



# Revitalising the Outsourcing Discourse within the Boundaries of Firms Debate

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## ABSTRACT

*Despite outsourcing has been at the core of managerial practice and literature for a long time, still authors do not agree on a clear understanding of the overall outsourcing process. This article answers two main questions, relevant to researchers and practitioners: 1. What are the main findings so far in outsourcing literature? 2. What do we still need to learn?*

*Through a comprehensive review of the literature, we offer systematization of the existent body of knowledge on outsourcing, its implications on firms' boundaries, and the theoretical challenges. In conclusion, implications for managers are drawn.*

**Keywords:** Outsourcing, Boundaries of Firms, Transaction Cost Economics, Resource-based View.

## 1. INTRODUCTION

Outsourcing, which is broadly recognized as an important and multi-faceted strategic choice, has not yet been consistently defined, studied or put into practice. A recent publication by the OECD STAN database<sup>1</sup> confirmed that outsourcing reached the peak of its popularity during the late

<sup>1</sup> Release as of December 2011: OECD countries - time-period 1970-2009 ([www.oecd.org](http://www.oecd.org)).

1980s and 1990s, boosted by the rush of corporate downsizing and the reengineering bandwagon effect. However, it continued to grow at a rate of 30-35 percent (revenues per year) until 2007, and it is expected to return to similar growth rates by 2012<sup>2</sup>. Experts have not only predicted resurgence in outsourcing practices but also suggested that outsourcing needs to be redefined and better understood (Outsourcing Center, 2011).

This paper responds to the fact that, despite almost 30 years of research and practice, the field of outsourcing still suffers from ambiguous definitions and lacks guidelines for strategic implementation. Moreover, although outsourcing practices were once embraced favorably by the public, the widening of their scope has inevitably clashed with the priorities of some internal and external stakeholders (e.g., employees, unions, banks).

To clarify the underlying concepts and to show the main concerns about implementation, we reviewed the literature in the field of management by assessing whether the established research can explain the recent trends in outsourcing. This paper refers to a recognized framework for a comprehensive survey of the existing literature and the principal mainstream theories. Through a critical review of the main hypotheses and limitations of the literature, this paper aims to foster new insights for both academics and practitioners by answering two main questions: *a) What are the main findings in the existing literature on outsourcing?* And *b) What are the implications for managers?*

We propose a research model to investigate outsourcing decisions that address the limits in the existing literature. In particular, we call for an integrated and longitudinal approach.

## **2. WHAT ARE THE MAIN FINDINGS ON OUTSOURCING?**

### **2.1 Definitional Aspects**

Outsourcing practices have varied over the years, covering a diverse range of services from support activities to core managerial processes and from service-based activities to productive processes, such as modular production (Brusoni & Prencipe, 2001; Prencipe, Davies, & Hobday, 2003). Because of these different applications, the management literature still lacks a clear definition for outsourcing that would incorporate all of its possible implementations. Broadly speaking, outsourcing refers to a firm's external acquisition of inputs, services, or processes (Amiti & Wei, 2004; Boldea & Brandas, 2007). More specifically, some authors define outsourcing as an element of a firm's overall strategy or a firm's decision not to make a service or product internally, but to purchase it externally (e.g., Quinn & Hilmer, 1994; De Fontenay & Gans, 2008). Other scholars focus on global sourcing and define outsourcing as the integration and coordination of production and marketing (Kotabe, 1990; Murray, Kotabe, & Wildt, 1995). In this paper, we refer to outsourcing as the procurement of supplies or services related to a value chain activity from legally independent firms. "Domestic" outsourcing occurs when the firm sources from suppliers of the same (home) country, and offshoring occurs when the outsourced business functions are done in another country, typically where the costs of resources are low. These definitions can help to distinguish outsourcing from divestiture strategies, which refer to a firm's adjustments of its ownership and business portfolio structure (Brauer, 2006).

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<sup>2</sup> Despite a frictional slow down in 2008 and 2009 (annual growth of 20 percent), forecasts from the field (e.g., Sequoia Capital and ValueNotes) depict a reversal in momentum by 2011.

## 2.2 The Model Overview

The debate about outsourcing is central in multiple fields of research and, along with the general question of firms' boundaries, has received much attention over the years. Many studies have investigated outsourcing, a hot topic in firm strategy, from diverse perspectives that range from economics to finance or, more generally, management (Mayer & Salomon, 2006; Rothaermel, Hitt, & Jobe, 2006). The only noteworthy exception may be found in Wolter & Veloso (2008), although it is focused on the relation between innovation and vertical integration. As a result of these diverse definitions in research, studies often produce contradictory results (Kotabe & Swan, 1994; Mol, van Tulder, & Beije, 2005) and, in the best case, face unanswered questions (De Fontenay & Gans, 2008). To disentangle the main issues in outsourcing, this paper aims to clarify the different approaches offered by the literature. This clarification aims to resolve the disputes of prior works by identifying the dominant patterns and gaps in the existing literature.

Our review shows that, among the different theoretical lenses used in this field of research, Transaction Cost Economics (TCE) and the Resource-Based View (RBV) are the most widely applied frameworks (Espino-Rodríguez & Padrón-Robaina, 2006; Mayer & Salomon, 2006; Reitzig & Wagner, 2010). Based on the seminal work of Coase (1937) and Williamson (1975), TCE assesses the choices between self-producing (internal transactions) and outsourcing activities (market transactions) by comparing the internal costs (hierarchy) and the costs of "using" the market (Jones & Hill, 1988). Subsequent research has shown that TCE may overrate rationality in firms' behaviors due to a lack of cognitive capacity to assess appropriability (Oxley, 1997; Pisano, 1990) or observability (Holmstrom, 1979). Additionally, outsourcing literature shed little light on the possible ambiguities related to the assessment of the actual dynamics of transaction costs (Chen, 2009; McCarthy & Anagnostou, 2003). For instance, differences in culture, language, and business laws may have a great impact on transaction costs and thus limit the generalizability of prior studies across national governance systems.

However, the RBV provides some useful insights to avoid these limits of "over-rationality". The application of RBV to the analysis of outsourcing strategy shows that the decision to outsource is taken according to a firm's capabilities compared with those of its suppliers. Espino-Rodríguez and Padrón-Robaina (2006) divided this perspective into two categories: first, a focus on "the propensity" to outsource and, second, the "relation" between the decision to outsource and organizational performance.

Combining the TCE and RBV, Mayer and Salomon (2006) found that "contractual hazards" provide firms with an incentive to internalize, independently of firm capabilities; however, in the presence of weak technological capabilities, it is more likely that firms will outsource. Therefore, RBV complements TCE in the treatment of outsourcing by focusing on the positive aspects of in-house strategic activities (Espino-Rodríguez & Padrón-Robaina, 2006) and resources (Prahalad & Hamel, 1990).

The International Business (IB) approach does not constitute a theoretical framework; still it is a necessary part of our literature review on outsourcing. From the IB perspective, outsourcing is influenced or co-determined (among other factors) by the following: the "multinationality" of firms, the frequency of cross-border communications, and the differences in asset costs across borders (Mol et al., 2005). Research on international business has proposed many potential, often overlapping, definitions of outsourcing: international outsourcing (Levy & Dunning, 1993), multinational sourcing (Birou & Fawcett, 1993), offshore sourcing (Frear, Metcalf, & Alguire, 1992; Kotabe & Swan, 1994), offshore outsourcing (Bertrand, 2011), and international economics (Lommerud, Meland, & Straume, 2009).

### 3. A MODEL FOR CATEGORIZING RESEARCH ON OUTSOURCING

Three major research questions have a central role in outsourcing research: a) Why should a firm decide to outsource?; b) What are the effects of outsourcing?; and c) How should the process of outsourcing be managed? We developed a framework of 10 boxes to classify the existing studies on outsourcing (Johnson, 1996) into three streams: i) antecedents, ii) process management, and iii) outcomes.

Figure 1 Classificatory Framework



The antecedents include: 1) Environment; 2) Industry Characteristics; 3) Firm Characteristics; and 4) Outsourced Areas (Boxes 1 to 4 in Figure 1).

The process concerns include 5) Arrangements; and 6) Management of Outsourcing) (Boxes 5 and 6 in Figure 1); and the outcomes include 7) Economic and Financial; 8) Strategic; and 9) Organization and Governance (Boxes 7 to 9 in Figure 1). Within this framework, we can identify two types of study on outsourcing. The first group contains studies that fit a specific box; in general, these studies describe the relevant phenomenon or variables. The second group consists of studies that explore the links between the boxes and highlight the relations between variables or concepts. As a result, we can offer a comprehensive view of the literature and its main findings on outsourcing. Our systematization of the literature is also useful for identifying the research that is still needed in the field.

#### 3.1 Antecedents

The search for the antecedents of outsourcing, alternatively called “reasons” or “drivers”, is probably the topic that has driven most of the research on outsourcing. When it comes to answering why a firm should outsource, the literature identifies a wide range of causes and drivers, which we grouped into four main contingency factors (*antecedents*) that influence firms’ decision making: 1) Environment; 2) Industry characteristics; 3) Firm characteristics; and 4) Outsourced areas.

### *3.1.1 Environment*

Despite the extensive range of entities and phenomena that could be related to the external environment, our analysis focuses on the most relevant factors pointed out in the recent literature. The external environment has been considered in general terms by referring to macroeconomic drivers, such as the size of the home country and economy, currency fluctuations, the level of foreign direct investment, and the presence of foreign companies. These factors have been taken in consideration either directly (though the inclusion of such variables in the models, e.g., Swamidass & Kotabe, 1993) or indirectly (by choosing sample from countries with specific characteristics, e.g., Mol et al., 2005)<sup>3</sup>. Other scholars suggest that environmental dynamism has a moderating effect on the relationship between outsourcing intensity and firm performances (Gilley & Rasheed, 2000). Studies that adopt a pure transaction cost perspective tend to translate the impact of the external environment in terms of general uncertainty (Aubert, Rivard, & Patry, 2004), volume (market) uncertainty, and technological uncertainty (Aubert et al., 2004; Walker & Weber, 1984, 1987) or, alternatively, to contractual hazard (Duncan, 1998; Mayer & Salomon, 2006).

In sum, some scholars have considered three main dimensions of the external environment: i) rights protections and corporate governance systems; ii) markets; and iii) technology.

i) With respect to rights protections and corporate governance systems, the unionization and the general defense of workers' jobs seemed to act as an important antecedent of outsourcing. Lommerud et al. (2009) explained the trends of deunionization and increased international outsourcing in many countries. They assume that firms do not outsource any activity if they can obtain it at a lower price in the "domestic" market. From this perspective, the decision to outsource any part of production is determined not by in-house production costs, but rather by the reserve wage of domestic workers. They affirmed that stronger unions imply higher collective bargaining power and increase job security. Thus, although domestic wages are higher, stronger unions lower the possibility for employers to introduce international outsourcing. Kotabe, Parente, and Murray (2007) drew similar conclusions and distinguished between wages to a firm's labor force and the strength of its unions in detail.

ii) As far as market characteristics are concerned, the literature provides some insights on international business. In this field, the "home market" dimension has been adapted to outsourcing from the literature on Multinational Companies (MNCs) (Mol et al., 2005). Studies assume that the degree of outsourcing is negatively related to the size of the focal country and shift the focus from size to foreignness and domestic matters (such as the degree of import-export and the quality of domestic supply) (Coucke & Sleuwagen, 2008; Murray, Kotabe, & Wildt, 1995; Swamidass & Kotabe, 1993). Considering size and the idea of extended enterprise, McCarthy and Anagnostou (2004) followed a slightly different approach and focused on the value-adding network of the focal organization.

Another aspect of the market is related to the pace of change in customer needs, which is evaluated in terms of both speed and heterogeneity. On one hand, some studies identified the uncertainty surrounding the demand as an antecedent for outsourcing (Quélin & Duhamel, 2003); on the other hand, it seems that a greater change in customers' needs and a greater degree of heterogeneity leads to more outsourcing (Kotabe et al., 2007).

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<sup>3</sup> In this sense, the unusual distinction between domestic firms and subsidiaries of MNCs made by Coucke and Sleuwagen (2008) could help lead to a better understanding of the underlying phenomena.

iii) The technological dimension is viewed in terms of its impact on manufacturing activities. Specifically, the possibility of switching from an in-line integrated internal supply chain to a modular production gives firms the opportunity to outsource intermediate products and some value-chain sub-activities (Brusoni & Prencipe, 2001; Kotabe, 2007; Kumar, van Fenema, & von Glinow, 2008; Parmigiani & Mitchell, 2009; Prencipe et al., 2003; Tiwana, 2008). Thus, all the studies seem to agree that, given this technological opportunity, outsourcing and offshoring could guarantee sustainable competitive advantages. Nevertheless, technological evolution could also be considered an environmental pressure for outsourcing (Quélin & Duhamel, 2003). Technology can also be considered a contingent antecedent for outsourcing due to the enabling potential of Information Technology (IT) as a coordination mechanism. Jean, Sincovics, and Cavusgil (2010) classified IT resources in IT advancement and electronic integration to explain how IT solutions could foster outsourcing relations between customer firms and suppliers. This study showed that the proposed classification of IT resources can identify different types of information exchanges and knowledge-related activities in customer-supplier relations. A glance at the present situation—where companies can outsource, control and manage remote activities—clarifies how IT could support the remote purchasing of both primary and support activities.

### *3.1.2 Industry Characteristics*

Many studies on outsourcing have dealt with specific industries as case studies to ground theories and verify hypotheses. By decoding the assumptions of the main studies, we can identify some general industry-related findings:

- i) In knowledge-intensive industries (e.g., pharmaceuticals, biochemistry, and healthcare), selective outsourcing could occur in favor of specialized and focused suppliers and in business-related activities (Quinn, 2000); or in hybrid business models (Marchegiani *et al.*, 2012).
- ii) In manufacturing complex products (e.g., automotive, aerospace, and software production), the modularity of components and subcomponents could require forms of joint development and the execution of primary activities related to the entire supply chain system (Arnold, 2000; Brusoni & Prencipe, 2001; Tiwana, 2008).
- iii) In information-intensive industries (e.g., banking, insurance, editing), the outsourcing of IT should involve reliable partners because information is a critical asset in these fields.

### *3.1.3 Firms' Characteristics*

Many authors focused on firms' size and argued that large firms are more likely to outsource due to their larger bargaining power, which contributes to lower prices for services and products. This hypothesis is supported by the assumption that, in international outsourcing, large firms may have access to more suppliers that can contribute to their international development by working in several target markets. Subsequently, the introduction of the RBV to explain outsourcing decisions (Bettis, Bradley, & Hamel, 1992; Quinn, 1992) enabled scholars to examine a common managerial practice that peaked during the 1990s. At that time, the idea of core competencies, coined by Prahalad and Hamel (1990), was a successful theory that suggested that firms should keep core activities and competencies in-house and outsource non-core services and functions. The identification of non-core activities and their potential "outsourcability" has been associated with many factors, such as the following: a) lack of capital and know-how; b) need for flexibility (through the reduction of fixed costs); and c) shorter delivery time. Some

studies focused on the idea of “asset specificity” (Lyons, 1995) or recalled the impact of path dependence on sourcing decisions (Barney, 1999). However, the pioneering work of Heikkilä and Cordon (2002) shed additional light on the idea of core and non-core competencies in relation to outsourcing. In particular, the study suggested that core competencies related to activities that should not be outsourced can be classified into three types (p.188-9): 1) *distinctive competencies*, key capabilities allowing the firm to excel; 2) *essential competencies*, activities that are needed for profitable operations; and 3) *protective competencies*, related to activities that could be risky if not properly managed. Espino-Rodríguez and Padrón-Robaina (2006) proposed that the following resources and capabilities are associated with a lower chance of being outsourced: a) more valuable and specific (heterogeneous) for the firm; b) more non-substitutable and unique; and c) allowing for higher rents. In contrast, “*outsourcing the activities or business processes not forming part of the firm’s core competences (complementary and non-core) to specialist suppliers increases organizational performance*” (p. 65).

Luftman (2003) considered the IT area critical for strategy improvement and extended some considerations by Loh and Venkatraman (1992) to combine the idea of core/non-core competences (Prahalad & Hamel, 1990) with the impact of underlying activities as a critical factor for firms (Porter, 1985). Hence, companies should outsource services that are not related to their core competencies. At the same time, they should reassess and redeploy core competencies allocated to activities that are not related to critical factors. In contrast, Quinn (2000) showed that even activities that are potential sources of competitive advantage should be outsourced if the firm cannot develop them in the time frame required by the market. When core competencies are embedded in proprietary technologies, companies could benefit from the internal sourcing of activities and components that involve a high level of proprietary technologies (Murray, Kotabe, & Wildt, 1995). Mayer and Salomon (2006) made a similar argument, although it is adjusted for the (internal) phenomenon of “technological capability”.

In reviewing the field of outsourcing, business and corporate strategies could be considered in the general setting of firms’ characteristics. In particular, Gilley and Rasheed (2000) attempted to explain performance related to outsourcing in the context of firm strategy by considering that, at a SBU level, cost leadership and differentiation (Porter, 1985) could moderate these decisions differently. The dual consideration of customer and supplier organizations as a source for the effective implementation of the outsourcing decisions requires researchers and practitioners to also consider information sharing and the quality of communication as firm characteristics that could impact firm performance (Lee & Kim, 1999).

#### 3.1.4 Outsourced Areas

The neo-classical make-or-buy decision process leads to the traditional use of an accounting perspective to assess the areas/services that firms could have purchased externally to reduce costs. In the late 1980s, attention moved from support to the primary activities of Porter’s value chain (1985) (Ford & Farmer, 1986; Saunders, Gebelt & Hu, 1997). More recently, a survey conducted by Quélin and Duhamel (2003) showed that, among large European companies, the areas that the following areas are the most affected by the decision to outsource: office IT, industrial maintenance, waste management, logistics, and telecommunications. IT-related services remain the most important activities outsourced by firms, regardless of firm size. In fact, outsourcing contracts range from mega-deals, typical of large companies, to spot sourcing, which is practiced by smaller firms (Cheon, Grover, & Teng, 2001; Lacity & Hirschheim, 1993) in a diverse range of industries (Lacity & Willcocks, 1995; Loh & Venkatraman, 1992).

Many scholars have also focused on R&D. Quinn (2000) showed that in research-oriented and technology intensive-industries, such as the pharmaceutical and biochemical industries, early-stage research and advanced development could be subject to selective outsourcing if the firms can select and engage highly specialized, focused and committed partners. Similar considerations could be made for “smart sourcing” (Earl, 1996) and concurrent sourcing (Parmigiani & Mitchell, 2009), which support the traditional make-or-buy decisions (Aubert & Weber, 2001; Lacity & Hirschheim, 1993; Lacity & Willcocks, 1995).

## **3.2 Process**

The literature on outsourcing does not provide many insights into the idea of “process”, defined as the decisional and operational bridge connecting antecedents and outcomes. Specifically, studies have treated outsourcing design and organizational formula differently. Some focus on the potential effectiveness of alliances, on the threat of such contracts or, alternatively, on the general idea of partnership quality, with the aim of depicting “winning combinations” (Saunders et al., 1997).

### *3.2.1 Arrangements*

Kakabadse and Kakabadse (2000) was a valuable milestone in terms of arrangement of outsourcing process because it classified possible sourcing configurations. Despite being limited to the centralization of shared services, the paper clearly distinguished the sourcing configurations in the following: a) contract sourcing, b) sourced service consortia, c) insourcing, and d) spin-off sourcing. This configuration choice seems to have been driven by six factors: 1) matching sourcing configuration with enterprises’ development requirements; 2) selecting partners; 3) strengthening or enlarging the host enterprise’s core business; 4) harnessing synergies related to the exploitation of internal or external economies of scale; 5) assessing the return on investments; and 6) appreciating the nature of commitment. In this scenario, IT solutions could sustain the transactions between partners if firms moderate their competition and aim for well-integrated consortia, which are compatible with a scale economy-based philosophy and capability-building capacity objectives (Kakabadse & Kakabadse, 2000).

### *3.2.2 Management of Outsourcing*

The contribution of Jean et al. (2010) is uniquely valuable in assessing the management dimension of outsourcing. The study explored three governance mechanisms. First, Cooperativeness is the outcome of the interaction between two (or more) exchange partners; this mechanism goes beyond the mere presence of joint activities (Obadia, 2008) and embeds the acceptance of relational rules (Cannon & Perrault, 1999). Second, in Output monitoring, the focus is on service-level agreement and evaluation of the deliveries. Third, Behavior monitoring focuses on the use of power and influence.

Additionally, we propose two more elements connected to the management of outsourcing: 1) location and 2) product life-cycle.

1. *Location*. According to the evidence of MNCs and international business literature, (Buckley & Pearce, 1979) the internationalization of sourcing should adhere to the following trends: i) inversely related to the size of the (parent) country (Ruigrok & van Tulder, 1995; Wyckoff, 1993); and ii) more frequent for foreign subsidiaries than for domestic firms, given the strength of the home supply bases (Birou & Fawcett, 1993; Monczka & Trent, 1991; Murray, Kotabe, & Wildt, 1995; Swamidass & Kotabe, 1993).

2. *Product life cycle.* Product life cycle has been related to outsourcing in two ways. The first idea relates the marketing product life cycle to outsourcing in terms of market volumes and future development. The second interpretation includes some industry-level studies that have tried to link the international product life cycle (Vernon, 1979) to international sourcing by arguing that the volume of local sales influences choices about sourcing (Swamidass & Kotabe, 1993).

### 3.3 Outcomes

Although only a few strategy scholars have reviewed the studies on the outcomes of outsourcing, we can identify some general indications of the effects of this strategy on firms. First, these outcomes can be ascribed to different perspectives, ranging from an economic or financial view to a broader management vision. Second, an analysis of the studies on this topic shows that, in studies on economic and financial performance, the implications of outsourcing have been assessed both at an early stage, connected to the simple announcements of the decision to outsource, and at a later stage, connected to the implementation of this decision. In other words, outsourcing generates outcomes both at the moment of the decision and after its implementation.

#### 3.3.1 Economic and Financial Outcomes

Economic and financial performances, deriving from outsourcing strategies, mainly refer to the reactions of the financial market to the announcement of an outsourcing strategy and its effects on a firm's value (Bryce & Useem, 1998). Oh et al. (2006) analyzed market perceptions in reaction to IT outsourcing announcements. This study showed that investors react favorably to outsourcing when the level of transactional risk is low, but react negatively to outsourcing arrangements that pose high transactional risk. In other words, investors understand the potential transaction risks that accompany IT outsourcing decisions. Hayes, Hunton, and Reck (2000) used a similar approach and focused on the impact of information systems outsourcing announcements on the market value of contract-granting firms. Specifically, Hayes et al. (2000) found positive and significant market value gains for smaller compared to larger firms and services compared to non-service industry firms. In sum, the results support the notion that smaller and service firms can benefit from strategic outsourcing, which can be an effective strategy to achieve superior performance. This finding stands in partial contrast to the studies classified as dealing with firm characteristics as antecedents for the outsourcing decision. Reitzig and Wagner (2010) also focused on the technology-based industries and drew on patent data for approximately 500 firms over 20 years to provide evidence of a relationship between firm performance and vertically related activities in its value chain that is driven by knowledge. They affirmed that the rate of outsourcing upstream activities is negatively related to a firm's downstream performance. Moreover, *ceteris paribus*, similarity in knowledge bases and underlying upstream activities performed internally and externally increases a firm's downstream performance.

#### 3.3.2 Strategic Outcomes

Strategic outcomes generated by the implementation of outsourcing strategy can be analyzed from both an empirical and a theoretical point of view. For example, Insinga and Werle (2000) affirmed that outsourcing strategy is motivated by the growing pressure on management to remain competitive by "accomplishing more with less". In this view, outsourcing is a means to

achieve efficiency, effectiveness, and, in turn, greater productivity, through strategies such as restructuring, downsizing, and reengineering activities.

The empirical contributions on the effects of outsourcing have usually focused on specific industries. For example, Rothaermel et al. (2006) focused on the global microcomputer industry. This study developed a large panel of longitudinal data, documenting over 35,000 products, to investigate the relationship between strategic outsourcing and vertical integration, their effects on a firm's product portfolio and product success, and, in turn, their impacts on competitive advantage and overall performance. The baseline proposition was that balancing vertical integration and strategic outsourcing enriches a firm's product portfolio and product success and, in turn, contributes to competitive advantage and overall firm performance. Building on these findings, Bettis et al. (2006) conducted research on firms in North America, Europe, and Asia to identify how the proper use of outsourcing can build competitive advantage and affirmed that the improper use of outsourcing can destroy the future of a business.

### *3.3.3 Organization and Corporate Governance Outcomes*

The organizational outcomes and the effects of outsourcing on corporate governance have been analyzed from a worker's perspective. In this view, Brooks (2006) focused on the potential effects of outsourcing on IT workers and their environment. Specifically, the potential results of outsourcing have an impact on the employers who change organizations after the implementation of the outsourcing strategy and on those who remain at the firm. IT workers shift organizations, change jobs, or exhibit different work-related behaviors (such as changes in motivation, involvement, or commitment) according to the impact of outsourcing on individual perceptions of job alternatives and job-related satisfaction. In contrast, workers can decide to be loyal to their organization depending on the impact of outsourcing on their perception of the profession, career-related opportunities, and ability to change careers. In sum, if negative perceptions of outsourcing supersede the individual's level of satisfaction and commitment, then the potential loss in performance, productivity, and innovation could be detrimental to the firm. Lommerud et al. (2009) also analyzed the impact of outsourcing on individual workers and found that it leads to increased wages for the remaining in-house workers.

## **3.4 Linkages**

Our review also aimed to highlight the findings of studies that we classify as "linkage studies" (see Figure 1). From a statistical point of view, the main relations investigated in the research on outsourcing concern the link between a firm's characteristics and the outcomes of the decision to outsource. According to numerous authors, certain firm characteristics seem to be the key to understanding outsourcing decisions and, ultimately, their effect on firm performance. Along this path of study, some works (Hayes et al., 2000) have focused on firm size and suggested that smaller companies, compared to larger ones, can benefit more from outsourcing strategy.

Firms' competitive strategy is also treated as a key predictor of outsourcing success. Numerous studies have investigated the role of outsourcing strategy in pursuing or enhancing competitive advantage. Gilley and Rasheed (2000) showed that firm strategy mediates the relationship between outsourcing and performance. Specifically, whereas cost leadership fosters a positive relation between peripheral outsourcing and financial performance and between core outsourcing and innovation performance, differentiation shows a negative relationship. Similar to competitive strategies, researchers have also analyzed corporate and functional strategies in exploring the link between outsourcing decisions and expected outcomes. With respect to corporate strategy,

Quélin and Duhamel (2003) studied the motives of corporate management in large European manufacturing firms to engage in outsourcing and the risks they perceive to be associated with strategic outsourcing operations. In a study of functional strategies with a focus on production and innovation activities, Murray et al. (1995) hypothesized a moderating effect of product-related factors (product innovations, process innovations and asset specificity) on the relationship between global sourcing strategy and the financial dimension of product market performance. Finally, following a traditional resource-based approach, it is appropriate to include a firm's capabilities in the analysis of boundary decisions. Barney (1999) assumed that it is costly for a firm to create a particular capability on its own and argued that firms in rapidly evolving high-technology industries prefer to access capabilities through non-hierarchical forms of governance. In other words, outsourcing strategy is strictly connected to the benefits that an outsourcing partnership can generate.

Furthermore, firms' characteristics have been analyzed to explore their link with the arrangements of outsourcing strategy. For example, De Fontenay and Gans (2008) adopted a resource-based approach combined with bargaining theory to analyze outsourcing strategy. Specifically, they analyzed whether a downstream firm with upstream production resources or assets would choose to outsource to an independent or established firm upstream. The downstream firm faces a trade-off between lower input costs caused by independent competition and a higher resource value associated with the firms that can consolidate their upstream capabilities. According to De Fontenay and Gans (2008), this trade-off is resolved in favor of outsourcing to an established firm.

Research on the characteristics that can explain or predict the success of outsourcing has not been limited to "internal" features but has also included some "external" factors, such as the quality of the relationship between a firm and its partners. To link this factor to outsourcing outcomes, Lee and Kim (1999) conducted an in-depth study to investigate whether partnership is an effective way to improve economies of scale and scope in traditional modes of organization. Their study emphasized that partnership does not guarantee a desirable outcome. To reach such an outcome, firms must pay careful attention to the quality of partnerships that result from outsourcing and ensure they are positively influenced by factors such as participation, communication, information sharing, and top management support.

In the research on firm characteristics, various authors have focused on the outsourced areas to identify the functions that might produce more positive outcomes for outsourcing strategy. The majority of the literature in this area is concentrated on IT, which is seen as the area where outsourcing strategy can be easily implemented with high potential benefits. Among the studies on this issue, Oh et al. (2006) produced fruitful insights by finding evidence that investors' reactions to IT outsourcing announcements are strongly connected to investors' perceptions of the risks involved in IT outsourcing strategy.

Although most of the studies that connect outsourcing areas to expected outcomes have focused on IT, we can identify some works on other sectors. For example, Quinn (2000) assumed that innovation and R&D activities play a strategic role in outsourcing strategies and suggested that a firm can derive higher innovation returns from outsourcing the entire business process or process design activities that are not core competencies of the firm. Leiblein and Miller (2003) have also investigated the link between innovation, viewed as a possible functional area for outsourcing, and the outcomes of this decision. They found that firms with more experience with a particular technological process are more likely to internalize manufacturing activities than are firms that lack such production experience. Similarly, firms with high levels of sourcing experience are

more likely to outsource their production than firms that do not have such experience. In a similar study focusing on the global microcomputer industry, Rothaermel et al. (2006) explored how strategic outsourcing and vertical integration enrich a firm's product portfolio and product success. Some indications can also be traced to production activities, which support the main findings of the research on the links between innovation and outsourcing. Along this path of study, the contribution of Parmigiani and Mitchell (2009) argues that concurrent sourcing of complementary components becomes more common when firms have relevant knowledge about the components in conjunction with suppliers (interfirm expertise) and within the firm (within-firm shared expertise).

Research on outsourced areas has also addressed the competitive environment in which firms act. For example, Walker and Weber (1984) showed that comparative production costs are the strongest predictor of make-or-buy decisions and that both volume uncertainty and supplier market competition have small but significant effects.

The management of outsourcing strategy influences the strategic outcomes a firm can attain. Insinga and Werle (2000) argued that the business environment pushes companies to conduct several functions in house and the rest through aggressive outsourcing. Nevertheless, this strategic choice creates some dependencies that, in turn, can lead to unforeseen strategic vulnerability. Thus, Insinga and Werle (2000) shifted the focus to the dependencies that outsourcing can create and considered the negative effects of the links that connect firms to external actors.

#### 4. DISCUSSION AND CONCLUSIONS

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The framework illustrated in Figure 1 highlights some particularly important points for future research. We thus sketch a tentative future research agenda that considers both theoretical and empirical factors.

In terms of theory development, the existing literature can be classified according to the underlying theoretical framework illustrated in Table 1 (in Appendix). As first evidence, we note that the reviewed papers recall mainly two theoretical frameworks, namely TCE and RBV. On this basis, we can point out three main issues.

1) Our first suggestion for further research grounded on TCE is that it should shed more light on the actual dynamics of transaction costs. First, for example, the mere existence of a regional trade agreement (e.g., NAFTA, Mercosur) or international mesa-institution (e.g., UE) might not automatically reduce transaction costs (Coucke & Sleuwaegen, 2008; Kotabe et al., 2007; Mol et al., 2005). Second, differences in culture, language, and business laws still have a major impact on transaction costs<sup>4</sup> and thus limit the generalizability of prior studies across national governance systems. Whereas the outsourcers' production costs may decrease (Rangan, 2000), transaction cost levels rise with the distance between the two or more markets due to the differences that may occur in language, culture and other institutional items. We call for an institution-based analysis of the outsourcing phenomenon (Peng, Li Sun, Pinkham, & Chen, 2009) that should focus on how formal and informal institutions influence transaction costs. Third, outsourcing may generate a separate type of transaction cost (*in itinere*) that has been neglected so far (i.e., the costs associated with the management of the outsourcer-outsourcee

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<sup>4</sup> The concept of "regional outsourcing" arises from the presence (involvement) of two or more partners from different countries belonging to the same free trade region or regional international agreement.

relationship and other control mechanisms). Future research should pay more attention to the implementation of outsourcing choices. Furthermore, some limits of “indirect assessment” and a lack of rigor in measurement characterize the translation of Williamson’s original idea of “specificity”: object specificity (Arnold, 2000), asset specificity (Aubert et al., 2004), and brand specificity (Chen, 2009).

2) Despite the consistent amount of papers using RBV to complement TCE, we have a general *caveat* for the outsourcing process. The literature focuses either on the propensity to outsource or on outsourcing’s *relation* to organizational performance (Espino-Rodríguez & Padrón-Robaina, 2006) but often ignores the implementation dynamics (process). The idea of “governance capability” that was developed by Mayer and Salomon (2006) can be viewed as an important milestone leading to a deeper understanding of the practical organizational drawbacks. Mahnke (2001) solely suggested an evolutionary perspective on vertical dis-integration. The Author contributes to the literature by considering the switching costs that impact the scope and speed of the process of vertical dis-integration, and by adding a long-term perspective.

3) The reviewed contributions did not properly consider corporate and business strategies as antecedents of the decision to outsource. Partial exceptions could be found in the model developed by Trent and Monczka (2003), which identified several forms of international sourcing as different stages of global sourcing. Other exceptions are the studies that directly (Kotabe & Swan, 1994; Mol et al., 2005) or indirectly (Kotabe et al., 2007) refer to the classification introduced by Bartlett and Ghoshal (1989) to analyze the relation headquarter-sub-sidiaries as a potential source of contingent antecedents (i.e., frequency in communication, availability of local resources, knowledge transfers). We suggest adopting a systemic vision that embeds outsourcing strategies in a firm’s overall strategic decision path.

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Considering the empirical factors, we can highlight two main controversial points in the literature. A first concern relates to the assessment of the strategy implementation, which cannot be assessed if the intended goals are undeclared or unclear. Despite the emphasis on performance improvement in most of the literature (e.g., Lee & Kim, 1999; Leiblein & Miller, 2003; McCarthy & Anagnostou, 2004; Mol et al., 2005), many studies evaluate this variable through perceptions of advantages, cost cutting and efficiency, market share, and overall exports (Bertrand, 2011; Frear et al., 1992; Kotabe, 1998; Kotabe & Swan, 1994; Scully & Fawcett, 1994). Nevertheless, some studies mentioned indicators of financial or market performance, but measured through “comparison with competitors” (Gilley & Rasheed, 2000; Mol et al., 2005) or through indirect measures of outsourcing success (Lee & Kim, 1999). Therefore, we believe that future research should rely on a new set of quantitative performance indicators to be observed both *ex ante* and *ex post* outsourcing decisions.

A second concern is connected to the poor attention that is often given to crucial organizational aspects. Although the literature provides some ideas on this topic, we believe that future research on outsourcing should focus more on several specific aspects: a clear definition of the scope, the outsourcer-supplier relation, the firm’s attitude to collaboration, and IT as an enabling factor.

Outsourcing covers a range of activities, both in the manufacturing and service industries. Therefore, studying a limited range of activities (scope) seems an increasingly limited approach to firms’ decisions. In particular, it is difficult to generalize models obtained from the following specific fields: franchises and supplies (Walker & Weber, 1984, 1987), components (Kotabe & Omura, 1989; Kotabe & Swan, 1994; Swamidass & Kotabe, 1993), complementary components (Kogut & Zander, 1992; Milgrom & Roberts, 1990), intermediate products (Mol et al., 2005),

intermediate goods (Lommerud et al., 2009), modular productions (Brusoni & Prencipe, 2001; Prencipe et al., 2003), interfirm modularity (Tiwana, 2008), strategic modularization (Kotabe et al., 2007), firm complementarity (Parmigiani & Mitchell, 2009), intertask interdependence (Kumar et al., 2008), the degree of standardization of production and product innovation (Murray et al., 1995), support activities (Tettelbach, 2000), or selected primary activities (Ruiz-Torres & Mahmoodi, 2008).

As for the outsourcer-supplier relationship, many studies simplify the decision to outsource by gathering the counterparts (suppliers/outsourcers) into fictionally homogeneous entities (Bettis et al., 1992; Quinn & Hilmer, 1994). However, evidence shows that both large and small enterprises engage in outsourcing relations with heterogeneous partners. Therefore, the outsourcee's characteristics should be included among the reasons for outsourcing (e.g., competences, knowledge, general similarity, or other elements that can be considered valuable for strategic partnership). This type of analysis is also useful for exploring a firm's attitude toward collaboration. In fact, outsourcing is often viewed as the "consequence" of a firm's ability to search for and evaluate suppliers (Mol et al., 2005; Rangan, 2000; Webster & Wind, 1972), or it is viewed as influenced by previous merger and acquisition (M&A) experience (Mol et al., 2005)<sup>5</sup>. Despite some distinguished work on partnership quality (Lee & Kim, 1999), most of the existing research has treated the general attitude of partners to collaboration as a marginally important antecedent for outsourcing. However, we appreciate that recent studies have shown that the governance of these relations can include cooperativeness, output monitoring and behavior monitoring (Jean et al., 2010).

Finally, there is a clear gap in the literature on the significant role of IT in the implementation of outsourcing decisions. Although scholars in the Management of Information Systems (MIS) field have paid extensive attention to outsourcing, many of their contributions lack an explicit theoretical perspective<sup>6</sup>, which creates some problems for the empirical verification of Information Systems' expected role as an enabler.

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<sup>5</sup> On the contrary, the presence of non-skilled workers could enable outsourcing (Lommerud et al., 2009).

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## APPENDIX

Table 1: Positioning of reviewed papers

Theoretical perspective	The outsourcing model		
	Antecedents	Process	Outcomes
Transaction cost economics	Chen, S. (2009); Mayer & Salomon (2006); Arnold (2000); Lacity & Willcocks (1995); Aubert, B.A. & Weber R. (2001); McCarthy, I.P. & Anagnostou, A. (2004); Lyons, B. (1995); Chen, S. (2010); Hayes, D. C., Hunton, J. E., & Reck, J. L. (2000); Walker, G. & Weber, D. (1984); Walker, G. & Weber, D. (1987)	Chen, S. (2010)	Chen, S. (2010); Hayes, D. C., Hunton, J. E., & Reck, J. L. (2000)
Resource-based view	Mayer & Salomon (2006); Arnold (2000); Parmigiani & Mitchell (2009); Heikkila J., & Cordon C. (2002); Espino-Rodríguez T.F. & Padrón-Robaina V. (2006); Quinn J.B., & Hilmer F.G. (1994); Aubert B.A., Rivard S., & Patry, M.(2004); De Fontenay & Gans (2008); Oh, Gallivan, & Kim (2006); Gilley, K.M. & Rasheed, A. (2000); Barney, J.B. (1999)	De Fontenay & Gans (2008); Insinga, R.C. & Werle, M.J. (2000)	Bettis, Bradley, & Hamel (1992); Oh, Gallivan, & Kim (2006); Insinga, R.C. & Werle, M.J. (2000); Gilley, K.M. & Rasheed, A. (2000)
Dynamic capabilities	Rothaermel, Hitt, & Jobe (2006)		Rothaermel, Hitt, & Jobe (2006)
Knowledge-based View	Tiwana, A. & Keil, M. (2007); Tiwana, A. (2008)		Reitzig & Wagner (2010); Tiwana, A. (2008)
Information technology	Loh & Venkatram (1992); Lacity, M. & Hirschheim, R. (1993); Earl, M. J. (1996); Lee, J. & Kim, Y. (1999); Kotabe, M., Parente, R., & Murray, J. Y. (2007)	Kotabe, M., Parente, R., & Murray, J. Y. (2007)	Brooks (2006); Lee, J. & Kim, Y. (1999)
International business/MNC	Lommerud, Meland, & Straume (2009); Mol, M.J., Van Tulder, R.J.M. & Beije, P.R. (2005); Coucke, K., & Sleuwaegen, L. (2008)	Jean, R., Sinkovics, R. R., & Cavusgil, S. (2010); Bertrand, O. (2011)	Kotabe, M. (1990); Bertrand, O. (2011)
Industrial organization	Ford & Farmer (1986); Cheon, M., Grover, V. & Teng, J. (1995); Oh, Gallivan, & Kim (2006)	Kakabadse A., & Kakabadse N. (2000)	Oh, Gallivan, & Kim (2006)
Contingency theory	Murray, J.Y., Kotabe, M. & Wildt, A.R. (1995)		Murray, J.Y., Kotabe, M. & Wildt, A.R. (1995)