring objective is, there will inevitable be a rise of new interdependencies that need to be redefined and coordinated in order for a firm to ensure a successful offshoring strategy (Jensen, et al., 2013). The organizational restructuring indicates that new individuals must be recruited and assimilated into the value chain. In addition, relevant competences must also be transferred to newly recruited workers. This implies that the headquarter must define best practices and transfer relevant knowledge to the offshored unit. This process can be especially complex in the events of offshoring as previous informal coordination mechanisms and tacit knowledge that interdependencies were constructed upon will be hard to transfer and re-establish at the offshored unit (Dhanarai et al, 2004). Furthermore, the restructuring can arguably also make it difficult for headquarters to determine the knowledge that should actually be transferred. This can be referred as the headquarters' disseminative capacity which determine the ability and willingness of the home unit to identify and transfer relevant knowledge (Szulianski, 1996; Minbaeva & Michailova, 2014).

A feasible solution to a quick dissemination would be to standardize and codify tasks to the greatest extent possible as workers would be able to imitate codified procedures (Zander & Kogut, 1995). These findings are well in line with Wüllenweber et al. (2008) who point out that standardization and codification of tasks within the financial industry facilitates for the construction of interdependencies as it allows managers to clearly define, control and measure the efficiency of processes. However, codification and standardization of work activities neither guarantee that all the necessary information is determined, nor does it guarantee that employees are following the suggested procedures (Kondo, 2000). For example, the Swiss bank

UBS was confirmed with lacking structured procedures and internal controls in their outsourcing operations in India and was fined \$29.7 Billion (Ram, 2012). Furthermore, JPMorgan Chase & Co initiated a noteworthy project where the mission was to decrease the labor force by four thousand positions. However, the outsourcing contract was terminated in less than two years due to difficulties in reaching efficiency. CIO Austin Adams pointed out that it was easier for the firm to be efficient if the services were conducted in-house (Strassman, 2005). This highlights the fact that standardization and codification of knowledge by itself is not sufficient in order to guarantee an effective knowledge transfer as knowledge need to flow through several channels (Argote & Ingram, 2000).

On the flipside, knowledge must also be transformed and exploited in the daily activities of the receiving unit in order to fulfill its purpose (Minbaeva et al., 2003; Zahra & George, 2002). The unfamiliarity over the new organizational structure can generate invisible costs that influence the process of learning and integrating new workers into unfamiliar organizational structure. This could potentially mitigate the benefits of the offshoring decision (Stringfellow et al., 2007). A recent study determined that Spanish banks actually centralize activities (rather than decentralize) in order ensure an efficient transfer of knowledge between employees (Cepeda-Carrion et al., 2016). In similarity, the Swedish banking industry is characterized by a heavy centralization trend, and ninety Swedish branches closed their operations in 2018 (DN, 2018).

While the existing literature to a large extent highlights knowledge transfer as the key to sustainable competitive advantage (Minbaeva et al., 2003; Argote & Ingram, 2000), little attention is given to offshoring of service activities and how configuration complexity influences the knowledge transfer. This implies that the firm will be faced with an unfamiliar situation where it not only has ensured that all relevant knowledge is disseminated, but also ensure that the offshored unit realize and utilize the knowledge intended to be transferred. Managers will tackle the configuration complexity with their existing knowledge over the organization. However, an interesting aspect to consider is that managers suffer from bounded rationality which implies that the offshoring unlikely will immediately arrive at a perfect configuration (Ethiraj & Levinthal, 2004). Having these circumstances in mind, it becomes interesting but also important to increase the understanding on how the configuration complexity arising from offshoring actually impacts knowledge transfer. More specifically,

how the configuration complexity influences the headquarters disseminative capacity and the offshored unit's absorptive capacity.

1.3 Research Question

How is the interplay between disseminative and absorptive capacity influenced by configuration complexity in offshoring?

1.4 Purpose

The purpose of this study is to expand the understanding on how the knowledge transfer process within the financial industry is influenced by the configuration complexity arising from the relocation and reintegration of activities, which offshoring implies. As there are always a sender and a receiver within the process of knowledge transfer, we aim at investigating the interplay between the two. The findings could potentially increase the knowledge in regard to why offshoring within the financial industry is still not as existent as other industries. In connection, the findings and conclusions could potentially increase the knowledge on what kind of financial activities that are suitable for offshoring as well as shed light on the challenges related to knowledge transfer for actors within the financial industry.

1.5 Context of study

Bank-S (Bank-Sweden) is a financial firm operating on the Swedish market. Its service offering includes mortgages, payment solutions and savings for corporations as well as individuals. In an attempt to decrease costs and increase productivity, Bank-S has decided to offshore back office activities related to the advisory process. The selected destination is the Baltics where a new branch has been established which in this study will be referred to as Off-B (Offshoring-Baltics). For clarification purpose, Bank-S is treated as a headquarter and will therefore in some instances be referred to as "the headquarter".

1.6 Delimitation

This study does not intend to give an explanation to the underlying reasons of why certain tasks are relocated to a given location, nor is the idea to give suggestions on how firms should to configure its international operations. In addition, we acknowledge that national and organizational culture is of significant importance of any international reconfiguration, but this

thesis does not take the cultural aspect in consideration. The reason for these delimitations is to maintain a clear focus on how configuration complexity influence knowledge transfer in thus increasing the likelihood of arriving at conclusions that would contribute to existing academic research in the area of offshoring within the financial industry.

1.7 Thesis outline

Theoretical framework - The theoretical chapter outlines the theories identified as relevant for the purpose of the study. In this instance, theories include on offshoring and the complexities arising as a result of the organizational reconfiguration. This will be followed by theories discussing the aspects of knowledge transfer and the dyadic relationship between the sending unit's disseminative capacity and the receiving unit's absorptive capacity. This chapter is summarized with a discussion on how the different theories have been approached and how they will be applied on our case, through the Conceptual model.

Methodology - In this section, we will present and discusses the research design chosen and the methods chosen for this study, as well as the measures taken for gathering and analyzing the data collected. A discussion on the quality as well as ethical considerations of the study will be presented.

Empirical findings - This section presents the empirical observations made through our interviews with representatives at both Bank-S in Sweden and Off-B in the Baltics. Here, our findings on the organizational reconfiguration as well as the knowledge transfer between Bank-S and Off-B will be presented. This will be made by describing the changes made to the organization following the relocation as well as describing the communication flows between the two sites. Also, an evaluation by all the relevant stakeholders in our study will be presented.

Analysis - Our empirical findings will in this section be discussed and analyzed through the theories presented in the theoretical chapter. Our conceptual model will in this instance function as our guideline when analyzing the relationship between different events in our study.

Conclusion - The thesis ends with a concluding chapter summarizing our main empirical findings and presenting our answer on the research question, together with our contributions, limitations of the study and areas of future research.

2. Theoretical framework

2.1 Configuration complexity in offshoring

Any offshoring project can be described as a three-phase configuration process where activities are disintegrated, relocated and ultimately reintegrated back into the headquarters' organization. First, the firms dislocate previously co-located activities by identifying tasks to be offshored and in turn break the tasks down into sub-tasks. Second, in order to meet the predetermined objectives with the offshoring strategy, a relocation of suitable activities to a foreign host location takes place. In the final step, the firm initiates different measures in order to reintegrate the offshored unit back into the overall organization. This re-configuration process will inevitably generate new dynamics and the newly established international dispersed value chain will generate an unfamiliar *configuration complexity* compared to when activities were performed at the same location (Jensen et al., 2013).

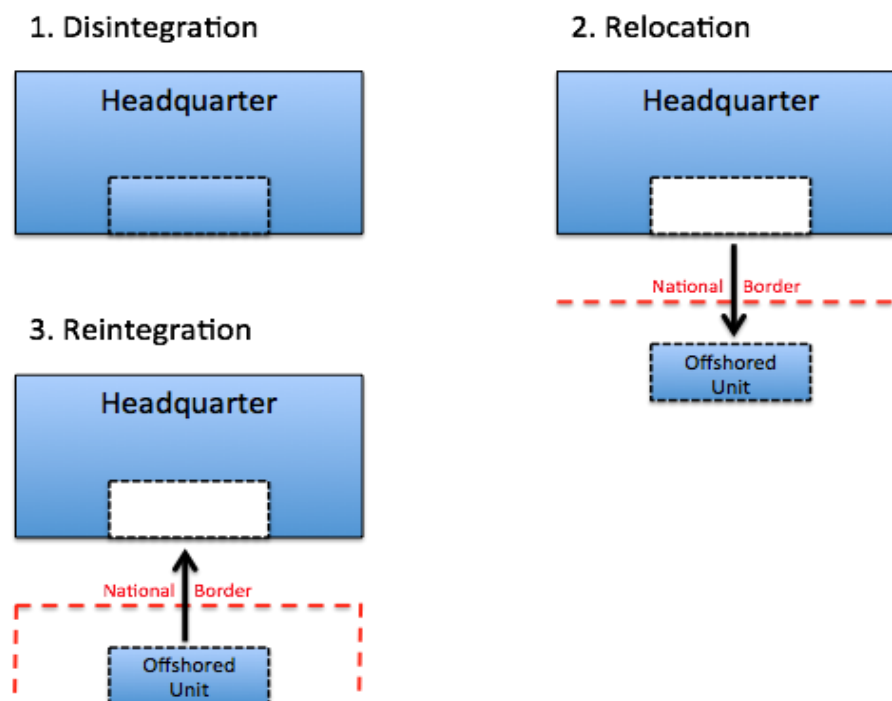


Figure 1 - Description of the offshoring process (own illustration based on Jensen et al., 2013).

Firms firstly determine the activities that should be offshored. Secondly, relocates determined activities to a location cross borders matching the expected capabilities and objectives. Lastly, the firm re-integrates the offshored unit by transferring relevant knowledge and know-how's in order for the offshored unit to function as expected. (Own illustration based in Jensen et al., 2013)

The source of the configuration complexity is related to the fact that the home unit previously could rely on informal coordination mechanisms when challenges arise and in turn use tacit knowledge, trust and familiarity of the organization to compensate for the lack of explicit processes (Dhanarai et al., 2004). What enables the development of these informal coordination mechanisms is the shared context between the individuals and the ability to utilize informal day-to-day interactions when challenges arise (Srikanth & Puranam 2011). Unfortunately, the informal coordination mechanism employees could rely on will be discarded as firms disperse activities and reshape the organization (Storper & Venables 2004). In the event of offshoring, new positions and activities must be re-established and relevant competences must be defined. The headquarter must also establish mechanisms in order to ensure that the offshored unit becomes re-integrated (Young, 2007; Ghemawat, 2001).

Moreover, much of the complexity is arising due to the fact that organizations tend to lack routines to organize the knowledge transfer. As an organization goes through a re-configuration, an inevitable consequence will be that a new organizational culture will systematically take shape. This is a significant challenge where there is a risk that operational efficiency will be inhibited due to lack of trust, understanding and communication when delivering tasks as well as status differences between domestic and foreign units (Brusoni et al., 1998; Meyerson et al., 1996). As a consequence, it will lead to the rise of negotiations and adjustments between members within the organization that will create friction and influence the collaboration and productivity until new interdependencies have been established (Boden et al., 2012). This barrier associated with offshoring can be referred to as *interaction distance*, implying that a suitable communication channel, a common language and a common system of interpretation is needed in order to obtain operational efficiency (Larsen et al., 2013).

Understanding the consequences of the organizational re-configuration fulfills an important purpose as it helps managers to define the required coordination between organizational members and the re-establishment of activities (Larsen & Pedersen, 2014). Without this understanding, there is a risk of taking decisions that undermines the efficiency within the organizational structure (Asmussen et al., 2016). This knowledge can be described as *architectural knowledge* and concerns how different activities are linked and integrated in a comprehensive organizational system (Brusoni & Prencipe, 2001). When applying the circumstances of offshoring, established architectural knowledge is broken down, and new

architectural knowledge has to be recreated. Managers need to systematically develop an understanding of how the configuration complexity influences the construction of the new value chain. Moreover, there is a need of designing the organizational architecture in a way that matches the required capabilities in order for the offshored unit to function (Ethiraj & Levinthal, 2004). It is unlikely that the reconfiguration immediately arrives to an optimal set up as both managers and employees suffer from bounded rationality. This implies that a trial and error process will take place until sufficient knowledge is transferred and that the knowledge matches the requirements to perform activities sufficiently (ibid). Although managers and employees might take preventive actions towards future issues, the process of offshoring and the following re-configuration will likely generate hidden costs that were not taken into consideration. This could in turn slow down the progress towards reaching the initial objectives with the offshoring (Stringfellow et al., 2008).

2.2 Managing knowledge transfer in offshoring

One of the main sources of competitive advantages an MNC (multinational corporation) possess is the possibility to develop knowledge in one location and utilize it in another location within the network (Minbaeva et al., 2003). However, the quality of interaction channels has a significant impact on the effectiveness of knowledge flows (Gupta & Govindarajan, 2000). Hence, it is important to establish processes and practices that encourage a continuous communication between subsidiaries and headquarter in order to efficiently shape and define roles. Moreover, it is of high significance that the MNC continuously strive to match the responsibilities with the capacities at the offshored unit (Ghoshal & Bartlett, 1988).

2.2.1 The role of social interaction

Hansen (1999) has pointed out that the transfer of knowledge between different units within a MNC is highly affected by the level and quality of relationships between the employees. Here, a common communication platform should be established in order to optimize the knowledge transfer. Socially enacted and embedded forms of knowledge, capital and network relations could thus have an even greater impact on the re-integration. The reason for this is that it could work as a catalyst for knowledge transfer as it entails a high ability to associate with each other and in turn share common values that aid communication (Nahapiet & Ghoshal, 1998). In turn it will also facilitate the uptake of knowledge since the sender will have more accurate

expectations of the outcome and a better understanding of the capabilities of the receiver (Zimmerman & Ravishankar, 2014). Grote and Täube (2007) extends the discussion by highlighting the importance of *professional proximity*. The concept implies an understanding of others' methods, practices and aims, similar interests, and a shared professional language. Since the organizational re-configuration implies that new employees will be recruited with a limited conception of the firm's culture and working routines, the construction of professional proximity between the headquarter and the offshored unit should be an urgent matter. The existence of professional proximity within a firm could facilitate the construction of trust and furnish a shared context for the organizational members and create a common platform for interaction, thereby simplifying knowledge exchange. In addition, it can also increase the efficiency of using ICT as a tool for training (Grote & Täube, 2007). However, the generation of social interaction and informal mechanisms will be a major challenge for the MNC as it is impossible to establish informal coordination mechanisms prior the organizational restructuring (Bartlett & Ghoshal, 1999). Managers and employees of both headquarter and the offshored unit must thus initially rely on technology-based coordination as no common culture has been established (Storper & Venables, 2004).

2.2.2 Codification and personalization as communication tools

In conjunction with the relocation of activities, two communication strategies could potentially be used when managing knowledge transfer, namely personalization or codification. A *personalization* strategy implies collaboration between an expert and a trainee and is a suitable way to transfer tacit knowledge as knowledge can flow directly from the sender to the receiver (Kulkarni et al., 2007). However, it also the most time consuming, expensive and slowest way to transfer knowledge. In addition, sharing knowledge through personalization can never be systemized as it is practically impossible to codify tacit knowledge since it is both difficult to articulate and only obtainable through personal experiences. On the other hand, a *codification* strategy implies that a headquarter stores, classify and reuse available knowledge. In the process of codification, the person who developed the knowledge extract it and makes it independent from the developer which allows the knowledge to be reused over and over again (Hansen et al., 1999). Codification of knowledge and processes could thus be highly desirable as relevant knowledge can easily be transferred and utilized at another location through replication. It can in turn also diminish the need of social interactions between the headquarter

and the offshored unit (Zander & Kogut, 1995). Codified knowledge can be defined as data that has been arranged in a meaningful pattern, where tacit knowledge in conjunction can be seen as the ability to utilize codified knowledge in a productive way. In this sense, tacit knowledge can be seen as knowledge that must be obtained through practice (Roberts, 2000). Having this in mind, codification is desirable as the transfer of knowledge would require less resources and decrease the need to utilize experts. It is an efficient way to decrease cost of production, measure productivity and ensure compliance with regulations. However, not only is it inevitable that some knowledge characteristics are lost in the codification process, but it is also likely that the receiver interpret the codified knowledge different from the sender. A similar logic can be applied when individuals are sharing tacit knowledge (Roberts, 2000).

2.2.3 Implications of communicating through ICT

In the process of improving the social relations, usage of ICT such as instant messaging, videoconferences and intranets could compensate for intra-organizational communication at reduced cost. Moreover, ICT allows employees to distribute and communicate their ideas, irrelevant from geographical location (Lai, 2001). However, different from face-to-face communication where knowledge can potentially flow tacit-to-tacit, the usage of ICT creates a double transformation process. Knowledge needs to be disassembled to relevant data and information, and as it arrives to the destination, it must be turned from data and information into knowledge (*see figure 2*). Thus, ICT communication is still not as efficient since face-to-face communication diminish the need of repackaging knowledge. ICT can still assist in the generation of tacit knowledge if a common virtual culture is established (Roberts, 2000).

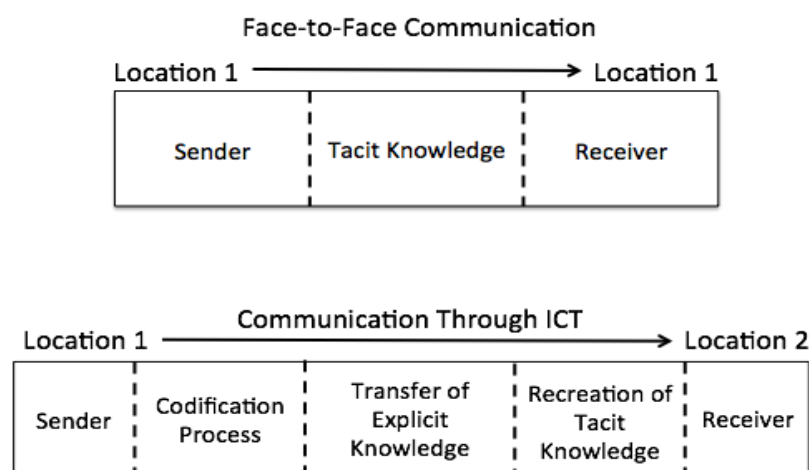


Figure 2 - Comparison of communication flows (own illustration based on Roberts (2000))

2.2.4 Facilitating knowledge transfer through expatriation

When dealing with the complexities of coordinating operations across borders, MNCs can to a large extent rely on expatriation. Relocating expatriates from the headquarter to the subsidiary have traditionally been linked to the exercise of control and the achievement of integration across borders. The primary goal of expatriation has traditionally been to keep the subsidiary in line with the headquarters' strategy through coordinating activities by formal and informal mechanisms (Tung, 1993; Evans et al., 2002). However, the nature of expatriation and the assignments related to it has gradually expanded. Expatriates are now important actors with regard to the development of employees' capabilities at subsidiary level, and the transfer of skills from the headquarter. Missions of expatriation now include increasing subsidiary's commitment towards headquarters objectives, development of trust, improving employee's individual capacity, implementing knowledge enhancing activities and the transfer and development of best practices (Harris et al., 2003). With other words, expatriates have today two functions; align the subsidiary's activities with the headquarter and facilitate the transfer of knowledge between the headquarter and the subsidiary. These two functions act as complementary to each other during the expatriate assignment and the length of it could vary, depending on the predetermined objectives with the assignment (Delios & Bjorkman, 2000).

2.2.5 Absorptive capacity

The absorptive capacity of a subsidiary being the receiving unit, has been suggested as the most decisive factor influencing the level of internal transfer of knowledge within the MNC (Szulanski, 1996; Lane & Lubatkin, 1998; Gupta & Govindarajan, 2000). Absorptive capacity can be defined as the *"ability to recognize the value of new external information, assimilate it, and apply it to commercial ends"* (Cohen & Levintahl, 1990, p. 128).

Ability and motivation

In the discussion of incentivizing flows of knowledge between the headquarter and the subsidiary through developing the absorptive capacity at subsidiary level, Minbaeva et al., (2003) points out that absorptive capacity consists of two aspects; ability and motivation. The ability aspect is influenced by training and performance appraisal, while the motivational aspect is influenced by internal communication and performance-based compensation. These insights are based on the discussion made by Cohen and Levinthal (1990) who states that the level of education and job-related skills underlines the ability, and the aspiration level within

the organization impacts that employee motivation. The means of increasing the level of motivation differ between different types of subsidiary with respect to the level of autonomy they have obtained over time. Building on Cohen and Levinthal's (1990) discussion on motivation, a strong organizational culture is brought up as an important factor that could encourage intrinsic motivation among the subsidiary employees (Mudambi & Navarra, 2004). Moreover, opportunistic behavior from the headquarters side towards its subsidiaries could significantly harm the level of motivation for the subsidiary's employees. When the headquarter is perceived as acting in an unfair and selective manner, the commitment among the employees could be negatively impacted and consequently affecting the motivational level (Williamson, 1996).

Considering knowledge transfer in offshoring specifically, Manning et al. (2008) highlights that activities of lower complexity tend to be offshored since the possibility of standardization is higher. Here, Kondo (2000) discuss the relationship between standardization and motivation and points out that standardization of activities could have a negative impact on motivation as it limits the level of creativity among the employees. In addition, standardization could by itself decrease motivation levels as it restricts employees' degree of autonomy and decrease the need of social interaction with other employees (Deci & Ryan, 2000; Gagné & Deci, 2005).

Potential and realized capacity

Zahra and George (2002) present a discussion on absorptive capacity at the subsidiary level in terms of potential and realized absorptive capacity and suggest the concept of *efficiency ratio*. The efficiency ratio would indicate to what extent the potential in the subsidiary absorptive capacity is actually realized. This would suggest that the MNC, although very likely has the knowledge within the organization, could experience variations in its ability to transform and utilize the existing knowledge. This is based on the concept of potential absorptive capacity, which implies that knowledge must first be acquired and assimilated. Realized capacity, on the other hand, is the level of transformation and exploitation of knowledge that previously have been acquired and assimilated. The concept of potential versus realized capacity act as complementary to each other. Although potential capacity as such is not dependent on the realized capacity, no improvements will occur in terms of profit generation and productivity gains if the potential is not realized. Realized capacity, on the other hand, is dependent on the

level of potential capacity as the MNC first need acquire and assimilate the knowledge, before it can be transformed and exploited in a later stage (Zahra & George, 2002).

Discussing absorptive capacity in terms of these two dimensions (potential and realization) will not only enable an understanding of the complexity of the absorptive capacity. It will also showcase the importance of having internal processes and practices which enables the development of capabilities that address the transformation and exploitation (realized capacity) of knowledge, and not only the acquisition and assimilation of it (potential capacity). In addition, as realized absorptive capacity is being seen as the main influencer to the performance of the MNC, being aware of its impact but also what underlies it (potential capacity) will help the MNC to establish necessary practices to develop the subsidiary's overall absorptive capacity (Zahra & George, 2002).

2.2.6 Disseminative capacity

In order for an offshored unit to absorb knowledge, a fundamental condition is that there is another unit actually sharing the knowledge. Cohen and Levinthal (1990) points out that an effective and value enhancing transfer of knowledge is fundamentally based on the collaborative efforts put in by both the headquarter and the offshored unit. With other words, how the knowledge is being transferred and consequently the behavior and attitude of the sender will have a substantial impact on the efficiency of the knowledge transfer. There have been numerous definitions made on the concept of disseminative capacity (e.g. Szulanski, 1996; Simonine, 1999). For the purpose of this study, we have chosen Minbaeva and Michailova's (2004) definition implying that disseminative capacity is dependent on the sender's ability and willingness to share knowledge with the receiver.

Ability

In order for the disseminate capacity to function, the ability to clearly articulate and communicate specific knowledge to the receiver is highly significant and enables a clear understanding when the knowledge is being received. In other words, to what extent and how clear the knowledge has been codified in the first place will to a significant extent dictate the efficiency of the knowledge transfer and how it will be utilized. Thus, the knowledge transfer will not be developed and enhanced if the necessary skills and competencies of the knowledge

sender are lacking (Tang et al., 2010). Moreover, the ability to disseminate knowledge is influenced by the sender's previous experience and qualifications but also to what extent the sender has considered different perspectives on how the knowledge can be interpreted (Reagans & McEvily, 2003). In addition, language is an important factor to consider as it could act as a significant barrier due to the risk of misinterpretation (Cabrera, 2003).

Willingness

As the organizational structure changes, the processes within the firm will change as well. These changes require adaptation by the employees, which might be hesitant as changes often bring unfamiliarity with them. For instance, employees would have to adapt to newly established working routines but also to towards new employees (Dhanarai et al, 2004), which offshoring implies (Storper & Venables, 2004). Several factors could influence the willingness of the sender (headquarter) to share knowledge. Cabrera (2003) points out to several psychological and sociological aspects on the willingness to share knowledge. Lack of trust between the knowledge sender and receiver in particular influence the transfer negatively, as well as a lack of obligation to share knowledge. A related discussion has been conducted by Husted and Michalova (2002), where they argue that the lack of willingness to share knowledge is rationally justified on the individual level, even if it does not make sense from an organizational point of view. Husted and Michalova (2002) base their discussion around six reasons to why senders would feel opposed to share their knowledge with other employees within the organization:

- Reluctance to spend the time necessary on the knowledge sharing. The time that would be required to share the knowledge would instead be located towards activities that the individual deems more productive.
- Potential loss of power value, and thus protection of the individual competitive advantage as the knowledge owner would feel a strong ownership of the accumulated knowledge.
- The knowledge owner could feel unsure regarding the quality of the knowledge and would thus avoid exposure and external assessment.
- The knowledge sender may hesitate to share his/her knowledge with someone in the organization, who has not put in the same or no effort at all in their own development.

- An organization with high respect for hierarchy and formal power could make the knowledge senders reluctant to share important knowledge, as it would be perceived as risking a position of superiority within the organization.
- The knowledge sender could be careful of sharing relevant knowledge as an uncertainty could exist, regarding how the knowledge receiver would interpret and utilize the knowledge.

Cabrera (2003) points out that norms and an environment that encourage open and transparent exchange of information and experiences will affect the extent of knowledge sharing. This is further supported by Nahapiet and Ghoshal's (1998) discussion on social interaction (*see 2.1.1 Configuration complexity*). The sender's belief that the receiver has the necessary skills and competencies to absorb the knowledge will influence the willingness positively, as the sender would then consider the knowledge worth sharing. However, the sender's willingness to disseminate knowledge is ultimately influenced by the perception on the benefits compared to the cost of sharing the knowledge (Cabrera, 2003).

2.3 Conceptual framework

To examine how the interplay between disseminative and absorptive capacity is influenced by the configuration complexity arising in the reintegration phase, a conceptual model has been developed. The model is derived from the main concepts presented in the theoretical chapter and are linked together in accordance with our intended purpose. As has been discussed by Minbaeva et al (2003), one of the main competitive advantages of the MNC is the possibility to create knowledge in one location and utilize it in another. However, in order to reach the competitive advantage, the headquarter need to be able to disseminate knowledge and ensure that the offshored unit has the capacity to absorb the knowledge. In this sense, the communication channels that knowledge flows through are also expected to a significant impact on the knowledge transfer itself.

Having this in mind, any MNC embarking on offshoring will inevitably be faced with the configuration complexity arising from the attempt of reintegrating the offshored activities. This complexity arises from the fact that new interdependencies need to be established across

borders, necessary capabilities need to be developed and suitable communication procedures need to be established (Jensen et al., 2013; Larsen et al., 2013). We aim at investigating how the disseminative capacities of the MNC's headquarter and the absorptive capacity of the MNC's offshored unit, in conjunction, is influenced by the configuration complexity following the reintegration phase in offshoring. With this, we aim at analyzing how the configuration complexity limits the MNCs possibility to reach a competitive advantage after the relocation of interdependent activities.

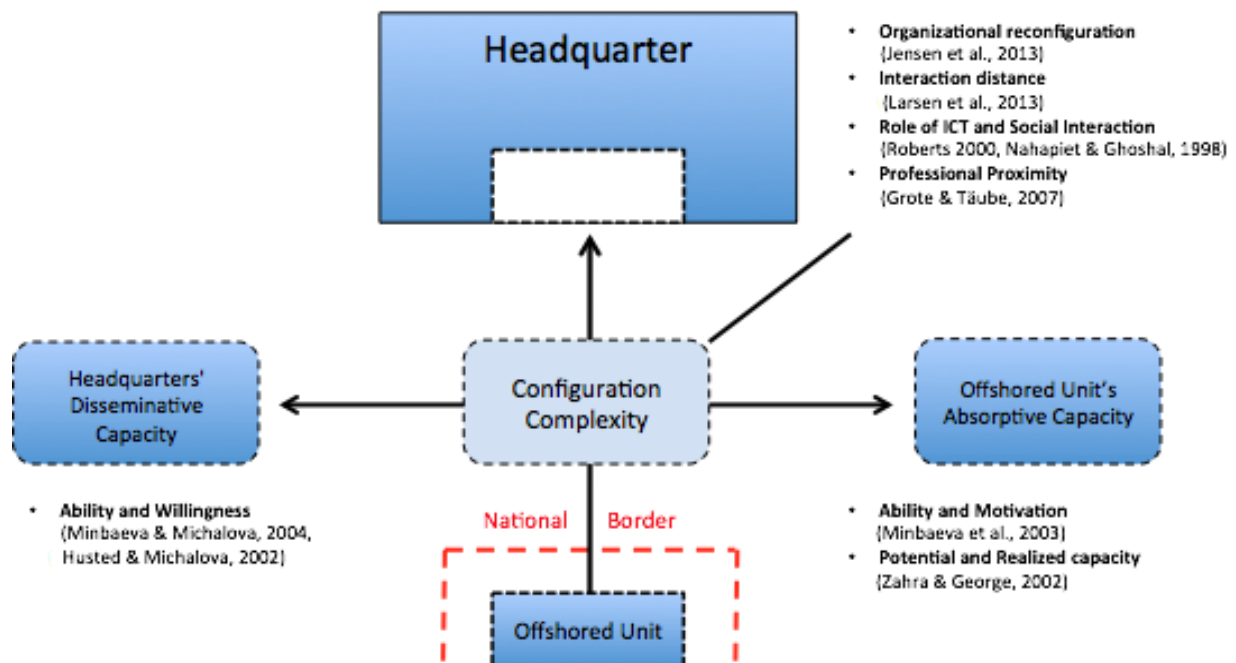


Figure 3 - Conceptual model (own illustration).

3. Methodology

3.1 Research approach

The study has been based on an abductive research approach, which can be described as a combination between inductive and deductive approaches (Bryman & Bell, 2011). The combination implies that there will be a constant move between theory and empirical observations during the process of study, in accordance with Dubois and Gadde (2002). The reason here is that we have been aware of the potential of being presented with new insights and factors to be taken into consideration, when conducting the interviews with respondents from Bank-S in Sweden and Off-B in the Baltics.

As an abductive approach has been selected for this research, we have thus been open for empirical insights that we regarded of high relevance and which the first draft of theoretical concepts did not cover. Initially, we have had a deductive reasoning where the aim has been to obtain a solid understanding of the theoretical aspects that are connected to our research question and purpose of the study. This has been the case in order to ground our interview guides in accordance with established theory. In a second step, the theoretical framework was revisited after we have performed interviews as we gained a deeper understanding on the empirical context. One section that was added to the framework is the added theoretical aspects on social interaction (see 2.2.1). Lastly, the theoretical chapter was restructured and finalized when the empirical section was completed, in order to gain a greater match between theory and empirical observations.

One important reason with the decision to take on the abductive approach has been to constantly improve the relationship between the theory and the empirical findings, derived from our observations at the two locations. This is to a significant extent in accordance with what Dubois and Gadde (2002, p. 555) conclude, where *“theory cannot be understood without empirical observations and vice versa”*. Moreover, as this research has been built on a case study, having a continuous matching between theoretical aspects and empirical observations would to a significant extent add depth to the case from an explanatory perspective (Dubois & Gadde, 2002).

3.2 Research method

There are two types of research methods that could be used, namely qualitative or quantitative method (Bryman & Bell, 2011). As in our case, the study's purpose has been to investigate into how configuration complexity influences the interplay between absorptive and disseminative capacity in offshoring. The quantitative method was disregarded as it would be difficult to construct an econometric model and as the variables of interest are hard to quantify (Vissak, 2010). Furthermore, few Swedish financial institutes pursue back office related activities in the Baltics, implying that it would be difficult to obtain statistical generalizability. Instead, we have chosen a qualitative method, which *"stress on the understanding of the social world through an examination of the interpretation of that world by its participants"* (Vissak, 2010, p. 386). What is described in words by the respondents and their perspective of reality is one important aspect of qualitative research (Eriksson & Kovalainen, 2008). Therefore, we were further motivated to use a qualitative research method.

3.3 Research design

The research design has had the intention to serve as a framework and guideline on how the data should be constructed and obtained during the project. A case study is said to be a suitable research method when current perspectives are inadequate, conflicting or contradictory and where the intention of the case study is to progress the academia forward by challenging or testing the validity of current research (Eisenhart, 1989). For this project, a single case study was selected, which could be defined as *"an empirical enquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident"* (Yin, 2009: p14). It is a suitable approach when answering a research question when the researcher has little control over the situation and research question starts with "how" or "why", thus striving to explain a problem in its real-life context (Yin, 2012; Baxter & Jack, 2008). In turn, it becomes a suitable strategy for the case of this paper as we intended to analyze *how the interplay between absorptive and disseminative capacity is influenced by configuration complexity*.

In order to address the research question, this study has been of the explanatory kind and examines the outcome where the links in real-life interventions are too complex for a survey or experimental strategies (Baxter & Jack, 2008). A dyadic approach to a single case study

gives the opportunity to analyze the intention of the sender, and consequently the outcome and perception of the receiver. It is an especially appropriate strategy when data collection includes cross-border and cultural behaviors as alternative methods such as surveys could be interpreted very differently dependent on the recipient. This could in turn lead the study towards misleading conclusions. Case studies tend to be holistic and thus allow us to utilize a wide variety of viewpoints and comparing human characteristics that are hard to quantify (Bryman & Bell, 2011). By performing a case study, the researcher has the potential to ask supplementary questions in order to ensure a correct understanding (Ghauri, 2004).

Moreover, a case study is preferable when samples are too small for using statistical generalization. As this research has had the intention to gain a deep understanding on the interplay between disseminative and absorptive capacity in a financial firm, it becomes highly important to get a detailed understanding of the communication between several layers. An alternative way to tackle this would have been to perform a multiple case study, which would indeed increase the generalizability and give more conclusive results. On the other hand, a multiple case study would decrease the depth of the study and in turn give a less accurate picture of reality (Bryman & Bell, 2011).

3.4. Selection of Case

3.4.1 The firm

The firm included in this study is a Nordic MNC within the financial industry. More specifically, the MNC's Swedish division, which is referred to as "Bank-S" will be the subject of study together with its offshored unit, referred to as "Off-B". Bank-S is from an organizational point of view, a subsidiary on the same hierarchical level as the offshored unit in the Baltics. Off-B is responsible for activities in the lower end of the value chain while activities in the upper value chain are still conducted by Bank-S in Sweden. Moreover, the activities that Off-B conducts have been targeted towards the Swedish market and customers. This has to a significant extent resulted in a relationship between the Swedish division and the offshored unit being identical to a HQ-Subsidiary relationship with regard to power and decision-making. While several banks are active in both Sweden and the Baltics, the research has been designed as an explanatory single case study and has required a deep investigation. The dyadic relationship and the understanding of several aspects has been needed to adhere to,

thus the company that would allow us to make the deepest investigations should be considered. Hence, the company of selection was strongly influenced by the fact that a wide access was given with regard to internal guidelines, communication systems and a wide range of employees.

3.4.2 Primary data

The collection of primary data has been conducted through semi-structured face-to-face interviews. This method has allowed us to ask supplementary questions and ensure a clear understanding of the given answer, in accordance with Vissak (2010). The interviews have been performed jointly by both of us in order to ensure a common understanding of the answers given by the respondents.

In order to achieve a triangle view and a broad understanding throughout the whole value chain, we had a brief discussion concerning the research with managers of Bank-S and Off-B before constructing the interview guides. Recall that triangulation can be referred to as the analysis of multiple reference points to locate a more exact location (Bryman & Bell, 2011). In a second step, interviews with employees and managers from several layers of the organization were held. This helped us gain a better understanding of how the stakeholders within the value chain were interlinked.

The stakeholder groups concerned in this study include:

- Advisors (Sweden)
- Members of the support function (Sweden)
- Bank-S management (Sweden)
- Off-B management (Baltics)
- Officers (Baltics)

As the study has been of dyadic nature and the hierarchies are clearly stated, the questions depended on the respondent's position in the value chain and in which country they were working in. Moreover, a field trip was carried out at Off-B's location in the Baltics, for two

days where the interviews were held with officers and the Off-B management. The interviews initially followed a loose structure of predetermined questions, but room was intentionally left out for the respondent to express their own point of view. In addition, all interviews, both in Sweden and the Baltics were recorded in order to allow for transcription. Prior to the interviews, potential respondents were selected in cooperation with our contact at Bank-S who had a great knowledge of the existing networks. Hence, the respondents in Off-B were selected prior to the field trip. Financial advisors who work in another department were suggested by the advisor's managers.

In total, we have conducted 22 interviews where each one has ranged from 25 to 60 minutes and. All interviews, besides one, were performed in Swedish. A detailed description of the interviews can be observed in Appendix 2.

3.4.3 Secondary data

Secondary data has mainly been utilized in order to investigate the amount of knowledge that is explicitly codified. This knowledge exists in pre-constructed manuals and working instructions that have been expected to contain sufficient information for the officers to conduct their given task. In this sense, it has served as a way to validate information received from different respondents and has served as a baseline to what the respondents have suggested. This has contrasted the primary data with the codified processes and enabled us to triangulate the study and lead to more accurate findings. Referring to the theoretical framework, codified and explicit processes is one of the most efficient ways to spread knowledge and know-hows. Codified processes and its explanatory significance can be seen as a way to instruct workers on how a process should be performed. (Wüllenweber et al., 2008). By comparing the understanding of managers and employees, we have been able to find out where codified and standardized processes are lacking flexibility and explanatory power.

3.5 Data analysis

As data was transcribed and translated, it was divided into aspects that generated configuration complexity and aspects that implied changes in the knowledge transfer process. In conjunction, data was sorted in a third section concerning the different stakeholders' opinions of the two aspects. Consequently, we used a cross-case analysis method in order to increase the depth of

the analysis where the opinions of different stakeholders were compared in order to achieve empirical generalizability and theoretical predictions (Yin, 2012).

In the initial phase, a conceptual model rooted in a deductive approach was constructed in order to give us an understanding of configuration complexity and crucial aspects of the knowledge transfer processes. However, as the observed reality constantly develops the researchers' perceptions and experiences (Collis & Hussey, 2009), the theoretical framework was continuously edited and revised in order to align it with the empirical findings. The conceptual model mainly got revised as we gained a better understanding of how Bank-S conducted the knowledge transfer practices and through which channels knowledge was flowing between the two sites. This was an ongoing process throughout the whole research where minor changes were constantly performed. Hence, it is difficult to establish separate conceptualizations and the conceptual model presented in *section 2.4* can ultimately be considered the revised edition. Subsequently, the stakeholders' opinions were compared to each other and considered to highlight the configuration complexity's impact on the knowledge transfer between Bank-S and Off-B.

3.6 Quality of study

Reliability and validity are important aspects to consider in order to gain trustworthiness of the study and to ensure that the quality of the study is at a sufficiently high level (Bryman & Bell, 2011). This has been maintained by considering the criteria discussed below.

3.6.1 Reliability

Reliability is constructed upon the possibility to replicate and repeat the results of a study and concerns with to what extent the findings are common over time. Furthermore, it also concerns to what extent the findings exemplify phenomenon found in reality (Golafshami, 2003). As this study has been based on responses from various kind of people, expecting an outcome that is homogenous and thus static is likely not possible. Hence, our research limits the possibility for repeatability and replicability. As human behavior is never static, the respondent's answers will be biased depending on their preferences and backgrounds. Here, what is important in order to maintain reliability is to be consistent, from our side as researchers (Leung, 2015). For instance, when interview guides were constructed, we have had the perspective of all the stakeholders

within Bank-S and Off-B in mind. This means that different interview guides have been constructed in order to grasp the different viewpoints of the stakeholders at the two locations (Bank-S and Off-B). The interview guides have been the same for each stakeholder group, which have added to the consistency of the study. This would enable us to arrive at findings that would help us answer the research question.

This study has to a large extent been possible to conduct due to the fact that one of us researchers has had a close contact with Bank-S, which has enabled access to data but most importantly access to relevant respondents. As replicability assumes that the study could be conducted by someone else (Bryman & Bell, 2011), this could be difficult to uphold in our case as the already established contact with Bank-S has been crucial. However, Bryman and Bell (2011) points out the importance of presenting and explaining the different steps of the study in order to increase the replicability. Here, we will carefully explain our procedures in order to present the study in the most transparent way possible.

3.6.2 Validity

In qualitative research, validity can be described as to what extent the measures taken and the data used is suitable for the purpose of the study (Leung, 2015). In addition, being a qualitative study, reality is thus perceived as multidimensional and in constant change (Merriam, 1998). For these reasons, we have taken measures that ensure that the findings really capture what was intended to be observed.

Internal validity

Internal validity, often referred to as credibility, is concerned with the issue of causality in the analysis. This is highly relevant in explanatory studies, where the intention is to clarify and enable a deeper understanding of why and how the outcome of one event affect the outcome of another event (Bryman & Bell, 2011). As we have been responsible for the measures we have taken and decided on the data to collect and utilize, the selected findings could be affected by a subjective judgment. Thus, to ensure that the credibility has been at a sufficiently high level, we have had to make sure that the findings presented represents the reality of the subject being investigated.

There are two practices that is suggested to improve the internal validity, namely respondent validation and triangulation (Bryman & Bell, 2011). In our case, respondent validation was carried out by providing the respondents with our findings, which have given them the opportunity to clarify any potential misunderstanding but also provide relevant feedback. Triangulation can be achieved by using multiple sources of data and/or different methods to confirm the findings (Merriam, 1998). Because of the purpose of the study and the intention to grasp both Bank-S' and Off-B's viewpoints, the data has been taken from respondents in two different geographical locations within the organization. Moreover, both managerial and non-managerial employees have been part of our respondent list.

External validity

External validity, also known as transferability, is concerned with to what extent the findings provided by the researchers can be generalized (Bryman & Bell, 2011). As our intention has been to gain a deeper understanding on knowledge transfer in offshoring within the banking industry, only one case company have been used. This means that the findings could and should not be generalized to other cases (Shenton, 2004). On the other hand, Yin (2003) discuss the concept of analytical generalization, where the findings are defined to specific theories that have the generalizability, and by that can contribute to the general theory. Furthermore, single case studies can still imply logical generalizations and mitigate the gap between academia and the industry (Patton, 1990). This is in line with a comment from Vissak (2010) in regard to a single case study presentation.

“For instance, some years ago a businessman contacted me after my case-study presentation about positive and negative impacts of foreign owners on their foreign subsidiaries at a conference about transition countries and told me that in that session, my presentation was the only one he understood as the methodologies of quantitative papers and the terms used for presenting them were not familiar to him”. (Vissak, 2010; p. 372)

3.7 Ethical considerations

Ethical considerations have been taken into account throughout the entire process of this study. All respondents were, prior to the interviews, given a brief background in regard to the objectives of the study and were also given the opportunity to either accept or reject

participation. This means that no one have been forced to take part as a respondent. Moreover, each respondent has had the possibility to either accept or reject that the interview would be recorded and anonymity to all respondents have been given. To clarify, names have been withheld but their location and stakeholder group belonging have been presented, in agreement with all respondents. In accordance with Bryman and Bell's (2011) discussion on the subject, we have constantly aimed at not interfering with the respondent's private sphere by avoiding asking questions that could be perceived as too private and with that cause discomfort. In addition, as the respondents have revisited the findings, comments have been forwarded to us, which has enabled us to correct certain parts and by that gain approval of the empirical findings.

4. Empirical findings

4.1 The operational context

4.1.1 Regulatory requirements

A financial firm's execution of financial schemes is set independent from the inflow and are permeated by the requirements of the EU policy MIFID 2 (Markets in Financial Instruments Directive level 2) stating that the financial institute should strive for a quick execution to avoid that clients are disfavored. Furthermore, financial schemes should also be executed in the order that the advisors have submitted the financial plans. Should a customer's order not be executed in a reasonable time, the bank can perform delayed purchases for the right price but have to then calculate the projected loss or gain and compensate the customer so that the customer is not disfavored. The bank has set up strict internal deadlines in order to meet the regulatory requirements. Bank-S has interpreted these internal deadlines as fixed that implies that the internal deadline will remain the same irrelevant from the inflow of schemes. Should a scheme not be executed before its deadline, the bank would then replace the potential loss to the customer in order to remain compliant.

“Member States shall require that investment firms authorized to execute orders on behalf of clients implement procedures and arrangements which provide for the prompt, fair and expeditious execution of client orders, relative to other client orders or the trading interests of the investment firm. Those procedures or arrangements shall allow for the execution of otherwise comparable client orders in accordance with the time of their reception by the investment firm.” (Article 28:1, Markets in Financial Instruments Directive 2014/65/EU)

4.1.2 The organizational objectives

The back-office department has the mission to increase efficiency and productivity while at the same time reducing costs. The value chain is constructed as a classic front-to-back office structure under the philosophy that advisors should focus on customer meetings and the back-office unit should focus on the consecutive administrative activities. The value chain is supposed to be streamlined and each activity should be able to be performed without the need for contact or having an understanding of previous and consecutive steps in the value chain. This minimizes the need for interpretation of previous work by giving the next position clear and often standardized instructions, utilizing digitalization and actively working towards

processes simplification. Several different processes situated in the back-office function constitute the operation division of Bank-S. These processes vary in complexity, not only as they affect different stakeholders, but also because the processes are connected to different product offerings. In addition, the different processes are affected by different regulations and policies, which in turn shape the operating complexity of a certain process. This study has mainly included processes in regard to savings (i.e. funds, bonds, stocks) and estate.

4.2 The value chain

The financial advisors represent the first position in the value chain and belong to a separate department. The back-office unit represents the consecutive steps and is attached to a different department within Bank-S. The value chain is initiated with the customer meeting, where the advisors develop a unique portfolio for each customer. Advisors generally give advice in regard to short- and long-term savings as well as pensions catered to the Swedish market. A wide variety of accounts ranging from simple savings account to endowments with assigned beneficiaries can be selected. Furthermore, the advisors can also request different actions such as purchasing, selling or redistribution of funds, stocks or equity-linked notes, depending on customer preferences and market fluctuations. The advisors' areas of responsibility also include the collection of necessary documents and to ensure a compliant initiation of the value chain. After the meeting, an electronic financial scheme with requested actions is generated and transferred to the second stage in the value chain. The scheme features information about the products that are to be purchased, created, sold, or if capital should be rearranged. Although the schemes are standardized to a great extent, advisors can also add complementary information for clarification purposes.

The second person in the value chain (Officer 1) reads the instructions of a table in the financial scheme and performs the requested modifications. The uniqueness of each financial scheme requires the officer to select the most appropriate action which depends on the complexity of the financial scheme. Furthermore, the officer can also perform a task given the specific instructions from the advisors. If a mistake is observed or an instruction is unclear, the task is returned to the specific advisor for correction. In this process, the second person in the value chain (Officer 1) identifies the errors and returns the scheme to the first step in the value chain (the advisor) with either a standardized or customized message, highlighting the perceived

unclear. In turn, the advisors adjust suggested corrections and the process restarts. Instead of returning the financial scheme the official way, a common alternative method used by officers in many occasions is to utilize ICT tools such as instant messaging or phone calls in order to contact advisors if something is unclear. In this way, it is not necessary to return the financial scheme and potential unclarity is perceived to be easier explained through verbal communication.

“The exception is if any errors have been made here, then it is easier to make a call-in order to solve the error as fast as possible, you don’t have to formulate any text and the schedule gets done faster.” (Officer, Baltics)

The third step of the value chain is performed in the same department as the second step and mainly exist due to technicalities and delays, as it takes time to transfer money between financial institutes. Capital will not always be liquid at the same day as a transaction is performed. Consequently, officers cannot predict values of the funds since it is updated on a day-to-day basis. Officers monitor the processes and ensure that the products that are not able to be produced or created on day one is produced or purchased as soon as possible. In this procedure, the second person in the value chain (officer 1) typically types manual instructions unique for a given financial scheme. Information that could be attached to the scheme includes information regarding the funds that should be purchased, the accounts that the capital should be transferred between or if something should be performed in an alternative way. The intention is that the attached information should be sufficient for the third person in the value chain (officer 2) to finalize the financial scheme without the need of interpretations. The third step (performed by officer 2) in the process can be repeated several times depending on the complexity of the scheme. After the third step, the value chain is considered to be executed. The simplified value chain prior to the relocation of activities is presented in Figure 4.

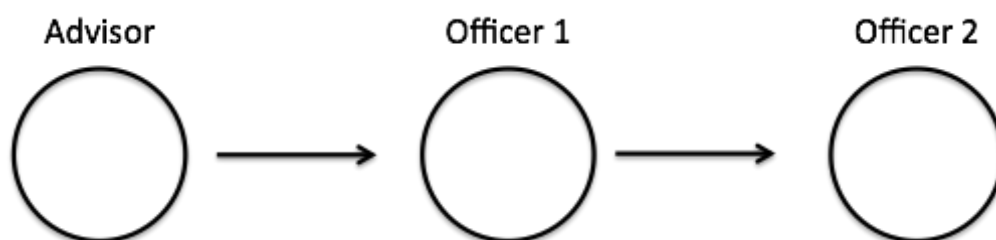


Figure 4 - Simplified plot of the value chain prior to the relocation (own illustration)

4.2.1 Value chain adjustments following the relocation

Although Bank-S has had offshoring operations in another country, the Baltics was primarily selected as the preferred offshoring location due to an existing labor force of Swedish speakers. Furthermore, other branches of the bank had already set up office functions in the Baltics. The consecutive organizational change is mainly related to the physical relocation and the need of establishing new positions and transfer knowledge to new recruits. The strategic vision of the back-office department has not substantially changed after the relocation and the execution of activities look identical to the executions prior the relocation. However, in order to transfer knowledge and assist the offshored unit, a support function team was created, consisting of specialists with experience from position two and three prior in the value chain (see figure 4).

The support function is responsible for continuous education, complex issues and correction of errors and mistakes made by officers. In addition, the support function also assists new recruits in the offshored location by answering questions and giving suggestions on how to perform certain activities. Furthermore, the support function occasionally assists officers in contact with the advisors. While the support function currently remains in Sweden, the intention is to gradually transition responsibility to the offshored unit. Hence, the support function will decrease in size until the headquarter perceives that all the necessary knowledge and capabilities resides within the offshored unit.

Although the production today is majorly performed at Off-B, the management over the value chain remains in Sweden. One important aspect of the process ownership is the responsibility to communicate with different departments and stakeholders within the bank. Another aspect is the responsibility of an effective implementation of new working instructions for the officers. Although a continuous dialogue takes place between the headquarter and Off-B management, the headquarter is responsible for the pace in which Off-B takes on new responsibilities. All managers agree to the fact that certain roles within Bank-S could potentially be relocated, but it is perceived as necessary to keep certain roles in Sweden. This is due to the importance of a comprehensive understanding of the overall organization and maintaining organizational and professional proximity to different departments and stakeholders such as IT.

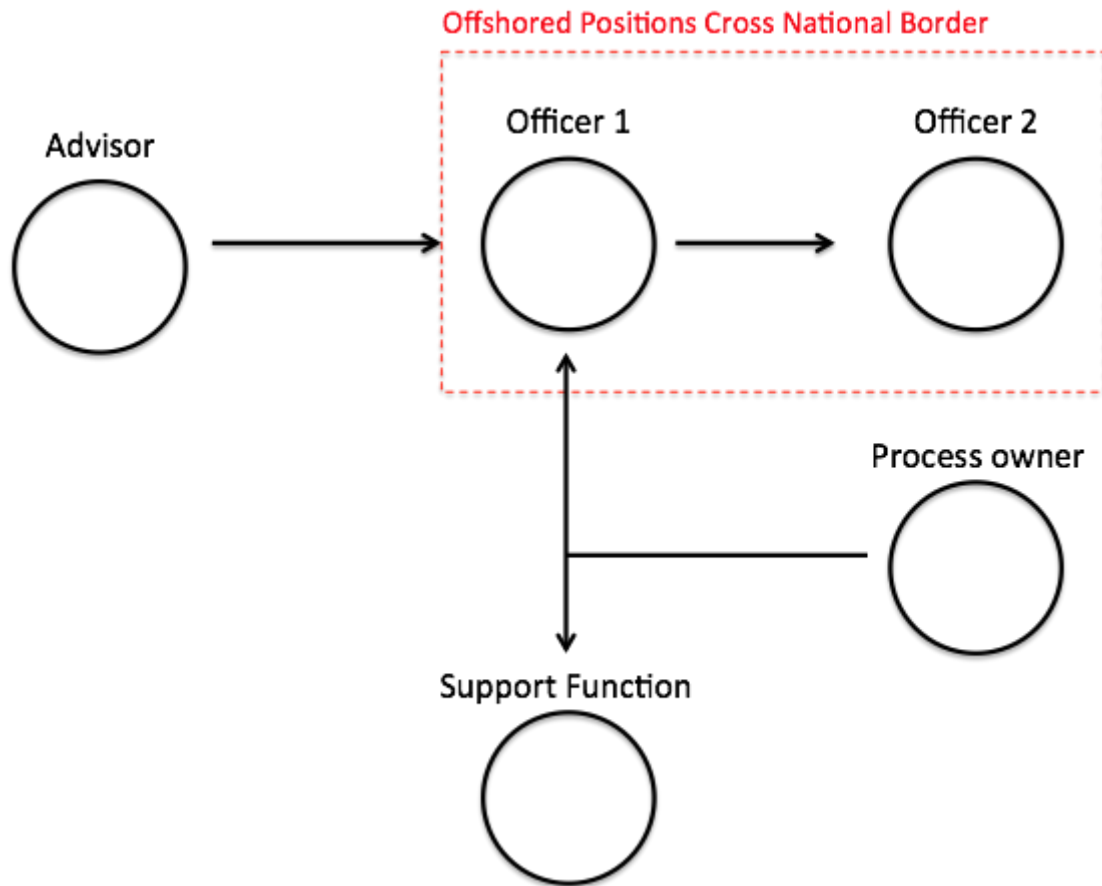


Figure 5 - Simplified plot of the value chain after the relocation (own illustration)

4.3 Stages of process relocation and reintegration

4.3.1 The initial phase

The relocation of operations to the Baltics was structured as a project with a predetermined deadline. The assigned project leader organized the people involved in handling the due diligences that needed to be conducted. Before the relocation was initiated, an analysis of the risks was conducted including several stakeholders from other departments within Bank-S. In this instance, each process is being looked at and a review of its potential to be relocated occurs. The people involved in managing the risks for the project received areas of responsibility including the management of legal, internal but also external risks that could be found on the location in the Baltics. In many instances, several processes have been identified as theoretically possible to relocate but have had a significant number of practical issues that in reality made a relocation complicated.

When the relocation of activities and processes started to take place, the processes that were considered the least complex, were relocated first. Initially, the idea was to send a couple of support function members from Sweden to train the employees at the assigned location during the whole training period. However, a limited number of employees in Sweden were prepared to travel to the Baltics for the duration of time needed for the initial training. The initial recruits were given three weeks of training, two weeks were held in Sweden by employees that had been working with the processes prior the relocation. When officers from Off-B came to Sweden for training, each officer was assigned a trainer from the Swedish division, which functioned as a mentor during the time of training. These mentors had varying degree of knowledge and experience in the processes they were teaching in, since they primarily operated in other process than those related to savings and estate. This had an effect on the coherence of the overall training for the Off-B officers. In the final week, training was relocated to the Baltics where members of the support function would conduct training on location.

In the initial period of the relocation and the subsequent set up of the operations in the Baltics, the officers at Off-B had a quite uncertain situation with regard to management. There was a managerial position involved in the recruitment and the overall set up of the office location, but not specifically assigned to manage the organization surrounding the operation of processes. The idea was that this managerial position could, in an informal manner, have the managerial responsibility for operations and recruitment simultaneously. As the number of employees grew at Off-B, the circumstances changed on which this managerial position was working in. The employees in the Baltics had, on paper a team leader who was responsible for the processes and the operation in these, but this team leader was located in Sweden. After some time, a management team (Off-B managers) was assigned to manage the operations at Off-B. These individuals had both previous experience of Swedish corporate culture and a local connection to the Baltics.

4.3.2 The following phases

As the idea was to gradually extend the responsibility of Off-B, members from the support function would travel to the Baltics for continuous training of the Off-B officers. These training missions would involve lectures and open discussion combined regarding new routines as well as additional information concerning changes in processes. As training would generally take

place in the Baltics, Off-B officers and support function members would not only have a greater possibility to interact with each other, but also have the ability to spread information and transfer knowledge regarding the processes more efficiently. The members of the support function would also be able to observe how Off-B officers executed the processes and correct any misunderstandings directly.

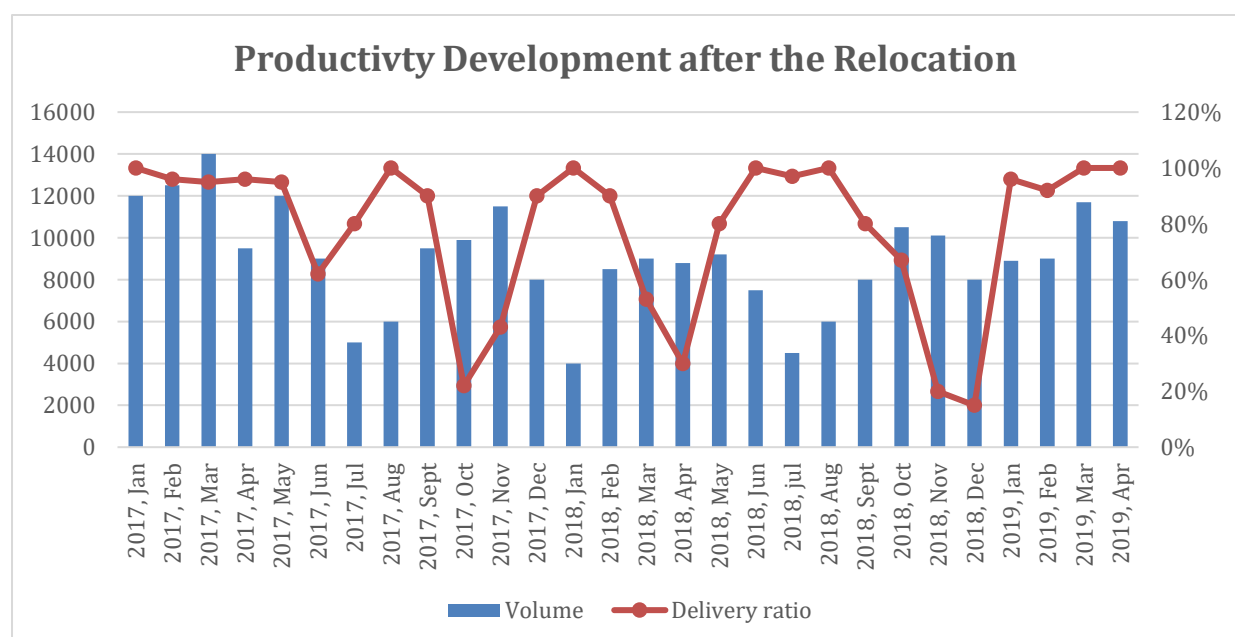
Major changes were established regarding training of new recruits approximately one year from the initial process relocation. The initial idea was that whenever a new activity was going to be relocated, an analysis would be conducted aimed at concluding the number of employees that would be needed in order to conduct the process in a cost efficient and qualitative manner. Here, new officers would be employed for that specific process and sent to Sweden to receive training in the offices of Bank-S. By structuring the transfer of processes and the associated knowledge in this manner, the idea was that it would enable the rest of the officers to specialize in certain processes that they were assigned to and which had already been relocated. New recruits came from distinctly different backgrounds resulting in a significant contrast between the capabilities among new Off-B officers. A solution to this issue was the creation of a senior officer role, which would function as the link between the Baltics and Sweden regarding the transfer of process knowledge and the related training. Senior officers would after receiving the training, communicate to the rest of the employees at Off-B relevant information regarding the processes and how to operate in them.

Furthermore, senior officers have been involved in the training of new recruits and have along the way become the employees with most accumulated knowledge and experience at Off-B. These senior officers were selected mainly due to two reasons. Firstly, the perception was that these workers had built enough capacity to take on further knowledge and then apply it in the operations of the processes that were going to be relocated. Secondly, as these workers had already a ground in Off-B to stand on, the required time for training was expected to be significantly shorter. The identified officers would have a greater possibility to grasp the bigger picture surrounding the specific processes and thus being able to understand how and why the process should be conducted in a specific manner. This adjustment established a similar training structure to the one that was conducted in Sweden prior to the relocation. Moreover,

the adjustment has enabled a training structure where new recruits would have a mentor on location.

4.3.3 Process transfer outcome

Figure 5 plots the productivity relative to the inflow of financial schemes. It does not take individual productivity into consideration but only the organization as a whole. The inflow of financial schemes is represented by the blue staples. The red line represents the amounts of schemes completed within a set time frame, which is Bank-S' interpretation of Article 28:1 (Markets in Financial Instruments Directive 2014/65/EU). The project started in May 2017 where Swedish officers were dismissed simultaneously as a recruitment process in the Baltics was initiated. As officers at Off-B began to work in the processes, the productivity immediately dropped from levels around 90% to 25% of completion before the deadlines. The sudden increases in relative productivity can be traced to a low inflow of schemes. Relative productivity has remained low since the start where one manager highlights that it is correlated with an inflow of additional activities to Off-B. Since January 2019, the delivery ratio has drastically increased which can be traced to an excess recruitment of officers.



Graph 1 – Productivity development after the relocation (own illustration)

4.4 Necessary skills and capabilities

As Off-B is intended to function in the same way as Bank-S did with regard to process execution, most of the desired skills officers could possess are identical to the requirements prior to the relocation. Managers and officers are primarily mentioning five different skills that are required in order to perform activities associated with the position as an officer. However, managers also highlight that it is difficult to estimate a suitable level for the different skills as they interplay to a large extent. For instance, lower proficiency in Swedish could be acceptable if other skills such as a strong analytical capability or previous experience from the financial industry exists. This has been a continuous challenge throughout the recruitment process and managers have found it difficult to measure the different skills. The following five skills have been identified as important by all managers and officers.

- Swedish proficiency
- Computer proficiency
- Analytical capabilities
- Understanding of Swedish banking products and end customers
- Understanding of the value chain

Swedish proficiency

While Swedish proficiency obviously was not a relevant skill to consider when the processes were executed in Sweden, it has now been highlighted as one of the most important skills an officer could possess in the Baltics. As the organizational objectives entailed that instructions and communication standards were going to remain the same as prior to the relocation, officers need to interpret documents and navigate through software written in Swedish. Furthermore, officers must also be able to formulate clear written instructions when messaging advisors or giving instructions to the second stage in the value chain (officer 2). Despite that most of the respondents at Off-B either were native Swedish speakers or had working experience from Sweden and spoke fluent Swedish, members of the support function have highlighted that the financial industry is much built around a specific professional language. This entails a particular vocabulary that most new recruits initially do not possess (including native speakers). However, employees in both Bank-S and Off-B highlights that it is something that officers could learn by experience and a sufficient interest.

Computer literacy

Since all activities are brought out through computers, basic computer literacy is considered vital among all respondents. The officers need to be able to navigate through several software and follow digital instructions. At the same time, officers have to communicate verbally and non-verbally through electronic communication tools.

Analytical capabilities

As the daily activities of an officer consist of performing various standardized procedures, it has been easy to codify general working routines. All these features are listed in an electronic document accessible for all officers and consist of more than 400 pages of instructions and manuals on how to execute different procedures. Employees and managers on both sides agree that the document is of high quality and every instruction is sufficiently detailed so that officers always feel confident that they have instructions to perform all steps of any activity. Despite that the codified working instructions are perceived as clear and trustworthy, officers tend to not use it often as the most common procedures are memorized by extensive repetition. The working instructions are rather utilized for educational purposes, back-up in regards to how to execute rare procedures as well as to ensure that officers are working in a consistent and compliant manner.

Several managers and officers point to the fact that working instructions do not determine the appropriateness of a given procedure and highlight the importance for an officer to independently being able to determine the most appropriate action. Moreover, understanding why a certain action is decided over another will help to increase productivity. For instance, officers need to forecast when capital is liquid and usually perform future orders or type descriptions for officer 2 about the amount of capital that will be liquid, where it will be deposited and to where it should be transferred. In addition, analytical capabilities are also highlighted by some advisors and officers as a necessity in order to distinguishing negligible errors, such as daily fluctuations of fund values compared to the values presented in the financial schemes.

“If you would for example analyze a financial scheme, you would not have any tool to help you on how to go about with the transactions. For example, you are supposed to take capital

from six places and put the capital in three places. How everything is connected. There is nothing that helps you with that analysis.” (Member of the support function, Sweden)

Understanding of Swedish banking products and the end customer

In connection to the analytical capabilities, both managers and officers highlight that understanding the Swedish banking system is of high importance. Accounts behave differently depending on its function, certain accounts would generate additional tax if deposits are made (e.g. investment savings account or endowments), some accounts dedicated for pension should be used by some customers while other should avoid it and certain accounts are used for transactions while other are used for long term savings (transaction account and savings account).

While indeed, officers would conduct a correct job if strictly following the financial schemes, many respondents highlight that the system is not bulletproof and certain inappropriate actions could entail serious consequences for the customer. Some officers also highlight that an understanding of the products they work with could increase their motivation as an understanding the products they deal with would make the job more meaningful. The understanding of the Swedish banking system, product offerings and the characteristics of the customer could thus help officers to distinguish between an appropriate financial scheme from an inappropriate one.

“If it shows that you should empty the customer’s personal account, then most often it is like “well they used yesterday”, so I don’t think they would appreciate if I took out all their money” (Member of the support function, Sweden)

Understanding of the value chain

Despite that the different positions in the value chain are arranged in a way that mitigates the need to understand different parts of the organization, all managers and non-managerial employees agree that an understanding of the value chain is desirable. This is because it would increase the understanding of why certain features are presented in a certain way. It could in turn support the officers’ analytical reasoning when determining how to perform a certain activity. Advisors and officers use separate working instructions which do not synchronize

automatically. The intention is that the advisors should prepare and provide all the necessary information in accordance with their instructions in order for the officers to perform their activities independently without the need of interpretations. Although the financial schemes tend to be clear and correct, an understanding of the value chain is not only said to facilitate the development of analytical capabilities, but also whom to contact in the case of deviations.

4.5 Communication procedures between Bank-S and Off-B

The formal communication procedures have gradually been shaped by the restructuring of the organization. Members of the support function can directly contact process owners through informal channels as they operate from the same location. Consequently, officers at Off-B are operating independently from process owners. The implication of the organizational restructuring has meant that Off-B officers generally communicate with process owners through Off-B managers or the support function. Despite that tools for informal communication exist, Off-B officers still prefer to communicate with process owners through their managers. This has been explained due to cultural differences that exist between the two locations with regard to the view on hierarchy. This has to a large extent resulted in a communication between Sweden and the Baltics being based on two levels, *managerial* and *non-managerial*.

Managerial level

The lack of management of operations, which has been discussed in section 4.3.1 *The initial phase*, has had an effect on how the communication procedures where on the managerial level between Bank-S and Off-B. The communication that where taking place between the managers of Bank-S and the manager at Off-B was lacking formal structure but also inputs from “the floor”. This resulted in a situation where Bank-S were lacking information regarding the needs of Off-B and how these needs could be addressed. After more than a year from the initial relocation, a management team was specifically assigned to manage the operations of processes at Off-B. This has enabled the communication procedures to become more structured as well as more rooted in the daily operations. Since managers haave been recruited to Off-B, a closer communication has been established with the officers through the different team leaders included in the Off-B management. Due to this organizational change at Off-B, communication on the managerial level between Bank-S in Sweden and Off-B in the Baltics has improved and become more intense. The majority of the communication between management at Bank-S and

Off-B managers has been conducted through video meetings over Skype but occasionally face-to-face meetings.

The managerial communication flows can be described as being two folded. One is more strategic, including goal setting and overall efficiency development. The other can be seen from an operational point of view, where issues regarding the processes and the work routines are handled. This has not only shaped the communication procedures but also the content of the communication, depending on the hierarchical level of management from the Swedish side versus the Baltic side that the communication is taking place on. The more strategic level of communication between Bank-S and Off-B takes place on a monthly basis through Skype. Communication on the operational level takes place on a weekly basis through Skype meetings where issues regarding the pace of process relocation, changes in work routines and change propositions are discussed. The weekly meetings also serve the purpose of keeping the management at Bank-S in Sweden updated on competence level of the officers at Off-B. Informal communication has been and is in many cases occurring several times a week through either phone or Skype, where day-to-day questions are being addressed.

Communication between the managerial level in Sweden and non-managerial employees in the Baltics is not common. There have been instances where managers from Bank-S travel to the Baltics for office visits. The main purpose here has been planned meetings with the managers at Off-B, but also when larger changes regarding the organizational structure or operation of processes are going to be implemented. While at the location, the managers of Bank-S have in conjunction with the meetings been able to meet the officers and interact with them. This has been informal communication where general questions about the work and the surrounding environment have been brought up between managers of Bank-S and officers at Off-B. Overall, these meetings have taken place in order to bridge the geographical but also cultural distance between Bank-S in Sweden and Off-B in the Baltics.

Non-Managerial level

On the non-managerial level, the communication between Bank-S and Off-B can be seen as being based on three stakeholders within the value chain, the advisors and members of the support function whom both are located in Sweden and the officers operating in the processes

located in the Baltics (recall Figure 4). The communication between the both sides is in most cases informal and takes place in conjunction with the day-to-day operations. Questions from Off-B's side can be concerned with the financial schemes that have been sent from the advisors to Off-B for processing. Here, in most case the communication has been concerning the need for clarification. In the majority of cases, communication is taking place through instant messaging on Skype, which has been seen as the most efficient way to conduct day-to-day and informal communication, given that activities are conducted in different geographical locations. As advisors spend a significant amount of time in meetings with customers, their availability is in many cases limited. By using Skype, Off-B officers can, before initiating a contact with the specific advisor, see if the person is having an available status. Telephone is in some cases used when the question at hand is perceived too complex and the risk for misunderstanding is high.

The communication between officers at Off-B and the support function in Sweden is more intense than that compared with advisors and is taking place on almost a day-to-day basis. Although being quite intense today, it has decreased compared to the initial period of the relocation, as the officers at Off-B has, to a greater extent, developed their capabilities to solve issues on their own. Although the support function team has their own daily activities, they are for most of the time available for the Off-B officers. Here, in most cases the officers at Off-B initiate the contact with the members of the support function. As has been mentioned previously, questions have in most cases been concerned with how to approach a specific problem related to the processes. As with the case of communicating with advisors, the communication between Off-B and the support function is in general conducted through texting on Skype, but telephone can be used when explaining more complex issues. Moreover, planned meetings over Skype rarely takes place, and when they do, a specific purpose is assigned to the meetings where potential changes are presented and discussed.

4.6 Stakeholder evaluation

The findings presented in this section highlights opinions communicated by the different stakeholders in their specific context. As each group have different areas of responsibility, they have emphasized different aspects of the relocation and consecutive reintegration phase.

4.6.1 Advisors

The advisors we have interviewed agree to the fact that the relocation have not changed their perception about the back office and little have changed in terms of time to delivery and quality. Neither do they perceive any changes in their customers attitudes. However, we only interviewed a fraction of all advisors available which implies that other opinions could exist. Hence, no generalizations can be made in this instance.

The advisors are scattered around Sweden and the tools and software used together in conjunction with back office are brought out in an identical manner as prior to the relocation. All interviewed advisors claim that the capabilities of the software diminish the importance of communication. However, advisors agree to the fact that they would want more informal contact with the newly established back office unit in the Baltics, as it would make the management of financial schemes more efficient. Two of the advisors mention that they used to have preferred officers that they occasionally contacted if they had any specific issues. However, after the relocation, no advisor has established any deeper contact with officers in Off-B. In contrast, both Swedish and Baltic non-managerial employees claim to have daily contact with advisors, either through instant messaging on Skype or phone calls. On the other hand, some members of the support function argue that some advisors seem to prefer contacting them over the Baltic officers. Along these lines, native Swedish officers in the Baltics often perceive that they are selected over non-native Swedish officers. Some officers in the Baltics speculates weather the advisors understand that they actually speak Swedish in Off-B. There seem to be little changes in the advisors' perception in regard to the officer's ability to use analytical capabilities. However, two advisors agree that the interpretations of financial schemes have become slightly more static and requests slightly more flexibility in the interpretations. On the other hand, two advisors highlight the importance of understanding the professional language and state that many mistakes are also done by native Swedes and believe that the issue is connected to inexperience rather than capacity deviations.

4.6.2 Support function

All members of the support function agree to the fact that the relocation initially has had a significant impact on their working situation as many officers in Sweden resigned, were relocated to other processes or became a part of the support function. Mixed thoughts on the

productivity and competence level at the offshored unit is perceived and support function members argue that the initial entrance qualifications were set to low and many of the initial recruits lacked an appropriate mindset. Despite that the productivity is perceived as constantly improving, more incorrect schemes have been reported since the relocation and the quality of the production has still not reached sufficient levels to be run independently (recall figure 5). It is also pointed to the fact that the transition of processes has been too urgent and the initial time for training was insufficient. In contrast, it is also perceived that officers in the Baltics were actually given less education compared to if the officers would have been employed in Sweden. Although the support function continued to support Off-B officers remotely, it was perceived as less efficient way to provide continuous training as it is more difficult to identify the needs of the officers at Off-B. Furthermore, as many new recruits also preferred to contact trainers over official support channels, the members of the support function claim that they became distracted from their daily assignments.

Swedish and computer proficiency

Members argued that all the desired capabilities of workers were highly underestimated and the majority of the initially recruited officers' skills were far from the required skills to operate. Members also found it difficult to train workers as the lack of Swedish proficiency hindered a clear communication, which was perceived to hinder the development of a professional language as well. Furthermore, many of the officers' computer proficiency was also reduced since software were constructed in Swedish. This for example hindered them from utilizing the codified working instructions in an efficient manner and navigate through the different IT-systems. Support function members also argue that the variety of professional backgrounds of the new recruits made the computer proficiency varying to a significant degree. It was highlighted that many recruits were simply lacking the habit of using computers and thus had a difficult time to reach productivity goals.

Analytical capabilities

While all members agree that the analytical capabilities are something everyone could develop by experience, the time for mentoring new recruits to address in the development of analytical capabilities is restricted. Members highlight that they had to support several recruits at the same time which implied that they did not have time to explain how to act in a certain situation.

Furthermore, a limited number of mentors prevented them to dedicate sufficient time for each recruit in order to aid the development of analytical capabilities. In contrast, one member did highlight that a new recruit in Sweden would be given one mentor which the recruit would work very tightly with throughout the whole training period. When being asked about factors that could facilitate a recruit's uptake of analytical capabilities, some kind of relevant education in economics or previous experience from the financial industry was suggested by all members. Many of the new recruits had various professional backgrounds and members found it hard to calibrate a good pace of the training.

Understanding of Swedish banking products and end customers

One of the greatest challenges associated with the relocation was Off-B's insufficient embeddedness in the Swedish banking system. A major consequence was that training had to start on a lower level than expected. This factor was perceived as major cause to the slow reintegration since time was needed to be devoted to training in regards product offerings. Members argue that this is something most people could learn, but the bank underestimated the importance of having familiarity with Swedish banking products. Here, Bank-S has realized the need for enabling the officers at Off-B to develop their understanding of the products that they work with.

*“The initial problem is that they are working towards the Swedish market, although they themselves don't have the Swedish banking products. They don't have the same banking system in ***** as they do here. Or they don't possess the understanding regarding how the Swedish products function, until they have been trained. Compare this with someone in our age out on the street here. If you would say “funds” then most people would know what it is.*

You have heard the concept and understand the meaning.”

(Member of the support function, Sweden)

Understanding of the value chain

It is highlighted that it could be beneficial to understand the problems that advisors face when assembling financial schemes, as it would help new recruits to understand why a certain feature might look as it does. An understanding of the value chain could facilitate the development of other desired capabilities, as an officer would understand where to reach out in events of

questions and concerns. Members highlight that it is difficult to transfer knowledge in regard to the value chain as is not codified and actually not required for the position as an officer to perform day-to-day operations. New recruits were indeed given the opportunity to look into the advisory process but not to a sufficient time to build a meaningful understanding. Two members highlights that many new recruits initially contacted them regarding how to solve issues that were related to other departments within the bank and asked for help to interpret messages from advisors.

4.6.3 Bank-S management

Managers at Bank-S agree along the lines with the support function that the relocation have been turbulent and that the initial recruitment process could have been better. Two managers wished that the initial organizational establishment would have been arranged better and suggests that the reintegration would have been smoother with an assigned manager on location from the start. All managers also admit that the relocation most likely have been perceived as unsystematic and unorganized by other stakeholders but highlight that the situation has stabilized today. A lesson learned from other offshoring projects is that it would be impossible to relocate and forecast the specific competences and positions on beforehand. It would be a time consuming process that in the end would delay the relocation, and most likely still be incorrect. In connection, making mistakes is a necessary step in order to gain an understanding of how to set up and manage a new organization but also to define the desired skills. The idea of a rapid relocation was necessary as it would be too complex and inefficient to predict the necessary requirements on beforehand.

“Phase 1 is basic, we can’t move phase 2 and 3 if you don’t know phase 1. But we are not stuck with fixing and adjusting phase 1 before we approach phase 2 or 3, because then it has gone too long. We have also realized that this is the fastest way to learn and to make the business case aligned.” (Manager, Sweden).

Despite that the managers justify the rapid relocation, managers also admit that the preliminary risk analysis had not been done properly and would look different if they could have redone the relocation process today. However, one manager points out that the turbulence is a consequence of taking necessary steps outside the comfort zone and emphasizes that although

standards are not as high compared to when the production took place in Bank-S, Off-B is actually working good enough to expect an increased improvement in the future.

The initial recruitment

The initial recruitment was perceived as very challenging and managers agree with the support function that the initial recruits lacked sufficient capacity to operate in the processes. Managers in Sweden argue that it has been difficult to include a description of the process and the implications of working under the Swedish financial system in job postings targeted towards the Baltics. This is something managers highlights would be possible in Sweden since potential recruits already have a basic understanding of the context. As a consequence, it was hard to articulate the requirements for the position and many new recruits seemed to have misunderstood the implications of working as an officer.

“Many misunderstood and thought that a back office is almost like picking inventory at a warehouse. The job as an officer is an important part in a customer process.” (Manager, Sweden)

Interviews with potential employees were held by the temporary manager at Off-B and with the Bank-S management through Skype. Managers have expressed a difficulty to not only estimate applicants’ capacities but also their motives to why they applied for the job as on officer. This resulted in miscalculations regarding the initially recruited workforce at Off-B. In turn, it was determined that many of the initial recruits had the wrong intentions and attitudes towards the job. One manager highlights that they indeed were skeptical to the first employees but had to lower the requirements in order fill in the positions on time. Today, out of the initial eighteen recruits, only six remains. All managers highlight that the initial recruitment process was underestimated but puts emphasis on the fact that things have improved significantly.

Process ownership

Two managers highlight the dilemma of having less production taking place in Bank-S. Competence at Bank-S will be drained while Off-B simultaneously will gain more knowledge over the processes. Two of the managers argue that it is fair to locate process ownership where the officers are located. But on the other hand, highlight that it is difficult to move the process

ownership to the Baltics due to the importance of understanding the whole value chain and being close to other stakeholders within the organization. Although all managers are relatively satisfied and perceive the role to function as it should, one manager suggests that the process ownership could be shared between Bank-S and Off-B as the continuous improvements of working routines are something that predominantly impacts Off-B.

4.6.4 Off-B Managers

As the initial phases of the reintegration were performed without managers on location, daily routines were considered unstructured and stressful as it delayed the reactions to perceived issues. Off-B managers highlight that an organizational structure in place prior to the relocation should have been considered. Due to this, the managerial team that was in place after more than a year experienced a situation where great changes had to be made to enable a sustainable working environment and work routines. Managers at Off-B agree that the situation stabilized as they gained an understanding of the working conditions and the required capabilities to operate in the processes. Two aspects contributed to the decrease of the mismatch between officers' capacities and the work at hand. Firstly, Off-B managers gained autonomy over the recruitment process and met applicants physically. Secondly, Off-B managers could initially, to a large extent, utilize support from Bank-S in order to determine an applicant's capacity. This allowed the managers to adapt to the local working conditions while at the same time utilize expertise from Bank-S. This has been seen as vital for the managers of Off-B in order to tackle the challenges that have appeared along the reintegration. An important aspect here has been the consideration of the local regulations surrounding the employment of people, rights and obligations. By including these aspects, managers at Off-B have been able to establish a local approach to personnel policy which has been perceived as an important factor in the process of measuring recruits' capabilities and their suitability for the role as an officer. A consequence has been a high employment turnover rate which is perceived a major move towards a more efficient reintegration.

“Of those that were employed in the beginning, 50% would not get the job today when I have started to recruit” (Manager Baltics).

Another contributing factor to the stabilization was determined to be the formation of senior officer roles consisting of officers with more experience. These officers had been in Sweden during the initial phases and are often selected for training of new activities and new recruits. The idea is that these officers should distribute knowledge to the rest of the team, which has been perceived as a key aspect as they are sharing the same office location and can gain a better understanding of junior officers' needs

Swedish proficiency and analytical capabilities

Off-B managers highlights that Swedish proficiency indeed is one of the major capabilities an officer should possess as it would be easier to absorb knowledge through the different IT-system and the working instructions. The measuring of an officer's Swedish proficiency has been significantly facilitated by experience and managers have developed certain procedures to ensure that the recruits are sufficiently fluent in Swedish before they get recruited. However, all managers emphasize that analytical capability is just as important. In addition, having capabilities in certain areas could mitigate for the lack of capabilities in other areas.

“But at the same time, I have a person who maybe is not that good in the Swedish language. I hesitated before giving the person an employment, but the person had a degree in mathematics. It has been going very well for that person now.” (Manager, Baltics)

The pace of process relocation

Although managers perceive that capabilities exist within Off-B today, the pace of the reintegration has been seen as too fast and consider that new activities are not practiced sufficiently before additional activities are transferred. This has resulted in a situation where the quality of delivery has suffered. The initial problem was that the managers' lack of experience made it difficult to estimate the capabilities of the officers. As a consequence, it was hard to communicate the needs to Bank-S.

“I didn't know what I should say in the beginning. It was difficult when I didn't know what we would be able to manage.” (Manager, Baltics)

Although managers argue that things have stabilized and a constructive dialogue with the Bank-S management regarding the forwarding of new activities have today been established, it is still perceived that it is progressing too fast.

“I understand that there is pressure from somewhere else, that it should go fast, but it is shown that it is being conducted in a careless way. That is what I don’t want. It has to go properly and smooth.” (Manager, Baltics)

Role of social interaction

While all managers highlight that the initial training, where officers traveled to Sweden, was sufficient to be able to get started, the time with support function members at Off-B was perceived as insufficient. Managers experienced that officers had a hard time when communicating through Skype and shortcomings due to language barriers existed. One manager wished to have a support function member on location for a longer period as officers would be able to quickly ask questions directly and point at their specific problem without the need to describe issues remotely.

Understanding the whole value chain and Swedish banking products

A lot of activities have been able to be learned through a continuous trial and error process. One of the capabilities most difficult to obtain is perceived to be an understanding of the whole value chain. Firstly, it has been pointed out that a lot of information is indeed available through the intranet. The issue is that a lot of information initially passed by as it is difficult to always be updated and/or distinguish relevant information from irrelevant. However, all managers agree that assigning a local management team and the rise of formal meetings have improved the flow of information. Furthermore, managers claim that it has been difficult to obtain an understanding of the advisors’ role. One manager highlights that the officers have a limited understanding over why certain features look in certain way. In addition, managers point out that the working instructions might deviate from each other. All managers are welcoming the suggestion of inviting advisors to conduct lectures about their positions in order to increase officers’ understanding of their part in the value chain. At the same time, all managers agree that advisors would have a better understanding for the operations at Off-B. Managers agree that little has been done to increase this kind of knowledge exchange.

“Then they understand the advisors better, why they have filled in incorrect in the order list or forgotten to tick that back box or what certain things means. Then you start to see it from their side too.” (Manager, Baltics)

Comments on process ownership

The general perception of the processes and how the future of development and management of these should be conducted is different from that of Bank-S management, at least in the short term. Consensus is to a large extent established at Off-B regarding who should have the main responsibility for the processes and any future changes to them. Off-B Managers argue that relocating not only the processes, but also the responsibility for the development and management of processes under the same roof would enable Off-B to become more independent as well as more efficient. While managers at Off-B partly agree to the fact that it might be too early to relocate process ownership, the current configuration delays actions. Any proposals for changing certain aspects of the process operations and work instructions would be handled in a more time efficient way if it was controlled from Off-B. It would also make sense from a knowledge perspective, as the Off-B employees are those who are operating in the processes on a daily basis. Thus, the accumulation of knowledge on how these processes should be operated in the future has been taking place in the Baltics, and not in Sweden. Therefore, by moving the process ownership to the Baltics, the managers at Off-B propose that they would gain a greater possibility to answer to requests made by the officers and react quicker to new issues. Furthermore, movement of process ownership could also increase the motivation of officers as they would feel more involved in the work. In this sense, all managers claim that Off-B would be prepared to take responsibility for process ownership within a year.

“Our specialists have to understand that they can influence these things. It’s about the mindset that you have power to influence your situation and are not ordered to do something. You will think more critically.” (Manager, Baltics)

4.6.5 Off-B officers

Comments on training

The officers are in general aware of the limitations of extending the initial training and point out that training and development of the officers’ capabilities to a large extent is achieved by operating in the processes. There seems to be some kind of general understanding among the

officers at Off-B regarding the complexity of moving processes from one location to another. It is important to keep in mind that the workforce have changed significantly since the start of the relocation and most of the initial officers have been replaced. This has divided the workforce between senior officers who have received training in Sweden and officers who have been trained on location by the senior officers. The training that the senior officers received has been perceived as sufficient, but more time should have been considered for further training when they actually begun to operate in the processes. It has been highlighted that certain questions do not arise during the time of training, but instead when you start operating in the processes. In these situations, the senior officers have had to rely on ICT to communicate with the support function which has been perceived as less efficient. Although the support function did assist remotely, it was perceived that the support function had other assignments and could not be fully dedicated to help Off-B officers. All senior officers agree that face-to-face interaction on location would be a more efficient way to gain additional knowledge.

“Sure, Skype is good, but as a teaching tool, I don’t know if it is the best one.”

(Officer, Baltics)

Junior officers who received training on location are overall satisfied with the training and felt that senior officers had a good understanding of how much training a new recruit would need. Junior officers highlight the usage of a mentor as one of the most important aspects of their training and they perceived that the senior officers were competent enough to train others.

Swedish proficiency and the professional language

Several officers highlight that Swedish proficiency is one of the most important assets an officer could have, but also think that there has been an excessive focus on Swedish proficiency and that other capabilities also are important. Despite that it is perceived as difficult to find Swedish proficient employees, all officers agree that Swedish proficiency exist on location and that Swedish proficiency is not an issue in the daily operations. However, officers admit that it is initially difficult to obtain a professional vocabulary but is something one develops over time. In regard to contact with advisors and the support function over Skype, all officers agree that their Swedish proficiency do not prevent them from expressing their messages when communicating remotely with Bank-S.

Analytical capabilities

Many officers agree with Off-B managers and perceive Swedish proficiency as a tool in order to absorb other kinds of knowledge. Analytical capabilities are highlighted as a more important parameter determining officers' capacities, and the majority of officers perceive that it is a capacity hard to develop through remote training. Face-to-face interaction has been the key to build this capacity and it is something that cannot be rushed through as it develops over time.

“It is like everything else, some are good in math, some in languages, some in both. But if a person who sits here in our team says that he failed in math, then you wonder what they do in a bank.” (Officer, Baltics)

Knowledge of the Swedish banking system

No officers had previous experience from the Swedish banking system and the different products Bank-S offered. Although many officers agree that little attention was given to this aspect during their training, it has been seen as sufficient to operate in the processes. As most of the financial schemes utilizes similar products, it is often easy to learn about the most common ones. However, one officer highlights that it is a lot of information about products that need to be taken into consideration since minor errors could have major consequences for the customers. Officers also point out that many of the more complex products rarely appears and that it would not make much sense to learn them excessively. One officer highlights that it is more important to be familiar with things and know where to look for solutions rather than knowing them by heart. However, one senior officer points out that more knowledge in regard to regulations and banking products would be necessary and has been requested.

“It happens that schemes comes in, where they ask us if you could terminate something which we do not have a clue about. How certain products are, for example trustees. It came to our knowledge around a month back that we had the old instructions regarding a certain task.

These things can come as a surprise.” (Officer, Baltics)

Understanding of the value chain

While some officers argue that an understanding of the whole value chain is of less relevance, most officers claim to not have sufficient understanding, especially in regard to the advisor's

role. Senior officers pinpoint that the initial training puts little focus on this aspect. A proposal that has been brought up is to include further information regarding the advisor's role but also enable sessions where the Off-B officers could join during a meeting between an advisor and a customer. This could be part of the initial training that a newly recruited officer would receive but also as part of further training for the current officers. The major benefit of having a better understanding of the advisor's is argued to help officers understand why financial schemes look in a certain way. It would also help them to quickly identify how to instruct the advisors on how to correct the perceived errors. Alongside their wish to gain a better understanding of the advisor's role, many officers highlight that advisors seem to not have an understanding for the operations at Off-B as well. Some officers highlight that some advisors often contact Off-B in order to receive assistance in certain cases and that it is sometimes hard to focus on their main activities and contact with advisors would disturb their daily work flow.

“I would like to see how they handle the customer's order when they come, and they fill them in. What support system they use. It would be interesting to see the whole chain from the beginning.” (Officer, Baltics)

Pace of process relocation

Although the work routines have become more efficient and structured, the need for continuous support exists and the role played by the support function is considered very important. At the same time, the officers are in general aware of what the future holds for Off-B, where more responsibility will be relocated to the Baltics together with additional processes to operate in. By doing so, the role of the support function will stepwise be taken over by the officers at Off-B. Mixed feelings can be seen here among the Off-B officers, where the junior officers are positive for additional takeover of responsibility while the senior ones tend to be more careful regarding the current capacity of Off-B. The current setup of the process ownership has had some implications for the officers as well. Officers have the possibility to propose changes to the working instructions but perceive the chances of influencing the process as highly limited. Several officers mention that they do not receive any feedback on their proposals and that it takes time for a proposal to be handled. Furthermore, it is perceived by some officers that the process owner only has a minor influence on changes as they most often involve other affected stakeholders within the organization.

5. Analysis

5.1 Operational context

5.1.1 The reconfigured value chain

The relocation of activities to Off-B has implied that the value chain has added new roles and reconfigured interdependencies across borders. The source of the configuration complexity can majorly be traced to Srikanth and Puranam's (2011) discussion on the importance of day-to-day interactions. In the case of Bank-S, the consequent offshoring has decreased the possibility of utilizing daily face-to-face interaction between stakeholders. This is a clear aspect of configuration complexity that arises, which would not be an issue to consider if the value chain would have remained the same, at the same location (See figure 4). In accordance with Dhanarai et al. (2004), the newly established offshored unit will not be able to use tacit knowledge and familiarity to the organization in order to compensate for the lack of explicit processes. Hence, the organizational reconfiguration implies that informal coordination mechanism cannot be used to conquer arising complexity to the same extent. In this sense, Bank-S must not only re-establish suitable communication channels but also establish formal and informal coordination mechanisms in order to achieve a comprehensive knowledge transfer.

5.1.2 Pace of reintegration

A rapid reintegration was seen as the most efficient way of gaining an overview over the organizational architecture and expose how interdependencies are interlinked. In this way, it would be very clear how certain actions would impact the organizational architecture. For instance, it would be easier to discover where interdependencies have relied on tacit knowledge and informal communication mechanisms. This is connected to the discussion by Ethiraj and Levinthal (2004), where managers need to develop an understanding on how the configuration complexity influences the implication for the new value chain in order to coordinate activities in an efficient manner. In turn, we find evidence that this would increase the ability of Bank-S to disseminative knowledge as it quickly gets clear why certain actions would be required in order to address the rising complexity. This logic is associated with Cabrera's (2003) discussion on how perceived benefits would impact the willingness to share knowledge.

While the fast pace of process relocation may indeed increase the disseminative capacity of Bank-S, we argue that the rapid relocation has had a negative impact on the absorptive capacity at Off-B. The rapid relocation implies that officers were exposed to more extensive knowledge flows compared to if the relocation would be slower. This would on one hand increase the potential absorptive capacity but would on the other hand require both higher ability and motivation in order to realize the knowledge and exploit it in the day-to-day operations. In conjunction, there has been a tendency where managers and officers in the Baltics perceive that they have just managed to operate in a certain process before additional activities have been relocated. This made the officers and managers feeling a constant sense of never being able to “digest” a certain activity and practice it sufficiently before new activities arrive. In accordance with the discussion made by Williamson (1996), a behavior that could be perceived as unfair will harm the motivation of the subsidiary's employees. Although the rationale behind the establishment of Off-B by Bank-S have been to relocate activities previously conducted by officers at Bank-S, the procedures behind the process transfer have been perceived to lack anticipation and preparation. This could in turn create an aversion to take on new activities and consequently inhibit a development of one common organizational culture, an important aspect to consider when increasing employees' motivational levels (Mudambi & Navarra, 2004). This seems to have had a negative impact on the motivation among the Off-B managers and officers. In addition, the fast relocation also seems to have impacted the ability for Off-B to distinguish relevant knowledge from irrelevant. As one manager highlighted that it was hard to know what support to ask for. In this sense, we argue that the fast pace also makes it hard for Off-B to perceive the potential knowledge that could be realized.

5.2 The arising complexity of recruitment

The initial configuration complexity is associated with the dismantling of organizational architecture and the attempts to recreate it across national borders. This forces Bank-S to be responsible for not only disseminating relevant knowledge, but also to recruit workers with sufficiently high abilities to absorb the knowledge. As previously mentioned, Bank-S needs to define new roles and set suitable knowledge thresholds in order to ensure that new recruits have the capacity learn the desired activities.

The decision to relocate activities seems to be associated with how related capabilities can be developed. Computer and Swedish proficiency together with analytical capabilities could potentially be developed externally, and thus be seen as *external knowledge*. For instance, Swedish could be learned through studies or from previous work experience and analytical capabilities can arguably be developed through training since managers and support function members highlight that university degrees are meritorious. In contrast, familiarity to the value chain and different stakeholders can be described as *firm specific knowledge*, which cannot be developed without being a part of the organization. For the role as an officer, firm specific knowledge such as knowledge regarding the value chain or an understanding how different departments interplay seems less important since it would not have a significant impact on officers' day-to-day operations. In this sense, Bank-S seems to follow a codification strategy in order to manage the knowledge transfer. The necessary firm specific knowledge would be obtained through the officer's externally built capabilities, by reading Swedish instructions on the intranet or through instant messaging with relevant stakeholders. This implies that less tacit knowledge would have to be transferred compared to other roles such as process ownership. We argue that this strategy would on one hand decrease the need for a high disseminative capacity. On the other hand, it increases the need to find workers with a sufficiently high ability to utilize external knowledge in order to tacitly understand firm specific knowledge relevant for the position as an officer.

While Bank-S theoretically could use a codification strategy, we argue that the arising configuration complexity would make it difficult to specify thresholds for the necessary capabilities. Hence, configuration complexity has complicated the process of finding officers with sufficiently high abilities. This can be perfectly exemplified by the fact that Swedish proficiency was a skill that was perceived of negligible importance when operations took place in Sweden as most applicants obviously spoke Swedish fluently. In contrast, it is clear that the relocation made it difficult for managers to establish a suitable threshold for Swedish proficiency when relocating to the Baltics as Swedish obviously is not a commonly spoken language. As a result, managers highly overestimated the importance of Swedish proficiency over other capabilities and considered that it would be sufficient in order to obtain other skills through practice. This can be connected to Ethiraj and Levinthal's (2004) discussion where the Bank-S management seems to have taken decisions suffering from bounded rationality.

Furthermore, although Swedish proficiency was considered the most important asset, no mechanism was put in place to ensure that the level of proficiency among the initial recruits was sufficiently high. The inability of defining knowledge thresholds resulted in a recruitment of officers with an insufficient ability to absorb knowledge necessary to operate in the processes. In accordance with Tang et al. (2010), The fact that Bank-S was not able to clearly establish knowledge thresholds lead to a recruitment of officers who were not able to realize the potential knowledge flows.

5.2.1 Expectations on the role as an officer

One of the reasons why Bank-S failed to establish suitable thresholds can be due to the fact that it has been difficult to establish a common consensus regarding the thresholds as capacities to a large extent interplay. Furthermore, roles and knowledge were to a significant extent constructed through informal interactions that took place between stakeholders at Bank-S. Hence, we argue that the role description was tacit and in turn difficult to define.

In order to successfully reintegrate Off-B, activities must be articulated in a clear manner, which becomes complex with an increased professional distance. We find confirmation of Grote and Täube's (2007) idea that a professional distance inhibits a smooth knowledge transfer. This can be exemplified as Bank-S clearly had challenges specifying roles and activities for the initial recruited officers in the Baltics. Irrelevant from Bank-S' disseminative capacity, the professional distance arising from the configuration complexity made it difficult for recruiters at Bank-S to use firm specific knowledge to describe the role as an officer. In turn, it was hard to express the implications of the position as an officer. Hence, we could argue that Bank-S' disseminative capacity decreases with the added interaction distance to Off-B. As officers in the Baltics are both distant from the Swedish banking system and the bank itself geographically, managers at Bank-S could not express what the job as an officer implied since workers could not relate to the firm specific knowledge. Firm specific knowledge thus becomes fuzzy and difficult for a recruited officer to absorb. We argue that manager's inability to describe roles will have a negative impact on the initial recruited officers' motivation as they might expect other working activities rather than those found in reality. This was observed in our case as all managers considered that many of the initial recruits lacked the correct mindset.

This goes well along Mudambi and Navarra's (2004) idea that the lack of organizational culture potentially decreases the motivational level among employees.

5.3 Consequences of miscalibrating the knowledge transfer

The miscalibration of knowledge thresholds and the sender's expectations of the officer's capabilities resulted in a situation where the initial training started from a lower level than planned for. As a result, more time had to be spent on matching the training with the capabilities of the initial officers. Members of the support function have seen this as frustrating aspect as the productivity of the whole organization was significantly harmed and resources were allocated to issues considered of lower priority. Hence, much in line with Husted and Michalova's (2002) discussion, the support function's disseminative capacity was reduced by the fact that they had to spend resources on less productive activities. Analyzing the miscalibration of capabilities from the receiver's perspective, the initial training did not fulfil the purpose of increasing the ability of Off-B officers. As has been pointed out by Minbaeva et al., (2003), training will indeed influence the ability of the receiver to absorb knowledge. In this case, we would argue that the mis calibrated training decreased the possibility of officers to exploit all the potential knowledge disseminated by the support function and use it in day-to-day operations.

The inability to recruit motivated officers with the requested capabilities resulted in a decreased willingness of mentors (support function) to disseminate further knowledge. Mentors highlight that the combination of too low competence levels and the wrong mindsets decreased the support function's motivation to make a genuine contribution. Members of the support function perceive the possibility of finding recruits that would fulfil the thresholds necessary for the officers' role highly limited. Consequently, this has generated reluctance within the support function towards the appropriateness of relocating activities in the first place. As a result, the initial officers' inability to absorb knowledge did have a negative impact on the support function's willingness to share knowledge, as they perceived the dissemination less worthy. This is to a large extent in accordance with Husted and Michalova (2002) discussion on the aspects of willingness to disseminate knowledge, as the sender would hesitate to share knowledge if they perceive that the receivers has not put in enough effort in their own development.

5.4 Process ownership and communication procedures

The organizational reconfiguration has shed light on how and where processes are being overseen and managed, which can be considered the source of much of the arising configuration complexity. Prior to the offshoring, the process owners were also the managers of the officers who were operating at the same location (see figure 6). This implied that managers and officers could develop social capital and exchange ideas and opinions on a day-to-day basis, which facilitated the flow of tacit knowledge and the establishment of informal communication mechanisms. As a result of the relocation, these communication channels have been rearranged and are now primarily filtered through either Off-B management or the support function. Roberts (2000) points out that additional layers of communication have a negative impact on communication flows as knowledge has to be repackaged several times. We argue that this has had a negative impact on the disseminative capacity of Bank-S as some knowledge will inevitably be lost or reshaped in the repackaging process and thus not be presented in the intended way.

Much in line with the discussion of Zahra and George (2002), the new communication channels mitigate the chances of maximizing Off-B's potential absorptive capacity. A reasonable consequence would imply that employees at Off-B overestimate their own capacities and Bank-S respectively underestimate Off-B's capacity. This could be exemplified by the fact that the Bank-S management and the Off-B management had drastically different opinions whether or not the position as process owner was suitable to relocate. This could further be exemplified by Bank-S' understanding of the informal senior officer role within Off-B. While Bank-S indeed seems to be aware of its importance, little is known in regard to their daily cooperation with junior officers. This has generated separated opinions between the support function and Off-B concerning the responsibility of the senior officers.

Moreover, as the processes owners are responsible for the working instructions, which implies that any changes to these instructions have to be approved by them, implications can be observed on the absorptive capacity of Off-B. The changes in communication flows has limited the officer's possibility to influence the working instructions and by that conduct changes that they perceive necessary. Kondo's (2000) discussion on motivation becomes relevant here, as the officers find themselves working within a highly standardized environment with little room

for creativity. Many officers highlighted that the work with continuous improvements was very slow and perceived the possibility to make significant improvements as limited. In line with Deci and Ryan (2000), the architectural configuration where the process owner has been kept in Sweden partly restricts Off-B's autonomy, which will have a negative effect on Off-B's motivation.

In addition, we argue that the lack of internal communication between the process owners in Sweden and officers in the Baltics directly has had a negative impact on the absorptive capacity at Off-B, as internal communication is a factor affecting the motivational aspect (Minbaeva et al., 2003). At the same time, we could argue that the disseminative capacity of Bank-S also suffers due to the lack of communication between process owners and officers. Cabrera (2003) points on the sociological aspect of willingness to share knowledge becomes relevant here, as a mutual understanding of each other's positions have not been established.

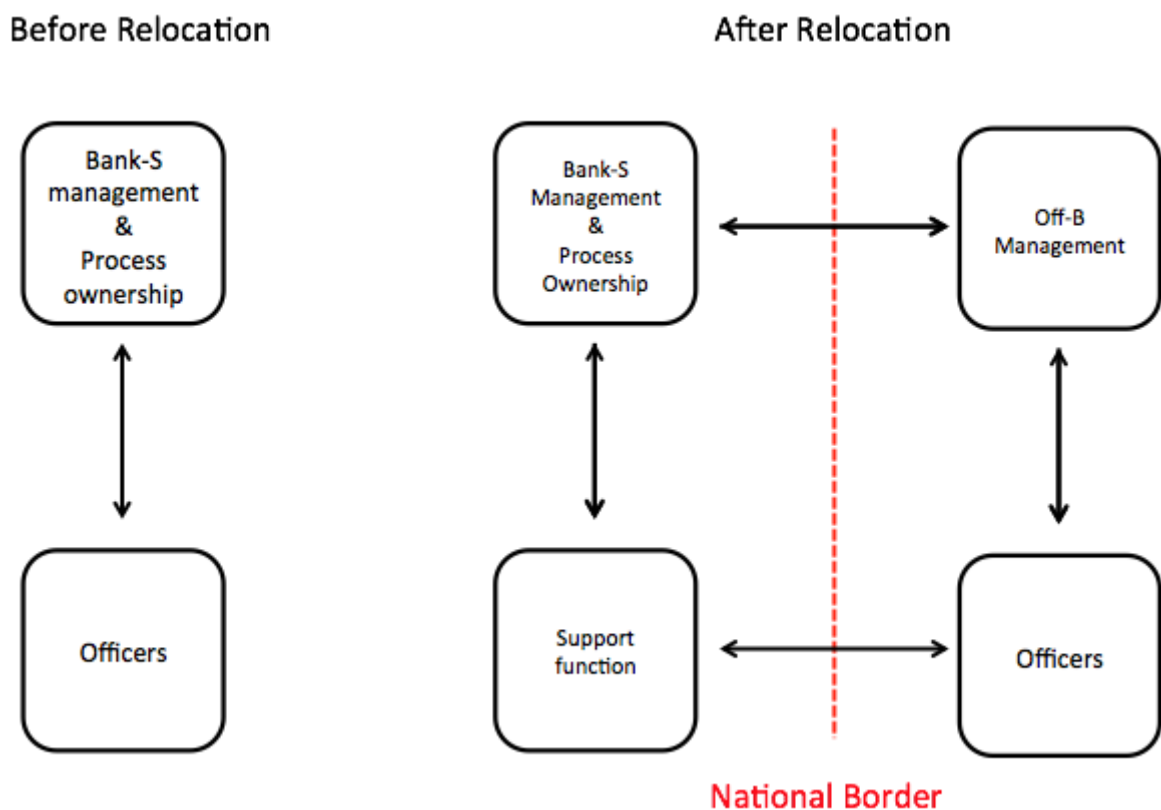


Figure 6 - Changes in communication flows following the relocation (own illustration).

5.4.1 Implications of cross-border communication

The decision to relocate activities across borders has entailed that Bank-S has not been able to utilize informal interaction when communicating with Off-B. Instead, a greater reliance has been placed on digital means of communication, as for example Skype. This is a natural aspect of communication flows across borders. However, it seems to generate a fair amount of complexity when it comes to the transfer of firm specific knowledge, which in turn has had a significant impact on the interplay between absorptive and disseminative capacity. The fact that both support function members and officers agree that ICT decrease the efficiency of the knowledge transfer confirms that some knowledge is arguably lost in transmission. In this sense, the ability aspect of the sender's disseminative capacity is reduced by ICT. In conjunction, this also implies that officers acquire less knowledge and in turn exploits less knowledge in their daily operations. We argue that this resembles Zahra and George's (2002) discussion on the efficiency ratio between the potential and realized absorptive capacity of the receiver, as ICT hinders the gap between potential and realized knowledge flows to shrink.

Furthermore, we also find evidence that ICT reduces the willingness aspect of the disseminative capacity and the motivational aspect of the absorptive capacity. This could be exemplified through the contact between advisors at Bank-S and officers at Off-B. Both groups highlight the importance of understanding each other's roles as an important aspect that would make the value chain more efficient. Interestingly, despite that the stakeholders know what knowledge they would like to obtain, it seems to be difficult to transfer it. The reason could be due to the fact that no additional time has been dedicated for knowledge sharing. In this regard, advisor's disseminative capacity would decrease as time must be deducted from day-to-day activities. This is in line with Husted and Michalova's (2002) discussion on willingness, where there could be a reluctance towards spending time on activities considered less productive. On the flipside, Nahapiet and Ghoshal's (1998) discussion on the importance of network relations also becomes interesting here. As the value chain encourages a minimization of interaction, we argue that officers and advisors never develop an ability to associate with each other. This is in line with Mudambi and Navarra (2004) who argues that a common organizational culture is an important aspect in order to increase the motivational levels. Hence, if ICT serves as the primary communication channel, it will reduce the receiver's motivation to independently seek knowledge.

In accordance with Lai (2001), ICT has indeed made it possible for employees in both Sweden and the Baltics to communicate and absorb an extensive amount of knowledge, as it is possible to utilize instant messaging or discovering the intranet. However, a heavy reliance on ICT implies that knowledge will be lost in the repackaging process. It is important to emphasize that Bank-S's disseminative and Off-B's absorptive capacities per say do not change but ICT will indirectly reduce the quality of the knowledge transfer. We would argue that the transfer of knowledge is dyadic and therefore a decrease in the disseminative capacity would entail a corresponding decrease in the receiver's absorptive capacity. Hence, we only see that ICT has an indirect effect on the interplay which very likely would look different if individuals met face-to-face. In addition, an interesting parallel can be drawn to the discussion raised in section 5.3 (*Consequences of miscalibrating the knowledge transfer*). As the support function highlighted, certain officers lacked a sufficient computer proficiency which we argue has made the implications of ICT usage greater. The reason for this is that potential knowledge flows through the IT-systems became even more difficult for certain officers to absorb. In conjunction, the support function willingness to share knowledge seems to have been reduced by the fact that they were unsure of certain officers' ability to interpret knowledge in the intended way. This recalls Husted and Michalova (2002) discussion on the importance of ensuring that the receiver will interpret the information correctly.

5.5 Addressing configuration complexity

5.5.1 Enabling knowledge transfer through social interaction

The dispersion of interdependent activities implies the abandoning of existing informal coordination. When members of the support function have been traveling to the Baltics for training of the officers, they have been able to utilize a personalization strategy in terms of training, which to an extent has compensated for the loss of informal coordination. Moreover, the interaction distance discussed by Larsen et al. (2013) can during these visits be overcome, as the physical interaction between support function members and officers will enable the development of a common system of interpretation. We argue that the personalization strategy has made it easier for trainers to articulate and share personal experiences and in turn help officers apply their analytical capabilities to the firm specific knowledge included in the training.

The impact that the personalization strategy has had on the absorptive capacity at Off-B is in line with the points raised by Mu et al. (2010), where the sender's ability to share knowledge in a way that enables a clear understanding by the receiver determine the level and efficiency of the absorption of the specific knowledge. This has been highlighted as the preferred training strategy among all employees involved, as it facilitates the application of analytical capabilities to firm specific knowledge. In this sense, we could argue that face-to-face interaction is more or less required in order to enable the sender to cater the information to the receiver's specific needs. Managing training through ICT not only makes it difficult for the sender to codify knowledge and estimate the recipient's ability to absorb it, but also difficult for the receiver to identify certain knowledge gaps. The influence of expat visits are supported by Kulkarni et al. (2007), who states that collaboration between experts and employees is desirable when transferring tacit knowledge as it can flow directly from the sender to the receiver. Furthermore, the close interaction has also decreased the amount of misunderstandings and has ensured that officers have interpreted the training as intended.

As these visits have been planned in beforehand, support function members have been able to prepare these training sessions. In addition, these expat visits have been part of the support function's area of responsibility which we argue have had an impact on the willingness to disseminate knowledge. Recalling Husted and Michalova's (2002) discussion, the willingness aspect of disseminative capacity will be increased if the sender perceives the dissemination as meaningful and not a waste of time. We also argue that the absorptive capacity of the officers has been impacted positively as the internal communication between officers and support function members has been able to develop and improve. This has helped in establishing social capital which in turn implies that officers and trainers have had the possibility to associate with each other on a higher level. Hence, in accordance with Nahapiet and Ghoshal (1998), these expat visits have served as a catalyst for knowledge transfer between the two locations. Furthermore, we also find evidence that these visits have improved communication through digital means. This is confirmed by the fact that Off-B officers preferred to contact expats they met rather than the official support channels or the advisors directly. In this sense, we agree with Roberts (2000) point that social capital has the potential to create a virtual platform.

5.5.2 Calibrating knowledge transfer through local adaptation

The absorptive capacity of the officers has significantly improved when Off-B was assigned a management team. The management team that was put in place at Off-B had the knowledge about the local context in which Off-B was operating in. In this sense, the managers have had the potential to physically interact with officers on location and over time develop social capital. The fact that one of the managers highlighted that 50% of the initial employees would not be hired perfectly demonstrates Zimmerman and Ravishankar's (2014) idea in regard to social capital. Due to the possibility of face-to-face communication local managers were, in similarity with the expats, able to become familiar with the officers and associate to their needs. Hence, they could better understand how different capabilities interplayed and thus obtained a clear understanding of the capacities that the initial recruited officers were lacking. The initial problems that the headquarter had in regard to defining thresholds of the necessary capabilities could be addressed by the assigned management team. Local managers were able to calibrate the thresholds closer to the actual requirements for the role as officer. For instance, this led to a recruitment of officers who could compensate for a lower degree of Swedish proficiency by having a higher level of computer and analytical capabilities. In this sense, we argue that Off-B managers could increase Off-B's potential absorptive capacity through their embeddedness in the local context which prepared officers to realize the knowledge in a later stage (Zahra & George, 2002).

By assigning a management team to Off-B, the motivational aspect was addressed as well. Prior to the assignment of a local management team, Off-B officers were missing a clear leadership on location, which had a major impact on the internal communication between Off-B and Bank-S. The lack of structure that was a result of poor internal communication created an uncertain and an unpredictable working environment at Off-B which may have had an effect on the level of motivation among the officers. Important to keep in mind here is that motivation is quite complex to measure, but as Minbaeva et al. (2003) points out, internal communication will have an impact on the motivational aspect of absorptive capacity. As the management team was put in place at Off-B, the officers did gain a more structured working environment as well as having the internal communication between Bank-S and Off-B in place, even if it to a large extent is on a managerial level.

In accordance with Deci and Ryan (2000), we argue that the added responsibility has increased Off-B's autonomy. In accordance with Kondo's (2000) discussion on motivation, the increased level of autonomy has in turn lead to increased motivation levels of Off-B managers. We argue for this point as local managers could combine their creativity and apply it to their local adaptation in order to quickly address local issues. In this sense, Bank-S' willingness to disseminative knowledge decreases in importance as Off-B could approach configuration complexity through their locally developed procedures. This could stem from the fact that Off-B has been able to independently develop better informal coordination mechanisms as more responsibility has been transferred.

6. Conclusion

With this research, we have studied the effects that configuration complexity has on the transfer of knowledge between a headquarter and an offshored unit. The effects have been investigated by examining the disseminative capacity of Bank-S and the absorptive capacity of Off-B in the process of reintegrating offshored activities back into the headquarters' operations. With this in mind, we have aimed at answering the research question "*How is the interplay between disseminative and absorptive capacity influenced by configuration complexity in offshoring?*".

We can initially conclude that in the case of Bank-S and Off-B, the arising configuration complexity will have had a negative impact on sender's disseminative capacity. Firstly, this can mainly be because knowledge to a significant extent resides within the informal relationships between employees, that to a large extent have been abandoned. In this sense, it becomes complicated to determine *what* knowledge to transfer but also *how to* articulate the knowledge to someone professionally distant. Secondly, as offshoring implies that activities are relocated across borders, the newly configured value chain will have to rely on ICT to a greater extent. We find support of the rise of additional configuration complexity, as knowledge has to be repackaged several times before it reaches the receiver. This is an issue that would not occur if activities would have been co-located. In this regard, we have observed that the sender's disseminative capacity is further decreased by the heavy reliance on ICT. A paradoxical finding that we have observed is the fact that a high speed of reintegration shows a positive impact on the sender's disseminative capacity, but a negative impact on the receiver's absorptive capacity. However, it might have a lower impact on the interplay in general since the speed itself is not the determinant, but rather the actions taken within the time frame.

Our findings are further supported by the fact that additional social interactions between the headquarter and the offshored unit seems to have had a joint positive effect on disseminative and absorptive capacity. The role of physical interaction seems to help the organization to overcome miscalibrations that occur due to configuration complexity and aids the development of virtual platforms which in turn facilitates the communication through ICT. In this sense, we argue that face-to-face communication help the organization in mitigating configuration complexity as it allows both the sender and receiver to develop a common understanding of each other's needs, which in turn increases both disseminative and absorptive capacity.

Furthermore, we can observe that configuration complexity initially puts more emphasis on the sender's disseminative capacity as the headquarter both determines the decision to offshore and has the power to influence the organizational architecture. In this sense, we can conclude that Off-B's absorptive capacity is positively correlated with Bank-S' disseminative capacity. With other words, a high disseminative capacity is particularly important in order to combat configuration complexity as it also contributes to the receiver's absorptive capacity. However, we can also observe that as the receiver gains more autonomy and responsibility, the possibility to make adjustment within the offshored unit increases. This makes it easier to synchronize the disseminative capacity to the absorptive capacity of the receiver as both sides will be active in the trial and error process, which reintegration to a large extent implies.

In conclusion, as one of the main sources of competitive advantage for the MNC is the possibility to develop knowledge in one location and utilize it in another (Minbaeva et al., 2003), configuration complexity within offshoring will act as a major obstructing factor in utilizing this specific competitive advantage.

6.1 Managerial implications

Managers need to be aware of the implications of certain decisions and actions and how these will impact the possibility of transferring knowledge between locations. This inevitably implies that ICT will become an important tool for communication, although it has been proven to be inadequate. Managers should in the context of offshoring not underestimate the importance of expats in developing social platforms and increase the professional proximity in which employees can develop and share firm specific knowledge. In addition, expats will act as an efficient channel in which the headquarters knowledge could be articulated in a calibrated manner. The social interaction that expats enable will not only improve the headquarters disseminative capacity but will also facilitate for the development of the offshored unit's absorptive capacity. Furthermore, since configuration complexity always will arise when reshaping organizations, managers need to be aware of the importance of anchoring their decisions within the organization. A fast pace of reintegrating activities would indeed be beneficial for the headquarter, but this requires that the objectives are aligned with the employees' expectations. This is to avoid a situation where certain decisions and actions are

perceived as opportunistic. If managers fail to anchor the expectations within the offshored unit, the absorptive capacity will suffer as the motivation among the employees will decrease.

6.2 Theoretical implications

There are some theoretical implications to be observed from the study as well. Knowledge transfer between headquarters and subsidiaries (offshored unit) will to a significant extent be impacted by the balance of autonomy between the two, namely the sender of knowledge and the receiver of knowledge. As the receiver's autonomy is limited, much more focus will have to be put on the sender's disseminative capacity in order to have an efficient transfer of knowledge. With other words, when investigating into the interplay between the disseminative and the absorptive capacity, a good point to include would be the autonomy aspect of the dyadic relationship between the sender and the receiver of knowledge within the MNC.

6.3 Limitations

Although this study has presented the challenges of transferring knowledge in the context of offshoring and the effects that configuration complexity has on both the disseminative and absorptive capacity, several limitations exist which need to be taken into consideration. First, this study has to a large extent not taken the reason behind the offshoring decision into account. Here, what the firm objective have been and its effect on the knowledge transfer between the two sites have been excluded. Furthermore, we have not included the aspect of how differences in cultures can influence the transfer of knowledge across borders. Moreover, this has been a single case study where only one firm and one foreign location have been analyzed in depth. Thus, the transferability of the study will be limited as no other firm, nor other foreign location have been included. In addition, as a limited number of respondents have been included, the generalizability will be affected as only a fraction of the total employees within Bank-S have been heard. Lastly, the study has been conducted during a period approximately five months but has been covering events that have taken place during a period of almost two years. Here, a longitudinal case study would have addressed this issue in a more accurate way.

6.4 Future research

In conjunction with completing the study, we have identified a number of interesting aspects that could be interesting to have in mind for future research. As discussed in our limitations,

the cultural aspect is of significant interest when investigating challenges arising within offshoring and more specifically its impact on the transfer of knowledge between the headquarter and the offshored unit. Furthermore, as our study has been within the financial industry, it would be interesting to see how configuration complexity influence the knowledge transfer when conducting offshoring within other industries. Lastly, as offshoring implies that certain activities will be relocated from the headquarter to an offshore location, some employees will inevitably be discarded while others will remain. What would be interesting to investigate here is how the disseminative capacity of the remaining employees at the headquarter are impacted on an individual level.

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Appendix

Appendix 1. Interview guides

Advisors

- Can you describe your role within Bank-S?
 - Did you know that the processing of financial schemes has been relocated to the Baltics?
 - Do you experience any difference?
 - Do you perceive that financial schemes are processed in a reasonable time?
 - How do you perceive the communication with the back-office unit?
 - Prior to their relocation, did you have any established informal relations with co-workers at the back-office department?
 - Do you have any established informal relations with co-workers in the Baltics today?
 - Do you feel that it is important to establish informal relations?
 - Can you give an example of a situation where there has been some kind of misunderstanding between you and an officer?
 - Do you try to help officers understand the role as an advisor?
-

Support function members

- What is your role within Bank-S?
- How do you experience the relocation of processes to the Baltics?
- Did things go as expected?
- What's your opinion on the productivity?
- What skills do you find important in order to operate in the processes?

- What would you do to improve the initial education?
 - To what extent do you consider the codified working instruction clear?
 - Do you have daily contact with advisors?
 - Do you have daily contact with the officers?
 - What does officers usually ask for?
 - How valuable is it to understand the role of the advisor for the position as an officer?
 - Have you participated in the initial education of officers in Off-B?
 - Do you feel that the training is meaningful?
 - How do you perceive the complexity of the issues highlighted by officers?
 - What do you perceive is the biggest challenge in order for Off-B to become independent?
-

Bank-S managers

- What is your role within Bank-S?
- Are you satisfied with the relocation of processes to the Baltics?
- How have things changed since the relocation?
- Why was the Baltics chosen?
- How important is the role of the support function for the project?
- Have you participated in the recruitment process?
- Did you participate in the education on officers?
- Is the anticipated competence available in the Baltics?
- Do you have regular contact with corresponding managers in Off-B?
- Did things go as expected?
- What's your opinion on the productivity?

- What skills do you find important in order to operate in the processes?
 - What would you do to improve the initial education?
 - How often do you visit Off-B?
 - Do you consider regulatory aspects to hinder the development?
 - What do you see as the biggest challenge for Off-B to become independent?
 - Does any common platform for interaction exist between officers and support function members?
 - What are the most common issues today?
 - How do you perceive the goal setting for the officers?
-

Off-B managers

- What is your role within Off-B?
- How does the processes behind the goal setting look like?
- How has the productivity development been during your time in the organization?
- How much contact do you have with Sweden?
- Do you feel that you get sufficient independence to fulfill your obligations?
- Do you perceive that the relevant competence is accessible in the Baltics?
- Are the officers given sufficient time for education before they start to work independently?
- What is the most important thing to understand in order to work as an officer?
- What is your perception on the initial recruitment process?
- What skills do you find important in order to operate in the processes?
- Do you perceive the officers to be motivated to perform assigned activities?

- Have you visited Sweden in terms of your current position?
 - Do you have regular contact with the corresponding managers in Sweden?
 - Does a dialog exist in terms of process improvements?
 - Do you experience any frustration in terms of contact with Bank-S?
-

Off-B Officers

- Can you describe your role within Off-B?
- Do you perceive the goal setting as fair given the prerequisites?
- Do you feel that you are given sufficient education in order to complete your dedicated assignments?
- What motivates you to conduct a job as an officer?
- What skills do you find important in order to operate in the processes?
- What is the most important thing to understand in order to work as an officer?
- To what extent do you consider the codified working instruction clear?
- Do you use codified working instructions in your day-to-day work?
- Have you participated in any projects regarding continuous improvements?
- How often do you contact the support function?
- How do you contact advisors or members of the support function?
- How well do you understand the role of the advisors?
- Do you help to educate new recruits in Off-B?

Appendix 2. List of respondents

Location	Respondent	Unit	Method	Date	Duration
Sweden	Advisor	Bank-S	Face-to-face	March 1	25 min
Sweden	Support function	Bank-S	Face-to-face	March 6	45 min
Sweden	Support function	Bank-S	Face-to-face	March 7	45 min
Sweden	Support function	Bank-S	Face-to-face	March 7	45 min
Sweden	Support function	Bank-S	Face-to-face	March 7	45 min
Sweden	Advisor	Bank-S	Face-to-face	March 7	30 min
Baltics	Manager	Off-B	Face-to-face	March 11	50 min
Baltics	Officer	Off-B	Face-to-face	March 11	45 min
Baltics	Officer	Off-B	Face-to-face	March 11	40 min
Baltics	Officer	Off-B	Face-to-face	March 11	45 min
Baltics	Manager	Off-B	Face-to-face	March 12	45 min
Baltics	Manager	Off-B	Face-to-face	March 12	45 min
Baltics	Officer	Off-B	Face-to-face	March 12	45 min
Baltics	Officer	Off-B	Face-to-face	March 12	45 min
Baltics	Officer	Off-B	Face-to-face	March 12	45 min
Baltics	Officer	Off-B	Face-to-face	March 12	45 min
Baltics	Officer	Off-B	Face-to-face	March 12	45 min
Sweden	Manager	Bank-S	Face-to-face	March 14	45 min
Sweden	Manager	Bank-S	Face-to-face	March 14	45 min
Sweden	Advisor	Bank-S	Face-to-face	March 14	30 min
Sweden	Manager	Bank-S	Face-to-face	March 19	45 min
Sweden	Manager	Bank-S	Face-to-face	March 20	45 min
Sweden	Manager	Bank-S	Face-to-face	March 20	60 min