

Foreignness, Culture and Institutions in the Decision to Outsource

Michael J. Mol

Department of International Management

Nijmegen School of Management / Nijmegen University

P.O. Box 9108

6500 HK Nijmegen - The Netherlands

++31-24-3615455

m.mol@nsm.kun.nl / www.michaelmol.com

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No place like home: Culture versus institutions in the decision to outsource

Abstract:

There is a large literature discussing the firm specific and industry level determinants of outsourcing. Furthermore there is anecdotal evidence to support the view that there are inter-country differences with regards to sourcing strategy. Oddly enough, however, no work exists that uses national level indicators to help explain firms' levels of outsourcing. In this paper a framework is developed that explains why and how nationality of the firm can explain the level of outsourcing. This framework is then tested with outsourcing data of 1,432 manufacturing firms in the Netherlands. First it is established that there is a significant difference between these foreign firms and their Dutch counterparts. Then the influence of a variety of cultural and institutional variables on the level of outsourcing is tested. It turns out that the absolute value of cultural and institutional variables is of little importance. However, the cultural and institutional differences between the home and host countries are far more important, providing support for a view where the home-host interaction is more important than either home or host country characteristics by themselves.

Outsourcing is a topic that has received substantial attention over the past 20 years. Both the antecedents and (performance) consequences of outsourcing have been studied in a large range of studies (e.g. Murray, Kotabe and Wildt, 1995; Walker and Weber, 1984). Outsourcing and performance remains a difficult area but a good understanding of the decision to outsource has now emerged due mostly to developments in transaction cost economics (Poppo and Zenger, 1997). The outsourcing decision, also referred to as make-or-buy decision, has some firm level and industry level causes of which asset specificity and uncertainty are the most important ones (Williamson, 1991).

Oddly enough, however, no work seems to exist that uses national level indicators to help explain levels of outsourcing by firms from different countries. But there are several building stones. There has been anecdotal evidence that firms from certain countries (e.g. Japan) differ in their outsourcing behavior from prototypical US firms. Thus there may be differences between the extent of outsourcing employed by firms from these countries. This paper, then, has the dual objective of both building and testing theory around the relation between the home country and home–host interaction on the one hand and outsourcing on the other hand.

First, a conceptual framework will be constructed that seeks to explain the degree of outsourcing by a firm. Since two alternative explanations are used for cross-national comparisons in the field of international management, namely culture and institutions, both of these need to be taken into account. But perhaps national indicators of the home country of a firm by themselves only form a partial explanation since there may also be a home-host interaction occurring that could add to our understanding of sourcing behavior. Therefore we need to look at a) home versus host explanations, b) cultural variables, and c) institutional variables. Second, this framework is tested empirically using data on outsourcing by 1,432

manufacturing units in the Netherlands. On the basis of these results several implications are suggested for international management and the study of outsourcing in particular.

Firm nationality

Why would firm nationality, on top of industry and firm level explanations, factor into the outsourcing decision of a firm? What are appropriate national level variables that co-determine differences in the extent of outsourcing, i.e. ownership? Fundamentally there appear to be three dimensions of nationality that influence economic behavior of firms. The field of international management is explicitly concerned with the first of those, the differences between home and host firms. Being a multinational implies operating across a wider range of countries, which causes foreign subsidiaries of MNCs to differ in their behavior from local firms. This has been illustrated in a wide range of discussions including those on integration-responsiveness (Prahalad and Doz, 1987), headquarters-subsidary relations (Birkinshaw, AMR) and legitimacy (Kostova and Zaheer, 1999). The second dimension is in differences between national cultures, the topic of cross-cultural management. Decision-makers are thought to differ in their behavior because they grew up in different cultures (Hofstede, 1980). The cultural distance (Kogut and Singh, 1988) to a country affects how firms enter that country and whether they are successful (Barkema, Bell and Pennings, 1996). There is a widespread belief that firms internalize the environment in which they were founded and that such differences at the time of founding persevere because they are imprinted in a firm's systems and culture (Stinchcombe, 1965). This connects culture to the third dimension of economic institutions. Economic institutions influence the behavior of economic agents like firms (North, 1990) because they shape the conditions determining the effectiveness of particular strategies. Khanna and Paleppu (1999) have for instance pointed at the importance of institutional voids at the national level in explaining diversification in

emerging economies. (Neo-)institutional economics discusses how institutions or the lack thereof cause market imperfections (Williamson, 1985). These market imperfections directly influence economic behavior, for instance through the question of what activities to perform within firm boundaries (the make-or-buy decision). The remainder of this paper will build upon these three dimensions of nationality.

Third, work done on international sourcing strategy (e.g. Buckley and Pearce, 1979; Wyckoff, 1993) suggests different international sourcing strategies in various countries. Also, the varying influence of such institutions as stock markets may lead firms to behave in ways prescribed by their institutional environments. For example, it has been suggested that U.S. firms have turned away more radically from the conglomerate form of organization because it is strongly discouraged by stock markets that prefer to see less diversified firms (Fligstein? See Baum book). Finally there has been substantial attention for and evidence of differences in buyer-supplier relations in Japan and other countries, see for instance the work of Nishiguchi (1994) and Sako (1992). The range of viable buyer-supplier relations in a country is a predictor of what activities can and cannot effectively be outsourced. Murray, Kotabe and Wildt (1995) found differences in the performance impact of external sourcing between Japanese and European subsidiaries in the United States but do not discuss variations in levels of outsourcing.

We will now discuss some examples and illustrate some specific variables using EU countries and Japan as cases. The nature of buyer-supplier contracts, repeatedly brought up by Williamson (1979), is to a large extent determined by the national system for contract law. If this law does not offer the appropriate protection or guarantees for a buyer, this is likely to lower the extent of outsourcing. On the political side of things, societal sensitivities can cause

firms to not even consider outsourcing activities. If outsourcing means the shedding of some jobs or a total loss of jobs to another country, in case of international outsourcing, this may undermine a firm's legitimacy in its environment (Pfeffer & Salancik, 1978). Unlike North American MNCs many European MNCs have rejected outsourcing as a viable option for a long time. Societal sensitivities, such as a fear of job losses within the sourcing firm and the country, have limited European MNCs in their sourcing strategies. If they do outsource, this tends to be in non-specialized areas, where it is easier to find environmental legitimacy.

In Japan, modern subcontracting has a longer tradition and is not seen so negatively in public (Nishiguchi, 1994). Japanese contract law has stimulated outsourcing of specialized goods. Nishiguchi (1994: 116) describes how the Japanese Small and Medium Enterprise Agency has in the past stimulated so-called basic contracts, which underlie long-term relations. The cultural context includes uncertainty avoidance (Hofstede, 1980), which is deeply rooted in outsourcing decisions. An uncertainty avoiding decision-maker wants to outsource more, as this allows the firm to externalize risks. The high uncertainty avoidance of Japanese decision-makers (Hofstede, 1980) and their ability to build long term supplier relations pressures them to outsource more in order to reduce the production risks that their own firm bears. In Whitley's (1992b) terms, more risks are managed through mutually dependent parties in Japan. Intense supplier involvement in Japan is connected to a willingness of Japanese MNCs to source out more knowledge-intensive and specialized parts and components. In fact, it is claimed (Nishiguchi, 1994: chapter 5) that Japan has refuted the causality of the relation between asset specificity and outsourcing proposed by Williamson (1975). Asset specificity in Japan is not so much a mere cause of sourcing strategy, but also a consequence of it (Nishiguchi, 1994). We therefore see a difference in the degree of asset specificity between Japan and Europe that is partly a strategic choice and partly determined

by environmental variables. Given a certain, high, level of asset specificity Japanese firms are more prone towards outsourcing than their European counterparts.

Hypotheses

From the previous analysis three different levels of research question flow concerning the relation between firm nationality and outsourcing. First, there are home versus host explanations focusing simply on differences between (sets of) countries. Second, there are cultural explanations based on scores a various countries on dimensions of culture. Third, we can distinguish institutional and macro economic explanations, like cultural effects connected to the home country of a firm. We will now discuss 7 hypotheses on these three different levels.

Home - host effects

Host firms differ from local firms in their outsourcing behavior because they have fundamental problems to establish themselves in a different cultural and institutional environment. Lacking the network that local firms do have, they are cut off from interesting suppliers or if they perhaps do have access to these suppliers they are unable to build the strong kind of relationships that local firms have amongst each other. Therefore host firms have to rely on internal capabilities to a larger extent. Multinational firms are also likely to possess more of these capabilities since there is a self-selection bias in the decision to internationalize: only the more competitive firms internationalize. Therefore the extent of outsourcing among host firms will be lower¹.

¹ Note that all hypotheses have been formulated in causal form since the likelihood of one firm's strategy influencing national level indicators is close to 0. Thus all relations that are statistically significant, can be assumed to also be causal in this paper. There is not the troublesome problem of reverse causality so common in many social science studies.

Hypothesis 1: being a local firm positively influences the level of outsourcing of a firm.

The effect mentioned in hypothesis 1 can be expected to be strongest for those firms that have to make the largest adjustments when establishing themselves in a new host environment. These firms are normally those firms that have come the furthest. Thus, adaptation in a neighboring country may be assumed to be relatively easy. Adapting to a country in another region of the world may prove to be much more difficult. Kenney and Florida (1995) provide an example when they described the struggles of Japanese electronics companies trying to gain a foothold in the United States. Firms from another region of the world can therefore be expected to experience even more problems and as a consequence will revert to more internalization.

Hypothesis 2: being from another region of the world negatively influences the level of outsourcing of a firm.

The influence of culture

Outsourcing has often been linked to uncertainty (e.g. Williamson, 1985) but not so much to how decision-makers deal with uncertainty. Instead, the assumption has usually been to assume risk adversity of a manager. Cross-cultural research provides a richer picture in this respect, since it explicitly seeks for inter-country differences. We posit that the absolute level of a cultural indicator is of less importance than differences in the set of cultural values a host firm brings to the table when it internationalizes. That is, we cannot judge the outsourcing behavior of a host firm in relation to its home country alone and must take into account characteristics of the host country as well, in particular the interaction between home and host countries. An important measure of culture is the cognitive or cultural distance between two

countries (Kogut and Singh, 1988). This is an indication of how far removed a firm is from its home culture and thus of how much it is at ease in a certain country. Like before, we argue that being in a culturally remote country will lead a firm to internalize more activities, given its lack of a local network and the associated difficulties in evaluating offerings from the market.

Hypothesis 3: cultural distance between the home and host countries negatively influences the level of outsourcing of a firm.

Outsourcing has been documented as a pervasive management trend in the 1980s and 1990s (Quinn, 1999) but almost all of the empirical evidence for this statement stems from Anglo-Saxon countries, in particular the United States (Domberger, 1998; Kotabe, 1998; Quinn, 1999). This can be an indication of two things occurring, either solitary or in conjunction. First, it can imply there is simply not enough research being done outside of the US meaning we do not get to see the trends that are occurring. Second, it may be the case that the trends are not occurring, or perhaps not as pervasively, outside the US. To test whether the second is true, we propose a hypothesis that suggests firms from Anglo-Saxon countries are outsourcing more.

Hypothesis 4: being from an Anglo-Saxon country positively influences the level of outsourcing of a firm.

Institutional and economic characteristics

To assess the influence of economic development we can use the work on institutional voids (Khanna and Phaleppu, 1999). With the economic development of countries comes an increasing specialization of activities that are purchased through markets because these markets operate efficiently and are well equipped from an institutional perspective. Highly

developed economies are also highly specialized economies with efficient market mechanisms. To reverse the argument, in developing or emerging economies institutions are often not functioning properly, which forces firms to vertically integrate, lowering the extent of outsourcing.

Hypothesis 5: being from a highly affluent home country positively influences the level of outsourcing of a firm.

Small economies often have entirely different characteristics from larger economies (Van den Bulcke, 2001). Firms from small economies rely on international trade for obtaining their resources. Furthermore they often lack capabilities in one area or the other, for example specific technologies, given their smaller systems, like the national system of innovation. Thus firms from a small country need to make up front investments in international networks of suppliers and are used to relying on those outside sources. In contrast, firms from large countries may develop a wider range of internal capabilities and thus need not outsource as much.

Hypothesis 6: being from a large home country negatively influences the level of outsourcing of a firm.

Finally a prominent economic explanation of internalization is market imperfection (Williamson, 1975). Firms can internalize activities if the market is a less than perfect instrument for production. Market imperfection clearly varies between countries, meaning that the pressure to internalize will differ between countries. Those countries with less market imperfection will generally have a lower extent of internal sourcing. The case of competitiveness of a country is quite similar to that made in hypothesis 5, which comes as no surprise given the strongly positive long-term relation between the competitiveness and

economic development of a country (Porter, 1990). Highly competitive countries display modern properties, of which outsourcing is but one example. In a competitive country, firms will also seek to outsource much, as factor markets, and particularly the stock market, will exert pressures to specialize. Therefore competitiveness of a country will positively influence the extent of outsourcing of a firm.

Hypothesis 7: being from a highly competitive home country positively influences the level of outsourcing of a firm.

Methods

Statistics Netherlands (Centraal Bureau voor de Statistiek) collects official data at the business unit level from all Dutch firms and foreign subsidiaries with more than 20 employees on a yearly basis. Firms are legally obliged to provide answers to Statistics Netherlands. The data that are collected are quantitative in nature including items like turnover, industrial purchasing, profitability, markets share and exports. We were granted access to firm level data on a subset of 1,650 business units of manufacturing firms. These business units were selected from the largest 2,500 business units of firms based on whether they are involved in manufacturing. Using these data a number of firm level measures were created. The firm level data were then complemented by publicly available data at the 3-digit industry level, including detailed investment data and industry concentration. Finally a number of country-specific measures were added. The 1,650 firms are spread over 82 separate 3-digit level industries that are coded according to the NACE system, which is the European equivalent to the SIC in the United States. Manufacturing as it is defined here includes the NACE codes 15 through 37. Out of the 1,650 firms a further selection was made based on availability of 1995 data, reliability of nationality data² as well as removal of several outliers. It should further be

² Firms with a nationality of Netherlands Antilles or Bermuda were removed due to the high likelihood these nationalities are for tax purposes only.

noted that outsourcing in the Netherlands has increased over the 1980s and 1990s and that manufacturing firms are quite often foreign-owned as the Dutch manufacturing sector, leaving aside a few well-known firms, is not particularly strong (De Wit, Mol and van Drunen, 1998).

DEPENDENT VARIABLE

The 1995 level of external sourcing ('EXTSOU') was calculated as industrial purchasing over total sales. This measure indicates to what extent a firm relies on external suppliers to produce its products.

INDEPENDENT VARIABLES

Whether a firm is a local firm or a foreign subsidiary is expressed by a dummy variable ('FOREIGN') that can take on the value of 0 for a Dutch firm and 1 for a subsidiary of a foreign firm. Out of the 1,650 firms in the sample 530 are foreign subsidiaries. For the economic region a firm is from, three dummies were applied, one for Dutch firms ('DUTCH'), one for EU firms ('REST OF EU') and one for others ('REST OF WORLD'). For uncertainty avoidance the usual Hofstede (1980) measures were assigned to firms from the countries in the database ('UNCERTAINTY AVOIDANCE'). Table 1 provides an overview of these countries and the number of firms from each country. The next variable is the Kogut and Singh (1988) measure of cultural distance as it was calculated for the Netherlands. Again, cultural distance from the home country to the Netherlands was assigned to each individual firm ('CULTURAL DISTANCE'). Finally, dummy variables were calculated for a number of cultural blocks, based on (Shenkar, 1994). The cultural blocks that were represented well enough in the sample were the Scandinavian, Anglo-Saxon, Germanic and Latin blocks and a dummy was created for each block (e.g. 'ANGLO-SAXON BLOCK')³. We use the

³ Given the small numbers it seems a rather futile exercise to calculate dummies for the Japanese and Israeli firms.

Scandinavian block as the base case as we are interested in particular in firms from other blocks. The institutional characteristics were assigned based on data from outside the database. To identify affluence in the home country, the purchasing power parity per capita GNP in the home country was assigned to firms ('PER CAPITA GNP'). These data were taken from the World Development Report of the World Bank (www.worldbank.org). This appears to be a reasonable safe method to indicate economic development in a country. From the same source a measure of country size was incorporated. Country size was calculated as the number of inhabitants of a country in millions of people ('POPULATION'). This is the best available measure of country size, as geographic size appears to matter less in this respect. Finally, and this is where more argument may be possible about measures, we used the World Economic Forum's measure of competitiveness growth to represent the influence of the current level of competition on a firm's strategy (from www.worldeconomicforum.org). We believe it best represents our concern for the current level of thinking about competition and strategy in a country and therefore thinking about sourcing strategy. It was also added to each firm by means of a country assignment ('WEF GROWTH').

Insert table 1 around here

CONTROL VARIABLES

Obviously it is important to check for industry effects in the context of outsourcing as the industry a firm is in dictates to a large extent the viable range of outsourcing. One important variable residing at the industry level is asset specificity. Asset specificity, of course, has been shown to be the key determinant for predicting a firm's level of external sourcing

(Williamson, 1991). Asset specificity is a strategic choice of firms to a limited extent but in fact much more of an industry characteristic (Nishiguchi, 1994). By far the larger part of the variance in asset specificity is not found at firm level but at the industry level. The kinds of specific investments firms in a particular industry need to make are fairly similar. Once one starts to compare between industries there will be much bigger differences. The product is a fairly reasonable predictor for asset specificity. There are in fact more variables relevant to sourcing the size of which is at least co-determined by industry, like innovation efforts. We control for industry effects by inserting the 1995 average level of external sourcing in the 3-digit industry a firm belongs to ('INDUSTRY SOURCING') in the equations. Next to industry level effects we wish to control for various firm level effects. The uncertainty a firm faces was calculated as the variance of the firm's respective ROS figures for all the years ('FIRMUNCE'). This is a fairly standardized measure for uncertainty. Uncertainty matters in make-or-buy decisions (Walker and Weber, 1984; Williamson, 1985). The size of the firm is another obvious variable to control for in any study of firm performance, as larger firms may be more prone to outsource activities in order to limit the number and scope of activities that have to be performed in-house. Furthermore they can usually negotiate better conditions than their smaller counterparts can. To control for size of the firm we simply used the firm's 1995 market share in its 3-digit industry ('MARKET SHARE'). Another firm level variable that may help predict the degree of external sourcing, is the level of exports. Firms that export much are exposed to a wider range of potential suppliers worldwide and will likely see more benefit in outsourcing. We use the 1995 export ratio, export as a percentage of sales ('EXPORT RATIO'). Another argument one hears about outsourcing (Quinn, 1999) is that it may spur growth of the firm. Firms that outsource non-core activities can concentrate on their core activities and achieve faster sales growth there. Thus, we included the extent to which a firm grew between 1994 and 1995 ('SALES GROWTH') in our models. Finally, we control

for the productivity of a firm in a belief that in order to be productive firms must outsource activities, again because it allows them to concentrate on a narrower range of activities. We calculate log of the 1995 sales per employee as the measure for this variable ('PRODUCTIVITY').

REGRESSION

We then use Ordinary Least Squares regression (OLS) to test our models since there is no reason to deviate from it given the distribution of the dependent variable and the nature of both the dependent and independent variables.

Results

The correlations among variables are presented in table 2. Overall, across the range of industries some 52% of firms' turnover is sourced externally.

Insert table 2 around here

Table 3 presents the results of the various regression models. All of the models are significant at the highest levels, as would be expected given the inclusion of proven industry and firm level variables. Furthermore the models capture over 35% of the variance in the level of external sourcing, another indication of their strength.

Insert table 3 around here

Hypothesis 1 is confirmed, implying that Dutch firms source externally to a greater degree than subsidiaries of foreign firms. Hypothesis 2 is similarly confirmed. Yet firms from other EU countries also outsource less than Dutch firms and this effect is only slightly smaller than the effect for firms from the rest of the world. Thus being in another region of the world does not seem to have the effect we expected. Hypothesis 3 on the other hand is fully supported, implying firms from culturally distant countries outsource less. Hypothesis 4, on the Anglo-Saxon block, was not supported. In fact, taking the Scandinavian block including Dutch firms as the base case, Anglo-Saxon firms outsourced significantly less. This, however, is probably also an indication of the strength of the effect in hypothesis 1. For the other 2 blocks there was also a negative effect in additional analyses. For hypothesis 5 there was no support and even a marginally negative effect, contrary to the hypothesis. For country size, hypothesis 6, there was the expected negative effect: firms from smaller countries, with their extensive international experience, outsource more. There was marginal support for hypothesis 7, which may not be too meaningful in the context of the numbers of firms applied.

Discussion and limitations

The outcome on hypothesis 2 provides perhaps the biggest puzzle. But we can suggest several reasons for this outcome. For one, non-EU firms in the sample are to a very large extent US firms, for which we expect a higher rate of outsourcing (see hypothesis 4). This fact may be intervening with our measurement here. Furthermore there is more to be said on outsourcing by European firms. Because of societal sensitivities against job losses and international relocation as well as the traditionally strong position of labor unions in such key continental European countries as Germany, France and Italy, large European manufacturing firms have

been restricted in their ability to outsource activities. A firm like Siemens has been struggling for years to keep explaining its German audience that it is not moving jobs away from Germany. There we find another explanation as to why EU firms in the current sample would outsource less than their non-EU counterparts. The support for hypothesis 3 gives further evidence for this view that home-host interactions are key explanations. Hypothesis 4 was not supported and in fact an opposite pattern was found. It appears this is mostly an aberration stemming from the data as Anglo-Saxon firms were being compared to the Scandinavian block with its even higher level of outsourcing, which again is mostly due to the high level of outsourcing among Dutch firms. In fact, a direct comparison among the other three blocks generates the finding that Anglo-Saxon firms do outsource more than either Germanic or Latin firms. Dummies for these latter two blocks did not obtain required significance levels, however, due to the limited number of observations in these blocks. Therefore there is no reason to altogether reject the hypothesis and further testing is needed.

No support and even a marginally negative effect was found for hypothesis 5. We believe the chief cause for this is in sampling. Since the sample is composed solely of what is referred to as developed countries there are relatively small differences in terms of per capita GNP. It may well be the case a wider spread of countries is needed to for an appropriate test of this hypothesis. On a related note, there is a large impact of Dutch firms on this sample and the Netherlands have a relatively low GNP and high outsourcing ratio among the countries in this sample, particularly when compared to the US. We propose that the hypothesis itself may not be flawed but needs further testing.

For hypothesis 7 a story similar to hypothesis 5 appears. Among the firms in the current sample none are placed any lower than rank 30 in the World Economic Forum's competitiveness growth ratings. This implies that there is no true test of the hypothesis since that explicitly builds on the presence of serious institutional voids that strongly influence firm

behavior. Obviously these are simply not present among the current range of countries. Again, a wider range of countries, including non-competitive countries, will generate more reliable results.

This study has to face two important limitations due to the nature of available data. First, no data are available from non-OECD countries, implying that the better part of the world, in terms of number of countries and total population, is not included in the analysis. Obviously, several hypotheses could be tested better if an institutionally and culturally wider range of countries could be included. For example, the effect of home country income on outsourcing can be demonstrated more convincingly if countries are included where income is drastically lower. The current range between \$17,000 and \$29,000 far from reflects the average as income in some countries can be as low as several hundreds of US dollars. Unfortunately, firms from these countries hardly invest in the Netherlands. A cross-national sample of firms in a wider range of countries would be highly desirable but is clearly hard to obtain. A second limitation is in the nature of the independent variables. Some more detailed variables, like those on contract law, would be desirable and hopefully can be added at a later stage. In addition it might be useful to add firm level variables, for instance on the nature of the multinational network, and the time and mode of establishment in the Netherlands. None of these, however, are available in this database. Undertaking additional survey research might be useful here.

Conclusions and implications

Explaining outsourcing, so far, has been a matter of looking at a firm and particularly its industry. We have here demonstrated that both national cultures and national institutions may have an important role to play as well. In this paper we provide some empirical evidence of

the existence of country level effects to accompany those firm and industry level effects. In particular, we found that being in a host environment and being from a culturally and institutionally distinct country help explain the level of outsourcing. As expected and what is perhaps obvious, the size of these country level effects is somewhat dwarfed in comparison to firm and industry level effects. Reversing this argument, one might say it is perhaps surprising country level effects could be found given the reasonably high variance in make-or-buy decisions that has already been captured by firm and industry level variables in earlier research. In addition, there is no problem of reverse causality in our results, which does exist for the industry and particularly firm level variables. As was argued above, asset specificity is for instance not only a cause of sourcing strategy but also a consequence of it. Given the significant level shift, from national indicators to firm strategies, there cannot be reversed causality in our case, which adds substantially to the theoretical significance of our findings. Theory on outsourcing, then, could benefit from a minor revision in which country level effects are neither neglected nor put to prominence. Such further theory development would be a natural extension of our current arguments.

Our results point mostly at the influence of differences between the home and host countries and not so much at the absolute value of institutional and cultural variables in the home country. For instance, uncertainty avoidance in the home country was found not to matter much but cultural distance, a composite variable, did have significant and negative influence on the level of outsourcing. For international management at large the implications are that the home-host interaction is perhaps more important than previously thought while the absolute value of cultural and institutional variables matters less. This, again, emphasizes the need to achieve a more intricate understanding of the meaning of being established in a host country (Kostova and Zaheer, 1999).

Finally, there are implications for managerial behavior as well. In analyzing competitive situations they can look at firm differentials as arising from a wider variety of sources, including nationality. Thus there is no a priori need to level off these differences but instead cause to perhaps exploit them further, particularly in light of the causally ambiguous relation between outsourcing and performance that appears to indicate there is not one single optimal level of outsourcing for a firm.

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Tables

Country	Number of firms	Country	Number of firms
Australia	2	Italy	1
Belgium	34	Japan	8
Canada	1	Netherlands	1,004
Denmark	6	Norway	5
Finland	13	Sweden	28
France	25	Switzerland	33
Germany	53	United Kingdom	79
Ireland	20	United States	116
Israel	1	Total	1,432

Table 1: number of firms from various countries in the sample.

	EXTS	INEXT	UNCER	EXPR	GROW	LOGLA	LOGMA	FOR	REU	RWOR	CD	SCAB	ANGB	GERB	LATB	GNP	POP	WEFG
EXTERNAL SOURCING	1.00																	
INDUSTRY EXT. SOURCING	0.50	1.00																
UNCERTAINTY	-0.06	-0.04	1.00															
EXPORT RATIO	0.10	0.09	0.13	1.00														
GROWTH 9495	0.04	-0.02	0.12	0.01	1.00													
LOGGED PRODUCTIVITY	0.47	0.35	-0.09	0.20	0.11	1.00												
LOGGED MARKET SHARE	0.14	0.07	-0.07	0.33	0.09	0.29	1.00											
FOREIGN	-0.08	-0.04	0.01	0.28	0.00	0.09	0.19	1.00										
REST OF EU	-0.06	-0.02	-0.02	0.09	-0.01	0.00	0.06	0.72	1.00									
REST OF WORLD	-0.04	-0.03	0.04	0.29	0.01	0.13	0.19	0.56	-0.17	1.00								
CULTURAL DISTANCE	-0.08	-0.04	0.01	0.25	-0.02	0.06	0.17	0.89	0.59	0.55	1.00							
SCANDINAVIAN BLOCK	0.09	0.05	0.00	-0.26	0.02	-0.08	-0.17	-0.92	-0.61	-0.58	-0.94	1.00						
ANGLO-SAXON BLOCK	-0.06	-0.02	0.00	0.21	-0.02	0.08	0.12	0.66	0.33	0.55	0.62	-0.72	1.00					
GERMANIC BLOCK	-0.01	0.00	-0.01	0.10	0.02	0.04	0.09	0.39	0.29	0.21	0.43	-0.42	-0.11	1.00				
LATIN BLOCK	-0.06	-0.07	0.02	0.04	-0.04	0.00	0.04	0.31	0.43	-0.07	0.26	-0.34	-0.09	-0.05	1.00			
PER CAPITA GNP	-0.04	-0.04	0.05	0.26	-0.01	0.12	0.17	0.40	-0.27	0.90	0.37	-0.47	0.49	0.08	0.06	1.00		
POPULATION	-0.05	-0.04	0.04	0.30	0.01	0.11	0.18	0.57	0.01	0.80	0.53	-0.63	0.73	0.04	-0.03	0.84	1.00	
WEF GROWTH	0.06	0.04	-0.01	-0.12	0.01	-0.01	-0.10	-0.64	-0.76	-0.01	-0.62	0.56	0.03	-0.46	-0.65	0.12	0.05	1.00

Table 2: Bivariate correlations among the dependent and predictor variables and means. N = 1,512. Corr. > 0.066 = significant at 1% level; Corr. > 0.090 = significant at 0.1% level.

	β	t														
Constant	-34,30	-9,48***	-33,54	-9,34***	-33,88	-9,42***	-33,47	-9,29***	-34,15	-9,49	-23,79	-4,95	-34,17	-9,49	-37,34	-9,64***
Industry sourcing	0,68	17,41***	0,66	17,07***	0,66	16,97***	0,67	17,18***	0,67	17,25***	0,66	17,09***	0,66	17,06***	0,67	17,30***
Uncertainty	-0,01	-0,80	-0,01	-0,87	-0,01	-0,82	-0,01	-0,85	-0,01	-0,89	0,00	-0,69	0,00	-0,73	-0,01	-0,81
Export ratio	0,00	-0,10	0,01	1,12	0,01	1,31	0,01	0,77	0,01	0,65	0,01	0,60	0,01	0,91	0,00	0,13
Sales growth	0,01	0,60	0,01	0,52	0,01	0,51	0,01	0,47	0,01	0,47	0,01	0,49	0,01	0,53	0,01	0,57
Productivity	9,22	14,18***	9,35	14,48***	9,43	14,56***	9,26	14,32***	9,33	14,41***	9,39	14,44***	9,39	14,48***	9,21	14,17***
Market share	0,18	0,66	0,31	1,14	0,32	1,21	0,28	1,04	0,23	0,86	0,25	0,93	0,27	0,99	0,21	0,79
Foreign			-3,99	-5,10***												
Rest of EU					-3,31	-3,65***										
Rest of world					-5,23	-4,55***										
Cultural distance							-0,38	-4,17***								
Anglo-Saxon block									-3,99	-4,14***						
Per capita GNP											0,00	-3,31***				
Country size													-0,02	-4,01***		
WEF growth															0,22	2,17*
Model F	137.973		123.931		108.798		122.032		121.973		120.608		121.750		119.083	
R ²	.354		.365		.366		.361		.361		.359		.361		.356	
Adj. R ²	.352		.362		.363		.359		.358		.356		.358		.353	

Table 3: hierarchical regression models on the level of external sourcing. Shown are the standardized beta values, t values and significance levels of the variables. Please note that † p < .1; * p < .05; ** p < .01; *** p < 0.001. N = 1,517. All models have a significance level of .000.