Outsourcing strategies and their performative dimensions: Is there still room for new managerial techniques?

Luca Giustiniano

Department of Business and Management
Luiss Guido Carli University
Viale Romania 32
00197, Rome, Italy
Email: lgiusti@luiss.it, Phone: +39 (0)6 85225.946

(word count: 980)

Introduction

Although outsourcing is broadly recognized as a relevant and multi-faceted strategic choice, its actual outcomes are still debated. The frequency and the scope of outsourcing and offshoring have increased constantly during the last 20 years, along with their popularity, which has coincided with other 'management fashions' (Abrahamson & Fairchild, 1999) and similar 'bandwagons' (Staw & Epstein, 2000), like business process re-engineering, strategic focalization, creation of shared services, and corporate downsizing (De Fontenay & Gans, 2008; Gospel & Sako, 2010; Angeli & Grimaldi, 2010).

Although the strategic and financial outcomes of outsourcing have been well documented (e.g. Marchegiani et al., 2012; Giustiniano et al., 2014) both the managerial practice and the extant literature still lack a set of consolidated managerial techniques capable of tackling some of the organizational issues related to outsourcing. Notwithstanding their variety, such issues can be grouped into two main categories: 1) the paradoxes of outsourcing, 2) management of the 'liminal' effects generated.

The paradoxes of outsourcing

As outsourcing is a business strategy, the link between the decision to outsource some activities and the expected structural and strategic changes should encourage the adoption of long-term and multi-actor perspectives in the evaluation of the results. The reality is, however, very different. Two kinds of paradoxes deserve further discussion: 1) the *time* span for the evaluation of outcomes; 2) the multiplicity of *stakeholders*, which is relevant to the decisions and their implementation. Managerial techniques can therefore be applied to deal with such paradoxes.

The 'time paradox' is about the fact that massive reorganizations of value chain activities call for a process of organizational change that often overtakes the time spans considered for the assessment of the outcomes. In short, although companies expect the organizational settings to adapt to changes in the medium term, the evaluation of the outcomes occurs mostly in the short term. The situation is even more serious when top managers believe the organizational design will automatically adapt to the new post-outsourcing setting, without inertial constraints or negative reactions. Consequently, where companies once sought order, clarity, and consistency (depicted in the extant organization chart and procedures), the outsourcing of activities might engender chaotic contradictions and inconsistencies in terms of organizational goals, structures, processes, cultures and even professional identities (Latour, 2005; Smith & Lewis, 2011). Nevertheless, the long-term sustainability of goals depends on both short-term coordination

and control of activities and the long-term maintenance of the relationships (e.g. Gittel, 2004), with both outsourcees and other stakeholders. Managerial techniques should therefore be able to deal with such paradoxical tensions (e.g. efficiency vs. efficacy, control vs. autonomy, centralization vs. decentralization) that might persist over time (e.g. Andriopoulos & Lewis, 2009; Cameron & Quinn, 2006; Smith & Lewis, 2011). The unveiling of such paradoxes could contribute to the design of ad hoc techniques through a re-examination of the outsourcing phenomenon that would do justice to its inner complexity.

Similarly, the idea that organizations are subject to multiple pressures is not new. In fact, any organization is subject to different groups of 'who or what really counts' (Freeman, 1984; Mitchell, Agle & Wood, 1997) or 'constituencies' (Zammuto, 1984). Donaldson and Preston (1995) introduced three distinct, albeit mutually supportive, approaches to identify company stakeholders: descriptive, instrumental, and normative. In particular, the descriptive approach explains the behaviors and characteristics of companies whereas the normative approach focuses on the function of the corporation and identifies the 'moral or philosophical guidelines for the operation and management of the corporation' (Donaldson & Preston, 1995, p. 71). Through this lens, when it comes to outsourcing, the extant literature mostly *describes* companies as oriented to financial and strategic goals with a minimal consideration of other relevant stakeholders, whereas a *normative* approach addressing management techniques would tend towards a more inclusive consideration of all the stakeholders (e.g. including trade unions and work representatives).

The liminal effects

Despite the abundant amount of literature on the strategic and economic impact of outsourcing, few works have focused on the labor and worker perspectives (e.g. Brooks, 2006; Lommerud, Meland & Straume, 2009). 'Liminality' is a state of being 'betwixt and between' different statuses (Garsten, 1999). In fact, some human reactions to outsourcing (of any kind of activities) are very similar to those observed by scholars who have analyzed the dynamics of IT infrastructure (Monteiro, 2000; Hanseth, 2000; Latour, 2005; Giustiniano & Bolici, 2012). Following David (1986), it is possible to identify some specific typical actors as:

- o *Blind Giants*: 'Actors whose vision we would wish to improve before their power dissipates' (Hanseth, 2000, p.68). All companies' stakeholders, including top management, can be trapped in this role when they uncritically try to favor or contrast any international outsourcing initiative and do not assess the effect of the defence of the 'in-house' activity on the overall business of companies (*liminality of focus*).
- o *Angry Orphans*: groups of 'users' whose 'routinized' standards have been changed. Any employees working in an area which has any interdependence with an outsourced function could react inertially or inefficiently to the change (*liminality of standards*).

The execution of outsourcing strategies could generate new organizational exigencies like *gateway roles* or links between internal and external parts of the same business process. Such roles could be played either by contact/interface employees or by previous employees of company A who have moved to company B, along with the outsourcing of some activities. In this context, two scenarios are of interest in terms of new managerial techniques (*liminality of role*): 1) employees remaining at the outsourcing company might experience significant job enrichment/impoverishment in terms of duties, coordination, and control; 2) if employees are absorbed by the outsourcee, they could suffer a temporary *liminality* that generates frustration and loss of individual/organizational identities.

Issues for discussion

A deeper understanding of the outcomes of outsourcing could help managers to adopt proactive techniques and play a definitive role in a company's life, contributing to the sustainability of its competitive advantage.

References

Abrahamson, E., & Fairchild, G. (1999). Management fashion: Lifecycles, triggers, and collective learning processes. Administrative Science Quarterly, 44(4), 708-740.

Andriopoulos, C., & Lewis, M.W. (2009): "Exploitation-exploration tensions and organizational ambidexterity: Managing paradoxes of innovation." Organization Science, 20 (4), 696–717.

Angeli, F., & Grimaldi, R. (2010). Leveraging offshoring: the identification of new business opportunities in international settings. Industry and Innovation, 17(4), 393-413.

Brooks, N. (2006). Understanding IT outsourcing and its potential effects on IT workers and their environment. Journal of Computer Information Systems, 46(4), 46-53.

Cameron, K., & Quinn, R. (2006): Diagnosing and Changing Culture: Based on the Competing Values Framework. San Francisco: Jossey-Bass.

David, P.A. (1986). Narrow windows, blind giants, and angry orphans: The dynamics of systems rivalries and dilemmas of technology policy. Center for Economic Policy Research. TIP Working Paper, Stanford University, Stanford, CA.

De Fontenay, C.C., & Gans, J.S. (2008). A bargaining perspective on strategic outsourcing and supply competition. Strategic Management Journal, 29(8), 819-839.

Freeman, R. Edward (1984). Strategic Management: A stakeholder approach. Boston: Pitman. ISBN 0-273-01913-9.

Garsten, C. (1999). "Betwixt and between: temporary employees as liminal subjects in flexible organization. " Organization Studies, 20(4), 601–17.

Gittell, J.H. (2004). "Paradox of coordination and control." California Management Review, 42 (3), 101–117.

Giustiniano, L., & Bolici, F. (2012). Organizational trust in a networked world: Analysis of the interplay between social factors and Information and Communication Technology. Journal of Information, Communication and Ethics in Society, 10(3), 187-202.

Giustiniano, L., Marchegiani, L., Peruffo, E., & Pirolo, L. (2014). Understanding Outsourcing of Information Systems. Approaches and Processes for Managing the Economics of Information Systems, Tsiakis, T., T. Kargidis and P. Katsaros (Eds.), 199-220.

Gospel, H., & Sako, M. (2010). The unbundling of corporate functions: the evolution of shared services and outsourcing in human resource management. Industrial and Corporate Change, 19(5), 1367-1396.

Hanseth, O. (2000). The economics of standards. From control to drift: The dynamics of corporate information infrastructures, 56-70.

Latour, B. (2005). Reassembling the Social: an Introduction to Actor-Network-Theory, Oxford University Press.

Lommerud, K.E., Meland, F., & Straume, O.R. (2009). Can deunionization lead to international outsourcing?. Journal of International Economics, 77(1), 109-119.

Marchegiani, L., Giustiniano, L., Peruffo, E., & Pirolo, L. (2012). Revitalising the outsourcing discourse within the boundaries of firms debate. Business Systems Review, 1(1).

Mitchell, R.K., Agle, B.R., Wood, D.J. (1997). "Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts". Academy of Management Review 22 (4): 853–886.

Monteiro, E. (2000). Monsters: From systems to actor-networks. Planet internet, 239-249.

OECD STAN (2011), Organisation for Economic Co-operation and Development - STAN STructural ANalysis Database: http://www.oecd.org/industry/ind/stanstructuralanalysisdatabase.htm

Smith, W.K., & Lewis, M.W. (2011): "Toward a theory of paradox: a dynamic equilibrium model of organizing." Academy of Management Review, 36 (2), 381–403.

Staw, B.M., & Epstein, L.D. (2000). What bandwagons bring: Effects of popular management techniques on corporate performance, reputation, and CEO pay. Administrative Science Quarterly, 45(3), 523-556.

Zammuto, R.F. (1984). A comparison of multiple constituency models of organizational effectiveness. Academy of Management Review, 9(4), 606-616.